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Sunday Otuya*
Edwin Clark University

BOARD EXPERTISE, FEMALE GENDER REPRESENTATION AND CORPORATE FINANCIAL MISCONDUCT IN NIGERIA: A MEDIATING EFFECT ANALYSIS

Keywords: board expertise, female representation, financial misconduct, liquidity.

J E L Classification: G34.

Abstract: The objective of this study is to investigate the mediating effect of female gender representation on the nexus between board expertise and incidence of corporate financial misconduct. The study was anchored on the agency theory and adopted a panel research design. Population of the study was made up of all manufacturing firms listed on the Nigeria Exchange Group (NGX) as of December 31, 2023. Findings of the study show that board expertise significantly reduces the likelihood of financial misconduct while female board representation has no significant positive effect. The joint effect of board expertise and female board representation was positive indicating the inclusion of women on board weakens the positive effect of board expertise on financial misconduct. Ensuing from our findings, we recommend that companies should place emphasis on professional experience and educational qualification rather than gender diversity in appointments to boards.

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* Contact information: otuya.sunday@gmail.com, Department of Accounting and Finance, Edwin Clark University, Kiagbodo, Delta State, Nigeria, phone: +234 807 223 9785; ORCID ID: https://orcid.org/0000-0002-3987-2442.

Introduction

Financial misconduct is the illegal alteration of a company's financial statements to manipulate a company's apparent health or to hide profits or losses. Overstating revenue, failing to record expenses, and misstating assets and liabilities are all ways to commit accounting fraud. A number of businesses have experienced significant losses, such as a sharp decline in share prices and a reduction in market capitalization, as a result of financial restatements, misstatements, or corporate accounting fraud. Enofe, Mgbame, Otuya and Ovie (2013) asserted that financial scandals at companies induce a decline in trust amongst corporations, market players, and other stakeholder groups because if these scandals become public, the firms may face severe financial difficulties or perhaps go bankrupt.

Researchers have examined some factors that are related to preventive actions and mechanisms to avoid, or at least reduce, the probability of financial misconduct (Hasnan, Razali & Hussain, 2020; Okeoma & Kiabel, 2020; Otuya & Emiaso, 2022; Potharla & Kolpula, 2023; Utari, Rustiarini & Dewi, 2021; Velte, 2023b). In specific terms, a huge part of the accounting and finance literature has recently directed its attention to the connection between a few corporate governance procedures and the prevalence of financial statement fraud (Otuya & Emiaso, 2022; Velte, 2023a). As pointed out by Dang, Van and Archer (2023), weak corporate governance and ineffective monitoring activities due to lack of independence of directors and deficiency in financial expertise of board members are some of the factors responsible for financial restatement around the globe.

In recent times, financial crime has become more pervasive, and the probability of corporate fraud occurring has become more severe. Due to these elements of company failure, board members – especially those in the audit committee – now bear a greater responsibility for their financial knowledge. According to Velte (2023a), a number of corporate accounting crises have been caused by the board of directors' poor oversight functions. It is reported that the failure of board members in exerting their financial expertise in monitoring management activities caused massive losses to companies and stakeholders following the incidence of financial statement fraud.

Also, the issue of diverse gender representation on the board is contained within the broad context of directors' financial knowledge. Conventional boards have faced numerous criticisms for encouraging male domination, particularly in emerging nations in Asia and Africa (Ilaboya & Lodikero, 2017). In view of this, the call of more female representation on corporate boards cannot not be out of place. It has been argued in prior literature (Abbott, Parker & Presley, 2012; Carter, Simkins & Simpson, 2003; Laskar, Sahu & Choudhury, 2024) that optimum female representation on boards could enhance greater monitoring of management activities and reduce financial misconducts.

This study is driven by a number of factors. The first is the glaring dearth of research on the relationship between financial malfeasance and board financial expertise as a particular kind of corporate governance component. The second is that, to the best of our knowledge, the mediating effect of female board presence on the association between board expertise and financial malfeasance has not been adequately examined in the body of existing literature. Third, the existing studies reported mixed findings on the relationship between board expertise, female gender representation and financial misconduct. The inconsistencies in prior research throw up a vista of opportunity for further research.

The remaining sections of the paper are arranged as follows: the literature review and formulation of hypotheses are the main topics of section 2; the techniques and methods are covered in section 3, with a focus on the theoretical foundation and model specification; the estimation result and a discussion of the findings are presented in section 4; the fifth section concludes the research.

Literature review and hypotheses development

Corporate Financial Misconduct

According to Amiram, Bozanic, Cox, Dupont, Karpof and Sloan (2018), fraud and misreporting (or misrepresentation) are included in the concept of corporate financial misconduct. While fraud entails fabricating events and falsifying records, misreporting might use "legitimate" methods in line with GAAP (Generally Accepted Accounting Principles). Corporate financial misconduct is linked to a number of detrimental outcomes, such as a decline in future earnings, a drop in stock price, and an increase in the cost of capital that damages the company's reputation. Financial misbehaviour undermines confidence amongst companies, authorities, and other industry players, thereby impeding the effectiveness of capital markets.

Studies on financial statement misconduct have used a variety of metrics, including earnings misstatement (Otuya, Donwa & Egware, 2017), enforcement actions by the Securities and Exchange Commission (SEC) (Chen, Leung, Tao & Wang, 2019), accounting conservatism (Ahmed & Duellman, 2007), and accounting restatements (Jehu & Ibrahim, 2020). The Beneisch M score was utilised by Ilaboya and Lodikero (2017), Ebaid (2023), and Onyinye (2018) to divide the firms into two categories: non-manipulators and manipulators.

Board Expertise and Corporate Financial Misconduct

The percentage of qualified, educated, experienced, and senior board members relative to the total number of directors is known as the board expertise. To become an expert on a board, a director must have sufficient educational and professional knowledge in finance, accounting, forensic, and auditing (Kweki, 2021). Research on board expertise is linked with heterogeneity of included proxies. Competence of the executive board (Aamir, Muhammad, Aroosa, Arooj & Iqra, 2021; Demerjian, Lev & McVay, 2013; Farha, Hossain & Ghosh, 2022), executive managerial skills (Ebaid, 2023; Rubin & Segal, 2019), international independent directors (Abu, Alhassan & Okpe, 2021; Du, Jian & Lai, 2017; Ibrahim & Yahaya, 2024), academic and professional experience board members (Ma, Novoselov, Zhou & Zhou, 2019), and multiple directorship (Lee, Chun-Ru & Binh, 2024; Otuya & Emiaso, 2022).

The various empirical literature threads indicate that there is still more work to be done in determining the relationship between financial malfeasance and board expertise. Research from Razali and Arshad (2014) showed that having an international board reduces the probability of fraud. Academic independent directors enhance fraud detection and reduce fraud commission, according to Xiang and Zhou (2023). Contrary research findings also exist, suggesting that a board's experience and knowledge may contribute to a rise in financial malfeasance. According to research by Inya, Psaros and Seamer (2018), independent directors with more tenure and expertise have a detrimental impact on enforcement actions related to financial irregularities. Anichebe, Agbomah and Agbagbara (2019) found that the inclusion of a financial expert in the board will increase the chances of financial statements fraud in a company. Masulis, Wang and Xie (2012) found that there is a correlation between increased restatements resulting from irregularities and foreign independent directors, but not between other types of restatements. Furthermore, it appears that founders on the board take more enforcement actions (Hasnan, Razali & Hussain, 2020; Nasir, Ali & Ahmed, 2019). Multiple directorships and network connections to auditors are associated with an increased risk of financial misbehaviour and fraud, according to research by Yu, Kwak, Park and Zang (2021). The contradiction found in earlier research served as the foundation for our first hypothesis:

H1: Board expertise is not significantly related to corporate financial misconduct.

Female Board Gender Representation and Corporate Financial Misconduct

The percentage of women who hold roles as board members is referred to as board female representation. There are four reasons why gender diversity in the business cycle is justified. According to Hays-Thomas (2016), these include enhancing performance, reaching the largest talent pool, increasing market responsiveness, and attaining improved corporate governance.

There are two perspectives on gender diversity that are widely accepted. Increased female involvement on corporate boards is supported by the argument that women are better at multitasking and can therefore bring a wider range of perspectives to the table, which could lead to more wise decisions and a decrease in financial malfeasance (Abbott et al., 2012). According to Jaggi, Leung and Gul (2009), women are thought to be more adept at acquiring voluntary knowledge, which could lessen information asymmetry. Opponents of female gender representation on corporate boards contend, however, that a diverse board could experience communication issues as a result of low identity. It is said that heterogeneous boards are unable to foster a strong sense of teamwork (Earley & Mosakowski, 2000). Because women are naturally risk averse, Westphal and Milton (2000) claim that they are less inclined to engage in any dangerous endeavour.

The results of empirical research on the relationship between financial misconduct and female representation on boards have been inconsistent. Liao, Chen and Zheng (2019) discovered, for example, that the gender of the CFO had a negative effect on fraud events in China. Luo, Peng and Zhang (2020) discovered that the presence of female CEO and CFO directorships has a favourable impact on the frequency of financial statement fraud. This effect was found to be impacted by factors such as education level and external job opportunities. Ilaboya and Lodikero (2017) discovered a strong inverse link between financial statement fraud and the variety of female genders. Given the disparate outcomes, we put out our second hypothesis in null form as follows:

H2: There is no significant relationship between board female gender representations and corporate financial misconduct.

The Mediating Effect of Board Female Representation

We propose several possible explanations to understand why board female representation could mediate the relationship between board expertise and corporate financial misconduct. First, inclusion of women on board, especially as independent directors will improve monitoring activities of top management. This will reduce information asymmetry and promote more transparency in financial reporting. Second, having more female directors on board with requisite experience and educational qualification is expected to incentivise women to work hard, prove a point, and be seen as accountable and responsible. This will lessen the incidence of financial fraud. Lastly, since women are seen as risk averse, there is a tendency that decisions that will bring their financial expertise to question will be minimal, thereby reducing the likelihood of misstatement of reports due to earlier wrong classifications. Against this backdrop, we propose the following hypothesis:

H3: Board female representation mediates the effect of board expertise on corporate financial misconduct.

Control Variable: Firm liquidity

Beyond corporate governance attributes, firm specific factor such as liquidity is seen to also have a bearing on the likelihood of financial misconduct (Alareeni, 2018; Velte, 2023a). Dechow, Larson and Sloan (2011) reported that financial statement frauds are a more common feature in growth companies with liquidity problems motivated by executives' desire to maintain cash flow in their financials. In the same vein, Pamuk and Schumann (2023) found that financial liquidity is positively related to financial statement frauds.

Methodology

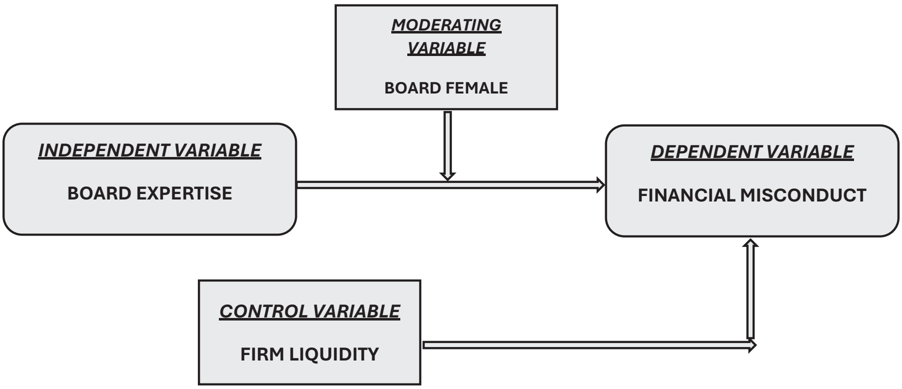
Design, Sampling and Data

The study adopted the panel data research design since it utilized the combination of cross-sectional and longitudinal data. The study's population consists of all publicly listed manufacturing companies in Nigeria as of December 31, 2022. Data filtering was used to objectively select a sample of 42 manufacturing firms, and a data set including 504 firm year-observations from 2012 to 2023 was chosen for the study. Because corporate financial malfeasance is a dichotomous dependent variable, the regression variables had to be estimated using the binary logit panel regression technique. The null versions of the hypotheses were rejected if the probability values surpass the benchmark of P= 0.05.

Theoretical Framework and Model Specification

The current study is anchored on the traditional agency theory. The agency theory has its origin in the Berle and Means (1932) doctrine of separation of ownership from control. The theory has been featured prominently in board discourse from inception; hence, it formed the basis of our analysis of the mediating role of female gender representation on the nexus between board expertise and corporate financial misconduct. Essentially, applying the agency theory, it can be contended that firms will pursue avenues to moderate its uncertainties stemming from external pressures such as competition, regulation, and social forces by making use of the expertise, information, and other resources from its connected board members. Since the agency theory supports the notion of implementing governance structures such as board experience and expertise, gender diversity, and diligence, it is rationalised that having such will reduce the incidence of financial misconduct. Against this backdrop, the conceptual model for the study is described as follows:

Figure 1. Conceptual model for the study



Source: own elaboration from literature review.

Against the backdrop of the above framework, we express a functional relationship as:

$$CFMC = f(BEXP, FREP) \tag{1}$$

Assimilating the control variable of firm liquidity that may cause changes in the dependent variable of corporate financial misconduct, equation (1) is reformed as:

$$CFMC = f(BEXP, FREP, LIQD) \tag{2}$$

Articulating equation (2) in econometric method and bearing in mind the panel nature of the regression data, equation (3) is converted as:

$$CFMC_{it} = \beta_0 + \beta_1 BEXP_{it} + \beta_2 FREP_{it} + \beta_3 LIQD_{it} + \mu_{it} \tag{3}$$

Considering the mediating effect of female gender representation on the relationship between board expertise and corporate financial misconduct, which is the central aim of this research, we improved equation (3) to replicate the interface of the variable of board expertise and female gender representation as:

$$CFMC_{it} = \beta_0 + \beta_1 BEXP_{it} + \beta_2 FREP_{it} + \beta_3 BEXP{*}FREP_{it} + \beta_4 LIQD_{it} + \mu_{it} \tag{4}$$

Measurement of Variables

Table 1. Operationalisation of variables

SN	Variable	Acronym	Measurement	Source	A Priori Expectation
1	Financial Misconduct	CFMC	Dummy variable 1 if in any reporting year, the sampled firm made any prior year adjustment, income reclassification, incidence of misstating of revenue, assets, or expenditure in its financial statements, and 0 otherwise.	Dang et al. (2023) Otuya and Emiaso (2022)	
2	Board Expertise	BEXP	A percentage of directors on board with accounting and finance qualifications.	Ma et al. (2019)	–
3	Female Representation	FREP	Proportion of female board members scaled by total board size.	Otuya & Akpoyibo (2022)	–
4	Firm Liquidity	LIQD	Measured as cash/bank balance scaled by total current assets.	Alareeni (2018) Dechow et al. (2011)	+

Source: own elaboration based on literature review.

The outcome of the research process and conclusions

Presentation of Results and Discussion

Table 2. Descriptive statistics of the variables

	CFMC	BEXP	FREP	LIQD
Mean	0.416667	0.836450	0.366667	0.045833
Maximum	1.000000	0.933300	0.400000	0.070000
Minimum	0.000000	0.480000	0.200000	0.030000
Std. Dev.	0.493496	0.112889	0.110664	0.011160
Observations	504	504	504	504

Note: CFMC = Corporate Financial Misconduct, BEXP = Board Expertise, FREP = Female Representation on Board, LIQD = Firm Liquidity.

Source: own elaboration based on data analysis.

Table 2 displays the descriptive statistics for the data. As observed, dependent variable of corporate financial misconduct has a mean value of 0.416667, indicating that about 42% of the sampled manufacturing firms experienced financial misconduct during the period under consideration. The standard deviation measuring the spread of distribution stood at 0.4934, indicating no considerable variations in the data series. Similarly, the predictor variable for board expertise (BEXP) has a mean value of 0.83645, indicating that about 84% of the directors of the selected firms possess the requisite academic qualification and experience in accounting and financial management. Further, the descriptive statistics result from the table on board female representation (FREP) and firm liquidity (LIQD) point to the fact that while the sampled manufacturing firms had an average of about 36% for female representation on board, the value of firm liquidity (LIQD) has a mean value of 0.045833, indicating that about 5% of the sampled firms' total assets is in cash and bank balances.

Diagnostics Checks

Some diagnostic tests were conducted before carrying out the regression analysis. The results of the tests are described below:

Table 3. Model diagnostics tests

	Model Diagnostics
Breusch-Pagan Godfrey Test	(t.statistics) 332.00 (df) 8; (Sig) 0.431
First order serial autocorrelation (DW)	2.7699
Hosmer and Lemeshow's Goodness of Fit Test	(Chi-Sqaure) 7.622 (df) 8; (Sig) 0.471
Nagelkerke R Square Test (Pseudo R-Square)	
(-2 Log likelihood) 622.855; (Cox & Snell R Square) 0.10; (Nagelkerke R Square) 0.54	

Source: own elaboration based on data analysis.

The study employed the Breusch-Pagan Godfrey test to ascertain the presence or absence of heteroscedasticity in the regression result. Breusch-Pagan Godfrey test showed X^2 =332, p-value (0.431), which implies the absence of heteroscedasticity. The Durbin-Watson test, which measures the linear association between adjacent residuals from a regression model, was used to check for first-order serial correlation. The results from table 3 show DW of 2.769 for the regression model, which indicates absence of serial autocorrelation. The Hosmer and Lemeshow's goodness of fit test revealed a chi square statistics of 7.622, df (8) and a significance value of 0.471 > 0.05, demonstrating that there is no indication of a poor fit and showing that the regression model is appropriately described. The Nagelkerke R Square value of 0.540 indicates that 54% of the variation in financial misconduct can be explained by variations in independent and control variables, namely board expertise, board female representation, and firm liquidity. Other factors outside the research model explain the remaining 46%.

Regression Analysis

Table 4. Logistic regression results

Dependent Variable: CFMC
Method: ML - Binary Probit (Newton-Raphson / Marquardt steps)
Date: 04/19/24 Time: 12:36
Sample: 2012 2023
Included observations: 504
Convergence achieved after 39 iterations
Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	1.029	0.680	2.293	0.130
BEXP	-0.841	0.630	-1.783	0.007
FREP	0.539	0.616	0.768	0.294
BEXP*FREP	0.565	2.745	0.042	0.418
LIQ	1.426	1.217	1.372	0.0000
McFadden R-squared	0.536020	Mean dependent var		0.416667
S.D. dependent var	0.493496	S.E. of regression		2.07E-17
Akaike info criterion	0.207778	Sum squared resid		2.12E-31
Schwarz criterion	0.086425	Log likelihood		0.000000
Hannan-Quinn criter.	0.050783	Deviance		0.000000
Restr. Deviance	684.6268	Restr. log likelihood		-342.3134
LR statistic	684.6268	Avg. log likelihood		0.000000
Prob(LR statistic)	0.000000			
Obs with Dep=0	**294**	**Total obs**		**504**
Obs with Dep=1	**210**			

Source: own elaboration based on data analysis.

The results of the logistic regression analysis concerning the impact of board expertise on the incidence of financial misconduct are shown in table 4. As observed, the regression estimation shows a McFadden R-squared value of 0.5360, which suggests about 54% explanatory ability of the model for the systematic variations in the dependent variable. The F-stat (684.6) and p-value (0.0000) indicate that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level. For an evaluation of the effects of the explanatory variables on corporate financial misconduct, we examine their slope coefficients as discussed below.

First, the regression estimate on the relationship between board expertise and corporate financial misconduct is negative and statistically significant at 5% level of significance ($\beta_1 BEXP_{it}$ = -0.841, $p=0.0007<0.05$). The result suggests that an increase in professional and educational qualification of members of the board will reduce the incidence of financial misconduct. The result meets our a priori expectation. This result is consistent with prior studies in which board expertise is found to have a positive impact on financial reporting and minimising financial statement fraud and incidence of financial restatements (Razali & Arshad, 2014; Xiang & Zhou, 2023).

Second, the results from regression estimates indicate a positive relationship between female board representation and financial misconduct, but not significant ($\beta_2 FREP_{it}$ =0.539, $p=0.294$, $P>0.05$). By implication, the inclusion of more female board members does not reduce the incidence of corporate financial misconduct. The result did not meet our a priori expectation because we envisaged that higher proportion of female board members implies greater monitoring, diligence, and control, thus reducing financial impropriety. This result is, however, consistent with prior studies by Luo, Peng and Zhang (2020), and Ebaid (2023).

Third, the mediating effect of board female representation on the link between board expertise and corporate financial misconduct revealed a positive coefficient but not statistically significant ($\beta_3 BEXP{*}FREP_{it}$ =0.565, $p=0.418$, $P>0.05$). The positive coefficient suggests that increase in board female representation weakens the negative link between board expertise and corporate financial misconduct. This is contrary to our expectations but conforms to Ilaboya and Lodikero (2017).

The result of the control variable of firm liquidity is positive and significant, suggesting that the level of firm liquidity substantially increases the likelihood of financial statement fraud in the selected companies.

Conclusion

The study investigated the joint effect of board expertise and female representation on the incidence of corporate financial misconduct by manufacturing firms in Nigeria. Findings of the study showed that board expertise significantly reduces the likelihood of financial misconduct, while female board representation does not mitigate financial misconduct. The joint effect of board expertise and female board representation was positive, indicating that the inclusion of women on board weakens the positive effect of board expertise on financial misconduct. Ensuing from our findings, we recommend that companies should place emphasis on professional and industry experience rather than gender in appointments into boards.

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