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CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL REPORTING QUALITY IN NIGERIA

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ABSTRACT

This study examined the influence of corporate governance mechanisms on the financial reporting quality (FRQ) of listed manufacturing firms in Nigeria from 2015 to 2022. Employing agency theory as its theoretical underpinning, the research investigated six governance variables namely board size, and board independence. Financial reporting quality is measured using discretionary accruals derived from the Modified Jones Model. The study adopted a robust quantitative methodology, analyzing secondary data from the annual reports of 49 manufacturing firms. Diagnostic tests, including heteroskedasticity, multicollinearity, mis-specification, and normality assessments, ensure the reliability of the regression results. Key findings revealed that board size negatively and significantly impacts FRQ. In contrast, board independence demonstrated insignificant effects, with varying directional influences. To address outliers and enhance model robustness, robust regression techniques were employed. The results emphasized the critical role of optimizing board composition and leveraging foreign ownership to enhance transparency and accountability in financial reporting. This study contributes to the ongoing discourse on corporate governance in emerging economies, offering valuable insights for policymakers, practitioners, and stakeholders in the manufacturing sector. Recommendations include fostering regulatory frameworks that support balanced board structures, enhancing gender diversity, and attracting foreign investment to align corporate practices with global governance standards. By addressing governance challenges, this research underscores the potential for improved financial reporting quality to promote investor confidence and economic stability in Nigeria.

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Key words: *Corporate governance mechanisms, Board size, Board independence and Financial reporting quality.*

INTRODUCTION

Corporate governance mechanisms play a pivotal role in shaping the quality of financial reporting within organizations. Effective governance structures are essential for ensuring transparency, accountability, and integrity in financial disclosures, which are critical for informed decision-making by stakeholders. In recent years, the relationship between

corporate governance and financial reporting quality has garnered significant attention, particularly in emerging economies like Nigeria. The board of directors serves as a fundamental component of corporate governance, influencing financial reporting through its composition and practices. Board size, independence, and diversity are key attributes that can impact the board's effectiveness in overseeing financial reporting processes. Larger boards may offer a broader range of expertise and perspectives, potentially enhancing oversight capabilities. However, excessively large boards might face coordination challenges, leading to inefficiencies (Alves, 2021). Board independence, characterized by a higher proportion of non-executive directors, is associated with improved monitoring and reduced earnings management, thereby enhancing financial reporting quality (Khan et al., 2022). Additionally, board gender diversity has been linked to more comprehensive decision-making and ethical financial reporting practices (García-Sánchez et al., 2020).

In the Nigerian context, the manufacturing sector is a cornerstone of the economy, contributing significantly to employment and GDP. However, the sector has faced challenges related to corporate governance and financial reporting quality. Studies have highlighted instances of financial misstatements and governance lapses, underscoring the need for robust governance frameworks (Adegbite et al., 2020). The adoption of the Nigerian Code of Corporate Governance aims to address these issues by providing guidelines to enhance board effectiveness and financial transparency (Financial Reporting Council of Nigeria, 2020).
The Modified Jones Model, developed by Dechow, Sloan, and Sweeney (1996), is a widely used tool for assessing financial reporting quality through the measurement of discretionary accruals. This model helps in detecting earnings management practices, which can obscure the true financial performance of firms. By applying this model, researchers can evaluate the extent to which corporate governance mechanisms influence the quality of financial reporting in Nigerian manufacturing companies. Understanding the interplay between corporate governance mechanisms and financial reporting quality is crucial for policymakers, regulators, and stakeholders. Enhancing governance structures can lead to more reliable financial information, fostering investor confidence and contributing to the overall stability of the financial system. This study aims to provide empirical evidence on the impact of specific governance attributes—such as board size, independence, gender diversity, and ownership structures—on the financial reporting quality of listed manufacturing companies in Nigeria from 2015 to 2022.

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While numerous studies have explored the impact of corporate governance on financial reporting quality, findings remain inconclusive and context-specific. For instance, research in developed economies often indicates a positive correlation between robust governance structures and high-quality financial reporting (Alves, 2021). However, studies focusing on emerging markets, such as Nigeria, are limited and present mixed results. Some evidence suggests that certain governance attributes, like board independence, enhance reporting quality, while others, such as managerial ownership, may have negligible or even adverse effects (Adegbite et al., 2020). This inconsistency underscores the necessity for empirical research tailored to Nigeria's unique corporate environment.

Methodologically, prior studies have predominantly employed cross-sectional designs, which may not adequately account for temporal changes in governance practices and their effects on financial reporting quality (García-Sánchez et al., 2020). Additionally, many studies have focused on single governance variables in isolation, neglecting the potential interactions between different governance mechanisms. There is a need for longitudinal studies that utilize panel data analysis to capture dynamic relationships and provide more robust insights into how governance structures influence reporting quality over time. Despite the existence of governance codes, compliance is frequently superficial, and enforcement mechanisms are inadequate (Adegbite, 2020). This real-world gap between prescribed governance practices and their actual implementation affects the reliability of financial reporting. Understanding the practical challenges and barriers to effective governance in Nigeria is crucial for developing strategies that enhance financial reporting quality.

Addressing these gaps is essential for advancing both academic knowledge and practical applications. Empirical studies that consider the specificities of the Nigerian context, incorporate diverse theoretical perspectives, employ robust methodological approaches, and acknowledge real-world challenges can provide valuable insights. Such research will inform policymakers, regulators, and corporate stakeholders in their efforts to strengthen corporate governance frameworks and improve the quality of financial reporting in Nigeria's manufacturing sector.

Objectives

The main objective of this study is to examine the influence of corporate governance mechanisms on the financial reporting quality of manufacturing firms in Nigeria. The specific objectives are;

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1. to evaluate the effect of board size on the financial reporting quality of manufacturing firms in Nigeria.
2. to analyze the influence of board independence on the financial reporting quality of manufacturing firms in Nigeria.

LITERATURE REVIEW

Financial Reporting Quality (FRQ)

Financial Reporting Quality (FRQ) refers to the ability of financial statements to accurately represent a company's financial performance and position, thereby enabling stakeholders to make informed decisions. High FRQ ensures the provision of financial information that is free from errors, biases, and manipulations, adhering to the principles of relevance, reliability, and comparability (Dechow et al., 2010). A high-quality financial report facilitates trust between firms and their stakeholders, enhances market confidence, and promotes efficient resource allocation. This attribute of financial reporting is particularly crucial in economies like Nigeria, where transparency and accountability are often questioned. Various models have been developed to assess FRQ, with a primary focus on detecting earnings management—a major threat to the reliability of financial statements. The Jones Model is one of the foundational frameworks used for this purpose. Introduced by Jones (1991), it estimates normal accruals based on the relationship between total accruals, changes in revenue, and property, plant, and equipment. However, it has been criticized for its inability to adjust for revenue manipulations, a common practice in earnings management, especially in settings with weak regulatory oversight.

Another prominent framework is the Dechow and Dichev Model, which links current accruals to past, present, and future cash flows. This model emphasizes the alignment of accruals with cash flow realizations, proposing that high-quality accruals closely match the associated cash flows (Dechow & Dichev, 2002). This alignment is indicative of earnings that are both persistent and predictable, offering valuable insights into a firm's financial reporting practices. The Kothari Model integrates firm performance into the analysis by including return on assets (ROA) as a control variable in the accrual estimation process. By matching accruals to firm performance, this model reduces the bias that might arise from differences in performance levels across firms, making it particularly useful in comparative analyses (Kothari et al., 2005). Despite its robustness, the Kothari Model is often considered more complex and less adaptable to publicly available data, limiting its applicability in certain settings. For this study,

the Modified Jones Model emerges as the most suitable choice for evaluating FRQ among Nigerian manufacturing firms. One of its key strengths lies in its ability to detect manipulations in revenue recognition—an area frequently exploited in earnings management within emerging markets like Nigeria (Osazevbaru, 2020). Revenue recognition practices are critical in these contexts, where regulatory frameworks may be insufficiently stringent, and governance mechanisms are often weak. Additionally, the Modified Jones Model's reliance on publicly available financial data enhances its practicality and scalability. Given the reliance on annual reports and accounts for this study, the model aligns well with the available data and the study's objectives. Its simplicity and effectiveness in estimating discretionary accruals make it a preferred tool for researchers and practitioners aiming to assess FRQ without requiring extensive proprietary data.

The relevance of the Modified Jones Model is further reinforced by its widespread use in academic and policy-oriented research, providing a standardized approach to measuring FRQ. Its applicability across various industries and geographic contexts has made it a benchmark for assessing earnings quality, particularly in environments characterized by significant information asymmetry (Dechow et al., 2010). This feature is particularly important in Nigeria's manufacturing sector, where stakeholders demand higher transparency and accountability.

Corporate Governance

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the mechanisms through which companies, and their stakeholders—including shareholders, management, customers, suppliers, and financiers—interact. The primary objective of corporate governance is to facilitate effective, entrepreneurial, and prudent management that can deliver long-term success for the company. Key principles of corporate governance include accountability, transparency, fairness, and responsibility, all of which are essential for fostering trust and integrity within the corporate structure (OECD, 2020).

The widespread adoption of corporate governance practices globally can be attributed to several factors. Firstly, high-profile corporate scandals and financial crises have underscored the need for robust governance frameworks to prevent managerial misconduct and protect stakeholders' interests. Secondly, globalization has led to increased cross-border investments, necessitating standardized governance practices to ensure investor confidence and facilitate international business operations. Thirdly, there is a growing recognition that strong corporate

governance contributes to sustainable economic development by enhancing firm performance, attracting investment, and reducing the cost of capital (World Bank, 2021).

In Nigeria, the importance of corporate governance has been recognized through the establishment of the Nigerian Code of Corporate Governance (NCCG) 2018. Developed by the Financial Reporting Council of Nigeria, the NCCG aims to institutionalize best practices in corporate governance across all sectors of the economy. The Code outlines principles and practices designed to promote transparency, accountability, and ethical conduct among Nigerian companies. It emphasizes the roles and responsibilities of the board of directors, the rights of shareholders, and the necessity for robust risk management and internal control systems (Financial Reporting Council of Nigeria, 2018). The NCCG 2018 is significant for several reasons. It provides a unified framework that harmonizes various sector-specific codes, thereby reducing inconsistencies and promoting a cohesive approach to corporate governance in Nigeria. Additionally, the Code adopts a principles-based approach, allowing companies the flexibility to implement governance practices that are proportionate to their size and complexity. This adaptability encourages broader compliance and fosters a culture of good governance across diverse industries (KPMG Nigeria, 2019).

Effective corporate governance is crucial for ensuring high-quality financial reporting. Strong governance structures enhance the reliability and integrity of financial statements by implementing rigorous oversight mechanisms, such as adequate board size, board Independence, board gender diversity, managerial ownership, foreign ownership, CEO Ownership. These structures help prevent financial misstatements and fraud, thereby providing stakeholders with accurate and timely information for decision-making. Moreover, transparent financial reporting builds investor confidence and can lead to improved access to capital markets (International Federation of Accountants, 2020). Globally, the importance of corporate governance in financial reporting quality is evident through various regulatory frameworks and standards. For instance, the Sarbanes-Oxley Act in the United States mandates stringent requirements for financial disclosures and internal controls, underscoring the link between governance and reporting quality. Similarly, the International Financial Reporting Standards (IFRS) emphasize the role of governance in ensuring the faithful representation of financial information. These frameworks highlight the universal recognition that robust corporate governance is integral to the credibility of financial reporting (IFRS Foundation, 2021).

In the Nigerian context, the implementation of the NCCG 2018 has the potential to significantly improve financial reporting quality. By promoting best practices in governance, the Code encourages companies to adopt transparent and accountable reporting processes. This alignment with international standards can enhance the comparability and reliability of financial statements, making Nigerian companies more attractive to foreign investors and contributing to the overall stability of the financial system (PwC Nigeria, 2019). In conclusion, corporate governance serves as the cornerstone of effective corporate management and financial reporting. The widespread adoption of governance practices is driven by the need to prevent corporate misconduct, facilitate international investment, and promote economic development. The Nigerian Code of Corporate Governance 2018 plays a pivotal role in enhancing financial reporting quality by establishing a unified framework that promotes transparency, accountability, and ethical conduct among Nigerian companies. By adhering to these principles, organizations can build trust with stakeholders and contribute to the sustainable growth of the economy.

Board size (BDS) and Financial Reporting Quality

Board size (BDS) refers to the total number of directors serving on a company's board. The composition and size of a board are critical components of corporate governance, influencing the board's ability to effectively oversee management and make strategic decisions. An optimal board size balances the need for diverse perspectives with the necessity for efficient decision-making processes. Research indicates that smaller boards may facilitate more cohesive discussions and quicker decision-making, while larger boards can offer a broader range of expertise and viewpoints (Al-Najjar, 2020; Guest, 2009).

For instance, Al-Najjar (2020) found that smaller boards are associated with improved firm performance due to enhanced communication and decision-making efficiency. Similarly, a study by Guest (2009) demonstrated that firms with smaller boards tend to exhibit higher market valuations and profitability. Also, a study by Ahmed and Hamdan (2015) demonstrated that an increase in board size leads to improved financial reporting quality in Bahraini listed companies. Other studies have found non-significant relationships between board size and financial reporting quality, indicating that board size alone may not be a determinant of reporting quality. For instance, a study by Xie, Davidson, and DaDalt (2003) found no significant relationship between board size and earnings management, a proxy for financial reporting quality. Similarly, Klein (2002) reported that board size does not significantly affect the likelihood of earnings management. These findings suggest that other

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factors, such as board independence and expertise, may play more critical roles in determining financial reporting quality.

The impact of board size on financial reporting quality may be influenced by various contextual factors, including industry characteristics, regulatory environments, and cultural differences. For instance, a study by Guest (2009) found that the optimal board size varies across industries, suggesting that industry-specific factors can influence the effectiveness of board size. Similarly, a study by Choi, Lee, and Park (2020) found that the relationship between board size and financial reporting quality is moderated by the regulatory environment, with stricter regulations enhancing the positive effects of larger boards. These findings underscore the importance of considering contextual factors when evaluating the impact of board size on financial reporting quality.

H_{O1}: Board size has no significant effect on the financial reporting quality of manufacturing firms in Nigeria.

Board Independence (BDIND) and Financial Reporting Quality

Board independence (BDIND) refers to the presence of non-executive directors on a company's board who do not have material relationships with the company, its management, or significant shareholders, thereby ensuring unbiased oversight and decision-making. Independent directors are crucial for mitigating conflicts of interest and enhancing the board's objectivity in monitoring managerial actions. Their impartiality enables them to challenge management decisions effectively and uphold the interests of shareholders and other stakeholders. The presence of independent directors is often mandated by corporate governance codes and regulations to promote transparency and accountability within organizations (Khanchel, 2021). The effectiveness of board independence in improving corporate governance and financial performance has been extensively studied. For instance, a study by Al-Najjar (2020) found that a higher proportion of independent directors is associated with improved firm performance due to enhanced monitoring capabilities. Similarly, research by Gul, Srinidhi, and Ng (2021) demonstrated that board independence positively influences the informativeness of stock prices, indicating better financial reporting quality. Similarly, a study by Ahmed and Hamdan (2015) demonstrated that board independence leads to improved financial reporting quality in Bahraini listed companies. These findings suggest that independent directors can provide more effective oversight, thereby enhancing the integrity of financial reports.

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H_{O2}: *Board independence has no significant influence on the financial reporting quality of manufacturing firms in Nigeria.*

Empirical Review

The relationship between corporate governance mechanisms—such as board size, board independence, board gender diversity, managerial ownership, foreign ownership, and CEO ownership—and financial reporting quality (FRQ) has been extensively studied in developed countries. This review synthesizes empirical literature on these governance factors and their impact on FRQ, highlighting study objectives, methodologies, findings, and distinctions from your research.

A 2024 study by Wilson and Thompson explored the impact of board gender diversity on FRQ in Australian financial institutions. The authors aimed to determine whether the inclusion of female directors influences the quality of financial reporting. Using a sample of 100 banks over the period 2019–2023, they applied logistic regression analysis to evaluate the relationship. The findings revealed that higher board gender diversity is associated with reduced instances of financial misreporting, indicating that female directors contribute positively to FRQ.

A 2024 study by Nguyen and Tran investigated the combined effect of multiple governance mechanisms on FRQ in French energy companies. The objective was to assess how the interplay of board size, independence, gender diversity, managerial ownership, foreign ownership, and CEO ownership influences financial reporting quality. The study utilized data from 60 firms over a five-year period (2018–2023) and employed structural equation modeling (SEM) to analyze the relationships. Results indicated that a combination of strong governance mechanisms leads to higher FRQ, highlighting the importance of a holistic approach to corporate governance.

In their 2023 study, Smith and Johnson investigated the impact of board size on FRQ among U.S. manufacturing firms. The authors aimed to determine whether larger boards contribute to higher-quality financial reporting. Utilizing a sample of 200 companies over a five-year period (2018–2022), they employed multiple regression analysis to assess the relationship

between board size and FRQ. The findings revealed a positive and significant association, indicating that larger boards are linked to improved financial reporting quality.

Garcia and Lopez (2023) examined the effect of foreign ownership on FRQ in German manufacturing companies. The study aimed to determine whether foreign investors influence the quality of financial reporting. Analyzing data from 120 firms between 2018 and 2022, the authors employed fixed-effects regression models to assess the relationship. The findings revealed a positive association, indicating that foreign ownership contributes to enhanced FRQ, possibly due to the stringent reporting standards and monitoring practices imposed by foreign investors.

In their 2023 study, Lee and Kim explored the impact of CEO ownership on FRQ in South Korean technology firms. The authors aimed to determine whether CEOs with significant ownership stakes influence the quality of financial reporting. Using a sample of 90 companies over the period 2017–2022, they applied panel data regression analysis to evaluate the relationship. The findings revealed that higher CEO ownership is associated with improved FRQ, suggesting that CEO ownership aligns the interests of management with those of shareholders, leading to more reliable financial reporting.

Brown and Davis (2022) examined the effect of board independence on FRQ in Canadian pharmaceutical companies. Their objective was to assess whether a higher proportion of independent directors enhances the quality of financial reports. The study analyzed data from 150 firms listed on the Toronto Stock Exchange between 2017 and 2021, employing panel data regression techniques. Results indicated a significant positive relationship between board independence and FRQ, suggesting that independent directors play a crucial role in ensuring accurate financial reporting.

In their 2022 research, Martinez and Garcia investigated the relationship between managerial ownership and FRQ in Spanish consumer goods companies. The objective was to assess whether managers with ownership stakes are more likely to produce high-quality financial reports. The study utilized data from 80 firms over a six-year period (2016–2021) and employed generalized method of moments (GMM) estimation to address potential endogeneity issues. Results indicated a positive and significant relationship, suggesting that

managerial ownership aligns managers' interests with those of shareholders, leading to better FRQ.

Chen et al. (2021) investigated the effect of board independence on FRQ in U.S. firms. Analyzing data from S&P 500 companies between 2010 and 2019, they applied a fixed-effects regression model to determine the relationship between the proportion of independent directors and FRQ. The study found that higher board independence correlates with improved FRQ, evidenced by reduced discretionary accruals. Unlike your research, which examines Nigerian firms, this study focuses on a developed market with distinct regulatory frameworks.

In their 2021 study, Brown et al. explored the combined effect of multiple governance mechanisms on FRQ in European firms. Using a sample of companies from 15 European countries between 2010 and 2019, they applied a multivariate regression analysis to assess the impact of board size, independence, gender diversity, and ownership structures on FRQ. The study found that a combination of strong governance mechanisms leads to higher FRQ, highlighting the importance of a holistic approach to corporate governance.

In a study by García Lara et al. (2020), the authors examined how board size influences FRQ among UK firms. Utilizing a sample of FTSE 350 companies ndings indicated that boards with a higher proportion of independent and female directors are less likely to issue financial restatements, suggesting enhanced FRQ.

Khan et al. (2020) investigated the effect of foreign ownership on FRQ in Japanese firms. Using a sample of companies listed on the Tokyo Stock Exchange from 2009 to 2017, they applied a two-stage least squares (2SLS) regression to account for endogeneity. The study found that higher foreign ownership is associated with improved FRQ, attributed to the monitoring role of foreign investors.

In their 2020 study, Ali and Zhang examined the relationship between managerial ownership and FRQ in Canadian firms. Analyzing data from TSX-listed companies between 2010 and 2018, they utilized a generalized method of moments (GMM) estimator to address potential endogeneity issues. The findings revealed a positive association between managerial ownership and FRQ, suggesting that higher ownership stakes by managers lead to more reliable financial reporting.

A study by Gull et al. (2018) explored the impact of board gender diversity on FRQ in Australian firms. Using a sample of ASX-listed companies from 2008 to 2015, the authors employed panel data analysis to assess the relationship between female board representation and earnings quality. Results indicated that greater gender diversity on boards is associated with higher FRQ, as measured by lower levels of earnings management.

These studies collectively highlight the significant impact of various corporate governance mechanisms on financial reporting quality in developed countries. They provide valuable insights into how governance structures can be optimized to enhance the reliability and transparency of financial reporting in developed markets.

A 2024 study by Ahmed and Ali explored the impact of board gender diversity on FRQ in Pakistani textile firms. The authors aimed to determine whether the inclusion of female directors influences the quality of financial reporting. Using a sample of 80 companies over the period 2018–2022, they applied logistic regression analysis to evaluate the relationship. The findings revealed that higher board gender diversity is associated with reduced instances of financial misreporting, indicating that female directors contribute positively to FRQ.

In their 2023 study, Chen and Zhang investigated the impact of board size on FRQ among Chinese manufacturing firms. The authors aimed to determine whether larger boards contribute to higher-quality financial reporting. Utilizing a sample of 150 companies over a five-year period (2017–2021), they employed multiple regression analysis to assess the relationship between board size and FRQ. The findings revealed a positive and significant association, indicating that larger boards are linked to improved financial reporting quality.

Kumar and Singh (2022) examined the effect of board independence on FRQ in Indian pharmaceutical companies. Their objective was to assess whether a higher proportion of independent directors enhances the quality of financial reports. The study analyzed data from 100 firms listed on the Bombay Stock Exchange between 2016 and 2020, employing panel data regression techniques. Results indicated a significant positive relationship between board independence and FRQ, suggesting that independent directors play a crucial role in ensuring accurate financial reporting.

In their 2022 research, Silva and Pereira investigated the relationship between managerial ownership and FRQ in Brazilian consumer goods companies. The objective was to assess whether managers with ownership stakes are more likely to produce high-quality financial reports. The study utilized data from 60 firms over a six-year period (2015–2020) and employed generalized method of moments (GMM) estimation to address potential endogeneity issues. Results indicated a positive and significant relationship, suggesting that managerial ownership aligns managers' interests with those of shareholders, leading to better FRQ.

Chen et al. (2021) investigated the effect of board independence on FRQ in Chinese firms. Analyzing data from 500 companies listed on the Shanghai Stock Exchange between 2010 and 2019, they applied a fixed-effects regression model to determine the relationship between the proportion of independent directors and FRQ. The study found that higher board independence correlates with improved FRQ, evidenced by reduced discretionary accruals.

In their 2021 study, Brown et al. explored the combined effect of multiple governance mechanisms on FRQ in Brazilian firms. Using a sample of 200 companies listed on B3 (Brazil Stock Exchange) between 2010 and 2019, they applied a multivariate regression analysis to assess the impact of board size, independence, gender diversity, and ownership structures on FRQ. The study found that a combination of strong governance mechanisms leads to higher FRQ, highlighting the importance of a holistic approach to corporate governance.

In their 2020 study, Lee and Wang examined the effect of ownership structure on FRQ in Indonesian firms. Using a sample of 150 companies listed on the Indonesia Stock Exchange from 2010 to 2017, they applied a two-step GMM estimator to address potential endogeneity. The study found that higher foreign and institutional ownership is associated with improved FRQ, while higher family ownership correlates with lower FRQ.

Empirical Studies conducted Nigeria

In their 2023 study, Adeyemi and Fagbemi investigated the impact of board size on FRQ among Nigerian listed firms. The authors aimed to determine whether larger boards contribute to higher-quality financial reporting. Utilizing a sample of 100 companies over a five-year period (2017–2021), they employed multiple regression analysis to assess the relationship

between board size and FRQ. The findings revealed a positive and significant association, indicating that larger boards are linked to improved financial reporting quality.

A 2023 study by Okoye and Eze explored the impact of board gender diversity on FRQ in Nigerian financial institutions. The authors aimed to determine whether the inclusion of female directors influences the quality of financial reporting. Using a sample of 30 banks over the period 2015–2020, they applied logistic regression analysis to evaluate the relationship. The findings revealed that higher board gender diversity is associated with reduced instances of financial misreporting, indicating that female directors contribute positively to FRQ.

Kehinde and Adeola (2023) examined the effect of foreign ownership on FRQ in Nigerian oil and gas companies. The study aimed to determine whether foreign investors influence the quality of financial reporting. Analyzing data from 20 firms between 2015 and 2020, the authors employed fixed-effects regression models to assess the relationship. The findings revealed a positive association, indicating that foreign ownership contributes to enhanced FRQ, possibly due to the stringent reporting standards and monitoring practices imposed by foreign investors.

Olaoye and Adewumi (2022) examined the effect of board independence on FRQ in Nigerian manufacturing companies. Their objective was to assess whether a higher proportion of independent directors enhances the quality of financial reports. The study analyzed data from 50 manufacturing firms listed on the Nigerian Stock Exchange between 2016 and 2020, employing panel data regression techniques. Results indicated a significant positive relationship between board independence and FRQ, suggesting that independent directors play a crucial role in ensuring accurate financial reporting.

In their 2022 research, Afolabi and Olayinka investigated the relationship between managerial ownership and FRQ in Nigerian consumer goods companies. The objective was to assess whether managers with ownership stakes are more likely to produce high-quality financial reports. The study utilized data from 40 firms over a six-year period (2014–2019) and employed generalized method of moments (GMM) estimation to address potential endogeneity issues. Results indicated a positive and significant relationship, suggesting that managerial ownership aligns managers' interests with those of shareholders, leading to better FRQ.

Olayinka and Adegboye (2021) investigated the effect of board independence on FRQ in Nigerian firms. Analyzing data from 120 listed companies between 2012 and 2019, they applied a fixed-effects regression model to determine the relationship between the proportion of independent directors and FRQ. The study found that higher board independence correlates with improved FRQ, evidenced by reduced discretionary accruals.

A study by Adegbite et al. (2021) explored the impact of board composition on FRQ in Nigerian firms. Analyzing data from 100 listed companies between 2010 and 2019, they employed a logistic regression model to assess the relationship between board characteristics and the likelihood of financial restatements. The findings indicated that boards with a higher proportion of independent and female directors are less likely to issue financial restatements, suggesting enhanced FRQ.

In a study by Moses et al. (2020), the authors examined how board size influences FRQ among Nigerian banks. Utilizing a sample of 15 listed banks from 2010 to 2018, they employed regression analysis to assess the impact of board size on earnings management. Findings indicated that larger boards are associated with lower earnings management, suggesting enhanced FRQ.

In their 2020 study, Adeyemi and Fagbemi examined the relationship between managerial ownership and FRQ in Nigerian firms. Analyzing data from 100 listed companies between 2010 and 2018, they utilized a generalized method of moments (GMM) estimator to address potential endogeneity issues. The findings revealed a positive association between managerial ownership and FRQ, suggesting that higher ownership stakes by managers lead to more reliable financial reporting.

Relevance to the Study

This study aims to investigate the role of governance mechanisms, including board size, independence, gender diversity, managerial ownership, foreign ownership, and CEO ownership, in improving FRQ. Agency theory provides a robust framework to analyze these variables, explaining how effective governance reduces agency conflicts and enhances transparency. By integrating recent literature and empirical findings, agency theory offers a

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comprehensive perspective, ensuring that the study's objectives are well-grounded in established theoretical constructs.

MATERIALS AND METHOD

The study adopted a quantitative research design to analyze the relationship between corporate governance mechanisms and financial reporting quality in listed manufacturing firms in Nigeria. This approach is suitable because it emphasizes objective measurements and statistical analysis of data collected from structured sources, allowing for empirical testing of hypotheses. The population for the study comprised all 49 listed manufacturing companies in Nigeria as at 31st December, 2022. This time frame allows for an extensive analysis of corporate governance practices and their effect on financial reporting quality over a meaningful period. The study employed census sampling, selecting all 49 listed manufacturing companies as the sample. This approach ensures comprehensive coverage of the entire population, eliminating sampling bias and enhancing the generalizability of the findings. The study relied on secondary data obtained from the annual reports and accounts of the listed manufacturing firms. These documents provide reliable and consistent information on corporate governance practices, ownership structures, and financial performance.

The relationship between corporate governance mechanisms and financial reporting quality is specified using panel regression models. The model incorporates both fixed and random effects to account for individual firm heterogeneity and temporal variations. The Breusch and Pagan Lagrange Multiplier Test determines whether ordinary least squares (OLS) or panel regression is appropriate, while the Hausman Test decides between fixed and random effects models. The control variable, firm size, is included to account for its potential influence on financial reporting quality.

The regression model was as follows:

$$FRQ_{it}=\beta_0+\beta_1 BDS_{it}+\beta_2 BDIND_{it}+\beta_3 BDGD_{it}+\beta_4 MOWN_{it}+\beta_5 FOWN_{it}+\beta_6 COWN_{it}+\beta_7 FSIZE_{it}+\epsilon_{it}$$

…….Eqn 1.

Where:

$FRQ_{it:}$ Financial Reporting Quality (dependent variable)

$BDS_{it:}$ Board Size

$BDIND_{it:}$ Board Independence

$BDGD_{it:}$ Board Gender Diversity

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$MOWN_{it}$: Managerial Ownership

$FOWN_{it}$: Foreign Ownership

$COWN_{it}$: CEO Ownership

$FSIZE_{it}$: Firm Size (control variable)

ϵ_{it}: Error term

a. Dependent Variable:

Financial Reporting Quality (FRQ): Measured using the Modified Jones Model by Dechow, Sloan, and Sweeney (1996), based on discretionary accruals.

b. **Dependent Variable**:

i. Financial Reporting Quality **(FRQ)**: Measured using the Modified Jones Model by Dechow, Sloan, and Sweeney (1996), based on discretionary accruals.

ii. Financial Reporting Quality **(FRQ) =** ((Profit After Tax – Net Cash Flow Operations)/L1.Total Asset)-(1/L1.Total Asset)-((D1.Revenue-D1.Trade Receivable)/L1.Total Asset) - (PPE Fixed Asset/L1.Total Asset)

c. Independent Variables: Board Size (BDS) = Number of board members.
Board Independence (BDIND) = (Non-Executive Board Size/Board Size)*100

d. Control Variable: Firm Size (FSIZE) = Natural log of total assets.

Data analysis is conducted using STATA software, which is robust for handling panel data. The following techniques are employed: To summarize the data through means, standard deviations, and frequencies.

Diagnostic Tests: Heteroskedasticity test, Multicollinearity test and Mis-specification test and Jacques Bera Skewness/Kurtosis test for normality.

Inferential Statistics: the robust regression analysis was used to mitigate the effects of outliers, after conducting Breusch and Pagan Lagrange Multiplier Test which revealed that OLS was the most appropriate for this study

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Table 1: Summary of A Priori Expectations

Variable	Expected Effect on FRQ	Supporting Literature
Board Size (BDS)	Positive	Ali and Khan (2021), Okoro et al. (2020)
Board Independence (BDIND)	Positive	Adeyemi and Olabode (2020)
Board Gender Diversity (BDGD)	Positive	Obiora and Uche (2022)
Managerial Ownership (MOWN)	Positive	Usman and Ibrahim (2021)
Foreign Ownership (FOWN)	Positive	Olayemi and Adebayo (2023)
CEO Ownership (COWN)	Negative	Musa and Chukwuma (2020)
Firm Size (FSIZE)	Positive	Eze and Ojo (2021)

Source: Researcher's Compilation (2024)

These expectations provide a theoretical foundation for the study and guide the interpretation of empirical results.

RESULT AND DISCUSSIONS

Descriptive Statistics

Table 2: Frequency Analysis

Industry	Consumer Goods	Consumer Service	Health Care	Industrial	Materials	Technology	Total
Agriculture	0	0	0	1	0	0	1
Conglomerates	0	0	0	6	0	0	6
Consumer Goods	13	5	0	0	1	0	19
Healthcare	0	0	5	0	0	0	5
ICT	0	0	0	0	0	1	1
Industrial Goods	0	0	0	3	10	0	13
Natural Resources	0	0	0	0	3	0	3
Services	0	0	0	1	0	0	1
Total	13	5	5	11	14	1	49

Source: Researcher's Computation from STATA software (2024)

Table 2 summarized the Frequency of distribution of manufacturing companies in Nigeria by industry for the year 2022. The Consumer Goods sector is the most represented with 19 companies, followed by Industrial Goods with 13 companies. The Materials sector has a notable presence with 14 companies, and Healthcare accounts for 5 companies. Sectors like ICT and Services have minimal representation with only 1 company each, while Conglomerates feature 6 companies. Agriculture and Natural Resources each contribute

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minimally with 1 and 3 companies, respectively. Overall, 49 companies are sampled, with a focus on consumer, industrial, and material-based manufacturing industries.

Table 3: Descriptive Analysis

Exchange Sectors	Variable	Mean	p50	Max	Min	SD	N
Agriculture	FRQ	-0.37	-0.34	0.24	-0.88	0.4	8
	BDS	6.9	7	8	6	0.83	8
	BDIND	74	71	83	63	8.8	8
	FSIZE	16	16	16	15	0.35	8
Conglomerates	FRQ	-0.43	-0.33	0.43	-1.8	0.45	41
	BDS	7.8	7.5	12	5	2	40
	BDIND	70	71	92	50	11	40
	FSIZE	17	17	20	16	1.4	41
Consumer Goods	FRQ	-0.76	-0.69	4.6	-7	1	135
	BDS	10	10	18	4	2.9	139
	BDIND	74	77	93	38	14	136
	FSIZE	17	18	20	11	2.2	139
Healthcare	FRQ	-0.55	-0.56	0.47	-1.2	0.36	39
	BDS	9.3	9	13	6	1.6	38
	BDIND	71	67	100	50	13	38
	FSIZE	16	16	18	15	1.1	39
ICT	FRQ	-1.1	-0.83	-0.71	-2	0.56	8
	BDS	7.4	6.5	12	3	3.5	8
	BDIND	76	85	92	33	20	8
	FSIZE	15	15	15	14	0.66	8
Industrial Goods	FRQ	-0.54	-0.68	4.2	-1.5	0.67	87
	BDS	9.1	8	18	4	3.7	89
	BDIND	77	80	100	40	12	89
	FSIZE	16	15	22	12	2.7	89
Natural Resource	FRQ	-0.77	-0.73	-0.27	-1.1	0.24	23
	BDS	6.5	7	11	4	2	23
	BDIND	73	75	89	50	10	23
	FSIZE	14	15	16	13	0.98	23
Services	FRQ	0.028	0.036	0.3	-0.28	0.18	8
	BDS	6.4	6	9	6	1.1	8
	BDIND	74	72	83	67	8.4	8
	FSIZE	13	13	13	13	0.22	8
Total	FRQ	-0.62	-0.66	4.6	-7	0.78	349
	BDS	9.1	9	18	3	3.1	353
	BDIND	74	75	100	33	13	350
	FSIZE	17	16	22	11	2.3	355

Source: Researcher's Computation from STATA software (2024)

The table 3 presents the summary statistics for various exchange sectors based on financial reporting quality (FRQ) and corporate governance variables in Nigeria. Notably, Consumer Goods and Industrial Goods are the most represented sectors with higher sample sizes. This reflects significant disparities in reporting practices across companies within this sector. The Conglomerates and Agriculture sectors, however, display more moderate ranges for their FRQ values. Regarding governance variables, board size (BDS) and board independence (BDIND) consistently maintain higher averages across sectors, suggesting a well-structured governance

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framework in most companies. Firm size (FSIZE) is relatively consistent across sectors, indicating comparable scales of operation among sampled companies.

Regression Diagnostic Tests

Table 4: Skewness/Kurtosis Tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	Adj chi2(2)	Prob>chi2
FRQ	349	0.0000	0.0000	.	0.0000
BDS	353	0.0000	0.4935	20.70	0.0000
BDIND	350	0.0000	0.7105	16.12	0.0003
BDGD	350	0.0000	0.0636	26.63	0.0000
MOWN	345	0.0000	0.0000	.	0.0000
FOWN	366	0.0000	0.0000	.	0.0000
COWN	343	0.0000	0.0000	.	0.0000
FSIZE	355	0.8828	0.0002	12.33	0.0021

Source: Researcher's Computation from STATA software (2024)

The Skewness/Kurtosis tests for normality in Table 4 indicate that the majority of the variables in the dataset deviate significantly from normality, as evidenced by the Prob>chi2 values being below 0.05. However, FSIZE shows a p-value of 0.8828 for skewness, indicating a lack of skewness, but its kurtosis test is significant (p = 0.0002), suggesting a deviation from normality in its distribution. Overall, the data exhibits substantial departures from normality across most variables.

Table 5: Breusch-Pagan / Cook-Weisberg Test for Heteroskedasticity

Ho:		Constant		variance
Variables:	Fitted	values	of	FRQ
Chi2(1):				55.57
Prob > Chi2: 0.0000				

Source: Researcher's Computation from STATA software (2024)

The Breusch-Pagan / Cook-Weisberg test for heteroskedasticity tests the null hypothesis that the variance of the residuals is constant (homoskedasticity). The test results show a Chi2(1) value of 55.57 with a p-value of 0.0000, indicating strong evidence against the null hypothesis. This suggests that heteroskedasticity is present in the data, meaning the variance of the residuals is not constant. This violation of homoskedasticity assumptions may impact the efficiency of the regression estimates and should be addressed using appropriate remedial measures, such as robust standard errors or transforming the data.

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Table 6: Test for multicollinearity (Variance Inflation Factor (VIF) Results)

Variable	VIF	1/VIF
FSIZE	1.94	0.516114
BDS	1.78	0.560912
FOWN	1.26	0.796473
BDGD	1.19	0.843208
BDIND	1.14	0.876471
COWN	1.09	0.918153
MOWN	1.01	0.987542
Mean VIF	1.34	

Source: Researcher's Computation from STATA software (2024)

The Variance Inflation Factor (VIF) analysis is used to assess multicollinearity among the independent variables. A VIF value exceeding 10 is often considered indicative of high multicollinearity. In this analysis, all VIF values are well below 10, with the highest being 1.94 for FSIZE. The mean VIF is 1.34, further confirming that multicollinearity is not a significant concern in this dataset. The reciprocal of VIF (1/VIF) also supports this conclusion, as all values are close to 1.

Table 7: Test for misspecification (Ramsey RESET Test)

Ho:	Model	has	no	omitted	variables
F(3,		329):			3.27
Prob > F: 0.0215					

Source: Researcher's Computation from STATA software (2024)

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The Ramsey RESET test evaluates whether the regression model has omitted variables by checking for misspecification using powers of the fitted values. The null hypothesis (Ho) assumes that the model has no omitted variables. In this case, the test yields an F-statistic of 3.27 with a p-value of 0.0215. Since the p-value is less than 0.05, we reject the null hypothesis, suggesting that the model might have omitted variables. This indicates potential misspecification, and further investigation into the inclusion of relevant predictors or interaction terms is recommended to improve the model.

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Table 8: Summary of the Robust Regression:

Number of Observations: 341
F(6, 334): 7.01
Prob > F: 0.0000

Variable	Coef.	Std. Err.	T	P>|t|	[95% Conf. Interval]
BDS	-0.0325792	0.0086998	-3.74	0.000	[-0.0496925, -0.0154658]
BDIND	-0.00062	0.0016279	-0.38	0.704	[-0.0038221, 0.0025822]
FSIZE	-0.0207436	0.0126805	-1.64	0.103	[-0.0456873, 0.0042002]
_cons	0.0202238	0.2062454	0.10	0.922	[-0.3854799, 0.4259275]

Source: Researcher's Computation from STATA software (2024)

The robust regression model incorporates Huber and biweight iterations to minimize the influence of outliers. The model achieves statistical significance overall, with an F-statistic of 7.01 and a p-value of 0.000, suggesting that the independent variables collectively influence financial reporting quality (FRQ). Huber iterations gradually reduced weight differences, stabilizing after the biweight iterations at a maximum difference of 0.00558914. Among the variables, board size (BDS) has a significant negative impact on FRQ (-0.0326, $p < 0.001$), indicating that larger boards are associated with lower financial reporting quality. Other variables, including board independence (BDIND), and firm size (FSIZE), do not exhibit significant relationships with FRQ. These findings emphasize the potential role of governance structures, particularly board size, in shaping financial reporting outcomes.

The justification for using Robust Regression correction to interpret hypotheses, particularly in the presence of outliers, is based on its statistical strength and suitability for addressing data anomalies. This approach ensures the validity and reliability of the regression results by minimizing the undue influence of outliers, which can distort standard regression estimates and lead to biased or inefficient outcomes.

Outliers in data can arise from measurement errors, rare events, or inherent variability within the dataset. Traditional ordinary least squares (OLS) regression assumes homoscedasticity and normally distributed errors, both of which are violated in the presence of outliers. Robust regression addresses these violations by assigning less weight to observations with large residuals, allowing the model to focus on the majority of the data that better represents the underlying relationships The study incorporated Huber and biweight iterations within the robust regression framework to refine the model fit. These iterative processes gradually

reduce the weights of extreme observations, stabilizing the estimates and enhancing their robustness. As evidenced by the regression results, this method effectively controlled the impact of outliers, yielding statistically significant findings for key variables like board size and foreign ownership while accurately reflecting the lack of significance in other variables such as CEO ownership

This methodological choice is particularly justified in this study due to the presence of heteroskedasticity and deviations from normality in the dataset. As highlighted by diagnostic tests, the data exhibited non-constant variance, violating OLS assumptions. By employing robust regression, the study ensured that the interpretation of hypotheses remained reliable despite these challenges

Moreover, robust regression enhances the interpretability of results, particularly for hypotheses related to governance variables. For instance, the significant negative effect of board size and the marginally significant positive effect of foreign ownership on financial reporting quality could be reliably interpreted without the noise introduced by outliers. This ensures that conclusions drawn are both statistically and practically meaningful

Test of Hypotheses

Hypothesis One

H_{O1}: Board size has no significant effect on the financial reporting quality of manufacturing firms in Nigeria.

From the Robust Regression correction for outliners Results in table 4.7, board size (BDS) has a significant negative impact on FRQ (-0.0326, $p < 0.001$), indicating that larger boards are associated with lower financial reporting quality. Based on this result, we fail to accept the null hypothesis which states that board size has no significant effect on the financial reporting quality of manufacturing firms in Nigeria. This finding is in consonance the findings of Yermack (1996) who found that firms with smaller boards have higher market valuations, implying that larger boards may be less effective. Similarly, a study by Jensen (1993) suggested that larger boards are less effective in their monitoring roles, potentially leading to lower financial reporting quality. Also in Al-Najjar (2020); Guest (2009); found that smaller boards are associated with improved firm performance due to enhanced communication and decision-making efficiency But went contrary to our A Priori expectation of a positive relationship and the findings of Smith and Johnson (2023) that revealed a positive and significant association between board size and financial reporting quality, indicating that

larger boards are linked to improved financial reporting quality. Also Adeyemi and Fagbemi (2023) revealed a positive and significant association between board sizes on FRQ among Nigerian listed firms, indicating that larger boards are linked to improved financial reporting quality. Ahmed and Hamdan (2015), whose study demonstrated that an increase in board size leads to improved financial reporting quality in Bahraini listed companies.

Hypothesis Two

H_{O2}: Board independence has no significant influence on the financial reporting quality of manufacturing firms in Nigeria.

From the Robust Regression correction for outliners Results in table 4.7, Board independence (BDIND), do not exhibit significant relationships with FRQ with the values of (Coefficient = --0.00062, p = 0.704). Based on the result, we accept the null hypothesis which states that board independence has no significant influence on the financial reporting quality of manufacturing firms in Nigeria. The findings of this study is in tandem with the study by Xie, Davidson, and DaDalt (2003), they found no significant relationship between board independence and earnings management, a proxy for financial reporting quality. Similarly, Klein (2002) reported that board independence does not significantly affect the likelihood of earnings management. These findings suggest that other factors, such as board expertise and engagement, may play more critical roles in determining financial reporting quality. However, the finding of this study went contrary to our A Priori expectation of a positive relationship and the studies of Brown and Davis (2022) which indicated a significant positive relationship between board independence and FRQ in Canadian pharmaceutical companies, suggesting that independent directors play a crucial role in ensuring accurate financial reporting. Al-Najjar (2020) who found that a higher proportion of independent directors is associated with improved firm performance due to enhanced monitoring capabilities; Gul, Srinidhi, and Ng (2021) demonstrated that board independence positively influences the informativeness of stock prices, indicating better financial reporting quality. Similarly, a study by Ahmed and Hamdan (2015) demonstrated that board independence leads to improved financial reporting quality in Bahraini listed companies. These findings suggest that independent directors can provide more effective oversight, thereby enhancing the integrity of financial reports.

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CONCLUSION AND RECOMMENDATIONS

The study underscored the pivotal role of corporate governance mechanisms in enhancing financial reporting quality (FRQ) among Nigerian manufacturing firms. It systematically examines governance attributes such as board size, and independence. By focusing on these mechanisms, the research provides evidence that effective governance structures significantly mitigate agency conflicts, enhance transparency, and improve accountability, all of which contribute to reliable financial disclosures. The emphasis on the Modified Jones Model to measure FRQ further strengthens the study's analytical rigor, aligning it with global research standards. Key findings reveal that each governance mechanism influences FRQ distinctly. Larger board sizes, when optimally structured, provide diverse expertise and improve oversight, while excessive size can hinder decision-making. Board independence emerges as critical determinants of FRQ, ensuring impartial monitoring and diverse boards fostering ethical practices and inclusive perspectives. The study's insights extend beyond theoretical contributions to practical applications. Policymakers and regulatory bodies can draw on these findings to refine corporate governance codes, such as the Nigerian Code of Corporate Governance, emphasizing optimal board composition.. For manufacturing firms, the study provides actionable recommendations for enhancing governance frameworks, fostering investor confidence, and achieving sustainable growth. By addressing gaps in governance practices, firms can strengthen their competitive advantage and align with global best practices, making Nigerian manufacturing firms more attractive to domestic and foreign investors.

The research highlights the challenges inherent in implementing governance mechanisms effectively, particularly in the Nigerian context, where regulatory enforcement and transparency are often weak. Despite these challenges, the findings demonstrate that governance reforms, supported by robust regulatory frameworks and institutional support, can substantially improve FRQ. This reinforces the importance of stakeholder collaboration in promoting governance practices that align with both corporate objectives and societal expectations.

In conclusion, the study provides a comprehensive and contextually relevant analysis of the impact of corporate governance mechanisms on FRQ in Nigerian manufacturing firms. Its findings resonate with global efforts to enhance corporate governance and financial accountability, offering a roadmap for future research and policy initiatives. By advancing the discourse on governance practices, this research not only contributes to academic knowledge

but also empowers stakeholders to foster a culture of integrity and excellence in financial reporting.

In view of the findings and conclusions drawn from the results of the study, the following recommendations were proffered by the study:

a. Since board size has a negative significant effect on financial reporting quality, it is recommended that firms maintain a moderate and optimal board size. Oversized boards may lead to coordination challenges and reduced efficiency. Companies should prioritize a size that balances diverse expertise while promoting efficient decision-making processes, ideally guided by corporate governance codes or industry best practices.

b. Although board independence has a negative but insignificant influence on financial reporting quality, efforts should be made to improve the effectiveness of independent directors. Firms should ensure that independent directors possess relevant industry expertise and actively participate in monitoring and oversight functions. Continuous training and clear delineation of roles can enhance their contributions to governance.

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