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Do Politically Connected Directors Affect Fraudulent Financial Reporting: Evidence from Nigeria Listed Firms

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Abstract: This study examined the impact of politically connected directors on fraudulent financial reporting for selected listed firms in Nigeria. An *ex-post-facto* research design data was adopted for the study. A sample size of 80 listed firms from the Nigerian Stock Exchange group was selected from 2014 to 2020. Panel logistic regression was utilised for the study and testing of the hypotheses. The study showed that politically connected directors do not effectively determine the probability that a company would engage in fraudulent financial reporting. However, the study director's overconfidence had a significant positive relationship with fraudulent financial reporting. Director's financial expertise and directors' ownership exhibited an insignificant influence on fraudulent financial reporting. However, the director's compensation revealed a significant negative relationship with fraudulent financial reporting at a p-value of 5% significant level. The study recommended that more politically connected directors should be appointed to the board. It is expected that a higher percentage of politically connected directors will report a significant negative relationship. It also recommends that more directors with financial expertise should be appointed to the board. As this will help to significantly reduce the likelihood of fraudulent financial reporting.

Keywords: Fraudulent Financial Reporting; Politically Connected Directors; Directors Overconfidence; Director Financial Expertise; Directors Compensation; Director Ownership

1. Introduction

The board of directors is an essential part of the firm's structure. The board provides a link between shareholders and managers. The board of directors is charged with controlling the accuracy of the content of financial reporting. Monitoring the financial statement by the board is important because managements also have motives for self-interest to control profits, and can deceive shareholders (Alves, 2011).

Choi, Han, Jung, and Kang (2015) showed that directors played a key role in the system of financial statements and exerted a significant impact on performance through their operational decisions The principle of the upper echelon was reinforced by Hambrick and Mason (1984) who affirmed that managers were not comparably effective and idiosyncratic variations in personal beliefs and cognitive styles could cause managers to make various decisions, particularly in difficult circumstances (Bamber, Jiang & Wang, 2010).

It was observed that by considering the character and personalities of directors, illegal company activities could be better understood (Daboub, Rasheed, Priem & Gray, 1995). This is the reason directors are adjudged to be at risk in the activities of their organisations (Dunn, 2004). Also, Daboub

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et al. (1995) contended that the top management team's (TMT) behaviour could increase or decrease the frequency of the corrupt activities of the board. The nature and features of individuals who perpetrate such dishonest and unlawful behaviour are yet to be considered and studied (Daboub et al., 1995). While these viewpoints on fraud are significant, there has also been a call for attention to a behavioural outlook of the executive to clarify why well-intended and highly motivated directors might act in a specific way (Ashford & Anand, 2003; Nielson, 2009). The behavioural outlook of the directors could be influenced by the firm's connection with the government. It is believed that politically connected firms are established to gain incentives in different forms. In a study by Claessens, Feijen, and Laeven (2008) it was found that politically connected firms could access various loans and credits from financial institutions. Similarly, Berkman, Cole, and Fu (2010) found that companies with closer political connections were protected from implementing specific regulations.

Misrepresentation in financial statements is due to fraud or an error. According to Auditing Standard (ASA) 240 (2016), the difference between the two words is that fraud results from deliberate mistakes whereas errors are accidental. Directors are also able to perpetrate fraud and they can alter financial information and file false accounting statements because they are in a privileged role to circumvent controls that otherwise tend to work efficiently (ASA 240, 2016). Directors naturally incorporate a set of characteristics, and their decision-making mechanisms represent the design of various features in conjunction with cognitive behaviour instead of individual ones (Carpenter, Geletkanycz & Sanders, 2004).

Individually, Enron and WorldCom directors were considered culpable by experts for the misrepresentation that occurred in the organisations: The executives of Enron needed to settle $168 million to speculator offended parties, out of which protection was not available to cover $13 million out of pocket costs. The executives of WorldCom were required to settle $36 million of which $18 million was out-of-pocket costs (Klausner, Munger, Munger, Black & Cheffins, 2005).

In Nigeria, Cadbury Nig. Plc, which books had been illegally tampered with by the board was discovered to have lost 15 billion Naira between 2002-2005 (Enofe, Olorunnuho & Eboigbe, 2015). On account of the nine troubled business banks in Nigeria which included United Bank for Africa (UBA), First Bank, Diamond Bank, Sterling Bank, Skye Bank, Heritage Bank, Wema Bank, Unity Bank and Fidelity Bank, around one trillion naira was accounted for by the Central Bank of Nigeria to have been lost through various money related mismanagement (Emeh & Obi, 2013).

As a result, politically linked businesses are identified with high levels of intrinsic risks because the presence of political ties within the business raises the incidence of unethical activities in the industry (Gul, 2006). Similarly, Faccio (2006) suggested that expropriation by non-controlling interest holders is correlated with businesses with political ties. It can arise when politically related corporations have a potential incentive to provide representative candidates with campaign donations so that these political representatives when elected can produce legislations that will be primarily favourable for their businesses (Kroszner & Stratmann, 1998). The connections with the government provide companies with an undue advantage to government deals and incentives, favourable corporate welfare, stress-free credits as well as competitiveness restrictions.

Against this background, this study empirically examined politically connected directors on fraudulent financial reporting of non-financial companies in Nigeria.

2. Literature Review and Hypotheses Development

2.1. Fraudulent Financial Reporting

Fraudulent financial reporting has several meanings, nevertheless, we may fraudulent financial reporting to include intentional manipulation or exclusion of material items in business records to mislead users (Omoolorun & Abilogun, 2017). For an action to be fraudulent, it must be deliberate. These actions include the adjustment and modification of tangible business-related records; material items intentional exclusions of transactions, or any other critical falsification of information. Similarly, fraudulent financial reporting can be defined as a calculated misrepresentation of accounting principles and methods used in measuring operations, recording, interpreting and disclosing financial information or the supervision of disclosure, or the reporting of insufficient details concerning reporting principles and policies as well as other accounting Information (Aboud & Robinson, 2020; Jeremy, 2005).

In recent times, the issue of Fraudulent Financial Reporting (FFR) attracted significant attention from academia, media, regulatory authorities, and the general public. The earliest research on FFR was by Eliott and Willingham (1980). He revealed that the distinct characteristic of FFR is an intentional falsification committed by the executive of the organisation that could harm shareholders and stakeholders through the disclosure of false financial information.

Fraudulent financial reporting consists primarily of fabricated annual reports that include modifying elements of capital and income, and understating expenses and liabilities while overestimating assets. Fraudulent financial reporting occurs because of the grey areas in the Generally Accepted Accounting Practices (GAAP) except for countries with extremely rigid principles.

Directors can leverage the grey areas and exploit options that are available for presenting financial reports that satisfy their personal goals. The distinction between “earnings management” and “earnings manipulation” appears slender (Brennan & McGrath, 2007). Companies perpetrate fraudulent financial reporting to safeguard investors’ confidence or have access to finance from financial institutions as a precedent for salary increases or to satisfy stakeholders’ desires.

Gupta and Gill (2012) proposed that fraud in financial statements occurred because of several factors which could be explained by the three variables: conditions, capital structure and choice. The study recommended that if one of these variables were present, it is a pointer or a warning signal that financial statement fraud might occur. There is a possibility of financial fraud where there is a combination of any of these 3C’s. The result of the combination of any of these three variables could influence management to distort accounting information.

2.2. Politically Connected Directors’ and Fraudulent Financial Reporting

There are many arguments in extant studies on politically related businesses, particularly in developing markets since there is a great deal of research that has widely reported the recruitment of well-connected persons to the board (Faccio, Masulis & McConnell, 2006). This is because there is an argument about the reasoning for the appointments of related persons. Jamil (2017) indicated that a board that is politically related should have the requisite authority, expertise, and objectivity to conduct its management oversight role. However, several agencies asserted that politically connected firms would contribute to differing objectives and hence, improve the degree of complexity. Menozzi, Erbetta, Fraquelli, and Vannoni (2014) observed that a board dominated by political individuals tend to undertake a social goal.

Gul (2006) suggested that firms with political affiliations were related to uncertainty due to the existence of political associations within the company. Similarly, Faccio (2006) documented that connected firms have a history of exploiting minority investors. Moreover, Chaney, Faccio, and Parsley (2011) posited that politically connected firms were likely to engage in earnings management practices to boost profit. Walker and Reid (2002) suggested that a high level of uncertainty arises in their financial statements because of the presence of fraudulent practices among the politically connected companies such as earnings management practices and the practice of expropriation.

Goldman, Rocholl, and So (2009) pointed out that connected firms enjoyed leniency in policy regulation which helped to boost the firm’s performance in terms of profit and market share. Nonetheless, costs are expected before they can be a benefit for the politically connected firm. To get the incentives, companies need to participate in income-seeking activities and try to persuade policymakers to establish competitive strategies for their firms in which this operation needs funds and other owned company capital (Fisman, 2001; Johnson & Mitton, 2003). Since the organisation’s shareholders did not approve the funds themselves, the resources offered in terms of donations to government-related work to make policies favourable, pose a risk connected to the distortion of the firms’ resources (Ramsay, Stapledon & Vernon, 2001).

Studies by Walker and Reid (2002) and Gul (2006) found that the activities of connected companies cause a lack of coherence in the preparation of annual reports which probably leads to low financial reporting quality. They asserted that it enables directors to be transparent in connected firms without any incentives. Also, Chaney et al. (2011) revealed that due to little or no transparency, political linkages could be linked to low financial reporting quality. The low financial reporting quality arising from politically connected companies is strongly assumed to pose a higher element of risk to these firms because there is a higher chance that a material error occurred in the financial reports (Gul, 2006). Companies with political connections arise as a result of involvement with influential government representatives and significant corporate government ownership (Bushman, Piotroski & Smith, 2004; Chen, Ding & Kim, 2010; Faccio 2006; Johnson & Mitton 2003; Riahi-Belkaoui, 2004).

The directors’ reliance on resources in plain words refers to how relations with politicians affect the decision-making of the companies (Pfeffer & Salancik, 1978), which can be achieved by altering recorded figures on financial results to minimize the potential political costs of detrimental financial information (Shleifer & Vishny, 1994). There has been better access to capital that led to the success of businesses through contacts from the recruitment of on-board policy-related directors and heavy reliance on political prosperity, indicating a reduced demand for and dependency on quality financial statements (Chaney et al., 2011; Chen et al., 2010). The lack of trust in financial reports offers less motivation to those responsible for the preparation of the financial statements to recognise bad news before good news in avoiding asset and earnings overstatements.

Bushman et al. (2004) concluded that politically connected firms took advantage of government regulatory policies by relaxing their oversight control over the firms. Because of this, politically connected firms care less about the rigour and standard of corporate information and disclosure since they enjoy the protection of powerful political officeholders. Therefore, it is envisioned and reasonably concluded that politically connected firms have the impetus to engage in creative accounting and financial reporting frauds since they know that the benefits derived from committing fraud far outweigh the penalty and the expected cost that follows (Bushman et al., 2004).

Leuz and Oberholzer-Gee (2006) suggested that the extraction of benefits for related companies is more difficult because of greater accountability connected with international funding, so they are more likely to choose to remain hidden by increasing domestic funds. Chaney et al. (2011) claimed that politically connected companies released insufficient financial statements in an attempt to deceive or misguide stakeholders so insiders could benefit at their expense. Piotroski, Wong, and Zhang (2015) examined the relationship between politically connected firms and financial information in China. The result revealed that companies with political connections do not disclose bad news at some specific period such as political events or elections.

Ngo and Susnjara (2017) investigated the impact of politically connected companies on earnings management among US government suppliers. They selected a sample size of 16,995 firms which includes 2,548 government suppliers. Government sale was used as a proxy for political connection. The Findings from the study revealed that there exists a positive significant relationship between political connection and earnings management.

Mohammed, Mohd, Sanusi and Harjito (2016) examined the impact of the factors of political connection on financial reporting quality in Malaysia. The study sampled publicly listed firms and established that directors of connected companies have a negative and insignificant impact on quality financial reporting. Narayanaswamy (2013) examined political connections and earnings quality. The study revealed that politically connected firms exhibited lower earnings quality than non-connected companies and were more likely to engage Big Four auditors. The Findings revealed that there was a positive and no significant association between political connection and financial reporting quality.

Ngan (2013) investigated 60 firms based in China which were listed on the Hong Kong Stock Exchange between 2006 to 2008 and discovered that politically connected directors created an atmosphere that provides for fraudulent financial reporting especially when the firms faced an imminent threat of reduced or no return on assets and economic distress because their boards were more likely populated by politicians most of whom lacked professional behaviour, experience or basic knowledge needed to run the firms. As such, accounting performance, as well as stock return performance of politically connected companies associated with politically connected directors, were usually lower than their non-politically connected counterparts. Furthermore, he added that the corporate governance structures of politically connected firms were poor as the audit quality is low; therefore, the corporate environment was already plagued with accounting practices heading towards creative accounting.

Wang, Chen, Chin, and Zheng (2017) examined how managerial ability and political connections influenced fraudulent financial reporting amongst listed firms in China between 2007 and 2012. The findings revealed that there was a positive and insignificant relationship between directors' political connections and fraudulent financial reporting. They discovered that the increased ability of managers (experience, knowledge, qualifications) resulted in improved financial reporting quality. They also found that managers with higher ability in non-politically connected firms have a larger input in reducing financial reporting fraud than high-ability managers in politically connected firms. They added that firms which had capable managers are subjected to less severe penalties when found guilty of disobeying regulatory agencies, and even more so when the managers had political connections than their non-capable manager firm counterparts.

Hasnan, Rahman, and Mahenthiran (2014) in a study of 53 firms in Malaysia between the periods of 1996 to 2007 investigated financial reporting fraud determinants and found that firms' political connections have an insignificant effect on financial reporting fraud. They also found that earning management practices of firms would most likely escalate to financial reporting fraud. In addition, they discovered that firms which had more founders on their board irrespective of their qualifications, educational background and experience were very likely to practice fraudulent financial reporting. In conclusion, they stated that firms would practice fraudulent financial reporting when they firm is experiencing a high level of financial distress irrespective of whether the directors have adequate knowledge, experience, and educational background. The result of the relationship between political connection and financial reporting fraud reported a negative and insignificant influence.

Hope, Yue, and Zhong (2017) sought to determine whether politically connected directors influenced the financial reporting quality in China. They discovered that firms that had political connections got government aid and grants quickly and are protected by tax regulations which reduced their voluntary actions to provide quality financial reporting. The result from the findings showed that political connections had a positive and significant association with financial reporting quality.

Table 1. Summary of Empirical Review of Literature on Fraudulent Financial Reporting

Authors & Year	**Country of Study**	**Purpose of the Study**	**Method of Data Analysis**	**Findings/Critiques**
Ngan (2013)	Hong Kong	Investigated the impact of the politically connected executive on fraudulent financial reporting.	Regression	The study found an insignificant relationship between politically connected firms and fraudulent financial reporting. **The study focused on only China firms listed on the Hong Kong Stock Exchange.**
Hasnan et al. (2015)	Malaysia	Investigated the determinant of fraudulent financial reporting.	Logistic regression analysis	The result revealed that the firm's political connection did not affect financial reporting fraud in any way whatsoever**.** The study also concluded that firms would practise fraudulent financial reporting when the firm experienced a high level of financial distress irrespective of whether the directors had adequate knowledge, experience and educational background. **The study sample size was relatively small. The study was also not up to date (1996 -2007).**
Plöckinger et al. (2016)	Austria	To determine the impact of individual executives on financial reporting quality.	Descriptive study	The Study supported the upper echelon theory which suggested that an individual executive influenced the financial reporting quality. **The study was an empirical review.**
Hope et al. (2017)	China	Examined the impact of politically connected directors on accounting quality.	Logistic regression analysis.	There was a significant relationship between the politically connected firm and accounting quality. Board size was the only significant explanatory variable. **The study was restricted to just accounting quality and ignored fraudulent financial reporting. Also, the time frame was relatively too small (2012-2015).**

Omoolorun and Abilogun (2017)	Nigeria	Examined the determinants of a fraud-free financial report.	Descriptive review	The study revealed that factors such as Accounting Standards, Corporate Governance, and some of its mechanisms such as Audit Committees, Whistleblowing and Internal Control systems, Audit Quality, Efficient Capital Market, Management Performance and Forensic Accounting Education influenced fraud-free financial report. **The study was conceptual.**
Besar, Ali, and Ghani (2017)	Malaysia	Examined the effect of upper-echelon managers' characteristics on financial restatement	Logistic regression analysis	The study found that CEO characteristics of education and functional background significantly affected financial restatements. **The study focused on the CEO and the chairman of the audit committee (CAC)**
Wang et al. (2017)	China	Investigated how managerial ability and political connections influenced fraudulent financial reporting.	Multivariate regression	The result revealed that increased managerial ability led to less financial reporting fraud. The study also found that the political connection of firms limits the managerial ability on the likelihood of fraudulent financial reports**. The study focused on the non-financial sector.**
Rahmatika, Kartikasari, Indriasih, Sari, and Mulia (2019)	Indonesia	Examined the detection of fraudulent financial statements.	Logistic regression analysis.	The study revealed that pressure, opportunity, rationalisation, and competence had no significant influence on fraudulent financial statements. **The study focused on the fraud pentagon as a variable for the detection of fraudulent financial statements.**
Anichebe, Agbomah, and Agbagbara (2019)	Nigeria	The study examined the determinants of financial statement fraud.	Binary Logit regression analysis.	The study found a significant association between corporate governance variables and the likelihood of financial statement fraud. **The study focused on the agricultural sector. Also, the study was restricted to one year.**

Source: The Researcher's Work Based on Reviewed Literature (2023)

In furtherance of the above literature, this study assumed that:

H_0: Politically connected directors have no significant relationship with fraudulent financial reporting in non-financial listed firms.

3. Methodology

The study engaged the use of an *ex-post-facto* research design. The *ex-post-facto* research design helps to establish the causal effect among the variables, dependent and independent variables. Thus, it was most suitable for this study as it permits the examination of the expected relationship between politically connected directors and fraudulent financial reporting. The study engaged the use of panel binary logistic regression was used as the data analysis method. The sample size for this study was 80 quoted companies in Nigeria for the period 2014 to 2020.

3.1. Model Specification

It is expected that directors' characteristics should affect fraudulent financial reporting in this equation. This study adopted the model of Wang et al. (2017). The model was modified to measure the impact of politically connected directors on fraudulent financial reporting in Nigeria.

Fraudulent financial reporting was posited to be a function of politically connected directors.

$$FFR = f(POL, DOVER, DFE, DCOM, DOWN) \quad (1)$$

This model was further modified and could be expressed explicitly in equations 2.

$$FFR_{it} = \beta_{0it} + \beta_1 POL_{it} + \beta_2 DOVER_{it} + \beta_3 DFE_{it} + \beta_4 DCOMP_{it} + \beta_5 DOWN_{it} + \beta_6 FSIZE_{it} + \beta_7 BSIZE + \beta_8 FAGE + \mu_{it} \quad (2)$$

Where, FFR = Fraudulent Financial Reporting; POL = Politically Connected Directors'; DOVER = Directors' Overconfidence; DFE = Directors' Financial Expertise; DCOMP = Directors' Compensation; DOWN = Directors' Ownership; FSIZE = Firm Size; BSIZE = Board Size; FAGE = Firm Age; β_0 = Intercept of the regression line, regarded as constant

β_{1-6} = Coefficient or slope of the regression line or independent variables

μ = Error term: '*t*' = year and *i* = *firm*

Table 2. Operationalisation of Variables

Variable	Variable Type	Abbreviation	Measurement	Source
Fraudulent Financial Reporting	Dependent	**FFR**	This variable is dichotomous which will take the value 1 if the company has an M-Score greater than -2.22, which indicates that the company is likely to manipulate its financial statements. Otherwise "0".	
Politically Connected Directors'	Independent	**POL**	Assign 1 if the CEO or member of the board is a current or former officer of the government, the military, a member of any of the political parties and 0 if not.	Wang et al. (2017)
Directors' Overconfidence	Independent	**DOVER**	Measured using total long-term debt divided by total assets.	Malmendier, Tate, and Yan (2007)
Directors' Financial Expertise	Independent	**DFE**	Measured as the percentage of members with professional qualifications such as ICAN, ACCA, CFA AND CIMA to the total managers on the board.	Matsunaga and Yeung (2008)
Directors' Compensation	Independent	**DCOMP**	Measured by the natural log of compensation of top executives.	Wang et al. (2017)
Directors' Ownership	Independent	**DOWN**	Measured as a percentage of directors' shares to the total number of shares issued.	Li (2015
Firms Size	Control	**FSIZE**	Measured as the natural log of total assets of the firms.	Khemakhem and Dicko (2013)
Board Size	Control	**BSIZE**	Total Number of board Members	Wang et al. (2017)
Firm Age	Control	**FAGE**	Numbers of years of incorporation	Wang et al. (2017)

This study specifically made use of binary logit regression to illustrate the impact of politically connected directors on fraudulent financial reporting. The application of logistic regression expanded the multiple methods of linear regression to test circumstances where the dependent variable was categorical.

4. Results

The descriptive analysis considered the mean positions of the main explanatory variables in terms of whether a company was involved in FFR or not and the result was presented in Table 3. From the table, it could be seen that directors' compensation was lesser, on average, and more varied for companies with FFR. This is because the average DIRCOMP for FFR companies was 8.12 (S.D = 0.67), while that for non-FFR companies is 8.17 (0.65). This provides an initial suggestion that companies with better compensation packages for their directors are generally less involved in FFR. A similar result was shown for directors' financial expertise where the average was higher for non-FFR than for FFR companies, suggesting that companies that engaged in FFR had lesser proportions of directors with financial expertise, on average. The same outcome was seen for directors' ownership. For directors' overconfidence, however, the reverse case was seen with non-FFR companies having a lesser average (0.63) than companies with FFR (1.04). Hence, there was a general implication that, on average, directors' overconfidence was higher in companies that eventually ended up with FFR than for companies without FFR.

Table 3. Decsriptive Statistics

Variable	*Mean*		*Standard Deviation*	
	Dep=non-ffr	**Dep=ffr**	**Dep=non-ffr**	**Dep=ffr**
DIRCOMP	8.17	8.12	0.65	0.67
DIRFE	0.21	0.19	0.15	0.14
DIROVER	0.63	1.04	0.26	0.93
DIROWN	0.06	0.05	0.12	0.10
DIRPOL	0.26	0.17	0.44	0.38
BSIZE	10.03	9.99	3.08	3.60
FAGE	42.11	37.68	23.21	22.03
FSIZE	10.68	10.79	0.90	1.01
Observations	465	88		

Source: Researcher's Computation (2023)

The distribution of the density functions of the data used in the study is further tested since the aim of observing the study was to examine the patterns of probability and normality distributions. One way of examining the distribution of the residuals in the data series is to plot the quantiles. The quantiles in this study were plotted using the Quantile-Quantile (Q-Q) theoretic plot and are shown in Figure 1 below. If the residuals were normally distributed, the points in the QQ plots should lie alongside a straight line. As expected, the plot of FFR and DIRPOL exhibit a strong non-normal distribution. For the other variables, the plots of the Quantile-Quantile distribution showed that both large negative and positive shocks were driving the departure from normality in each of the variables. This further confirms the results from the descriptive analysis presented above that most of the data sets were non-normally distributed. Only the plot for DIRFE appears to lie in line with the diagonal plot, indicating that only DIRFE appears to be similarly distributed among the countries in the sample.

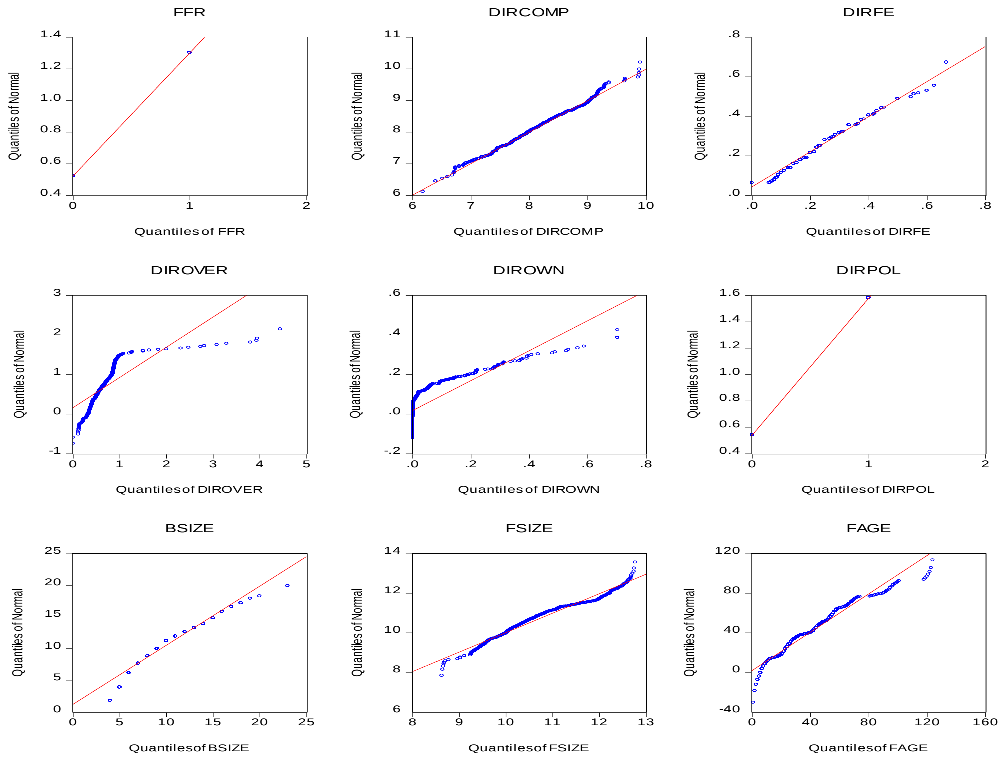

Figure 1. Quantile-Quantile Distribution Charts for Variables

4.1. Estimations based on Politically Connected Directors on Fraudulent Financial Reporting

To improve on the robustness of the results, the marginal effects of the relationships are estimated based on the politically connected directors. Essentially, we seek to understand whether political connections can be used to discriminate the effects of the other director-based variables on fraudulent financial reporting by the companies. The results are presented in Table 4, which indicates a generally similar pattern to the outcome of the estimates of the marginal effects for the baseline model. In the result, it is seen that political connection does not discriminate the effects of the directors' characteristics variables on FFR in terms of the signs of the effects.

Table 4. Results Based on Directors' Political Connection (Marginal Effects)

Variable	Thresh.	dy/dx	Std. Err.	z	P>|z|
DIROVER					
	_at				
	Connection	0.206***	0.038	5.460	0.000
	No connection	0.165***	0.044	3.750	0.000
DIRCOMP					
	_at				
	Connection	-0.076**	0.033	-2.280	0.023
	No connection	-0.061**	0.030	-2.060	0.040
DIROWN					
	_at				
	Connection	-0.154	0.161	-0.960	0.340
	No connection	-0.123	0.128	-0.960	0.336
DIRFE					
	_at				
	Connection	-0.075	0.106	-0.710	0.479
	No connection	-0.060	0.085	-0.700	0.485

*Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0. Source: authors' computation*

In terms of the magnitude of impact, however, the result reveals that political connection amplifies the effect of the directors' characteristic factors on FFR, given that the size of the coefficients (in absolute values) is larger for the *connection* estimates than the *no connection* estimates. For instance, directors' overconfidence has a positive and significant impact on FFR whether the director has political connections or not. This means that directors' overconfidence increases the tendency for a company to engage in fraudulent financial reporting irrespective of political connections.

However, the impact is bigger for directors with connections, than for directors without connections. In this case, a 1 per cent rise in the level of overconfidence of a director leads to a rise in the tendency to report fraudulent financial activities by 0.165 percentage points for directors without political connections and by 0.21 per cent for directors with political connections. Political connection, therefore, appears to be a latent (not direct) motivation for engaging in fraudulent financial reporting by directors among the selected companies. As noted earlier, the political connection did not change the significance of the relationships for any of the director characteristics variables. It can be seen that the coefficients for director ownership and directors' financial expertise still failed the significance tests at the 5 per cent level for either case. Another robustness check considered in the study is the determination of a non-linear relationship component between FFR and the directors' characteristics variables. The results of the estimated non-linear relationship are presented in table 5. Non-linearity is estimated by considering the interactive impact of the politically connected directors variables with the size of the board in the organisation. It is noted in the result that the board (given that its coefficient is significant in the baseline model) can provide a template for observing a non-linear relationship between the directors' characteristics variables and FFR among the observed companies. From the result, only the interactive term between directors' ownership and board size passed the significance test. This shows that although director's ownership may not exert significant impacts on FFR, companies with larger boards are more likely to have a significant positive effect of directors' ownership on FFR. Again, the result suggests that an indirect relationship exists between directors' ownership and FFR by companies. Another interesting outcome of the non-linear estimation is the negative coefficient of DIROWN which shows that when the role of board size is taken into cognizance, directors' ownership may ensure a dampening effect on FFR in a company.

Table 5. Results for Non-Linear Effects of Directors' Characteristics on FFR

Variable	*Logit*		*Margins*	
	Coef.	**P>|z|**	**dy/dx**	**P>|z|**
DIROVER	2.452* (1.441)	0.089	0.283* (0.165)	0.087
DIRCOMP	-0.541 (0.335)	0.107	-0.063* (0.039)	0.100
DIRPOL	-0.350 (0.321)	0.277	-0.040 (0.037)	0.276
DIROWN	-12.223** (5.637)	0.030	-1.412** (0.649)	0.030
DIRFE	-1.220 (2.934)	0.678	-0.141 (0.339)	0.678
BSIZE*DIROVER	-0.088 (0.161)	0.585	-0.010 (0.019)	0.585
BSIZE*DIRCOMP	0.003 (0.015)	0.858	0.001 (0.002)	0.858
BSIZE*DIROWN	0.948** (0.455)	0.037	0.109** (0.052)	0.036
BSIZE*DIRFE	0.044 (0.291)	0.879	0.005 (0.034)	0.879
FSIZE	0.348 (0.223)	0.119	0.040 (0.026)	0.118
LAGE	-0.254 (0.169)	0.131	-0.029 (0.019)	0.130
constant	-1.209 (2.200)	0.583		
LR chi2(8)	61.33			
Prob > chi2	0.000			
Pseudo R^2	0.127			

Source: Researcher's Computation (2023)

5. Conclusion and Recommendations

The outcome of this study suggested that politically connected directors do not effectively determine the probability that a company would engage in fraudulent financial reporting. This outcome was quite engaging, and it indicates that on a direct basis, it does not matter whether directors in a company were overtly politically oriented. The result was also rather interesting for the Nigerian case where political influence had spread significantly into the business world (Mark & Nwaiwu, 2015; Olubodun, 2019). Essentially, the result shows that the political connections of directors are not a relevant factor to be considered when focusing on managing fraudulent financial reporting among Nigerian companies. The result was consistent with the studies by Hasnan, et al. (2014); Mohammed, et al. (2016) and Ngan (2013) which revealed that politically connected firms had a negative and an insignificant association with fraudulent financial reporting. However, the empirical evidence on politically connected directors in this work contradicts the study by Hope et al., (2017) and Ngo and Susnjara (2017) which found that politically connected firms had a positive and significant influence on fraudulent financial reporting, while Narayanaswamy (2013) and Wang, et al. (2017) found that politically connected firms had a positive and an insignificant influence on fraudulent financial reporting. There is, however, evidence that non-linear relationships exist between FFR and either directors' political connections or their form of firm ownership. Thus, political connection and ownership can agitate other factors that may disproportionately influence fraudulent financial reporting among Nigerian companies. The study recommended that more politically connected directors should be appointed to the board. It is expected that a higher percentage of politically connected directors will report a significant negative relationship. It also recommends that more directors with financial expertise should be appointed to the board. As this will help to significantly reduce the likelihood of fraudulent financial reporting.

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