BOARD DIVERSITY AND AUDIT QUALITY OF LISTED FOOD AND BEVERAGE FIRMS IN NIGERIA

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Abstract
This study examined the effect of corporate board diversity on audit quality of listed food and beverage firms in Nigeria. Specifically, the objectives of the study are to; ascertain the effect of ethnicity diversity on audit quality, to determine the effect of age diversity on audit quality and to determine the effect of experience diversity on audit quality. Ex-post facto research design was adopted. The study was underpinned on agency and stakeholder's theories. Formulated hypotheses were tested using Ordinary Least Square (OLS) statistical technique with the aid of SPSS version 20. Based on this, the study found out that ethnicity diversity and age diversity have no significant effect on audit quality of listed food and beverage firms in Nigerian Stock Exchange. In view of the findings of this study, it is observed that ethnicity diversity, age diversity and experience diversity do not significantly affect audit quality of listed food and beverage firms in Nigeria. The study recommended among others that ethnicity, age and experience diversities should not to be prioritized in corporate board composition.
Keywords*: Corporate board diversity; Audit quality; listed food and beverage firms*

Introduction

Since several large accounting scandals at the beginning of the 21th century, such as WorldCom, Enron, Cadbury Plc, Afribank Plc, Oceanic Bank Plc among others, the integrity of the financial reports and corporate governance has become more important. Corporate governance has become a well-discussed and controversial topic in both the popular and business press (Larcker & Tayan, 2011). Investors want to trust the financial reports and require that the financial statements give a true and fair view. This means that the financial statements are free from material misstatements and faithfully represent the actual financial performance and position of the entity (Gray & Manson, 2011).

The firm's board of directors is the most important internal control device to control and monitor management in order to deter management from opportunistic behaviour (Rose, 2007). The board has both an advisory and an oversight function. The advisory role of the board means that the board offers assistance to the management regarding the strategic and operational direction of the company. The oversight function is exercised through monitoring management, thereby ensuring that the board represent and protect the interest of the company's shareholders (Larcker & Tayan, 2011).

These differences include observable differences as age, gender or skin-color, as well as less observable differences such as ethnicity, experience and creed. According to Erhardt et. al. (2003) diversity leads to a greater knowledge base, creativity and innovation, and therefore becomes a competitive advantage. According to Carter et. al. (2003) board diversity is critical for the monitoring function. Directors with different backgrounds and demographics have different views than more homogeneous boards and therefore a diverse board has a much broader view which enhances the effectiveness of the board. More diversity will also increase the independence of the board, because the different board members do not share their background, school relationships, kinships or regionalism (Choi & Min, 2012). This study investigates the effect of corporate board diversity on audit quality of listed food and beverage companies in Nigeria.

Diversity in the boardroom has been an issue in recent years. While diversity has been widely recognized as a desirable board characteristic, research findings on the effects of board diversity on audit quality are inconclusive because of the differences in how diversity is measured and conceptualized. More worrisome is that, the literature on how corporate board diversity shape the level of audit quality is, as far as we know, scarce in Nigeria despite the growing studies mostly in developed countries. This considerably limits our understanding of how corporate board diversity might promote or impede the informational properties of audit quality. Most of these studies focus on relationship between board size, audit committee composition, gender diversity and audit quality while neglecting skills, expertise and experience, ethnicity diversity and age diversity of board members.

Consequently, the inconsistencies and mix findings in prior studies and the dearth of empirical studies on corporate board diversity and audit quality in Nigeria have informed this study. Hence this study is aimed at filling the knowledge void gap, contradictory evidence gap and boosting empirical evidence from Nigeria with respect to the aforementioned. The main objective of this study is to examine the effect of corporate board diversity on audit quality of listed food and beverage firms in Nigeria. At the backdrop of these issues, the researchers formulated the following hypotheses in null form to guide the investigations of the study:

Ho_1: Ethnicity diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

Ho_2: Age diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

Ho_3: Skill, expertise and experience diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

The paper is organised as follows' the next section reviews relevant literature with regards to context justification and provide a theoretical background for the study, respectively. Next describes the sample data and empirical methodology. The last section summaries the main results, offers conclusion and recommendations.

Review of Related Literature

Conceptual Review

Corporate board diversity

Van der Walt and Ingley (2003) define diversity in the composition of the Board as the varied combination of attributes, characteristics and skills that their members have. Diversity means having a range of many people that are different from each other. Diversity means having a range of many people that are different from each other. There is, however, no uniform definition of board diversity. Traditionally speaking, one can consider factors like age, race, gender, educational background and professional qualifications of the directors to make the board less homogenous (Isa & Farouk, 2018). Van der Walt and Ingley (2003) define diversity in the composition of the Board as the varied combination of attributes, characteristics and skills that their members have.

Ethnicity diversity

Ethnicity can be defined as a group of people who regard themselves to be different from others. The ethnic groups are united by common traditional, cultural, linguistic, ritualistic, behavioral and religious traits. According to the National Association of Corporate Directors and The Center for Board Leadership (NACD), more than 75 percent believe that ethnic diversity is a critical factor in board recruitment (Larcker & Tayan, 2011). According to Rahman and Ali (2006), cultural and ethnic factors are important as the traditions of a nation are instilled in its people and might help explain why things are as they are which could also affect the likelihood of earnings management. Ethnic diversity pertains to having a mix of individuals from various racial, cultural and religious backgrounds. The ethnic mix of a board should ideally represent the area in which the company operates. Ethnicity plays significant role in determining belief and can influence work-related values. In turn, these values may have impact on transparency and disclosure of company in annual reports.

Experience diversity

Board of directors is usually selected for their leadership qualities - they often have experience with generalised management or leadership experience rather than narrow expertise or technical acumen. Having the optimal mix of skills, expertise and experience is paramount to ensure that the board as a collective is equipped to guide the business and strategy of the company. However, a move towards having inched technical experience in the boardroom does not appear to be implausible.

Currently in South Africa, directors of listed companies who sit on audit committees are expected to have keen financial expertise with an understanding of financial and sustainability reporting standards. Furthermore, given the increasingly digital environment that businesses operate in, having a technology expert sitting in the boardroom could prove to be a strategically advantageous decision for a company.

Age Diversity

Board members age diversity means a good number of young directors and older directors on the board. Age diversity is most helpful when the task at hand is at a complex nature. Complexity according to Dagsson (2011) is defined as a strong demand for complex decision making. When board of directors is faced with complex problems ideas from young and older directors put together can dissolve the complex problem. Age diversity is an often overlooked element in the boardroom. Board members tend to be older, as many boards equate age with experience. Hambrick and Mason (1984) study found marginal evidence of generational diversity in boardrooms, with so-called "younger" directors being in their fifties. While older directors do provide a wealth of knowledge, having younger directors introduces a fresh perspective into the boardroom which should not be underestimated. Cheng and Leung (2012) document a significantly positive relationship between directors' age and clients' demand for high audit quality. This is because older directors are more involved in maximizing shareholders' wealth and are more risk-averse (Ararat, Aksu, & Tansel Cetin, 2015).

Audit Quality

The concept of audit quality has proved difficult to define with certainty. It is not immediate or directly observable and is difficult to measure (Power, 1975). A significant body of literature dealing specifically with audit quality has developed from DeAngelo (1981) studies of independence and the competence of auditors of large audit firms. Much of the research literature investigating audit quality relies on the economic view represented in the definition proposed by DeAngelo (1981) that audit quality is the market- assessed Joint probability that a given auditor will both (i) identify a breach in the client company's accounting system and (ii) report that breach, that is, the auditor has both the technical competence to detect any material errors during the audit process, and the independence to ensure material errors and omissions are corrected or disclosed in the auditor's report. This, audit quality is connected to both the actuality and the perceptions of two important determinants of audit quality: Competence and independence.

Audit quality when there is an irregularity or conflict in accounting statement discovered and revealed by an auditor according to De Angelo (1981), it is described as a quality of audit. Khurana and Raman (2004), define audit quality as an auditor will (1) detect and (2) correct/reveal any material omission or misstatements in the financial statements.

Theoretical Framework

Agency Theory

Agency theory represents a conflict between the owners and the managers, the conflict which partly reduces through the financial reporting. Regular financial reporting is a tool through which the owners can monitor the employment contracts. Accountants call this type of routine report “Stewardship” (accountability to the company owners). This theory has been used to explain the need to audit. Auditor acts as an independent inspector auditing the financial reports provided by the managers to the owners (Mahdi & Mahdi, 2015). Agency theory is a theory that has been applied to many fields in the social and management sciences: politics, economics, sociology, management, marketing, accounting and administration. The agency theory a neoclassical economic theory (Ping &Wing 2011) and is usually the starting point for any debate on the corporate governance.). It is earmarked on the assumptions that: parties who enter into a contract will act to maximize their own self-interest and that all actors have the freedom to enter into a contract or to contact elsewhere. Furthermore, it is concerned with ensuring that agents act in the interest of the principals (Ejeagbasi, Nweze & Nze, 2015).

Stakeholders Theory

Freeman (1984) offers a traditional definition of a stakeholder as any group or individual who can affect or is affected by the achievement of the organization’s objectives. The general ideal of stakeholder theory is a redefinition of the organization, which is what the organization should be and how it should be conceptualized. The theory as noted by Friedman (2006) states that organization itself should be thought of as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. This stakeholder management is thought to be fulfilled by the managers of a firm. The managers should manage the corporation for the benefit of its stakeholders in order to ensure their rights and participation in decision making and the management must act as the stockholders agent to ensure the survival of the firm to safeguard the long term stakes of each group (Oso & Semiu, 2012).

The stakeholders' theory was adopted to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity (Hoitash, Hoitash, & Bedard, 2009). Within the framework of the stakeholders' theory the problem of agency has been widened to include multiple principals (Sand, Garba & Mikailu, 2011). Freeman, Wicks and Farmer (2004), suggested that: "if organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purpose". Hence, this study is anchored on agency theory and stakeholder theory,

Empirical Review

Ajueyitse and Iserameiya (2019) examine the relationship between board gender diversity (female representation on board), ethnic diversity of the board, foreign directorship of the board, male audit committee membership and audit quality for the period of 2012 to 2017. Fifty (50) quoted companies on the Nigerian Stock Exchange were conveniently selected as the sample size. The study used Ordinary Least Square (OLS) regression technique in testing the hypotheses. The study observed a significant relationship between board gender diversity (female representation on board) and audit quality; a significant relationship between ethnic diversity of the board and audit quality; a significant relationship between foreign directorship of the board and audit quality; and that there is no significant relationship between male audit committee membership and audit quality.

Damagum, Oba, Chima and Ibikunle (2014) exactly look at the effect of ladies in corporate board on audit quality. Utilizing an example of 20 firms speaking to the different areas of the Nigerian Stock Exchange, they conducted panel regression of optional accumulations on a lot of logical factors comprising gender mix. Results give vigorous proof to recommend that the inclusion of a female executive does not specially improve audit report quality.

Oba (2014) explores the capacity of certain board elements to impact the executive frame of mind in connection to audit quality in Nigerian recorded firms. Collections, an intermediary for audit quality is evaluated utilizing the Dechow and Dichev model. Utilizing board information got from yearly reports of 69 recorded Nigerian firms from 2008 to 2012, the investigation archives that board autonomy, board tenure, gender diversity and executives' shareholding are critical indicators of Audit quality in Nigeria. The board size was found to neutrally affect audit quality.

Enofe, Iyafekhe, and Eniola (2017) examine board ethnicity, gender diversity in connection to audit quality in non-money related firms. It explicitly analysed the effect of foreign directorship, female gender, board size, board autonomy and firm size on audit quality. The examination utilized quantitative and cross sectional study information of non-money related foundation listed in the Nigeria Stock Exchange as at 2014. Information was investigated utilizing enlightening insights, connection and various Least Square (MLS) relapse. This investigation found that foreign board individuals, female gender in the board and board autonomy were adversely identified with audit quality.

Omoye, Alade and Eriki, (2013) utilized 96 arbitrarily chose from the Nigerian Stock Trade, utilizing conventional least square regression utilizing the individual ethnic gatherings for independent examination. Results demonstrated that the individual ethnic gathering (Hausa, Igbo, and Yoruba) each had a negative relationship with audit quality.

Garba and Abubakar, (2014) researched sex, ethnic diversity and board estimate. Chosen 12 recorded protection firms, utilizing information time of 2004-2009 which were broke down utilizing attainable summed up least square regression and arbitrary impacts estimators. Results demonstrated a positive connection between the foreign executives and firms' performance; however ethnic diversity had no critical effect on firms' performance.

Marimuthu and Kolandaisamy (2009) examined the effect of demographic diversity on firm performance of listed companies in Malaysia. Their results suggest that board diversity is not relevant to firm performance.

Ogboi, Aderimiki and Enilolobo (2018) investigated the relationship between corporate board diversity and performance of quoted deposit money banks in Nigeria. The aspects of board diversity studied consist of gender diversity, ethnic diversity, board composition, and foreign directorship. Return on asset (ROA) and Tobin Q were used as performance indicators. The fixed effect Generalized Least Square Regression was used to examine the effect of board diversity on bank performance for the period: 2011-2015. Results showed that gender diversity and board composition was positively linked to financial performance, while ethnic diversity and foreign directorship were not significantly related to financial performance. Gordini and Rancati (2017) study the Italian corporation about board diversity measured with the percentage of women on board which has a positive impact to the financial performance measured with Tobin’s Q.

Methodology

The research design to be employed for this study is the Ex-post Facto research design, in order to establish the effect of corporate board diversity on audit quality. This study used Ex-post facto research design because data for the analysis was derived from published annual financial reports and account of food and beverages firms listed on the Nigeria Exchange Group (NGX) as at December, 2021. The Population of the study consists of fifteen (15) food and beverages firms listed on the Nigeria Exchange Group (NGX) as at December, 2021. The companies include: Champion Breweries Plc, Golden Guinea Breweries Plc, Guinness Nigeria Plc, International Breweries Plc, Nigerian Breweries Plc, Cadbury Nigeria Plc, Dangote Sugar Refinery Plc, Flour Mills of Nigeria Plc, Honeywell Flour Mill Plc, Dangote Flour Mills Plc, Nestle Nigeria Plc, Northern Nigeria Flour Mills Plc, PZ Cussons Nigeria Plc, Unilever Nigeria Plc, Morison Industries Plc. Purposive sampling technique was adopted in selecting the eleven (11) listed food and beverage firms which form the unit of analysis for this study. This technique enables the researcher to conveniently select food and beverage firms that have complete data in the annual report and account for the period of ten years spanning from 2012 to 2021; firms whose stock are actively traded on the floor of Stock Exchange for the period of study; firms that consistently filed their annual report and accounts for the study period. The selected firms are: Nestle Nigeria Plc, Guinness Nigeria Plc, PZ Cussons Nigeria Plc, Cadbury Nigeria Plc, Flour Mills of Nigeria Plc, Dangote Sugar Refinery Plc, International Breweries Plc, Nigerian Breweries Plc, Unilever Nigeria Plc, Honeywell Flour Mill Plc, Morison Industries Plc. The Ordinary Least Square (OLS) statistical technique was adopted in the analysis of data. This method was adopted because it enabled the researcher to examine the effect of corporate board diversity on audit quality. The analysis was done in sections: descriptive statistics for the variables (mean, standard deviation, minimum and maximum value); Analysis of Variance (R^2, R^2 adjusted, f-test, t-test and Dw test); and Pearson Correlation Coefficient. The statistical procedures were programmed using SPSS 20.0 software for windows.

Model Specification

This study adapts Vincent, Ovbiebo and Evbota (2019) model stated as:

AUDQUAit = β0 + β1BGDERit + β2ETHDERit + β3FORDIRit + β4MAUDCit + Uit.

They used variables such as Discretional Accrual as proxy for audit quality while Board Gender Diversity, Ethnic Diversity of the board, Foreign Directorship of the Board and Male Audit Committee Membership were used to proxy board diversity. Our study modified the study as follows:

AUQTit = β0 + β1ETHDIit + β2AGDIit + β3EDIit + Uit.

Where:

SEEDI = Experience Diversity
AUQT = Audit Quality
ETHDI = Ethnicity Diversity
AGDI = Age Diversity
β0 = Intercept Coefficient
β1, β2, β3 = The slope of coefficient
t = Time dimension of the variant
i= (1, 2,. . . 11) is the given food and beverage firms

Table 3.1: Measurement of Variables

Variable type	**Indicators**	**Measurement unit**	**Variable symbol**
Independent variables (Corporate board diversity)			
	Ethnicity diversity	Number of foreign Nationality on board Divided by the total number of board size.	ETHDI
	Age diversity	Number of Directors within the age of 5 year and below divided by the total number of board size	AGDI
	Experience diversity	The percentage of those holding a certificate in Accounting or financial or related certificates to the total number of members of the board.	EDI
Dependent variables (Audit Quality)			
	Audit Fees	Money paid to external auditor for their service.	AUQT

Source: Researcher, 2023

Data Presentation and Analysis

With the aid of SPSS 20.0, the researcher used the data in Appendix i and computed the mean, standard deviation and variance which form the descriptive statistics for both the dependent and the independent variables. The result of the computation is presented below:

Table 4.1.1 Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic
Experience Diversity	.00	.45	.3039	.07690	.006
Audit Quality	1500.0	208517.	35496.9273	34774.53300	1209268145.151
Ethnicity Diversity	.00	.75	.3974	.15600	.024
Age Diversity	.13	.44	.2651	.10499	.011
Valid N (list wise)					

Source: Extract from SPSS output

Table 4.1.1 reports for audit quality among selected listed food and beverage manufacturing firms between 2010 to 2019 range from 15 % to 20% and with the average value of 35% and standard deviation of 34774 indicating that on average, 35% of the sample population maintains good audit quality. Experience Diversity for sample population varies between 00% to 45% with the standard deviation of 07690 and the average value is 30%.Ethnicity Diversity varies between 00% to 75% with the standard deviation of 15600 and the average value is 3974. The result shows that age diversity varies among the sample population with the minimum of 13% to maximum of44%., while the standard deviation is 10499 indicating the average value of 2651.

Test of Hypotheses

Test of hypothesis One

Ho₁: Ethnicity diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

HO2: Ethnicity diversity has significant effect on audit quality of listed food and beverage firms in Nigeria.

Table 4.2.1a: ANOVA Result: ethnicity diversity on audit quality

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	311196835.889	1	311196835.889	.256	.614[b]
	Residual	131499030985.529	108	1217583620.236		
	Total	131810227821.418	109			

a. Dependent Variable: Audit Quality
b. Predictors: (Constant), Ethnicity Diversity
Source: Extract from SPSS output

Table 4.2.1b: Regression coefficient for ethnicity diversity on audit quality

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	39800.875	9140.323		4.354	.000
	Ethnicity Diversity	-10831.505	21424.990	-.049	-.506	.614

a. Dependent Variable: Audit Quality
Source: Extract from SPSS output

Table 4.2.1c: Model summary for ethnicity diversity on audit quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.049[a]	.002	-.007	34893.89087	.371

Note : $r^2 = .002$, $f\ (1,108) = .256$, $p = .614$
Source: Extract from SPSS output

The *f* – ratio (0.256) shows that ethnicity diversity is not the main determinant of audit quality among listed food and beverage firms in Nigeria. Ethnicity diversity is not statistically significant because its significance value is 0. 614. This means $P >$ 0.05. Based on the analysis above, the alternative hypothesis (Hi) is rejected while null hypothesis (Ho) is accepted; which state that ethnicity diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria

Test of hypothesis Two

H_o: Age diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

H_1: Age diversity has significant effect on audit quality of listed food and beverage firms in Nigeria.

Table 4.2.2a: ANOVA Result: age diversity on audit quality

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2740421198.802	1	2740421198.802	2.293	.133[b]
	Residual	129069806622.616	108	1195090802.061		
	Total	131810227821.418	109			

a. Dependent Variable: Audit Quality
b. Predictors: (Constant), Age Diversity
Source: Extract from SPSS output

Table 4.2.2b: Regression coefficient for age diversity on audit quality

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	48160.028	8988.575		5.358	.000
	Age Diversity	-47759.071	31538.981	-.144	-1.514	.133

a. Dependent Variable: Audit Quality
Source: Extract from SPSS output

Table 4.2.2c: Model summary for age diversity on audit quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.144[a]	.021	.012	34570.08536	.348

Note : $r^2 = .001, f\,(1,108) = .293, p = .133$
Source: Extract from SPSS output

The *f* – ratio (1,108) shows that age diversity is not the main determinant of audit quality of listed food and beverage firms in Nigeria. Age diversity is responsible for 2.29% variation in audit quality. Age diversity is not statistically significant because its significance value is 0. 133. This means $P > 0.05$. Based on the analysis above, the alternative hypothesis (Hi) is rejected while null hypothesis (Ho) is accepted; which state that age diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

Test of hypothesis Three

H_o: Skill, expertise and experience diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

H_1: Skill, expertise and experience diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

Table 4.2.3a: ANOVA Result: Experience diversity on audit quality

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	105978122.654	1	105978122.654	.087	.769[b]
	Residual	131704249698.764	108	1219483793.507		
	Total	131810227821.418	109			

a. Dependent Variable: Audit Quality
b. Predictors: (Constant), Skill, Expertise and Experience Diversity
Source: Extract from SPSS output

Table 4.2.3b: Regression coefficient for Experience diversity on audit quality

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	31600.835	13629.241		2.319	.022
	Skill, Expertise and Experience Diversity	12821.845	43494.107	.028	.295	.769

a. Dependent Variable: Audit Quality
Source: Extract from SPSS output

Table 4.2.3c: Model summary for skill, expertise and experience diversity on audit quality

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.028[a]	.001	-.008	34921.10814	.379

Note : r^2 = .001, f (1,108) = .087, p = .769
Source: Extract from SPSS output

The *f* – ratio (0.087) shows that skill, expertise and experience diversity among board members is not the main determinant of audit quality of listed food and beverage firms in Nigeria. Skill, expertise and experience diversity is not statistically significant because its significance value is 0.769. This means P > 0.05. Based on the analysis above, the alternative hypothesis (Hi) is rejected while null hypothesis (Ho) is accepted; which state that skill, expertise and experience diversity has no significant effect on audit quality of listed food and beverage firms in Nigeria.

Conclusion & Recommendation

In view of the findings of this study, it can be observed that ethnicity diversity, age diversity and experience diversity does not significantly affect audit quality of listed food and beverage firms in Nigeria. Based on the finding of this study, the following recommendations are made:

i. The study reveals that ethnic mix of individuals from various racial, cultural and religious backgrounds in a board does not significantly affect audit quality therefore ethnicity diversity should not to be considered in corporate board composition.
ii. The study shows that age diversity does not significantly affect audit quality therefore corporate board members can consist of both young and older directors.
iii. The study reveals that skill, expertise and experience diversity has no significant effect on audit quality therefore it should not be made compulsory for board members to have certificate in Accounting, have experience in financial reporting or auditing.

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