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Board Diversity and Earnings Quality of Listed Deposit Money Banks in Nigeria

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Abstract
Investors' confidence in the financial reporting process has been hampered because of unethical accounting practices and earnings management and this could be as a result of weak governance structures. The main objective of this study therefore was to examine the effect of board diversity on earnings quality of deposit money banks listed on the floor of the Nigerian Exchange Group from 2014-2023. The independent variable of the study was proxied by board age diversity, board experience diversity and board financial expertise, while the dependent variable was proxied by discretionary loan loss provision. The research design adopted for this study was ex post facto because secondary data were used. The sample size of this study was 10 deposit money banks purposively selected. Ordinary least square regression was used to analyze the data used and statistical software package employed was E-view version 10. The findings of the study revealed that board age diversity has a non-significant negative effect on the discretionary loan loss provisions; experience diversity and board financial expertise have significant negative effect on discretionary loan loss provisions of listed deposit money banks in Nigeria. Thus, it was concluded that board diversity has significant influence on earnings quality of listed deposit money banks in Nigeria. Therefore, it was recommended that the management of deposit money banks should prioritize recruiting board members with robust financial background and expertise to enhance both their earnings quality and financial risk management strategies.

Keywords: Board Diversity, Age Diversity, Experience Diversity, Financial Expertise, Earnings Quality.

1.0 Introduction

Earnings quality is one of the indicators used in measuring effectiveness and efficiencies of management in carrying out the economic activities of the companies. It is described as the extent to which earnings reported by companies show a firm's economic reality (Orajaka, 2022). Many factors affect earnings quality, one of which is the diversity or composition of the company's board of directors. The board of directors' forms one of the cornerstones of corporate frameworks. The organization, structure, quality and operation of the board of directors determine many aspects of a firm. The board of directors plays its significant role to increase the business performance, through the development of strategic objectives and working for the mission and vision of the company (Chouaibi et al., 2018). In this regard, Shawtari et al., (2017) explained that the composition of the board is an important mechanism to guarantee board effectiveness.

Board diversity is the distribution of different attributes and characteristics among directors, which impact attitudes and opinions, and variations in the way boards are composed. According to Galia and Zenou (2022) diversity has been found to enhance both the innovation and the creativity of the boardroom. Various dimensions of heterogeneity of board members can be gender, nationality, experience, age, financial expertise, functional background, skills, religion, political preference and sexual orientation among board members. Each of these board diversity categories affects firm-level results through cognition and the recognition of social identity (Kagzi & Guha, 2018). Age, experience and financial expertise are among the major attributes of a well diverse board.

Age is the duration of time that an individual or thing has existed; it comes with very distinct features and experiences. An active board is one which has diverse personnel in terms of age; each contributing knowledge in line with their exposure, in order to solve complex issues of the organization and provide quality services to current and prospective investors. One of such issues is the ability to monitor and ensure that proper accounting records are kept thereby reducing earnings management and improving earnings quality. Directors' experience shapes their leadership style and approach to governance. Directors who have risen through the corporate ranks have a wealth of leadership experience, as well as an awareness of the intricacies of organizational dynamics. Directors with experience in a given area can provide unique insights, assisting the board in understanding industry-specific subtleties and capitalizing on emerging opportunities. Board financial expertise is the inclusion or the presence of directors who are professionals in the accounting and finance fields. A financial expert with a financial experience is essential to the internal corporate governance process for controlling and monitoring managers' self-serving behaviour. Motivated directors who lack financial understanding may be unable to accurately analyze a company's finances.

Earnings quality portrays the ability of a company's reported earnings to accurately reflect its underlying financial performance and economic reality. High earnings quality implies that reported earnings are reliable, transparent, and sustainable over time, providing investors with a trustworthy representation of the company's profitability. Factors affecting earnings quality include accounting practices, revenue recognition policies, governance structure, and the consistency of earnings over time (Tawfik et al., 2023). A board with diverse backgrounds, experiences, and perspectives can provide more comprehensive oversight and decision-making, leading to a better understanding of the company's operations and potential risks. This broader viewpoint can help identify opportunities and challenges that may not be apparent to a homogenous board, thereby improving strategic decision-making and reducing the likelihood of errors or biases in financial reporting. Diverse boards often exhibit stronger governance practices, including more robust internal controls and risk management frameworks. This can enhance the integrity and reliability of financial reporting, reducing the likelihood of accounting irregularities or manipulation that could compromise earnings quality. De Geus (2023) noted that with diverse representation on the board, there is typically greater accountability and scrutiny of management's actions. This can lead to improved transparency and a higher standard of ethical conduct, reducing the likelihood of financial misstatements or fraud that could distort earnings quality.

The banking sector was chosen because it is the sector with a major problem of instability due to frequent threats of financial distress. As banks occupy a vital position in every economy, the Nigerian government has in the past taken measures to address the problem of financial distress in the banking sector. Board composition and efficiency is very crucial to the survival and growth of the firm because they mediate and control the relationship between the managers and the owners. It is believed that a diversified and balanced board will not only enhance the faithful representation and reliability of financial reporting thereby improving earnings quality but also enhance investors' confidence. From the empirical review, there are varying conclusions on the effect of board diversity on earnings quality. While many of the researchers seem to agree that board age, board experience and board financial expertise affect earnings quality, other researchers are of a contrary opinion portraying a lack of consensus in the literature. It was also observed that most of the previous studies used other performance measures without giving prominence to earnings quality and the banking sector was also not given priority. It was thus against this back drop that this study was undertaken to ascertain the effect of board diversity on earnings quality of listed deposit money banks in Nigeria.

2.0 Literature Review and Theoretical Framework

Board diversity

Diversity is described as the state of having or being made up of several components, or variety (Akpan, 2024; Akpotor et al., 2019). According to Ararat et al. (2010), the term "diversification" is also used to characterize a group of people who are diverse in terms of their cultures, races, backgrounds, etc. In other words, diversity denotes a difference in individuals' horizontal positions or opinions from one another. Examples include ethical stances, beliefs, objectives, and procedures. Therefore, the term "board diversity" refers to the variety of perspectives inside the board. Board diversity is the diversity of board of directors' composition within the company (Budiyati & Wijaya, 2023). In any given organization, it is the responsibility of the board of directors to safeguard shareholder interests and set strategic firm directions (Hu et al., 2020). According to Akpotor et al. (2019), proponents of agency theory supported that the board of directors ought to undertake a robust supervisory role to safeguard the interests of shareholders. Presumably, the effectiveness of the board affects how well it performs its monitoring duties and the effectiveness of the board is affected by a number of factors, including the board's size, board diversity, information asymmetries, CEO duality, composition and quality of the board, and board culture (Brennan, 2006).

Pratomo et al., (2022) noted that diversity on the board, or how the members are distributed, is one of the corporate governance issues. According to Septiane and Suzan (2021) as cited in Pratomo et al., (2022), board diversity can be divided into two categories: visible diversity or diversity that could be observed on the board (such as gender, ethnicity, age, and nationality) and cognitive diversity (which include competence, experience, expertise, etc.). Further diversity forms not captured include; race, personal attitudes, marital status and religion. As a result, this presents a perspective on board diversity based on a division of individuals among members of a work unit who are interconnected. Legally, the regulatory framework in Nigeria concerning board diversity can be found in the Nigeria Code of Corporate Governance (NCCG) (2018). The code recommends that the board of directors should be of a sufficient size to effectively undertake and fulfil its business; to oversee, monitor, direct and control the company's activities and be relative to the scale and complexity of its operations and that the board should promote diversity in its membership across a variety of attributes relevant for promoting better decision-making and effective governance. These attributes include field of knowledge, skills and experience as well as age, culture and gender. Also, the board should have a policy to govern this process and establish measurable objectives for achieving diversity in gender and other areas (NCCG, 2018).

Diversity in the boardroom has many implications. In today's world, various stakeholders (for example, institutional investors and regulators) have compelled corporations to choose directors with diverse characteristics. They are of the opinion that diversity helps board decision-making processes (Harjoto et al., 2018). This is possible because of the fact that diversity improves board performance by giving possibilities for competence, experience, knowledge, and networking (Pathak et al., 2021). Furthermore, Qi et al (2018) exerted that existence of diversity within a corporation would make the corporation thrive because the various aspects of board diversity can bring innovation and solutions for corporates. And as a result of these, the board will be able to collaborate harmoniously to produce credible financial statements; decreasing asymmetry and enhancing earnings quality (Tan & Taufeek, 2022). Despite these benefits, it's not a win-win situation, there are demerits too but those would be covered in the latter sections of this work.

Earnings quality

Earnings are the remaining revenue after deducting all operational costs, which include the cost of products sold and any other expenses (Ogaluzor & Chukwu, 2022). Earnings quality is defined as the ability of earnings to reveal the truth about firm profits and help anticipate future earnings by focusing on earnings stability and persistence (Akpan et al., 2024; Pratomo et al., 2022). Furthermore, earnings quality is described as a better level of earnings that allows individual users to make judgments by having access to more detailed financial information about a company (Oyebamiji, 2020). Earnings quality is also referred to in the accounting literature as the ability of the company's reported income (earnings) to further allow them to anticipate the company's earnings in the future (Cheng et al.,2015). The quality of financial reports serves as the foundation for the question of earnings quality, which is a direct result of the problem of earnings management or manipulation (Dachomo & Bala, 2020). While some businesses manipulate their earnings lower in order to pay less in taxes. Some employ specific techniques to manipulate earnings in order to provide a more favourable image to analysts and investors. Accordingly, companies that disguise their profits are considered to have low or poor earnings quality (Dachomo & Bala, 2020). The less informative accounting earnings cause investors to lose faith in this. For stakeholders, the accuracy and applicability of accounting profits information are always crucial. Therefore, it is essential to report high-quality earning information because it would surely have an impact on stakeholders when making investments and related (Kreder, 2016).

Board Age Diversity and Earnings Quality

The average age of members serving on a company's board of directors is referred to as board age (Darmadi, 2011). In other words, age diversity depicts the average director's age, which combines the ages of the board's older and younger members. Age can be used to predict a person's cognition, experience, and motivation (Xu et al., 2018). This indicates that board members of a comparable age group may have similar experiences, which may favour board cohesion and group thinking. According to Pratomo et al., (2022), younger directors are willing to take risks and tend to always have new ideas, so the company can experience higher growth than older directors. This is because older directors are more concerned with financial security and the company's career. With the diversity of ages among board members, it is hoped that the decisions taken will be made better and produce good earnings quality (Putri, 2020). Pratomo, et al., (2022) also holds that age diversity has a positive effect on earnings quality; meaning that younger directors would enhance the quality of earnings in an organization. Similar finding exists in Hoang et al., (2015). On the other hand, Budiyati & Wijaya (2022) holds that board age has a negative effect on earnings quality. The study indicated that diversity of age shows different, diverse or conflicting ways of thinking and may cause ineffective monitoring and checkmates which may lead to lower earning quality. This view is supported by Almomani (2021) and Tan and Taufik (2022). However, Hashim et al., (2019) and Obeitoh (2023) found no relationship between board age and earnings quality. Based on the above outcome, this study hypothesized that;

H1: Board age diversity does not have any significant effect on earnings quality of listed deposit money banks in Nigeria.

Board Experience Diversity and Earnings Quality

Board experience diversity refers to the inclusion of directors with a wide range of backgrounds, skills, expertise, and perspective on a company's board of directors. By assembling a diverse group of directors with complementary skills and background, the company can enhance earnings quality, foster inclusive decision making, mitigate risk adapt proactively to evolving market dynamics and challenges. According to Ogaluzor and Chukwu (2022), 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 elected to the board of directors. It also corroborates how many years one has served on the board. For directors, experience is built on practical involvement in the corporate world (Kempster, 2006). Direct participation in diverse boards, boardroom debates, management of organizational projects, and dealing with real-world problems all help to produce a seasoned and insightful director (Sidki et al., 2023; Ojali et al., 2023).

According to Kim & Starks (2015), experience improves the quality of earnings. Also, Ogulazor & Chukwu (2022) argued that greater degree of board experience diversity is likely to give rise to greater degree of earnings persistence. Further positive findings are recorded in Deloitte (2015) and Gaite and Fernandez-Temprano (2021). Kontesa et al., (2020) found no relationship between board experience diversity and earnings quality. Thus, this study hypothesized that;

H2: Board experience diversity does not have any significant effect on earnings quality of listed deposit money banks in Nigeria.

Board Financial Expertise and Earnings Quality

According to Section 407 of the Sarbanes-Oxley Act of 2002 (SOX), a financial expert is defined as a person with accounting, finance, or supervisory expertise. A financial expert has experience in accounting, auditing, finance positions, or supervising employees with financial responsibilities. Board financial expertise is the inclusion or the presence of directors who are professionals in the accounting and finance fields (Tan & Taufik, 2022). Regulators were prompted to include financial expertise on business boards as a result of the corporate scandals like Enron, Tyco, and World Com (Shawtari et al., 2017).

The board's financial expertise is critical in shaping earnings quality. For the positive, a board with excellent financial expertise is better positioned to review financial reports, evaluate accounting methods, and assure regulatory compliance. Board members that are financially savvy can improve the accuracy and transparency of financial disclosures, resulting in greater earnings quality. Labelle et al., (2020) and Xie et al. (2003) found a positive relationship exists in There is no consensus as there exist inconclusive results on the relationship between board financial expertise and earnings quality. On the other hand, Qi et al., (2018) had a contrary opinion when their study revealed that board financial experience has no influence on earnings quality of firms. No relationship was however recorded in Rahman and Ali (2006) and Lin et al., (2006). Thus, this study hypothesized that;

H3: Board financial expertise does not have any significant effect on earnings quality of listed deposit money banks in Nigeria.

Theoretical framework

Agency theory is a theoretical concept that addresses the working connection between corporate owners (principals) and managers (agents). Jensen and Meckling (1976) defined an agency relationship as a contract in which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf, which includes delegating some decision-making authority to the agent. The agency theory establishes the link between the principal and the agent through a contract in which the principal delegated accountability to the agent to act on the principal's behalf (Umo, 2023). Here, company owners frequently do not have broad access to monitoring operational activities and frequently entrust it to managers or there is a delegation of authority. In the context of financial reporting, information asymmetry occurs when an insider (management) with vested interests in the reported information prepares and transmits the same information to an outsider (principals) who rely on it to make decisions. Agency conflict and earnings quality are two things that have influence on each other (Pratomo et al., 2022).

Agency conflict can lead to the nature of management reporting earnings in opportunities to maximize their personal interests, and if that happens, the quality of earnings will be low (Triwahyuni 2017). This conflict can be minimized with good corporate governance. The application of corporate governance can be used as a guide for company management to manage the company well, assisting them in make decisions that benefit all parties. One component of good corporate governance is the diversity of the board of directors or board of directors (Hamdani, 2016; Pratomo et al., 2022). The board of directors is expected to effectively address agency problems between shareholders and management so that a diverse board of directors will create diverse perspectives to address solutions to these problems (Budiyati & Wijaya, 2023; Razag et al., 2023). The agency theory is the anchor theory for this work and is relevant for this research because it points out problems of misalignment of interests between the owners and the managers. It emphasizes the cause of earnings manipulations and also suggests how diversity in corporate boards can help reduce these manipulations thereby enhancing earnings quality.

Empirical Framework

Akpan (2024) examined the effect of CEO education, CEO shareholding, and CEO tenure on shareholders' value of listed health care firms in Nigeria from shareholders' 2013 to 2022. The research design adopted for this study was Ex Post Facto, secondary data were used and 12 health care firms constituted the population of the study. The data analysis technique employed was ordinary least square regression technique and STATA 16 was the statistical package used. The result of the analysis showed that CEO education, CEO shareholding and CEO tenure have significant effect on shareholders' value added of listed health care firms in Nigeria. Emmanuel et al., (2024) examined the relationship between CEO attributes and environmental reporting of quoted industrial goods firms in Nigeria. However, the specific objectives included to ascertain the relationship between CEO ownership and environmental reporting of quoted industrial goods firms in Nigeria. Ex-post facto research design was adopted, and panel data covering ten (10) years (2013-2022) were collected across eleven (11) quoted industrial goods firms in Nigeria which formed the sample size of the study. The data collected were analyzed using descriptive statistics and panel multiple regression analysis via Eviews 10.0 statistical package. Amongst others, the study findings revealed that CEO education has a significant positive relationship (Coeff. = 3.9351{0.0277}) with environmental reporting of quoted industrial goods firms in Nigeria while CEO compensation has an insignificant positive relationship (Coeff. = 0.8300{0.1621}) with environmental reporting of quoted industrial goods firms in Nigeria. A Prob (F-statistics) of 0.00000 suggests that CEO ownership (CEO_OWN), CEO origin (CEO_ORG), CEO education (CEO_EDU), CEO gender (CEO_GEN) and CEO compensation (CEO_COMP) have a combined significant effect on sustainability reporting at 5% significance level.

Akpan et al., (2024) assessed the impact of fair value measurement on earnings management by deposit money banks in Nigeria using the Beneish Model (M-score model) as a proxy for earnings management. The research work adopted the ex-post facto research design. The population of this study will comprise of the fourteen (14) Commercial banks listed on the Nigerian Exchange Group as at the year 2023.The purposive sampling technique would be adopted for this study. Thus, the sample size was five banks for the period of 2013 to 2022. The study made use of secondary data. Descriptive statistics and linear regression analysis were adopted as the data analysis technique of this study. The result of the analysis showed a regression coefficient of -0.240 for fair value measurement.

Alves (2023), using a sample of 3,808 non-financial European Union listed companies from 2011 to 2020, examined the impact of board gender diversity on the magnitude of earnings management. The results supported the anticipated negative relationship between the presence of female directors and earnings management. Additionally, it was found that when a critical mass of three or more female directors was reached, their influence became apparent, positively impacting earnings quality and leading to reduced earnings management. De Geus (2023) evaluated the relationship between ethnic board diversity and earnings management in U.S. listed firms, considering a board as ethnically diverse if it includes at least one non-Caucasian member. After adjusting for size, year, industry, and other corporate governance measures, the study found significant evidence indicating that ethnic board diversity contributes to a reduction in accrual-based earnings management.

Le and Nguyen (2023) analyzed the impact of board characteristics and ownership structure on upward and downward earnings management of non-financial firms listed on Hanoi Stock Exchange and Ho Chi Minh Stock Exchange. In the research, various models, including Pooled OLS, Fixed and Random effect models, and generalized least squares, were applied, followed by a regression with the System Generalized Method of Moments (System GMM) to find the most appropriate model. The findings indicated that firms with high average board age, high ownership concentration, and high financial leverage tended to manage earnings downward. High managerial ownership was associated with a reduction in downward earnings management. Moreover, firms with high state ownership were found to reduce upward earnings management. Saona et al. (2023) studied how gender diversity and the remuneration of boards of directors influence the earnings quality of Spanish-listed firms. The sample comprised 105 non-financial Spanish firms from 2013 to 2018, resulting in an unbalanced panel of 491 firm-year observations. The primary empirical method used a Tobit semiparametric estimator with firm- and industry-level fixed effects and an innovative set of measures for earnings quality developed by StarMine. The findings indicated a positive correlation between increased gender diversity and a firm's earnings quality, suggesting that a gender-balanced board of directors is associated with more transparent financial reporting and informative earnings. Furthermore, a nonmonotonic, concave relationship was observed between board remuneration and earnings quality.

Githaiga et al., (2022) assessed whether firm size moderates the relationship between board characteristics and earnings management (EM). Data for the study were sourced from 88 listed firms in the East African Community (EAC) during the period spanning from 2011 to 2020. The research employed the system generalized method of moments (SGMM) estimation model to address potential endogeneity and reverse causality issues. The findings indicated a positive and significant relationship between board size and EM. Additionally, the study revealed that board independence, board gender diversity, and board financial expertise exerted a negative and significant influence on EM. Furthermore, the findings confirmed that firm size acted as a moderator in the relationship between board size, board independence, board gender diversity, and EM.
Goel and Kapoor (2022) assessed the relationship between earnings management and board characteristics, specifically focusing on independence and gender diversity, within the Indian corporate sector, while considering sectorial classification. Utilizing a panel data structure, the study scrutinized the influence of sector segregation and gender diversity on earnings management practices among large public companies in India. The findings highlighted substantial variations in the magnitude of earnings

management based on the relative nature of the sector. Additionally, the results indicated that women directors demonstrated greater efficacy in monitoring earnings management within their respective firms, underscoring that the mere presence of independent directors does not ensure robust corporate governance.

Kangea et al., (2022) scrutinized the relationship between board diversity and the earnings quality of non-financial firms listed on the Nairobi Securities Exchange (NSE), with ownership concentration acting as a moderator. As of December 31, 2020, the NSE had 39 non-financial firms listed. Secondary data spanning a 13-year period (2008-2020) was collected for analysis. Employing a quantitative research design and positivist research philosophy, the data underwent analysis using panel regression, alongside diagnostic and specification tests. The study found that board diversity significantly impacted the earnings quality of non-financial firms, both in the presence and absence of ownership concentration as a moderator. The moderator model demonstrated superior performance compared to the one without ownership concentration.

Orajaka (2022) assessed the relationship between corporate board diversity, specifically foreign board membership diversity, and earnings management in non-financial companies in Nigeria. The population and final sample size were identified as 48 and 25, respectively. The study's findings indicated a negative and significant relationship between foreign board membership diversity and earnings management in non-financial firms in Nigeria. The presence of foreign members in the board of directors, along with boards comprising more independent and female directors, was associated with less prevalent earnings management.

Pratomo et al., (2022) examined the influence of various factors, including board diversity (presence of female directors, age diversity of the board of directors, educational background of board members, and the proportion of independent commissioners) and audit quality, on earnings quality. Employing quantitative methods, the population for this study comprised non-financial State-Owned Enterprises listed on the Indonesia Stock Exchange for the period 2016-2020, with 16 companies selected as research samples through purposive sampling. The results indicated that the presence of female directors, age diversity of the board, educational background of board members, the proportion of independent commissioners, and audit quality collectively affected earnings quality. The educational background of the board and audit quality individually impacted earnings quality, while the presence of female directors, age diversity of the board, and the proportion of independent commissioners did not exhibit a significant influence on earnings quality.

3.0 Methodology

Research Design

This study used *ex-post facto* research design and this design was suitable for this study because secondary data were used. The population of the study was thirteen deposit money banks and purposive sampling technique was adopted to select 10 listed deposit money banks in Nigeria. Ordinary least square regression was the method of data analysis used and statistical software package employed was E-view version 10.

Model Specification

The model for this study was adapted from the work of Kangea et al., (2022) and modified to suit our study. The econometric function of the model is given below:

Earnings management = f (Board diversity) ………………………………………………………..……… (1)

Earnings management was measured using Discretionary loan loss provision (DLLP)

Where: $DLLP_{it}/TA_{it-1} = LLP_{it}/TA_{it-1} - (\alpha_0 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1})$ ……………..….. (2)

$LLP/TA_{t-1it} = \alpha_0 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1} + \varepsilon_{it}$ ………………………..…………………. (5)

LLP = Loan loss provision for firm i at time t
LCO = The Loan charge-offs for firm i at time t
BBAL = The beginning balance of LLP for firm i at time t.
TA = The beginning total asset of firm i at time t.

$DLLP_{it} = \beta_0 + \beta_1 BAGE_{it} + \beta_2 BEXP + \beta_3 BFEX + u_{it}$ ……………………………………..………… (3)

Where:
DLLP = Discretionary loan loss provision
BAGE = Board age
BEXP = Board experience
BFEX = Board financial expertise
β_0 = Constant slope to be estimated
$\beta_1 - \beta_3$ = Intercept to be estimated
U = Error term

Table 1: Operationalization of variables

Variables	Definition	Type	Measures	Source
BAGE	Board age	Independent	Ratio of young directors to total number of directors with young directors not being older than 45 years old.	Hashim, Ahmed and Huey (2019)
BEXP	Board experience	Independent	Average number of boards the board members have served on.	Ogulazor and Chukwu (2022)
BFEX	Board financial expertise	Independent	Ratio of board members with accounting and finance qualifications to total number of directors.	Tan and Taufik (2022); Almaqtari et al. (2020)
DLLP	Discretionary loan loss provision (measure of earnings quality)	Dependent	Chang, Shen and Fang's (2008) model on discretionary loan loss provision and earnings persistence.	Chude and Chude (2023)

Source: Researcher’s compilation (2024).

4.0 Results and Discussion

Table 2: Descriptive statistics

	DLLP	BAGE	BEXP	BFEX
Mean	3.910	0.007	1.596	0.404
Median	-0.002	0.000	1.300	0.400
Maximum	0.176	0.143	4.916	0.687
Minimum	-0.263	0.000	0.417	0.210
Std. Dev.	0.043	0.024	0.974	0.103
Skewness	-1.243	3.691	1.432	0.183
Kurtosis	21.594	16.419	5.082	2.338
Jarque-Bera	1466.458	977.324	52.274	2.382
Probability	0.000	0.000	0.000	0.303
Sum	0.004	0.676	159.601	40.400
Sum Sq. Dev.	0.190	0.058	94.034	1.058
Observations	100	100	100	100

Source: Researcher's computation (2024).

Table 2 above shows the descriptive statistics of all the decomposed variables for this study. Starting from the left, the discretionary loan loss provision (DLLP) obtained from the regression showed a minimum of -0.26, a maximum of 0.17, an average of 0.000 and a standard deviation of 0.04. These statistics however show that earnings management in the banking sub-sector is relatively low or that earnings quality is on the high-side. For board age (BAGE), it was observed that the industry is characterized by boards who lack young directors (below 45 years of age) but filled with old directors. A minimum and maximum of 0% and 14% were observed respectively. The average and standard deviation also came in at 0.6% and 2% respectively. More so, the minimum board experience (BEXP) a board of directors had was 0.42, the highest was 4.92, average was 1.6 and the standard deviation was 0.97. These imply that on experience of board members in the banking industry was high. Finally, it was observed that on average, 40% of board members had qualifications in accounting or finance, the lowest observed was 21% while the highest was about 69%. The standard deviation was 10% and these statistics imply that board financial expertise in the banking industry is moderate or normal (neither low nor high).

Correlation Analysis

Correlation analysis tests for the association (correlation) between the independent variables and the dependent variables of interest.

Table 3: Correlation analysis of the relationship between board diversity and earnings quality of listed deposit money banks in Nigeria

	DLLP	BAGE	BEXP	BFEX
DLLP	1.000			
BOGD	-0.134			
BNAT	-0.176			
BEXP	-0.200	1.000		
BAGE	-0.068	-0.165	1.000	
BFEX	-0.273	-0.035	-0.163	1.000

Source: Researcher's computation (2024).

In the correlation matrix analysis, it was observed that discretionary loan loss provision (DLLP) exhibits specific associations with various board-related variables. Board age (BAGE) showed no significant correlation with discretionary loan loss provision (DLLP), with a coefficient close to zero (-0.006). Additionally, board experience (BEXP) displayed a weak negative correlation with discretionary loan loss provision (DLLP), with a coefficient of -0.200. Finally, board financial expertise (BFEX) indicated a negative and weak correlation with discretionary loan loss provision (DLLP).

Regression Analysis

Table 4: Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.025	0.023	8.077	0.000
BAGE	-0.126	0.192	-0.655	0.514
BEXP	-0.001	0.005	-3.198	0.000
BFEX	-0.036	0.048	-1.993	0.043
Effects Specification			S.D.	Rho
Cross-section random			0.000	0.000
Idiosyncratic random			0.044	1.000
		Weighted Statistics		
R-squared	0.629	Mean dependent var		3.910
Adjusted R-squared	0.609	S.D. dependent var		0.044
S.E. of regression	0.044	Sum squared resid		0.185
F-statistic	17.558	Durbin-Watson stat		2.488
Prob(F-statistic)	0.000			
		Unweighted Statistics		
R-squared	0.629	Mean dependent var		3.910
Sum squared resid	0.185	Durbin-Watson stat		2.488

Source: Researcher's (2024).

The random effect regression model above shows an F-statistic of 17.558 with p-value of 0.000 indicating that overall, the relationship between board diversity and earnings quality is a significant one. The model gave an R-squared value of 0.628 which means that 63% of the changes in the dependent variable can be explained by the independent variables of this study. However, the unexplained part is captured in the error term.

Board Age and Earnings Quality

From the regression result in Table 4. board age (BAGE) showed a negative regression coefficient of -0.125 and a p-value of 0.514. These entail a non-statistically significant negative relationship with discretionary loan loss provisions. This implies that board age has no significant effect or an insignificant negative effect on discretionary loan loss provisions. Simply, this means that increase in board age could increase the quality of earnings, but lacked sufficient evidence rendering it insignificant. This finding is in tandem with that of Hashim et al. (2019) which suggested no relationship between board age and earnings quality. On the contrary, sufficient evidence as per the positive relationship between board age and earnings quality was found in Pratomo et al., (2022), and Hoang et al. (2015). Further contrary studies also existed in Budiyati and Wijaya (2022) who exerted a negative relationship between board age and earnings quality.

Board Experience and Earnings Quality

Results from the regression analysis in Table 4 also showed that board experience (BEXP) of deposit money banks in Nigeria has a negative and significant relationship with their discretionary loan loss provision. This was evident as the coefficient was -0.001 and a p-value of 0.0000 which was less than 0.05 significance level. This result means that higher board experience is equal to higher earnings quality for these banks. Put another way, the lower the board experience, the lower the earnings quality (high DLLP). According to Kim and Starks (2015), experience improves the quality of earnings.

Also, Ogulazor and Chukwu (2022) argued that greater degree of board experience diversity is likely to give rise to greater degree of earnings persistence. Further supporting findings were recorded in Deloitte (2015) and Gaite and Fernandez-Temprano (2021) who also found positive relationship between board experience and earnings quality. Contrary to this finding exists the finding of Kontesa et al (2020), and Duong et al (2020) who found a negative relationship between the two subject matters.

Board Financial Expertise and Earnings Quality

The results obtained from the random effects model in table 4.3 revealed that board financial expertise (BFEX); -0.036224[0.0434] has a significant negative effect on the discretionary loan loss provision of deposit money banks in Nigeria. This result implies that board financial expertise has a significant positive effect on earnings quality of the banks under study. Put simply, the higher the financial expertise, the higher the quality of earnings and vice versa. In Habib and Bhuiyan (2016) cited by Tan and Taufik (2022), a deeper awareness of financial issues can be attained by the application of financial knowledge, leading to more accurate accounting estimates and complete viewpoints and opinions. According to Almaqtari et al. (2020), directors with financial experience may manage their company more effectively and lessen information asymmetry. Further supporting findings exist in Labelle, Gargauri and Franceour (2010) and Xie et al. (2003) who all found positive relationship between board financial expertise and earnings quality. Contrarily, Qi et al. (2018) argued that executive board members who have financial expertise are more involved in earnings management than members without financial expertise. Rahman and Ali (2006) and Lin, Li and Yang (2006) also recorded no relationship between board financial expertise and earnings quality.

5.0 Conclusion and Recommendations

In conclusion, increasing board diversity emerges as a critical technique for improving the board's ability to evaluate financial reporting systems, detect potential risks, and make educated strategic decisions, ultimately raising the overall quality of earnings. In other words, the promotion of different perspectives on boards is beneficial in recognizing and eliminating biases, ensuring a full examination of financial information, and reducing the danger of errors or manipulations that could jeopardize the transparency and accuracy of reported earnings. A diverse board also allows for the participation of a wide range of talents, knowledge, credibility, and vital links to key constituencies like as customers, suppliers, legislators, and social groups. Based on the findings of this study, it was concluded that board diversity has significant effect on earnings management of listed deposit money banks in Nigeria. It was recommended that deposit money banks in Nigeria should continue to value and seek experienced individuals for board positions. The findings underscored the positive relationship between board experience and earnings quality, suggesting that a wealth of experience contributes to increased financial reporting quality. It was also recommended that deposit money banks in Nigeria should prioritize the selection of board members with good financial expertise as this knowledge can help them improve the earnings quality of these banks.

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