

## BOARD MEMBERS' EXPERIENCE AND CORPORATE EARNINGS QUALITY

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**Abstract:** The purpose of this study was to carry out an investigation on the relationship between experience diversity and earnings quality of quoted insurance companies in Nigeria. The population of the study was all the listed insurance firms whose stocks are quoted on the floor of the Nigerian Stock Exchange as at 31st December 2017. Twenty six insurance companies are listed and a sample of 21 was selected due to availability and completeness of data within the study period. The study exclusively utilized secondary data obtained through published annual reports of the sampled firms. The study relied on positivist philosophy and employed panel data methodology using data covering the period 2008-2017. The analytical technique employed in the study was parametric statistics. The findings of this study showed that: there is significant relationship between experience diversity of the board and the accrual quality of listed insurance companies in Nigeria. It was also found that: experience diversity of the board has significant relationship with earning persistence of listed insurance companies in Nigeria. The study concluded that experience diversity significantly affects a firm's reported earnings quality. Based on these findings and conclusion, the following recommendations were made: When appointing board members, those who have served previously in other boards of directors should be given preference to hold prominent positions. Also, in order to report earnings that can be sustained, minimum experience requirement should be set to enable majority of the board members' position to be occupied by those who are well experienced in board matters

**Keywords:** Experience diversity, Stakeholders' theory, Earnings quality, Accrual quality, Earnings Persistence

### Introduction

The board of directors is the most important decision-making body in a corporation. They take care of the company on behalf of the owners and shareholders. Boards are responsible for approving major strategic and financial decisions, such as mergers and acquisitions (M & As) and changes in capital structure, and also for the most important task of all, which is to hire and fire top executives (Ferreira, 2010). The earnings quality of an organization is dependent on the actions and inactions of the board; how they are able to detect and rectify variations between actual and reported earnings, and take

necessary actions on the defaulted management personnel.

The management of a company takes care of the preparation and presentation of the financial statements which are later examined by the board of directors, before approving it to be published for current and prospective investors to peruse. An effective board is one that is made up of members with diverse years of experience; which is one important thing to consider before employing or promoting an individual.

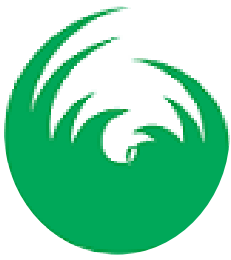
Although most of the existing empirical research in economics such as Ferreira (2010), Hermalin and

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Double Blind Peer and Editorial Review International Referred Journal; Globally index

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Weisbach (1998), Raheja (2005), Adams et al. (2020), disproportionately focussed on the distinction between independent and non-independent directors as the main source of director heterogeneity, with little or no attention to what can be brought into the boardroom debate based on different experiences of the board. Directors are viewed as providing important resources to the firm such as connections to key outsiders (regulators, suppliers, financiers, and others), advice and counsel. When considering directors as resource providers, experience diversity of the directors clearly become important. This paper focused on how the composition of the board in terms of experiences could affect the earnings quality of an organization.

### **Statement of the Problem**

Financial statements of organizations three day have a lot of restatements in previous years' financial records; attesting to the fact that events that were provided for or accrued for did not happen hence the restatement. This is actually misleading as it purports error in the financial statement (Butar, 2018). The Board is expected to use their different level of experience to eliminate or curtail to the nearest minimum, such occurrences if they are to report a quality earnings of the company but given the relationship between them and management, will they be able to effectively monitor the management team responsible for the preparation of such financial statements?

After considering the works carried out by different authors like Garcia (2018), Higgs (2003), Carter et al. (2003), and Deloitte (2015) on similar topics with inconsistent findings, this paper investigated the relationship between experience diversity and corporate earnings quality in the insurance companies quoted on the Nigerian Stock Exchange. This paper relates experience

diversity to earnings quality which is represented by accrual quality and persistence of earnings.

### **Objectives**

The main objective of this paper is to investigate the relationship between experience diversity and corporate earnings quality of insurance companies in the Nigerian Stock Exchange. The specific objectives are to:

1. ascertain the relationship between diversity in experience of the board and the accrual quality of listed insurance companies in Nigeria
2. investigate the relationship between diversity in experience of the board and earnings persistence of listed insurance companies in Nigeria.

### **Research questions**

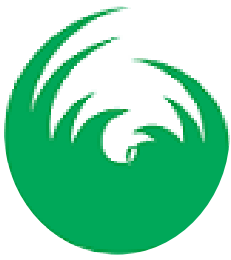
The following research questions were formulated for the study.

1. How does board experience diversity relate to the accrual quality of listed insurance companies in Nigeria
2. How does board experience diversity relate to the earnings persistence of listed insurance companies in Nigeria.

### **Research Hypotheses**

The following null hypotheses have been postulated to be able to test the relationship between Experience Diversity and Corporate Earnings Quality.

1. There is no significant relationship between diversity in experience of the board and the accrual quality of listed insurance companies in Nigeria.
2. There is no significant relationship between experience diversity and the persistence nature of reported earnings of listed insurance companies in Nigeria.



### **Significance of the study**

The importance of experience as one of the criteria for job recruitment cannot be overemphasized. The work has shown the effect of board experience on corporate earnings quality. This will guide shareholders in nominating directors of companies knowing that their diversified experience will affect the way their management will report earnings using accrual to smooth it.

This paper will assist the financial reporting council of Nigeria when reviewing the current code of corporate governance in that they might want to specify the number of directors that a company can have to accommodate real diversity in the board. Since the paper highlighted the positive effect of experience diversity, a regulatory body such as that will want to use that opportunity to insert clause that will ensure proper corporate governance of the firm.

It will be used as a point of reference to scholars as well as researchers who would love to conduct a research on related topic.

### **Scope of the study (Delimitation)**

This work focused on relationship between experience diversity and corporate earnings quality. Experience diversity is studied as an independent variable. Corporate earnings quality being the dependent variable is divided into two dimensions, accrual quality and earnings persistence. The work used data from insurance companies listed on Nigerian Stock Exchange. Given the importance of the insurance industry in business and economic development, through providing assurance to indemnify losses incurred in the business process, it is believed that the findings of this study will be generalizable to other industries in Nigeria, and possibly, to insurance industries in other climes.

### **Literature Review**

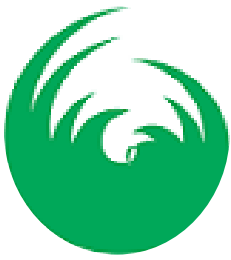
#### **Conceptual Review**

Over the years, regulators have placed great emphasis on addressing different matters relating to the experience of the board of directors. Two prominent examples were: (i) stressing on the roles of non-executive directors as well as the importance of independence of the board in the Higgs Review in 2003; and (ii) emphasizing the significance of balancing skills and experience of the board members as in the Walker Review in 2010. Until recently, there has been an urge for diversifying the experience of the board. Intuitively, diversity means having a range of many people that are different from each other (ACCA, 2018).

Board selection and effectiveness has gone beyond the independence level and also diversity is emphasized beyond executives and non-executives, to include members who possesses different years of experience in their specialized fields. It prompts the urge to investigate the relationship that exists between experience diversity of the board and the corporate earnings quality.

#### **Experience Diversity**

Experience is one of the values that drives growth. Most times people succeed better in the things that they have experience. Garcia (2018) maintained that experience is part of traditional skill, arguing that although the responsibilities of the board have continued to proliferate, the focus remains on traditional skill sets such as leadership, financial experience, industry, and CEO experience. By experience, we are looking at how many boards a board member has served before sitting on the board seat. It also corroborate how many years one has served on the board. This is what constitutes diversity of experience in the board.



Interest in diversity at board level grew significantly following the Higgs Report (Higgs, 2003) which reviewed the role and effectiveness of non-executive directors (NEDs) in the UK, finding that only one per cent of NEDs interviewed as part of the study were from ethnic minority groups and only six per cent of NEDs in FTSE 350 companies were female. Higgs argued that in order to be a successful governing body, boards should have an appropriate mix of skills and experiences, which are more likely to exist if board members are from different backgrounds, rather than boards comprised solely by the typical white-male nearing retirement with previous PLC director experience (Mercer, 2014). Carter et al. (2003) suggest that internally, increased diversity can enhance innovation and creativity due to broader experience providing a variety of ideas, and that diversity can improve problem-solving, due to increased conflict and challenge.

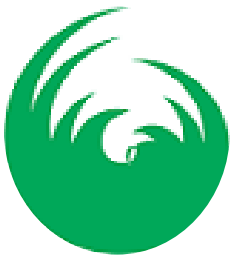
Having the optimal mix of skills, expertise and experience is paramount to ensure that the board as a collective is equipped to guide the business and strategy of the company. Traditionally, boards recruit from C-suite executives. According to the Deloitte US 2014 Board Practices Report, C-suite experience was found to be one of the top three desired board skills and experience in US public companies. While the experience from C-suite individuals is invaluable, it may be beneficial for boards to broaden their definition of board-ready talent. Business unit heads, regional leaders, academics, entrepreneurs, government leaders, and other non-C-suite executives can create a wider, more diverse pool with some very talented individuals that could bring interesting and insightful perspectives into the boardroom (Deloitte, 2015).

Directors are usually selected for their leadership qualities - they often have experience with generalized management or leadership experience rather than narrow expertise or technical acumen. However, a move towards

having niched technical experience in the boardroom does not appear to be implausible. Currently in South Africa, directors of listed companies who sit on audit committees are expected to have keen financial expertise with an understanding of financial and sustainability reporting standards. Furthermore, given the increasingly digital environment that businesses operate in, having a technology expert sitting in the boardroom could prove to be a strategically advantageous decision for a company (Deloitte, 2015).

Resource based theory suggest that the acquisition and creation of valuable resources bring competitive advantage to companies as the board members and potential board members often present their experience, expertise and reputation that can benefit the firm (Dalton & Dalton, 2010). Simons and Pelled (1999) argued that experience diversity had a negative impact on return on investment and overall organizational performance. They also opined that the negative relationship of experience diversity and performance was due to informal communication among top teams (Erhardt et al., 2003).

Consider a board where none of the member can read and interpret the financial statement correctly, it will be difficult for them to detect when the financial statements are not prepared according to the required standards. This will reduce the quality of the report. Accounting information is expected to be objective and not represent personal opinion but the real occurrences throughout the period of reporting. Financial statements are not all about accounting standards and legal issues, the statements are supposed to reflect all the activities of the company within the period of the report. The operations of the company are all imbedded into the report. Different professionals with diverse experiences are expected to participate in running the companies and contribute meaningfully in the light of their professions.



## **Corporate Earnings Quality**

### **Earnings**

Investopedia typically refers to Earnings as after-tax net income, sometimes known as the bottom line of a company's profits. Earnings are used to measure a company's financial strength and profitability, using different ratios of measurement. Earnings per share (EPS) is a commonly cited ratio used to show the company's profitability on a per-share basis, and is calculated by dividing the company's total earnings by the number of shares outstanding; Price-to-Earnings, which is also commonly used in relative valuation measures such as the price-to-earnings ratio (P/E), is calculated as share price divided by earnings per share, and primarily used to find relative values for the earnings of companies in the same industry. A company with a high P/E ratio relative to its industry peers may be considered overvalued. Likewise, a company with a low price compared with the earnings it makes might be undervalued; The earnings yield, or the earnings per share for the most recent 12-month period divided by the current market price per share, is another way of measuring earnings, and is in fact just the inverse of the P/E ratio.

### **Earnings Quality**

Earnings is said to be of high quality when the earnings number accurately annuitizes the intrinsic value of the firm. Such earnings are referred to as permanent earnings in the accounting literature (Dechow, 2004; Ohlson & Zhang 1998). Another way to think about this concept is that earnings are of high quality when return on equity is a good measure of the internal rate of return on the company's current portfolio of projects. An earnings number that represents the annuity of expected future cash flows is likely to be both persistent and predictable.

A faulty financial data gives a wrong picture of the business enterprise, which also affects the level of reliance placed on it by the users and finally faulting the credibility of the financial report. The reliability of accounting information may affect its relevance to the market in determining the firm value. To enhance the value of financial statements, the information needs of the various users must be met (Revsine, 1969).

### **Earnings Quality Constructs**

#### **Conservatism**

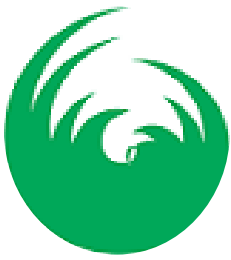
Penman and Zhang (2002) defined conservatism in accounting as the choice of accounting procedures or estimates that keep the book values of net assets relatively low. Conservatism in earnings is a significant determinant of earnings quality (Ball & Shivakumar, 2006). Conservatism is also seen as the differential ability of accounting earnings to reflect economic losses versus economic gains (Mohammady, 2010).

#### **True and Fair View**

The European Union attaches true and fair view as the main attribute of high quality financial reports (EU, 1978). The idea behind this view is that financial reports that truthfully reflect the underlying reality in the firm are of high quality. This corresponds well to the idea of decision usefulness, since faithful representation of financial reporting by nature must be more useful to users (Herly, 2012).

#### **Comparability and Transparency**

According to Arthur Levitt, comparability and transparency are two main attributes of high quality financial reporting. He determines the key objective of financial information to be providing disclosure to investors on where the company has been, where it is and where it is going (Levitt, 1998). Barth and Schipper



(2008) also propose transparency as a desired attribute of high quality earnings (Herly, 2012).

### **Factors that Affect Earnings Quality**

#### **Accruals Quality**

Corporate earnings quality can be measured in terms of accruals quality and it's one of the dependent variables measured in this paper. Accruals accounting require assumptions, management judgments and estimates about future realization of earnings into cash flows which may be influenced by biases in the estimation process. While the cash flow component of earnings is realized, the accrual component of earnings is subject to greater uncertainty than the cash flow component (Francis et al., 2005). It can provide more relevant information to investors on the one hand, but it can also introduce error and bias, resulting in less reliable information on the other. Accruals quality plays a critical role in determining the reliability of earnings information to users.

#### **Persistence**

Schipper (2003) associated persistent earnings with larger investor responses to earnings, which supports the hypothesis that persistent earnings are more useful for users, in particular for valuation purposes (Dechow & Schrand, 2004). Dechow et al. (2009) note that studies of earnings persistence and cash flow predictability are motivated by an assumption that persistence improves decision usefulness in an equity valuation context. A common measure for persistence is the autocorrelation of earnings (Chukwu et al., 2021) where high autocorrelation between current and past income is desirable; a stationary AR1 model with  $\rho$  close to 1 is thus considered persistent (Heij et al., 2004). Basu (1997) is of the opinion that negative earnings changes are less persistent than positive earnings changes. As a consequence, negative earnings changes generally will

not become a permanent part of future earnings, whereas positive earnings changes will.

### **Theoretical Review**

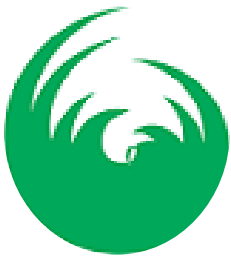
This section will review the theory on which this paper is based. The Stakeholders' theory is reviewed in this paper.

#### **Stakeholders' Theory**

This is one of the theories that talks about the corporate social responsibility of the board. Stakeholder theory upholds that those whose lives are affected by a corporation are holding the right and obligation to participate in directing it. The theory of stakeholder approach is largely credited to R. Edward Freeman who published a work in 1984 titled Strategic Management A Stakeholder Approach. Since then managing business based on the stakeholder approach has dominated both the academic and business debate. Freeman defined stakeholders as persons having a stake (or a claim) in an entity, including employees, customers, suppliers, host community and stockholders. The author noted that there were challenges (political, legal, moral and economic) associated with the theory, justifying the need to revise the concept. Freeman further argued that each of the stakeholders' group should not be treated as a means to some end instead they must be part of the process that will contribute to the future of the firm. The earnings of the firm benefit it's various stakeholders. Thus, good quality earnings, such as persistent positive earnings, will benefit stakeholders more than poor quality earnings.

### **Empirical Review**

Barkema and Shvyrkov (2007) tested the relationship between tenure (length of service) and educational diversity in top management teams and business expansion into new countries or regions. It was found that tenure diversity correlated with likelihood to expand into



new geographic areas, but there was no correlation with educational diversity. The correlation with tenure diversity could relate to internal decision-making processes, but equally it could relate to broader access to markets enabling geographic expansion.

Deloitte (2015) did a study on diversity in the boardroom focusing on perspectives and practices. This was a desk research which added to the most needed literature on experience diversity in Boards. They found that having the optimal mix of skills, expertise and experience is paramount to ensure that the board as a collective is equipped to guide the business and strategy of the company. Directors are usually selected for their leadership qualities - they often have experience with generalized management or leadership experience rather than narrow expertise or technical acumen. They concluded by opining that sufficient mix of individuals with relevant knowledge, independence, competence, industry experience and diversity of perspectives will generate effective challenge, discussion and objective decision-making.

Based on data from a Continental jurisdiction, covering the period 2005 to 2015, Gaite and Fernandez-Temprano (2021) documented that board of directors tenure had a positive, statistically significant influence on firm performance. Put together, extant literature favours a positive relationship between board directors tenure and firm performance.

## **Methodology**

### **Research Design**

This paper employed a panel data methodology covering the period 2009-2017 as it collected past and multi-dimensional data which provided basis for the full establishment of the relationship between experience diversity and corporate earnings quality of quoted insurance firms in Nigeria. Also, a quantitative study

approach was adopted since quantifiable observations were collected and analyzed statistically with a view to obtaining empirical evidence on the basis of which inferences were drawn.

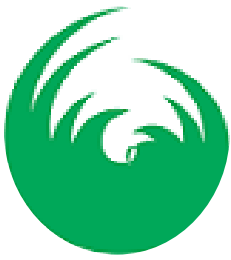
### **Population of the Study**

The population of the study is all the listed insurance firms whose stocks are quoted on the floor of the Nigerian Stock Exchange as at 31<sup>st</sup> December 2017. Our choice of 2017 as the terminal year of the study is predicated on the need to overcome data availability limitations due to long reporting lag associated with the industry of study. There are strong indications as obtained from field report, that annual report for 2018 financial year for most of the target firms were unduly delayed due possibly to difficulties with the implementation of IFRS 9 in the industry. As at 31<sup>st</sup> December, 2017, NSE had 26 listed insurance firms according to the facts as obtained from 2017/2018 fact book.

### **Sampling Procedure and Sample Size**

Sampling technique of choice for the study is judgmental sampling rather than probabilistic sampling technique. Data accessibility is a major consideration of the researcher in adopting judgmental sampling technique for the current study. The sample size is purposively determined to be twenty-one (21), consisting of those as presented in the table below. This sample list was compiled using data accessibility from the database of the Nigerian Stock Exchange or their respective official websites as a criterion. Five (5) companies were screened out because their records were not complete. Accordingly, a total of 189 data points was extracted for analyses covering the period from 2009 to 2017, with both years inclusive.

### **Data Collection Method and Sources**



Secondary data were obtained from the published annual reports, databases of the Nigerian Stock Exchange (NSE). The researcher's choice of secondary data for the study was predicated on the premise that secondary sources of information tend to be more reliable in comparison with primary data. This is because secondary data are mostly free from subjectivity and are easily verifiable. In addition, the secondary data methodology is more in conformity with quantitative research than its primary data counterpart.

The collection method was mostly electronic retrieval means from the archive of Nigerian Stock Exchange and respective official websites of the sampled firms

#### **Variable Description and Measurement**

There are two basic variables used in this study. They are corporate earnings quality (dependent) and experience diversity (independent).

#### **Data analysis techniques**

The analytical technique employed in this study is parametric statistics. This technique involves the use of quantitative models that seek to explain correlation, using sample based parameters as yardsticks to infer about the population of study. The analytical procedure is carried out in two distinct phases, namely univariate (or descriptive) analysis and bivariate analysis.

#### **Data Presentation, Analysis and Discussion of Findings**

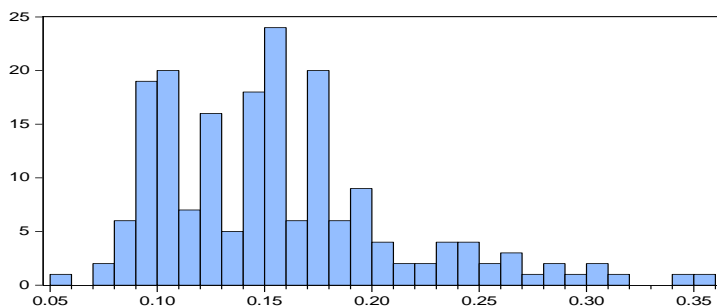
The results of analyses are presented in two phases. The first phase is univariate or descriptive analysis of the variable, followed by the second phase which is a bivariate analysis and then the discussion of findings.

#### **Univariate Analysis**

In line with the conceptual framework developed in chapter 1 which includes three variables, the descriptive statistics are limited to highlight the three variables of the study. These include board experience diversity (*XDIV*) as the independent variable; accrual quality, (*ACQ*) and earnings persistence (*PER*) which are the two measures of corporate earnings quality.

#### **Members' Board Experience Diversity of Boards of Insurance Companies in Nigeria**

Members' board experience diversity of insurance companies in Nigeria is observed to be asymmetrically distributed with a mean percentage of approximately 15.6% and standard deviation approximately equal to 5.59%. An examination of the figure shows a near equality between the measures of central tendencies (mean and median values) which points to normality, just as the graph approximately portrays normality. However, the Jarque-Bera statistic of 47.051 fails to emphatically reject the null hypothesis of non-symmetry, as indicated by the probability value of 0.0000



Series: XDIV	
Sample 2009 2017	
Observations 189	
Mean	0.155605
Median	0.150000
Maximum	0.352005
Minimum	0.057191
Std. Dev.	0.055899
Skewness	1.079187
Kurtosis	4.147241
Jarque-Bera	47.05111
Probability	0.000000

**Members’ Board Experience Diversity of Insurance Companies in Nigeria**

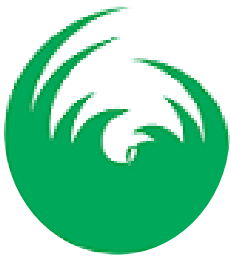
The mean description for XDIV is not far from the maximum proportion of members’ board experience diversity, suggesting that the prevalence of board experience diversity among Nigerian insurance companies is fairly within the same bracket. However, the distribution of this observation is slightly skewed positively, suggesting that a good majority of boards of insurance companies are composed of members with board experience above the industry average.

**Accrual Quality of Insurance Companies in Nigeria**

For each of the sampled firms, time series data was used to regress total accruals on the firm’s underlying fundamentals (represented by revenue and PPEs) in order to estimate the parameters of the non-discretionary accruals, using modified Jones (1991) model. The resulting coefficient of determination (i.e.  $R^2$ ) measures the extent to which the firm’s underlying fundamental explains the non-discretionary accruals of the firm, hence the quality of the firm’s accrual. The table below presents the range of  $R^2$  and number of firms falling within such range. The reported descriptive statistics indicates that over the period of study, level of accrual quality is generally low.

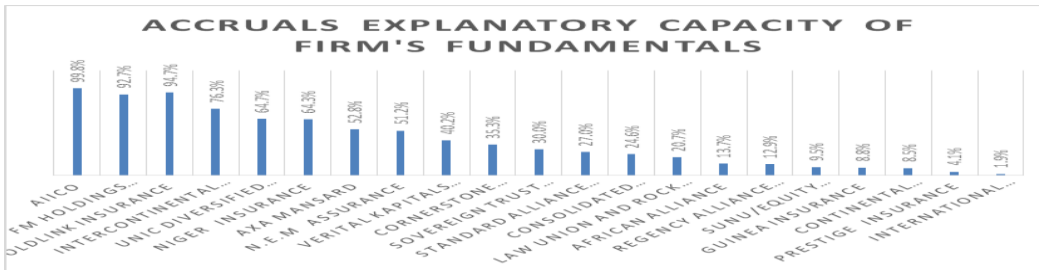
**Total Accruals Explanatory Capacity ( $R^2$ ) of Firms’ Fundamentals**

Range of $R^2$	Frequency	Accrual Quality Remark
$R^2 > 90\%$	3	Very High
$60\% < R^2 < 90\%$	3	High
$30\% < R^2 < 60\%$	4	Average
$10\% < R^2 < 30\%$	6	Low
$R^2 < 10\%$	5	Very low
<b>21</b>		



The same facts are represented pictorially below. Number of insurance firms whose accruals explanatory capacity is

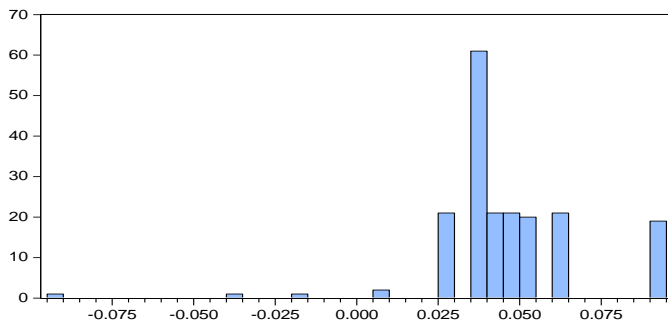
50% and above are only eight out of the twenty-one sampled firms



**Accruals Explanatory Capacity of Firms' Fundamentals**

Since the objective is to measure accrual quality, rather than discretionary accrual, we need to carry out a

transformation of the data for it to measure the intended construct

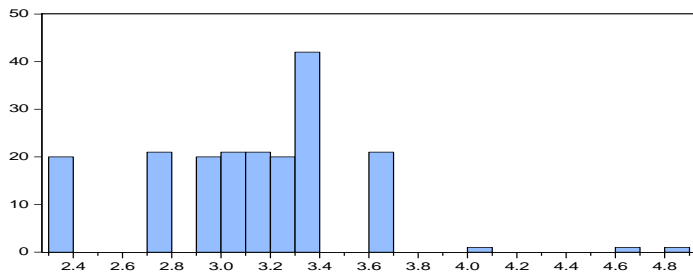


Series: DAC	
Sample 2009 2017	
Observations 189	
Mean	0.046416
Median	0.044172
Maximum	0.094279
Minimum	-0.092982
Std. Dev.	0.022503
Skewness	-0.848705
Kurtosis	11.33826
Jarque-Bera	570.2107
Probability	0.000000

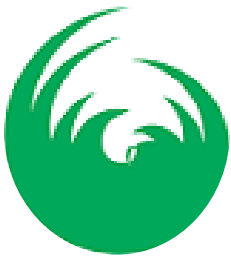
**Accrual Quality of Insurance Companies in Nigeria (Untransformed Data)**

Accordingly, since in theory the discretionary accrual is inversely related to accrual quality, we transformed the

data by inverting the absolute values of the data to obtain the outcome as presented below



Series: ACC	
Sample 2009 2017	
Observations 189	
Mean	3.109197
Median	3.119106
Maximum	4.841358
Minimum	2.361494
Std. Dev.	0.385542
Skewness	0.371345
Kurtosis	5.613622
Jarque-Bera	58.13804
Probability	0.000000



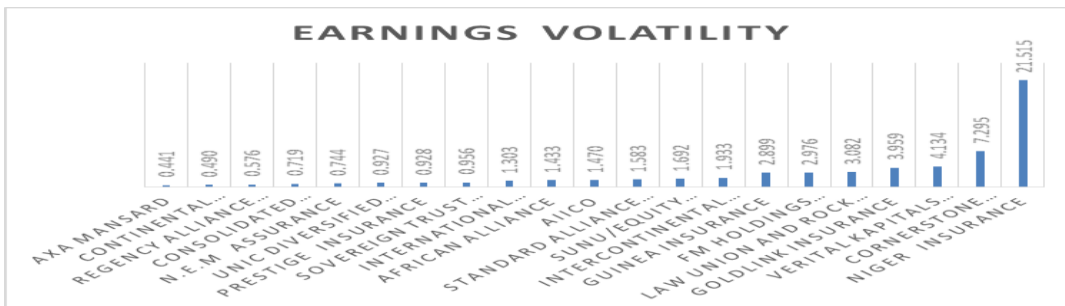
**Accrual Quality of Insurance Companies in Nigeria (Transformed Data)**

According to the figure, the JB-statistic (58.138) and associated probability value indicate that the data is still not normally distributed but the distribution is now positively skewed (0.3713) and shorter kurtosis of 5.614.

**Earnings Persistence of Insurance Companies in Nigeria**

A coefficient of variation of profit-after-tax was computed as measure of earnings volatility for each of the

sampled firms, using ten years data from 2008 to 2017. In estimating this earnings volatility, it is our hope that their persistence will be assessed indirectly through their predictive quality. The interpretation of the resulting statistics is predicated on the premise that higher variability means low predictive quality, hence low persistence. The descriptive statistic results of the estimated earnings volatility are presented in the figure below

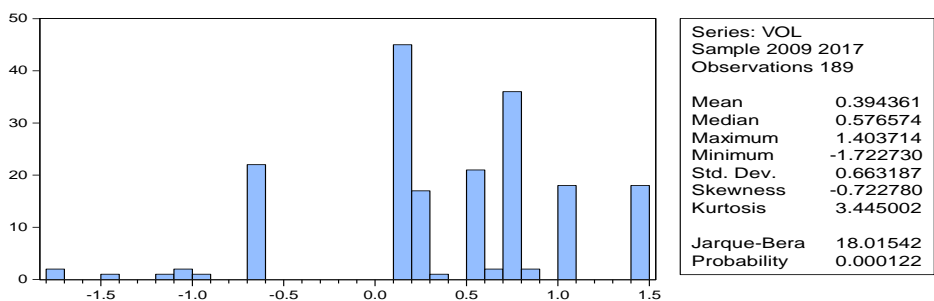


**Earnings Volatility of Insurance Companies in Nigeria**

According to the figure, thirteen firms out of the twenty-one sampled firms’ earnings exhibited considerable degree of variability as indicated by the coefficient of variation. This is as a result of the fact that the absolute values of their respective computed coefficient of variation are greater than 1.0, meaning that their actual earnings deviate several points away from their expected earnings. Thus once again a widespread indication of poor earnings quality is observed in the Nigerian insurance industry as this characterization is consistent

with the earlier observation from the perspective of accrual quality.

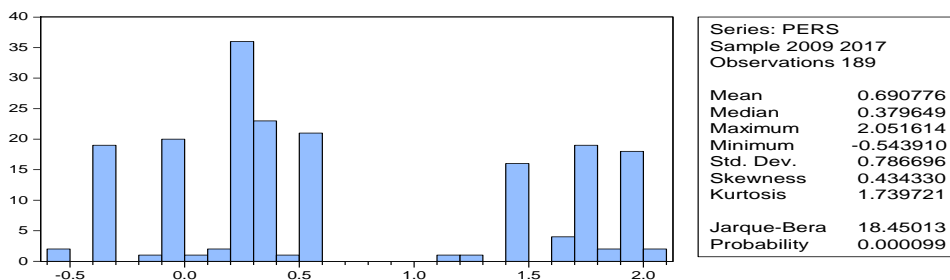
It is important to reiterate however, that a dynamic analytical framework rather than a static one, was used in testing the study hypotheses as this static analysis is only used to gain insight on the overall quality of the respective sampled firm’s earnings quality. A two-years-moving coefficient of variation of profit-after-tax was computed as measure of earnings volatility for each of the sampled firms. The results are presented in the figure:



**Earnings Volatility of Insurance Companies in Nigeria (Untransformed Data)**

Earnings volatility of insurance companies in Nigeria, as measured by two-years-moving coefficient of variation of profit-after-tax, shows a highly dispersed distribution. The average coefficient of variation is approximately 0.3943, out of a wide range of -1.723 and 1.404. The negative skewness of -0.723 indicates that there are more coefficient of variation greater than the average point, meaning insurance firms with high earnings volatility (i.e., low earnings persistence) are more in numbers than those with low earnings volatility (i.e. high earnings persistence).

The presented data series on earnings volatility requires undergoing certain transformation that is expected to make it suitable as a measure of earnings persistence variable. Since the construct of interest is capacity to resist volatility, the direction of such capacity is not much of relevance. Besides, volatility resistance attribute reflects opposite of volatility. Hence, the series is transformed to natural logarithm of the inverse of absolute figure of volatility as earnings persistence.



**Earnings Persistence of Insurance Companies in Nigeria (Transformed Data)**

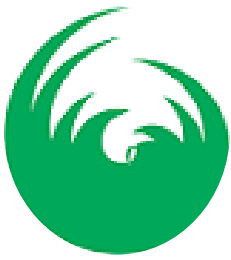
**Bivariate Analysis**

The objective of this analysis is to establish the magnitude and degree of relationships between pairs of variables, using Pearson Product Moment Correlation ( $r^2$ ).

Earnings quality was measured by earnings persistence and accruals quality, with earnings persistence measured in terms of inverse function of earnings volatility. The table is used to explain the relationship between the variables (experience diversity and earnings quality).

**Experience Diversity and Earnings Quality**

According to the direction of relationship, the implication of this result is that, greater degree of board experience



diversity is likely to give rise to greater degree of earnings persistence. Thus based on the maturation period hypothesis the results obtained from bivariate analysis suggests that on the average, a short maturation period of

taking experience to produce desired results in the Nigerian insurance industry, prevails over long maturation period.

**Table: Correlation Matrix of Board Experience Diversity and Earnings Quality**

Date: 10/27/19 Time: 16:42

Sample: 2009 2017

Included observations: 189

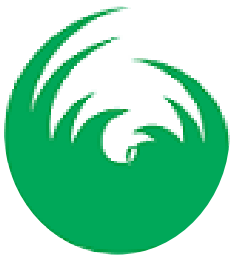
Correlation			
Probability	PERS	ACC	XDIV
PERS	1.000000		
	----		
ACC	0.552838	1.000000	
	0.0000	----	
XDIV	0.334598	0.633906	1.000000
	0.0000	0.0000	----

Source: EVIEWS Output (Version Seven)

Available data of the Nigerian Insurance Industry, tend to suggest a short maturation period, hence the positive influence on earnings persistence. Therefore regarding hypothesis H<sub>02</sub>, which states: *Board experience diversity does not significantly influence earnings persistence of quoted insurance companies in Nigeria*, there is

statistically justifiable reason to reject the hypothesis at 5% level of significance (i.e. H<sub>02</sub> is rejected).

On the basis of accruals quality as a measure of earnings quality, results obtained seems to corroborate the earlier position. The correlation coefficient between board



experience diversity and accruals quality is similarly positive (0.6339), though somewhat stronger in magnitude. According to the table, variability in board experience diversity can account for about 40.18% observable variability in accruals quality. Therefore hypothesis  $H_{01}$ , which states: *Board experience diversity does not significantly influence accruals quality of quoted insurance companies in Nigeria*, is rejected.

### **Earnings Persistence**

Both results on accrual quality and earnings persistence are similar; board experience is positively related to insurance companies' earnings persistence such that a 1% increase in experience diversity of the insurance companies will increase their earnings persistence by 5.25%.

### **Discussion of findings**

#### **Experience Diversity and Earnings Quality**

According to the direction of relationship, the implication of this result is that, greater degree of board experience diversity is likely to give rise to greater degree of earnings persistence. Kim and Starks (2015) confirm this in their work as they affirm that experience improves the quality of earnings. On the basis of accruals quality as a measure of earnings quality, results obtained corroborate the earlier position. Again, this is in line with a priori expectation as backed up by Deloitte (2015) who found a positive relationship between experience diversity and earnings quality. Also, Gaite and Fernandez-Temprano (2021) documented a positive relationship between the length of a director's board stay on the board and firm performance, based on data from a Continental jurisdiction. These results support the findings of this study. It is noteworthy that the results are consistent irrespective of the measure of earnings quality adopted. The result of the current study may be attributed to the

fact that the longer one serves in boards, the more familiar the person will be in terms of the structures and processes that lead to better performance, and the ability to positively influence the financial reporting process to produce faithfully represented accounting numbers. As important stakeholders of the reporting entity, the quality of earnings definitely affects the fortunes of various stakeholders.

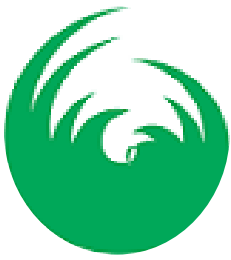
### **Summary, Conclusions and Recommendations**

#### **Summary**

This paper investigated the relationship between experience diversity and the earnings quality of insurance companies quoted on the floor of the Nigerian stock exchange. The study measured experience diversity as an independent variable, while corporate earnings quality was measured with accruals quality and earnings persistence. The main objective of the study was to investigate the relationship between experience diversity and earnings quality of listed insurance companies in Nigeria. In order to study this relationship between experience diversity of the board and the accrual quality of listed insurance companies in Nigeria, two research questions and two hypotheses were raised.

Relevant literature was reviewed conceptually, theoretically and empirically to find out what other authors and researchers did about related topics. We discovered from the literature that there were varied opinions about the topic. While some works established relationships, others did not.

This paper employed panel data methodology covering the period 2009-2017. Quantitative study approach was adopted; quantifiable observations were collected and analyzed statistically with a view to obtaining empirical evidence on the basis of which inferences were drawn. The paper exclusively utilized secondary data which were



obtained through published annual reports of the sampled firms. The population of the study is all the listed insurance firms whose stocks were quoted on the floor of the Nigerian Stock Exchange as at 31st December 2017. According to 2017/2018 fact book of the Nigerian Stock exchange, there are 26 insurance companies quoted but due to availability of data, only 21 companies whose data was up to date were used. Parametric statistics was used to analyze the data collected.

The finding from the data analysis reveals that

There is a significant relationship between experience diversity and the accrual quality of listed insurance companies in Nigeria; also, there is a significant relationship between experience diversity and the persistence nature of reported earnings of listed insurance companies in Nigeria.

### **Conclusion**

Earnings as established are prone to manipulation by those in charge of reporting it. Because of the various uses of earnings, reporting unfavorable earnings will not be to the advantage of management as they face either losing their compensation or at worst losing their jobs.

This paper established significant relationship between experience diversity and earnings quality of quoted insurance companies in Nigeria. It therefore concludes that experience diversity significantly affects firm reported earnings quality.

### **Recommendations**

Based on the findings of this study, it is recommended that

1. When appointing board members, those who have served previously in other board of directors should be given preference to hold prominent

positions. The regulatory body especially the Financial Reporting Council of Nigeria should be more specific in the term diversity. They should spell out what diversity encompass, they should also give a minimum number of members of the board to accommodate the desired diversity.

2. In order to report earnings that can be sustained, minimum experience requirement should be set to enable majority of the board members' position to be occupied by those who are well experienced in board matters.

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