

AUDIT COMMITTEE MULTIPLE DIRECTORSHIP AND FINANCIAL REPORTING QUALITY: EMPIRICAL EVIDENCE FROM NIGERIA

***Ofuan James Ilaboya (Ph. D, FCA, FCTI) and **Kennedy Prince Modugu
(B.Sc, M.Sc)**

**Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City,
Edo State, Nigeria*

ofuanwhyte@gmail.com, ojwhyte@yahoo.com

***Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City,
Edo State, Nigeria*

kennedy.modugu@uniben.edu, princekenny2010@gmail.com

Abstract

This study examines the relationship between audit committee multiple directorship and financial reporting quality in the Nigerian business environment. A sample size of 50 companies forms the unit of analysis for the study. We estimated the data using the Ordinary Least Squares regression technique. Preliminary diagnostic tests detailing the autoregressive conditional heteroskedasticity for heteroskedasticity test, the LM test for autocorrelation and the Ramsey reset test were carried out. The study revealed a negative and statistically significant relationship between audit committee multiple directorship and financial reporting quality. Also, the study found a positive and significant relationship between audit committee size and financial reporting quality. The result showed the existence of a negative but significant relationship between the board size and financial reporting quality. It was observed that the interaction between audit committee multiple directorship and audit committee size is negative and significant. Finally, the interaction of audit committee multiple directorship and board size has a positive and significant impact on financial reporting quality. We recommend among others, that the practice of audit committee multiple directorship should be prohibited in all sectors of the Nigerian economy by the responsible regulatory agencies to effectuate financial reporting quality.

Keywords: audit committee, multiple directorship, financial reporting quality, board size, agency theory.

Introduction

Financial reporting is a fundamental corporate responsibility and a core element of the corporate system. This is because, it serves as the major medium of communication between companies and stakeholders thereby reducing the level of information asymmetry between the directors, who have first-hand knowledge

of companies' information and providers of finance who are 'external' to the company. For financial statements to be value relevant, they must be invincible to manipulation and free from bias. To achieve this objective, adequate monitoring

mechanisms must be established in the reporting entity.

Fama and Jensen (1983) argue that the credibility and transparency of financial reporting of a company depends on the effectiveness of the monitoring mechanism of the company itself. This has opened a new vista of research in corporate governance issues. The premise for this trend is that there is the opportunistic tendency for managers to engage in unethical practices in the absence of good governance structure. Several empirical researches (Fama, 1980; Fama & Jensen, 1983; Holthausen, Larcker & Sloan 1995; Klein 2002; Shehu, 2012; Olayinka, 2012) have linked corporate governance mechanisms to high quality financial report and unlikelihood of financial statement fraud. Given these developments, there has been emphasis on the need to improve corporate governance to guarantee financial reporting quality. The role of audit committee has been identified as critical in ensuring credibility of the financial reporting process from the several corporate governance monitoring mechanisms (Abbott, Park & Parker, 2000). The audit committee is a key sub-committee of the board and shareholders whose main responsibility is to oversee financial reporting and control. However, audit committee effectiveness is perceived to be inhibited by multiple directorship.

Multiple directorship also referred to as interlocking directorate is a situation where one person affiliated to one organization sits on the board of directors of another organisation. Therefore, audit committee multiple directorship is a situation where an audit committee member representing the board of one company in the audit committee, sits on the board of directors of other organisations.

An audit committee member with multiple directorship status may be

overcommitted and therefore contribute less time and effort to audit committee service. On the other hand, multiple directorship status may contribute to the effective functioning of an audit committee member as he or she may bring in more experience (knowledge transfer effect) and have stronger incentives to monitor because of higher reputational capital at stake (labor market effect). Both time commitment and expertise are important to audit committee effectiveness. Therefore, the overall effect of multiple directorship on audit committee effectiveness is uncertain. Empirical findings in prior literature provide mixed results. While some studies find that a higher average number of additional directorship is positively associated with governance effectiveness (e.g., Coles & Hoi 2003, Harris & Shimizu 2004), others find a negative association (e.g., Core, Holthausen & Larcker 1999 and Fich & Shivdasani 2006). This study therefore examines the relationship between audit committee multiple directorship as well as other audit committee characteristics and financial reporting quality in the Nigerian business environment.

This study is therefore motivated by the inconclusive nature of the relationship between audit committee multiple directorship and financial reporting quality in Nigeria.

Literature Review

Dooley (1969) is one of the foremost academic studies regarding multiple directorship and financial reporting dynamics. Dooley finds that less solvent firms are likely to be interlocked with banks. Despite the logical appeal of the argument that serving on multiple boards can be valuable to companies, the evidence in the literature is mixed. Fich and Shivdasani (2006) found that when the majority of directors hold three or more directorship, the firm is associated with weaker corporate governance. In contrast, Field (2011)

demonstrated that multi-board directors provide experience and networking benefits to newly-public firms, while Ferris Jagannathan & Pritchard (2003) found that multi-board directors are not associated with reduced or improved monitoring. Other authors have underlined an interpretation for interlocking directorates as a manner of monitoring (Stiglitz, 1985; and Eisenhardt, 1989). These studies are interesting for our perspective since they imply that cartel members can use interlocking directorates to monitor activities of other cartel members that could undermine the cartel agreement.

Shivdasani (1993) and Song and Windram (2000) argue that multiple directorship may cause limitations of time and commitment for audit committee members from performing effectively. Audit committee members who hold director posts of too many companies may have limited time fulfilling their responsibilities (Lipton & Lorch, 1992; Core, Holthausen & Larcker, 1999). However, there are studies which show that multiple directorship may enhance the contribution of audit committee members towards discharging their duties effectively. Audit committees with multiple directorship demand a more extensive audit to protect their reputation capital (Boo & Sharma, 2008), hence, contributing to better reporting quality.

Kiel and Nicholson (2003) find that multiple directorship is positively associated with market capitalisation and performance of Australian listed companies. Multiple directorships enrich audit committee members with experience and knowledge of management of companies of different business background. The experience from managing other companies' exposes audit committee members to economic trends and aspects of international business besides providing the opportunity to compare management policies and practices. From the

agency theory perspective, some studies argue that boards with high multiple directors are associated with ineffective monitoring of management due to the insufficient time and efforts committed, which reduces the firm's market value (Shivdasani & Yermack 1999; Fich & Shivdasani 2006). In the same vein, using the Forbes 500 sample, Fich and Shivdasani (2006) documented that firms with high MD boards (more than 50% directors hold at least three directorships) exhibit lower market to book ratios, weaker profitability, and lower sensitivity of CEO turnover to firm performance.

Loderer and Peyer (2002) also find a negative association between the average number of multiple directorship held by board members and firms value (Tobin's Q) by examining all firms traded in Zurich Stock Exchange. Core, Holthausen and Larcker (1999) investigate the multiple directorship issue at the committee level by examining the compensation committees of 205 publicly traded U.S firms over three-year period (1982-1984).

On the other hand, others argue that multi-directorship is beneficial to shareholders. Fama and Jensen (1983) posited that the number of directorship constitutes reputational capital for the director and might be a source of valuable experience.

Gilson (1990) and Vafeas (1999) suggested that shareholders might view the directors with multiple directorship as high quality directors. Moreover, Ferris, Jagannathan, and Pritchard (2003) argued that multi-directorship might provide a director with a greater diversity of experience. According to these arguments, firms with high multiple directors might signal a high quality board. As a result, there might be a positive association between high multiple directorship and firm performance. Empirical evidence is also consistent with this argument. In addition,

although Loderer and Peyer (2002) found a negative association between the average number of multiple directorship held by board members and firm value, they do find that the number of directorship held by the chairman of the board is positively associated with firm value, suggesting that while high multiple directorship on average is not value maximizing, high multiple directorship by a key board member might provide a positive signal.

Some studies (Yang & Krishnan 2005, Carcello & Neal 2003) included multiple directorship as one of the defining characteristics of audit committees in examining the relationship between audit committee characteristics and audit committee effectiveness. Using a random sample of 250 U.S. public firms from the pre-SOX era, Yang and Krishnan (2005) find that audit committee directors' experience on other boards (measured by number of directorship) is significantly associated with lower quarterly discretionary accruals. Carcello and Neal (2003) show a negative relation between average audit committees' multiple directorship and the likelihood of dismissing an auditor following a going concern opinion. The debate on the costs and benefits of multiple directorship continues among researchers.

Haniffa and Hudaib (2006) suggested that the benefits from multiple directorship come from two different motives – information exchange motive and control motive. Under the information exchange motive, the multiple directors serve as an influential source of information relating to new policies, trade secrets and practices among firms. Multiple directorship allow the directors to be exposed to recent economic trends; international business; different management styles; monitoring behaviour; and different management policy and practices. Under control motive, multiple

directorship serve as a mechanism for control and offers additional insights into the outcomes of other companies, facilitating comparisons as well as enhancing control (Haniffa & Hudaib, 2006).

Nonetheless, institutional investors and shareholder activists claim that multiple directorship reduces the effectiveness of monitoring activities (Ferris *et al.*, 2003). As the directors serve on several boards, it has been suggested that they may not be able to understand each business well enough to be effective in performing their jobs (Bathala & Rao, 1995). Prior studies suggested that board with more interlocked directors could indicate weak governance either because directors' independence is jeopardised (Jiraporn & Davidson, 2009) or because board members are simply too busy to perform their monitoring role effectively (Ferris *et al.*, 2003; Harris & Shimizu, 2004; Jiraporn *et al.*, 2009).

It is argued that serving on multiple boards threatens available preparation time for board meetings thus limit directors' ability to provide useful advice (Harris and Shimizu, 2004). Related research shows that directorship interlocks impact corporate reporting. Ferris *et al.* (2003) find that firm performance has a positive effect on the number of appointments held by a director. Their observations further suggest that directors who serve larger firms and sit on larger boards are more likely to attract additional directorship.

Harris and Shimizu (2004) document that over-boarded directors may be an asset to the company due to their expert advice and efficient decision making upon their experiences from other boards. Similarly, Stuart and Yim (2010) report economically significant effect of having interlocked directors with experience in private equity transactions. A study by Bedard, and

Chtourou (2004) found that the greater the additional number of other directorship held by board members, the lower the likelihood of earnings management activity of the firm.

Norman *et al.* (2005) suggest that multiple directorship serves as important governance mechanisms in mitigating earnings management activity and any attempt of earnings management would jeopardize directors' future in the managerial labour market. Although the study by Haniffa and Cooke (2002) failed to find a significant relationship between multiple directorship and the level of disclosure in Malaysia, their recent study on issues relating to corporate social reporting reveals a significant relationship between chairmen with multiple directorships and corporate social reporting disclosure. This indicates that cross-directorships held by the chairmen does have important positive implications for corporate social disclosure practices as they are able to obtain greater access to information in more than one company, thus ensuring the consistency of voluntary information between companies they service (Haniffa & Cooke, 2005).

However, it is important to ensure that outside directors have enough time to devote to a particular firm, as large additional directorship may limit the directors governing effectiveness as they are not able to understand each business well enough in performing their monitoring role (Bathala & Rao, 2005; Bedard *et al.*, 2004). Due to competitive disadvantage, potential conflicts of interests and less commitment, it is possible to predict a negative impact of directorship interlocks on firm performance.

Consistent with this notion, Devos *et al.* (2009) document that the presence of interlocked directors is associated with lower industry-adjusted firm performance, lower than optimal pay-performance

sensitivity of CEO incentive compensation and reduced sensitivity of CEO turnover to firm performance. Collectively, their results suggest that the presence of interlocked directors is indicative of poorly governed firms. Haniffa and Hudaib (2006) report a negative significant relationship between multiple directorship and market performance and suggest that the market perceives multiple directorship as unhealthy and that they do not add value to corporate performance in Malaysia.

The cost and benefit tradeoff involving multiple directorships complicate the analysis of busy outside directors. The value of advising is enriched by multiple directorships, but the role of monitoring is damaged. Thus, while Ferris, Jagannathan, and Pritchard (2003) and Fich and Shivdasani (2006) find that the likelihood for outside directors to obtain more board seats is increasing in the performance of the firms in which they serve on their boards, the costs of multiple directorships are also observed in corporate events such as financial statement fraud (Beasley, 1996).

Multiple Directorship in the Nigerian Business Environment

The subject of multiple directorships has not received widespread attention in Nigeria. However, in the financial sector, it has been given some attention. The Nigerian financial sector has undergone several transformations as a result of various changes in government policies. Such policy changes include the promulgation of the Investment Act of 1995 and the Nigeria Investment Promotion Commission (NIPC) Act No. 16 of 1999, which among others; allow 100 percent local or foreign ownership of most businesses; the progressive review of the minimum paid-up share capital of the banks to 1 billion and

recently, the adoption of Universal Banking. The above had led to changes in the ownership structure of various financial institutions, which continued to reposition themselves through the establishment of financial subsidiaries. In order to protect their interests in the subsidiaries, the shareholders usually appoint director(s) to the boards of these institutions.

Section 19(2) of the Banks and Other Financial Institutions Act 1991, as amended, provides that: "Except with the approval of the Bank, no bank shall have as a director any person who is a director of - (a) any other bank; (b) companies which amongst themselves are entitled to exercise voting rights in excess of ten per cent of the total voting rights of all the shareholders of the bank." Subsequently, the CBN issued a circular, BSD/CS/23/VOL.1/19, in 1992 to the effect that: (i) No person shall hold directorship positions in more than two banks (that is one merchant and one commercial). (ii) Where a person is already a director in one or two privately owned bank(s) either by virtue of being a shareholder or a nominee director, such a person shall not accept another appointment in a government-owned bank unless he or she first relinquishes the directorship in one of the privately owned banks. (iii) Where a bank has a subsidiary or manages another bank under a technical agreement, the banks in the group shall be taken as one for the purpose of determining the number of the banks in which an individual could hold directorship position.

Item (iii) of the above guidelines was very explicit in that a holding company was allowed to have some of its board members on the board of the subsidiary. With the guidelines, an individual was allowed to sit on the board of more than one bank. The essence of this was that the appointed

director was to protect the interest of the holding bank in the subsidiary bank. It was, therefore, envisaged that the appointment of such a director would not cause a conflict in any way since the director was there to protect the interest of the holding bank. The implementation of the circular ensured that no individual was allowed to serve as a director in more than two banks.

This restriction was informed by the following considerations: the need to reduce or possibly eliminate conflict of interest; the fact that the banks almost offer the same type of services in the same market; the need to reduce sharp practices; reduction of undue influence of one director on the others and to guard against arbitrage practice by the banks with common directorship.

Methodology

The study population consists of all quoted companies in the non-financial sector of the Nigerian economy. The reason for excluding the financial sector is consequent upon the CBN (1992) regulation prohibiting multiple directorships within the financial sector. Simple random sample technique was employed in selecting a sample size of 50 companies for 2010 financial year which forms the unit of analysis for the study. The technique is well suited for determining the sample participants as it provides an equal probability of selecting any of the companies and as such minimises selection bias.

The variables selected for this study are: financial reporting quality (estimated using the modified Jones model, 1991); audit multiple directorships (average number of directorships for audit committee members); audit committee size (average number of audit committee members); and board size (average number of board members)

Table 1: Measurement of Variables

Variable	Measure	Expected Sign	Existing studies
FRQ	Financial reporting quality measured by modified Jones model		Jones (1991), Dechow & Dichev (2002), Schipper and Vincent (2003), Dechow, Sloan & Sweeney (1995) and Jaggi & Leung (2007)
AD-MD	Average number of directorships for audit committee members	-	Zheng (2008), Carcello and Neal (2003), Haniffa & Hudaib (2006)
BSIZE	Average number of board members	-	Bens & Monahan (2004) and Aboody, Hughes & Liu (2005)
AUDCOMS	Average number of audit committee members	+	Aboody, Hughes & Liu (2005)

Source: Researchers' compilation from various sources (2013)

This study is hinged on the agency theory which deals with the contractual relationship between the agent (manager) and the principal (shareholders) under which shareholders delegate responsibilities to the manager to run their business. This theory argues that when both parties are expected to maximise their utility, there is good reason to believe that the agent may engage in opportunistic behaviour at the expense of the principal's interest.

Consistent with prior studies (Dechow, Sloan and Sweeney 1995 and Jaggi and

Leung, 2007), a cross-sectional regression of the modified Jones Model (1991) was used to obtain the discretionary component of accruals which was used to measure financial reporting quality in this study. The choice of the modified Jones model (1991) was informed by the argument of Dechow, Sloan & Sweeney (1995) who noted that the model is more powerful in detecting earnings management. Therefore, discretionary accrual is estimated as:

$$DISACC_t = TACC/TA_{t-1} - [\beta_0 (1/TA_{t-1}) + \beta_1(\Delta REV_t/TA_{t-1}) + \beta_2(PPE_t/TA_{t-1})] \text{-----}(1)$$

Where:

DISACC = Discretionary accruals of the firm in year t

TACC = Total accruals of the firm in year t

TA_{t-1} = Total asset of the firm at the end of the year t-1

ΔREV_t = Change in net sales of the firm between year t-1 and year t

PPE_t = Gross property, plant and equipment in year t

β₀, β₁, β₂ are the estimated coefficient from the following cross-sectional regression.

The model for the study is specified thus;

$$FRQ = \beta_0 + \beta_1 AC - MD + \beta_2 AUDCOS + \beta_3 BSIZE + \beta_4 AC - MD * AUDCOMS + \beta_5 AC - MD * BSIZE + \mu \text{ ----(2)}$$

Where; FRQ = financial reporting quality

AC-MD = audit multiple directorship

AUDCOMS = audit committee size

BFSIZE = board size

AC-MD*AUDCOMS = interaction of audit committee multiple directorship and audit committee size

AC –MD* BFSIZE = interaction of audit committee multiple directorship and board size

μ =error term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5 > 0$ = unknown coefficients of the explanatory variables

Regression analysis using the ordinary least square technique was utilized for the analysis of the data. The robustness check for the model is presented detailing the results and analysis for the Autoregressive Conditional Heteroskedasticity (ARCH) for heteroskedasticity test, the LM test for autocorrelation and the Ramsey reset test for the model specification.

Presentation, Analyses of Results and Discussion of Findings

The correlation coefficient results show that none of the variables are very strongly correlated and this indicates that the problem of multicollinearity is unlikely and hence the variables are suitable for conducting regression analysis.

Table 2: Descriptive statistics

	AUDCOMS	AC-MD	BFSIZE	FRQ
Mean	6	2.17	13.56	0.60
Median	6	2.05	14	21.32
Maximum	6	3	15	0.68
Minimum	4	1	11	0.31
Std. Dev	0.55	0.73	1.19	0.68
Jacque-Bera	9.93	21.056	9.86	14.04
Probability	0.04	0.00	0.03	0.00
Observations	50	50	50	50

Source: Researchers' Computation, 2013

From the descriptive statistics of the variables as shown in table 2, it is observed that the average audit committee size (AUDCOMS) is 6 which is also the maximum while the minimum is 4. The standard deviation measuring the spread of the distribution stood at 0.550 which indicates that the presence of clustering of the audit committee size of the sample companies around the average value. The Jacque-Bera-

statistic stood at 9.93 and the p-value of 0.04 and indicates that the data is normally distributed at 5% level of significance ($p < 0.05$) and as such selection bias is unlikely in the sample. The mean for Audit committee-multiple directorship (AC-MD) stood at 2.17 with maximum and minimum values of 3 and 1 respectively. The standard deviation of 0.73 is small and indicates that a significant proportion of the sample have

their Audit committee-multiple directorship around the mean value. The Jacque-Bera of the statistic of 21.06 and p-value of 0.00 indicates that the data satisfies the normality criteria ($p < 0.05$). The mean value for Board size (BDSIZE) is 13.56 with maximum and minimum values of 15 and 11 respectively. The standard deviation stood at 1.19. The Jacque-Bera-statistic of 9.86 and the p-value

of 0.03 indicate that the series does not deviate from normality ($p < 0.05$).

Finally, financial reporting quality is observed with a mean of 0.60 and standard deviation of 0.68. The maximum and minimum values stood at 0.68 and 0.31 respectively. The Jacque-Bera-statistic of 14.04 and the p-value of 0.00 indicate that the series does not deviate from normality ($p < 0.05$).

Table 3: Results of Pearson Correlation Coefficients

	AUDCOMS	AC-MD	BDSIZE	FRQ
AUDCOM	1			
AC-MD	0.007	1		
BOSIZE	0.092	0.379	1	
FRQ	0.168	-0.122	0.055	1

Source: Researchers' Computation, 2013

In the Pearson correlation coefficient results for the variables as observed, audit committee size (AUDCOMS) and (AC-MD) are positively associated as depicted by the correlation coefficient (0.007) and this suggest that larger audit committees could be associated with more cases of audit committee multiple directorship. Board size (BDSIZE) is observed to be positively correlated with audit committee size (AUDCOMS) (0.09) and with audit

committee multiple directorships (AC-MD) (0.38). Financial reporting quality (FRQ) is observed to be positively correlated with AUDCOMS (0.16) and BDSIZE (0.05) and negatively related with AC-MD (-0.122). An overview of the correlation coefficients suggests the unlikelihood of multicollinearity amongst the variables as none appear to be strongly correlated. This indicates that the data is suitable for regression analysis.

Table 4: Ordinary Least Square Regression Results

Dependent Variable: FRQ				
Method: Least Squares				
White heteroskedasticity-consistent standard errors & covariance				
Variable	Coefficient	Std. Error	t-Statistic	Prob
AUCOMS	3.814567	0.809286	4.713496	0.0003
BDSIZE	-7.9389	4.47E-09	-2.177373	0.0416
AC-MD	-2.33897	9.04E-09	2.579653	0.020
AC-MD*AUDCOM	-0.44768	0.394842	-5.133828	0.00
BDSIZE*AC-MD	0.5907	0.422766	-1.397222	0.043
R-squared	0.433702	Mean dependent var		2.6
Adjusted R-squared	0.282689	S.D. dependent var		0.994723
S.E. of regression	0.842473	Akaike info criterion		2.707367
F-statistic	2.871957	Durbin-Watson stat		2.212043
Prob(F-statistic)	0.049773			

Source: Researchers' Computation, 2013

As observed in the results, the R^2 is 0.43 which indicates that the model explains about 43% of the systematic variations in the dependent variable. The Adjusted R^2 which controls for the effect of inclusion of successive explanatory variables on the degrees of freedom stood at 0.28. The F-stat value of 2.87 and the associated p-value of 0.05 indicate that the hypothesis of a joint statistical significance of the model cannot be rejected at 5% and the linearised specification of the model is not inappropriate.

The evaluation of the slope coefficients of the explanatory variables reveals the existence of positive and significant relationship between audit committee and financial reporting quality (3.83, $p=0.00<0.05$). The result suggests that the role of audit committee is a significant determinant of the financial reporting quality. The finding is in tandem with that of the Blue Ribbon Committee (1999) and Ramsay (2001) which have highlighted that the audit committee's acts as an oversight and monitoring agent of the financial reporting process. In addition, McMullen (1996) found that companies with more reliable financial reporting were more likely to have effective

audit committees. The findings of Dechow, Sloan and Sweeney (1996) also show that an audit committee can be a more efficient mechanism than the full board for focusing the company on particular issues relevant to verifying and safeguarding the integrity of the company's financial reporting. Our comments on the size effect of audit committee on financial reporting quality drawing from the sign of the slope coefficient suggest that the more the size the better the reporting quality. For board size, the result shows the existence of a negative but significant relationship between the board size and the financial reporting quality (-7.93, $p=0.04<0.05$). While the statistical significance of the variable is indicative of the significant role of the board in determining reporting quality as also noticed in prior literature (Haniffa & Cooke, 2002; Vafeas, 2005; Harris & Shimizu, 2004), the size effect unlike that of the audit committee appears to be negative indicating that the larger board size may signal a reduction in the reporting quality and empirical evidence in this regards exist in the literature (Abbott, Park and Parker;2000; Song & Windram 2004; Abbott, Parker &

Peters 2004; Lin, Li & Yang 2006; Sharma 2004; Carcello & Nagy 2004). The effect of audit committee multiple directorships on reporting quality is observed to be negative and significant at 5% level (-2.33, $p=0.02<0.05$). The finding is consistent with Dooley (1969) found that less solvent firms are likely to be interlocked directorates. Also Fich & Shivdasani (2006) found that when the majority of directors hold three or more directorships, the firm is associated with weaker corporate governance. Shivdasani (1993) and Song & Windram (2000) argued that multiple directorships may cause limitations of time and commitment for audit committee members from performing effectively. Audit committee members who hold director posts of too many companies may have limited time fulfilling their responsibilities (Lipton & Lorch, 1992; Core, Holthausen & Larker, 1999). In contrast to our findings, Boo and Sharma (2008) showed that audit committees with multiple directorships demand a more extensive audit to protect their reputation capital

hence, contributing to better reporting quality.

We also examine the effect of interaction between Audit Committee multiple directorship and Audit committee size (AC-MD*AUDCOMS). From the result, the AC-MD*AUDCOMS is negative and significant (-0.44, $p=0.004<0.05$). In addition BDSIZE*AC-MD is positive though significant (0.59, $p=0.043<0.05$). Finally, the Durbin-Watson value of 2.2 indicates that stochastic dependence between successive units of the error term is unlikely in the model.

Diagnostic Test for the model

The following tests were conducted for the model to ensure that basic ordinary least squares assumptions have not been violated and that the estimates resulting from the model are the best, linear unbiased estimates of the population parameters. The tests include; Autoregressive Conditional Heteroskedasticity (ARCH) for heteroskedasticity test, the LM test for autocorrelation and the Ramsey reset test for the model specification.

Table 5: Heteroskedasticity Test

F-statistic	0.139356	Prob.(F)	0.7135
Obs*R-squared	0.154484	Prob. Chi-Square	0.6943

Source: Researchers' Computation, 2013

The table reveals that the p-value s for both the f-statistics and the observed R- squared stood at 0.71 and 0.69 respectively using residual lag length of 2. The values are greater than the critical value of 0.05 at 5% significance level. This shows that there is no

evidence for the presence of heteroskedasticity since the p-values of the f-statistic is considerably in excess of 0.05. Hence there is violation of the constant variance assumption of the ordinary least squares.

Table 6: Ramsey RESET Test

	Value	df	Probability
t-statistic	0.55253	14	0.5893
F-statistic	0.305289		0.5893
Likelihood ratio	0.431441	1	0.5113

Source: Researchers' Computation, 2013

The Ramsey Reset Test shows that the p-values for the t-statistic and f-statistic of 0.847 and 0.844 respectively are greater than the critical value of 0.05. This shows that there is no apparent non-linearity in the regression equation and it would be concluded that the linear model is appropriate.

Table 7: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.654683	Prob. F(2,13)	0.229
Obs*R-squared	4.058241	Prob. Chi-Square(2)	0.1315

Source: Researchers' Computation, 2013

Table 7 shows the Breusch-Godfrey correlation LM tests for the presence of autocorrelation. The result reveals that the p-value of the f-statistics and the observed R-squared is 0.29 and 0.13 respectively using a residual lag length of 3. When compared to the critical value of 0.05, the p-values are noticed to be higher and this shows the non-existence of autocorrelation. Hence the estimates of the regression follow the non-violation of the zero covariance assumption of the ordinary least squares and the estimates are free from any bias.

Conclusion and Recommendations

Prior studies suggest that audit committee multiple directorships can impair financial reporting quality because when the majority of directorates are interlocked, the firm becomes associated with weaker corporate governance. Interlocked directorates cause limitations of time and commitment for audit committee members from performing effectively since they are left with limited time to fulfill their responsibilities. We

extend this research by documenting the channels by which audit committee multiple directorships can stifle financial reporting quality with specific reference to an emerging economy like Nigeria. Specifically, we test the theoretical proposition that higher financial reporting quality is associated with lower or absence of audit committee multiple directorships.

Our results are consistent with this proposition. First, higher financial reporting quality is associated with lower or no multiple directorships. In addition, firms with high audit committee size render quality financial reporting than those with smaller size; suggesting that audit committee size is a major determinant of financial reporting quality. Also, larger board size is found to weaken the quality of financial reporting. This implies that financial reporting quality decreases with increases in board size since majority of the board members may only add to the number without visible contributions to the growth and survival of the firms. Finally, the

interactions between audit committee multiple directorships and board size as well as audit committee multiple directorship and audit committee improves financial reporting quality. Overall, our findings are consistent with the idea that audit committee multiple directorships inhibits financial reporting quality.

We recommend that just as it is prohibited by the BOFIA (1991) for Nigerian banks, other regulatory agencies in Nigeria should proscribe the practice of multiple directorships among audit committee members to effectuate financial reporting quality. Besides, audit committee size should be increased to eleven members who are knowledgeable in financial reporting consisting of six representatives of other shareholders and five representatives of directors to permit informed judgment and decisions as well dilute the influence of directors on the committee's business. In contrast, board size should be reduced to an

optimal size that will ensure that the monitoring role of the board over financial reporting process is not undermined.

Without prejudice to our findings, an opportunity exists to extend our findings in several ways. First, one could explore the causal link between audit committee multiple directorships and financial reporting quality across several reporting jurisdictions. In this regard, replicating this study in different settings would be worthwhile to establish the validity and generalisability of the present findings across different contexts. Second, one could further explore more than one model in the estimation of financial reporting quality. Finally, as against the quantitative attributes of financial reporting adopted in this study, future studies could incorporate qualitative attributes in the measurement of financial reporting quality. These we leave for future research to address.

Refreences

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