

Board Diversity and Audit Quality among Selected Listed Food and Beverage Firms on the Nigeria Exchange Group

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Abstract

This study aims to determine the effect of ethnicity diversity, skill, expertise, and experience diversity and interaction of ethnicity diversity and skill, expertise, and experience diversity on the audit quality of listed food and beverage firms in Nigeria. The study used an Ex-Post Facto research design. Five beverage companies as of December 2019 that were listed on the Nigerian Exchange Group make up the study's population. A purposive sampling technique was adopted in selecting the three listed food and beverage firms that form the unit of analysis for this study. The panel data were derived from annual reports and accounts with the Nigeria Stock Exchange Factbook for the period of ten years spanning from 2010 to 2019. The Ordinary Least Square statistical technique was adopted in the analysis of data. The statistical procedures were programmed using SPSS 20.0 software. The study discovered that ethnicity diversity and skill, expertise, and experience diversity do not significantly affect audit quality while the interaction of ethnicity diversity and skill, expertise, and experience diversity affects audit quality. Therefore, the study recommends among others that ethnic diversity need not consider in corporate board composition and it should not be made compulsory for board members to have certificates. Related to accounting, have experience in financial reporting or auditing.

Keywords: *ethnicity diversity, skill, expertise and experience diversity, audit quality.*

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INTRODUCTION

The board of directors of the company is the most crucial internal control mechanism for managing and supervising the management team in order to prevent management from acting opportunistically (Rose, 2007). The board performs supervision and advisory duties. As part of its advisory role, the board helps the management make decisions about the strategic and tactical

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course of the business. Monitoring management is how the oversight job is carried out, ensuring that the board reflects and maintains the interests of the company's shareholders (Akpotor et al., 2018; Otuedon & Comfort, 2019). Afterward, the shareholders hired an external auditor to give assurance, ensuring that the financial reports put together by Management provide an accurate and equitable perspective of the organization's financial activities for the specified period. The assurance of users' confidence in the given information is one of the auditors' primary tasks.

The heterogeneity (diversity) of directors is a significant, yet frequently disregarded, an aspect that impacts a board's capacity to carry out its oversight and advisory functions. Investors and authorities from all over the world have recently demanded a more diverse board of directors. The term "board diversity" refers to the composition of the board as a whole, including the skills, traits, and qualities of each board member (Ibrahim & Samad, 2011).

Board diversity has drawn more attention in recent years. The term "board diversity" refers to the composition of the board as a whole, including the skills, traits, and qualities of each board member (Owolabi & Babarinde, 2020). Board diversity is defined by Coffey & Wang (1998) as the differences among a board's directors and members. These distinctions range from more subtle ones like ethnicity, experience, and creed to more obvious ones like age, gender, or skin color. These differences include observable differences such as age, gender, or skin color, as well as less observable differences such as ethnicity, experience, and creed. Recent company failures and the reduction in shareholder wealth have led to harsh criticism of the Board of Directors. The board was in the limelight due to the failure of major companies such as Enron, WorldCom, Cadbury Nigeria Plc, and Oceanic bank plc among others. Some of the monitored arguments for these failings are the absence of efficient control mechanisms. The hypothesis that board diversity offers better management supervision, resulting in a balanced board that is likely to prevent the emergence of information asymmetry, extends the agency theory (Tan & Taufik, 2022).

Diversity in the boardroom has been an issue in recent years. Although it is widely acknowledged that diversity is a desirable board attribute, research on the effects of board diversity on audit quality has not yet produced any definitive results due to the disparities in diversity's measurement and conceptualization. For example, according to Beasley (1996), the size of the board is positively correlated with the likelihood of financial statement fraud. According to studies by Lipton & Lorsch (1992) and Monks & Minow (1995), greater boards are better able to devote more time and energy to management oversight. Meanwhile, Harymawan & Nismara (2022) discover that gender diversity among board directors of family firm positively impact firm performance in innovation. Also, Marimuthu (2008), Carter et al. (2003), Kartika & Pramuka (2019), and Oriakhi et al. (2021) discovered an association between audit quality and audit committee size that was both favorable and substantial.

In a similar tone, Uzun et al. (2004) and found a negative relationship between audit quality and board size. Lipton and Lorsch (1992) said large boards of directors are less amenable to effective monitoring and easier to be controlled by the CEO. Studies by Xie et al. (2003), document an inverse relationship between the size of the board and the quality of audit reports. Yermack (1996) and Eisenberg et al. (1998) also found a negative relationship between the size of the board and the value of the company. The reasons influencing the decision of board size and structure in this class of organizations may be different from those driving board size in large public firms,

making studies of board-size impacts in smaller firms of interest. Khan & Abdul Subhan (2019) reveal that even though female board members improved the performance of the company, however, there is no correlation between the number of female board members and the firm profitability.

Even more concerning is the fact that, as far as we are aware, there is little research on the subject in Nigeria, despite the fact that the majority of studies are taking place in industrialized nations. This severely restricts our ability to comprehend how company board diversity could positively or negatively influence the audit quality of informative qualities. Most of these studies focus on the relationship between board size, gender diversity, audit committee composition, and audit quality while neglecting skills, expertise and experience, and ethnicity diversity of board members. As a result, this study has been influenced by the inconsistent and contradictory findings in earlier research as well as the paucity of empirical studies on corporate board diversity and audit quality in Nigeria. Therefore, the purpose of this study is to close the knowledge gap, close the gap in the evidence, and strengthen the empirical evidence from Nigeria related to the abovementioned.

This study has specific objectives, first, to confirm the effect of ethnicity diversity on the audit quality of listed beverage firms on the Nigeria Exchange Group. Second, to confirm the effect of skill, expertise, and experience diversity on the audit quality of listed beverage firms on the Nigeria Exchange Group. Third, to confirm the effect of the interaction of ethnicity diversity and skill, expertise, and experience diversity on the audit quality of listed beverage firms on the Nigeria Exchange Group.

This study will be guided by the following null hypotheses:

H₀₁: Ethnicity diversity has no significant impact on the audit quality of Nigeria's listed beverage firms.

H₀₂: Skill, expertise, and experience diversity have no significant impact on the audit quality of Nigeria's listed beverage firms.

H₀₃: Interaction of ethnicity diversity and skill, expertise, and experience diversity does not affect audit quality.

This study focuses on the influence of ethnicity diversity, skill, expertise, and experience diversity on audit quality listed food and beverage firms on the Nigerian Exchange Group. The study covers the period from 2010 to 2019. The choice of this period is based on the fact that there are several financial crises between these periods which have led to clamoring for audit quality of listed firms in Nigeria.

The study will assist the management of manufacturing firms to strengthen board diversity among their board members since board diversity is rapidly evolving with many stakeholders demanding for diversity among board members. It will help in enhancing the understanding and knowledge of regulatory authorities like the Corporate Affairs Commission and the Financial Reporting Council of Nigeria in making regulations that will encourage diversity in the board composition of listed firms.

RESEARCH METHOD

This study used an Ex-Post Facto research design because data for the analysis was derived from published annual financial reports and accounts of selected food and beverage firms. However, the data to be used is already in existence and cannot be influenced by the researcher.

Five beverage companies as of December 2019 that were listed on the Nigerian Exchange Group make up the study's population. The companies include Champion Breweries Plc, Golden Guinea Breweries Plc, Guinness Nigeria Plc, International Breweries Plc, Nigerian Breweries Plc,

A purposive sampling technique was adopted in selecting three brewery firms that form the unit of analysis for this study. This technique enables the researcher to conveniently select food and beverage firms that have complete data in the annual report and account for the period of ten years spanning from 2010 to 2019; firms whose stocks are actively traded on the floor of the Stock Exchange for the period of study; firms that consistently filed their annual report and accounts for the study period. The selected firms are International Breweries Plc, Guinness Nigeria Plc, and Nigerian Breweries Plc,

This study adapts Akpotor et al. (2018) model stated:

$$AUDQUA_{it} = \beta_0 + \beta_2 ETHDI_{it} + \beta_3 SEEDI_{it} + U_{it} \dots \dots \dots (1)$$

Table 1. Measurement of Variables

Variable type	Indicators	Measurement unit	Variable symbol
Independent variables (Corporate board diversity)			
	ethnicity diversity	The number of foreign Nationalities on board is Divided by the total board size.	ETHDI
	skill, expertise, and experience diversity	The percentage or proportion of board members who have an accounting, financial, or related certificate to the total number of members.	SEEDI
Dependent variables (Audit Quality)			
	Audit Fees	Money is paid to the external auditor for their service.	AUQT

Source: Researcher, 2022

They used variables such as discretionary accrual as a proxy for audit quality while Ethnic Diversity of the board and foreign board members were used to proxy board diversity. Our study modified the study as follows:

$$AUQT_{it} = \beta_0 + \beta_1 ETHDI_{it} + \beta_2 SEEDI_{it} + \beta_3 INTETHSEEDI_{it} + U_{it} \dots \dots \dots (2)$$

Where:

AUQT = Audit Quality

ETHDI = Ethnicity Diversity

SEEDI = Skill, Expertise, and Experience Diversity

INTETHSEED = interaction of Ethnicity Diversity and Skill, Expertise, and Experience Diversity
 β_0 = Intercept Coefficient
 β_1, β_2 , = slope of coefficient
t = Time dimension of the variant

RESULTS AND DISCUSSION

Results

Hypothesis One

The first goal of our study is to confirm and prove the effect of ethnicity diversity on the audit quality of listed beverage firms on the Nigeria Exchange Group. To achieve this objective, the first hypothesis test is as follows:

H_{a1}: Ethnicity diversity has a significant impact on the audit quality of Nigeria's selected listed food and beverage firms.

H_{o1}: Ethnicity diversity has no significant impact on the audit quality of Nigeria's selected listed food and beverage firms.

Table 2. ANOVA^a The Ethnicity diversity and audit quality

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	162257094.910	1	162257094.910	.782	.384 ^b
	Residual	5809956260.057	28	207498437.859		
	Total	5972213354.967	29			

a. Dependent Variable: Audit fees

b. Predictors: (Constant), Ethnicity diversity

Source: Data processed (SPSS 20.0)

Table 3. The Ethnicity diversity and audit quality regression coefficient

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	45584.056	14119.278		3.228	.003
	Ethnicity diversity	-24897.549	28155.430	-.165	-.884	.384

Source: Data processed (SPSS 20.0)

The R square and the corrected R square are 0.165 and 0.027, respectively, according to Table 4's model summary. This suggests that ethnic diversity accounted for the 02.7% variance in audit quality that was observed across the sampled group. Furthermore, it can be seen from Table 2 (ANOVA Table) that ethnic diversity is not statistically significant in predicting the audit quality of certain listed food and beverage enterprises because the probability value obtained (p-value),

which is 0.38, is higher than 0.05 ($P > 0.05$). This was further supported by Table 3, where the ethnic diversity coefficient showed a negative ($t, -0.884$) impact on the audit quality of particular listed food and beverage enterprises.

Decision: Based on the analysis in the tables, we reject the alternative hypothesis that claims that ethnic diversity has no appreciable impact on the audit quality of certain listed food and beverage enterprises in Nigeria and accept the null hypothesis.

Table 4. Model Summary for Ethnicity diversity and audit quality

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	.165 ^a	.027	-.008	14404.80607	.506

Note: $R^2 = .027$, $f(1, 28) = 0.384$, $p = 0.38$

Source: Data processed (SPSS 20.0)

Hypothesis Two

The second goal of our study is to confirm and prove the effect of skill, expertise, and experience diversity on the audit quality of listed beverage firms on the Nigeria Exchange Group. To achieve this objective, the first hypothesis test is as follows:

H_{a2} : Skill, expertise, and experience diversity have a significant impact on the audit quality of Nigeria's selected listed food and beverage firms.

H_{o2} : Skill, expertise, and experience diversity have no significant impact on the audit quality of Nigeria's selected listed food and beverage firms.

Table 5. ANOVA^a Skill, expertise, and experience diversity and audit quality

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	391396057.288	1	391396057.288	1.964	.172 ^b
	Residual	5580817297.679	28	199314903.489		
	Total	5972213354.967	29			

a. Dependent Variable: Audit fees

b. Predictors: (Constant), skill, expertise, and experience diversity

Source: Data processed (SPSS 20.0)

Table 6. The Skill, expertise, and experience in diversity and audit quality regression coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
		1	(Constant)	51809.300		
	skill, expertise, and experience diversity	-67869.832	48432.673	-.256	-1.401	.172

Source: Data processed (SPSS 20.0)

Table 7. Model Summary for Skill, expertise, and experience diversity and audit quality

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	.256 ^a	.066	.032	14117.89303	.511

Note: $R^2 = .066$, $f(1, 28) = 1.964$, $p = 0.17$

Source: Data processed (SPSS 20.0)

The R square and the corrected R square are 0.259 and 0.066 respectively, as can be seen by looking at Table 7's model summary. This suggests that the diversity of board talent, expertise, and the experience was responsible for the 06.6% difference in audit quality seen among the sampled population. The fact that the probability value obtained (p-value), which is 0.17, is larger than 0.05 ($P > 0.05$), further supports the finding from Table 5 (ANOVA Table), which shows that board skill, knowledge, and experience diversity are not statistically significant to predict audit quality. Table 6's coefficient of board skill, knowledge, and experience diversity showed a negative (t, -1.401) influence of board skill, expertise, and experience diversity on the audit quality of chosen listed food and beverage enterprises, which provided more evidence of this.

Decision: Based on the analysis in the tables, we support the null hypothesis and reject the alternative hypothesis, which states that the diversity of the board's skill, competence, and experience has no appreciable influence on the audit quality of Nigerian listed food and beverage companies.

Hypothesis Three

The third goal of our study is to confirm and prove the interaction of ethnicity diversity and skill, expertise, and experience diversity on the audit quality of listed beverage firms on the Nigeria Exchange Group. To achieve this objective, the first hypothesis test is as follows:

H_{a3}: Interaction of ethnicity diversity and skill, expertise, and experience diversity affects audit quality

H_{o3}: Interaction of ethnicity diversity and skill, expertise, and experience diversity does not affect audit quality

Table 8. ANOVA^a Interaction of ethnicity diversity and skill, expertise and experience diversity and audit quality

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1179371255.411	2	589685627.706	3.322	.051 ^b
	Residual	4792842099.556	27	177512670.354		
	Total	5972213354.967	29			

a. Dependent Variable: Audit fees

b. Predictors: (Constant), Ethnicity diversity, skill, expertise, and experience diversity

Source: Data processed (SPSS 20.0)

Table 9. The Interaction of ethnicity diversity and skill, expertise and experience diversity and audit quality regression coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	101135.277	26629.327		3.798	.001
1	skill, expertise, and experience diversity	-130533.128	54531.893	-.492	-2.394	.024
	Ethnicity diversity	-65460.356	31069.679	-.433	-2.107	.045

Source: Data processed (SPSS 20.0)

Table 10. Model Summary for Interaction of ethnicity diversity and skill, expertise and experience diversity and audit quality

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	.444 ^a	.197	.138	13323.38810	.595

Note: $R^2 = .139$, $f(2,27) = 3.322$, $p = 0.05$

Source: Data processed (SPSS 20.0)

The R square and the corrected R square are 0.444 and 0.197, respectively, according to Table 10's model summary. This suggests that the interaction of ethnic diversity and skill, knowledge, and experience variety was responsible for the 19.7% difference in audit quality seen within the sampled population. Furthermore, Table 8 (ANOVA Table) showed that the interaction of ethnic diversity and skill, expertise, and experience diversity is statistically significant to forecast the audit quality of Nigeria's chosen listed food and beverage firms because the probability value obtained (p-value), which is 0.05, is not greater than 0.05. The coefficient of the interaction between ethnic diversity and skill, knowledge, and experience diversity was more evidence of this in Table 9.

Decision: We accept the alternate hypothesis and reject the null hypothesis, which states that the interaction of ethnic diversity and skill, expertise, and experience diversity affects the audit quality of particular listed food and beverage firms in Nigeria. This conclusion is based on the analysis in the tables.

Discussion

The finding of the first hypothesis shows that the audit quality of Nigeria's listed food and beverage companies is not significantly impacted by ethnic diversity. This study is not consistent with the studies that observed a negative relationship between ethnic diversity and earning management (Enofe et al., 2017), firm performance (Omoye & Eriki, 2013), and market performance (Ogboi et al., 2018). This current study is consistent with the study that no relationship between board

ethnicity to audit quality (Otuedon & Comfort, 2019; Saidu & Aifuwa, 2020). These findings imply that the ethnic affiliation of board members is not significant to the audit quality or negatively influences the company's financial or market performance.

On the positive relation, Garba & Abubakar (2014) and Khan & Subhan (2019) proved that the gender diversity of board members determined the business performance. According to agency theory, which Jensen & Meckling (1976) developed, the board serves as a control mechanism for balancing the interests of managers and shareholders with regard to financial information (Vitolla et al., 2020). The finding in this study indicates no relationship between board diversity to audit quality which means the diversity cannot serve as interest balancing of managers and shareholders. Alternatively, the mechanism of control may be using other factors besides ethnicity board diversity such as other components of corporate governance. As mentioned by Alhababsah & Yekini (2021), who studied in Jordan family firms. Their outcome can be primarily explained by the prevalence of family enterprises in Jordan, where the female directors may be hesitant or unable to exert effective supervision because they are linked to the ruling families. The Nigerian food and beverage business may use a similar rationale.

The results of the second hypothesis show that variety in ability, expertise, and experience does not significantly affect the audit quality of Nigerian-listed food and beverage companies. This study is not consistent with the studies that revealed a negative relationship between expertise diversity on financial performance (Tarigan et al., 2018) and corporate investment (Harjoto et al., 2018). However, some studies have a similar result to the current study such as Hassan et al. (2020) and Oriakhi et al. (2021). They observed no significant relationship between skill, expertise and experience diversity, and audit quality. The implication of this finding is that skill, expertise, and experience diversity of board members are not relevant to the audit quality of their firms. It signifies that diversified boards are more successful at monitoring corporate performance and information quality than homogenous boards in terms of functional expertise and firm-specific knowledge.

On the positive relation, the board with master's degree holders (Mustafa et al., 2020), audit team diversity of senior, managers, and partners (Cameran et al., 2018), audit committee industry expertise (Alhababsah & Yekini, 2021), and audit committee financial expertise (Sharhan & Bora, 2020), ensuring high audit quality. Following agency theory, in order to eliminate asymmetric information and, as a result, agency costs, it is crucial that the board not only encourages managers to adopt quality reporting—which might be only a formal choice—but also ensures that good quality data is delivered (Vitolla et al., 2020). In this regard, some board attributes, such as size, independence, degree of activity, and diversity, may serve as a way to raise the level of control over managers' work while enhancing the caliber of the information presented.

The findings of the third hypothesis reveal that the interaction of ethnicity diversity and skill, expertise, and experience diversity affects the audit quality of listed brewery firms in Nigeria. This is not consistent with studies of negative interaction between ethnicity diversity and skill, expertise, and experience diversity affects firm performance (Garba & Abubakar, 2014; Omoye & Eriki, 2013).

On the positive relation, (Harjoto et al., 2018) and (Oriakhi et al., 2021) studies observed a significant relationship between the interaction of ethnicity diversity and skill, expertise, and experience diversity affects audit quality. This finding implies that mixing ethnicity diversity and skill, expertise, and experience diversity affect audit quality. It shows that the synergy of ethnicity diversity and skill, expertise, and experience diversity will induce audit quality among our listed firms. Under agency theory, control by the board is a strategy for fostering the distribution of higher-quality information, which reduces information asymmetry and the agency issues that follow. However, the board must have certain qualities in order to efficiently perform its monitoring role. Such qualities include the intersection between diversity in ethnicity with diversity in knowledge, expertise, and experience.

CONCLUSIONS

Previous research has studied corporate board diversity on audit quality. However, the issue of board members in Nigeria has come to our attention since many cases involve the company's performance, especially food and beverage companies. This study assesses audit quality as the proxy of corporate performance. Considering the results of this study, it can be observed that ethnicity diversity and skill, expertise, and experience diversity do not significantly affect audit quality while the interaction of ethnicity diversity and skill, expertise, and experience diversity affect audit quality.

Based on these results, this study contributes to the management of manufacturing companies to increase the diversity of their board members, as demand for diversity on boards is growing among stakeholders and board diversity is changing quickly. It will aid in improving the comprehension and expertise of regulatory agencies like the Corporate Affairs Commission and the Financial Reporting Council of Nigeria in order to enable them to create policies that would promote diversity in the board composition of listed companies.

Some limitations must be noted in this current study. First, we only studied food and beverage companies with purposive sampling, three companies are selected to be studied. The small sample might hinder the generalization of our findings. Second, even though we chose the years 2010 through 2019 based on the fact that there have been multiple financial crises in the intervening years, which have fueled calls for improved audit standards for listed companies in Nigeria, it is imperative to gather data during the pandemic crisis that starts in early 2020. Therefore, future studies might include not only the food and beverage industry but also other industries that were impacted by the pandemic crisis.

Given our findings and limitations, the following recommendations are made. First, the study reveals that the ethnic mix of individuals from various racial, cultural, and religious backgrounds in a board does not significantly affect audit quality therefore ethnic diversity need not be considered in corporate board composition. Second, the study reveals that skill, expertise, and experience diversity have no significant effect on audit quality therefore it should not be made compulsory for board members to have a certificate in accounting, or have experience in financial reporting or auditing. Third, the study shows that the synergy of ethnicity diversity and skill,

expertise, and experience diversity will induce audit quality therefore in the composing board of directors; ethnicity diversity should be mixed with skill, expertise, and experience diversity to enhance audit quality.

List of Abbreviations

AUQT: Audit Quality, ETHDI: Ethnicity Diversity, SEEDI: Skill, Expertise, and Experience Diversity, INTETHSEED: interaction of Ethnicity Diversity and Skill, Expertise, and Experience Diversity

Authors' Contribution

SIA provided direction for the entire project, develop research ideas, supervise data collection, and contribute to the writing of articles. VAA collected data and performed data processing and interpretation.

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Conflicts of Interest

The authors declared no competing interests.

Availability of Data and Materials

Data are available from the public sources cited in the text.

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APPENDIX

International Breweries plc				
s/n	Years	Audit quality (audit fees)	skill, expertise and experience diversity	ethnicity diversity
1	2010	10,840	0.325	0.416
2	2011	10,964	0.325	0.416
3	2012	12,490	0.325	0.583
4	2013	12,490	0.325	0.583
5	2014	18,796	0.327	0.538
6	2015	21,618	0.325	0.416
7	2016	21,618	0.325	0.416
8	2017	23,780	0.328	0.454
9	2018	28,838	0.325	0.416
10	2019	59,609	0.307	0.384
11	2010	30,306	0.276	0.454
12	2011	33,264	0.276	0.446
13	2012	45,801	0.276	0.455
14	2013	40,043	0.230	0.454
15	2014	43,692	0.233	0.451
16	2015	46,239	0.233	0.456
17	2016	49,591	0.233	0.460
18	2017	56,534	0.276	0.454
19	2018	56,534	0.384	0.447
20	2019	61,440	0.272	0.454
21	2010	24,162	0.272	0.454
22	2011	26, 578	0.272	0.454
23	2012	28, 595	0.272	0.454
24	2013	31,575	0.166	0.750
25	2014	33,470	0.166	0.750
26	2015	35,144	0.250	0.583
27	2016	30,000	0.250	0.583
28	2017	32,500	0.200	0.600
29	2018	35,000	0.200	0.600
30	2019	38,000	0.200	0.400

Source: Researcher, 2022