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Grey directors' dominance and financial statements' reliability among financial service entities

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Abstract
The study evaluated how grey directors' dominance in corporate boards may possibly influence financial statements' reliability. The sample consists of thirty (30) companies listed in the financial services sector of the Nigerian Exchange Group (NGX) and covered a period of eleven (11) financial years (2012 -2022). Financial statements' reliability was measured with reference to the occurrence of restatements of financial reports while the proportion of the company's equity shares owned by grey directors was used as proxy for grey directors' dominance. A balanced panel data was obtained and analysed using descriptive statistics, a correlation matrix, whereas, the formulated hypothesis was tested using the binary logit regression technique. The overall result showed that at 5% level of confidence, the level of dominance of grey directors in corporate boards exerts significant negative influence on the occurrence of restatements of financial reports among financial service entities in Nigeria. The implication of the significant negative impact is that greater dominance of grey directors is associated with lesser likelihood of the occurrence of financial restatements; thus, implying high financial reporting quality which in turn will boost the level of reliability. The study therefore underscores the need for regulations that will promote the deliberate inclusion and/or retention of grey directors in the composition of corporate boards' membership with the hope of enhancing efficiency of boards in the performance of their respective oversight functions, and by extension, reducing material misstatements which often triggers subsequent earnings restatements.

Keywords: Earnings restatements, corporate governance, financial reporting, grey directors, reporting quality

1. Introduction

The emphasis of corporate governance is anchored on the need to promote a system of control and governance for entities such that all practices or operations within corporate entities specifically aligns with the varying interests of stakeholders; bearing in mind, the very essence of the separation of ownership and control in such entities. No doubt, following the separation of ownership and control that characterises modern corporations, financial reporting becomes one of the viable tools through which owners of such corporations are kept abreast of the financial status of companies which they have invested in (Elhennawy, 2021; Jeroh, 2016; 2017) [18, 27]. Noteworthy, the major goal of preparing financial reports is for firms to provide information about their overall financial position, which is expected to be useful to the decision-making needs of the majority of financial statements' users (Jeroh, 2020). Accordingly, Abbas, Siregar, and Basuki (2021) [1], maintained that the quality of the investment decisions made by users of financial reports is dependent on the quality and reliability of the financial information made available to them.

Considering the importance of having high-quality financial reports, the International Accounting Standards Board (IASB) specified the qualitative features and attributes that financial statements must have in order to be useful in decision-making. According to the IASB, for financial statements to be useful, they must be relevant and faithfully represent what they purport to represent (fundamental qualitative characteristics). Similarly, to enhance the relevance of financial statements, financial information must be comparable, understandable, timely prepared, and have verifiable information (enhancing qualitative characteristics). Among these qualitative characteristics, literature suggests that "relevance and faithful representation" are the most significant and aptly determines the extent of usefulness of financial reporting (Dabor & Adeyemi, 2009; Adediran *et al.*, 2013) [4, 14].

Other things being equal, audited financial statements need to be believable, credible, accurate, and reliable. Succinctly, in practice, such conditions might not hold due to, among others, managerial opportunism, which has led to several corporate scandals.

The collapse of corporate giants, such as Enron, Global Crossing, etc., has raised concerns about the reliability of financial reporting (Monye-Emina & Jeroh, 2014; Jeroh, 2020; Okpe & Jeroh, 2022; Otiedhe & Jeroh, 2022; Ogieh & Jeroh, 2023) [28-31, 36, 37, 39, 41]. Consequently, most investors now question the level of accuracy of published financial statements and the ability of their contents to reliably represent the overall financial status of businesses/organisations. This situation led to a global call for a review of corporate governance practices in organisations, with particular emphasis on how corporate boards could be more independent, credible, and competent. As a result, research on how the attributes and compositions of the board of directors affect financial reporting quality and reliability has become more popular. This is explainable considering that extant literature (see Aderemi *et al.*, 2023) [5] attributes financial scandals and business collapses to issues related to, among others, poor corporate governance.

Nevertheless, outcomes from prior studies have shown that the existence of competent boards within entities guarantees the efficient monitoring of the activities of managers or chief executive officers (CEOs); thus, reducing or eliminating all forms of financial impropriety or possible acts of financial statements' manipulations (Eluyela et. al., 2020) [19]. Competent boards consist of executive and non-executive directors. Believably, executive directors are thought to be under the control and influence of CEOs, thereby making them less definitive in aligning the interests of managers with those of shareholders. This is the reason most corporate governance codes advocate for more non-executive (independent) directors on corporate boards. Research has so far linked independent directors to better performance (Jeroh, 2018; Onuorah *et al.*, 2022; Appah & Tebepah, 2020) [8, 40]. This means that for organisations to achieve the desired level of performance, the nature and composition of the boards of such firms must be taken seriously, especially as it affects the inclusion and dominance of independent directors; and by extension, grey directors.

Grey directors, according to Kumar and Singh (2012) [34], are non-executive directors who have personal or professional connection with the firm but are not employees of the company. Noteworthy, the discourse on grey directors has assumed different dimensions in the accounting literature. For instance, while a school of thought believes that independent grey directors stand better chance of monitoring the activities of managers based on their interests on the organisation, other views hold that there may be lack of moral obligation, which could have an unintended effect on the firm (see Kumar & Singh, 2012) [34]. It is also believed that independent directors spend considerably less time with the reporting firm, thus making it difficult to effectively monitor the activities of managements (Eluyela *et al.*, 2020) [19]. Notwithstanding, it has equally been argued that since one has the moral obligation to monitor what one has special interest in, a special kind of director (grey directors) would be needed to spur a company to better performance or to reduce managerial opportunism. However, it is also possible that the presence of grey directors may largely hinder the very essence of board independence, given their professional or personal affiliation with the reporting entity.

These differing schools of thought on the impact of grey directors on different organisational outcomes drive the motivation behind this paper. The thrust of the study therefore hinges on the fact that prior research evidence in Nigeria (where there are perceived weak investors' protection rights and poor institutional quality) has not explained how or whether the existence of grey directors on corporate boards has implications on the extent to which financial reports could be considered as being reliable.

The rest of the paper is structured as follows: Section 2 presents the literature review, focusing on the concepts of financial statement reliability and grey directors. Section 3 presents the methodology, while Section 4 presents the results, analysis, and discussions. Section 5 concludes the study and makes recommendations for both policymakers and future researches.

Literature Review

Financial Statement Reliability

Adediran *et al* (2013) [4], sees 'reliability' in the context of financial reporting as a crucial qualitative feature of accounting information that determines whether or not the users of financial statements will find its content beneficial and usable. The dependability and accuracy of such reports to some extent may possibly determine the value of such audited financial information which must have been made public by management. In order to achieve reliability in financial reporting, financial reports must be prepared using "sound accounting rules," and such reports must be impartial, error-free, and expectedly, preparers should have taken the necessary precautions to guarantee that all applicable laws consequent on its preparation have been adequately complied with. Thus, to improve market efficiency, capital providers' and other stakeholders' decisions about where to invest and distribute resources has mostly been influenced by the availability of high-quality financial information (Huang *et al.*, 2020) [24].

On its measurement, many prior studies (Beasley, 1996; Francis, *et al.*, 2013; Huang, *et al.*, 2020; Kinney, *et al.*, 2004) [11, 20, 24, 33] used the restatement of earnings as a measure of how reliable financial statements are. This is because a restatement of earnings is a sign that the financial information which a company had given may probably not be true or may likely be skewed; thus, raising some concerns and rendering such statements unreliable (Chi & Pan, 2021) [13]. According to DeFond & Zhang (2014) [15] as cited in Sellers *et al.* (2020) [45], restatements are useful measures of financial reporting and audit quality given that they are readily available, unambiguous, and somewhat nuanced. This accounts for why most previous studies have used accounting restatement as a measure for both financial reporting quality (e.g., Ashraf, *et al.*, 2020) [10] and audit quality (see Singer & Zhang, 2018) [46]. Therefore, following the postulation of Asare *et.al* (2019) [9] that "accounting misstatements can potentially compromise financial reporting reliability," this study therefore adopts the occurrence of accounting restatement as proxy for financial statement reliability. This is consequent on the notion that the restatement of previously disclosed earning figures is a probable sign of poor audit and financial reporting quality; thus, signifying that such financial statement may possibly lack some reasonable level of reliability for the purpose of investment and other related decision-making needs.

The Concept of Grey Directors

Grey directors, or affiliate directors, are part of the board composition of companies. Kumar and Singh (2012) [34] noted that grey directors are non-executive directors who have either business or personal relationship with the company and are not employees of the company. As a result of their position, they appear to be more concerned about monitoring opportunistic behaviour of managers; thereby reducing possible earnings management practices while achieving the overall goals of wealth maximization of shareholders. Similarly, Giaretta (2012) [21] described grey directors as persons who have relations with companies and do not participate in the day-to-day running of the company's operations.

There has been a consistent argument in the literature as regards the importance of grey directors on board and their impact on firm performance and reporting quality. This results in two different schools of thought. One school of thought (see Kumar & Singh, 2012; Giaretta, 2012) [21, 34] believes that the presence of grey directors in the board composition of a company creates an atmosphere of independence and ultimately leads to better firm performance. On the other hand, some scholars (Otman, 2014) [42] asserted that grey directors' presence on corporate boards exerts no significant effect on the performance of companies; instead, their presence largely increases the rate of conflict of interest within organisations.

In terms of measurement, there are several ways in which the influence of grey directors on organisational outcomes can be measured. For instance, one can gauge the impact of grey directors by looking at their size, level of experience, and dominance relative to the executive directors or the entire board. Their dominance can also be measured by the percentage of the company's equity shares that they own or control. For the purpose of this study, the variable - grey directors' dominance is measured with reference to the proportion of the company's shares which they own or control. Alkurdi *et al.* (2021) [7] aver that share ownership structure is an aspect of corporate governance because the proportion of shares owned by diverse categories of investors determines which group has the ultimate decision-making power in the firm and those that can influence managerial decisions. As such, the study argues that the magnitude of the shares owned by grey directors increases their dominance, influence, and control over managerial decisions, which may also include financial reporting decisions.

Empirical Review and Hypothesis Development

Empirically, a strand of literature documented that varying relationships exist between board of directors and firm reporting outcomes in different sectors. Nevertheless, only a small number of studies have examined the impact of the grey directors on financial reporting quality metrics, particularly in Nigeria. Many studies have shown a causal association between certain corporate governance and board composition factors like inside directors, outside directors, non-executive directors, and gender diversity and proxies for financial reporting quality (Kumar & Singh, 2012; Abdulmalik, 2015; Jeroh, 2018; Jeroh, 2020) [3, 34].

For instance, Liu (2015) [35] studied how the audit committee influences earnings quality and the integrity of financial reports. This study aimed to investigate the relationship between the characteristics of the audit committee (such as size, independence, financial knowledge, and stock ownership) and earnings restatement, which serves as a direct indicator of earning management. Univariate correlation and multivariate statistical analysis are conducted. A multivariate logistic regression model was used. Research showed a correlation between smaller audit committees and a higher frequency of earning restatements. As observed, the study's outcome does not provide evidence that would be generalized to explain the influence of grey directors' dominance on financial statements' reliability in the Nigerian context.

Abdulmalik (2015) [3] studied the role of independent and grey directors, board continuous training, and internal audit functions on financial reporting quality among 100 Malaysian firms between 2010 and 2011. The study used the feasible GLS (FGLS) regression estimation and found that while the proportion of grey directors in the boardroom was positively and significantly related (howbeit, weakly) to both accrual and real earnings management, the proportion of independent directors was negative but not significant. The study concluded that board mechanisms, specifically board composition, are not effective in improving the quality of reported figures. While this study provides a foundation for the understanding of the concept of grey directors, it is apparent that the result does not explain the possible influence which grey directors' dominance on corporate Boards may likely have on financial statements' reliability in the Nigerian context.

Eluyela *et al.* (2020) [19] examined the importance of grey directors on board and their impact on firm performance. Their sample was restricted to 14 deposit money banks out of the 15 listed on the Nigerian Exchange and data were obtained for the period 2010-2017. The study used Tobin Q as the measure of firm performance and employed the panel co-integration test and fully modified ordinary least squares regression (FMOLS) technique. Evidence from the long-run equation indicated the presence of a significant positive relationship between indigenous directors, the board size, non-executive directors, and the performance of the selected deposit money banks in Nigeria, whereas, the impact of grey directors on performance was found to be insignificant in the long run.

Otuya and Emiaso (2022) [43] examines how multiple directorships and related party transactions relate to the incidence of accounting restatement among 14 listed industrial goods companies for the period 2011 to 2020. They found that related-party transactions have a positive and significant association with accounting restatement. They also found that multiple directorships and firm profitability have a positive but not significant association with the incidence of accounting restatement. They come to the conclusion that both the number of directorships on the board and the nature of the business, such as related party transactions and profitability, play a role in figuring out how often accounting restatements happen. While providing insights on the determining factors that results in financial statements' restatements, the study did not show evidence that grey directors' presence in corporate Boards may or may not influence the restatements of financial reports.

On a general note, evidence from prior researches have mostly favoured the idea of having a fair number of grey directors in companies' boardroom. For example, Hsu and Wu (2014) [23] documented that having a majority of grey directors on the board lowers the probability of a company failing. Borokhovich *et al.* (2014) [12] also reported that grey directors prioritise the interests of shareholders and are more likely to appoint qualified successors in the absence of relevant succession plans for top directors. In another vein, Hoitash (2011) [22] argued that a material weakness in internal control and firm financial misstatement are lessened when social ties exist between managers and directors.

Flowing from the above, this study therefore hypothesizes that

- **H1**: The higher the dominance of grey directors, the greater the financial statement reliability.

Based on the above hypothesis development, the conceptual framework of the study will flow into an econometric model examining the relationship between the dominance of grey directors in corporate boards and financial statement reliability which was used as the study's dependent variable. The conceptual framework of the study is given in Fig. 1 below:

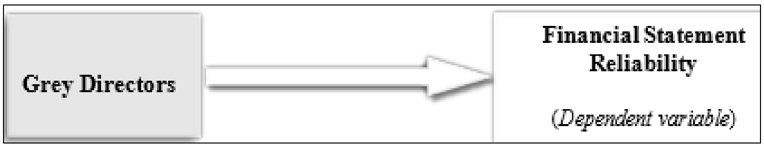

Fig 1: Conceptual Framework

Figure 2.1 depicts the schematic representation of the expected interlinks between the independent variable and the measure of financial statement reliability.

Methodology: The study adopted the *ex-post facto* research design. Companies listed in the financial services sector of the Nigeria Exchange Group (NGX), numbering forty-nine (49) as of December 31, 2022, constituted the study's population. The purposive sampling technique was employed by selecting thirty (30) financial companies, which amounted to about 61% of the population. The secondary panel data covered an 11-year period covering 2012-2022, amounting to balanced panel data of 330 firm-year observations.

Empirical Model: Following the hypothesis formulation, the paper consists of one dependent and one independent variable. While the financial restatement was used as the measure of financial statement reliability, owing to the assumption that the restatement of prior stated earnings is a sign of poor financial and accounting quality, the shareholding interests of the grey directors were employed as the measure of the grey directors' dominance. The study's functional model is designed in line with the general regression model of previous studies (see Agbata, Ekwueme & Jeroh, 2017 [6]; Jeroh, 2019; Ebiaghan & Jeroh, 2020) [16, 27, 28-31] and presented below:

Financial statement reliability = *f* (grey directors' dominance) ……………….. (1)

In line with prior studies, the study included two control variables: firm age and firm profitability. The conventional assumption is that older and more profitable firms are more likely to have a more reliable report in order to maintain the confidence of their teeming shareholders and ward-off competitors (Otuya & Emiaso, 2022; Eluyela *et al.*, 2020) [19, 43].

Thus, the econometric form of the binary regression model, with the introduction of the control variable, is given as:

$$LogRESTATE(\mathbf{p/1-p}) = \beta_0 + \beta_1 * GREYDIR_{i,t} + \beta_2 * AGE_{i,t} + \beta_3 * ROA_{i,t} + \epsilon_{i,t}.$$

Where

- Restate = Financial reports' restatement (proxy for financial statement reliability)
- GreyDir = The dominance of grey directors
- AGE = Age of Firm
- ROA = Return on Assets
- $\beta_1 \ldots \beta_3$ = Regressors
- it = Firms at time t.
- ε = Error Term (variables not captured in the model)

Table 1. *Operationalisation* of the Variables

Notations	Definition	Type	Measurement
Restate	Financial statement reliability	Dependent	Dummy variable of 1 if firm '*i*' restated prior year earnings in year '*t*'; and 0 if there was no restatement.
Greydir	Grey directors	Independent	Percentage of the company shares owned by the grey directors.
ROA	Firm profitability	Control	Net income divided by total assets.
Age	Firm Age	Control	The Number of years a company has been listed in the Nigerian Exchange

Analysis and Findings

Table 2: Summary of the Descriptive Statistics

	Restate (Dummy)	Greydir (%)	ROA (ratio)	AGE (nos.)
Mean	0.18484	21.699	0.0269	21.833
Median	0.00000	10.054	0.0192	19.000
Maximum	1.00000	85.860	0.8719	53.000
Minimum	0.00000	-0.530	-0.5974	3.0000
Std. Dev.	0.38876	25.447	0.0849	11.639
Observations	330	330	330	330

Where: RESTATE = Occurrence of financial restatements (proxy for financial statement reliability), GREYDIR = proportion of company share held by independent grey directors (proxy for the dominance of grey directors in corporate boards), ROA = return on assets (proxy for firm profitability); and AGE = firm listing age.

As observed from the result of the descriptive statistics presented in Table 2, the variable RESTATE showed a mean value of 0.1848, which indicates that about 18.5% of the sampled financial companies restated their financial statements within the 11-year study period. In other words, the 330 firm-year studied observations contained over 18% prior-year earnings restatements. The median value of 0.00 indicates that more than 50% of the financial companies in the sample did not restate their prior audited earnings during the 11-year study period.

On the variable GREYDIR, the mean value of 21.698 suggests that the independent (outside) directors of the sample companies own about 22% of the shares of the sampled financial companies. The minimum and maximum values of 0.00 and 85.86, respectively, suggest that the highest percentage of shares owned by an independent director among the sampled financial companies is about 86%, while there are some companies among the sample where the grey directors do not hold any company shares. The median value also showed that about 15 companies out of the sampled 30 have up to 10% of their shares under the control of the grey directors.

It can also be observed that the variable of return on assets (ROA) has a mean value of 0.0269 (approximately 3%) with minimum and maximum values of -0.597 and 0.8719, respectively. The average ROA of about 3% for the sampled financial companies, taken together, can be considered a moderate overall performance, although the higher, the better. However, the maximum value of over 87% (i.e., 0.8719) implies that some financial organisations in the sample were very efficient at utilising their assets to produce earnings, while others had poor performance in relation to their total assets due to a negative minimum value of -0.597. However, the standard deviation of about 8.5% is an indication of the greater dominance of high-performing financial firms among the sample. Jewell and Mankin (2011) [32] suggest that an ROA of about 5% is considered a good performance.

Also, the mean variable of AGE (measured using the year the firms got listed on the NGX) showed that the average age of the sampled financial firms is approximately 22 years. The minimum value for firm age is 3, while the maximum value is 53, suggesting, among other things, that the sampled companies have an age listing of 3 years (smallest) and 53 years (largest). Thus, some of the sampled financial companies were listed just about two years after the start of the study, while the oldest firm in terms of listing year has been listed for about 53 years.

Table 3: ***Correlation Analysis***

Prior researches in corporate reporting, auditing, finance amongst others have applied the correlation analysis to examine the direction of relationship among the proxies of their respective variables of concern (see Ukolobi & Jeroh, 2020; Izukwe & Jeroh, 2022, Ozegbe & Jeroh, 2022) [26, 28-31, 44, 47].

Table 3: *Correlation Analysis*

Variables	Restate	Greydir	ROA	Age
Restate	1.000000	-0.117734 (t = -2.147194) (p = 0.032**)	0.069389 (t = 1.259730) (p = 0.2087)	0.106912 (t = 1.947428) (p = 0.052*)
Greydir	-0.117734 (t = -2.147194) (p = 0.032**)	1.000000	-0.002224 (t = -0.040285) (p = 0.9679)	-0.147127 (t = -2.693908) (p = 0.007***)
ROA	0.069389 (t = 1.259730) (p = 0.2087)	-0.002224 (t = -0.040285) (p = 0.9679)	1.000000	-0.095980 (t = -1.746339) (p = 0.082*)
Age	0.106912 (t = 1.947428) (p = 0.052*)	-0.147127 (t = -2.693908) (p = 0.007***)	-0.095980 (t = -1.746339) (p = 0.082*)	1.000000

NB: ***, **, *. Significant at the 1%, 5%, and 10% levels, respectively.

From Table 2, the result of the correlation matrix revealed mixed coefficients of both positive and negative values. Specifically, the key variables of interest in the study (GREYDIR) showed a negative correlation coefficient of -0.118. This means that it moves in the opposite direction as with the variable RESTATE. The p-value of 0.032 is equally significant at the 5% level, which implies that firms with a greater dominance of grey directors are associated with a lesser likelihood of financial restatement, which implies higher financial statement reliability. The variables ROA and AGE have positive coefficients, but only the latter is statistically significant at the 10% level. This implies that older financial companies are associated with a greater likelihood of financial restatement.

Multivariate analysis

The binary logit panel regression technique was employed due to the dichotomous nature of the dependent variable, financial restatement. The outcome of the Hosmer-Lemeshow test of goodness of fit for the binary regression is presented in Table 3.

Table 4: Binary specification diagnostic test

Goodness-of-Fit Evaluation for Binary Specification									
Andrews and Hosmer-Lemeshow Tests									
Equation: UNTITLED									
Date: 11/30/23 Time: 21:53									
Grouping based upon predicted risk (randomize ties)									
Quantile of Risk			Dep=0		Dep=1		Total	H-L	
	Low	High	Actual	Expect	Actual	Expect	Obs	Value	
1	0.0319	0.1015	32	30.3404	1	2.65963	33	1.12640	
2	0.1022	0.1338	24	29.1238	9	3.87618	33	7.67447	
3	0.1339	0.1496	27	28.3272	6	4.67281	33	0.43914	
4	0.1499	0.1716	30	27.5988	3	5.40119	33	1.27640	
5	0.1719	0.1844	26	27.1103	7	5.88970	33	0.25478	
6	0.1845	0.1935	29	26.7518	4	6.24816	33	0.99784	
7	0.1935	0.2073	29	26.4416	4	6.55844	33	1.24560	
8	0.2083	0.2328	26	25.8304	7	7.16955	33	0.00512	
9	0.2334	0.2834	27	24.7052	6	8.29476	33	0.84800	
10	0.2836	0.5711	19	22.7020	14	10.2980	33	1.93454	
Total			269	268.932	61	61.0684	330	15.8023	
H-L Statistic			15.8023		Prob. Chi-Sq(8)		0.1453		
Andrews Statistic			18.0984		Prob. Chi-Sq(10)		0.1533		

From Table 3, the table counts of the expected/observed (actual) columns showed very closely related values that are not different enough to suggest a theoretically unfit model. Despite the large dataset of 330 firm-year observations, the actual H-L value stood low at 14.8, df (10), while the p-value for the (H-L) statistic test (14.5%) is observed to be greater than the critical significance level of 0.05 (5%) - providing strong evidence of minimal differences between the actual and predicted values for the decile. This means that there is no sufficient evidence to conclude that the model does not fit the data.

Table 5: Binary logistic regression result

Dependent Variable: Restate				
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)				
Date: 11/30/23 Time: 20:47				
Sample: 2012 2022				
Included observations: 328				
Convergence achieved after 4 iterations				
Coefficient covariance computed using observed Hessian				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-0.675981	0.169005	-3.999780	0.0001
Greydir	-0.005583	0.002818	-1.981253	0.0476**
ROA	1.122256	0.883481	1.270266	0.2040
Age	0.010652	0.006041	1.763331	0.0778*
McFadden R-squared	0.032053	Mean dependent var		0.185976
S.D. dependent var	0.389681	S.E. of regression		0.384602
Akaike info criterion	0.954267	Sum squared resid		47.92572
Schwarz criterion	1.000524	Log likelihood		-152.4998
Hannan-Quinn criter.	0.972722	Deviance		304.9997
Restr. deviance	315.0995	Restr. log likelihood		-157.5498
LR statistic	10.09985	Avg. log likelihood		-0.464939
Prob(LR statistic)	0.01773**			
Obs with Dep=0	267	Total obs		328
Obs with Dep=1	61			

NB: ***, **, *= significant at 1%, 5% & 10%, respectively

A look at Table 4.8 shows the results of the binary logit regression test. The McFadden R-squared value, which shows how all the explanatory variables affect the dependent variable (RESTATE), is 3.2%. This implies that the model has fairly low explanatory power. The standard error of regression (0.384) is far lower than the 2.5 benchmark, showing that the observations are very close to the fitted lines. A 5% level of confidence means that the hypothesis that the model is statistically significant cannot be thrown out. This is shown by the LR statistics (10.0999) and its corresponding probability value (p-value = 0.0177 < 0.05). This suggests that the included variables explained a noteworthy proportion of the variations in the proxy of audit quality (i.e., financial restatements) employed by the study.

On the basis of the performance of the individual variables, the result shows that the independent variable GREYDIR appears statistically significant owing to its probability value of 0.0476, which is statistically significant at the 5% level of confidence. The negative coefficient sign of -0.00558 for the variable RESTATE shows that it possesses an inverse influence on the response variable of audit quality. This can be interpreted to mean that increasing changes in GREYDIR are associated with a lesser likelihood of restatement occurring. In other words, going by the measure of restatement employed (1 for restatement, 0 otherwise), the financial firms with a high dominance of grey directors are 0.6%, with 95% confidence, more likely to be associated with a lesser likelihood of financial restatement, which implies high audit quality.

Further, the remaining two control variables (ROA and AGE) showed positive coefficients each. However, while the p-value of ROA is too high at 20.4%, that of AGE appeared significant at the 10% level of significance due to the p-value of 0.0778 (i.e., > 10%). The positive and robust coefficient value of AGE and a significant z-statistic of 1.76 are indications that the probability that a given financial company restates its earnings becomes more likely as the company becomes older. In other words, older listed financial companies are 1.1% more likely to be associated with financial restatements at the 10% significance level of confidence.

Following from the result from Table 4, there is sufficient evidence to not reject the alternative hypothesis that higher dominance of grey directors is associated with greater financial statement reliability. This is due to the significant negative impact of grey director shareholding and the financial restatement proxy of audit quality. Empirically, the study is similar to those of Ogungbade, Adekoya and Olugbodi (2021) [38], who investigated the drivers of financial reporting integrity from the dimension of audit quality measures (audit fees, audit tenure, and audit firm size) in the Nigerian financial industry and found that audit firm size, audit tenure, and audit fees affected the integrity of financial reporting quality. The result is also in tandem with those of Elewa and El-Haddad (2019) [17], who examined the impact of audit quality on firm performance and the financial report and found a positive and significant impact of the board and auditor-related factors as the propensity of a guaranteed financial report integrity. The study also corroborates the Malaysian study of Abdullah *et al.* (2010) [2], which found empirical evidence that the presence of outside (independent) entities was a strong corporate governance mechanism that significantly reduced fraud-based financial misstatements. However, not many of the prior Nigerian studies have expressly studied the impact of grey directors on the audit quality measure of restatements.

Implication, conclusion, and recommendations

The paper explored the role of grey directors in enhancing the quality of financial reporting. The focus is on how the share dominance of the grey directors affects the occurrence of financial restatement, which was used as a proxy for financial statement reliability. Going by the measure of restatement employed, the implication of this result is that the financial firms with greater dominance of grey directors' shareholdings are associated with a lower likelihood of financial restatement, which implies higher audit quality. This outcome is in line with the theoretical projections and expectations of the study. Theoretically, the finding supports the Resource Dependence Theory, which holds that influential equity holders, such as the grey directors, can leverage the high share interest in the company and their connections to demand transparent information reporting in order for them to retain their investments and reputation capital. Existing literature supports the idea that financial markets depend on external board members to guarantee precise financial reporting. A restatement indicates that a financial reporting error went undetected and unaddressed in a previous period, perhaps signalling a failure of the board of directors to oversee and manage the financial reporting process. Hence, the grey directors may jeopardise their reputation, lose their board positions, and encounter shareholder litigation if a restatement occurs.

Following the outcome of this study and its practical and theoretical implications, it can thus be concluded that in terms of the impact of grey directors on the reliability of financial statements, the share dominance of the grey directors is strongly associated with a lesser likelihood of financial restatements, which is a sign of higher financial reporting quality. There is a need for the controlling shareholders and the stakeholders of the financial companies to allow for greater equity ownership by the independent (grey) directors in order to increase their interests in the smooth running of the firm as well as in the monitoring roles. More importantly, companies and shareholders should equally expand the criteria for the appointment of the grey directors to include those that have accounting backgrounds. This would assist them in their oversight function towards the internal reporting mechanisms towards the reduction of material misstatements, which often trigger subsequent restatements.

For further studies, considering that this paper only captured the share dominance of the grey directors as a sole independent variable, further studies can be conducted to include the characteristics of the grey directors, such as ethnicity, nationality, education, and gender, among others, to see how each has an impact on different financial reporting quality constructs.

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