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COMPANY REPORTING TRANSPARENCY AND FIRM PERFORMANCE IN NIGERIA

Adejoh Edogbanya [a] and HasnahKamardin [b]
[ab] Universiti Utara Malaysia, Sintok Kedah, Malaysia
Corresponding email: adejoh17@yahoo.com

Abstract

Transparency of companies' activities with respect to board, financial and management of a firm and the relationship that exist between them is crucial because information disclosure solves the problem of information asymmetries and signaling of relevant material information to the stakeholders. This study examines the transparency and its relationship with performance of non-financial listed companies in Nigeria. The study adopts the panel data analysis (2010-2013) and relationship between transparency and firm performance. The research adopts the panel corrected standard errors (PCSEs) as a result of autocorrelation and heterocadesticity in the model. The findings of the study shows research which further concludes that transparency of relevant information can lead to firm performance as shown by the significant relationship (positive with Tobin's Q and negative with ROA) of transparency of board and transparency in financial have positive relationship with Tobin's Q. The implication for this study is that a public limited company should practice full disclosure of material information and to disclose more than the statutory minimum requirements.

Keywords: disclosure, firm performance, Nigeria, signaling theory, transparency.

1. Introduction

The corporate governance and financial reporting scandals that hit the whole world has led to a world adopting that sound corporate governance and code of best practices that will govern the company as a whole. These practices include transparency and full disclosure of material information in the annual report and (Aksu & Kosedag, 2006; C. Botosan, 1997; Chow & Wong-boren, 1987; Meek, Robert, & Sidney, 1995).OECD(1999) states that full disclosure and transparency of financial information are important components of the corporate governance framework. Disclosure and transparency are important elements and an indicator of enhanced corporate governance (Aksu & Kosedag, 2006; Meek et al., 1995). It is a fact that the decision of the company to engage in voluntary disclosure might be a response to innovation, internationalization, changes in business environments and changes in the capital market (Mohd Ghazali & Weetman, 2006). In another vein, Leuz and Verrecchia, (2001) proposed a framework of the impact of proprietary costs on disclosure. Less information will be disclosed by the Companies if that information affects the cash flows for the owners of the business. Another factor affecting proprietary costs is competition (Leuz & Verrecchia, 2001; Mohd Ghazali & Weetman, 2006). Accordingly, it is expected that "firms in less competitive industries are expected to disclose more information because the proprietary costs of disclosure for these companies are less compared companies in more competitive industries" (Mohd Ghazali & Weetman, 2006:229).

In Nigeria, there are issues of transparency by companies as a result; the security and exchange commission have included transparency and disclosure in its framework of best practice in 2011. Company's involvements in sharp practices in their affair have led to collapse of many

organizations. Another one is the issue of companies been delisted from Nigerian Stock Exchange(NSE) as a result of lack of compliance with the relevant laws. This could be seen as problems of transparency. Table 1 shows the delisted companies between 2008 and 2013.

Table 1: Summary of Delisted companies from 2008-2013 in NSE

Year	Regulatory	Nationalization	Voluntary	Absorbed	Merged	Total
2008	20	-	1	-	-	21
2009	11	-	-	-	-	11
2010	1	-	1	-	-	2
2011	11	3	3	1	3	21
2012	3	-	-	-	3	3
2013	2	-	-	-	2	4
Total	49	3	5	1	8	65

Source: Nigerian Stock Exchange Bulletin (2014)

The objective of this study is to examine the relationship between the level of transparency and firm performance of public listed companies in Nigeria. The dimensions of transparency in this study is transparency in board, financial and management process following studies (Aksu & Kosedag, 2006; Chiang, 2005; Meek et al., 1995).

2. Signaling Theory

According to Karasek and Bryant, (2012:19) "Signaling is all around us in our everyday lives. People signal by the way they carry themselves, speak and interact. Organizations signal as well in their advertisements, recruiting and annual reports, just to name a few"

In this study, we consider the influence of Spence's (1973) seminal article on signaling theory. False information between associated parties in business is reduced as a result of signaling (Connelly, Certo, Ireland, & Reutzel, 2010). The theory explains how firms or business organization uses their board to communicate to the shareholders, the extent of achievement, disclosure and compliance with relevant CG mechanism and financial reporting(Spence, 1973). We trace signaling theory's impact on management, psychology and anthropology. We propose a model of the relationship among information and firm performance. Finally, we suggest areas of further research based on signaling theory.

2.1 Mandatory Disclosure Requirement and Transparency

In Nigeria, Company and Allied Matter Act (CAMA) (1990) section 334(2) states the mandatory disclosure requirements in the annual report which include: "a statement of accounting policy, the balance sheet as at the last day of the year, a profit and loss account or, in the case of a company not trading for profit, an income and expenditure account for the year, notes on the accounts and the auditor's reports." The following disclosures are statutorily required in the annual reports; these include accounting Standards, Directors' Report and an Audit Committee. The sections of Company and Allied Matter Act (CAMA) (1990,) especially section 359(3)-(6) requires every limited company to constitute an audit committee and other relevant material disclosures. However, in Nigeria, regulatory and reporting framework is still developing. The Nigerian regulatory agencies such as NSE and Security and Exchange Commission (SEC) has set up a strong compliance and monitoring mechanism. Thus, in terms of mandatory disclosure of information, most of the listed companies in Nigeria have complied with the minimum level of

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disclosure required. Companies that have adopted the International Financial Reporting Standard (IFRS) are expected to be more transparent in their reporting (Edogbanya & Kamardin, 2014).

2.2 Disclosure and Firm performance

Traditionally, companies with good news would disclose more to their stakeholders than companies which had made losses. Chau and Gray(2002) in their research in Hong Kong and Singaporean companies found a positive association between disclosure and performance. Corporate transparency is highly associated with corporate performance and company with better corporate governance have very high standard of disclosure of material fact and transparency of the firm. There is an expectation of a positive relationship between better performing companies and corporate disclosure. However, Ball, Robin, and Wu, (2003); Clatworthy and John, (2006); Watson and Marston, (2002) provide evidence that performance and disclosure could result in negative relationship. However, Wallace and Naser (1995) posit negative relationships on the empirical study between disclosure and performance. Studies by Ahmed (1999) and Akhtaruddin (2005) fail to find significant relationship. According to the SEC 2011, companies are required to disclose more than the requirements of CAMA and SEC. from the above explanations, the following hypotheses are developed.

H1. There is a relationship between transparency of ownership structure and investments and Firm performance of non-financial companies in Nigeria

H2 There is a relationship between financial transparency and Firm performance of non-financial companies in Nigeria

H3 There is a relationship between board and management structure and process and Firm performance of non-financial companies in Nigeria.

3. Research Framework and Methodology

The research framework of the study is shown in figure 1

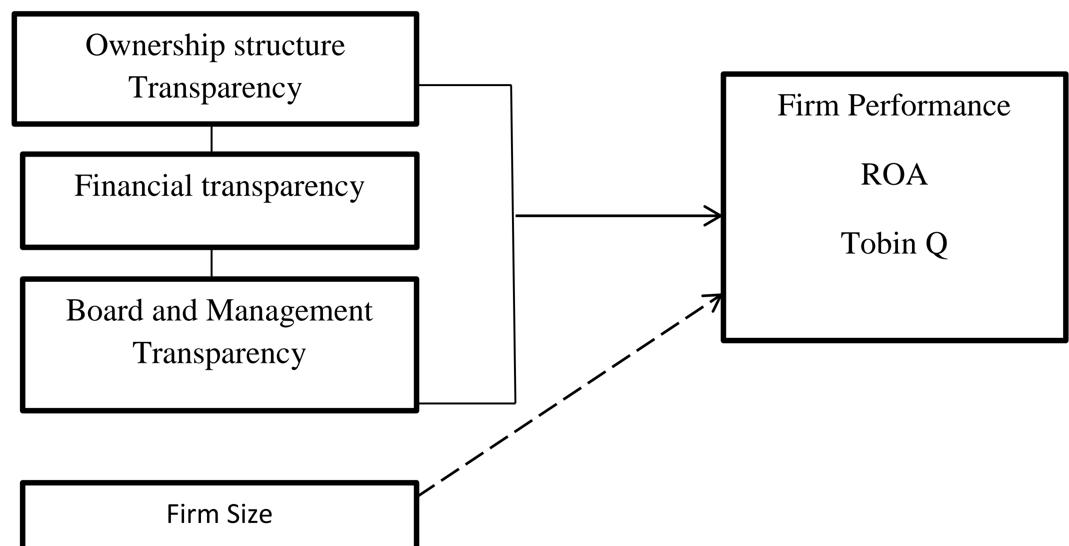

Fig 1.1: Conceptual Frame work

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4. Research Method

As of the 31st December, 2013, there were a total of 192 companies, including (both financial and non-financial companies) listed on the NSE. The sample for this study is 62 non-financial companies out of 136 companies as shown in the table 2. Due to the unavailability of some company's annual reports is the choice for this sample and also the lack of documented annual report by the regulatory agencies and most companies do not upload their annual report on the website of the companies.All financial companies are excluded from the sample because of difference in regulatory requirements. The data covers from 2010 to 2013 with variables that relates to disclosure and transparency. Information on the study variables was extracted from the published annual reports by the companies. We employ panel data to analyze the data. Multivariate regression is used to test for the hypotheses developed for this study. While the homoscedasticity and autocorrelation were checked to know the appropriate regression to use (Haniffa & Hudaib, 2006). As a result of heteroscadacity and the autocorrelation issue in the regression model, the Panel Corrected Standard Errors is adopted for this study.

Table 2: Sample Selection Method

Non-financial companies identified from NSE, Nigeria web page in 2014	**136**
Less:	
Delisted companies	35
Data not available in any year	27
Final sample	**62**

4.1 Sample Profile

Table 3 below shows the percentage sample composition of sectors used in this study. The sample cut across the industry groups making up the Nigerian economy, except the financial companies. The choice of only non-financial sector is as a result of regulatory differences of the financial sector.

Table 3: Sample Profile

Sample Profile		
Sector	**Frequency**	**Percentage**
Agriculture	4	1.61
Conglomerates	36	14.52
Consumer	60	24.19
Construction	12	4.84
Health care	12	4.84
ICT	12	4.84
Industrial goods	40	1613
Natural resources	8	3.23
Oil and gas	20	8.06
Services	44	17.74
Total	**248**	**100**

4.2 The Disclosure Scoring Index

The transparency and disclosure attributes is divided into three sub-sets which are "transparency in ownership structure and investments with 11 attributes, financial transparency and information disclosure with 17 attributes and transparency in board and management structure and process with 14 attributes with a total of 42attributes. The index used in this research is "1" for disclosure and "0" otherwise. The essence of this method is to ensure objectivity, a score point is awarded for each criterion for a firm that meets it and zero for otherwise and not applicable(NA) for not meeting the criterion (Meek et al., 1995).

4.3 Model Specification

The following models are used to analyze the relationship between the various transparency variables and firm performance.

Tobin Q = $\alpha 0 + \beta 1OWNTit + \beta 2FINT_{it} + \beta 3BODT_{it}$ + FIMSIZ+ϵ 1

ROA= $\alpha 0 + \beta 1OWNTit + \beta 2FINT_{it} + \beta 3BODT_{it}$ +FIMSIZ+ ϵ 2

Where:

FP	Firm performance: Tobin's Q and ROA
OWNT	Ownership transparency
BODT	Financial transparency
FINT	Board process transparency
FIMSIZ	Firm size
Є	Error term

Table 4: Operationalization of Variables

Variables	Acronyms	Operationalization	Authors
Dependent Variables			
Tobin's Q	QRATIO	This is the ratio of the market value of common shares, plus the total debt divided by the book value of the total asset of the company	Haniffa and Hudaib, (2006)
Return on Assets (ROA) %	ROA	Earning before tax (EBT) divided by the total assets	Haniffa and Hudaib, (2006)
Transparency 1. ownership structure transparency 2. financial transparency 3. board and management structure and process	OWNT FINT BODT	Scoring index. It is dichotomous for 1 for disclosure and 0 if otherwise	Meek et al., (1995) , Aksu and Kosedag, (2006) and Chiang, (2005)
Control Variable			

Firm Size	FIRMSIZ	Total assets	Kamardin and Haron, (2011)Haniffa and Cooke,(2002)

4. Results and Discussions
4.1 Descriptive Statistics

Table 4 reports the descriptive statistics of the study variables. For the company transparency dimensions, the mean score of board (BODT) is 63% with a minimum of 14% and the maximum is 85%. The mean score of financial (FINT) is 68%, the minimum is 29% and the maximum is 94%. Lastly, for the ownership (OWNT) it has the mean score of 64%, the minimum is 18% and the maximum is 90%. In general, the mean score for transparency is low which about 60% is. This is an indication that serious compliance with the revise code of corporate governance and the adoption of the international Financial Reporting Standard (IFRS)

Table 5: Descriptive Statistics of Study Variable

Variable	Obs	Mean	Std. Dev.	Min	Max
OWNT	248	0.646628	0.150932	0.181818	0.909091
BODT	248	0.635945	0.134799	0.142857	0.857143
FINT	248	0.680029	0.137475	0.294118	0.941177
FIMSIZ	248	16.08656	1.883399	11.49553	20.55272

The correlation matrix for the dependent and continuous independent variables in table 6 below indicates there is no multicollinearity problem, as the correlations are less than 0.80 (Gujarati, 2004).

Table 6: The Correlation between Transparency and Firm Performance

		OWNT	BODT	FINT	Tobin's Q	ROA
OWNT	Pearson Correlation	1				
	Sig. (1-tailed)					
	N	248				
BODT	Pearson Correlation	.166***	1			
	Sig. (1-tailed)	.004				
	N	248	248			
FINT	Pearson Correlation	.547***	.195**	1		
	Sig. (1-tailed)	.000	.001			
	N	248	248	248		
Tobin's Q	Pearson Correlation	.065	.119**	.171***	1	
	Sig. (1-tailed)	.156	.031	.004		
	N	248	248	248	248	
ROA	Pearson Correlation	.012	.001	.130**	-.029	1
	Sig. (1-tailed)	.424	.496	.020	.324	
		248	248	248	248	248

Level of significance = * 10%, **5%, ***1%

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4.2 Results Based on Tobin Q

Table 7 below reports the results from the regression analysis based on Tobin's *Q*. The adjusted R^2 for this model is 9% for the period of 2010-2013. Financial transparency (FINT) is found to positively relate to Tobin's Q, but the relationship is not significant. This somehow indicates that companies will only disclose good news when there are making progress (Healy & Palepu, 2001). The board process of transparency is positively significant at 1% with performance indicating that effective board process will report to the stakeholder the progress of the business which is in line with signaling theory. Ownership transparency (OWNT) is not significant with Tobin's Q and firm size is positively significant in this model.

Table 7: Regression Analysis of Company Transparency and Tobin's Q

Tobins Q .	Coef.	Std. Err	z	P>|z|
BODT	.230	.087	2.63	0.01***
FINT	.213	.180	0.236	1.18
OWNT	.038	-.127	0.764	0.30
FIMSIZ	-.002	.003	0.78	0.43
_cons	.821	.098	8.34	0.00
R-squared = 0.0259				
Wald chi2(4) = 17.81				
Prob> chi2 = 0.0013				

Note N=148, Level of significance = * 10%, **5%, ***1%

4.3 Results Based on ROA

The table 8 below reports the results from the regression analysis based on ROA. The adjusted R^2 for this model is 16% for the period of 2010- 2013. In this model, financial transparency (FINT) is positively significant at 1% level with performance which is in consonant with Chiang, (2005). Also, board process transparency (BODT) is negatively significant at 1% level. However, ownership transparency (OWNT) is negatively significant with the ROA. The firm size is also found positively significant with ROA which is in line with the finding of Haniffa and Hudaib, (2006).

Table 8: Regression Analysis of Company Transparency and ROA

ROA	Coef.	Std. Err	z	P>|z|
BODT	-.137	.043	3.18	0.01***
FINT	.166	.050	3.30	0.00***
OWNT	-.060	.029	-2.03	0.04**
FIMSIZ	.0191735	.001	12.83	0.00***
_cons	-.2270769	.0411766	-5.51	0.00
R-squared = 0.1663				
Wald chi2(4) = 296.86				
Prob> chi2 = 0.0000				

Note N=148, Level of significance = * 10%, **5%, ***1%

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Conclusion and Future Research

This paper examines the relationship between three transparency variables and firm performance variable namely, market and accounting returns which are represented by Tobin Qand ROA. The results based on market measure suggest that only the board is positively significant with performance. However, for accounting performance, the results suggest that financial and board processes are significant with performance. This signifies that the presence of transparency and disclosure of material information is important in firm performance. These findings is in line with Botosan and Harris, (2000), Chou and Gray (2002) and Meek et al., (1995) who suggest that improvement of firm transparency through quality disclosure in the annual report can reduce information asymmetries. Furthermore, the study suggest that the SEC Nigeria to encourage companies to disclose more than the statutory requirements to send signals of performance to stakeholders. This research suggests that future researchers should investigate lapses in the legal framework on disclosure and transparency and include value added intellectual capital as measure of performance.

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