Determinants of Transparency and the Financial Reporting Quality of Nigeria Listed Firms

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ABSTRACT

The issue of transparency in financial reporting has become a vital practice due to financial scandals experienced by the big companies in recent years. As a result of this, the study evaluates the determinants of transparency on financial reporting quality of listed firms in Nigeria. The study employed ex-post facto research design. The population of the study consists of one hundred and seventy-one (171) companies listed on the floor of Nigerian Exchange Group as at 31st, Dec. 2021. The study covered eleven (11) years period from 2010 to 2020. Eighty (80) companies were selected from the total population of one hundred and seventy-one (171) listed companies using purposive sampling techniques. The study made use of secondary data obtained from the annual reports of the selected companies for the period under study. The research adopted descriptive statistics to analysis the variables. Panel least square and Generalised Method of Moment (GMM) was used in achieving the objectives. The result of correlation analysis shows that FSIZE has weak positive correlation with the PROF (r=0.160). while positive correlation was also observed between FSIZE and board size with value of 0.416, and Profitability has negative correlation with the board size with value of -0.138 The result of the analysis on firms' characteristics on FRQ of listed firm in Nigeria showed that FSIZE and PROF positively influenced the FRQ of the firms, while rise in leverage leads to decline in the FRQ. of the firms. The study concluded that firm characteristics is an important factor that determine the transparency of financial reporting of firms in Nigeria. The study recommends that firms should adopts the use of the three variables as a measure of transparency of financial reporting, and this should be enforced by the management for strict compliance.

Key words: *Audit committee attributes, firm characteristics, financial reporting and transparency.*

1.1 Introduction

The primacy of corporate financial reporting of firms globally is the provision of useful information that enhances stakeholders' economic decision-making process (Nattawut & Sirilak, 2018; Ogundana, *et al*, 2017). This information required by the stakeholders are regularly presented in financial statements as the income statement and the statement of financial position (Musa, 2019). And it is required that all listed firms should use statements of financial reporting prepared as one of the main means of communicating with shareholders and financial stakeholders as well (Mbobo & Ekpo, 2016). Erstwhile accounting inquiry also found that accounting information provides useful evidence for decision makers, such as the creditor, investor, suppliers, regulatory agencies, owner and the employee among others (Socea, 2012; Beyer, *et al*, 2010).

The financial catastrophe in the international market; especially after the proceedings of black September in 1997 and the financial humiliations of Enron and some of the European and American companies in 2001, the Worldcom and Tyco scandal in 2002, health south scandal in 2003, and the American international group (AIG) scandal in 2005, Lehman Brothers in 2008, and Satymam scandal in 2009, Cadbury in 2015 and the recent biggest financial and business scandals of '2020,' the COVID pandemic which collapsed many companies globally and investors lost billions among others, have destabilized stake holders and financial investors trust concerning the corporate reports and have presented numerous criticisms on corporate financial reporting quality (Akeju & Babatunde, 2017). All these gave the issue of transparency and full disclosure a deep interest in the financial reporting process (Hikmat, et al., 2021). The Organization for Economic Co-operation and Financial reporting is considered as being of great quality if it retains some characteristics which include complete transparency, full disclosure and audit committee. (Samuel, *et al*, 2017). The collapse of Enron, Cadbury and that of business scandals of 2020 pandemic revealed the poor standard of disclosure and transparency in its financial statements. Non-disclosure of the corporate practices increases asymmetry of information and do not enable shareholders to effectively monitor management and corporate performance (Zaman, *et al*, 2015).

Adegbie *et al., (*2019), affirmed that numerous factors could affect the quality of a firm financial reporting which may comprises of profitability, the audit committee, firm size, leverage, and the board independent among other factors.

Leverage can be seen as a company's financial structure that involves the substitution of fixed charge financing for common stock. It is the magnitude to which corporate firm relies on debt. The more the debt is introduced into the capital structure of an organization, the more financial leverage it employs. Researchers like: Fathi, (2013); Bhasin (2017), argued that high leverage companies have to reveal more information to satisfy information desires of the various stakeholders (Uyar & Kilic, 2012). Against this background this study addressed the determinants of transparency and the financial reporting quality of quoted companies in Nigeria.

Nattawut and Kaiwinit, (2018), examined factors affecting financial reporting reliability, it was discovered from the empirical reviewed that most of the studies made uses of only questionnaire for the collections of data, and thus, more research is needed to be done to shed further light on this using secondary data.

Al-Asiry, (2017). conducted studies on some of the determinants of transparency of financial reporting quality linking it to definite attributes of the company which include the following variables: the firm size, profitability, size of the audit firm, and the status of listing, but the study excluded leverage.

For the purpose of this research, this research question was addressed. To what extent does firms' characteristics influence the financial reporting quality of the listed firm in Nigeria? The broad objective of this study is to examine the effects of the determinants of transparency on financial reporting quality of listed firms in Nigeria. The specific objectives are to; investigate the extent to which firms' characteristics influences financial reporting quality of the listed firm in Nigeria; H_{01}**:** There is no significant influence of firms 'characteristics and financial reporting quality of the listed firm in Nigeria. The findings of the work will be useful to regulators or policy makers such as the financial reporting council, the Securities and Exchange Commission and the Central Bank of Nigeria amongst others as it will strengthen their understanding of the sensitivity of financial reporting quality to specific variables. The scope of study is determinants of transparency and financial reporting quality of listed firms in Nigeria. which covers the period of year 2010-2020, for all firms listed on the floor of the Nigerian Exchange Group (NXG), and there are one hundred and seventy-one (171) listed firms on the floor of Nigeria Exchange Group (NXG) as at 31st Dec. 2020

2.0 Literature Review

This chapter presents a review of relevant and related literature to the study like conceptual review of corporate financial reporting, the firm characteristic, theoretical review and empirical studies on determinants of transparency in corporate financial reporting.

2.1 Conceptual Review

This consists of concepts of corporate financial reporting, firm size, profitability, leverage,

2.1.1 Financial Reporting Quality

Financial reporting quality contains the exposé of monetary data to organization, stakeholders, financial investors and the public, (if the firm is openly operated) around how the firm is acting over a definite period of time (Tonti set & Kaiwinit, 2015). Financial reports are frequently delivered on a quarterly, semi-annually or annually. This is different from organization reporting, which is economic information that is revealed to those inside the firm to be used to make economic decisions within the company. Financial reports are included in a public company's annual reports (Grimsley, 2015). The term Corporate financial reporting serves two (2) main purposes. Firstly, it helps organization to engage in effective decision-making regarding the firm's objectives and overall strategies. The information revealed in the reports can support organization distinguish the strengths and weaknesses of the firm, as well as its general financial health. Secondly, financial reporting provides vital information about the financial well-being and firms activities of its investors, shareholders, potential investors, stakeholders, consumers, and administration regulators. It is a means of ensuring that the firm is being run applicably (Nattawut & Sirilak,2018). if the shares of a company are openly traded, it is subject to some very strict reporting regulations enforced by the securities and exchange commission (SEC). (Grimsley, 2015).

2.1.4 The Discretionary Accrual

Accrual model observes the level of transparency as a proxy for determining financial reporting quality (Beest, Bream & Boelens, 2009). It's a model based on the concept of transparency. Financial reporting quality is the focused involvement in the external financial reporting procedure, with the intent of earning some private gain. In the literature, it can be observed as Jones Model or its modified versions. which is widely used in measuring financial reporting quality, which is observed as an inverse measure of financial quality or financial reporting quality (Dowdell & Krishnan, 2004). Also, the studies of (Morais & Curto, 2008) and (Ewert & Wagenhofer, 2010). showed that value relevance can be measured by the statistical relations between the information that financial reports presented and level of transparency.

2.1.5 Firm Attributes

The study of Zou, & Stan (1998) termed firm characteristics or firm attributes as a firm's demographic and managerial variables which, in turn, contain part of the firm's internal environment. According to the study of Kogan and Tian (2012), asserted that firm attributes comprise of, profitability leverage, sales growth, liquidity, asset growth, turnover and firm Size among others. Thus, Aksu, & Kosedag, 2011: Ali, Said, Omar Rahmand, & Othman, 2012, Archambault, & Archambault, 2003) have addressed the effect of various corporate attributes on the disclosures of the firm's annual financial report. Cheung, et.al. (2009). hypothesized that there are two general categories of firm attributes that can affect degrees of company disclosure and transparency which includes corporate governance attributes and financial characteristics.

2.1.5.1 Firm Size

The size of a Company's differs in several ways. In terms of turnover, capital structure, asset and number of employees, and it's worth considering how size affects the quality of financial statements of a firm. Large companies might face larger political cost relative to the small firms because of higher analysis following the investors' scrutiny (Al-Fayoumi, etal., 2010). In the study of, Lobo and Zhou (2006) assert that higher companies might be more inclined to achieve their earnings, because the complexities of their operations make it difficult for users to detect overstatement. The use of big audit firms in an organization determines the size of the company. so, they must put into cognizance the costs of lost reputation in a firm, which are larger compared to smaller firms (Lobo & Zhou, 2006).

2.1.5.2 Profitability

The firm with great income or higher profitability will like to disclose information fully in the financial statements, or in the annual report than the firms with less profit elements. Firms with a greatly profitable have the propensity to maximize the shareholder wealth. Firm performance indicators are profit after tax, return on a capital employed, earnings per share and dividend per share. The signaling theory which suggests that, if a firm is highly profitable, it could fully disclose more financial information or data to indicate the credibility and the reliability of its financial reporting to the users Alsaeed (2006).

2.1.5.3 Leverage

Leverage can be seen as a firm's financial structure that involves the substitution of fixed charge financing for common stock. It is the degree to which an organization relies on debt to finance its activities. The more the debt introduced into the capital structure of an organization to finance a firm, the more financial leverage it employs (Isenmila, *etal.,*2010). Agency theory submits a solid connection among leverage and the level of disclosure in a firm (Jensen & Meckling, 1976). Aksu and Kosedag (2011) also argued that in a highly levered companies, there is a larger request for, and the supply of information to be disclosed in the financial statements, and creditors also gives details information about the borrower.

2.2 Theoretical Review

The study rewired, and adopted signaling theory as the most related and relevant theory to this study, because of the full information disclosure in terms of transparency drive in the financial statement.

2.2.1 Signaling Theory

The signaling theory was established by Michael Spence (1973), which claims that the presence of information asymmetry can also be taken as a motive for good establishments to use financial information to send signals and creates positive awareness to the market (Ross 1977). This theory is more related and relevance to this study because of the full information disclosure in terms of transparency drive in the financial statement and also a proxy theory for liquidity, profitability and leverage. The theory claims that the more a company is performing well than the other firms, will want to signal it to the shareholders and the stakeholders in order to invite more investment for the survival of the company. And it was formally established to explain the information asymmetry in the labour market (Spence, 1973), and also used to elucidate voluntary disclosure in company financial reporting (Ross, 1977). The studies like: Watson, *et al.,* (2002): Haniffa (2002). have empirically studied signaling effect on disclosure. Which also includes the profitability level, company liquidity and leverage. The study also discusses more about the theory of signaling that, the managements who really believe that their firm can do well than other firms will like to signal this to the stakeholders, investors, shareholders and to the public at large in order to draw more investments.

2.3 Empirical Review

2.3.1.1 Firm size and Financial Reporting.

The study of Monday and Nancy (2016), on the relationships among size of the firm and financial reporting quality in Nigeria. The study found out that there is a significant positive relation between firm size as independent variable and financial reporting quality. These results confirmed that large firms have more tendencies to fully disclose more great value information because they are more under scrutiny (Uyar *et al.,* 2013). Equally, Abdul Majid and Ismail (2008), Tachiai and Mousavi (2012), also found a negative significant relation between firm size as an independent variable and financial reporting quality. The findings from this study indicated that small-sized firms have exposed their willingness to disclose fully more might point of information that they incline to put themselves for competitive advantages and public visibility (Abdul, *et al* 2008). Conversely, Hossein Zadeh *et al.* (2014) and Al-Airy (2017), also asserted that, there is an insignificant relationship between size and financial reporting quality. Therefore, firm size has no significant effect on the quality of financial reporting. Firm size is the most consistently reported significant firm attribute in most of the previous empirical studies (Street & Bryant, 2000: Meek 2015). According to the study of Owusu - Ansah (2008), theory, intuition and empirical studies submitted that firm size was positively influences mandatory disclosure practices. On the other hand, Conversely, an Indonesian study by Nugroho and Eko (2011) stated an insignificant relationship. This study hypothesize that firm size has a positive significant effect on quality of financial reporting of listed Agriculture and Natural Resources firms in Nigeria. Numerous theories have been used to elucidate the relationship between firm characteristics and quality of financial reporting globally. This includes but not limited to the agency theory, the theory of political cost and the theory of opportunistic among others. The agency theory which defines the role of the principal-agent relationship. The principal here are the stakeholders and the shareholders while the agents refer to the managers of the organization. These parties have different benefits, thus giving rise to agency costs.

Iyoha (2012), look at the impact of firm characteristics on the financial reports quality in Nigeria based on a sample of 61 firms' annual financial reports for the period of 1999-2008. The data was analyzed and results was assessed using Ordinary Least Square (OLS) Regression which was complimented with the panel data estimation technique. The findings from this study showed that the size of the company is the major firm attribute that influences the overall quality of financial reports in Nigeria.

2.3.1.2 Profitability and Financial Reporting

According to the study of Adebayo and Adebiyi (2016), the study ascertained the appropriateness of financial reports between the financial sectors in Nigeria. the study made used of 15 samples of financial sectors listed on the floor of Nigeria Exchange Group from the period of 2005 to 2013. And it was evaluated and the results was appraised used Ordinary Least Square Regression. (OLS), which were flattered with the use of technique of panel data. And also verified the association among the size of the bank, the leverage, the profitability, the size of audit firm with the appropriateness of financial reports. Every variable in the study was observed, and it was found out that there are all significantly related, and relevant excluding the leverage. The outcomes from the study also disclose that most of the financial institutions, are now obey with principles which improve the timely of financial reporting in Nigeria.

The study of Mahboub (2017), observed the determinants of financial reporting quality. The annual financial statements of eighty-eight companies were used from twenty-two (22) Lebanese banks covering 2012-2015 periods. The quality of financial statements was indexed with the total number of fourth (40) items as the dependent variable. The leverage, profitability, size, constitutes the independent variables for bank specific characteristics. Multivariate analysis was done using ownership structure and financial leverage has positive significant impacts on the quality of financial reporting. While, profitability, and size of the bank has not much impacts on the quality of financial reporting of Lebanon banks.

Kenny and Luqman (2019), also observed the effects of firm's attributes on financial reporting quality of Nigerian listed manufacturing firms. With the sample of Twenty-five (25) non-financial firms from the period of 2009 to 2016 was used as a sample. The Balanced panel data was removed through secondary source, which includes the audited reports of the selected companies. Multiple regressions techniques were adopted, and which was modified by Dechow and Dichev's (2002), the modified model was used to proxy financial reporting quality of the firm. Also in the study, the firm size, the profitability, the firm tangibility and the growth represented firm characteristics. And results showed that, the firm size and profitability have positive significant influence on quality of financial reporting, while tangibility and firm growth were known to have negative significant influence on quality of financial statements.

2.3.1.3 Leverage and Financial Reporting

The study of Monday and Nancy (2016), showed that leverage is significant and negatively correlated to financial reporting quality of the listed manufacturing firms in Nigeria. This finding didn't comfort with the theory of agency cost and lends, but it reveals that firms with higher debt are more possibly tend to disclose less public information in their financial statement.

Hassan and Bello (2013), also studied the effect of firm attributes on financial reporting quality of quoted manufacturing companies in Nigeria. The study examined firms' attributes from the view of structure. Using the firm size and leverage to proxies the structure of the organization, and also used board composition and institutional shareholding to proxies monitoring, and the study used profitability, liquidity and growth to proxies the performance elements. While the quality of the financial statement was measured using a modified model of the Dechew and Dechev (2002) of quoted manufacturing companies in Nigeria.

The study of AL-Asiry (2017), also showed that leverage is statistically significant related in clarifying the quality of financial statements. The study showed strong signal that leverage does not considerably improve the quality of information disclosure in financial reporting of the listed firms in Nigeria.

2.5 Conceptual Framework.

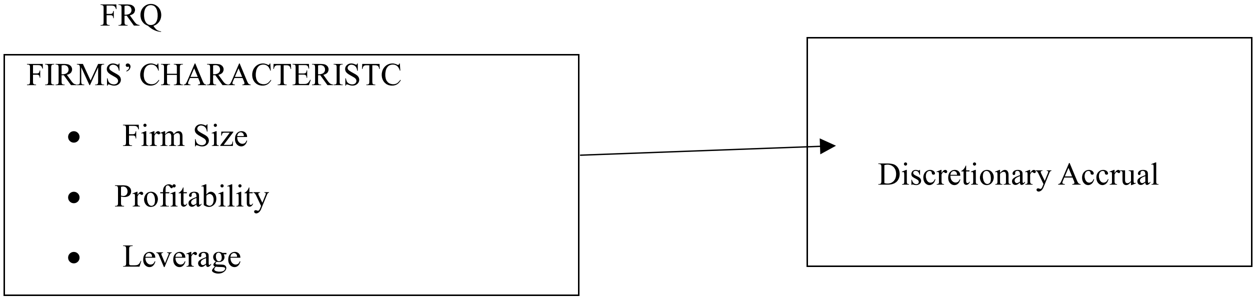
The conceptual framework shows the collaboration among determinants of transparency and financial reporting quality, Determinants of transparency as independent variable represented by the firm's characteristic, While financial reporting quality as dependent variable proxy by discretionary accrual. The proxies for firm characteristic are: firm size, profitability, and leverage. The diagrammatic representation is given below.

Conceptual Framework (Based on Objective Specified)

Independent variables Dependent Variable

Determinants of transparency Financial Reporting Quality FRQ

FRQ



Source: Researcher conceptualization (2022).

3.0 Methods and Data

This study employed the *ex-post facto* research design. Which is a quasi-experimental study in investigative how the selected independent variable affects a dependent variable, since the data that the study used already exists and the researcher has no intention to manipulate the data. Secondary was used for the purpose of this study via annual report and accounts of the sampled firms in Nigeria quoted companies as stated in the corporate website. The study used the simple random sampling technique to choose the sample size from the companies listed on the floor of Nigeria Exchange Group (NEG). The rationale for adopting this research design method was that it enables the study to establish empirical validation of the effect of identified independent variable on the dependent variable The population of this study consists of one hundred and seventy-one (171) companies listed on the floor of the Nigerian Exchange Group (NXG) as at December 31, 2020, for the period of Eleven (11) years from (2010 to 2020). This study obtained data from the secondary source through the extract of information from the annual reports of the selected firms for the period of 2010 – 2020.The reason for using year 2010 as a base year was that, international financial reporting standards (IFRs) was adopted in the year 2010 in Nigeria and implementation started in the year 2012. More so, the world came out of the recession in year 2010. And the reason for using year 2020 as the current year was that, as at today, the financial statement prepared by quoted companies in Nigeria were yet to be published. The sample size for this study was eighty (80) firms listed on the floor of Nigeria Exchange Group. There were eight sectors in the Nigeria Exchange Group as at December 31, 2020 comprising: consumer services sector, the health care sector, the basic materials sector, the consumer goods sector, the financial sector, industrial sector, oil and gas sector and technology sector. Out of which ten (10) companies will be selected in each of the sector using simple random sampling techniques to determine the sample size. And the reason for using simple random sampling techniques for this study, was that, each member of the population has exactly equal chances of being selected from the whole population.

S/N	SECTOR	POPULATION	SAMPLE'S	%
1	Consumer Services	13	10	77%
2	Health Care	11	10	91%
3	Basic Materials	12	10	83%
4	Consumer Goods	28	10	36%
5	Financial	62	10	16%
6	Industrial	25	10	40%
7	Oil and Gas	13	10	77%
8	Technology	10	10	100%
TOTAL		171	80	47%

Source: Researcher's Design, 2022.

3.5 Model Specification

In the light of a research hypotheses a multiple regression model was used for this study. The postulation in the use of multiple regression was that the dependent variable was a linear function of the independent variables. Most prior literature used modified Jones (1991) as a model to proxy corporate financial reporting since it was found to be superior to other extant approaches at the time of perceiving abnormal accruals. However, the study made use of the original Jones model because the modified Jones model does not require identification of a set of sample which can be classified as clean from accounting manipulations (Abdul & Aziz, 2004). In testable form, the model is thus specified:

FRQ proxy by Discretionary Accrual model

$$\frac{TA_{ijt}}{A_{ijt}} = \alpha_j \left(\frac{1}{A_{ijt-1}}\right) + \beta_{1j} \left[\frac{\Delta REV_{ijt}}{A_{ijt-1}}\right] + \beta_{2j} \left[\frac{PPE_{ijt}}{A_{ijt-1}}\right] + \varepsilon_{ijt}$$

Where;

TAC_{ijt} = Total accrual's i.e., working capital minus depreciation with charges in short-term debt for the firm I, with an industry j, and year t

A_{ijt-t} = Total assets for the firm I, industry j and year t, minus one.

$^{\Delta}$REV = changes in revenue for the firm I, industry j, from year t-1 to year t.

PPE = gross property, plant and equipment firm I, industry j, and year t.

$\alpha_j\beta_{1j}\beta_{2j}$ = Specific parameters for industry j, and

Ɛ = Error term

The model was structured based on the panel regression analysis. The model was an adaptation and modification of Eyenubo, Mohamed and Ali (2017).

FRQ = f (Firms Characteristics).

Consequently, the model is shown thus:

FRQ =f (Firms Characteristics) …………………………………………… 1

FRQ = f (Firm size, Profitability, leverage)

The result is presented in the following linear equation:

$FRQ_{it} = Ʊ_0 + Ʊ_1FMS_{it} + Ʊ_2PRO_{it} + Ʊ_3LEV_{it}$…………………………………2

Where

$Ʊ_0$ = is the constant of the model

$Ʊ_1$ - $Ʊ_3$ = coefficient of model parameters

FRQ = Financial reporting quality;

FSIZE = Firm size;

PROF = Profitability

LEV = Leverage

The estimation procedure that was engaged in this study was panel regression technique, with emphasis on the fixed and random model. The choice of this exact model was dependent on the result of the Hausman test.

4.0 Data Analysis and Discussion of the Findings

This section showed the presentation, analysis and interpretation of the data collected.

4.1 Descriptive Statistics

The report of the descriptive statistics of the variables were reported in this section. The result of the descriptive statistics was captured in Table 4.1. The biggest firm had a firm size of 10.6 and the smallest firm had the size of 4.918, in average, sampled firms report an average size of 7.373 Leverage of the firms report an average of 0.329 and the least was -34.31. It implies that some firms were highly indebted and runs their business on the liability. Also, the profitability of the firms in average showed that the firm will make an average of 0.136 per share and the maximum was the 3.414. The least value of the profitability indicates the sampled firm will lose -1.515 per shares.

Furthermore, FMS, LEV and PROF were positively skewed, while FRQ were negatively skewed. The kurtosis of FMS showed that they exhibit platykurtic, while other variables were leptokurtic. The Jarque-Bera of the variables showed that they were not normally distributed at 5% level of significance.

Table 4.1: Descriptive Statistics

	FMS	FRQ	LEV	PRO
Mean	7.373	5.066	0.329	0.136
Median	7.292	5.400	0.165	0.051
Maximum	10.675	14.921	0.833	3.414
Minimum	4.918	-45.530	-34.317	-1.515
Std. Dev.	0.922	3.002	2.797	0.375
Skewness	0.415	-7.030	16.542	3.247
Kurtosis	2.737	105.323	493.796	23.180
Jarque-Bera	25.762	360.479	82.069	152.431
Prob.	0.0000	0.000	0.000	0.000
Obs	814	811	814	814

Sources: Author Compilation (2022)

4.1.2 Pairwise Correlation Analysis

The result of the pairwise correlation is in this section. The result of the correlation shows that firm size had a weak positive correlation with the profitability(r=0.160). And firm financial reporting quality FRQ (r=0.482).While Profitability had a negative correlation with leverage with the correlation value of -0.138.

Table 4.2 The Pairwise correlation

Variables	(1)	(2)	(3)	(4)
(1) fms	1.000			
(2) pro	-0.160*	1.000		
(3) lev	0.041	0.023	1.000	
(4) frq	0.482*	-0.111*	0.017	1.000

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Source: Author Computation (2022)

4.1.3 Unit Root Test of the Variables

The proposed methodology is ideal for individuals which are integrated at zero. This means that the variables must be stationary at level. The study assessed the order of integration of the variables using Levin, Lin & Chu t* and I, m, Pesaran and Shin W-stat. The result of the test shows that all the adopted variables exhibit zeroth degree of integration at level. This showed that the variables were stationary at level.

Table 4.3: Unit root test

	Levin, Lin & Chu t*		I, m, Pesaran and Shin W-stat		
	Test statistics	p-value	Test statistics	p-value	Remarks
PRO	-22.7260	0.0000	-13.9172	0.0000	Stationary at level
LEV	-28.5340	0.0000	-9.32463	0.0000	Stationary at level
FRQ	-11.5593	0.0000	-7.41672	0.0000	Stationary at level
FMS	-10.0145	0.0000	-3.13401	0.0009	Stationary at level

Sources: Author Computation (2022)

Variance Inflation factors

Going forward from the correlation analysis, the study obtained the variance inflation factors with a view to assessing the degree of multicollinearity having discovered that weak correlation exists among some variables. The value of VIF must be less than 10, in order to be free from the violation of an assumption of no multicollinearity. The result of the test in Table 4.4 reported that all the variables exhibited VIF less than 5, which indicates that the variables were devoid of multicollinearity. VIF test serves as sufficient test, while correlation was a necessary test to assess the degree of the variable collinearity.

Table 4.4 : Variance Inflation Factors

	Coefficient	Centered
Variable	Variance	VIF
FMS	0.018911	1.742679
LEV	0.001117	1.011164
PRO	0.062391	1.031904
C	1.439671	NA

Sources: Author Computation (2022)

4.2 The extent to which firms' characteristics influences the financial reporting quality of the listed firm in Nigeria;

The result of the estimate on the extent to which firms' characteristics influences financial reporting quality of the listed firm in Nigeria was shown in the Table 4.5. The table reported the result of pooled ols, fixed effect model, random effect and GMM model. The result of the Hausman showed that the fixed effect was a better modelling approach compares to the random effect. From the result of the fixed effect only one coefficient was significant and the r-squared value showed that 23.28% of variation was accounted for by the independent variables. While the f-value of 11.17 with p-value less than 0.05 indicates that the fixed model was statistically significant. The coefficient of the firm size showed a positive relationship with the financial reporting quality of the firms. However, the static model of pooled OLS, fixed and random model were more likely to experience the problem of endogeneity , which can reduce the efficiency and consistency of the model. More so, static models were vulnerable to omitted variables and measurement error, which may also reduce the model performance. In views of this, the study estimates system GMM in order to minimize the problem of omitted variables and measurement errors, that may lead to the endogeneity problem. More so, GMM is the ideal model when the number of cross-sections is sufficiently large and greater than the number of periods. The number of cross-sections in this model is 80, while the period is less than 12.

The result of the GMM model showed that all the independent variables were statistically significant at 5% level of significance. Firm size had the highest effect on the financial reporting quality of the firm. It showed that big firms are more likely to report sound financial statement compare to the small firms. It revealed that a unit increase in firm size will bring about 0.377 rise in the firm financial reporting quality. The firm size report t-value of 10.88, and support the theoretical expectation. Also, the positive effect of the firm size on the financial reporting quality was in line with Barbu et al. (2014), who was on the submission that shareholders and society at large are expecting much from big firms, and therefore they are bound to disclose more information unlike the small companies. This negate the submission of Lobo et.al (2006) who asserted that big companies are more likely to involve in incomes manipulation, because of the complex nature of their operations.

Profitability of firms also exhibited positive relationship with the financial reporting quality of the firm. Rise in firm profitability leads to an increase in their financial reporting quality. Highly profitable firms have nothing to hide and they always ready to release their true financial position, unlike a weak firms. It reported a coefficient of 0.148 and t-value of 3.20. The finding corroborated the empirical claimed of Al-Asiry (2017), and Takhtaei *et al.* (2014) who discovered a statistically significant positive relationship between profitability and financial reporting quality. It was submitted that higher profitability is positively related to the quality of information. This result revealed that profitable organisations have expansion potential; they may disclose more information to demonstrate the reliability of their earnings and the projects they expect to complete; this will expand their reputations and keep them from being undervalued. However, the result of the study contradicts the finding of Ebrahimabadi et.al (2016) who asserted that profitability of a firms declines the quality of their financial statement. More so, the result was in line with the signaling hypothesis propended in year the (1973), and cited by Abdulla, (2011) which asserted that if a firm is profitable, it should reveal more information to demonstrate the trustworthiness of its stated earnings, improve its reputation, and avoid equity undervaluation. Leverage of the firm had a negative relationship with

the financial reporting quality with the value of -0.0390 and t-value of -24.32. The significant relationship between leverage and reporting quality was in line with the agency theory. The hypothesis indicated that leverage and disclosure are inextricably linked. The result negates the claimed of Uyar and Kilic (2012), who were of the opinion that high-leverage companies must disclose more information in order to meet the information needs of various stakeholders. The Wald statistics of 3596.10 and p-value of 0.00000 shows that the model is statistically significant and the Sargan test with the value of 61.445(p=0.199) indicates that the instruments are valid. The abond test revealed that the model is not serially correlated.

Table 4.3: Model Estimate of firms' characteristics influences the financial reporting quality of a listed firm in Nigeria;

	(Pooled)	(Fixed Effect Model)	(Random Effect Model)	(GMM Model)
	FRQ	FRQ	FRQ	FRQ
FMS	1.549^{***}	0.860^{***}	1.424^{***}	0.377^{***}
	(15.25)	(5.56)	(12.78)	(10.88)
PRO	-0.278	-0.0492	-0.162	0.148^{**}
	(-1.11)	(-0.19)	(-0.65)	(3.20)

LEV	-0.0018	-0.0125	-0.00423	-0.0390***
	(-0.05)	(-0.39)	(-0.13)	(-4.11)
L.FRQ				-0.0738***
				(-24.32)
_CONS	-6.318***	-1.266	-5.408***	2.661***
	(-8.30)	(-1.10)	(-6.47)	(10.71)
R^2	0.233	0.2328	0.2335	
f-value	82.028.	11.17	172.13	.
P(f-value)	0.000	0.000	.0.000	.
Hausman Test		59.74(p=0.000)		
Wald Chi2			.172.13	3596.10
P(Wald Chi2)			.0.000	0.000
Sargan Test				61.445(p=0.199)
Abond test				1.084(p=0.278)

**** p<0.01, ** p<0.05, * p<0.1*

Sources: Author Computation (2022)

5.0 Conclusion

From the findings and empirical analysis, this study concluded that: Firm characteristics is an imperative factor that determines the degree of transparency of firms. The evidenced from the analysis also revealed that firm attributes contribute to the transparency of the firm's activities. Firms with large size tends to have quality financial report than small firms. More so, it was discovered firm attributes are imperative to the transparency of the firms. It was obvious that big firms are more transparent than small firms, and highly profitable firms are more transparent to low profitable firms. These reflect the fact that the characteristics of firms determine their financial reporting quality which is one of the finding of this study, that is profitability. Leverage and size of the firms also determines their degree of transparency in financial reporting. The study recommended that strict adherence should be enforced by the SEC. Small and weak firms should be closely monitored. More so, a highly indebted firms should be thoroughly supervised.

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