



## **FIRM CHARACTERISTICS AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM NON-FINANCIAL FIRMS IN NIGERIA**

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### **ABSTRACT**

This study examined the impact of firm's characteristics on the quality of financial reporting of listed manufacturing firms in Nigeria. Some 25 non-financial firms listed on the Nigeria stock exchange from 2009 to 2016 comprised the sample. The study used longitudinal balanced panel data from secondary sources only because it is a quantitative with positivism paradigm and the core of the data needed for analysis were adequately and conveniently extracted from the audited financial reports of the selected firms within the study period. Multiple regression is adopted to examine the model of the study. Longitudinal panel data is used to account for individual heterogeneity of the sample companies with the utilization of two steps regression in determining the quality of financial reports of the Nigerian listed manufacturing firms adopting modified Dechow and Dichev's (2002) model. The firm characteristics are firm size, firm tangibility, profitability and growth. The result revealed that firm size has positive significant effect on financial reporting quality. Tangibility has negative significant effect on audit financial reporting quality. Firm's profitability has also been argued to have a positive influence on the quality of financial reporting while firm growth has negative significant effect on financial reporting quality. Hence large firms tend to produce high quality financial reports; this should be encouraged among firms. This study also revealed that highly profitable have high financial reporting. Thus, profitability should be a good indicator of poor or good financial reports. On the other hand, tangibility and firm growth has negative effect on financial reporting quality; this follows the predictions of the accruals model which predicts that earning manipulation can be influenced by Plant, Property and Equipment (PPE). Hence, tangibility of asset should be discouraged among non-financial firms. It is therefore recommended that all the firm characteristics used in this study except tangibility and firm growth should be encouraged by the regulating agencies of government (Securities and Exchange Commission and Corporate Affairs Commission) and all other stakeholders in the Nigerian

non-financial firms because of the role firm characteristics play in constraining managers to act opportunistically in preparing financial statements.

JEL Classification: D22, G32, M21

Key words: Accruals quality, Firm size, Growth, Profitability, Tangibility

## 1. INTRODUCTION

Accounting information is relevant to the extent that it is capable of influencing decision makers by helping them to predict the outcomes of present event or to confirm or correct prior expectations (Bushman, et al., 2004). For information to be relevant, it must be timely, have predictive value or feedback value or both (Bello, 2010). Financial reporting is a communication system that involves the firm management as the preparer, the investors and creditors as primary users, and other secondary users such as the government authorities and the general public (Olowokure, Tanko and Nyor, 2016). Financial statements should always provide reliable information to assist users in decision making. The statement should contain relevant, reliable, comparable and understandable information (Kamaruzaman, Mazlifa, and Maisarah 2009). Reliability has to do with the quality of financial information which is reasonably free from error and bias and faithfully represents what is intended (Hassan and Bello, 2013). However, Johnson (2005) argues that annual reports can never be completely free from bias, since economic phenomena presented in annual reports are frequently measured under conditions of uncertainty. Many estimates and assumptions are included in the report.

Although complete lack of bias is impossible, a certain level of accuracy is necessary for financial reporting information to be decision useful (IASB, 2008). Therefore, it is important to examine the arguments provided for the different estimates and assumptions made in the annual report (Jonas and Blanchet, 2000). If valid arguments are provided for the assumptions and estimates made, they are likely to represent the economic phenomena without bias.

Accounting information is reliable to the extent that users can depend on it to judge the economic conditions or events that they purport to represent. Reliability has the qualities of neutrality, representativeness, faithfulness and verifiability. Verifiability means the ability through consensus among measurers to ensure that the information is correct or that the chosen method of measurement has been used without error or bias. It has three key aspects namely;

consensus among observers, assurance of correspondence to economic events, and direct and indirect verification (Johnson, 2005).

For financial statements to be understood clearly, the presentation should not be misleading or ambiguous. Users should be able to understand the information presented easily (IASB, 2008). Financial reporting quality has always been of interest among regulatory bodies, shareholders, researchers and the accounting profession itself. This is because financial reporting has been a principal means of communicating financial information to outside users (Johnson, Khurana, and Reynolds, 2002) and the financial report itself is used in assessing the firm's economic performance and condition in the quest to monitor management's actions and assists in making economic decisions (Warren and Reeve, 2004).

The quality of information disclosed in corporate annual reports has received a great deal of attention in the last four decades, mostly in developed countries. The relationship between the extent/quality of disclosure in corporate annual reports and the characteristics of the firm has been extensively examined in the literature. Most of the studies in this area have used an index methodology, which is based on developing a general index and relating it to a number of explanatory variables (e.g., asset size, number of shareholders, profitability, listing status) in order to explain cross-sectional variation in the extent of disclosure in such corporate annual reports. Several underlying firm characteristics differ systematically across firms.

Financial information quality in Nigeria remains weak compared to many advanced jurisdictions. This has hampered growth of efficient equity markets. A common complaint among investors in Nigeria is that financial information on company performance is either unavailable or, if provided, lacks reliability (Shehu, 2011). Analysts following the Nigerian market are far fewer than in the developed markets. The regulatory scrutiny of the Nigerian market thus is argued to be lower than that of developed markets. Also, the Nigerian settings in terms of advancement and compliance, accounting standards, institutional structure, and corporate governance are expected to be different from those in the developed countries. Given all these presumptions, unclear whether the evidence from Nigerian firms especially manufacturing firms in respect of financial information quality is consistent with those in the developed or other developing nations (Holland and Ramsay, 2003), and, therefore, a comprehensive study anchoring firm's characteristics and financial reporting quality is necessary and will be of interest to investors.

Rational investors make investment decisions primarily based on the expectation of firms' future performance. Managers manage earnings and in effect manage expectation of future earnings prospects, regardless of whether earnings management is beneficial or harmful to investors. The study has the potential of encouraging auditors and users of financial information to see the need for proper positioning of firm characteristics. It will enable clients to appreciate the enormity of the firm characteristics and factors that can affect financial reporting quality. The findings of this study are expected to have particular positive implications for regulators responsible for devising of coming up with policies and standards that will control manipulative accounting and ensure high quality financial reporting; these regulators include the Financial Reporting Council of Nigeria and Nigerian Securities and Exchange Commission and Corporate Affairs Commission. In addition, the financial analysts, stock market stakeholders and shareholders and management of Nigerian manufacturing firms stand to benefit tremendously from the outcome of this research.

Corporate accruals could be described as earnings which are disturbed by management in order to present a position reflecting operating performance. The degree to which management distort such earnings can be estimated using the Jones model or the performance matched model (Kothari, Leone, and Wasley, 2005). Biddle, Hilary, and Verdi (2009) argue that discretionary accrual represents an indirect measure of the quality of financial reporting as it does not account for non-financial elements. Chen (2010) examined analysis on accrual-based models in detecting earnings management. The study used the Healy model, Deangelo model, Jones model, Jones cross-section model and modified Jones model.

This study will be of interest to investors since the level of pervasiveness of earnings management and associated firm characteristics can help investors assess the overall quality of financial reporting. The choice of manufacturing firms was justified on the premise that manufacturing firms have peculiar and similar firm characteristics that give opportunities or pose threats to financial reporting quality. In Nigeria, the manufacturing sector involves in high value of account receivables, PPE, and free cash flows which are the major elements of corporate accruals. Hence, this study examines the effect of firm characteristics on financial reporting quality in Nigeria. The rest of the paper is organized as follows: section two contains conceptual framework, the next section discusses the review of

literature. The fourth section discusses the methodology and the fifth section accounts for data analysis while section six concludes the paper.

## 2. CONCEPTUAL FRAMEWORK

### 2.1 FINANCIAL REPORTING QUALITY

Financial reporting quality is defined as the faithfulness of the information conveyed by the financial reporting process (Martinez-Ferrero, 2015). The word faithfulness is characterized by relevance, reliability, transparency and clarity (Jonas and Blanchet, 2000). Relevant information means that the financial statement should contain enough information useful to different users of the financial statements in assisting their decision making process and that the information is provided in a timely fashion when they are still “news”. Reliability is what assures that the information is reasonably free from error or bias and that it truly represents what it is intended to represent. Information in a financial report will be reliable to the extent that users can depend on it to judge the economic conditions or events that it purports to represent (Shehu, 2013).

Transparency means that the figures truly reflect the economic activities of the enterprise during the period. Clarity is focused on how the figures are presented. The format and language of presentation is also very important. Financial reporting should therefore provide information to help investors, creditors, and other users to project the amounts and timing of future cash flows to the enterprise (Waweru and Riro, 2013).

### 2.2 FIRM SIZE

In the literature, size has been found to be an influential variable in explaining differences in disclosure practices among firms (Archambault and Archambault, 2003; Buzby 1974; Cerf 1961; Singhvi and Desai, 1971; Lang and Lundholm, 1993; Naser, 1998; Wallace, Naser, and Mora, 1994; Zarzeski 1996). Several reasons account for the positive association between firm size and the extent of disclosure. Disclosing detailed information is costly, and thus may not be affordable for small firms. Large firms are usually diverse in their business scope, the types of products and geographical coverage. A considerable amount of information is required for management purposes and can be

generated internally. Consequently, the marginal cost of disclosing the information publicly is low (Cooke 1989). Also, large firms go to financial markets to raise funds more often than small ones. These large firms are aware that selling new securities and a low cost of capital depend on disclosing more information to users (Barry and Brown, 1985; Choi, 1973a, 1973b; Dhaliwal, 1979; Spero, 1979). On the other hand, disclosure of detailed information may place small firms at a competitive disadvantage with other large firms in the same industry (Buzby, 1975).

### 2.3 FIRM PROFITABILITY

Profitability has been used to explain the variation in disclosure between firms. When profitability is high, management is more willing to disclose detailed information (Inchausti, 1997; Lang and Lundholm, 1993; Suwaidan, 1997; Wallace and Naser, 1995;). Unprofitable firms will be less inclined to release more information to hide their poor performance. Measures of profitability include net income, profit margin, return on assets, and return on equity. In this study return on equity was chosen as a proxy for profitability.

Since profitability is a business outcome, a company can either gain a profit or make a loss, depending on internal, political and economic factors. It is natural to expect that managers would be more willing to report good news (profit) faster than reporting bad news (loss) because such news could affect the share price and other indicators. Though common law countries firms tend to speed the recognition of good news and slow the recognition of bad news in reported earnings; while in code law countries firms tend to slow the recognition of good news and speed the recognition of bad news (Bushman and Piotroski, 2006), however, prior research documents the fact that managers are prompt to release good news (profit) faster compared to bad news (loss) (Chambers and Penman, 1984; Ng and Tai, 1994).

### 2.4 FIRM GROWTH

During the last twenty years, the construction industry was a major developmental pillar for both Greek and Cypriot economies. Therefore, it is expected that the manufacturing industry could be indicative of market-wide prospects of these national economies. It is also expected that such economic prospects to be mirrored in the fluctuations of the stock market. It is also estimated that stock market valuations will

deviate from accounting values that cannot fully account for the dynamics of the construction industry.

### 3. REVIEW OF EMPIRICAL LITERATURE

#### 3.1 FIRM SIZE, ASSET TANGIBILITY AND FINANCIAL REPORTING QUALITY

Firm size is an attribute that affects financial reporting quality (Dechow' and Ge, 2006). The firm size in most cases is measured by its asset size (Saheed, 2013). A large firm is expected to have a well-structured accounting and internal control department and should be able to afford the services of professionals who are expected to enhance the financial reporting process (Chalaki, Didar, and Riahnezhad, 2012). They are also likely to have a well-built information system enabling them to track all financial and non-financial information for operational, tactical and strategic purposes (Saheed, 2013). This is because a well-structured accounting and internal control department will ensure the integrity of financial reporting. Internal control procedures are meant to detect and/or prevent both the ability to manipulate earnings as well as mistakes or errors (Dechow and Ge, 2006). In addition, large firms are able to engage the services of one of the big auditing firms to audit their financial statement which is expected to enhance the quality of financial reporting (Thoopsamut and Jaikengkit, 2009) because the big audit firms are expected to be very professional in their auditing and be concerned over their reputations.

Waweru and Riro (2013) investigated the influence of corporate governance and firm specific characteristics on earnings management. They found that company size is not significantly related to financial reporting quality; this is consistent with the result obtained by Missonier-Piera (2004) who investigated the economic choices of accounting methods in Switzerland and the result obtained by Thoopsamut and Jaikengkit (2009) who asserted that company size is not a significant variable in determining financial reporting quality.

This line of argument however contradicts the findings of Thomas (1996) as cited by Waweru and Riro (2013) who assert that company size is a major factor shaping managers' choices of accounting in Japan. Shehu and Ahmad (2013) also documented that firm size has significant effect on earnings quality. Their study argued that large manufacturing firms in Nigeria tend to report more reliable and

qualitative information in their financial report than small ones. According to the study this may be attributed to a strong internal control system, governance mechanisms, and ability to access high quality service from large audit firms. The combination of these factors should discourage earnings management which is expected to improve the quality of financial reporting. Moreover, Huang, Rose-Green, and Lee (2012) while studying CEO age and financial reporting quality, using the meeting and beating of analyst earnings forecasts and financial restatements as a proxy for financial reporting quality; a sample of 3,413 firms for the period 2005 to 2008 and employing regression analysis in analyzing the variables found that firm size is significant and negatively related to financial reporting quality.

Firm size will also affect the corporate governance characteristics as well as the level of earnings management (Becker et al., 1998). Besides, Shehu and Ahmad (2013) posit that large firms have very strong reasons to manipulate their earnings in order to keep consistent earnings growth trend and meet and beat earnings expectations. Contrary to Shehu and Ahmed's findings, Missonier-Piera (2004) and Thoopsamut and Jaikengkit (2009) posit that company size is not significantly related to financial reporting quality. Their work was not conducted in an emerging economy. It therefore could be that this divergent result is due to the level of economic development of the countries where the studies were conducted. If firm size is likely to affect the corporate governance characteristics as posited by Becker et al. (1998), it is likely it will also affect the level of financial reporting quality.

### 3.2 FIRM PROFITABILITY AND FINANCIAL REPORTING QUALITY

Firms' profitability has also been argued to influence the quality of financial reporting. Alsaeed (2006) argued that a profitable firm may feel proud of its achievements and therefore would wish to disclose more information to the public in order to promote positive impressions of its performance. However, even though a study by Haniffa and Cooke (2002) did find a significant positive relationship between return on equity (ROE) with voluntary disclosure, a study by Alsaeed (2006) on the other hand, had found insignificant relationships. Besides that, the profit level has also been argued to have an influence on the manipulation of accounting accruals because managers may manage earnings to increase their bonus rewards (Yang and Krishnan, 2005). However, Yang and Krishnan (2005) and Rahman and Ali (2006) did

not find any significant relationships between the level of net income and discretionary accruals. This inconsistency and insignificance in the results is probably due to the use of current profitability, instead of changes in profits. Therefore, studies by Klein (2002b) and Davidson, Goodwin-Stewart, and Kent (2005) have argued that the changes in profit influence the manipulation of accounting accruals. Both studies have found support for this argument. The studies indicate a significant positive relationship between changes in net income and accruals in financial accounts. Several studies suggest that small profits are not evidence of earnings management. Dechow, Richardson, and Tuna (2003), in a large-sample study, find no relation between realizations of small profits and increases in discretionary accruals. Beaver, McNichols, and Nelson (2007) suggest that asymmetric taxes, rather than opportunistic choices, can explain the kink. Durtschi and Easton (2005) suggest that the kink is due to statistical and sample bias issues.

### 3.3 FIRM GROWTH AND FINANCIAL REPORTING QUALITY

It is debatable whether growth, the unobservable construct, or accruals as a measure of growth, affects earnings persistence. The bottom line is that high growth firms have less sustainable earnings (Nissim and Penman, 2000). This finding is not surprising. Earnings summarize performance of the firm's earnings process during the reporting period. If the fundamental process changes (i.e., grows), so will earnings, and properties of earnings such as persistence and smoothness will be adversely affected. Studies such as Penman and Zhang (2002) provide more contextual evidence about how the accounting system affects the degree to which growth matters. In addition to the impact of growth on the fundamental element of earnings properties, growth also is associated with greater measurement error and more manipulation opportunities (Richardson et al., 2005).

Researchers have, however, examined growth as a determinant of the external indicators of quality. Doyle et al. (2007a) and Ashbaugh-Skaife et al. (2007) find that young growth firms disclose more internal control weaknesses. Lee et al. (2006), however, do not find evidence supporting the association between restated amounts and growth. Research in finance shows that firm characteristics (such as growth, company size, efficiency) can predict the future stock price. Johnson and Soenen (2003) analyzed 478 firms in the USA for the period 1982-1998 and concluded that big sized and profitable firms with high advertising expenditure performed better in terms of those three measurements.

## 4. METHODOLOGY

This study adopted ex-post facto type of research design study due to the existing data on the variables in the model. The population of the study is made up of entirely listed non-financial firms in the Nigerian Stock Exchange (NSE) between the years 2009-2016. The years were chosen as the reference period for gathering the required data. The secondary data gathered from the companies' financial statements were used for the study based on their availability for the years needed. This study purposively selected 25 non-financial firms listed on the Nigerian Stock Exchange (NSE) from 2009 to 2016. The sample was justified on the premise of manufacturing firms that adopted IFRS early enough in 2013 to ease adequate comparison with the pre-adoption era.

### 4.1 MODEL SPECIFICATION

Given that firms financial statement is required by law (CAMA 2004) certain quality can be compromised by the management to achieve a given desired results. Thus, to measure the quality we hypothesized that financial reporting quality is a function of firm characteristics or firm characteristics has no significant effect on financial reporting quality in Nigeria. The firm characteristics are those incentive variables that are relatively stable at firms' level across time. However, in this study firm characteristics are categorized into structure and performance variables of a firm. These categories are based on Chen and Jaggi (2000), Lang and Lundholm (1993) and Wallace et al. (1994).

The study used longitudinal balanced panel data from secondary sources only because it is a quantitative study with positivism paradigm and the core of the data needed for analysis were adequately and conveniently extracted from the audited financial reports of the selected firms within the period of the study. Multiple regression was adopted to examine the model of the study. Longitudinal panel data is used to account for individual heterogeneity of the sample companies with the utilization of two steps regression in determining the quality of financial reports of the Nigerian listed manufacturing firms adopting modified Dechow and Dichev's (2002) model.

The results of robustness tests (multicollinearity, heteroscedasticity, cross-sectional dependence, test of serial correlation, Hausman specification and histogram test of residuals) conducted in order to improve the validity of all statistical inferences for the study reveal favorable results but are not reported for brevity.

The models of relationship between firm characteristics and auditor's rotation can be written as follows:

- (1)  $FRQ = f(\text{Firm Size})$
- (2)  $FRQ = f(\text{Firm Tangibility})$
- (3)  $FRQ = f(\text{Firm Growth})$
- (4)  $FRQ = f(\text{Firm Profitability})$

while the final model is

$$(5) \quad FRQ = \beta_0 + \beta_1 SIZE_{it} + \beta_2 PROF_{it} + \beta_3 GROWTH_{it} + \beta_4 TANG_{it} + \mu_{it}$$

where

- $\beta_0$  = The constant.  
 $\beta_1 - \beta_4$  = The slope of the independent and control variables.  
 $i$  = The company  
 $t$  = The time period.

#### 4.2 DEPENDENT VARIABLE

The dependent variable FRQ (Financial Reporting Quality) follows from the modified Dechow and Dichev (2002) model.

Thus, residuals of  $\Delta WC_{it} = \beta_0 + \beta_1 CFO_{it} - 1 + \beta_2 CFO_{it} + \beta_3 CFO_{it} + 1 + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + \varepsilon$ . The residuals for the modified Dechow and Dichev (2002) model after inserting the sampled firm's data represent financial reports quality in the second regression model specified for the study. However, the residuals determine the accrual quality; the larger the residuals, the lower the quality of accruals, vice versa, as in McNichols (2002).

#### 4.3 INDEPENDENT VARIABLES

- a. Firm Size (SIZE)  
In line with prior studies (Palmrose, 1986; Simon and Taylor, 2002). In this study firm size was measured by the natural log of total assets of the audited company.
- b. Firm Profitability (PROF)  
In this study the Return on Asset (ROA) was used to measure profitability. This study expected firm profitability to have a

positive relation with financial reporting quality. ROA is the ratio of net income to total asset.

c. Growth (GROWTH)

Growth is the measure on increase in worth of the business. It is the ratio of market value of equity to book value of equity.

d. Asset Tangibility (TANG)

Is the level of fixed asset in the firm asset structure? It measures the proportion of tangible asset to total asset in the firm asset structure.

## 5. RESULTS AND DISCUSSION

### 5.1 DESCRIPTIVE STATISTICS OF VARIABLES

Table 1 reveals the descriptive statistics of the variables used in the study. Financial reporting quality (AQ) has a mean value of -0.046 and a median value of 0.06 while the standard deviation is 1.60. This revealed a high level of disparity and deviation from the mean value. Firm size has a mean value of 7.16, median value of 7.09 and a standard deviation value of 0.64. This revealed that the variables are not too far from each other. Tangibility revealed a mean value of 0.35 and median value of 0.31 while the standard deviation value is 0.25. This revealed that the tangibility of asset of the firms under this study are relatively similar. Profitability has a mean value of 0.12 and median value of 0.11 with a standard deviation value of 0.14. firm growth has a mean value of 0.17 and a median value of 0.04 with a standard deviation value of 0.45.

Table 1  
Descriptive Statistics

	AQ	SIZE	TANG	PROF	GROWTH
Mean	-0.046	7.155	0.355	0.125	0.173
Median	0.064	7.090	0.318	0.107	0.042
Maximum	2.226	9.051	1.006	0.794	2.917
Minimum	-22.256	5.894	0.000	-0.284	-0.905
Std. Dev.	1.604	0.636	0.253	0.138	0.454
Skewness	-13.370	0.553	0.622	0.945	3.0197
Kurtosis	185.897	3.027	2.532	6.004	16.155
Jarque-Bera	284718.2	10.183	14.705	104.957	1745.974
Probability	0.000	0.006	0.001	0.000	0.000
Observations	200	200	200	200	200

Source: Field Study, 2018.

The dependent variable, financial reporting quality (AQ) is negatively skewed while all the explanatory variables (Firm Size, Tangibility, Profitability, Growth) are positively skewed. All the variables are leptokurtic variables except for tangibility which is a platykurtic variable.

## 5.2 CORRELATION

Table 2 reveals the correlation matrix of the variables used in this study. Financial reporting quality has a positive relationship with firm size, and firm growth but negative relationship with tangibility and firm profitability.

TABLE 2  
Correlation Matrix

	AQ	SIZE	TANG	PROF	GROWTH
AQ	1.00				
SIZE	0.11	1.00			
TANG	-0.01	0.17	1.00		
PROF	-0.02	-0.02	0.08	1.00	
GROWTH	0.01	0.02	-0.09	0.07	1.00

Firm size has negative relationship with profitability but positive relationship with financial reporting quality, tangibility, and firm growth. Tangibility has negative relationship with financial reporting quality, and firm growth but positive relationship with firm size and firm profitability. Profitability has negative relationship with financial reporting quality and firm size but positive relationship with tangibility. Firm growth has a positive relationship with financial reporting quality, firm size and profitability but negative relationship with tangibility.

## 5.3 REGRESSION RESULT ON FIRM CHARACTERISTICS AND FINANCIAL REPORTING QUALITY IN NIGERIA

Table 3 reveals the pooled regression model. In the pooled regression model, tangibility and firm profitability have negative effect on financial reporting quality, though not significant. Firm size, and firm growth

have positive effect on financial reporting quality, though not significance.

On the overall regression, the  $F$  statistic value of 1.06 is insignificant at 5%. Hence, there is evidence that the explanatory variables have no individual and combined effect on the dependent variable.

TABLE 3  
Pooled Regression Model

Variable	C	SIZE	TANG	PROF	GROWTH
Coefficient	-2.206	0.292	-0.105	-0.245	0.020
Std. Error	1.301	0.183	0.463	0.833	0.254
t-Statistic	-1.696	1.592	-0.227	-0.294	0.077
Prob.	0.092	0.113	0.821	0.769	0.939
$R$ -squared	Adjusted $R$ -squared	S.E. of regression	$F$ -statistic	Prob ( $F$ -statistic)	Observation
0.032	0.002	1.602	1.056	0.390	200

Table 4 shows the results for the fixed effect model. In the fixed effect model, firm size and firm profitability have positive significant effect on financial reporting quality. On the other hand, tangibility and firm growth have negative significant effect on financial reporting quality.

TABLE 4  
Fixed Effect Model

Variable	C	SIZE	TANG	PROF	GROWTH
Coefficient	-33.073	4.632	-1.205	1.396	-0.588
Std. Error	2.346	0.334	0.540	0.718	0.194
t-Statistic	-14.10	13.864	-2.230	1.944	-3.038
Prob.	0.000	0.000	0.027	0.054	0.00
$R$ -squared	Adjusted $R$ -squared	S.E. of regression	$F$ -statistic	Prob ( $F$ -statistic)	Observation
0.602	0.529	1.101	8.203	0.0000	200

On the overall regression, the  $F$  statistics value of 8.20 is significant at 5%. Hence, there is evidence that the explanatory variables have individual and combined effect on the dependent variables. Hence,

the null hypothesis which states that there is no significant relationship between firm characteristics and financial reporting quality is rejected. Thus, all evidence reveals that there is significant relationship between firm characteristics and financial reporting quality.

TABLE 5  
Random Effect Model

Variable	C	SIZE	TANG	PROF	GROWTH
Coefficient	-3.858	0.517	-0.105	0.069	-0.021
Std. Error	1.022	0.144	0.350	0.603	0.178
t-Statistic	-3.776	3.595	-0.300	0.114	-0.119
Prob.	0.000	0.000	0.765	0.909	0.905
R-squared	Adjusted R-squared	S.E. of regression	F-statistic	Prob (F-statistic)	Observation
0.050	0.021	1.561	1.709	0.121	200

Table 5 above reveals results under the random effects model. In the random effect model, firm size has positive significant effect on financial reporting quality. Similarly, profitability has positive effect on financial reporting quality, though not significant. Tangibility and firm growth have negative insignificant effect on financial reporting quality. On the overall regression, the  $F$  statistics value of 1.70 is insignificant at 5%. Hence, there is evidence that the explanatory variables have no individual and combined effect on the dependent variable.

TABLE 6  
Hausman Test

Variable	SIZE	TANG	PROF	GROWTH
Fixed	4.632	-1.205	1.396	-0.588
Random	0.517	-0.105	0.069	-0.021
Var(Diff.)	0.091	0.170	0.152	0.006
Prob.	0	0.008	0.001	0
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	
Cross-section random	201.278	6	0	
Cross-section random effects test comparisons:				

The Hausman's test discriminates between the fixed and random effect models as presented in Table 6. The Hausman's chi-square statistics of 201.28 is significant at 5%. Hence, it appears there is correlation between the error term and one or more independent variables. Therefore, the fixed effect model is considered to be capable of generating more consistent estimate as against the random effect model. Thus, our discussion is based on the fixed effect model as presented in Table 4.

#### 5.4 DISCUSSION OF FINDINGS

Firm size has positive significant effect on financial reporting quality. Tangibility has negative significant effect on audit financial reporting quality. This implies that firms with large scale have higher tendency to have high financial reporting quality. Thus, excessive holding of tangible assets such as Plant, Property and Equipment (PPE) can decrease financial reporting quality as revealed in this study. Contrary to this, Waweru and Riro (2013) found that company size is not significantly related to financial reporting quality; this is consistent with the result obtained by Missonier-Piera (2004) while investigating the economic choices of accounting method in Switzerland and the result obtained by Thoopsamut and Jaikengkit (2009) also lend credence to the assertion that company size is not a significant variable in determining financial reporting quality. This line of argument is however contrary to the findings of Thomas (1996) as cited by Waweru and Riro (2013) who asserts that company size is a major factor shaping managers' choices of accounting in Japan. Moreover, Shehu and Ahmad (2013) documented that firm size has significant effect on earnings quality.

In another study, Huang, Rose-Green, and Lee (2012) found that firm size is significant and negatively related to financial reporting quality. Besides, Shehu and Ahmad (2013) posit that large firms have very strong reasons to manipulate their earnings in order to keep consistent earnings growth trend and meet and beat earnings expectations. Missonier-Piera (2004) and Thoopsamut and Jaikengkit (2009), contrary to Shehu and Ahmed's findings, posit that company size is not significantly related to financial reporting quality. Wallace and Naser (1995) reveal that the disclosure indexes vary positively with asset size which is in line with the results in Cerf (1961).

This study also revealed that profitability has positive effect quality while firm growth has negative significant effect on financial reporting quality. Firm profitability has also been argued to have a positive influence on the quality of financial reporting. Profitable firms

will be less likely to perform earnings management. Alsaeed (2006) argued that a profitable firm may feel proud of its achievements and therefore would wish to disclose more information to the public to promote a positive image. However, even though a study by Haniffa and Cooke (2002) did find a significant positive relationship between return on equity (ROE) with voluntary disclosure, a study by Alsaeed (2006) on the other hand, had found insignificant relationships. Besides that, the level of profit has also been argued to have an influence on the manipulation of accounting accruals because managers may manage earnings to increase their bonus rewards (Yang and Krishnan, 2005). Yang and Krishnan (2005) and Rahman and Ali (2006), however, did not find any significant relationships between net income level and discretionary accruals. This inconsistency and insignificance in the results is probably due to the use of current profitability, instead of changes in profits. Therefore, studies by Klein (2002b) and Davidson et al. (2005) have argued that the changes in profit influence the manipulation of accounting accruals. Both studies have found support for this argument. Their studies indicate a significant positive relationship between changes in net income and accruals in financial accounts.

Although Astami and Tower (2006) found no significant relationship between profitability and the manager's choice of accounting policy, Bekiris and Duokakis (2011) reported a significant negative relationship between profitability and earnings management.

Penman and Zhang (2002) provide more contextual evidence about how the accounting system affects the degree to which growth matters. Researchers have, however, examined growth as a determinant of the external indicators of quality. Doyle et al. (2007a) and Ashbaugh-Skaife et al. (2007) find that young growth firms disclose more internal control weaknesses. Lee et al. (2006), however, do not find evidence supporting the association between restated amounts and growth. Research in finance shows that firm characteristics (such as growth, company size, efficiency) can predict the future stock price. Johnson and Soenen (2003) concluded that big sized and profitable firms with high level advertising expenditure have better performance in terms of those three measurements.

## 6. CONCLUSION

This study examined the impact of firm's characteristics on the quality of financial reporting of listed manufacturing firms in Nigeria. This

study selected 25 non-financial firms listed on the Nigeria stock exchange from 2009 to 2016. The data were analyzed using the panel data approach based on the pooled regression model, fixed effect model and random effect model while Hausman's test was used to select the appropriate model. The results revealed that firm size has positive significant effect on financial reporting quality. Tangibility has negative significant effect on audit financial reporting quality. Firm profitability has also been argued to have a positive influence on the quality of financial reporting while firm growth has negative significant effect on financial reporting quality.

This study implies that large firms tend to produce high quality financial reports; this should be encouraged among firms. This study also revealed that when there is high profitability, the financial reporting tends to be high. Thus, profitability should be a good indicator of poor or good financial reports. On the other hand, tangibility and firm growth have negative effect on financial reporting quality; this follows the predictions of the accruals model which predicts that earnings manipulation can be influenced by Plant, Property and Equipment (PPE). Hence, tangibility of asset should be discouraged among non-financial firms because it has significant effect on audit financial reporting quality. This implies that firms with large scale have higher tendency to have high financial reporting quality. Thus, excessive holding of tangible assets such as Plant, Property and Equipment (PPE) can decrease financial reporting quality as revealed in this study.

Firm profitability has also been argued to have a positive influence on the quality of financial reporting. Profitable firms are less likely to perform earnings management. Hence, profitable firms may feel proud of their achievements and therefore would wish to disclose more information to the public in order to promote positive impression of performance.

It is therefore recommended that all the firm characteristics used in this study except tangibility and firm growth should be encouraged by the government regulatory agencies (Securities and Exchange Commission and Corporate Affairs Commission) and all other stakeholders in the Nigerian non-financial firms because of the role that the firm characteristics play in constraining managers to act opportunistically in preparing financial statements.

This study is limited to non-financial firms in Nigeria. Future studies could concentrate on the financial firms to ascertain to what extent firm characteristics such as loan portfolios, loan to asset, and deposit liabilities, among others, can influence the financial reporting quality in Nigeria.

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