

An Empirical Examination of the Effect of Firm Size on the Financial Reporting Quality of Quoted Consumer Goods Manufacturing Companies in Sub-Sahara Africa

OGBEBOR, Rowland Osamudiamé

Department of Accounting
Chukwuemeka Odumegwu Ojukwu
University
Rowlandogbebor143@gmail.com

IFURUEZE, Meshack S.

Department of Accounting
Chukwuemeka Odumegwu Ojukwu
University
mifurueze@yahoo.com

OFOR, Theresa Nkechi

Department of Accounting
Chukwuemeka Odumegwu Ojukwu
University
Kethi4lv@yahoo.com

Abstract

The study investigates the effect of firm size on financial reporting quality by employing samples from listed consumer goods manufacturing firms in Sub-Sahara Africa between the periods of 2011-2020. In this study, firm size is the independent variable while financial reporting quality is measured in terms of Jones discretionary accrual is the dependent variable. The study is longitudinal covering a period of ten (10) years. That is, from 2011 to 2020 employing consumer goods manufacturing firms in Sub-Sahara Africa. However, only consumer goods manufacturing firms that had all relevant data due to continuous existence were included in the sample. Our final sample size consists of 16 consumer goods manufacturing firms in Nigeria, 7 consumer goods manufacturing firms in Kenya, and 30 consumer goods manufacturing firms in South Africa. In testing for the effect of the above variables on financial reporting quality of listed

consumer goods manufacturing firms in Sub-Sahara Africa, we conducted panel least square regression before proceeding to check for inconsistencies with the basic assumptions of the OLS regression. Succinctly, these diagnostics tests include test for multicollinearity as well as test for heteroscedasticity. The panel fixed and random effects were employed and estimated using the appropriate techniques. The findings of the study reveal that firm size has a significant relationship with financial reporting quality in quoted consumer goods manufacturing firm in Sub-Sahara Africa. The study recommends that though larger firms have a stronger tendency to improved financial reporting quality, there is the need for small and medium firms to also focus on improving reporting quality.

Keywords: Financial Reporting Quality, Firm Size, Sub Sahara Africa, Panel Regression

1.0 Introduction

One of the factors that affect financial reporting quality is the accounting standards. High accounting standards are characterized by providing relevant, reliable, comparable and consistent accounting information (Khanagha 2011). Accounting Standards is said to have three main objectives. Firstly, they help to standardize the diverse accounting policies and eliminate the incomparability of financial statements within an entity and across entities. Secondly, they facilitate the presentation of high quality, transparent and comparable information in financial statements. Thirdly, they reduce accounting alternatives and thereby eliminate the

element of subjectivity in financial statements (Chakrabarty 2011).

Broadly, the drivers of financial reporting quality is an area of accounting research that has been examined by a growing number of studies (Alsaeed, 2006; Chau & Gray, 2010; Haniffa & Cooke, 2012; Iyoha, 2012; Anowor et al, 2013; Lee, 2013; Kalu et al, 2014; Uyar, 2009; Uyar, Onodugo et al, 2013; Kilic & Bayyurt, 2013). Generally, the drivers of firm financial reporting quality can be grouped into endogenous and exogenous drivers. The former refers to the set of factors that the firm has obvious control over or result because of the decisions of the firm while the latter refers to those drivers that are not within the firm's locus of control but indeed forces the firm to move in a certain direction. Within this context therefore, firm drivers of financial reporting quality cover the wide range of firm characteristics such as the firm size, leverage, corporate governance, financial performance amongst others.

Importantly, majority of the studies in Nigeria done in the area of Firm Attribute Effect on Financial Reporting, are single country studies all conducted to examine the issue using listed companies in Nigeria (Adaramola and Oyerinde 2014 and Oyerinde 2011; Uthman and Baki 2014; Abubakar 2010; Olugbeng and Atanda 2014; Musa 2013; Umoren, Akpan and Ekeria 2018; Ahmed, Ilu and Bahamman 2018, Okafor, Ogbuehi and Anene, 2017) To the best of the researcher's knowledge there are no studies that have examined this subject using cross-country approach. The focus on cross country analysis in the subject of Firm Attributes and financial reporting quality is growing quite slowly. This study, therefore, investigate the effect of firm size on the financial reporting quality in quoted consumer goods manufacturing firms in Sub-Sahara Africa

2.0 Conceptual Literature

Financial Reporting Quality

According to Bruggemann, Hitz and Sellhorn (2012), financial reporting is a standard accounting practice that uses financial statements to disclose a company's financial information and performance over a particular period, usually on an annual or quarterly basis. In simple terms, a financial report is critical for understanding how much money you have, where the money is coming from, and where your money needs to go. Bergstresser and Philippon (2006), Agbarakwe and Anowor (2018), and Cheng and Warfield (2010) document that financial reporting quality implies that financial information be free from such practices as the manipulation of discretionary accruals by management. Dechow and Skinner (2000) notes that financial reporting quality implies that the process of financial preparation and reporting is free from the intentional, deliberate, misstatement or omission of material facts, or accounting data, which is misleading and, when considered with all other information made available, would cause the reader to change or alter his or her judgment or decision.

Firm Size

The size of a company is the most commonly analyzed feature in the reviewed studies to explain the level of disclosure in general. According to Roberts *et al.* (2005), firm size plays an important role in determining the extent of information disclosure in annual reports. Ousama and Fatima (2010) explain the relationship between firm size and the extent of disclosure. Raffournier (1995), Camfferman and Cooke (2002), Watson, Shrives and Marston (2002), Bozzolan, Favotto and Ricceri (2003), Prencipe (2004), Garcia-Meca and Martinez (2005) Barako, Hancock and Izan (2006),

Bronson, Carcello and Raghunandan (2006) and Macagnan (2007) tested the size hypothesis. Large companies have a greater number of contracts between managers and shareholders than small companies and, hence, a greater principal agent problem. A higher level of disclosure might reduce agency costs between managers and shareholders. Another motivation for increased disclosure in a large company is the existence of a more complete information system, which would allow lower costs of obtaining and publishing information compared to those incurred by a small company (Watson et al., 2002). It is also understood that a smaller company is more vulnerable to a loss in competitive advantage than a larger company.

Hypotheses Development

Firm Size and Financial Reporting Quality

There are several attributes that can be used to distinguish firms. One very popular characteristic is the size of the firm. Prior studies have established a link between the size of the firm and corporate governance mechanisms as well as earnings quality. Bigger firms are usually exposed to more scrutiny by investment analysts as a consequence of the high political cost associated with them (Al-Fayoumi, Abuzayy & Alexander, 2010). Lobo and Zhou (2006) present a contrary view as they assert that large firms tend to engage more in earnings manipulation as their complex network of transactions makes stakeholders detecting such manipulations and overstated accounts almost impossible. As a survival strategy, management of big companies may opt for strategies that will delay the announcement of profits and manage their earnings to manage the political costs (Missonier, 2004).

However, Astami and Tower (2006) found no evidence to support that size influences accounting policy choices in Saudi Arabia and the Asian Pacific region respectively. Gassen and Sellhorn (2006) show that size, international exposure and listing age had a positive influence, while a high percentage of closely held shares had a negative influence on the probability of voluntary IFRS adoption in Germany. Gassen et al. (2006) found positive evidence that the propensity to adopt or comply with IFRS increases with corporate size. Based on the foregoing, we hypothesised as follows:

H0: Firm size has no significant effect on the financial reporting quality of listed firms in Sub Sahara Africa

Theoretical Framework

Agency Theory

In the last two decades the agency theory has helped to explain several relationships between variables in firms (Lambert, 2001). It purports that one way of ameliorating the agency costs that exists is by engaging in disclosures. This could address issues between managers and shareholders (compensation contracts) and conflicts between the firm and its creditors (debt contracts). Consequently, disclosure serves as a tool for controlling management's excesses and improving their performance. As a result, managers would always strive to disclose information voluntarily. According to Healy & Palepu (2001), corporate disclosure is critical for the functioning of an efficient capital market. Firms provide disclosure through regulated financial reports, including the financial statements, footnotes,

management discussion and analysis, and other regulatory filings.

Disclosure is an important aspect of the financial reporting process. Even though an avalanche of other variables exist that influence financial reporting quality. Beyer, Cohen, Lys & Walther (2010) opine that the business environment is characterised by series of interactions as a fall out of the information asymmetry between players such as investors, owners and managers. In a typical capital market environment, the information that gets out is characterised by management's decisions, the extent of disclosures, regulations and the expectations of investment analysis. Beyer, et al (2010) presents two scenarios. On a first note, it is expected that the information asymmetry would be reduced with the introduction of compulsory disclosure allowing for more informed dealings with agents will prove to be a better way of committing to more disclosures in the future and lead to a reduced agency cost (Shleifer & Wolfenzon, 2002).

Empirical Literature

Erin and Adegboye (2021) aims to examine the impact of corporate attributes on integrated reporting quality of top 100 listed firms in South Africa. With a sample of the top 100 listed firms in South Africa, the study drew insights from the legitimacy and stakeholder theory to examine the impact of corporate attributes on integrated reporting quality. The authors measured integrated reporting quality based on the International Integrated Reporting Council framework of 2013. Corporate attributes were determined taking into consideration three broad perspectives (board committee attributes, firm attributes, and audit

committee attributes). This study analyzed the data using content analysis, ordered probit regression and logistic regression method. Results indicate that board committee attributes, firm attributes and audit committee attributes have a positive and significant relationship with integrated reporting quality. Additional analysis reveals that external assurance contributes to the quality of integrated reporting. The findings empirically revealed that most South African firms have intensified efforts toward the quality and full disclosure of integrated reporting framework.

Khanh and Thu (2019) examines the effect of leverage on the form and extent of earnings management in Vietnamese listed firms. They use panel data of 241 companies on Vietnam stock markets in the period from 2010 to 2016 (1687 firm-years) and conduct GMM regression. Four models are employed to estimate the level of discretionary accruals and real earnings management. Their research finds a positive relationship between leverage and earnings management, which is consistent to "debt hypothesis". Furthermore, a preference for real earnings management over accrual-based earnings management is observed among highly leverage firms. The findings notice the substitution between these two forms of earnings management and reinforce full attention to both accrual-based earnings management and real activities manipulations rather than to separated earnings management strategy.

Asegdew (2016) investigated the determinants of financial reporting quality in large manufacturing companies in Addis Ababa. The study used documentary analysis of companies audited financial statements and in depth interview with

directors/officials of manufacturing firms. Using simple random sampling method, the study selected a sample of fourteen (14) companies for a period of five years (2010-2014) with the total of 70 observations. The results of their panel least square regression analysis shows that firm profitability, type of auditor and share dispersion, have statistically significant and positive relationship with manufacturing companies' financial reporting quality. On the other hand, firm size has a negative and statistically significant relationship with manufacturing companies' financial reporting quality.

3.0 Methodology

In relation with extant literature, we outlined two approaches for carrying out studies of this nature. We observed that there is the firm-level approach where firm attributes and macroeconomic variables are used as determinants of financial reporting quality and the non-firm level data approach is where countries aggregate macroeconomic variables and industry aggregate firm data is used as determinants of financial reporting quality. However, in this study, we employed the firm-level approach. More than this, we employed the firm-level approach based on an *expo-facto* and non-experimental research design. The study is longitudinal covering a period of ten (10) years. That is, from 2011 to 2020 employing consumer goods manufacturing firms in Sub-Sahara Africa. The population of the study consists of all the listed consumer goods manufacturing firms with representation from Nigeria, Kenya, and South Africa. As of December 2020, we had 22 consumer goods manufacturing firms in Nigeria, 16 consumer goods manufacturing firms in Kenya and 35 consumer goods manufacturing firms in South Africa. The sampling technique employed is purposive since firms were included in the sample on certain selection criteria. These criteria were that firms are listed on the selected countries' exchanges for 2011-2020; there was access to their annual financial reports within

the period and they were not firms operating subsidiaries in the countries that are not listed in the Stock Exchange. Newly listed firms and delisted firms were excluded from the study. Thus, only consumer goods manufacturing firms that had all relevant data due to continuous existence were included in the sample. Our final sample size consists of 16 consumer goods manufacturing firms in Nigeria, 7 consumer goods manufacturing firms in Kenya, and 30 consumer goods manufacturing firms in South Africa. Specifically, the econometric techniques adopted in this study are the panel fixed and Random effect regression techniques. Thus, the study adapted the model specified by Bolarinwa and Adegboye (2020) which was modified for the purpose of establishing the relationship between the dependent variables and the linear combinations of the determining variables captured in the study. Succinctly, the econometric form of our model is expressed as:

$$JOSA_{it} = \beta_0 + \beta_1 FSIZ_{it} + \beta_2 RETA_{it} + \mu_{it}$$

Where:

JOSA	=	Jones discretionary accrual (Proxy for Financial Reporting Quality)
FSIZ	=	Firm Size
RETA	=	Return on Asset
β_0	=	Constant
$\beta_1- \beta_6$	=	Slope Coefficient
μ	=	Stochastic disturbance
i	=	i th firm
t	=	time period

Operationalization of the Variables

Table 1: Descriptive Statistics

S / N	Variables	Definition	Type of Variable	Measurement	Used by	Area	COUNTRIES	VARIABLES	MEAN	SD	MIN	MAX	NO OBS
1	JOSA	Financial Reporting Quality	Dependent	Discretionary accruals.	Jones (1991)	Nigeria	COMBINE SAMPLE						
							JOSA	-0.02	0.16	-	1.42	516	
							FSIZ	6.95	0.80	5.3	9.19	525	
2	FSIZ	Firm Size	Independent	Natural logarithm of total assets.	Ahmed (2012)	Kenya	NIGERIAN SAMPLE						
							RETA	8.03	16.23	-	131.44	525	
							JOSA	-0.08	0.16	-	0.61	160	
3	RETA	Profitability	Control	Return on assets (RETA)	Mahboob (2017)	Kenya	KENYAN SAMPLE						
							FSIZ	7.53	0.79	5.3	9.14	160	
							RETA	6.90	9.22	-	39.87	160	
							SOUTH AFRICA SAMPLE						
							JOSA	-0.05	0.19	-	0.48	63	
							FSIZ	6.94	0.67	5.7	9.19	68	
							COMBINE SAMPLE						
							RETA	4.41	31.70	192.39	41.19	68	
							JOSA	0.02	0.14	-	1.42	293	
							NIGERIAN SAMPLE						
							FSIZ	6.65	0.65	5.3	7.92	297	
							RETA	9.47	13.70	-	131.44	297	

Source: Researcher's compilation (2022).

4.0 Empirical Results

The study investigates the effect of firm size on financial reporting quality by employing samples from listed consumer goods manufacturing firms in Sub-Saharan Africa between the periods of 2011-2022. In this study, firm size is the independent variable while financial reporting quality measured in terms of Jones discretionary accrual is the dependent variable.

Descriptive Statistics Analysis

In this section, we examine the descriptive statistics for both the explanatory and dependent variables of interest. Each variable is examined based on the mean, standard deviation, maximum and minimum. Table 1 below displays the descriptive statistics for the study.

Source: Researchers (2022)

The table above shows the descriptive statistics of this study for the Combine sample, Nigerian sample, Kenyan sample,

and South African sample. From the table, we find that the mean of financial reporting quality for the combine sample as proxied by Jones discretionary accrual (JOSA) was -0.02 with a standard deviation of 0.16. However, we find that for the Nigerian sample, the mean of financial reporting quality was -0.08 with a standard deviation of 0.16, while for Kenya samples the mean of financial reporting quality was -0.05 with a standard deviation of 0.19. For South African sample, our results shows that the mean of financial reporting quality was 0.02 with a standard deviation of 0.14. In the case of our independent variable, the table shows that the mean of firm size (FSIZ) for the combine samples was 6.95 with a standard deviation of 0.80. However, specific to the countries, our results show that for Nigerian consumer goods manufacturing firms the mean of firm size was 7.53 with a standard deviation of 0.79. For Kenyan firms, the mean of firm size is observed to be 6.94 with a standard deviation of 0.67 while for South African consumer goods manufacturing firms, the mean of firm size was 6.65 with a standard deviation of 0.65. Comparatively, our results shows that consumer goods manufacturing firms in Nigeria are bigger in terms of size than those in Kenya and South Africa. In terms of the control variable, the table also reveals that for the combine samples, the mean of profitability (RETA) was 8.03 with a standard deviation of 16.23. However, specific to the countries, our results show that for Nigeria consumer goods manufacturing firms the mean of profitability was 6.90 with a standard deviation of 9.22. For Kenya firms, the mean of profitability is observed to be 4.41 with a standard deviation of 31.70 while for South African consumer goods manufacturing firms, the mean of

profitability was 9.47 with a standard deviation of 13.70. Comparatively, our results shows that consumer goods manufacturing firms in South Africa are more profitable in terms of return on asset than those in Nigeria and Kenya.

Regression Analyses

Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, we used a panel regression analysis since the data had both time series (2011 to 2020) and cross-sectional properties (listed consumer goods manufacturing firms in Sub-Sahara Africa). The panel data regression and an OLS pooled results obtained is presented and discussed below.

Country-Specific Regression Analyses

The panel data regression results obtained from the county specific regression analysis is presented and discussed below

Table 3: Country-Specific Regression Result

	Kenyan Sample		Nigerian Sample		South African Sample	
	JOSA Model (FIXED Effect)	JOSA Model (RANDOM Effect)	JOSA Model (FIXED Effect)	JOSA Model (RANDOM Effect)	JOSA Model (FIXED Effect)	JOSA Model (RANDOM Effect)
C	-2.93 {0.000}**	0.06 {0.810}	-0.15 {0.407}	-0.02 {0.686}	-0.35 {0.195}	0.04 {0.727}
FSIZ	0.55 {0.000}**	-0.03 {0.347}	0.04 {0.193}	0.00 {0.497}	0.05 {0.365}	-0.01 {0.497}
RETA	0.01 {0.000}**	0.00 {0.037}	0.01 {0.000}**	0.01 {0.000}**	0.01 {0.000}**	0.00 {0.000}**
F-stat /Wa	18.07	20.61 (0.01) *	19.07	1019.65	61.96 (0.00) **	303.92 (0.00) **

Id Stat	(0.00))**		(0.00))**	(0.00) **		
R-Squared	0.64	0.22	0.87	0.87	0.55	0.54
Hausman Test	60.77 (0.0000) **		12.20 (0.0322)		11.96 (0.0354)	

Note: (1) bracket {} are p-values
 (2) *, **, implies statistical significance at 5% and 1% levels respectively

Kenyan Sample

In the table above, the F-statistic and Wald-statistic value for Kenyan sample [18.07 (0.00)]; 20.61 (0.01)] for fixed and random effect regression respectively shows that the models are valid for drawing inference since they are both statistically significant at 1% and 5% respectively. In the case of the coefficient of determination (R-squared), it was observed that 64% (for fixed effect) and 22% (for random effect) systematic variations in financial reporting quality proxied by Jones discretionary accrual, was explained by the independent variables for the models respectively. In selecting from the two panel regression estimation results, the Hausman test was conducted. The test is based on the null hypothesis that the random effect model is preferred to the fixed effect model. Specifically, a look at the p-value of the Hausman test (0.0000) for Kenyan sample implies that we should reject the null hypothesis and accept the alternative hypothesis at above 5% or 1% level of significance. This implies that we should adopt the fixed effect panel regression

results in drawing our conclusion and recommendations for our Kenya sample. This also implies that the fixed effect results tend to be more appealing statistically when compared to the random effect. Specifically, empirical evidence from the Kenya samples as shown in the table above reveals that firm size [Fixed effect regression = 0.55 (0.000)] as an independent variable to financial reporting quality proxied by Jones discretionary accrual appears to have a positive effect on financial reporting quality. We find that for Kenya sample, firm size significantly improves financial reporting quality.

Nigerian Sample

From table 4 above, the F-statistic and Wald-statistic value for our Nigerian sample [191.07 (0.00)]; 1019.65 (0.00)] for fixed and random effect regression respectively shows that the models are valid for drawing inference since they are both statistically significant at 1%. In the case of the coefficient of determination (R-squared), it was observed that 87% (for both fixed and random effect) systematic variations in financial reporting quality proxied by Jones discretionary accrual, was explained by the independent variables for the models respectively. In selecting from the two panel regression estimation results, we also conducted the Hausman specification test. Specifically, a look at the p-value of the Hausman test (0.0322) for Nigerian sample implies that we should reject the null hypothesis and accept the alternative hypothesis at above 5% or 1% level of significance. This implies that we should adopt the fixed effect panel regression results in drawing our conclusion and recommendations for our Nigerian sample. This also implies that the

fixed effect results tend to be more appealing statistically when compared to the random effect. Empirical evidence from the Nigerian samples as shown in the table above reveals that firm size [Fixed effect regression = 0.04 (0.193)] as an independent variable to financial reporting quality proxied by Jones discretionary accrual appears to have a positive effect on financial reporting quality. Specifically, we observed that although firm size improves financial reporting quality for consumer goods manufacturing firms in Nigeria, it is not significant.

South African Sample

The results obtain from table 4 above, shows that the F-statistic and Wald-statistic value for our South African sample [61.95 (0.00)]; 303.92 (0.00)] for fixed and random effect regression respectively shows that the models are valid for drawing inference since they are both statistically significant at 1%. In the case of the coefficient of determination (R-squared), it was observed that 55% (for fixed effect) and 54% (for random effect) systematic variations in financial reporting quality proxied by Jones discretionary accrual, was explained by the independent variables for the models respectively. However, in selecting from the two panel regression estimation results, a look at the p-value of the Hausman test (0.0354) for South African sample implies that we should reject the null hypothesis and accept the alternative hypothesis at above 5% or 1% level of significance. This implies that we should adopt the fixed effect panel regression results in drawing our conclusion and recommendations for our South African sample. This also implies that the fixed effect results tend to be more

appealing statistically when compared to the random effect. We document evidence from the South African samples as shown in the table above that firm size [Fixed effect regression = 0.05 (0.365)] as an independent variable to financial reporting quality proxied by Jones discretionary accrual appears to have a positive effect on financial reporting quality. We observed that although firm size improves financial reporting quality for consumer goods manufacturing firms in South Africa, it is not significant.

Combine Sample Regression Analyses

The panel data regression results obtained from the combine regression analysis is presented and discussed below

Table 4: Combine Regression Result

HAUSMAN TEST

Prob>chi2 = 101.25 (0.0000)

Note: (1) bracket {} are p-values

(2) **, *, implies statistical significance at 5% and 1% levels respectively**

	JOSA Model (Pooled OLS)	JOSA Model (FIXED Effect)	JOSA Model (RANDOM Effect)
C	0.03 {0.664}	-1.37 {0.000} ***	-0.03 {0.750}
FSIZ	-0.02 {0.085}	0.24 {0.000} ***	-0.01 {0.610}
RETA	0.00 {0.000} ***	0.01 {0.000} ***	0.00 {0.000} ***
F-statistics/Wald Statistics	27.47 (0.00) ***	36.71 (0.00) ***	129.09 (0.00) ***
R- Squared	0.21	0.29	0.20
VIF Test	1.13		
Heteroscedasticity Test	6.51 (0.0107) **		

In the table above, we observed from the OLS pooled regression that the R-squared value of 0.21 shows that about 21% of the

systematic variations in financial reporting quality proxied by Jones discretionary accrual in the pooled consumer goods manufacturing firms in Sub-Saharan Africa over the period of interest was explained by the independent variables in the model. The unexplained part of financial reporting quality can be attributed to exclusion of other independent variables that can impact on financial reporting quality but were captured in the error term. The F-statistic value of 27.47 and its associated P-value of 0.00 shows that the OLS regression model on the overall is statistically significant at 1% level, this means that the regression model is valid and can be used for statistical inference. The table above also shows a mean VIF value of 1.13 which is within the benchmark value of 10, this indicates the absence of multicollinearity, and this means no independent variable should be dropped from the model. Also, from the table above, it can be observed that the OLS results had heteroscedasticity problems since its probability value was significant at 5% [6.51 (0.01)]. The presence of heteroscedasticity clearly shows that our sampled firms are not homogeneous. This therefore means that a robust or panel regression approach will be needed to capture the impact of each firm and country heteroscedasticity on the results. In this study we adopted the panel regression method using both fixed and random effect models.

The F-statistic and Wald-statistic value of 36.71 (0.00) and 129.09 (0.00) for fixed and random effect models respectively shows that both models are valid for drawing inference since they are both statistically significant at 1%. In the case of the coefficient of determination (R-squared), it was observed that 28% and 20% systematic

variations in financial reporting quality proxied by Jones discretionary accrual was explained by the independent variables in both models respectively. This therefore implies that more of the variation in financial reporting quality were explained when compared to the OLS pooled regression. In selecting from the two panel regression estimation results, the Hausman test was conducted, and the test is based on the null hypothesis that the random effect model is preferred to the fixed effect model. A look at the p-value of the Hausman test (0.0000), implies that we should reject the null hypothesis and accept the alternative hypothesis at above 5% or 1% level of significance. This implies that we should adopt the fixed effect panel regression results in drawing our conclusion and recommendations. This also implies that the fixed effect results tend to be more appealing statistically when compared to the random effect.

Discussion of Findings

Our results shows that firm size (Fixed effect regression = 0.24 (0.000)) as an independent variable to financial reporting quality appears to have a positive and significant influence on financial reporting quality. This therefore means we should reject the null hypothesis { H_0 : Firm size has no significant effect on financial reporting quality of listed consumer goods manufacturing firms in Sub-Saharan Africa}. This suggests that an increase in firm size will significantly increase financial reporting quality of consumer goods manufacturing firms of the three countries in our sample. This result agrees with prior empirical results which show that firm size significantly increases financial reporting quality (Macías & Muño 2011, Gjerde, and Knivsflå & Sættem 2008). However, we fail to agree with the studies

of Agostino, Drago and Silipo, 2017, Agostino et al. 2010, Devalle et al. 2010; Stolowy & Jeny-Cazavan, 2001; Haller, 2002; Chua & Taylor, (2008) who concluded that firm size significantly reduces financial reporting quality. The finding is in line with the agency cost theory as large companies may tend to face more agency cost arising from bigger information asymmetry (Jensen & Meckling, 1976). Large companies face larger agency conflicts which indicate that the possibility of opportunistic behavior will occur even greater. Our finding is in tandem with Uweigbe et al. (2015) which conducted a study to assess the effects of firm's characteristics on earnings management of listed companies in Nigeria. Findings from their study revealed that firm size and firms' corporate strategy have a significant positive impact on financial reporting quality (proxied by discretionary accruals). However, in another study conducted by Ahmed (2014), firm size was found to be insignificantly related to earnings quality. He conducted the study to investigate the relationship between managerial characteristics and financial reporting quality of listed banks in Nigeria. Okolie, Izedomi and Enofe (2013) also had similar result as Ahmed (2014). They conducted their study to examine the impact of firm size (measured as the log of total asset) on the amount of Discretionary Accruals (DAC) was used to measure earnings Management. The results showed that the amount of DAC of quoted companies in Nigeria and coefficient of firm size was found to be insignificant.

Conclusion and Recommendation

This study investigates the effect of firm size on financial reporting quality of listed consumer goods manufacturing firms in Sub-Sahara Africa. In testing for the effect of the above variables on financial

reporting quality of listed consumer goods manufacturing firms in Sub-Sahara Africa, we conducted panel least square regression before proceeding to check for inconsistencies with the basic assumptions of the OLS regression. Succinctly, these diagnostics tests include test for multicollinearity as well as test for heteroscedasticity. The panel fixed and random effects were employed and estimated using the appropriate techniques. The findings of the study reveal that (i) Firm size has a significant relationship with financial reporting quality in quoted consumer goods manufacturing firm in Sub-Sahara Africa. The study recommends that though larger firms have a stronger tendency to improved financial reporting quality, there is the need for small and medium firms to also focus on improving reporting quality. Thus, there is the need for financial reporting regulators such as financial reporting council of Nigeria (FRCN) to improve monitoring and compliance of all listed firms irrespective of their size to ensure improved reporting quality. With the adoption of IFRS by listed firms, it is expected that there will be less variation in reporting quality, hence monitoring to ensure compliance is critical.

References

- Agostino, M., Drago, D., & Ilipo, D. B. (2011). The value relevance of IFRS in the European banking industry. *Review of Quantitative Financial Accounting*, 36(3), 437-457.
- Agrawal, A., & Chadha, S. (2005). Corporate governance and accounting scandals. *Journal of Law and Economics*, XLVIII, 371-406.
- Agbarakwe, H. U. & Anowor, O. F. (2018). Government Intervention and

- Economic Development: Lessons from Songhai Development Initiative Farm in Rivers State, Nigeria. *International Journal of Economics and Financial Research*, 4(1), 13-21.
- Ahmed, A. A. (2012). Disclosure of financial reporting and firms' structure as a determinant: A study on the listed companies of DSE. *ASA University Review*, 6(1), 44-60.
- Akintola, O., & Chris, O. (2010). Firms characteristics and financial reporting quality: Bangladesh cases. *International Journal of Critical Accounting*, 21, 64-78.
- Anowor, O. F., Ukwueni, N. O., Ezekwem, O. S. & Ibiam, F. O. (2013). Foreign Direct Investment and Manufacturing Sector Growth in Nigeria. *International Journal of Advanced Scientific and Technical Research*. 3(5),231–254.
- Bailey, W., Mao, C.X., & Zhong, R. (2003). Exchange rate regimes and stock return volatility: Some evidences from Asia's silver era. *Journal of Economics and Business*, 55, 557-584.
- Ball, R. (2006) International Financial Reporting Standards (IFRS): Pros and cons for investors. *Accounting & Business Research*, 36, 5-27.
- Baradaran, R., & Badavar, Y. (2009). The evaluation of the quality of the profitability of the qualified companies for Tehran stock exchange (chemical and medical industries). *Financial Accounting Journal*, 8, 144-158.
- Barth, M., Landsman, W., & Lang, M. (2008). International Accounting Standards and Accounting Quality. *Journal of Accounting Research*, 46(3), 467-498.
- Bolo, G., & Hosseini, S. A. (2007). Profits' management audits measurement. *Official Account Journal*, 12, 72-78.
- Brugggerman, U., Daske, H., Homberg, C., & Pope, P. F. (2009). *How do individual investors react to global IFRS adoption?* Retrieved from SSRN: <http://ssrn.com/abstract=1437542>
- Devalle, A., Onali, E., & Magarini, R. (2010). Assessing the value relevance of accounting data after the introduction of IFRS in Europe. *Journal of International Financial Management & Accounting*, 21(2), 85-119.
- Dewata, E., Hadi, H., & Jauhari, H. (2016). Determinants of financial reporting quality and its implication on the financial performance of state-owned enterprises (SOES). *Risk Governance and Control: Financial Markets and Institutions*, 6(4), 521-530.
- Diamond, D., & Verrechia, R. (1991). Disclosure, liquidity, and the cost of capital. *The Journal of Finance*, 66, 1325-1355.
- Easley, D., & O'Hara, M. (2004). Information and the cost of capital. *The Journal of Finance*, 59, 1553-1584.
- Echobu, J., Okika, N. P., & Mailafia, L. (2017). Determinants of financial reporting quality: Evidence from listed agriculture and natural resources firms in Nigeria. *Scientific Research in Social Sciences and Management Studies*, 2(1), 66-82.
- Emilly, A. (2012). International financial reporting statements (IFRS) and quality of financial reports of public reporting companies in Uganda: A case of the new vision printing and publishing company limited. A dissertation for the award of degree of

- Kalu, I. E., Agbarakwe, H. U. & Anowor, O. F. (2014). "National Housing Policies and the Realisation of Improved Housing for All in Nigeria: An Alternative Approach", *Asian Development Policy Review*, 2 (3), 47-60.
- Li, Q., & Wang, T. (2010). Financial reporting quality and corporate investment efficiency: Chinese experience. *Nankai Business Review International*, 1(2), 197-213.
- Li, S. (2010). Does mandatory adoption of international financial reporting standards in the European Union reduce the cost of equity capital? *Accounting Review*, 85, 607-636.
- Lin, C., Hua, C., Lin, W., & Lee, W. (2012). IFRS adoption and financial reporting quality: Taiwan experience. *International of academic research in accounting, finance and management sciences*, 2(4), 1-10.
- Lobo, G. J., & Zhou, J. (2006). Did conservatism in financial reporting increase after the Sarbanes Oxley Act: Initial evidence. *Accounting Horizons*, 20(1), 57-73.
- Magness, V.(2006). Strategic posture, financial performance and environmental disclosure: An empirical test of legitimacy theory. *Accounting, Auditing and Accountability Journal*, 19(4), 540-563.
- Oluwokure, O., Tanko, M., and Nyor, T., (2016). Firm Structural Characteristics and Financial Reporting Quality of Listed Deposit Money Banks in Nigeria. *International Business*
- Onodugo, V. A., Kalu, I. E. & Anowor, O. F. (2013). Financial Intermediation and Private Sector Investment in Nigeria. *Research Journal of Finance and Accounting*. 4 (12), 47–54.
- Onuorah, A. C., & Imene, O. F. (2016). Corporate governance and financial reporting quality in selected Nigerian company. *International Journal of Management Science and Business Administration*, 2(3), 7-16.
- Oyedele, T. (2011). *An Overview of IFRS and Challenges Posed to Professionals*. A paper presented at a seminar on IFRS Adoption in Nigeria. The Chartered Institute of Taxation of Nigeria.
- Paiva, I. C., & Lourenco, I. C. (2010). *Determinants of accounting quality: Empirical evidence from the European Union after IFRS adoption*. Working Paper, ISCTE-IUL Business School, Lisbon, Portugal.
- Palea, V. (2013). IAS/IFRS and financial reporting quality: Lesson from the European experience. *Working Paper Series*. University of Torino, Italy.
- Park, Y. W., & Shin, H. H. (2004). Board composition and earnings management in Canada. *Journal of Corporate Finance*, 10(3), 431-457.
- Prather-Kinsey, J., Jermakowicz, E., & Vongphanith, T. (2008). *Capital market consequences of European firms' mandatory adoption of IFRS*. Working Paper, University of Missouri.
- Sobhani, F.A., Amran, A., & Zainuddin, Y. (2009). Revisiting the practices of

- corporate social and environmental in Bangladesh. *Corporate Social Responsibility and Environmental Management*, 16(3), 167-183.
- Soderstrom, N. S., & Sun, K. J. (2007). IFRS adoption and accounting quality: A review. *European Accounting Review*, 16(4), 675-702.
- Terzugwe, N. (2013). Financial reporting quality of Nigeria firms: Users' perception. *International Journal of Business and Social Sciences*, 4(13), 273-279.
- Tesfu, F. F. (2012). *The Adoption of International Financial Reporting Standards (IFRS) in Ethiopia: Benefits and key challenges* (Doctoral dissertation, Addis Ababa University).
- Toukabri, M., Ben, O., & Jilani, F. (2014). Corporate social disclosure: Explanatory theories and conceptual framework. *International Journal of Academic Research in Management*, 3(2), 208-225.
- Wang, Y., & Campbell, M. (2012). Corporate governance, earnings management, and IFRS: Empirical evidence from Chinese domestically listed companies. *Advances in Accounting, Incorporating Advances in International Accounting*, 28, 189-192.
- Watson, A., Shrivs, P., & Marston, C. (2002). Voluntary disclosure of accounting ratios in the UK. *British Accounting Review*, 34(4), 289-313.
- Waweru, N. M., & Riro, G.K. (2013). Corporate governance, firm characteristics and earnings management in an emerging economy. *Journal of Accounting and Management Research*, 11(1), 43-64.
- Wu, S. J., & Zhang, X. I. (2009). The voluntary adoption of internationally recognized accounting standards and firm internal performance evaluation. *Accounting Review*, 84, 1281-1309.
- Yurisandi, T., & Puspitasari, E. (2015). Financial reporting quality: Before and after IFRS adoption using NiCE qualitative characteristics measurement. *Procedia – Social and Behavioural Sciences*, 211, 644-652.