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Voluntary disclosure practices amongst listed companies in Nigeria

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ABSTRACT

This study examines voluntary disclosure practices amongst listed companies in Nigeria. Results from univariate and multivariate analyses of 52 listed companies suggest an average voluntary disclosure of 44% based on modified Meek, Roberts and Gray (1995) disclosure index comprising 24 disclosure items. The study found significant positive relationship between voluntary disclosure and firm size, measured as the natural logarithm of total asset. The study documents significant positive relationship between market-based definition of firm performance and voluntary disclosure. The study also found significant negative relationship between percentage of block share ownership and percentage of managerial share with firm disclosures. The study has important implication for both individual and institutional investors globally, regulators and policy makers in developing economies.

1. Introduction

Overall, disclosure studies are important considering that academics (Botosan, 1997; Healy & Palepu, 2001) have argued that improvements in firm transparency through quality disclosure (Ball, Robin, & Wu, 2003) in the annual report can reduce information asymmetry. Previous studies have also shown that firms that are upfront in their disclosures tend to experience cheaper cost of capital (Botosan, 1997; Karamanou & Vafeas, 2005; Leuz & Verrecchia, 2000; Sengupta, 1998). Information in the annual reports should be disclosed to reflect timeliness (Ball & Shivakumar, 2005a), relevance (Ball, Robin, & Sadka, 2008), comparability (Lin & Wang, 2001) and understandability (Courtis, 1998; Smith & Taffler, 1992).

Undoubtedly, differences exist in disclosure practices across countries due to a range of reasons (Nobes, 1998) some of which include differences in historical antecedents, legal, economic and political trajectories and institutional differences (La Porta, Lopez-de-Silanes, & Shleifer, 2008). Previous studies have rightly examined disclosure practices in different socio-economic and political settings, to improve our knowledge of the dynamics of disclosure practices. This current study addresses disclosure practices in a developing economy—Nigeria. Understanding disclosure practices in the context of different economic systems generally, and in the African context in particular is important for a number of reasons.

Firstly, the impact of globalisation and financial liberation have further increased the scope of global market integration (Webb, Cahan, & Sun, 2008) facilitated by unprecedented advancement in technology (Cerny, 1994). Market integrations have been found to contribute to increased global mobility in factors of production, especially capital (Guoqing, Yanhui, & Xiaojuan, 2002; Webb et al., 2008). Studies have reported improvements in investment opportunities due to globalisation and market integration and its impact on assets risk management through international portfolio diversifications (Butler & Joaquin, 2002). Some of these investment opportunities are in the developing economies including those of Africa. Therefore, investment in these economies require a considerable understanding of a number of issues not least their accounting and reporting behaviours.

Secondly, benefits of global market integration notwithstanding, it has also made markets more vulnerable and riskier due to contagion effects (Laux & Leuz, 2009; Masih & Masih, 1999). The consequences of market imperfections and frictions in one end of the global economy can spread quite quickly to other parts (e.g. the Subprime market crisis). One of the causes relates to reporting irregularities, for example, accounting for financial instruments and derivatives (Arnold, 2009). These instruments are not only complex in designed, but also their measurements, recognition and subsequent disclosures remain loosely regulated. The international accounting standard board's (IASB's) discussion paper on fair value accounting: “preliminary Views on Financial Statement Presentation” (IASB, 2008; Laux & Leuz, 2009) has been conceived to mitigate some of these problems in the future. Meanwhile, a broad understanding of reporting and disclosure practices in different market systems including markets in Africa is crucial to preventing future global reporting crises.

Thirdly, the IASB's harmonisation of accounting standard agenda could be seen as a long-term solution to the variations in the preparation and disclosures of accounting transactions in the annual reports. Harmonisation of accounting standards is important in enhancing understandability, comparability and improving decision usefulness of the annual reports, especially with increase in cross border activities such as international listing of stocks and cross border Merger and Acquisitions (Giovanni, 2005; Karolyi, 2006). Studies on reporting and

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disclosure practices amongst listed companies in Nigeria are therefore very important for both individual and institutional investors globally, market regulators, academics and other stakeholders by creating greater awareness on reporting practices.

Fourthly, a demand side argument also motivates a study such as this, on the ground that at macroeconomic level, most of the developing economies require substantial foreign direct investment to support internally generated capital stock necessary for growth and developments. Similarly, firms operating in these economies could benefit from foreign investments in various ways. However, foreign investors from higher disclosure and more transparent systems would demand comparable protection, level of transparency and disclosure from companies in the developing economies or higher returns in lieu as a prerequisite for their investments; this is similar to the bonding effects of cross listing at a broader level (Doidge, 2004; Licht, 2003). Therefore, an understanding of current disclosure practices is important not only for potential foreign investors, but also for policy makers and international organisations that may be keen to achieve economic growth and development within the recipient economies.

Lastly, Nigeria is chosen for this study because of its size, with over 140 million people; she is also the 8th largest producer of oil which provides her with over 90% of her total revenue. Amongst the sub-Saharan African countries, she plays influential roles both in the political and economy landscapes of the area for example in Economic Community of West African States (ECOWAS) and African Union (AU). Thus, an understanding of the disclosure practices amongst listed companies in Nigeria is important in understanding reporting and disclosure practices in the West African region. Improvements in disclosure practices in Nigeria could influence practices in other neighbouring countries through 'spatial effects syndrome'.

2. Regulatory framework for accounting and financial reporting in Nigeria

Three statutory bodies share the responsibility for regulating accounting and financial reporting in Nigeria. The Corporate Affairs Commission (CAC) has responsibility for the supervision of company formation, registration, incorporation and winding up. The Securities and Exchange Commission (SEC) for regulating the capital market, and the Nigerian Stock Exchange (NSE), for ensuring compliance with the listing rules and reporting requirement for companies listed on the exchange in addition to providing a trading platform for listed equity and debt. The Nigerian Accounting Standard Board (NASB) is responsible for the introduction, review and removal of local accounting standard (Okike, 2007; ROSC, 2004).

General legal requirements for the preparation of financial statements by limited companies in Nigeria are contained in the provisions of the Companies and Allied Matters Act of 1990 (CAMA, 1990) section 334 subsections 2(a)–(i). This is in addition to specific legal requirements such as the Banks and Other Financial Institutions Act (1991) for firms operating in the banking sector, the Nigerian Insurance Act (2003) for firms operating in the insurance sub sector amongst others (Nmehielle & Nwauche, 2004).

2.1. Mandatory disclosure requirement

CAMA (1990) section 334 subsection 2 specify the mandatory disclosure required in the annual report to include:

1. A statement of accounting policy
2. The balance sheet as at the last day of the year
3. A profit and loss account or, in the case of a company not trading for profit, an income and expenditure account for the year;
4. Notes on the accounts
5. The auditor's reports
6. A statement of the source and application of fund
7. A value added statement for the year
8. A five year financial summary and
9. In the case of a holding company, the group financial statement.

Other specific disclosures that are statutorily required in the annual reports include the following:

1. Accounting Standards
2. Directors' Report
3. Board Committees

2.2. Accounting Standards

Section 335(1) of the Act requires that accounts should be prepared in accordance with the accounting standards laid down in the statement of accounting standards issued by the Nigerian Accounting Standard Board. In terms of comparisons, there are differences between the local accounting standards and the international standards i.e. IAS/IFRS. There are some standards used in the preparation of account in the country, and some local standards that are not currently covered by any international standards.

2.2.1. Directors' Report

Section 342 of the CAMA (1990) requires that the directors should provide a report of their activities to the shareholders. The annual report should contain the list of the directors. There is no requirements that the list should state whether the directors are independent or not. It provides for a maximum of 20 and minimum of 5 directors on the board. It does not provide any guidance on the structure of the board, just as there are no statutory guidance on the frequency and duration of their meetings; however, information on members' attendance at meetings should be available for inspection by shareholders at the venue of the annual general meetings.

2.2.2. Board Committees

Section 359(3)–(6) a–f of CAMA, requires every limited company to constitute an audit committee with membership equally shared between management and the shareholders. The law stipulates a maximum membership of 6 and maximum of 1 executive director on the board. There are no requirements on the structure and characteristics of the committee in terms of its independence, functioning etc. There are also no requirements to have a remuneration or nomination committees. The law also details the expected functions of the audit committees.

Generally, regulatory and reporting framework in the country is still developing; however, the Nigerian Stock Exchange has a very strict compliance and monitoring mechanisms. Thus in terms of mandatory disclosure, most of the listed companies comply with the minimum level of disclosure required. These are legal and statutorily required. The focus of this paper is on the voluntary disclosure level amongst the listed companies in Nigeria.

3. Literature review and hypotheses development

Review of previous disclosure studies exhibits some characteristics. Firstly, they are mostly national studies, and therefore deal with the nature of reporting behaviour within a national context. Secondly, they tend to focus on the listed companies because these are usually the category of firms that are more visible and perhaps accessible. Thirdly, they are replica studies because they ask similar question in a different geographical, socio-political, economic and regulatory context. Most of the studies examined the determinants of voluntary disclosures in the annual reports; disclosure indexes are constructed and variables such as firm size, profitability or performance, ownership structure, firm complexity, auditor type, industry sector, age of listing and corporate governance features are used as explanatory variables. For this study, a thematic approach is adopted