# Institutional determinants of mandatory disclosure in annual reports of Nigerian listed companies

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**Summary**

Factors that determine the level and variation in disclosure have been a matter of considerable interest and importance to policy makers and the financial reporting community. Existing studies have not well established the impact of institutions on corporate disclosure because of their macro-level analysis. This thesis investigates the association between firm-level institutional factors and the level of mandatory disclosure in annual reports of Nigerian listed companies. It argues that accounting standards provide the definition of legitimate methods for use in presenting financial statements, and the level of mandatory disclosure reveals organisational commitment to these standards. The thesis uses the Oliver (1991) and Greenwood *et al.* (2011) institutional framework to identify factors that determine the level and variation in mandatory disclosure.

The thesis sampled 100 firm-years across eight industries over three regulatory regimes. The self-constructed measure of mandatory disclosure is based on the Nigerian national accounting standards, which provide guidance for presenting financial statements prior to 2012, and on the IFRS, for first time adopters of IFRS with a financial year-end of 2012/2013. Based on Oliver's framework, the result indicate that the level of mandatory disclosure is significantly and positively influenced by legitimacy, legal coercion, and voluntary diffusion, however, it is significantly and negatively influenced by economic efficiency, uncertainty, interconnectedness and dependence. These results suggest that Nigerian listed companies confront greater number of factors that encouraged resistance to disclosure in annual reports.

Based on the Greenwood *et al*.'s framework the result indicate that strong regulatory regimes significantly and negatively influenced variation in the level of mandatory disclosure while organisational field, organisation structure, ownership and identities significantly and positively influenced variation. These results suggest strong regulatory regimes reduced variation in disclosure while organisation structure, ownership and identities increased variation in mandatory disclosure. The results provide alternative explanation on determinants of mandatory disclosure.

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## List of figures and tables

**Abbreviations and definitions**

| | |
|---|---|
| AIMR | Association for Investment and Management Research |
| ANAN | Association of National Accountants of Nigeria |
| APC | Administrative Proceedings Committee |
| ASeM | Alternative Securities Market |
| CAC | Corporate Affairs Commission |
| CAMA | Companies and Allied Matters Act |
| CBN | Central Bank of Nigeria |
| CIFAR | Centre for International Financial Analysis Research |
| CMC | Capital Market Committee |
| CPD | Continuing professional development |
| EFCC | Economic and Financial Crimes Commission |
| FMF | Federal Ministry of Finance |
| FRC | Financial Reporting Council |
| GDP | Gross Domestic Product |
| IAS | International Accounting Standard |
| IASB | International Accounting Standards Board |
| ICAN | Institute of Chartered Accountants of Nigeria |
| IFAC | International Federation of Accountants |
| IFRS | International Financial Reporting Standard |
| IMF | International Monetary Fund |
| ISA | International Standard on Auditing |
| ISA | Investments and Securities Act, 2007 |
| IST | Investments and Securities Tribunal |
| JTF | Joint Task Force |
| NAA | Nigerian Accounting Association |
| NAICOM | National Insurance Commission |

| | |
|---|---|
| NASB | Nigeria Accounting Standards Board |
| NSE | Nigeria Stock Exchange |
| PENCOM | National Pension Commission |
| ROSC | Report on the Observance of Standards and Codes |
| SAS | Statement of Accounting Standard |
| SEC | Securities and Exchange Commission (Nigeria) |
| SME | Small and Medium-size Enterprises |
| SRO | Self-Regulatory Organisation |

# Chapter One

# Introduction

## 1.1. Introduction

Mandatory disclosure is the minimum items of information about important aspects of corporate activities required for disclosure in corporate annual reports (Wallace and Naser, 1995). These are information that is relevant to decision-making of individual readers of these financial reports. The demand for financial reporting and disclosure arises from information asymmetry (‘lemons’ problem) and agency conflicts (agency problem) between managers and outside investors (Healy and Palepu, 2001, p.406). Inadequate attention to these problems results in adverse selection and misevaluations of firms (Healy and Palepu, 2001). Although contractual obligations between entrepreneurs and investors are proposed as a solution to these problems, and to provide an incentive for full disclosures, Healy and Palepu (2001) argue that a variety of economic and institutional factors determine the effectiveness of these contracts including the ability to write and enforce them.

This thesis provides evidence on the impact of institutions on the level of mandatory disclosure in the annual reports of Nigerian listed companies. Existing studies on the determinants of the level of mandatory disclosure have predominantly focused on economic factors but have neglected institutional factors. Consequently, existing studies have predominantly used economic-based theory as Positive Accounting Theory (PAT) to provide an explanation on the determinants of the level of disclosure in corporate annual reports. These PAT-based studies assumed that accounting is part of the contract between a principal and an agent. It further assumed that the separation between the agent and the principal is so extensive that the discretion of making accounting choice is assigned solely to the agent (Watts and Zimmerman, 1986). In addition, the PAT-based predictions suggest that the observed level of corporate disclosure is the result of the coalition of actors maximising their utility (Watts and Zimmerman, 1978, 1990). It also assumed that the unit of analysis should be an individual firm, without consideration to the firm's external environment (Mezias, 1990).

However, Fields *et al.* (2001) argue that financial reporting is crucial to the interest of all parties in a network of relationship between managers, owners, financial institutions, security analysts and rating agencies. Consequently, accounting standards are designed to provide the definition of legitimate methods for use in presenting financial statements (Mezias, 1990). The definition of these legitimate methods reduced the discretion of a firm's management when preparing the annual reports; therefore, corporate organisations have to follow a narrowly defined set of legitimate alternatives when preparing their annual reports (Scott, 1995).

These disclosure standards act as a normative pressure on corporate managers. Corporate organisations and their actors tend to internalise the viewpoints expressed in these standards making them evident instead of subject to choice (DiMaggio and Powell, 1983). The foregoing suggests that the expectations of the relational and exchange networks do not only shape the preferences of actors in the organisation but also direct their interactions with them. In other words, the preferences and the cognition of individual actors in corporate organisations are influenced by their institutional contexts (Granovetter, 1985). Among the reasons for organisations' engagement in activities aimed at creating legitimacy is to facilitate exchanges (Davis and Robins, 2005; DiMaggio and Powell, 1983; Zucker, 1987) and signal trustworthiness (Zimmerman and Zeitz, 2002).

Based on the foregoing, this thesis argues that the level of mandatory disclosure in corporate annual report reveals organisational commitment to rational behaviour as expected by their relational networks (Touron, 2005). Therefore, an organisation complies with the disclosure requirements of accounting standards to gain legitimacy for using acceptable business practice rather than solely for economic benefits (Chua and Taylor, 2008; Irvine, 2008; Mir and Rahman, 2005; Rodriques and Craig, 2007). To this end, organisational leadership will direct effort to ensuring that the financial reporting practice of the organisation conforms to accounting standards (Meyer and Rowan, 1977). Additionally, the corporate leadership will identify the prevailing accounting disclosure requirements and ensure that the reporting practices of their organisations are consistent with these requirements (Meyer and Rowan, 1977, Meyer and Scott, 1983). This alignment of corporate actions to the expectations of relevant audiences in the financial reporting environment forms the basis for receiving endorsement (Deephouse, 1999). In addition, corporate leaders will consider reasonable and rational means that will enable them to satisfy the requirements of accounting standards (Ashforth and Gibbs, 1990) when preparing corporate annual reports.

Based on this legitimate perspective, this thesis provides answers to three empirical questions. First, what is the level of mandatory disclosure in corporate annual reports of Nigerian listed companies? Second, what factors can explain the level of mandatory disclosure in annual reports of Nigerian listed companies? Third, what factors can explain intra-industry variation in the level of mandatory disclosure in annual reports of Nigerian listed companies?

Although some studies have recognised the impact of institutions on corporate reporting practices, most of these studies are cross-country studies that provide a limited explanatory power of the impact of institutions on the level of disclosure (Bushee and Leuz, 2005; Leuz and Wysocki, 2008). Holthausen (2003) argues that within-country studies are necessary to evaluate the impact of specific institutional regimes on the level of corporate disclosure.

Furthermore, although some financial accounting studies have used institutional theory to provide an explanation on corporate financial reporting practice (Mezias, 1990; Collin, Tagesson, Anderson, Cato and Hasson, 2009; Rahman, Yammeesri and Perera, 2010; Guerreiro, Rodriques and Craig, 2012), specific institutional contexts may influenced the results of an empirical study. This thesis provides a contribution to this growing research in the context of the Nigerian financial reporting environment.

To provide an answer to the first empirical question, this thesis has evaluated the level of the researcher-created indices of mandatory information disclosed in the corporate annual reports of sampled Nigerian listed companies. To provide an answer to the second empirical question, this thesis uses the Oliver (1991) institutional framework to identify factors that determine the level of mandatory disclosure in the annual reports of Nigerian listed firms. The characteristics of individual firms are emphasised to the extent that they can be used to explain which firms are more or less subject to pressure from their institutional environment to comply with mandatory disclosure requirements, which are stated in relevant accounting standards. These characteristics are also emphasised to the extent that they enhance the organisation's ability to acquire or maintain legitimacy in the financial reporting environment.

The Oliver's model allows for relaxation of the assumption that organisations are institutional dopes, and suggests instead that corporate organisations will strategically respond to their institutional contexts. The model does however suffer some weaknesses. For example, Pache and Santos (2010) argue that it treats organisations as unitary actors as it develops strategic responses to outside pressures. The authors argue further that the model merely suggests that when organisations find it difficult to acquiesce to what is expected from them, they are highly likely to resort to more resistant strategies such as compromise, avoidance, defiance or manipulation. The model does not express those conditions under which resistant strategies are likely to be mobilised.

To provide an explanation on the conditions for such resistant strategies, Pache and Santos (2010) argue that when social actors agree on the goals that organisations should pursue (such as increased disclosure), but disagree on the means which should be put in place to achieve these goals, it poses a mild challenge for organisations. Therefore, such a condition increases the likelihood of compromise among corporate organisations. In other words, the existence of non-specific rules provides an incentive to corporate organisations to exercise discretion in their approach to achieving institutional goals while maintaining the legitimacy of their activities (Goodrick and Salancik, 1996).

Based on the foregoing weakness, this thesis uses the Greenwood *et al.* (2011) institutional framework to identify factors that can explain why corporate organisations respond differently to mandatory disclosure requirements. Greenwood *et al.* argue that when corporate organisations face multiple and conflicting institutions and their exposure to these institutions are not the same, their responses (including mandatory disclosure) are unlikely to be uniform. This forms the basis for the third empirical question. Based on Greenwood *et al.*, factors that explain why corporate organisations differ in their level of mandatory disclosure are emphasised to the extent that they can help an organisation to acquire or maintain legitimacy.

Institutional scholars emphasised that application of institutional theory is context-specific (Meyer and Rowan, 1977; Meyer and Scott, 1983; DiMaggio and Powell, 1983; Zucker, 1983). For this reason, the next section discusses some contextual issues surrounding mandatory disclosure in Nigeria. Chapter two discusses the detailed contextual background of this thesis.

## 1.2. Problems of corporate disclosure in Nigeria

Nigeria's financial reporting environment provides an important context in which to use an institutional framework for various reasons. First, Nigeria is a highly import-dependent economy. Corporate organisations import virtually everything that they require in the form of raw materials, machinery and technical specialists. The high level of import suggests that corporate organisations in Nigeria are widely affected by the external environment. For example, the country's currency relative to other major currencies of the world such as the US dollar and the British Pound sterling is very weak (see figure 2 in chapter 2). The persistent depreciation in the country's currency against these currencies increased the cost of business. Since information disclosure is costly (Healy and Palepu, 2001), this thesis argues that the additional cost of business operations due to currency depreciation is a disincentive to increase the level of disclosure (see section 2.2.3 of chapter two for further discussions).

Second, there is an ongoing reform in the institutional environment for financial reporting since Nigeria's return to democracy in 1999. These reforms cause instability in the institutional environment that continues to affect corporate financial reporting practice. One example of instability is the frequent changes in leadership of institutions, such as that of the Director-General of the Securities and Exchange Commission. These frequent changes result in inconsistent implementation of policies and enforcement actions against corporate organisations. This thesis argues that this inconsistency in enforcement action provides an incentive to corporate organisations to compromise on the level of mandatory disclosure in their annual reports.

Third, the legitimacy challenge to the enforcement power of the Financial Reporting Council of Nigeria (FRCN) would provide an incentive to corporate organisations not to fully comply with disclosure requirements. As an evidence of this legitimacy challenge, the FRCN Act 2011 empowers it to register the chief executive officer (CEO) and chief financial officer (CFO) of all public interest entities. Whilst the FRCN sought to enforce this power to compel the registration of the officers of Eko Hotels Limited, the company challenged the Financial Reporting Council of Nigeria by instituting an action at the Federal High Court. The court delivered a judgement in favour of Eko Hotels Limited in 2014 (PwC, 2014). This thesis argues that this decision is a legitimacy challenge to the FRCN, and constitutes a barrier to increased level of disclosure as it provides an incentive to corporate organisations to violate financial reporting requirements.

Furthermore, the tensions between enforcement mechanisms for financial reporting in Nigeria are a barrier to disclosure. For example, the FRCN sought to impose sanctions on Stanbic IBTC bank in 2015 because it engaged in unapproved transactions with its foreign technical partners (Nairametrics, 2015a). In the process of this enforcement action, the executive secretary and CEO of the FRCN stated that the Central Bank of Nigeria (CBN) took 'calculated' steps to embarrass the FRCN while attempting to resolve the issue of alleged irregularities in the financial statements of Stanbic IBTC (Nairametrics, 2015b). This thesis argues that the tension between regulators is an indication of a lack of consensus on the means of achieving regulatory goals; therefore, it provides an incentive to corporate organisations to deviate from full compliance with mandatory disclosure requirements (Goodrick and Salancik, 1996).

Furthermore, despite the many regulations that could enhance the level of mandatory disclosure compliance[1] in Nigeria, the provisions of some of these regulations are open-ended and lack specificity. For example, Ariyo (2007) found that the Nigeria Stock Exchange Rule 53(2) and Rule 55(2)(c) required companies to avoid withholding material information from potential investors, but that these rules failed to provide a clear definition of what constitutes material information. This thesis argues that in the absence of a clear financial and reporting rule, corporate managers would subjectively determine the level of information disclosure, and it would therefore be difficult to objectively, bring companies to account for violations.

In addition, although the Nigerian government uses legislative instruments such as CAMA (1990) to mandate compliance with financial reporting standards, this legislation assumes that the set of financial reporting standards is applicable to all firms irrespective of their nature of business and operations. The use of legislation to enforce compliance also assumes that firms have sufficient resources to comply with these requirements. This study argues that inadequate

[1] Details of these regulations are discussed in chapter 2 of this thesis

resources would limit the ability of corporate organisations to comply with the disclosure requirements (Oliver, 1991).

Furthermore, prior empirical studies in Nigeria suggest compliance gaps with national accounting standards (World Bank ROSC, 2004, 2011). Similarly, Oghuma and Iyoha (2006) found that the level of compliance with 11 relevant standards by 15 of the 25 listed insurance companies was very low. This study argues that persistence violation of disclosure requirements is detrimental to the users of annual financial reports in Nigeria.

These issues with corporate reporting practice suggest serious problems, whether existing or potential, to investors and policy-makers. Therefore, identification of factors shaping the level of mandatory disclosure in the annual reports of Nigerian listed companies deserves the attention of stakeholders such as regulators, investors and corporate officers. Unpacking these problems would help investors avoid potential adverse selection when making investment decisions. It would also help policy makers and other stakeholders devise appropriate disclosure regulation, and to find an enduring solution to the problems of compliance gaps in Nigeria.

Furthermore, Nigeria adopted the IFRS from 1st January 2012. An understanding of the level of disclosure prior to the adoption of IFRS and of the level of disclosure in the first year of IFRS adoption will give an insight to the adequacy of disclosure by listed Nigerian companies. In addition, the level of disclosure by listed companies affects capital markets efficiency (Akerlof, 1970; Gonedes, 1978). Earlier empirical evidence suggests that efficiency of the equity market in Nigeria is weak (Akintola-Bello, 2004). Given the weak form efficiency, this study would aid investors' understanding of the level of disclosure and therefore reduce uncertainty in share price movement.

In addition, knowledge of the relationship between the level of disclosure and institutional factors is useful to regulators, and provides an insight into whether one-size disclosure standards fit all corporations. It also enables regulators to consider the question on whether the imposition of an additional reporting standard would potentially put some firms at a disadvantage (Wallace and Naser, 1995). Based on the discussion in this section, the next section states the objectives of this thesis.

### 1.3. Objectives of the study

This thesis investigates:

i. the level of mandatory disclosure by listed Nigerian companies
ii. factors that explain the level of mandatory disclosure by listed Nigerian companies
iii. factors that explain intra-industry variations in the level of mandatory disclosure by listed Nigerian companies

To achieve the above objectives, this thesis sampled 100 firm-years across eight industry classifications, over three regulatory regimes. The sample consisted of 57 listed companies and a self-constructed index was used to measure the level of disclosure. The index was based on Nigerian national accounting standards that were issued by the NASB prior to the adoption of IFRS in 2012. The study also computed an index to measure the level of disclosure in the first year of IFRS adoption for companies with the financial year-end 2012/2013.

The results of the first research objective show a significant difference exists in the levels of mandatory disclosure. Differences in the observed level of mandatory disclosure suggest that corporate organisations adopt different strategic approaches to acquiring or maintaining legitimacy (Deephouse, 1999; Suchman, 1995). The difference also suggests that some Nigerian listed companies have become so powerful as to deviate from mandated disclosure requirements despite the enforcement of compliance from relevant institutions (Perrow, 1986). In addition, differences in the levels of mandatory disclosure in corporate annual reports are the result of differences in the level of exposure of these corporate organisations to their institutional contexts (Greenwood *et al.*, 2011).

The results of the empirical analysis for the second research objective show that seven out of the ten institutional factors identified in the Oliver (1991) model had significant impact on the level of disclosure in corporate annual reports. The results indicate that the level of mandatory disclosure in corporate annual reports of Nigerian listed companies is significantly and positively influenced by legitimacy, legal coercion, and voluntary diffusion.

In addition, the result indicates that the level of disclosure is significantly and negatively influenced by economic efficiency, uncertainty, interconnectedness and dependence. This thesis finds no evidence of significant association between the level of disclosure and multiplicity of constituents, consistency of institutional requirements with firm's goals and discretionary constraints. Overall, these results suggest that Nigerian listed companies are confront with more factors that provide incentives to resist increasing the level of disclosure than factors that provide an incentive for increased level of disclosure.

The results of the third set of hypotheses show that six out of the nine factors based on the Greenwood *et al.* (2011) framework had a significant impact on intra-industry variations in the level of mandatory disclosure. The results indicate that strong regulatory regimes significantly and negatively influenced variation in disclosure and that organisational field, organisation structure, organisation ownership and organisation identities significantly and positively influenced variation in disclosure. These results suggest that variation in disclosure is reduced during strong regulatory regimes; however, several other corporate attributes increased variation in disclosure. This suggests that regulators of corporate financial reporting in Nigeria will continue to face a challenge of ensuring a uniform financial reporting practice.

Although it could be argued that the variables used in this thesis are not different from those commonly used for PAT or Agency theory-based studies, institutional theory perspective gives a different theoretical explanation of how these variables impact the level of disclosure. While the underlying motivations for the relationship of these variables with the level of mandatory disclosure is utility maximisation for both PAT and agency theories, that of institutional theory is organisational legitimacy.

Furthermore, Eisenhardt (1988) states that the measurement of institutional variables and the resulting hypotheses are closely tied to the given empirical setting. Similarly, DiMaggio and Powell (1983, p.148) noted that the institutional field 'cannot be defined a priori, but must be defined on the basis of empirical investigations'. Therefore, institutional hypotheses are necessarily context-specific; while a PAT or agency-based hypotheses may predict positive direction on variable, institutional based hypotheses may predict a negative direction (Eisenhardt, 1988). However, Collin et al. (2009) argue that institutional theory offers an alternative explanation to PAT, and in certain respects, provides a complementary explanation. Therefore, many hypotheses in institutional theory are the same as those supporting PAT.

## 1.4. Contributions of the study

This study makes empirical, theoretical and policy contributions, to the research areas, as discussed in detail in chapter nine of this thesis.

### 1.4.1. Theoretical contribution

The results show that in addition to studies that confine the application of the Oliver (1991) framework to organisations such as hospitals, universities and other state-owned organisations (Jamali, 2010; Modell, 2001; Milliken, Martins and Morgan, 1998; Abernethy and Chua, 1996; Ingram and Simons, 1995; Goodstein, 1994), the framework can be applied to financial accounting research. Additionally, this study contributes, at least in part, to a call by Carpenter and Feroz (2001, p.593) for research that 'might be fruitfully directed to investigating Oliver's strategic response model'.

### 1.4.2. Empirical contribution

Cross-country studies on corporate disclosure practice suggest that a country's legal and institutional environment can affect a firm's financial reporting incentives and hence influence the quality of information reported to outside investors (Ball, Kothari and Robin, 2000; Hung, 2001; Leuz, Nanda and Wysocki, 2003). However, Holthausen (2003) calls for a within country studies, to aid an understanding of the impact of specific institutional regimes on the level of disclosure. This thesis contributes to this request by providing evidence on the impact of institutional factors on the level of mandatory disclosure in Nigeria.

Furthermore, very few studies have applied the Oliver (1991) framework to financial accounting research. Among these few studies is that by Guerreiro *et al.* (2012). Although their study used the Oliver (1991) model to provide an explanation on the voluntary adoption of IFRS by large unlisted companies in Portugal, this thesis focuses on mandatory disclosure compliance. Corporate organisations that have adopted accounting standards may not fully comply with the requirements of the adopted standards (Street, Gray and Bryant, 1999), therefore, this study contributes to empirical financial research by using the Oliver's framework to provide explanation on the level of mandatory disclosure in annual reports.

In addition, the study by Guerreiro *et al.* (2012) focuses on unlisted companies in Portugal while for this thesis the focus is on listed companies. The pressures face by listed companies from their institutional environment is significantly different to those of unlisted companies. Additionally, Guerreiro *et al.* (2012) used survey data, which may have suffered from response bias (Groves *et al.,* 2004). This study has used archival data, which allows for the repetition of the methodology in different institutional settings.

Furthermore, some studies have used the sociological institutional theory to provide an explanation on corporate financial reporting practices (Mezias, 1990; Collin *et al.,* 2009). This thesis makes an additional contribution to financial accounting research. Mezias' (1990) study provides explanation for the financial reporting practice of US based Fortune 200 companies. The US institutional environment for financial reporting is relatively stable, and this might have made the impact of institution significant on corporate reporting practice. Unlike the US, the institutional environment for financial reporting in Nigeria is unstable; this would lead to differences in empirical results, on the impacts of institutions on corporate financial reporting.

In addition, the study by Collin *et al.* focuses on the choice of accounting standards by municipal corporations, which faced different institutional pressures when compared to for-profit listed organisations. Besides, their study focuses on choice from two alternative accounting standards, which is similar to studies that focus on adoption of standards, while this thesis focuses on the level of disclosure in corporate annual reports. It thus gives a better understanding of corporate reporting practice within their institutional context. The measurements of variables for the hypotheses are present in section 6.41 of chapter six, and the implications of the findings are discussed in chapters seven, eight and nine of this thesis.

### 1.4.3. Policy contribution

This study identifies important factors that would help policy makers in Nigeria formulate effective financial reporting regulations. The results suggest that irrespective of the strength of regulatory institutions for financial reporting, non-uniform disclosure will continue to exist among the listed companies in Nigeria. Furthermore, the result shows that accounting standards alone are not sufficient to enhance a uniform financial reporting. Therefore, enforcement mechanisms in Nigeria will continue to face the challenge of enhancing uniform disclosure by corporate organisations. The result also suggests the need to have an evidence-based regulation for financial reporting in Nigeria.

This study makes the following recommendations. First, there is a need for cooperation among institutional agents. For example, the Financial Reporting Council (FRC) should collaborate with the Nigerian Stock Exchange, the Securities and Exchange Commission, the Accounting professional bodies, and representatives of industry (such as the Manufacturing Association of Nigeria). This collaboration should define the role of each members of the alliance with a focus on helping organisations to increase the level of disclosure.

In addition, the results suggest various strategic responses a corporate manager might adopt when assessing the likely impacts of regulatory requirements. For example, a manager that needs additional fund would need to evaluate whether it is preferable to source the needed funds internally and thus avoid increasing the level of information disclosure. Alternatively, managers of organisations with sufficient slack resources could increase the level of information disclosure. Such corporate managers might benefit from increased disclosure in form of enhanced reputation. Similarly, an efficient organisation might reduce the level of disclosure and maintain legitimacy, since such organisation could justify that, they efficiently utilised the resources provided to them by relevant institutional audience.

In addition, significant variation in the level of disclosure across industries suggests the need for an industry-specific regulation for financial reporting. For example, the average level of disclosure for firms in the agriculture sector is significantly lower than the average levels of disclosure in other industries. One factor that might account for this is the lack of industry-specific accounting standards for agriculture sector. Similarly, the service industry has low level of disclosure relative to overall average disclosure. By their nature, some of the generic disclosure requirements are not applicable to firms in the service industry.

Furthermore, the Financial Reporting Council (FRC) of Nigeria should provide necessary supports to ease compliance, such as the provision of workshops, trainings and technical notes. Although the FRC has taken steps in this direction by the establishment of the FRC academy, the FRC should provide information that would increase the level of awareness of the existence and services offered by the academy to all who are involved in the preparation of financial reports.

In addition, the results indicate that the 'big four' audit firms, which are used to proxy voluntary diffusion of institutional pressures significantly impact the level of disclosure. On this basis, the FRC should encourage formal collaboration between the members of the accounting professions (ICAN/ANAN) and the big four audit firms. The FRC should formalise this collaboration by memoranda of agreement with practising members of the professional body who are not part of the big four. The focus of the collaboration should be for the big four to conduct a review of financial statement of companies audited by other smaller audit firms. The goal of such review should be to enhance the quality of financial statements of companies audited by the non-big audit firms. This arrangement should include a mechanism for exchanging confidential information to enhance effective monitoring and enforcement of financial reporting requirements.

### 1.5. Structure of the study

The remaining parts of this thesis is organised as follows. Chapter two reviews the institutional frameworks for financial reporting in Nigeria. Chapter three discusses the theoretical framework. Chapter four outlines the literature review. Chapter five presents the hypothesis. Chapter six presents the research strategy and methodology. Chapters seven presents the empirical evidence on the impact of firm-level institutions on the level of mandatory disclosure and differences in the levels of disclosure among the sampled companies, across regulatory periods, and accounting standards. Chapter eight presents evidence on the relationship between inter-industry variation in the level of mandatory disclosure and institutional factors. Chapter nine presents the conclusion and implications of the study.

# Chapter Two

# The institutional environment of financial reporting in Nigeria

## 2.1. Introduction

This chapter discusses what institutions shape financial reporting in Nigeria and provides the contextual background for this thesis. The chapter focuses on government enforcement agencies, the interaction among these agencies and corporate organisations. The chapter discusses the instability of the institutional environment for financial reporting in Nigeria, and argues that the weaknesses in the Nigerian institutional environment are a hindrance to effective monitoring and enforcement activities of these agencies.

Section 2 discusses the socio-political background of Nigeria. Section 3 discusses regulatory framework for financial reporting in Nigeria. Section 4 discusses the interaction among the regulatory framework and corporate organisations in Nigeria. Section 5 discusses the limitations in the operations of the regulatory institutions for financial reporting in Nigeria. Section 6 discusses the conclusion of the chapter.

## 2.2. The socio-political background of Nigeria

Previous studies suggest that international differences in reporting and disclosure adequacy relate to differences in the economic, political, demographic, and culture of each country (Belkaoui, 1983; Gray, 1988). Other country specific factors that influence disclosure include the degree of public accountability (Kauffmann *et al.*, 2010) and the legal environment (Hope, 2003b; Soderstrom and Sun, 2007). This section discusses the socio-political background of Nigeria and examines the impact these factors could have on corporate financial reporting.

### 2.2.1 Nigeria's political background

At independence in 1960, HM Elizabeth II appointed Dr Nnamdi Azkiwe (from southeastern Nigeria) as Governor-General who represented Nigeria until it became a Republic on 1st October 1963. The first post-independence government was formed by a northern-based political party under the leadership of Abubakar Tafawa Balewa as prime minister. The public accused the party of utilising its control of the federal centre to alter the balance of power in its favour; this escalated the problems that led to the first military coup in 1966. Although military officers that were loyal to the Prime Minister were able to foil the coup attempt, the council of ministers decided to hand over to a military officer-General Aguiyi Ironsi (from southeastern Nigeria)- as a result of a general loss of control of public order.

Six months later, a successful coup placed Colonel Yakubu Gowon (from northern Nigeria) in command. In 1975, Major General Murtala Muhammed deposed the regime of General Gowon. Murtala Muhammed was assassinated in a failed coup attempt in 1976, then Lieutenant General Olusegun Obasanjo (from southwestern Nigeria) took over the leadership of Murtala's regime and presided over the transfer of power to an elected civilian administration headed by northerner Shehu Shagari under the 1979 Nigerian constitution.

Shagari was elected for a second term in October 1983 but was deposed by Major General Buhari (North) in December 1983. Again, Buhari was deposed in August 1985 in a bloodless coup led by Major General Ibrahim Badamosi Babangida, a northerner. Babangida promised a return to civilian rule under the 1989 constitution of Nigeria. Legislative elections were held in 1992 and the presidential election in June 1993. However, Babangida annulled the result of the presidential election believed to have been won by MKO Abiola who was from southwestern Nigeria. Babangida intended to carry on as military president of Nigeria but public anger forced him to step aside in August 1993.

Enerst Shonekan from southwestern Nigeria was appointed the leader of an interim civilian government. However, General Sanni Abacha, a northerner, ousted Shonekan in November 1993. Abacha promised elections in 1998 but sought subsequently to succeed himself as a civilian president. He died unexpectedly in June 1998 and was succeeded by General Abubakar a northerner. Abubakar's regime organised a nationwide election that returned former retired Military General, Olusegun Obasanjo from southwest Nigeria as the president in May 1999.

Obasanjo won the election for a second term in May 2003 and attempted to contest for a third term in 2007; however, public pressure made him support Musa Yar'Adua a northerner who was declared the winner of the May 2007 election. Yar'Adua died of illness on 5 May 2010 and his Vice-President Goodluck Jonathan from the southeast Nigeria was appointed to succeed him. Jonathan contested and won the Presidential election of May 2011 and became the elected president of the Federal Republic of Nigeria until May 2015. Another general election was held in 2015 that ushered in retired General Mohammadu Buhari in May 2015 as the president.

Whilst extremely detailed, the above demonstrates the degree to which Nigeria has witnessed significant political and governance instability over the last 50 years, and also illustrates the localised geographical significance and dynamics. This instability had a dramatic impact on policy implementation in general, and on accounting regulation in particular. The instability in itself makes the state less accountable to the populace (Uche, 2002). In addition, unlike developed economies such as the US and UK where the rules governing the methodology and timing of control and change in governance are well established, such regulation is lacking in Nigeria. Although the constitution of the Federal Republic of Nigeria laid down the fundamental principles for governance, the constitution itself has been frequently changed. Furthermore, significant lack of freedom of speech has contributed to an unaccountability of governmental institutions and political office holders.

This thesis argues that the high level of instability in the Nigerian institutional environment can provide incentives for corporations to deviate from mandatory disclosure requirements. Regulatory agencies might not detect these deviations from disclosure requirements because agency management and leadership shift with changes in government, which can therefore result in inconsistent implementation of enforcement policy. In addition, the legitimacy of these enforcement mechanisms are frequently challenged by corporate organisation in the law courts, which can inhibit their enforcement powers.

### 2.2.2 Education within Nigeria

Belkaoui (1983) argues that the number of people pursuing accounting as a profession and the quality of accounting and reporting practices depend on the size of the country's population. Nigeria had an estimated population of 170 million in 2015, and the population size suggests a high level of economic activity, which would in turn influence the demand for accounting information. The higher the demand for accounting information the greater the requirement for capacity building in order to develop the skills needed for the production of useful accounting information.

However, the quality of education in Nigeria has declined since the mid 1980s due to corruption, poor funding, extensive closure of educational institutions and industrial action by staff unions (Babalola, 2006). Higher educational institutions are beleaguered by favouritism, 'cultism', examination malpractice and other issues, which in turn have an effect on graduate's educational attainment. A lack of employability skills in graduates therefore leads to an increased rate of unemployment. The few graduates who are able to find employment do so through nepotism, political patronage or business connections (El-Rufai, 2003). These go on to observe an endemic culture of rule-breaking,  circumventing of established procedures and avoidance of internal control systems or ignoring codes of conduct, yet whistle-blowing is not an option for fear of repercussions including losing their jobs.

Thus evolves a workforce accustomed to unethical conduct and corrupt practice as perpetrated by their mentors (Saliu and Aremu, 2004; Bello-Imam, 2004). In addition, some accountants report that in instances where they attempt to whistle-blow for corrupt practices in corporate organisations, they often become the victims of oppression instead of being protected and rewarded (ICAN, 2008). This suggests that despite the increased demand for accounting information, the likelihood of Nigerian listed companies producing this are questionable, which merits an in-depth study on the level of disclosure in their annual reports.

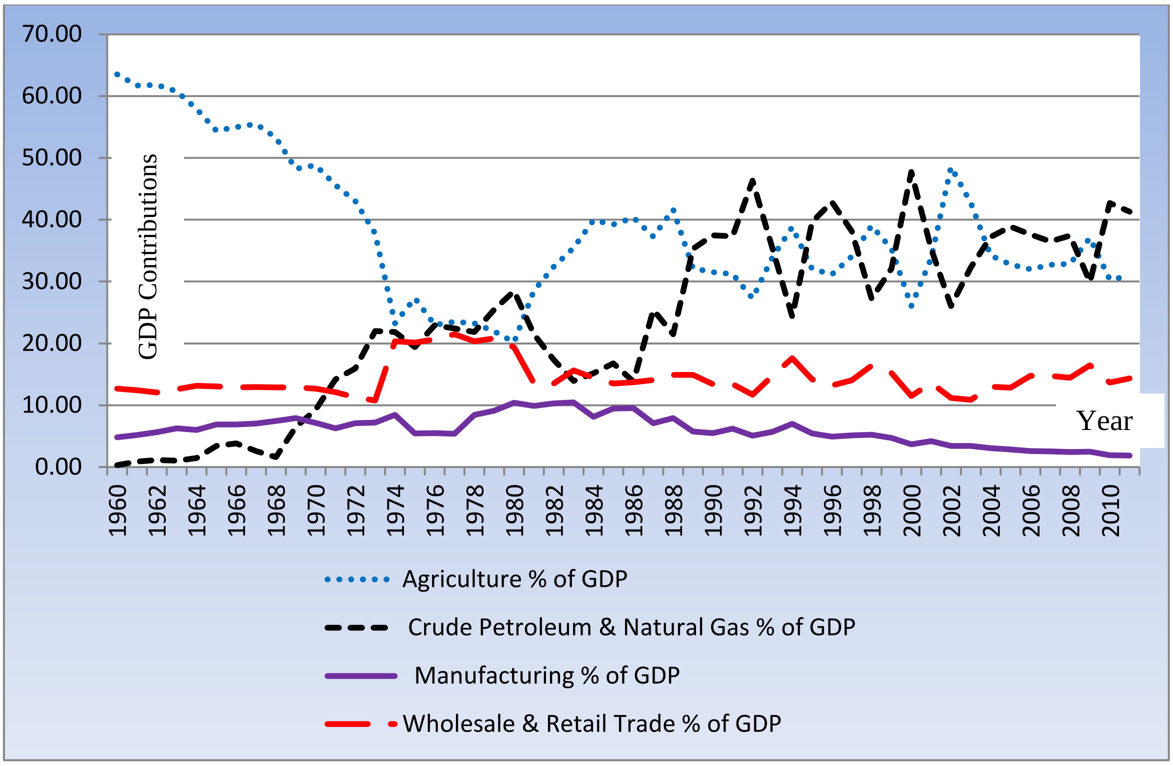
Furthermore, the World Bank Report on Observance and Compliance (ROSC) (2004) found that some regulators such as the Corporate Affairs Commission lacked the required skills to enhance their effectiveness. Similarly, some practitioners such as local audit firms, Chief Financial Officers and company accountants were not familiar with existing accounting standards (World Bank, 2004). This also suggests that the level of disclosure in the annual reports of Nigerian listed companies could be very poor, and a study into disclosure is merited.

### 2.2.3 Nigeria's economic policies

Nigeria embarked on several economic development plans following independence. The objectives of these have included an increase in per capita income, to reduce unemployment, to increase the supply of a high-level work force, and to diversify the economy and indigenisation of economic activities (Alapiki, 2004). However, Obiemaka and Obi (2004) argue that the political leadership has generally lacked the experience for proper implementation of these plans, compounded by issues of corruption, greed, and lack of a skilled work force.

Figure 1 shows the contribution to GDP by sectors, which is a reflection of the performance of the successive administration's economic policies.

***Figure 1*** ***Contributions to Nigerian GDP by sectors***



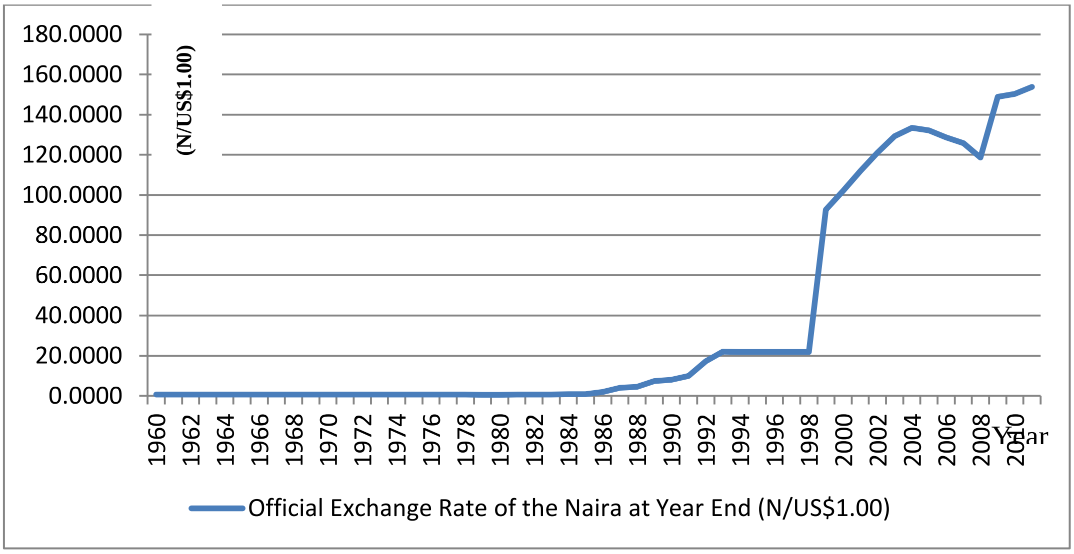

*Computed from Central Bank of Nigeria, Statistical Bulletin Golden Jubilee Edition, 2008; Statistical Bulletin, 2011*

At independence, agriculture contributed over 60 percent of total GDP while crude petroleum and natural gas contributed less than 5 percent of GDP. By 1974, the end of the second national development plan, there was a significant reduction in the agricultural contribution, as it fell to just a little over 20 percent of GDP while the crude petroleum contribution rose significantly. During the period of the third national development plan (1975-1980), there was an appreciable increase in the contribution of wholesale and retail trade to about 20 percent of GDP. However, since after 1980, the wholesale and retail contribution to GDP have fallen dramatically.

The contribution of each sector to the GDP indicates the economic significance of these sectors. The significance of each sector would influence the demand for accounting information by potential investors. For example, due to the significant contribution of the crude petroleum and natural gas sector to the GDP, there could be an assumption by the investing public that this sector would have a higher yield on investment than say, the agricultural sector. This in turn would result in different pressures and demands for accounting information and the disclosure of accounting information. It is therefore important to investigate the level of disclosure in annual reports of each company in each of the sectors, which will give an indication of how these companies have responded to the demand for accounting information.

During the Structural Adjustments Programme (SAP) that commenced in 1986, Babangida (a military ruler and dictator from 1985 and 1993) devalued the county's currency exchange rate by more than 500 percent taking it from under one Naira per US dollar to five Naira per dollar. The value of the currency against the dollar has consistently depreciated since then. The extent of devaluation of the Naira against the dollar is show in figure 2.

***Figure 2*** ***Nigeria's official exchange rate to US Dollars***




*Computed from Central Bank of Nigeria, Statistical Bulletin Golden Jubilee Edition, 2008; Statistical Bulletin, 2011*

The value of the Naira continued to depreciate, making it difficult to attain an economic balance of trade. By the end of 2010, the official exchange rate of the Naira to the US dollar was more than N150. The depreciation in Nigerian currency has generally increased business operating costs in Nigeria because it is an import-dependent economy.

Since Nigeria imports a range input materials for business operations, exchange rate volatility would affect almost every company. The unfavourable volatility in exchange rates would have a negative impact on available resources that corporate organisations could have used to enhance the level of disclosure in the annual reports. In addition, Nigeria suffers from inadequate basic infrastructure such as electricity, communication networks, roads network and security. Most corporate organisations therefore have to provide this basic infrastructure themselves, which increased business costs and which arguably affect ability to invest in other facilities such as those, which would improve disclosure in annual reports.

Successive governments have established regulatory institutions as a strategy to achieve its policy objectives for corporate reporting. These regulatory institutions are backed by enabling statutes, and their structure and enforcement mechanisms are discussed in the next sections.

### 2.3. Regulatory framework for financial reporting in Nigeria

Puxty *et al.* (1987) cited in Cooke and Wallace (1990) theorised that there are three modes of accounting regulation: market, state and the accounting profession. They argue that where market forces predominate, the regulatory atmosphere is liberalised and the market is allowed to determine disclosure practice. In other words, there would be no systematic regulation of accounting disclosure. On the other hand, where the state principles prevail, the state dominates the regulation of accounting reporting.

However, Cooke and Wallace (1990) observe that neither market nor state principles exist in a pure form; therefore, three modes of accounting regulation coexist in all countries. Such coexistence is described as “community” by Puxty *et al.* Cooke and Wallace (1990) argue that the two essentially dominant scenarios of “community” regulations are “associationism” (a situation in which market forces and the accounting profession influence accounting regulation) and “corporatism” (a situation of greater cooperation between the state and accounting profession.

This thesis argues that Nigeria has experimented with three forms of accounting regulation since independence. Firstly, the market was allowed to determine disclosure practice between independence in 1960 and 1965. During this period, there was no systematic regulation of accounting disclosure.

Secondly, this thesis argues that the “corporatism” form of regulation dominated the regulatory space between 1965 and 1990. During this period, the Institute of Chartered Accountants of Nigeria (ICAN) was established in 1965 by the ICAN Act (1965), and the Company Act 1968 provided the regulatory framework for financial reporting. However, branches of foreign audit firms dominated the audit market in Nigeria during this period, and most of the listed companies were branches of multinational corporations (Uche, 2002). Although the Nigerian Accounting Standards Boards (NASB) was established in 1982 to issue accounting standards for use in the preparation of corporate annual reports, the NASB was housed in the ICAN secretariat. Consequently, the NASB depended on the cooperation of the accounting profession, industry associations and other government institutions such as the NSE and SEC to enforce corporate compliance with accounting standards disclosure requirements.

The state began to play a dominant role in the regulation of financial reporting and disclosure in 1990, with the enactment of the Companies and Allied Matters Decree (CAMD) 1990 by the military. However, this Decree was change to an act of parliament, known as the Companies and Allied Matters Act (CAMA) 1990.

CAMA 1990 (s.359 (2)) required that financial statements audited by qualified professional accountants were countersigned by legal practitioners. Okike (2004) argues that this provision of the Act was a legitimacy challenge of the dominating influence of the accounting profession on financial reporting matters. This provision of the decree was removed by the Nigerian National Assembly after contention and public debates by the Institute of Chartered Accountants of Nigeria.

The CAMA governs the formation of limited liability companies and registration of businesses (CAMA 1990, s.54). The Act specifies the formats for the preparation of financial statements; appointment of audit committees for each company to oversee the internal control system; the appointments of external auditors; the appointment of directors and officers of the company, and the procedure to evaluate the affairs of the company through annual general meetings (CAMA 1990, s. 63).

This thesis focuses on three distinctive disclosure regimes in Nigeria, since the CAMA 1990 became a key instrument used by the state to provide the framework for financial reporting in Nigeria. These three disclosure regimes potentially suggest three business environments; these are 2000 to 2003, 2004 to 2011 and 2012 (the first year of mandatory IFRS adoption in Nigeria). The period 2000-2003 signals the first wave of regulatory reforms. Among the reforms that had an impact on business during this period was the 25 percent increase in minimum wage between 2000 and 2002. This increase in workers' wages had potentially two impacts on organisations' financial reporting; firstly, in terms of an increase in consumer purchasing power thereby affecting reported revenues, secondly, in terms of higher labour costs, which would affect reported profit and put pressures on organisations to downsize in response to market exigencies (Greenwood *et al.*, 2009).

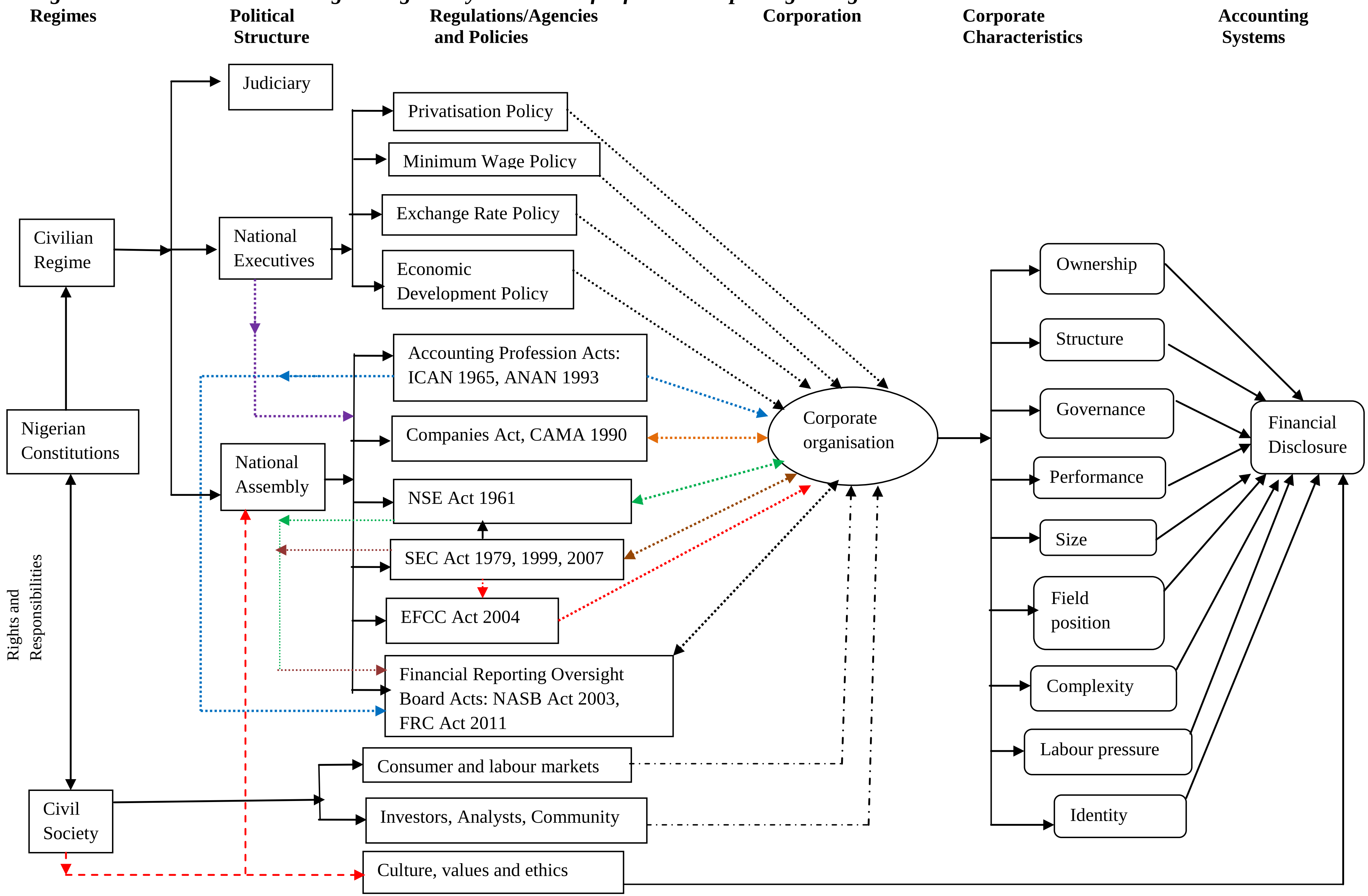
The period 2000 to 2003 also marked the beginning of the second phase of the government's privatisation and commercialisation programme. The privatisation programme had a significant impact on the structure of business ownership in Nigeria, it also affected corporate governance in the instances where new owners appoint new corporate officers, whom they felt might be able to manage the privatised organisations for higher returns. Arguably, these shifts in corporate governance could also affect corporate disclosure (Abdelsalam and Weetman, 2007).

Furthermore, the privatisation exercise resulted in significant retrenchment and downsizing of workforce in the privatised enterprises. Most of the sectors of the economy downsized during the privatisation period, which could have had a dampening effect on the level of aggregate demand and hence the reported turnover of business organisations.

The second business environment covered in this study is the period mid 2004 to 2011. During this period, Nigerian government enacted the Nigerian Accounting Standards Boards (NASB) Act 2003. The act was an instrument used to enforce compliance with national accounting standards; however, the NASB Act was ineffective in achieving its objectives (FRC, 2012). Other reforms during this period included the SEC code of corporate governance in 2003, the banking reforms of 2004 to 2005, the CBN code of corporate governance for banks in 2006 and the Investment and Securities Act (ISA) of 2007. Furthermore, the government made a significant attempt to combat corruption by establishing the Economic and Financial Crime Commission (EFCC) via the EFCC Act of 2004.

The global financial crisis of 2008 to 2010 motivated the Nigerian government to embark on additional reforms that affected corporate financial reporting. Among these were the enhanced Investment and Securities Act (ISA) 2009, the SEC Code of corporate governance 2011, and the Financial Reporting Council Act 2011, which effectively established the FRC and repealed the NASB Act of 2003. This reforms culminated to a third business environment when Nigeria mandatorily adopted the IFRS for financial reporting effective from 1$^{st}$ January 2012. Figure 3 shows an overview of the agencies that were established by statutes to enhance the level of disclosure by corporate organisations in Nigeria. The figure also depicts the interaction among these enforcement agencies and the governance institutions that enacted the statutes.

***Figure 3*** ***Interactions among the regulatory institutions for financial reporting in Nigeria***




**Source:** Author’s own drawing, 2014

Figure 3 is based on the political structure during civilian regimes, and shows the government institutions creating the regulations and policies that affect corporate financial reporting. The constitution of the Federal Republic of Nigeria provides the basis for governance during civilian regimes. The constitution recognises three tiers of government, federal, state and local government. The constitution further regulates the distribution of legislative business between the National Assembly, which has the power to make laws for the federation and the House of Assembly for each state of the federation. There have been changes and amendments to the provisions of Nigerian constitutions since independence in 1960, with the current one being the 1999 constitution. The change in constitution was intended to reflect the needs of Nigerian society as well as enhance the desired level of economic development.

## 2.4. Interactions among the institutional frameworks in Nigeria

The system of government in the Federal Republic of Nigeria is modelled after the American presidential system with three arms of government the legislature, the executive and the judiciary. During civilian regime, the national assembly is responsible for enactment of relevant laws. The executive arms implement these laws by establishing the governance bodies of the relevant agencies to pursue the realisation of the goal of each law. The judiciary interprets the law and ensure rule of law among relevant societal agents.

In addition to the arms of government, there are institutions or government agencies, which are the creation of statutes. These institutions such as the Securities and Exchange Commission, Corporate Affairs Commission, and Financial Reporting Council of Nigeria are allowed to make rules, regulations and directives pursuant to their enabling Acts. These institutions are also empowered to establish various committees as necessary in carrying out their duties.

The President or a representative appoints the members of the governing council of enforcement agencies, such as the Director General of the Securities and Exchange Commission, the Chief

Commissioner for the Corporate Affairs Commission and other agencies. In most cases the members of the accounting profession, particularly the Institute of Chartered Accountants of Nigeria (ICAN) are members of the council of these regulatory agencies.

Members of corporate associations, such as the Manufacturing Associations of Nigeria (MAN) and Chambers of Commerce and Industry are also council members of these regulatory agencies, including the Corporate Affairs Commission and the Financial Reporting Council of Nigeria. This suggests that both the accounting professional bodies and corporate organisations may indirectly influence regulatory agency enforcement actions and decisions.

Furthermore, although these agencies are supposed to be autonomous and independent, occasionally the decision of the Minister may override the decision of agencies such as the SEC and the CAC. The judiciary may set aside the enforcement decisions of any of these regulatory agencies should any organisation take legal action against the regulatory agencies. Table 1 shows the governance structure and mission of each of these agencies.

*Table 1* ***Overview of regulatory framework for financial reporting in Nigeria.***

| Agencies | Companies and Allied Matters Act | Coporate Affairs Commission (CAC) | Company Audit Committee | Nigerian Stock Exchange (NSE) | Securities and Exchange Commission (SEC) | Nigeria Accounting Standard Board (NASB) | Financial Reporting Council of Nigeria | Accountancy Profession-ICAN; ANAN |
|---|---|---|---|---|---|---|---|---|
| **Year Established** | 1968/1990 | 1990 | 1990 | 1960 | 1979/1999/2007 | 1982/2003 | 2011 | 1965; 1993 |
| **Enabling Act** | The 1968 Act was a replica of UK Companies Act 1948. The 1990 Act was the first indegenous Companies Act after independence since 1960 | CAMA 1990 | CAMA 1990 | NSE Act 1961 | SEC Decree 1979;<br>ISA 1999;<br>ISA 2007 | NASB Act 2003 | FRC Act 2011 | Act 1965; Act 1993 |
| **Mission** | Provides the legal framework for financial reporting;<br>Corporate Governance and Shareholders protection; | Maintain Register of companies;<br>Undertake investigation into the affairs of companies;<br>Monitors compliance with CAMA provisions | to "ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices"<br>to "keep under review the effectiveness of the company's system of accounting and internal control". | Provides platform for primary market activities and trading in listed securities; Provides NSE listing requirements | to promote an orderly active capital market;<br>to create conducive investment climate and attract foreign investors to the country; to ensure adequate protection of securities and to register all securities dealers; to maintain proper standards of conduct and professionalism in securities business; SEC to enforce compliance with accounting | to issue Statement of Accounting Standards (Nigeria GAAP) in line with the provisions of CAMA and relevant IAS/IFRS; Monitors compliance with accounting standards | Oversight responsibilities for the regulation of financial reporting;<br>Promote compliance with IFRS | Professional Accountancy Training;<br>Regulates the Audit Profession;<br>Issue professional code of conduct; |
| **Governance Structure/ Membership Appointments** | Federal Legislative Council of Nigeria | Chairman appointed by President; representative of MAN; NACCIMA; ICAN; NBA; SEC; Federal Ministries: Justice, Finance, Trade and Investments | Six members with equal number of directors and shareholders | Appointed President of the NSE; Vice presidents; CEO; Dealing members of the Exchange; Ordinary Members of the Exchange; Operates through various National Committees | Appointed Director-General; Directorate Commissioners; | Membership from professional accountancy body, self-regulatory agency, Industy association | Council members and different directorates to enhance compliance , Directorate of Inspection and Monitoring; Technical and Oversight Committee; | Election of Council members annually |

**Table 1 (Continues) Overview of Regulatory Framework for Financial Reporting in Nigeria.**

| Agencies | Companies and Allied Matters Act | Coporate Affairs Commission (CAC) | Company Audit Committee | Nigerian Stock Exchange (NSE) | Securities and Exchange Commission (SEC) | Nigeria Accounting Standard Board (NASB) | Financial Reporting Council of Nigeria | Accountancy Profession-ICAN; ANAN | |
|---|---|---|---|---|---|---|---|---|---|
| **Autonomy** | Autonomous | Not completely autonomous body; could be influenced by the Federal Ministry of Finance; appointment of Board members could be influenced by political affliations | Appointments could be influenced by company directors | Not completely autonomous body subject to control by the Security and Exchange Commission; | Not completely autonomy subject to control by Federal Ministry of Finance; appointment of Director-General could be influenced by politics | Not autonomous subject to control by the Federal Ministry of Trade and Industry | Not autonomous subject to control by the Federal Ministry of Trade and Industry; appointment of Director-General could be influenced by politics | Self regulatory prior to 2011;<br>Subject to FRC control and registration of members since 2011 | |
| **Styles (Enforcement Rates and Methods)** | Various enforcement agencies; Federal Ministry of Finance; Federal Ministry of Trade, Commerce and Productivity; CAC; SEC; NSE;EFCC | Corporate entity declaration of compliance with CAMA; Corporate entities files annual returns to include duly certified audited financial statements; Annual returns to be filed immediately 42days after the annual AGM; Increased penalties for late filing of annual returns; Provisions of "Companies Regulations" detailing requirements for pre and post incorporation effective from 2010 | Monitors corporate entities internal control system | NSE rules and regulations; Issued penalty on companies that fails to meet listing requirements; Whistle blowing; Monitors listed companies compliance with CAMA (1990) provisions | Issued SEC Codes of Corporate Governance 1999; 2003; 2009; 2011;<br>On-site inspections to verify compliance with the requirements relating to Collective Investment Scheme (CIS);<br>It uses financial analysis tools to detect cases of financial statement manipulations;<br>Direct company to restate misstated accounts and to pay penalties;<br>Institute an investigation where a case of financial statement manipulation is brought to it's attention;<br>Suspend managers or directors of the company that are involve in false financial reporting from being employed in the capital market or holding any directorship position in any Nigerian company;<br>Referred any person involve in the production of misleading financial reports to the Economic and Financial Crimes Commission (EFCC) for investigation and prosecution;<br>Provision of Whistle-blowing platform | Inspectorate Division monitors compliance with accounting body; issued penalty on corporation that fails to comply with accounting standard;<br>members to influence compliance of the members to accounting standards | Registration of professionals; Monitors compliance with IFRS | Disciplinary powers on erring members of the profession;<br>Mandatory Continuous Professional Education (MPCE) | |
| **Resources (Budget)/Capability** | | Fees for business registration and filing of annual reports | Directors fees and other perquisites | Funding from penalty imposed on listed companies; fees from issued securities | Funding from sanctions imposed n corporate organisations; Funding support from World Bank for IFRS implementation;<br>Lack adequate human capability but has tried to address its capacity problems by outsourcing several enforcement cases to law and audit firms. | Not adequately resourced;<br>no adequate capacity to monitor compliance;<br>financial contribution by members of the accounting profession | The FRC is self-funded with levies from the companies. | Annual Membership fees | |

**Table 1 (Continues) Overview of Regulatory Framework for Financial Reporting in Nigeria.**

| Agencies | Companies and Allied Matters Act | Coporate Affairs Commission (CAC) | Company Audit Committee | Nigerian Stock Exchange (NSE) | Securities and Exchange Commission (SEC) | Nigeria Accounting Standard Board (NASB) | Financial Reporting Council of Nigeria | Accountancy Profession-ICAN; ANAN | |
|---|---|---|---|---|---|---|---|---|---|
| **Agency Transparency** | The Act is available for purchase by any interested members of the public; Gives some times to create awareness before any amendment to the Act takes effect | Issue Companies regulation effective from 2010; All companies are required to submit audited financial report with 42 days after the AGM; | Annual audit committee reports provided in the annual reports | Annul NSE reports; Provision listing rules; Subject to SEC monitoring | Transparent enforcement procedure; Monitoring and Investigations Department; Enforcement and Compliance Department; Executive Commissioner Legal and Enforcement; Director General; Administrative Proceedings Committee; Investments and Securities Tribunal; Federal Ministry of Finance | Exposure draft as first process for issuing accounting standards; Subject to control by Federal Ministries | standard setting and interpretation process designed to be undertaken in cooperation with all the relevant stakeholders | Prior to FRC the ICAN has Investigating Panel; The panel is charge with the duties of conducting preliminary investigations into any case where it is alleged that a member has misbehaved in his capacity as an accountant; Referred relevant cases to Disciplinary Tribunal. | |
| **Accountability (Challenging Agency Decisions)** | Federal Law Courts in Nigeria | Federal Law Courts in Nigeria | Members may challenge corporate decisions at Annual General Meetings | Subject to SEC monitoring and reporting to SEC | Cases may be referred to Investment and Securities Tribunal and Federal Courts of Appeal | | Any conflict between a Nigerian accounting standard andIFRS would be resolved in favour of the Nigerian standard | Members power to appeal the decisions of the Disciplinary Tribunal by following an appeal procedure to the Federal High Courts | |
| **Outcomes/Missions accomplished** | Basis for issuing national accounting standards; Stipulates formats for financial statements; provide framework for corporate governance | Corporate files annual returns with the CAC | Remain perfunctury, mainly rubber stamped the decisions of the Board Audit Committee | Issue X-compliance reports on listed companies | In most cases enforcement tools are primarily used to tackle minor issues, mostly delays in filing mandatory reports, rather than major violations of securities law and rules; There is no proper audit trail of all the cases that the various SEC departments have investigated; Onsite inspections are not done on a routine basis; There have been severe delays in the decisions to take action in potential enforcement cases | Ineffective, serious compliance gaps among corporate organisations | Lack of adequate capacity to prepare IFRS-based financial statement by Nigerian corporate entities; the system for enforcing compliance with accounting standards does not yet seem to be fully operational | | |

***Source:*** Author's own tabulation, 2014

## 2.5. Statutory responsibilities of regulatory agencies for financial reporting

### 2.5.1. Corporate Affairs Commission (CAC)

The CAMA 1990 established the Corporate Affairs Commission (CAC) CAMA 1990 (s.1) to monitor compliance with the provisions of the Act. The CAC is an autonomous body that maintains a register of companies in all states of the federation and undertakes investigations into the affairs of the company if the interests of shareholders and the public so demand. All companies are required to submit their audited financial statements to the CAC within 42 days of the annual general meeting. The CAC is empowered to impose penalties for late filing of annual returns. The annual return is required to include audited financial statements signed by two directors and certified by a chartered accountant where applicable. The registrar of companies at the CAC monitors compliance with the requirements of the Act and evaluates the extent of non-compliance by companies and their officers. In addition to the requirements of CAMA 1990, since 2012, the CAC issues rules to corporate organisations and these rules cover different aspects of corporate reporting and disclosure.

The CAMA 1990 makes significant provisions on corporate governance that affects corporate financial reporting. For example, CAMA 1990 requires the AGM to play a significant role in evaluating the quality of annual reports (CAMA 1990, s.63). The directors are liable for the debt of the company where the company carries on business for more than 60 days with fewer than two directors on board (CAMA 1990, s.93). Shareholders have a one-share-one-voting rights (CAMA 1990, s.116), and directors are liable for misuse of corporate resources (CAMA 1990, s.290). Shareholders have the right to seek redress on the grounds of unfairly prejudicial and oppressive conduct by the company (CAMA 1990, s.310-312).

The CAC has the power to appoint investigators to investigate companies' affairs if an application supported by evidence (CAMA 1990, s.314). All companies including those that are

100% foreign owned are required to keep accounting records, which sufficiently show and explain the transactions of the company and which disclose with reasonable accuracy the financial position of the company (CAMA 1990, s.331). The directors could be penalised by the CAC for presenting a faulty financial statement before any meeting of shareholders (CAMA 1990, s.348).

The Act requires every company to have Audit Committees of six members with an equal number of directors and shareholders (CAMA 1990, s.359 (6)). It specifies the penalties for directors for falsification of company books (CAMA 1990, s.503) and for directors for committing fraud (CAMA 1990, s.504), and their liability for keeping improper accounts (CAMA 1990, s.505). The law court has power to assess damages against delinquent directors (CAMA 1990, s.507) as well as members of the company (CAMA 1990, s.508).

The Act requires that every company must appoint a qualified external auditors who must make a report to all the members of the company (CAMA 1990, s.357), and it specifies the qualifications required of auditors (CAMA 1990, s.358). The Act requires auditors to make a report to the audit committee (CAMA 1990, s.358 (3)) and empowers company officers and shareholders to sue auditors for negligence (CAMA 1990, s.368). Additionally, the Act requires that the compensation of directors and those employees remunerated at higher rates be made public (CAMA 1990, schedule 3 part V and VI). The aforementioned argument suggests an enormous responsibility is placed on the CAC to enforce compliance with all the provisions of CAMA 1990. This thesis argues that in the absence of skilful and qualified personnel, and financial resources, the CAC would not be able to effectively discharge these responsibilities and therefore, the level of corporate disclosure would depend on the commitment of individual corporations to the provisions of the law.

### 2.5.2. The Nigerian Stock Exchange (NSE)

The NSE has its own listing and financial reporting requirements for listed firms, these are stated in "The Green Book". The NSE requires corporate organisations seeking to list on the Exchange to comply with the Exchange rules. In addition, such companies must comply with the relevant provisions of the Companies and Allied Matters Act 1990, the Investment and Securities Act and other relevant statutory requirements (NSE Green Book, p.2). Prior to listing on the Exchange, the NSE requires a written undertaking by the company accepting compliance with post-listing requirements and the signing of a statement of compliance in the form to be suggested by the NSE from time to time. The NSE publishes an X-compliance report, which provides information including released financials, early filers of audited accounts, companies that breach listing rules, delinquent filers of audited accounts and companies that are operating below listing standards. The NSE X-compliance report for 2012 and 2013 are set out in table 2. The reports indicate that between 2012 and 2013 many companies failed to comply with post-listing requirements.

***Table 2 NSE X-compliance reports***

| *Issues* | *Description* | *2012* **Frequency** | *2013* **Frequency** |
|---|---|---|---|
| Awaiting Regulatory Approval (ARA) | Insufficient financial information resulting in non-approval of financials by primary regulator | 01 | 04 |
| Below Listing Standards (BLS) | Non-compliance with post listing rules e.g. late submission of financial statements, unauthorised publication, etc | 36 | 51 |
| Delisting in Process (DIP) | Notification of voluntary/ regulatory delisting due to non-compliance to post-listing rules | 12 | 03 |
| Total number of Non-compliant companies | | 49 | 58 |
| Total number of listed companies | | 189 | 186 |
| Percentage of non-compliant companies (*computed*) | | 26% | 31% |

***Source:*** Computed from NSE X-Compliance report, 2012, 2013

### 2.5.3. The Securities and Exchange Commission (SEC)

The Securities and Exchange Commission (SEC) is the highest regulatory body of the Nigerian capital market. The SEC was established by Decree No 71 of 1979, which took effect retrospectively from 1st April 1978. The SEC has issued various codes of corporate governance (SEC Codes, 1999; 2003; 2009; 2011). The assumption is that sound corporate governance should enhance the quality of financial reporting. The SEC 2011 code requires institutional shareholders to demand compliance with codes and standards, or seek explanations for non-compliance.

In addition, the SEC uses financial analysis tools to detect cases of financial statement manipulations, and where financial statements are unreliable and misleading, a company may be required to restate financial reports and pay penalties. The company would be asked to make a public statement about the matter so that its shareholders would be informed and the individuals involved in the production of the misleading accounts would be sanctioned. The SEC may institute an investigation where a case of financial statement manipulation was brought to its attention either through a report by any regulatory body such as the NASB, Central Bank of Nigeria (CBN), or even through news media or a specific complaint made by any individual.

The SEC is empowered to levy a fine of N100,000 in the first instance on any company found guilty of false financial reporting. In addition, a further fine of N5,000 per day covering the entire period when the false financial statements were published, up to the day the company was found guilty or such penalty as the Commission may deem fit (ISA, 2007). Sanctions may also be imposed by the Commission on any officers, managers or directors of the company that were involved in the false financial reporting, such sanctions could be in the form of their suspension from employment in the capital market or from holding any directorship in any Nigerian company or as the Commission may deem fit. Any accountancy firm that conspires with the company or conceals false financial reporting could be sanctioned and issued a penalty as the Commission deems fit, its registration with the SEC would also be cancelled. Furthermore, the SEC would refer individuals involved in the production of misleading financial to the EFCC for investigation and prosecution. The foregoing suggests that Nigeria has many regulations to enhance the level of disclosure in corporate annual reports; however, compliance with these rules would depend on corporate incentives and commitment to transparent reporting.

The data in table 3 shows the number of listed companies on the Main Board of the NSE and the cases of misstated or manipulated financial statements detected by the SEC from 2003 to 2010. Table 3 shows that of the 184 listed equities on the Main Board of the NSE in 2003, the SEC detected 12 companies with manipulated or misstated financial statements. By 2010 the SEC detected 23 companies of the listed 201 companies as having misstated their financial statements. Overall, the proportion of detection by SEC is 13%, indicating that the SEC's detection mechanism is poor. Due to this detection rate, SEC enforcement via administrative sanctions and civil penalties may not be adequate to deter non-compliance with disclosure requirements. Additionally, there are occasional conflicts between the SEC and the Stock Exchange with respect to the authority to discipline companies (eStandards Forum, 2009).

***Table 3*** ***Listed equities and cases of manipulated financial statements in Nigeria***

| **Year** | **Listed Equity* NSE Main Board** | **Cases of ** Misstatement** |
|---|---|---|
| 2003 | 184 | 12 |
| 2004 | 191 | 21 |
| 2005 | 198 | 26 |
| 2006 | 186 | 18 |
| 2007 | 196 | 37 |
| 2008 | 198 | 22 |
| 2009 | 200 | 42 |
| 2010 | 201 | 23 |
| Total | 1554 | 201 |

***Source:*** *SEC Statistical Bulletin, 2012;
**Cases of misstatement was cited from Angahar (2012, pg.056)

As part of the SEC's enforcement actions, investigations are conducted by the Monitoring and Investigations Department, after which cases are transferred to the Enforcement and Compliance Department. This conducts a review of cases in order to confirm possible violations of ISA or SEC Rules and Codes. However, the SEC Board's decision can be appealed with the Investments and Securities Tribunal (IST), a body of 10 people appointed by the Minister of Finance to review material actions of the SEC (ISA 2007, s.289).

Furthermore, the Minister of Finance has the power to give directives to the SEC, to modify or rescind the rules proposed by the SEC, and to exempt certain people from the application of the ISA after consultation with the SEC. They can therefore single-handedly override the SEC enforcement decisions. The SEC also depends on the Federal Ministry of Finance (FMF) for funding, suggesting that the ISA does not provide the SEC with full independence, and that the SEC's enforcement powers are mere legal provisions as they are not transparently exercised (IMF Country Report on Nigeria, 2013). This lack of full independence could have a significant influence on the level of corporate disclosure in annual reports.

### 2.5.4. The Economic and Financial Crime Commission (EFCC)

The EFCC Act 2004 established the Economic and Financial Crimes Commission (EFCC) to combat financial and economic crimes, which in this context includes the production of misleading financial reports. The Commission has the power to investigate, prevent, prosecute and penalise financial and economic crimes (Iyoha and Oyerinde, 2010). The SEC, NSE and the EFCC work in collaboration to prosecute any officers of corporate organisations that are involved in the production of misleading financial reports. Although this collaboration could increase enforcement actions, its effectiveness depends on the ability of these enforcement agencies to detect lack of compliance by corporate organisations.

### 2.5.5. The Nigerian Accounting Standard Boards (NASB)

The Nigerian Accounting Standards Board (NASB) was established on 9 September 1982 as the only recognised independent body in Nigeria that developed and issued Statements of Accounting Standards (SAS) for users and preparers of financial statements, investors, commercial enterprises and regulatory agencies of government (FRC 2012). The NASB issued Statements of Accounting Standards (SAS) in line with the provisions of CAMA 1990. CAMA 1990 (s.335(1)) gave legal backing to the operations of the NASB by requiring that the financial statements prepared under the Act should comply with the accounting standards laid down in the SAS. The NASB had issued thirty SASs prior to the establishment of the FRCN in 2011. Table 4 summarises those standards issued by the NASB.

***Table 4 Statements of Accounting Standards issued by the NASB***

| *SAS No* | *Title* | *Effective Date* | *IAS Equivalent* |
|---|---|---|---|
| SAS 1 | Disclosure of Accounting Policies | Jan 1, 1985 | IAS 1 |
| SAS 2 | Information to be disclosed in Financial Statement | Jan 1, 1985 | IAS 5 |
| SAS 3 | Accounting for Property, Plant and Equipment | Jan 1, 1985 | IAS 16 |
| SAS 4 | On Stocks | Jan 1, 1987 | IAS 2 |
| SAS 5 | On Construction Contracts | Jan 1, 1988 | IAS 11 |
| SAS 6 | On Extra-ordinary items and Prior year adjustments | Jan 1, 1988 | IAS 8 |
| SAS 7 | On foreign currency conversions and translation | June1, 1988 | IAS 21 |
| SAS 8 | On Accounting for employees retirement benefits | Jan 1, 1991 | IAS 19 |
| SAS 9 | Accounting for depreciation | Jan 1, 1990 | IAS 4 |
| SAS 10 | Banks and Non-bank financial Institutions Part 1 | Dec31, 1990 | IAS 30 |
| SAS 11 | On Leases | Dec31, 1992 | IAS 17 |
| SAS 12 | On Accounting for deferred Taxes | Jan 1, 1993 | IAS 12 |
| SAS 13 | On Accounting for investments | Jan 1, 1994 | IAS 25 |
| SAS 14 | Petroleum Industry: Upstream Activities | Jan 1, 1994 | Local, no IAS |
| SAS 15 | Banks and Non-bank Financial Institutions, Part 11 | Jan 1, 1997 | IAS 30 |
| SAS 16 | Accounting for Insurance Business | Jan 1, 1998 | Local, no IAS |
| SAS 17 | Petroleum Industry: Downstream Activities | Jan 1, 1998 | Local, no IAS |
| SAS 18 | On statement of Cash flows | Jan 1, 1998 | IAS 7 |
| SAS 19 | Accounting for Taxes | Jan. 1, 2001 | IAS 12 |
| SAS 20 | Abridge Financial Statements | Jan 1, 2002 | Local, no IAS |
| SAS 21 | On Earnings Per Share | Jan 1, 2002 | IAS 33 |
| SAS 22 | On Research and Development costs | Dec31, 2006 | IAS 38 |
| SAS 23 | Provisions, Contingent Liabilities and Contingent Assets | Dec31, 2006 | IAS 37 |
| SAS 24 | On segment reporting | Jan 1, 2007 | IAS 14 |
| SAS 25 | On Telecommunication Activities | Jan 1, 2008 | Local, no IAS |
| SAS 26 | On Business combinations | Jan 1, 2008 | IFRS 3 |
| SAS 27 | On consolidated and separate financial statements | Jan 1, 2008 | IAS 27 |
| SAS 28 | On investments in Associates | Jan 1, 2008 | IAS 28 |
| SAS 29 | On Interests in Joint Ventures | Jan 1, 2008 | IAS 31 |
| SAS 30 | On interim Financial Reporting | Jan 1, 2008 | IAS 34 |

***Source**: Compiled by Author from NASB Accounting Standards Handbook 2008/2009 edition*

In July 2003, the government enacted the NASB Act to give legal backing to the operations of the NASB and to enable it to enforce compliance with the accounting standards issued by it. The Act established an Inspectorate Division for the NASB, which monitors and enforces compliance with accounting standards. The primary role of the NASB Act 2003 was to ensure that published financial statements are uniform in content and format, and that they are clear and precise. Additionally, the Act was to promote and enforce compliance with the standards developed or reviewed by the NASB, and to narrow areas of differences in practices so that financial statements presented to users would be meaningful. The NASB is required to receive notices of non-compliance with the standards from the preparer, users or company's auditor from time to time, and to introduce measures that will enhance the reliability and validity of reported information in financial statements.

However, the NASB was inefficient in its operations. For example, despite the NASB Act 2003 there was a reported case of financial statement fraud by Cadbury Nigeria plc in its 2005 and 2006 financial statements, which led to significant loss to investors, the sacking of Cadbury's Nigeria CEO and his replacement by a non-national CEO. The ineffectiveness of the NASB Act 2003 is evident by several other cases of fraud in corporate financial reporting, which led to the repeal of the NASB Act 2003 in 2011 and eventually the closure of the NASB.

Several reasons account for the ineffectiveness of the NASB, and among these is the dependence of the NASB on corporate organisations and individuals for funding. For example, the Act allows the NASB to charge not less than N500 annually from every practising member of ICAN, ANAN, and CITN in addition to receipt of grants and subventions from the Federal government. All publicly quoted companies in Nigeria must also pay an annual subscription sum of not less than N100,000 to the NASB while other non-public registered companies are required to pay not less than N1,000 annually. This situation suggests that the enforcement powers of the NASB could be compromised due to its dependence for funding on these sources which it regulates.

### 2.5.6. The Financial Reporting Council of Nigeria (FRC)

The Financial Reporting Council (FRC) was established by the Financial Reporting Council of Nigeria Act 2011 to replace the NASB. The FRC now has responsibility for the oversight of the regulation of financial reporting. The 2011 Act requires that the FRC should 'promote compliance with the adopted standards issued by the International Federation of Accountants and International Accounting Standards Board'. The FRC Act also empowers the FRC to oversee the quality and implementation of auditing, independence and ethical standards, including the quality control environments in which auditors operate. The Act requires Auditors to be qualified and competent, to possess minimum requirements before being licensed to perform audits, and to maintain professional competency.

Furthermore, all accountants duly recognised and entitled to practice as such are required to register with the FRC. The two professional accountancy bodies operating in Nigeria, ICAN and ANAN, which were established by the Acts of 1965 and 1993 respectively, continue to exist and are members of the Board of the FRC. However, their previous role as self-regulators of the accounting profession has now been given to the FRC as a public regulator. The FRC also establishes a process for performing regular reviews of audit procedures and practices of firms in order to ensure that audited financial statements are of a high quality. The FRC can initiate and carry out disciplinary proceedings, impose sanctions on auditors and audit firms as appropriate.

Since the adoption of the International Financial Reporting Standards (IFRS) in Nigeria on 1 January 2012, the IFRS are required for used for the preparation of financial statements of all public interest entities. These public interest entities are defined to include both quoted and unquoted companies, governments, government organisations, and not-for-profit entities that are required by law to file returns with regulatory authorities.

This thesis argues that despite the IFRS adoption, the orientation and strength of prevailing accounting infrastructure is important to the implementation of the adopted standards (Ball, 2001). Furthermore, this thesis argues that the prevailing accounting infrastructure in Nigeria is not able to enhance uniform disclosure by corporate organisations. For example, the FRC states on its website that any conflict between a Nigerian accounting standard (the Statement of Accounting Standard) and an International Accounting Standard/International Financial Reporting Standard would be resolved in favour of the Nigerian standard. The FRC further argues that the pronouncements of each national accounting standard-setting body determine accounting principles and practices to be used in the country (FRC, 2012).

### 2.5.7. The Accounting Profession

The accountancy profession includes the Institute of Chartered Accountants of Nigeria (ICAN) established by the Parliament Act (1965) and the Association of National Accountants of Nigeria (ANAN) established by National Assembly Act (1993), both of which are self-regulated via an elected Governing Council. There is no separate statutory regulator of the audit profession. ICAN acts as both an examining body for awarding Chartered Accountants Certifications and the licensing authority for members engaged in public auditing practice.

ICAN is a member of the International Federation of Accountants (IFAC) and it has strong international foundation relationships. ICAN was founded by Nigerian members of the Institute of Chartered Accountants in England and Wales, the Chartered Institute of Certified Public Accountants, the American Institute of Certified Public Accountants and the Chartered Institute of Public Finance and Accountancy. ICAN members are recognised under the Companies and Allied Matters Act (1990) as the sole auditors of company accounts.

The ICAN Act 1965 (s.11(3)) provides for the establishment of an Investigating Panel consisting of two ICAN council members and one chartered accountant who is not a member of council.

The panel is charged with the duties of conducting preliminary investigations into any case where it is alleged that a member has acted with misconduct in his or her capacity as an accountant, and decides whether the case should be referred to the Disciplinary Tribunal. The ICAN Act provides that the Disciplinary Tribunal shall be charged with the duty of considering and determining any case referred to it by the panel, and re-examines the case before taking any disciplinary measure against an erring member. The Tribunal consists of seven members of Council with the ICAN President as the Chairman and has the power of a Federal High Court. Consequently, appeals on its decisions lie with the Federal Court of Appeal and thereafter to the Supreme Court.

The ICAN professional code of conduct requires that every member must conform to technical standards issued by relevant bodies such as the Statements of Accounting Standards (Nigerian GAAP) issued by the NASB, the National Standards on Auditing (NSA) issued by the Institute and the IAS/IFRS. To facilitate maintenance of professional and technical competence, a Continuing Professional Education (CPE) programme was introduced in 1982, and from 1996 it became compulsory for all members of ICAN to attain 30 credit hours annually.

ICAN also set up different faculties for its members; these are designed to equip them with current developments in various accounting areas and disciplines. Forums are organised by the faculties to deliberate on current developments within the profession. Despite these provisions, Bakre (2007) reported cases of professional misconduct by members of the Institute, which brings into question the effectiveness of the ICAN Act in enforcing compliance with standards and codes among the members of the Institute. ANAN members work mostly in the civil service. Although ANAN requires its members to comply with its professional code of ethics, the code needs complete revision, as it is not in line with IFAC requirements (World Bank ROSC, 2004).

### 2.5.8. Enforcement methods

Consistent with the practice in other developing countries, two types of enforcement mechanisms are commonly used by these agencies, preventive and punitive (Craig and Diga, 1996; Suadagaran and Diga, 2000). Table 5 provides the summaries of these enforcement methods.

***Table 5*** ***Overview of enforcement mechanisms in Nigeria***

| ***Type of Measure*** | ***Institution Imposing the Measure*** |
|---|---|
| ***Preventive*** | |
| Licensing of Auditors | The Institute of Chartered Accountants of Nigeria (ICAN) |
| | Association of National Accountants of Nigeria (ANAN) |
| Registration of Audit Firms | Corporate Affairs Commission (CAC) |
| | Financial Reporting Council of Nigeria (FRC) |
| Audit of Financial Statements | |
| by External Auditor | The Companies and Allied Matters Act (CAMA) 1990 |
| Audit Committees Requirements | The Companies and Allied Matters Act (CAMA) 1990 |
| Independent Directors on Board | Securities and Exchange Commission (SEC) Nigeria |
| Review of Audited Financial Statements | Corporate Affairs Commission (CAC) |
| | Securities and Exchange Commission (SEC) Nigeria |
| | Financial Reporting Council of Nigeria (FRC) |
| | Nigerian Stock Exchange (NSE) |
| Inspection of Corporate Organisations | Securities and Exchange Commission (SEC) Nigeria |
| | Nigerian Accounting Standards Board (NASB) |
| | Inspectorate Division |
| Whistle Blowing | Securities and Exchange Commission (SEC) Nigeria |
| ***Punitive*** | |
| Impose fines on Corporation | Securities and Exchange Commission (SEC) Nigeria |
| | Nigerian Stock Exchange (NSE) |
| | Corporate Affairs Commission (CAC) |
| Suspension or delisting from trading on Stock Exchange | Nigerian Stock Exchange (NSE) |
| Fines and Imprisonment of guilty Corporate Officers | Economic and Financial Crimes Commission (EFCC) |
| Prevention of Guilty Officer from holding Directorship position in any other Corporation | Securities and Exchange Commission (SEC) Nigeria |
| Judicial Action against Auditors | The Institute of Chartered Accountants of Nigeria (ICAN) |
| | Securities and Exchange Commission (SEC) Nigeria |
| | Economic and Financial Crimes Commission (EFCC) |

***Source:*** Complied by Author from various regulations, 2014

The enforcement methods among the regulatory agencies overlap. However, there are inherent limitations, which hinder the effectiveness of these methods.

## 2.6. Limitations of existing enforcement mechanisms

Nigeria adopted the IFRS for financial reporting from January 2012. Prior to that, the development of the Nigerian national accounting standards was based on the relevant International Accounting Standards (IAS). Both the IFRSs and ISAs were developed in a common-law country that operates market oriented economy system (Ball, 2001).

Despite Nigeria's legal origin affiliation to market-oriented systems, that is, the UK, in practice, Nigeria has adopted a planning economic model, which is common with code law countries (Osabuohien, Efobi and Salami, 2012). The implication is that there is a mismatch between the economic objectives and the mode of accounting regulation. This structural imbalance contradicts the regulatory principles of coherence (Department for Business Innovation and Skills (BIS), 2011) which requires a regulatory framework to form a logical part of the government's broader policy context, in order for it to be consistent with established priorities and enable cross-sector delivery of policy goals.

In addition, better regulation requires that regulators must justify enforcement decisions and be subject to public scrutiny (Better Regulation Task Force, 2005), which suggests that enforcement agencies must be accountable. Unfortunately, accountability has become evasive in Nigeria (Iyoha and Oyerinde, 2010). Some commentators have argued that while the Nigerian Stock Exchange requires a timely submission of listed companies' annual reports, the NSE itself fails to publish its annual reports until five months after the end of its financial year (The Neighbourhood, 2012). This thesis argues that this lack of accountability could encourage corporate organisations to disregard disclosure requirements. Furthermore, Nigeria is known for institutionalised corruption, where bribery and assets expropriation are common business practice. Ball (2001) argues that bribery and fraud at the level of individual transactions reduce the reliability of the financial reports that are based on an aggregation of transactions.

Furthermore, although CAMA 1990 allows corporate members to sue auditors for failing to effectively scrutinise transactions that entered the firm’s accounting system, the perceived cost of litigation and an inefficient judicial system may prevent Nigerian shareholders from bringing an action against corporate officers and external auditors. For example, the World Bank Doing Business Report (2015) noted that it takes an average of 510 days in Nigeria to resolve a dispute from the moment a plaintiff files the lawsuit in court until payment, and there is an average 40 procedures to enforce a contract, and bring a commercial dispute before the relevant court. These figures are significantly higher than that of the UK where it takes 437 days and involves 29 procedures respectively. This lengthy and involved procedure could affect minority investors’ protection, and corporate managers might therefore disregard transparent reporting. Similarly, while shareholder associations are in a position to take legal action against corporate officers for fraudulent financial reporting, Uche and Atkins (2015) argue that intense competition among the numerous associations, and the desire to be appointed to the company’s audit committee, have resulted in these associations seeking a private advantage.

Furthermore, although the EFCC was set up to prosecute those accused of financial crimes (Iyoha and Oyerinde, 2010), the actions of the EFCC are reactive rather than proactive. While the EFCC has achieved some enforcement success, Aiyede (2006, p.37) argues that these successes are not without misgivings. Some individuals are not comfortable with the Commission’s mode of operations because it has focused principally on state chief executives probably because they are politically significant and control considerable resources, and that this has been at the cost of other areas where corruption that affects the general population is entrenched (Iyoha and Oyerinde, 2010). This thesis argues that the prosecution of corporate officers by the EFCC could result in a backlash from other companies, who may view the actions of the EFCC as heavy-handed and unfair (Simpson, 2002).

Additionally, EFCC enforcement is reactionary, which can result in 'hydraulic' behaviour of corporate organisations (Issacharof and Karlan, 1999; Manne, 2007). Enforcement against a particular organisation can arguably encourage other firms to obfuscate or conceal useful information in order to avoid the associated cost of sanctions. This may become detrimental to users of financial statements (Easterbrook and Fischel 1983).

Additionally, although the ISA 2011 provides the SEC with comprehensive enforcement powers; however, a lack of full independence could hinder the SEC's effectiveness. Furthermore, the SEC lacks effective communication and coordination of the activities of its departments that are responsible for inspections, investigations and enforcement, which affects its ability to take prompt enforcement action (IMF Country Report on Nigeria, 2013). This lack of prompt action has affected public confidence in the Nigerian securities markets and the SEC. The is evidenced by the prices of listed stocks on the Nigeria Stock Exchange which by 2015 after the adoption of IFRS still trades at a significantly lower prices than the pre 2008 stock market prices. The lack of investing public confidence in the stock market can provide an incentive to corporate organisations to be less transparent in their financial reporting.

Furthermore, the composition of the SEC's Administrative Proceeding Committees (APC) poses potential challenges to the SEC's enforcement power. The APC members among others include the representatives of trade associations such as the Manufacturing Association of Nigeria. The mere presence of a member of a trade association in the APC meetings, although without voting right, could create potential conflicts of interest. This is because the APC is expected to take enforcement action against corporate organisations who appoint representatives to these trade associations.

Additionally, inadequate capability has led to enforcement cases remaining outstanding. Besides, the SEC´s resources have been used to tackle minor violations when they should have been addressing violations that are more serious. To address the current lack of capability, the SEC has outsourced the enforcement of important cases to a Joint Task Force of the SEC, the CBN, private law firms and audit firms (IMF Country Report on Nigeria, 2013). Unfortunately, the audit firms that provide audit services to corporate organisations against whom the SEC brings enforcement actions are members of this Joint Task Force, which could bias the outcome, since these consultants may have professional allegiance to their clients.

Furthermore, the SEC lacks appropriate procedures to govern the processes, monitoring or keep proper control of the progress of enforcement cases (IMF Country Report on Nigeria, 2013). In addition, the SEC codes on corporate governance, which is intended to enhance corporate governance practice and therefore quality of disclosure, is based on the principles of comply or explain. A company could explain the reasons for non-compliance with the requirements of the codes, which would ultimately affect the quality of disclosure in annual reports.

Furthermore, the absence of competition in the audit market which results from a deliberate limit to the number of qualified accountants by the professional accounting body (Uche, 2002), provides the opportunity for existing qualified members of the professional accounting body to take on multiple audit assignment from the same clients. This situation affects auditor independence with a potential negative consequence on the quality of audited financial statements.

Additionally, the government fails to provide efficient system to protect individual ‘whistle-blowers’. For example, Randle (2004a) argues that there have been instances of Nigerian professional accountants reporting corporate financial abuse which without the protection of the law has in some extreme cases led to their assassination. This presents a serious challenge to both insiders who intend to whistle-blow on corporate misreporting as well as to external auditors reporting corporate misstatements. This underlying threat of serious repercussions could enable corporate corruption and fraud and hence continued fraudulent reporting.

In addition, the ownership structure of those corporate entities in which oligarchic families with political connections are in control affects the quality of corporate governance. This gives room for collusion between corporate directors and politicians to maintain their public legitimacy (Su, Xu and Phan, 2008). This business alliance between the politicians and corporate officers fuels the degree of corruption at the level of individual business transactions, which are aggregated in the financial reports (Ball, 2001). Finally, differences in the level of commitment to transparent disclosure by corporate organisations (Gibbins *et al.,* 1990), affects their perception, treatment and classification of transactions that are aggregated in the financial report.

## 2.7. Conclusion

This chapter discusses the institutional environment for financial reporting in Nigeria. It also discusses the reforms that affect corporate financial reporting; the most recent is the move away from the use of national accounting standards to the adoption of the IFRS. This chapter identified some limitations in existing institutional arrangements for financial reporting in Nigeria, and gave some studies that identified compliance gaps in corporate financial reporting (World Bank ROSC, 2004, 2011; Oghuma and Iyoha, 2006). When these compliance gaps are viewed in light of the identified weaknesses in the institutional arrangement for financial reporting, it is necessary to unravel the factors shaping corporate disclosure behaviour.

Furthermore, the discussion in this chapter suggests that corporate organisations in Nigeria face a multidimensional institutional complexity, which can impact in different ways on corporate financial reporting. This therefore present significant challenges to the enforcement mechanisms in devising appropriate enforcement method.

Based on the aforementioned discussion in this thesis argues that whether or not Nigeria enjoys the benefits of its numerous legislations and codes remains an empirical question. In this regard, it is plausible that institutional theory can be an appropriate framework to explain the level of mandatory disclosure by Nigerian corporate organisations. The next chapter discusses the theoretical framework.

# Chapter Three

# Theoretical framework

## 3.1. Introduction

Fields *et al.* (2001) argue that in the absence of theory researchers limit their inquiries to less frequent use of accounting and disregard the significant role of accounting in everyday situations. Their argument suggests that one needs a comprehensive theory to support the investigation of the complete role of accounting at micro and macro level in a world with market imperfections.

This thesis seeks to explain the level of mandatory disclosure in the annual reports of listed companies in Nigeria, and need to make a choice from alternative theories. The positive accounting theory (PAT) is commonly used in financial accounting literature, which derives prediction about accounting choice from the wealth effects the choice has on important stakeholders (Watts and Zimmerman, 1986). It emphasise agency conflicts because of the self-interest of these stakeholders. According to Watts and Zimmerman (1979, p.300) "…the only accounting theory that will provide a set of predictions that are consistent with observed phenomena is one based on self-interest". Although previous studies have proved the validity of the PAT framework, they disregard other external factors that influenced corporate disclosure. PAT assumes the external business environment is irrelevant when evaluating factors that influenced corporate disclosure compliance.

Botosan (1997) extends on studies using the PAT framework and found that managers who choose higher levels of disclosure experience lower costs of capital. However, Fields et al. (2001) argue that if disclosure lowers cost of capital then it follows that all firms should strive for higher disclosure levels. Both the PAT based studies and Botosan's research disregard the influence of external institutions as moderating factors on corporate disclosure.

However, Healy and Palepu (2001, p. 410) argue a variety of *economic* and *institutional factors* determine the effectiveness and ability to write and enforce optimal contracts, which are aimed at minimising agency problems. This suggests that the strength of institutional factors influences the ability to write and enforce optimal contracts among contracting parties. Similarly, Goodrick and Salancik (1996) argue that political stability and institutional frameworks affect corporate behaviour including disclosure.

The absence of attention to the influence of state in previous disclosure studies is partly because the data used for most of these studies are from corporate organisations that operate in laissez-fare economies such as the US and UK, which obscures the role of the state in the functioning of the market (Dobbin and Dowd, 1997). For example, the relative stability of the state in these economies acts to conceal their role. By placing corporate disclosure in the context of the Nigerian reporting environment, discussed in chapter two, the role of the state becomes apparent in shaping the contractual relationship among market participants. Therefore, a more robust investigation of corporate disclosure would result from a study that emphasises not only economic factors but also institutional factors.

### 3.2. The applicability of institutional theory to disclosure study

Institutional theory offers several unique insights into organisation-environment relations and the ways in which organisations react to institutional processes (Oliver, 1991). It draws attention to the causal impact of institutional pressures on organisational behaviour and to societal and cultural pressures as opposed to market forces and resource scarcity. It shows the effects of history, rules, and consensual understandings on organisational conformity to environmental constraints. Drawing on the open systems theory, institutional theory emphasises that organisations are more than a means to produce goods and services but that they are also arguably symbolic social and cultural entities (Meyer and Rowan, 1977).

Institutional theory assumes that organisations and organisational actors do not only seek to compete for resources but also ultimately seek legitimacy and social acceptance (Oliver, 1991; Suchman, 1995). Therefore, corporate organisations follow a set of 'logics' when engaging in contractual relationships. These 'logics' are defined as "the formal and informal rules of action, interaction and interpretation that guide and constrain decision maker" (Thornton and Ocasio, 1999, p. 804). Logics underpin the appropriateness of organisational practices in a given setting and at particular historical moments (Greenwood *et al.*, 2009). Failure to use practices legitimated by an extant logic can have adverse consequences. For example, Zajac and Westphal (2004) found that using an unfashionable rationale for corporate practices produced adverse share price reactions.

The applicability of institutional theory to financial reporting is based on a network of complex relationships at work in the inter-organisational field in which disclosures decisions are made. Exchanges between internal and external constituencies of corporate organisations put financial reporting practices at the centre of an ideological struggle (Mezias, 1990). The participants in this struggle includes organisational constituents such as management, owners, financial institutions lending to the organisations, security analysts and rating agencies who are interested in equity investment. Accounting provides an avenue through which managers disseminate privately held information to this network of actors in the exchange relationship (Fields *et al.* 2001).

Since financial reporting is crucial to the interests of all parties in relationship networks, an important outcome has been the definition of legitimate methods for use in financial statements (Mezias, 1990). These legitimate methods include generally accepted accounting principles and accounting standards. These reporting standards are codified by independent agencies who serve as central co-ordinating agency of the complex relational networks among corporate organisations and its external constituents. These accounting standards are designed to reduce the discretion of firm’s management in the preparation of financial statements. This suggests that the perceptions and choices of organisational financial reporting are shaped, mediated and channelled by these accounting standards.

Based on the legitimacy perspective, this thesis applies Oliver’s institutional model to identify factors that can be used to explain the level of mandatory disclosure in the annual reports of listed companies in Nigeria. The characteristics of individual firms are emphasised only to the extent that they can be used to explain which firms are more or less subject to pressure from their institutional environment to comply with accounting standards disclosure requirements (Oliver, 1991).

However, the impact of the external environment on corporate disclosure will depend in part on the degree of collective organisation of the environment (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) and the degree to which individual organisations are exposed to their institutional logics (Greenwood *et al.*, 2011). On the one hand, the degree of collective organisation of the environment serves to both reinforce and constrain the definition of legitimacy in the relational networks. Furthermore, the degree of exposure of individual organisations to their institutional logics will influence the degree of discretion that corporate management exercise in their financial reporting and disclosure decisions. Therefore, this thesis applies the Greenwood *et al.* institutional framework to identify factors that can explain intra-industry variation in the level of mandatory disclosure in the annual reports of listed companies in Nigeria.

### 3.3. The Oliver (1991) institutional framework

Oliver (1991) draws on resource dependence and organisational institutional arguments to develop a model of organisational response to institutional factors. Oliver argues that organisational responses may vary from passive conformity to active resistance. Her framework captures a full repertoire of potential strategic responses including acquiescence, compromise, avoidance, deviance and manipulation (table 6). The main conclusion of Oliver's framework is that conformity or resistance to institutional pressures are strategic choices that are affected by organisational interests.

***Table 6 Strategic response to institutional processes (Oliver, 1991, p. 152)***

| Strategies | Tactics | Examples |
|---|---|---|
| Acquiesce | Habit | Following invisible, taken-for-granted norms |
| | Imitate | Mimicking institutional models |
| | Comply | Obeying rules and accepting norms |
| Compromise | Balance | Balancing the expectations of multiple constituents |
| | Pacify | Placating and accommodating institutional elements |
| | Bargain | Negotiating with institutional stakeholders |
| Avoid | Conceal | Disguising nonconformity |
| | Buffer | Loosening institutional attachments |
| | Escape | Changing goals, activities or domains |
| Defy | Dismiss | Ignoring explicit norms and values |
| | Challenge | Contesting rules and requirements |
| | Attack | Assaulting the source of institutional pressure |
| Manipulate | Co-op | Importing influential constituents |
| | Influence | Shaping values and criteria |
| | Control | Dominating institutional constituents and processes |

Oliver (1991) proposes five types of strategic response: acquiescence, compromise, avoidance, defiance and manipulation. She argues that these responses vary from active response to passive response. A*cquiescence* or conformity (entails habit, imitation, or compliance) is the response that has received the majority of attention from institutional theorists (Scott, 2008). However, table 6 shows that other responses are possible. First, an organisation may *compromise* (a variety of responses that include the balancing, placating, and negotiating of institutional demands). Second, an organisation may adopt *avoidance* strategy, which entails concealment efforts and attempts to buffer some parts of the organisation from the necessity of conformity. Third, an organisation may become *defiance,* which entails not only dismissing institutional pressures but also defying them in a public manner, and finally an organisation may adopt *manipulation* strategy, a purposeful and opportunistic attempts to co-opt, influence or control the environment.

This thesis focuses on compliance as a tactic of organisational acquiescence to the requirements of accounting standards. Oliver defines compliance as a conscious obedience to or incorporation of values, norms or institutional requirements. She argues that compliance is more active than habit or imitation, to the extent that an organisation consciously and strategically chooses to comply with institutional pressures in anticipation of specific self-serving benefits that may range from social support for resources to predictability. Compliance may also reduce the organisation's vulnerability to negative assessments of its conducts, products or services. This thesis argues that an organisation will choose to comply with disclosure requirements to avoid negative assessment of its conducts by regulatory institutions and actors in the capital market, and to gain continued access to resources from relevant stockholders. Therefore, disclosure will in this sense, validate the legitimacy of the organisation among its relational networks.

Oliver further argues that organisational acquiescence depends on the organisation's conscious intent to conform, its degree of awareness of institutional processes and its expectations that conformity will be self-serving to organisational interests. She argues that the theoretical rationale underlying conformity or resistance to institutional rules and expectations depends on both the willingness and ability of organisations to conform to these rules. Where the organisation is sceptical about the legitimacy or validity of the institutional status quo, or where the organisation wants to retain control, or where the institutional objectives are at cross-purpose with organisational goals, these will limit the willingness of the organisation to conform to institutional requirements. These boundaries on the willingness and ability of organisations to conform drive the predictive dimensions of the framework.

Based on the discussion in the preceding paragraph, Oliver asked questions of 'why, who, what, how and where' concerning the conditions under which it was more likely that a company would conform to these pressures. These factors are grouped under "cause", "constituents", "contents", "control" and "context". These factors address the characteristics of institutional pressures that are believed to predispose organisations to adopt a particular strategic response (see table 7 for summary).

***Table 7 Institutional antecedents and predicted strategic response***

| Predictive Factor | Strategic Responses | | | | |
|---|---|---|---|---|---|
| | **Acquiesce** | **Compromise** | **Avoid** | **Defy** | **Manipulation** |
| **Cause** | | | | | |
| Legitimacy | H | L | L | L | L |
| Efficiency | H | L | L | L | L |
| **Constituents** | | | | | |
| Multiplicity | L | H | H | H | H |
| Dependence | H | H | M | L | L |
| **Content** | | | | | |
| Consistency | H | M | M | L | L |
| Constraints | L | M | H | H | H |
| **Control** | | | | | |
| Coercion | H | M | M | L | L |
| Diffusion | H | H | M | L | L |
| **Context** | | | | | |
| Uncertainty | H | H | H | L | L |
| Interconnectedness | H | H | M | L | L |
| | | | | | |
| **Key**: H = High; L =Low; M= Moderate | | | | | |
| **Source**: Oliver (1991: p.160) | | | | | |

### 3.3.1 Cause of institutional pressures

The cause of institutional pressures refers to the rationale, set of expectations, or intended objectives that underlie external pressures for conformity. Oliver (1991) identified two reasons first, pressure may be used to make a company fit in socially or secondly, to make a company conform to a desired practice by forcing it to be economically accountable.

The perspective of this thesis is that disclosure requirements are intended to make an organisation more transparent in financial reporting. This in turn will promote the confidence of investors in the capital market. When an organisation anticipates that conformity with these disclosure requirements would enhance its social and economic fitness, that is, they are of benefit in terms of reduction in cost of capital or an increased analyst following, the organisation will probably be more likely to comply. However, organisational scepticisms about the social legitimacy or strategic utility of conformity, and the perception that institutional objectives are at cross-purpose with organisational interests may result in resistance to these institutional requirements. Hence, the choice between acquiescence and more resistant strategies will depend on the degree to which the organisation agrees with and values the intentions or objectives of institutional constituents in pressuring the organisation to be more socially or economically accountable. Furthermore, the type of response to institutional requirements also depends on the particular type of organisation, for example, a large organisation may be more willing to conform than a small organisation.

### 3.3.2 Constituents of institutional pressures

Oliver (1991) argues that organisations sometimes confront institutional constituents who pose conflicting pressures. She categorised these constituents into multiplicity and dependence. She defined multiplicity as “the degree of multiple conflicting expectations exerted on an organisation that bound its ability to conform” (Oliver, 1991, p.162). She argues that passive acquiesce to institutional demands is difficult to achieve when acquiescence to one constituent precludes the ability to conform to alternative constituents with conflicting expectations.

Organisations are likely to attempt avoidance strategies in the face of multiple conflicting pressures from constituents. For example, an oil company may attempt to conceal the extensiveness of an oil spill to avoid the kind of costly clean-up that displeases its shareholders but is demanded by the public. Hence, organisations are not only made more aware of institutional expectations from multiple constituents, they are also driven by their own interests to reduce uncertainty, conflict and instability that multiplicity generates.

Furthermore, Oliver argues that pressures may come from the very source on which an organisation is dependent. Consistent with resource dependence theory (Pfeffer and Salancik, 1978), she argues that an organisation will be less likely to resist external pressures when it is dependent on the sources of these pressures. However, she reasons that an organisation may also compromise when dependence is high because organisations typically have interests they wish to protect or promote and dependence is rarely unidirectional. For example, an organisation may bargain with regulatory agencies on terms of compliance by supplying their own personnel to regulatory agencies as advisors, and take advantage of the fact that the cooperation of organisations in an industry is necessary for the regulatory agency to do its job.

### 3.3.3 Content of institutional pressures

Oliver (1991) focuses on two dimensions of content: “consistency” and “constraint”. On consistency, Oliver argues that organisations will be more willing to acquiesce to external pressures when these pressures or expectations are compatible with internal goals. Therefore, the willingness and ability of organisations to accept and conform to institutional rules or expectations may be circumscribed by lack of consistency with internal goals. Oliver reasoned that inconsistency reflects organisational interests at cross-purposes with institutional objectives and provokes organisational doubts about the validity or legitimacy of institutional expectations.

On constraint, Oliver argues that there is a likelihood of resistance to pressures when there is the potential loss of discretion. For example, Oliver argues that organisations might lack the capacity to conform such as having inadequate working capital to bring current production processes into conformity with a new regulatory requirement. Organisational motives to retain control over processes and outputs will impose limits on the willingness of organisation to conform, and therefore they can be expected to acquiesce more readily to pressures that do not constraint substantive organisational decisions. As autonomy begins to be threatened, organisations may move to compromise or negotiate on their extent of permitted discretion. However, organisations will be expected to trade off autonomy or discretion in return for greater legitimacy or economic viability.

### 3.3.4 Control by institutions

Oliver (1991) argues that institutional control describes the means by which pressures are imposed on organisations. She argues that there are two processes by which pressures are exerted. The first is legal coercion (via sanctions) and the second is voluntary diffusion. When the force of law or government mandate reinforces cultural expectations, organisations are made more aware of public interest and will be less likely to respond defiantly because the consequence of noncompliance are more tangible and often more severe.

When the degree of institutional enforcement, vigilance and sanctions for noncompliance are more moderate, organisations often seek compromise on the scope and timing of compliance. Organisations can attempt to avoid institutional rules and requirements by reducing the degree to which they are scrutinised by regulatory agencies (that is, buffering), or by establishing ritualistic procedures to promote the appearance of compliance to specified rules and requirements (that is, concealment).

Oliver argues that institutional pressures and expectations may occur not only by legal coercion but also by means of voluntary diffusion. The extent to which institutional expectations or practice have already diffused or spread voluntarily through an organisational field will tend to predict the likelihood of conformity to institutional expectations. A company is more likely to submit to pressure if there is a high possibility that a demand can be voluntarily diffused. However, because organisations are less likely to be aware of incipient or narrowly diffused values and practices, they may be unable to conform. Organisations will also tend to be more sceptical and therefore unwilling to conform when values and practices are not broadly diffused or widely validated.

### 3.3.5 Context of institutional pressures

Oliver (1991) describes the context of institutional pressures in terms of environmental *uncertainty* and *interconnectedness* among institutional factors. Consistent with Pfeffer and Salancik (1978, p.170) Oliver defined environmental uncertainty as ‘the degree to which future states of the world cannot be anticipated and accurately predicted’ and interconnectedness as ‘the density of inter-organisational relations among occupants of an organisational field’.

Oliver predicted that acquiescence, compromise and avoidance strategies will be most likely to occur when environmental uncertainty is high. Acquiescence because uncertainty causes organisation to mimic one another (DiMaggio and Powell, 1983), compromise because the organisation negotiates to reduce environmental uncertainty (Pfeffer and Salancik, 1978) and avoidance because organisations attempt to buffer themselves from the vulnerabilities and unpredictability of the operating environment (Thompson, 1967). As uncertainty of the environment diminishes, the need for security, stability and predictability from the persistence of institutions decreases and organisations grow more confident in their prediction about the acquisition of future resources and legitimacy.

Oliver argues that organisational decision-makers are more likely to accede to the values or requirements of the institutional environment when the environment is highly interconnected. Interconnectedness facilitates the voluntary diffusion of norms, values and shared information. Because highly interconnected environments provide relational channels through which institutional norms can be diffused, this tends to create more implicit coordination and collectivisation in a given environment, more consensus on diffused norms and greater ubiquity of institutional effects. In other words, relational networks serve to elaborate collective myths and values and this elaboration leads to conformity with institutional elements (Meyer and Rowan, 1977).

Environments that are highly fragmented or purely competitive impede the spread of institutional consensus and conformity. Therefore, organisational defiance and manipulation are more likely to occur, the lower the degree of organisational interconnectedness in the institutional environment (Oliver, 1991). Furthermore, compromise and avoidance can occur in highly interconnected environments because interdependence among organisations requires inter-organisational coordination and negotiation on the extent and condition of exchange, and the establishment of inter-organisational linkages involves a loss of control and discretion that organisations attempts to minimise, particularly through efforts to decouple internal organisational processes from the influence of external relationships (Oliver, 1990).

The perspective for using the Oliver framework for this study is that organisation disclosure decision represents a strategic response to institutional pressures, and that such a response is constrained by broader institutional rationalities. Several studies in accounting literature have provided supporting evidence to the framework (for example, Abernethy and Chua, 1996, Carmona and Macias, 2001; Clemens and Douglas, 2005; Etherington and Richardson, 1994; Goodstein, 1994; Hyvonen, Jarvinen and Rahko, 2009; Ingram and Simon, 1995).

However, there have been some critics, for example, Ingram and Simons (1995) argue that most applications of Oliver's model conceptualise the role of agents in the institutional environment in a way that embraces an instrumental approach to rationality. In other words, Oliver's model takes the perspective that social actors are seen as ready to take any action that would enhance their individual interests, unconstrained by existing institutional arrangements (Goodrick and Salancik, 1996; Seo and Creed, 2002). In contrast, recent studies emphasise a more collective notion of rationality by assuming that the interests, values and identities of individuals and organisations are embedded within prevailing institutional logics that enable and constraint the means and ends of their agency (Goodrick and Salancik, 1996; Lounsbury, 2008; Greenwood *et al.,* 2011).

Furthermore, Oliver (1991, p.160) merely suggests that acquiesce, compromise, avoidance, defiance or manipulation may be "high" or "low" without discussing how multiple and conflicting institutional logics interact to bring about low or high compliance. Therefore, this thesis further used the Greenwood *et al.* (2011) framework to provide an explanation on corporate disclosure of corporate organisations that operates in a complex financial reporting environment.

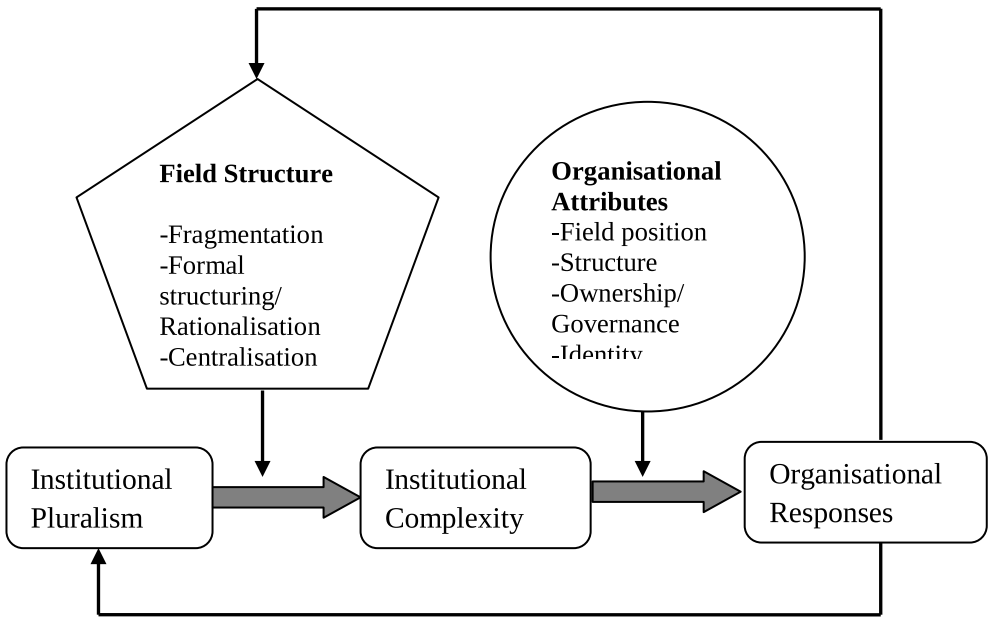
Despite these criticisms, Oliver recognises both the interest of organisational actors and the need for legitimacy. She concludes that organisation actors seek to acquire or maintain legitimacy while following their interests. The importance of legitimacy and self-interest in the Oliver's framework makes it an appropriate model for the study of corporate disclosure. The next section discusses the Greenwood *et al.* (2011) framework.

### 3.4. The Greenwood *et al.* (2011) institutional framework

Recent literature in organisational institutional research has recognised and accommodated the existence of multiple institutions or institutional pluralism with conflicting demands on organisations, and how these impact upon organisational response (Scott, 2008, Kraatz and Block, 2008, Pasche and Santos, 2010, Greenwood *et al.*, 2011). These studies argue that organisational fields are characterised by multiple and often conflicting institutional logics (Greenwood *et al.*, 2009; D'Aunno *et al.*, 1991; Hoffman, 1999; Reay and Hinnings, 2005), and consequently, organisational responses to their contexts are unlikely to be uniform (Greenwood *et al.*, 2009). Consistent with this view, this study extends the empirical analysis by using the Greenwood *et al.* (2011) framework to identify the factors that explain intra-industry variation in disclosure compliance.

The Greenwood *et al.* (2011) framework provides an explanation for the interaction between institutions and corporate organisation and figure 4 helps explain this phenomenon.

***Figure 4 Greenwood et al. (2011) framework on institutional complexity***




**Source**: Greenwood et al. (2011, p.324)

Figure 4 provides an overview of the Greenwood *et al.* framework, and shows that when there is more than one institutional category (institutional pluralism) making demands on a corporate organisation, this creates a complex institutional environment for corporate organisations (institutional complexity). However, the complexity experienced by individual corporate organisations depends on the structure of the organisational field (field structure). The complexity is further moderated by individual organisational attributes. Each component of the framework is discussed in the following sections.

### 3.4.1. Institutional logics

Thornton and Ocasio (1999, p. 804) define *institutional logics* as "the formal and informal rules of action, interaction and interpretation that guide and constrain decision makers." Institutional logics are *hierarchical* (Friedland and Alford, 1991) which implies that there are higher and lower levels logics that affect an organisation's decisions and practice. Thornton (2004, p.12) puts these hierarchical orders as "the market, the corporation, the professions, the family, the religion, and the state". The prescriptions and proscriptions of these logics are incompatible, or at least, appear to be so; therefore, they inevitably generate challenges and tensions for organisations that are exposed to them (Friedland and Alford, 1991; Kraatz and Block, 2008).

Differences in the degree of organisational exposure to institutional logics, and variations in the cognitive orientation of corporate managers leads to practice variation (Lounsbury, 2007, 2008). Organisations also embark on strategies and practices that reflect the demands of the varying audiences in their attempt to gain legitimacy (Greenwood *et al.,* 2010; Reay and Hinnings, 2005). The aforementioned argument suggests that differences in the degree of exposure to institutional logics and in the cognitive orientations of corporate managers would lead to variation in corporate disclosure compliance.

### 3.4.2. Institutional pluralism

Institutions are “the rules of the game” that direct and circumscribe organisational behaviour (Kraatz and Block, 2008, p.1). An organisation faces the challenge of institutional pluralism when it participates in and/or becomes a member of more than one institutional category. For example, a subsidiary of a multinational corporation would need to comply with the operational manual of the controlling parent company, and at the same time the subsidiary would need to comply with the regulatory requirements in the country where it is operating which may be different from that of its parent company. Furthermore, the same subsidiary may be a member of the trade associations in the country where it is domicile such as being a member of the Manufacturing Associations of Nigeria (MAN). This membership of multiple institutional categories creates potential for fragmentation, incoherence, conflict, goal-ambiguity and organisation instability (Stryker, 2000; Heimer, 1999).

However, since significant complementarities exists between institutional audiences (Kraatz and Block, 2008, p.5), an organisation’s ability to satisfy the demand of one institution enhances its ability to satisfy the demand of other institutions. Therefore, at the minimum, an organisation may have the ability to; at least placate diverse external constituent groups when confronted with pluralistic institutions. Furthermore, institutional pluralism may create significant opportunities for organisations to deviate from the demands of some of the institutional hierarchies. An organisation’s attributes may further enhance organisational motivation to deviate from the demands of these institutional hierarchies (Greenwood *et al.*, 2011). The implication for disclosure compliance is that institutional pluralism creates the opportunity for corporate organisations to vary their level of disclosure.

### 3.4.3. Institutional complexity

Greenwood *et al.* argue that a pluralistic institutional environment creates institutional complexity for organisations. This complexity can be experienced at two levels-at *societal level* and at *organisational field level* (Scott, 2014). The *societal level* focuses on the structure of institutional hierarchy, that is, “the market, the corporation, the professions, the family, the religion, and the state” (Thornton, 2004, p.12). The sources of complexity from these institutional hierarchies are potential disagreement over goals, means, appropriate materials or the definition of organisational boundaries (Meyer and Scott, 1983).

At the *organisation field level*, complexity focuses on the relational structure of the industry category in which organisations are embedded (Meyer and Scott, 1983), or on the relational structure in a large organisation (Kostova and Roth, 2002) and their interaction with their external institutional environment. Institutional complexity at organisational level arises from local exchanges among organisations at the local level (Warren, 1967), non-local and vertical ties between the organisation and its corporate headquarters and regulatory agencies (Scott and Meyer, 1983). For example, a foreign subsidiary of a multinational corporation confronts pressures within their MNCs to conform to organisation-based structure and practices in addition to the pressures from the institutional environments in their host countries (Kostova and Roth 2002). Such ties create complexity for the subsidiary company.

Greenwood *et al.* (2011, p.334) argue that the number of logics and the degree of compatibility between the demands of these institutions influence the extent of institutional complexity. That is, the higher the number of logics the greater the complexity facing an organisation and the higher the degree of divergence in the institutional prescribed *goals* and *means*. These increased the degree of complexity for corporate organisation. Furthermore, Greenwood *et al.* (2011, p.334) argue that when logics are ambiguous and *lack specificity*, organisations are provided with a relatively greater degree of discretion to alleviate the tensions of institutional complexity. However, when conflicting logics are highly specific, organisations are faced with a more problematic level of complexity. Specificity constrains managerial discretion by making it extremely difficult to "mask or distract attention from controversial core activities that are acceptable to key constituencies" (Elsbach and Sutton, 1992, p.700). The implication is that organisations are able to exercise a high degree of disclosure discretion where disclosure requirements are not very specific.

### 3.4.4. Organisational field

Organisational field is the intermediate level between organisation and society and it is instrumental to processes by which socially construed expectations and practices are disseminate and reproduced (Greenwood *et al.*, 2002, p.58). Examples of organisation field are "sector" or "industry" or industry classifications (Thomson, 2011). Greenwood *et al.* (2011, p.334) argue that the nature and extent of institutional complexity facing organisations is fundamentally shaped by the *structure* of the organisational fields in which they are located, which may be an emerging or matured organisational field.

A matured field is characterised by identifiable patterns of interactions and an articulated institutional *infrastructure* (Greenwood *et al.*, 2011). These institutional infrastructures are mechanisms of enforcement such as professional accreditation (Quinn and Washington, 2009, Zuckerman, 1999) or state regulation (Dobbin and Dowd, 1997). A matured field has a stable and settled organisational practice, because the tensions between competing logics have been worked out at field boundary level. This suggests that institutional demands are more predictable in matured fields (Dejean, Gond and Leca, 2004; Garud, Jain and Kumaraswamy, 2002; Lawrence and Phillips, 2004). Individual organisations in the mature field also have little or no ability to exercise discretion (Greenwood *et al.*, 2011). The implication is that firms in matured fields are less likely to exercise discretion in disclosure compliance and may be uniform in their disclosure practice.

Emerging fields are typically unsettled because they have highly permeable boundaries that allow actors from outside to enter with relative ease, bringing with them practices rooted in logics from other fields (Maguire *et al*., 2004). This situation complicates the balance of interests within the field, and consequently the practice in emerging fields is unpredictable and fragmented. An implicit assumption of the distinction between emerging and mature field is that organisation practices are more or less similar (isomorphic) in mature fields than in emerging fields.

### 3.4.5. Field structure

Greenwood *et al.* (2011, p.337) compare field structure based on their degree of “fragmentation”, “formalisation/rationalisation and “centralisation/unification”. The field is fragment when there are a number of uncoordinated constituents on which an organisation is dependent for legitimacy or resources. The authors argue that fragmentation increases the complexity confronting an organisation.

Additionally, an organisational field can be organised formally or informally. Low formalisation increases an organisation’s discretion and the institutional pressure in this field may lack intensity when compared to a more formalised, coordinated institutional fields. However, greater formalisation sharpens the specificity of demands on organisations and enables an organisation to respond in a more calculable manner. Formalisation also makes pressures more visible and easier to police. A centralised field is standardised and reduces the complexity to which organisations are exposed, because of its unified institutional demands. Furthermore, rules are clearer, better specified, more uniformed and integrated in a centralised field (Meyer *et al.,* 1987, p.190).

### 3.4.6. Organisation attributes

#### 3.4.6.1. Organisation field-level position

The field-level position concerns the location of the organisation in its industry or organisational field, and is defined in terms of whether the organisation is located at the "centre" or "periphery". Organisations at the centre of the organisation field may be more visible due to their size or market capitalisation, and could have a larger number of analysts following. Organisations at the periphery are small and may not attract an analyst following.

Abbott (1988) associates dominant organisations in the organisation's field to those at the centre while subordinate firms to those at the periphery. Leblebic, Salancik, Copay and King (1991) argue that an organisation located at the "periphery" is motivated to deviate from established practices because it is less restricted by institutionalised relationships and expectations. Greenwood *et al.* (2011) argue that for several reasons an organisation at the periphery of a field is less likely to experience the same intensity of institutional complexity and therefore, its responses might differ fundamentally from those of centrally located organisations.

#### 3.4.6.2. Organisation structure

Greenwood and Hinnings (1996) argue that institutional pressures "enter" an organisation through the interpretation and the meaning given by occupants of structural positions as they import into an organisation the meanings and norms of logics to which they have been primarily exposed. Therefore, an organisation's decisions are influenced by those who bring to the decision process *their* interpretation of priorities and preferable outcomes (Chung and Luo, 2008; Ocasio,1997). Actors (such as organisation employees, management and professionals) are "carriers" (Zilber, 2002) that "represent" and give voice to institutional logics (Pache and Santos, 2010).

However, the actors who are carriers of institutional logics are "quite likely to differ in their awareness of, and receptivity to institutional pressures (Delmas and Toffel, 2008, p.102). Furthermore, the degree to which these "representatives" are committed to, and actively advocate, a particular logic can vary (Binder, 2007). The motivation and capability of these social agents to enforce their demands also vary. Therefore, not all field-level agents would be able to police their logics with the same insistence and demand nor are they *able* to do so (Greenwood *et al.*, 2011). The extent to which occupants of structural positions within an organisation can police institutional demands would invariably affect an individual organisation's response to institutional demands such as disclosure requirements.

#### 3.4.6.3. Organisation ownership

Greenwood *et al.* (2011) argue that organisational ownership shapes its relative receptivity to multiple logics. There are two perspectives on organisation ownership, which are *public* and *private* ownership (Goodrick and Salancik, 1996; Lounsbury, 2001) and *family-owned* and managed firms (Chung and Luo, 2008; Miller *et al.*, 2010). The board of directors serves as a conduit through which stakeholder interests and their normative preferences are represented in publicly traded corporations (Hillman and Dalziel, 2003). The relative proportion of issued shares owned by institutional investors and the public will affect the extent of pressures transmitted to corporate organisation on disclosure matters (Dobbin, Sutton, Meyer and Scott, 1993; Edelman, 1992).

#### 3.4.6.4. Organisation identity

Identities can be studied at both organisational and institutional levels (Greenwood *et al.*, 2011). Identity at institutional level focuses on inter-organisational or field-level perspective (Wry, Lounsbury and Glynn, 2011), while identity at organisational level focuses on tensions and contradictions that stem from competing identity claims within organisations (Whetten, 2006;

Albert and Whetten, 1985; Foreman and Whetten, 2002). However, there have been recent attempts to recognise a potential link between identities at institutional and organisational levels (Kraatz and Block, 2008; Glynn, 2008; Battilana and Dorado, 2010).

For empirical analysis, identity at institutional level focuses on a set of claims to "institutionally standardised social categories" (Glynn, 2008; Kraatz and Block, 2008; Pratt and Kraatz, 2009). At this level, the focus is less about the unique features of the organisation but rather on organisation membership (or claims to membership) in a social category (Glynn, 2008, p.416; King, Felin and Whetten, 2010; Gioia, Price, Hamilton and Thomas, 2010). Identity at the organisational level focuses on attributes that define the organisation or that makes an organisation different from other organisations, especially when compared to those sharing the same institutional category (Albert and Whetten, 1985; Whetten, 2006; Dutton and Dukerich, 1991). At this level, identity influences how expectations and pressures are prioritised, and it shapes how possible responses are assessed and selected (Sharma, 2000; Glynn, 2008). The focus of this study is on corporate disclosure and follows the perspective of identity at the organisational level.

## 3.5. Conclusion

This chapter begins by arguing that the essence of information disclosure in corporate annual reports is an attempt to resolve the "lemons" and agency problem. Although there are attempts to minimise these problems via various forms of contracts, this thesis argues that the enforceability of contracts depends on a variety of *economic* and *institutional factors* (Healy and Palepu, 2001, p.410). This thesis emphasises the importance of institutional factors as determinants of corporate disclosure and use institutional theory as a lens. This chapter argues that exchanges between internal and external constituencies of corporate organisations put financial reporting practices at the centre of an ideological struggle (Mezias, 1990). Consequently, an important outcome has been the definition of legitimate methods for use in the preparation of financial statements (Mezias, 1990). These legitimate methods include generally accepted accounting principles and accounting standards.

The chapter discusses the Oliver (1991) and Greenwood *et al.* (2011) frameworks. These frameworks are use to identify factors that determine corporate disclosure compliance. The reason for adopting these frameworks is the ability of corporate organisations to exercise discretion whilst complying with the goals and practices prescribed by institutional audiences. Additionally, the instability complicates the complexity of the institutional environment for financial reporting. Unlike the PAT framework, which assumes a stable institutional environment, the instability in Nigeria’s financial reporting environment makes institutional theory an appropriate framework in the investigation of factors that determines organisation disclosure.

# Chapter Four

# Literature review of the positive accounting theory studies on disclosure

## 4.1. Introduction

There are a limited number of studies that have applied the Oliver (1991) and Greenwood *et al.*(2011) institutional frameworks in financial accounting research (see for example Guerreiro *et al.* 2012). Most extant empirical disclosure studies have used the PAT framework to provide an explanation of the factors that determine the level of corporate disclosure. The PAT perspectives on corporate disclosure are based on the following hypotheses: agency costs, corporate governance and monitoring, signalling and information asymmetry, capital needs, litigation costs and audit firm reputation (Ahmed and Courtis, 1999).

Given the limited availability of institutional theory-based disclosure studies, the review in this chapter categorised determinants of corporate disclosure by the key hypotheses of positive accounting theory (Watts and Zimmerman, 1990). Collin *et al.* (2009, p.143) argue that to a large extent both institutional theory and positive accounting theory predictions create the same hypotheses, but use different logics in derivation, suggesting that they are complementary in nature. This argument provides the rationale for focusing on PAT-based studies in this review. The criteria for inclusion of studies in this review are based on specific reference to either agency theory or positive accounting theory in the selected disclosure study.

The chapter proceeds as follows. Section 2 discusses the meaning, types and measures of disclosure. Section 3 discusses the classification of determinants of disclosure based on positive accounting theory hypotheses. Section 4 discusses the results of studies on determinants of corporate financial disclosure. Section 5 discusses the limitations of the positive accounting theory. Section 6 concludes the chapter with a discussion of the limitation of PAT and suggests institutional theory as an alternative framework to explain corporate disclosure.

### 4.2. Meaning and measures of disclosure

Gibbins, Richardson and Waterhouse (1990, p.122) defined financial disclosure as any deliberate release of financial and non-financial information whether numerical or qualitative, mandatory or voluntary or via formal or informal channels. Healy and Palepu (2001) argue that firms provide disclosure in regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulatory filings. The authors further state that some firms engage in voluntary communications such as management forecasts, analysts' presentations and conference calls, press releases, internet disclosure and other special corporate reports. This form of voluntary disclosure may not be captured in most index-based disclosure studies.

As stated in chapter one, this thesis focuses on mandatory disclosure, which is defined as the minimum disclosure in corporate annual reports that is required by relevant accounting standards, that is, those items of information that ensure important aspects of corporate activities have been disclosed (Wallace and Naser, 1995).

Different proxies have been used in literature to measure corporate disclosure; however, disclosure indices are the most commonly used. Disclosure indices are based on extensive lists of selected items, which may be disclosed in company reports (Marston and Shrives, 1991, p. 195). The computation of a disclosure index could include mandatory items of information and/or voluntary items of information. The index is a research instrument used to measure the extent of information reported in a particular disclosure vehicle (such as annual reports, interim reports, and investor's relations) by a particular organisation. Cerf (1961) was the first to use an index in a disclosure study, and they have since been used in many other disclosure studies. Selected examples include Depoers (2000), Abd-Elsalam and Weetman (2003), Naser and Nuseibeh (2003), Botosan (1997), Wallace *et al.* (1994), Chow and Wong-Boren (1987) and Singhvi and Desai (1971).

Prior studies show a great variation in the construction of a disclosure index, and these studies also vary in terms of the degree of the researcher's involvement in constructing the index, the type of information included and the number of items of information included in the index (Hassan and Marston, 2010). Furthermore, the type of information selected can cover mandatory disclosure (Ahmed and Nichollis, 1994; Wallace *et al.*, 1994) or voluntary disclosure (Botosan, 1997; Chow and Wong-Boren, 1997) or both (Singhvi and Desai, 1971; Cooke, 1992; Inchausti, 1997). In addition, the items of information included in the disclosure index could be weighted (Botosan, 1997; Richardson and Welker, 2001) or unweighted (Cooke, 1992; Singhvi and Desai, 1971). Irrespective of the type of index, the most common research question is 'what determines the extent of corporate disclosure?'

### 4.3. Determinants of corporate disclosure

There are several perspectives on the determinants of corporate disclosure. Gibbins *et al.* (1990) argue that disclosure position affects the supply of corporate disclosure or the way in which information disclosure is managed and identified two dimensions of disclosure position: ritualism and opportunism. Ritualism refers to uncritical adherence to predefined disclosure norms, which arises from internal behavioural patterns, motivated perhaps by an effective system of corporate governance. On the other hand, opportunism is the propensity to seek firm specific advantages in the disclosure of financial information (Graham *et al.*, 2005). For example, companies might benefit from providing more information to the public in the form of a reduced cost of capital (Botosan, 1997).

The cost of disclosure also affects corporate disclosure. These costs includes those of information processing and dissemination (Hassan and Marston, 2010), the proprietary costs that arise when competitors make use of available information about a company to their own advantage (Verrecchia, 1983; Dye, 1986; Darrough and Stoughton, 1990),or lawsuit costs which may be incurred when a company is sued for disclosing erroneous information (Skinner, 1994). Based on this, existing disclosure studies suggests that a decision to make information public would theoretically be based on a cost-benefit analysis, although detailed estimation of all costs and benefits is difficult (Healy and Palepu, 1993; Botosan, 2000).

### 4.3.1. Positive Accounting Theory-based determinants of corporate disclosure

Watts and Zimmerman (1990) argue that three hypotheses are commonly tested within the PAT framework. These are the bonus plan hypotheses, debt/equity hypotheses and political costs hypotheses. The bonus plan hypothesis predicts that managers of firms with bonus plans are more likely to use accounting methods that increase current period reported income. Such selection will presumably increase the present value of bonuses if the compensation committee of the board of directors does not adjust for the method chosen (Watts and Zimmerman, 1990).

The debt/equity hypothesis predicts that the higher a firm's debt/equity ratio, the more likely that its managers will use accounting methods that increase income. The higher the debt/equity ratios, the closer (that is "tighter") the firm is to the constraints in the debt covenants. The tighter the covenant constraints, the greater the probability of a covenant violation and of incurring costs from technical default (Watts and Zimmerman, 1990).

The political cost hypothesis predicts that large firms are more likely to choose accounting practices that reduce reported profits, which is based on the idea that governments will intervene into corporations' affairs to redistribute its profits (Jensen and Meckling, 1978).  The assumption underlying this hypothesis is that it is costly for individuals to become informed about whether accounting profits really represent monopoly profits, therefore, individuals would "contract" with others in the political process to enact laws and regulations that enhance their welfare (Watts and Zimmerman, 1990). To counter such political pressures, Watts and Zimmerman (1978) suggest that corporations employ a number of devices such as government lobbying and selection of accounting procedures to minimise reported earnings.

These three predictors of accounting choice are either used separately or jointly in empirical studies, however, they are not reinforcing (Milne, 2002). They imply opposing incentives and hence represent trade-offs (Watts and Zimmerman, 1986). Subsequent to Watts and Zimmerman (1978), empirical studies have used or suggested a wider range of measures to proxy these three predictors of accounting choice. The next section discusses these proxies and their empirical results.

### 4.3.2. Disclosure and the political cost hypothesis

Several empirical studies have sought to establish evidence for the political cost hypothesis as an explanation for a firm's disclosure. Belkaoui and Karpik (1989) gave one of the earliest and more comprehensive attempts to test Watts and Zimmerman's argument with respect to annual report disclosure. They argue that politically visible firms would disclose more information. Several proxies have been used to measure a firm's political visibility, including size, industry membership, capital intensity, assets in place, labour pressure and systematic risk.

#### 4.3.2.1. Size

Size is the most commonly used proxy for political sensitivity. Watts and Zimmerman (1978) argue that larger firms are subject to more political costs and therefore when these are high there is a greater incentive to withhold information. However, some studies have argued that larger firms tend to employ highly skilled individuals and sophisticated management reporting systems that enables them to provide a wider array of corporate information. For example, as the number of subsidiaries and areas of activity grow with a firm's size, the amount of information to be processed by managers increases the likelihood of higher information disclosure. Additionally, analysts and the public tend to impose greater demands on larger firms to provide information. Alternatively, larger firms are more able to afford the costly disclosure process (Depoers, 2000).

There is no consistent measure of size. Some studies have used total assets (Inchausti, 1997; Patelli and Prencipe, 2007), whilst others have used sales/turnover (Belkaoui and Karpik, 1989; Inchausti, 1997; Collin *et al.*, 2009; Al-Akra, Eddie and Ali, 2010). In addition, other studies have used the total number of shareholders (Singhvi, 1968; Singhvi and Desai, 1971; Cooke 1989a, 1989b; Cooke, 1991) and total market value of the firm (Al-Akra, Eddie and Ali, 2010). These inconsistent measures of size might have accounted for the differences in empirical results of the impact of size on corporate disclosure. For most empirical studies, a positive significant association has been found between size and disclosure (Belkaoui and Karpik, 1989; Inchausti, 1997; Patelli and Prencipe, 2007; Cho and Wong-Boren, 1987). However, Al-Akra, Eddie and Ali (2010) found an insignificant negative association between disclosure and size for their Jordanian-based study, probably due to the institutional context of the study.

This thesis argues that although the PAT-based studies provide evidence on political costs, size-disclosure relationship supports a legitimacy perspective of institutional theory rather than the self- interest perspective of PAT. This is because a large organisation would engage in wider relational networks in which case, it needs to maintain or enhance legitimacy (Suchman, 1995). The larger and the more complex the relational network becomes, the more the self-interest of corporate managers would decrease if they were to enhanced corporate legitimacy.

Furthermore, PAT-based studies argue that the greater the size of a corporation the more politically visible the corporation becomes, hence the higher the possibility of incurring political costs. While this is true, this thesis argues that political cost becomes an issue when a firm's conduct in the social environment becomes illegitimate. In other words, an illegitimate conduct would attract sanctions (political costs) from an institutional perspective. Therefore, as long as the corporation conducts its business legitimately, political costs are minimised. Additionally, Watts and Zimmerman (1990) specifically referred to the size of profit when discussing political cost, that is, the higher the profit earned the greater the likelihood of increased taxation (the political cost). This thesis argues that using corporate size (total assets, revenue) as a proxy for political cost is not a sufficient proxy for the PAT's political cost hypothesis.

#### 4.3.2.2. Industry/sector membership

Watts and Zimmerman (1990) suggest that industry membership affects the political vulnerability of a firm. The self-interest perspective argues that competitors in the industry are likely to use the information disclosed by a firm to change their product plans (Darrough, 1995). This can lead to a proprietary cost in the form of a reduction of future cash flow attributable to the disclosure on the firm (Dye, 1990), which therefore prevents managers from making adequate disclosure. However, it is in the manager's interest to distinguish its firm from a less profitable firm in the industry via information disclosure (Milgrom, 1981; Grossman, 1981).

Empirical studies frequently use two proxies to capture the effect of industry on disclosure. The first is a dummy variable to indicate if a firm belongs to a particular industry classification (Al-Akra *et al.,* 2010). The second is a measure of barrier to entry, which captures the potential for proprietary cost (Darrough and Stoughton, 1990; Darrough, 1995). Since barriers to entry are difficult to measure, empirical studies have used the amount of investment necessary to enter a sector such as total fixed assets as a proxy for barrier to entry. This amount represents the financial input needed to be competitive as an established firm in a chosen sector (Depoers, 2000). Firms that are protected in their sector by heavy barriers to entry are more likely to disclose more information than those that are not.

Most empirical studies that use an industry dummy find a negative association between disclosure and industry classification (Curuk, 2009; Al-Akra *et al.*, 2010), which suggests that firms conceal information from their competitors. On the other hand, empirical studies that use gross fixed assets as a proxy for barrier to entry find a significant positive association between gross fixed assets and disclosure (Depeors, 2000). This suggests that when there is a significantly high barrier to entry, established firms would willingly disclose more information.

Consistent with institutional theory perspective, this thesis argues that industry membership provides a platform for relational networks that aids voluntary diffusion of institutional requirements. Therefore, the observed impact of industry classification on disclosure as shown in the above studies may be picking up the effect of voluntary diffusion among individual corporations in the industry category. This negative association of industry dummy with the level of disclosure may suggest that the industry structure is fragmented. On the other hand, a positive association of industry dummies with the level of disclosure would suggest that institutional norms are widely diffused in the industry. In such industry, a firm do not adopt the same corporate reporting strategy as others from the same industry, could be interpreted by the market as a signal of 'bad news', and the market price will tumble (Depoers, 2000).

#### 4.3.2.3. Labour pressure

Liberty and Zimmerman (1986) argue that employees within a company could form a pressure group, which would be likely to impose negative wealth transfers in the form of wage demands. Consequently, it may be preferable for the firm and its managers to withhold certain information which could be useful to unions in terms of their bargaining power. Frantz and Walker (1997) argue that when the information is relevant to both the financial market for valuation purposes and a union for wage-bargaining purposes, either unfavourable or and favourable information may be concealed by managers who would gain either way. Similarly, Darrough (1995) argues that firms with high salary overheads would consequently disclose less information to deter demands for higher wages and better working conditions. The proxies for labour pressure include labour charges on turnover ratio (Depoers, 2000) and labour skills (Ahmed and Nicholls, 1994). The labour charges on turnover ratio suggest that the wage bill is representative of the intensity of labour in a firm.

Deegan and Hallam (1991) found a negative association between voluntary value-added statement disclosure and labour pressure. Similarly, Depoers (2000) finds a significant negative association between voluntary disclosure and labour pressure. This suggests that firms would conceal such information from their employees if it were likely to increase pressure for higher wages.

#### 4.3.2.4. Employee efficiency

Employee efficiency could influence disclosure (Watson *et al.,* 2002). Employees could put pressure on management for higher salaries if they perceived that they are highly efficient, and management may therefore decide to hide information that reveals employees efficiency. On the other hand, management may decide to reward employee's efficiency and make this known on the annual report in order to attract additional highly skilled staff to the organisation. Consequently, a significant positive relationship could be observe between employee's qualifications and disclosure (Singhvi, 1968). Sales per employee (Watson *et al.,* 2002) and professional qualification by the principal accounting officer (Singhvi, 1968) have been used as a proxy for labour skills.

Watson *et al.* (2002) found a positive relationship between information disclosure and efficiency (measured by sales per employee). This implies that an efficient firm increased information disclosure. However, Abayo *et al.* (1990) and Ahmed and Nicholls (1994) found no relationship between the level of compliance with mandatory disclosure and possession of professional qualifications by the principal accounting officer. Similarly, Parry and Grove (1990) found no relationship between the quality of financial reporting and the employment of qualified accountants by companies in Bangladesh.

#### 4. 3.2.5 Systematic risk

Belkaoui and Karpik (1989) found a significant positive association between disclosure and systematic risk measured by market beta coefficient derived from the market model. Belkaoui and Karpik (1989) interpreted the results to mean that politically visible firms would disclose more information. However, Firth (1984) found no relationship between the extent of disclosure and systematic risk and interpreted the result to mean that there is no association between market performance and extent of disclosure. The inconsistent result could be due to Botosan's (1997) observation that the market beta is derived from the traditional CAPM formula, which assumes that the true parameters for the model are known.

#### 4. 3.2.6 Organisational complexity

Two aspects of organisational complexity have been studied in empirical research; these are the nature of the industry in which an organisation operates and geographical concentration (Bushman *et al.,* 2004; Bushman *et al.,* 1995; Bodnar *et al.,* 1998). From the perspective of geographical concentration, Bushman *et al.* (2004) found a significant positive relationship between accounting information disclosure and industry concentration. Empirical studies have also focused attention on multi-national corporations. For example, Depoers (2000) argues that operating in a number of geographical areas including other countries increase the amount of information controlled by a firm, which would lead to increased disclosure.

Furthermore, Cooke (1989) argues that the more a firm is exposed to international operations, the greater the amount of information control by the company's management. Moreover, some countries such as the US require diversified firms to disclose segment data (Givoly *et al.,* 1999), these additional disclosure requirements are expected to increase the information disclosed by multinational firms. Depoers (2000) finds a significant positive relationship between disclosure and a firm's foreign activities. Similarly, Raffournier (1995) finds that firms with high exports-on-sales ratios disclose more information than those who export less.

However, when organisational complexity is associated with diversification this could results in costly governance responses (Denis *et al.*, 1997). An inability to effectively govern MNCs may result in low information aggregation and disclosure. In addition, multinational firms face a complex managerial decision-making environment that generates a range of monitoring difficulties. Furthermore, multinational firms face cultural and legal diversity across markets; consequently, this may increase the level of information asymmetry in complex organisations such as MNCs (Habib *et al.*, 1997). Similarly, Gilson *et al.* (2001) argue that multi-industry firms attempt to suppress the activities of information intermediaries, which increases the level of information asymmetry.

### 4.3.3. Disclosure and the debt covenant /equity hypothesis

Jensen and Meckling (1976) argue that managers have incentives to provide information about their activities instead of being investigated, this is because, the cost borne by the managers to disclose such information (bonding costs) are lower than the costs the principals would bear to control insider's activities from the outside (monitoring costs). Different proxies have been used to investigate the debt/equity hypothesis. These are discussed in the sections that follow.

#### 4.3.3.1. Leverage

Different measures have been used to measure leverage, including total debts to total assets (Belkaoui and Karpik, 1989); liabilities to equity (Inchausti, 1997; Al-Akra *et al.*, 2010), total liabilities to total equity (Ho and Wong, 2001), and total equity to total assets (Patelli and Prencipe, 2007). However, the findings have not always been consistent. Belkaoui and Karpik

(1989), Patelli and Prencipe (2007) and Al-Akra *et al.* (2010) find a significant negative association between disclosure and leverage whereas other results show no significant association between leverage and disclosure ( Wallace *et al.*, 1994; Wallace and Naser, 1995). Differences in these results were due to differences in national settings and the different proxies used for the variables (Patelli and Prencipe, 2007).

#### 4.3.3.2. Audit firm size

In order to monitor the dysfunctional behaviour of managers and mitigate the effect on owners' utility or wealth, equity-holders adopt several monitoring devices, and among these are the appointment of external auditors, audit committees and independent directors. Firth (1979) argues that large audit firms may incite companies to increase information disclosure in order to preserve their reputations. Furthermore, Verrechia (1990a) argues that the skills possessed by a high quality audit firm could increase the precision of information reported. Bar-Yossef and Livnat (1984) argue that being audited by one of the big firms is a signal of high cash flow expectations, as a result, good firms are likely to disclose more information to 'advertise' their performance.

Empirical studies have used a dummy variable to indicate whether one of the big audit firms audited a company, and these have yielded a mixed result. Wallace *et al.* (1994) found no relationship between audit firm size and disclosure. Wallace and Naser (1995) found a significant negative association between audit firm type and mandatory disclosure. Raffournier (1995) found a significant relation between audit firm type and disclosure in his univariate tests. Al-Akra, Eddie and Ali (2010), Ahmed and Nicholls (1994), and Patton and Zelenka (1997) found a significant relation between audit firm type and disclosure in their multivariate test.

Despite the foregoing, consistent with Healy and Palepu (2001), this thesis argues that the effectiveness of audit firms depends more on the institutional arrangements and the stability of these institutional settings.

#### 4.3.3.3. Independent directors

Another monitoring mechanism is the appointment of independent directors on the board. Independent board members are professionals with neither a management role nor business or ownership ties to the company, but with professional reputations to protect (Patelli and Prencipe, 2007). Independent board members have a role in limiting agency problems by reducing the risk of collusion between top management and the controlling shareholders (Fama and Jensen, 1983).

Forker (1992) argues that the presence of non-executive directors on corporate boards reduces the benefits of withholding information, thus providing the incentive to disclose more information. However, he does not find significant empirical support for his hypothesis. Similarly, Haniffa and Cooke (2002) and Ho and Wong (2001) do not find any significant relationship between the proportion of independent directors and the extent of voluntary disclosure provided by listed firms.

On the other hand, Chen and Jaggi (2000) find that the total number of independent directors on corporate boards is positively associated with the comprehensiveness of financial disclosures. Patelli and Prencipe (2007) found a significant positive relationship between the proportion of independent board members and voluntary disclosure. Similarly, Eng and Mak (2003) find empirical evidence that an increase in outside directors reduces the level of corporate disclosure. The aforementioned discussion shows a mixed result on the impact of independent board members on corporate disclosure.

A related proxy used in empirical studies is the evaluation of the impact of the proportion of foreign board members on corporate disclosure. Singhvi (1968) found that Indian companies managed by locals disclosed less information than their non-Indian counterparts.

### 4.3.4. Disclosure and the bonus plan hypothesis

Watts and Zimmerman (1978, p.114) assume that management's utility is a positive function of the expected compensation (or wealth) in future periods, and a negative function of the dispersion of future compensation (or wealth). They argue that a manager's total compensation consists of wages, incentive compensation (cash bonuses and stock or stock options), and non-pecuniary income, including perquisites (Jensen-Meckling, 1976a). Watts and Zimmerman (1978) argue that managers seek to increase either the level of incentive compensation or the firm's share price via the choice of accounting standards they made.

Empirical analysis has distinguished between mechanisms which increase management wealth via increases in share price (that is stock and stock options which are presumed to be the more viable option) or via increases in incentive cash bonuses (Watts and Zimmerman, 1978). The focus of this review is on the relationship between the stock and stock options compensation and corporate disclosure.

Nagar *et al.* (2003) argue that current investors need information about the firm's future expected cash flow and risk which is available to managers due to their proximity to operating activities, however self-interested managers would be reluctant to reveal this. Such poor disclosure weakens investors power to discipline managers and consequently managers can become entrenched, as their chance of replacement is reduced (Schleifer and Vishny, 1989). Edlin and Stiglitz (1995) argue that rent-seeking managers have the incentives to exacerbate information asymmetry by selecting projects that obfuscate firm performance.

Moreover, Nagar *et al.* (2003) argue that disclosure can cause the labour market to reassess managerial talent and ability. Therefore, unless they are suitably compensated a risk-averse managers would be reluctant to disclose their private information if they were uncertain about how such disclosure would affect them (Nagar, 1999). Furthermore, Skinner (1994, 1997) argues that managers and shareholders face different legal costs of disclosure; as a result, encouraging managers to disclose is important, yet is not easy to achieve.

Based on the aforementioned, Nagar *et al.* (2003) argue that stock price-based incentive contracts effectively encourage disclosure for several reasons. First, stock price is a timely performance measure because investors can immediately react to disclosures by trading in the firm's shares. Second, if investors perceive disclosed information to be irrelevant to the current contingency, the stock price will not change. That is, the price formation process takes into account both the quality and the quantity of information disclosed. Third, stock price-based incentives encourage both good news and bad news disclosures. Consequently, stock price appreciation is a natural incentive for managers to release good news. Nagar *et al.* (2003) argue that this property of the stock price reduces the risk imposed on managers and leads to a more efficient contract.

Similarly, investors with rational expectations respond not only to disclosure but to non-disclosure, which they rationally perceive as "worse" news (Verrecchia, 1983; Milgrom, 1981). Therefore, it is beneficial for managers compensated on stock price to disclose bad news to investors rather than remain silent. However, since silence can also mean that the manager does not have private information, Dye (1985) argues that investors react negatively to non-disclosure only when they expect the manager to have private information.

Nagar *et al.* (2003) found a positive relation between disclosure practices and a firm's long-run use of stock price-based incentives. The authors argue that these results suggest that in the long run, these incentives mitigates disclosure agency problems instead of exacerbating them. The result also suggests that stock price-based compensation itself plays a role in this process by providing managers with an incentive to improve price informativeness through disclosure. The results are also consistent with Lambert and Larcker (1987) who found that firms use stock price-based incentives when prices are informative about managerial actions.

Nagar *et al.* (2003) concluded that potential litigation costs are an institutional force that helps elicit bad news disclosure from managers who have stock price-based incentives; this suggests that the strength of institutions is an important determinant of the level of disclosure in corporate annual reports.

### 4.4. Conclusion

Most empirical disclosure literatures have relied heavily on positive accounting theory to explain managerial behaviour and accounting practice (Neu and Simmons, 1996). Positive accounting theory assumes that the relative power between agents and principals affects reporting decisions (Zimmerman, 1977). The theory also assumes that the self-interest of actors affects accounting practice and compliance with accounting standards. As discussed in the preceding sections, most empirical studies that relied on the PAT framework have yielded conflicting and mixed results.

However, Mezias (1990) used both PAT and the institutional framework in his study of financial reporting among US corporations and found that 4 out of the 7 variables belonging to institutional theory could not be rejected where as only 2 out of the 6 variables from PAT were significant. Similarly, Collin *et al.* (2009) studied the accounting choices of Sweden Municipal Corporations and found that 5 out of the 6 factors were significant for institutional theory, while only 3 out of the 6 factors were significant for PAT predictions.

Based on the foregoing results, Mezias (1990) and Collin *et al.* (2009) refute Watts and Zimmerman's (1978, 1990) claim of PAT being the only viable theory for predicting accounting choice or organisation disclosure compliance. The failure of PAT is not its reasoning based on utility satisfying, but in its negligence of context (Mezias, 1990; Fields *et al.*, 2001). Institutional theory requires more contextual information to make a better prediction (Collin *et al.*, 2009) while PAT's preoccupation is with the agent-principal relationship and its contractual nature whilst neglecting wider societal issues. Accordingly, this study turns to institutional theory as an alternative framework to provide explanations for corporate disclosure. However, in terms of empirical testing it is difficult to separate or distinguish PAT measurement from that of institutional theory (Collin *et al.*, 2009). The next chapter presents a review of institutional perspectives of corporate disclosure and the development hypotheses.

# Chapter Five

# A review of institutional perspective of disclosure and hypothesis development

## 5.1. Introduction

This chapter uses the Oliver (1991) and Greenwood *et al.* (2011) institutional frameworks to identify organisation characteristics that affect the level of mandatory disclosure. Section two presents a brief overview of organisational responses to institutional pressures. Section three discusses causes of variation in the level of mandatory disclosure. Section four discusses the impact of the Oliver dimensions of institutional pressures on the level of mandatory disclosure. Section five discusses the inter-industry variation in disclosure based on the Greenwood *et al.* institutional framework. Section six concludes the discussion in this chapter.

## 5.2 Overview of organisational response to institutional pressures

In the application of institutional theory, some studies have focused on organisational resistance. These studies found that an organisation adopts various resistance tactics, including denying the validity of various external claims; attacking the legitimacy of the entities making claims; attempting to co-opt or control these entities; or trying to influence the entity (Pfeffer and Salancik, 1978; Oliver, 1991; Suchman, 1995). Other resistance tactics include deleting or marginalising institutional entities (Pratt and Foreman, 2000), or banishing or permanently suppressing other groups and belief systems (Selznick, 1951). However, Kraatz and Block (2007) argue that there is an inherent weakness in the results of these studies because an organisational effort to eliminate, silence or marginalise constituents may prove to be ultimately self-defeating.

Other studies focus on decoupling and loose coupling. Decoupling occurs when an organisation adopts structures that appear to conform to institutional requirements without actually complying in practice, making it a form of symbolic adoption without implementation (Westphal and Zajac, 1994, 1998). Organisations also decouple by compartmentalised identities that is, they attempt to relate independently to various institutional constituents; they sequentially attend to different institutional claims or create separate units and initiatives that demonstrate their commitment to the values and beliefs of particular constituents (Pratt and Foreman, 2000). However, Kraatz and Block (2007) argue that the concept of decoupling cannot be invoke without knowing the organisational "core" from which a thing is decoupled, and that it is problematic to describe something as merely symbolic unless we know where the true substance resides.

A related study to decoupling is loose coupling. This assumes that a single organisational core does not exist (Weick, 1976; Orton and Weick, 1990), but that an organisation has different units and that each unit would respond differently to pressures from their environment. The weakness of the loose-coupling perspective is that the attempt by individual units to respond differently to the pressures from their immediate environment could result in sub-optimisation, perpetuation and exacerbation of rifts among the organisation's units (Bowen and Levin, 2003; Duderstadt, 2000; Zimbalist, 1999).

Another stream of study focuses on balancing disparate demands. The tactics may include playing constituent parts against one another, or where an organisation may attempt to find cooperative solutions to the political and cultural tensions which constituent institutions creates (Pratt and Foreman, 2000; Oliver, 1991; Donaldson and Preston, 1995). The main weakness of this perspective is that there is no clear line separating situations of reluctant and mutual acceptance from those of true co-operation. Conflicts may persist since relationships that are cooperative in their effect may remain conflictual in their process. Furthermore, balancing may be precarious if struck among various objectives, constituents and role identities (Clark, 1956; Selznick, 1951). Similar studies focus on substituting and framing (George, Sitkin and Barden, 2006; Williams and Benford, 1996; Hunt, Benford and Snow, 1994).

Additionally, some studies suggest that both internal and external pressures on corporate organisations affect its behaviour (Goodrick and Salancik, 1996). Most empirical studies on the institutional impact on corporate practice have paid particular attention to the symbolic adoption of institutional requirements without implementation, that is, a response that provides appearance of compliance without doing so in practice (Westphal and Zajac, 2001). Other studies have examined the impact of regulatory ambiguity on organisation behaviour (Goodrick and Salancik, 1996). They found that regulatory ambiguity creates the opportunity for corporate organisations to adopt strategic behaviour, which eventually becomes an acceptable social norm (Goodrick and Salancik, 1996; DiMaggio and Powell, 1983; Edelman, 1992).

Furthermore, some studies have examined the impact of external ratings on managerial behaviour. For example, Chartterji and Toffel (2010) analysed how firms respond to the social rating firm, KLD Research & Analytics. They found that firms that initially received poor ratings subsequently improved their environmental performance relative to other firms, including firms that had higher rating or were never rated.

Elsbach and Kramer (1996) and Espeland and Sauder (2007) examined how graduate and professional schools responded to school rankings and found that officials in lower-ranked schools reacted defensively by focusing on their strengths and allocating resources strategically to influence future rankings. In general, these studies demonstrate that poorer performance on the dimension covered by the rating program leads to greater subsequent improvement. These results are consistent with the idea that low-performing organisations are subject to greater pressures to improve. The foregoing discussions suggest that institutions exert significant and varying impacts on corporate practices.

## 5.3. Hypotheses based on variation in the level of mandatory disclosure

Several studies have argued that internal organisation dynamics need to be considered in the explanations of organisational response to institutional pressures (Fligstein, 1985; Oliver, 1991; Scott, 2001; DiMaggio, 1988; Greenwood *et al.* 2002; Casile and Davis-Blake, 2002). Other studies argue that organisational response to their institutional contexts is moderated by its structure (Delmas and Toffel, 2010; Okhmatovskiy and David, 2011), and the marginal cost and perceived benefits (Chartteji and Toffel, 2010). Similarly, Tay and Parker (1990, p.75) argue that an organisation might not comply with institutional requirements if it perceives that the consequences of non-compliance are not serious. However, accidental non-compliances can result from a lack of awareness or understanding of institutional requirements due to the complexity of the institutional environment (Herz, 2005).

Furthermore, corporate managers may be responding to environmental and economic incentives (DeFond and Jiambalvo, 1991). For example, fear of litigation may induce some companies to disclose more information (Skinner, 1994), such fear can arguably depend on the exposure or visibility of the company to its legal environment, that is, the probability that legal action will be taken against the company for disclosing incorrect information and the severity of its consequences (Bushman and Piotroski, 2006). In addition, the effectiveness of enforcement regimes plays a pivotal role on the level of organisational compliance (Leuz and Wysocki, 2008). Companies may also need time to learn to apply and possibly fully comply with new reporting rules (Cuijpers and Buijing, 2005; Daske, 2005). These learning periods may vary from company to company. This suggests that the level of disclosure may vary from year to year.

In Nigeria, the regulatory regime for financial reporting and disclosure has been stricter in the early 2010s as compared to the early 2000s. Corporate organisations and their officers are subject to stringent security regulations and stricter public and private enforcement systems during the early 2010s. Accordingly, this thesis proposes that the level of mandatory disclosure in the early 2010s would be higher than in the early 2000s. This leads to the following hypothesis.

> **$H_1$:** *There is no significant difference in the level of mandatory disclosure across regulatory regimes in Nigeria*

However, selective attention to one or more aspects of the institutional environment (Thornton, 2002), variations in the perception of corporate managers (Wallace, 1988), varying exposure or susceptibility to institutional influences, and the nature or location of the organisation in its organisational field (Dobbin *et al.*, 1988) can affect corporate disclosure. Additionally, the social motives of individuals within the organisation, their personal dispositions towards the institutional requirements, and experiences with similar situations shape how an organisation understands and responds to institutional requirements (Kelley and Thibaut, 1978).

Other factors that affect the level of disclosure include unintentional neglect, for example if managers overlook particular disclosure requirements (Glaum, Schmidt, Street and Vogel, 2013), managers' misinterpretation of disclosure rules, for example, when managers erroneously conclude that certain rules do not apply or do not compel them to disclose information. In addition, managers may intentionally fail to comply with the disclosure rules. The foregoing discussions suggests that different factors could lead to a variation in the level of mandatory disclosure among corporate organisations in Nigeria. This leads to the following hypothesis.

> **$H_2$:** *There is no significant difference in the level of mandatory disclosure across listed Nigerian companies*

Furthermore, institutional and organisational dynamics are tightly linked (Stanga, 1976), therefore, managements' motivation to provide value-relevant information could range from a desire to reduce the cost of capital, to developing a reputation for compliance and transparency. This reputation is expected to enhanced the value of manager's human capital.

In addition, the complexity of each accounting standard may influence the level of disclosure on each accounting standard. The disclosure requirements of some accounting standards are more complex than the requirements of other reporting standards. For example, Beattie et al. (2007) argue that the IFRS for business combination and for goodwill impairment testing are controversial and challenging. Amidst widespread concern regarding the application and enforcement of complicated and controversial accounting standards, some corporate organisations claiming to comply with accounting standards may not fully comply with its requirements (Street et al. 1999; Street and Bryant, 2000; Street and Gray, 2001; Glaum and Street, 2003; Abdelsalam and Weetman, 2007).

In Nigeria, the World Bank ROSC (2004) found that some corporate CEOs and managers were not familiar with the requirements of some of the national accounting standards. This lack of familiarity would result in unintentional non-compliance with these accounting standards, and would lead to variation in the level of disclosure amongst companies on each of the accounting standards. The foregoing discussion leads to the following hypothesis.

> **$H_3$:** *There is no significant difference in the level of mandatory disclosure on each accounting standards*

The foregoing discussions focus on variation in organisations' responses to their institutional contexts. Subsequent sections in this chapter formulate hypotheses based on the institutional determinants of the level of mandatory disclosure in corporate annual reports.

## 5.4. Hypotheses development based on Oliver's (1991) model

There are limited studies that apply the Oliver framework to corporate financial reporting. This thesis focuses on organisation acquiescence (compliance) with particular emphasis on disclosure. The Oliver's framework is used to identify factors that could explain organisation disclosure. Oliver asked why, who, what, how and where concerning the source of pressures and specified conditions under which it was more likely that a company would conform to these pressures. These factors are grouped under "cause", "constituents", "contents", "control" and "context". The dimensions of these factors are used to predict the level of disclosure.

### 5.4.1. Causes of institutional pressures

#### 5.4.1.1. Legitimacy

Oliver (1991) identifies legitimacy as one of the causes of pressure from the institutional environment. A legitimate organisation is one whose values and actions are congruent with the values and expectations of social actors and it involves endorsement by the organisation's relevant audiences (Deepehouse 1996). Legitimating from a financial disclosure perspective is how an organisation achieves acceptance from social actors (Sejjaaka, 2005), by adopting the means and ends that are considered reasonable and rational in acquiring endorsement (Ashforth and Gibbs, 1990).

The most commonly used legitimacy proxy is status (Guerreiro *et al.*, 2012; Oliver, 1991). Status is a measure of a firm's perceived quality vis- a- vis its peers (Podolny, 1993). As a firm's status in the industry rises, the impact of informal institutional pressures on the firm to correct its deviant behaviour wanes. Higher-status firms are not worried that they may suffer rejection for nonconforming behaviour (Deephouse, 1999; Phillips and Zuckerman, 2001) because they have accumulated 'idiosyncrasy credits' that allowed them to absorb legitimacy challenges without penalty (Deephouse and Carter, 2005). This suggests that higher-status firms are ‘emboldened to deviate’ from industry norms (Phillips and Zuckerman, 2001, p.380).

In contrast, lower-status firms are concerned with the legitimacy of their actions and therefore will take action to ‘demonstrate their conformity to accepted practice’ in the industry (Phillips and Zuckerman, 2001, p.382). This argument suggests that a firm’s status can moderate the impact of institutional influences on its decision to correct its deviant behaviour (Phillips and Zuckerman, 2001).

The second legitimacy proxy is organisation size, for which there are at least three arguments. First, with increasing size the possibility of social control decreases. Second, in large organisations there are sufficient accountants to make it possible to comply with disclosure requirements. Third, large organisations are closely monitored by the media which increases the felt normative pressure on these organisations (Archamdault, 2003; Akhtaruddin, 2005; Hossain, 2000; Inchausti, 1997; Cooke, 1989a, 1992 and Owusu-Ansah, 1998).

Some institutional scholars have argued that larger establishments’ greater visibility makes them especially anxious to maintain legitimacy (Goodstein, 1994; Ingram and Simons, 1995). This also makes them more likely to attract media attention (Ingram and Simons, 1995) and to be held to higher standards than smaller establishments would be (Goodstein, 1994). This suggests that larger establishments would be particularly sensitive to external pressure to increase disclosure.

However, despite being visible and therefore liable to greater scrutiny, larger organisations may also be in a stronger position to resist and may be less sensitive to pressure to increase disclosure. They can accrue power through superior political access and can more easily afford to lobby or donate to politicians, or sue regulatory agencies (Drope and Hansen, 2006; Hansen, Mitchell and Drope, 2005; Schuler, 1996). Larger organisations may also benefit from greater political and social capital, because they provide greater employment opportunities. Due to their size and the opportunities they present they could arguably be able to resist external pressure and therefore demonstrate a lower level of disclosure (Grant, Bergesen, and Jones, 2002).

However, accounting standards can be used as an extra-organisational form of rationality that reveals an organisation's commitment to rational behaviour (Touron, 2005). Therefore, despite its ability to resists, an organisation may choose to increase disclosure, in order to gain legitimacy for using fashionable business practice, rather than solely for economic benefits (Chua and Taylor, 2008; Irvine, 2008; Mir and Rahaman, 2005; Rodriques and Craig, 2007). This suggests that, a large organisation could be willing to comply with accounting standards disclosure requirements.

In Nigeria, large corporations make significant contributions to the development of accounting standards. They also donate funds and are represented on the board of accounting standard setting bodies. These suggest that accounting standards are a products of consensus on acceptable business practice. This thesis anticipates that large organisations would increase the level of disclosure to demonstrate their commitments and acceptance of these financial reporting standards and thus maintain their legitimacy for using acceptable business practice (Suchman, 1995). This leads to the following hypothesis.

> **$H_1$:** *There is a significant positive relationship between organisation size and the level of mandatory disclosure in annual reports of Nigerian listed companies*

#### 5.4.1.2. Economic efficiency

Watson *et al.* (2002) argue that efficiency shows how effectively management utilises the assets at their disposal. Such efficiency could be measured by various ratios such as stock turnover, or sales per employee. Other efficiency measures are rate of return, defined as a ratio of net profit to net worth, and earning margin which is defined as a ratio of net profit to net sales (Singhvi and Desai, 1971). The rate of return measures the overall performance of a business while earnings margin shows the corporation's capacity to absorb rising costs, leading to a more stable and successful corporation. Furthermore, the higher the earnings margin, the stronger the corporation's position to compete on price (Singhvi and Desai, 1971).

Furthermore, Deephouse (1996) argues that social actors could see highly performing organisation as legitimate, *ceteris paribus*, given their ability to better utilise acquired resources. Similarly, Inchausti (1997) argues that managers of profitable firms will disclose detailed information in order to support their personal position and compensation. Furthermore, Ng and Koh (1994) argue that more profitable companies will be subject to greater public scrutiny and will therefore try to avoid external regulation by voluntary disclosure of a higher level of information. However, corporate management may be reluctant to give information on earnings or sales breakdown by divisions, particularly when one or more of the divisions are unprofitable (Singhvi and Desai, 1971).

Poorly performing firms may have a negative perception by stakeholders, and such may damage the organisation's legitimacy. To conceal the poor performance, corporate organisation may potentially disclose less information. Nevertheless, firms with poor performance may also disclose more information. Studies in impression management (Clatworthy and Jones, 2006) and signalling (Ball *et al.*, 2003; Watson *et al.*, 2002) provide evidence to support the idea that poorly performing companies disguise poor performance with 'rhetoric' and information overloads in the annual reports (Adelopo, 2011), or alternatively they may withhold information on poor performance altogether (Kothari, Shu and Wysocki, 2009).

Watson *et al.* (2002) argue that efficiency is the driver of corporate performance, and this can be measured in terms of sales per employee. In Nigeria, rationalisation of workforce is one of the strategies to increase performance in the presence of strong market competition (Greenwood *et al.*, 2009). However, labour rationalisation would attract pressure from government and labour unions, which suggest that Nigerian corporate organisation, will avoid disclosing information that would heighten the pressures from government and labour unions. Therefore, this study expects that corporate organisations would reduce the level of mandatory disclosure as it increases its efficiency through rationalisation of its workforce. The discussion leads to the following hypothesis.

**$H_2$:** *There is a significant negative association between efficiency and the level of mandatory disclosure in annual reports of Nigerian listed companies*

### 5.4.2. Constituents of institutional pressure

#### 5.4.2.1. Multiplicity of constituents

Oliver (1991) argues that passive acquiescence to institutional demands is difficult to achieve because acquiescence to one constituent precludes the ability to conform to alternative constituents with conflicting expectations. Oliver argues that organisations are likely to attempt avoidance strategies in the face of multiple conflicting pressures from constituents. For example, an oil company may attempt to conceal the extensiveness of an oil spill to avoid coping with the kind of costly clean up that displeases its shareholders but is demanded by the public. In addition to incompatible institutional demands, organisations are driven by their own interests to reduce the uncertainty, conflict and instability that multiplicity generates (Oliver, 1991).

Among the multiple constituents of corporate disclosure are investors that demands information to evaluate potential returns on their investment and the government that demands information to evaluate the potential tax revenue from corporate organisations. On the other hand, the managers would want to benefits from reduced cost of capital due to increased information disclosure (Botosan, 1997). Therefore, this thesis argues that corporate managers would assess the benefits of increased disclosure vis-a vis the cost of increased disclosure resulting from a higher tax (Eilifsen, Knivsfla and Saettem, 1999). For example, Scholes *et al.* (1990) find that banks in the

US are more inclined to take action to reduce taxes when the costs of doing so, in terms of the effects on income reported to shareholders and regulators are relatively small and the potential tax benefits are great. This suggests that the need to balance between costs of higher disclosure level (arising from higher tax) and the benefits of higher disclosure (arising from lower cost of capital) could determine the firm's optimal disclosure in the presence of multiple institutional audiences (Eilifsen *et al.* 1999).

Therefore, the disclosure level would be affected by the manager's assessment of how the disclosure might influence investors' appraisal of the firm's market value, and hence the firm's cost of capital and the cost of higher disclosure in the form of higher corporate taxation. To capture this strategic choice, this study argues that the proportion of taxes, interests and dividends paid to turnover would impact disclosure level. This is because the interest and dividends paid are measures of cost of capital, while tax is a measure of the cost arising from a higher level of information disclosure.

In Nigeria, the inefficient tax system could allow corporate organisations to avoid higher taxes. Corporate managers also determine the dividend policy, which influences the dividend payments. In addition, corporate organisations could sell part of their assets to pay off debt capital and thus eliminate the monitoring of the company by debt-holders. This discussion leads to the following hypothesis.

> **$H_3$:** *There is a significant positive association between the proportion of taxes, dividends and interests paid to turnover and the level of mandatory disclosure in annual reports of Nigerian listed companies*

#### 5.4.2.2. Dependence

Corporate organisations that depend on outside sources for resources are vulnerable to both changes in the flow of resources and institutional pressures (Verbruggen, Christianens and Milis, 2010). Such organisations are driven to comply with the requirements of strategic resource providers.

Guerreiro *et al.* (2012) observe that an important source of dependence on external constituents is financial dependence on shareholders for equity capital. The authors argue that dependency is particularly important for subsidiaries that are controlled financially and economically by parent companies. Similarly, Frankel, McNichols and Wilson (1995), Healy, Hutton and Palepu (1999), and Lang and Lundholm (2000) all found a positive link between external capital raising activities and disclosure quantity and quality. In addition, Leuz and Wysocki (2006) found that extensive disclosures are observed pre-IPO activities.

However, an organisation can raise its finance internally. For example, Singhvi and Desai (1971) found internal source of financing are considered preferable by a highly performing corporation. This implies that these firms do not need to raise equity capital frequently through the capital market, and the management of such a corporation could afford to give less attention to higher information disclosure (Singhvi and Desai, 1971).

The perspective of this thesis is that the degree of pressures from resource providers depends on the importance and concentration of the resources provided. Therefore, this thesis uses a free cash flow (Dechow *et al.* 1996) to measure the extent to which an organisation could be self-sufficient before it needs to raise additional funds. These internally generated funds would enhance corporate ability to reduce the level of information disclosure in annual reports. Therefore, an organisation with more free cash could afford to ignore the pressures from external providers of finance for increased information disclosure. This leads to the following hypothesis.

> **$H_4$:** *There is a significant negative association between free cash and the level of mandatory disclosure in annual reports of Nigerian listed companies*

### 5.4.3. Content of institutional pressures

#### 5.4.3.1. Consistency with a firm's goals

Oliver (1991) argues that organisations will be more willing to acquiesce to external pressures when these pressures or expectations are compatible with internal goals. She further argues that the willingness and ability of organisations to accept and conform to institutional rules or expectations may be circumscribed by a lack of consistency with its goals. Since organisational goals often serves primarily as a rationale for its existence, managers would seek to influence legitimacy by recruiting and co-opting targets who are credible to their constituents, yet who are unlikely to demand dramatic changes in organisational activities (Suchman, 1995). This form of cooptation becomes a viable strategy when audiences occasionally desire a symbolic response in order to further their own cultural or political objectives (Pfeffer, 1981). The cooptation of such powerful targets from the institutional constituents will enhance the organisation's cognitive legitimacy and influence legitimacy (Suchman, 1995).

In Nigeria, one of the cooptation strategies is in form of appointment of representatives of powerful shareholders or bondholders to sit on the board. With such cooptation, the organisation can afford to reduce the level of mandatory disclosure particularly if such disclosure would have a negative impact on the firm's competitive advantage. The rationale for such a reduction in the level of disclosure is that with larger proportion of board shareholding, the board members wealth would be affected by the level of information disclosure (Nagar *et al.*, 2003). However, this thesis argues that with a high potential of higher taxation resulting from increased disclosure, a potential use of information disclosed by the company's competitors, and the board members having access to private information about the company, the board members will reduce the level of information disclosure. This suggests that higher proportion of issued shares owned by board members may ultimately lead to a reduced disclosure level. This discussion leads to the following hypothesis.

**$H_5$:** *There is a significant negative association between board shareholding and the level of mandatory disclosure in annual reports of Nigerian listed companies*

#### 5.4.3.2. Discretionary constraints

Oliver (1991) argues that the loss of organisational freedom would impact organisational compliance. She noted that researchers have emphasised the importance of organisational discretion and decision-making autonomy in organisation-environment relations. The need for an organisation to retain control over processes and outputs impose a limit on the willingness of organisations to conform to institutional requirements. Consequently, as autonomy begins to be threatened, an organisation may move to compromise. Potential loss of autonomy will therefore explain in part, why organisations engage in ceremonial conformity or why institutional constraints may be challenged or attacked.

This thesis focuses on the relationship between a subsidiary company and its parent company as a source of discretionary constraints. Kostova and Roth (2002) argue that subsidiary managers hold a belief that a subsidiary depends on the parent company for providing major resources. Implied in this notion of dependence is subordination and control. The relative power/dependence of an organisation affects its compliance with institutional pressures. The more dependent an organisation is on a legitimating actor, the more it will comply with the demands of the legitimating constituent (Meyer and Zucker, 1988; Rosenzweig and Singh, 1991; Zucker, 1987).

In the context of corporate financial reporting in Nigeria, a subsidiary company is required by law to prepare financial reports. This suggests that while the parent company might require the subsidiary to comply with a group manual that would enable the parent to prepare the consolidated financial statements, the subsidiary would also need to comply with the disclosure requirements of the institutional environment in which it operates. This situation will result in a tension between the subsidiary which needs to comply with the requirements of its immediate institutional environment and the parent company that requires compliance with the group's financial manual (Doz and Prahalad, 1984; Rosenzweig and Singh, 1991).

The foregoing suggests that the subsidiary is inclined to interpret a parent's mandates as coercive, even though the parent might believe in the efficiency of the mandate (Kostova and Roth, 2002). Therefore, institutional duality makes the pressures for legitimacy on a subsidiary company particularly strong and complex and the subsidiary find it difficult to reconcile these two institutional pressures. The needs to satisfy both the demands of the immediate institutional environment and the requirements of the parent company would lead to a higher level of disclosure by a subsidiary company. This leads to the following hypothesis.

> **$H_6$:** *There is a significant positive association between the level of mandatory disclosure by a subsidiary company relative to a non-subsidiary company in Nigeria*

### 5.4.4. Control by institutions

#### 5.4.4.1. Legal coercion

Scott (2001) argues that the state's ability to impose its will upon organisations with sanctions is a major regulatory mechanism of control, and one that can induce conformity. Furthermore, prior literature suggests that regulatory enforcement action such as administrative or judicial proceedings that subject firms to fines, penalties and various forms of injunctive relief may enhance compliance (Short and Toffel, 2008). Other forms of enforcement activities such as routine monitoring activities and inspections (Magat and Viscusi, 1990; Braithwaite and Makkai, 1991; Helland, 1998; Kuperan and Sutinen, 1998; Gunningham *et al.*, 2005; Gray and

Shadbegian, 2005; Shimshack and Ward, 2005) have also been found to enhance corporate compliance.

Other more aggressive enforcement activity such as citing organisations for violations (Helland, 1998) and confrontational deterrence measures such as penalties (Gray and Scholz, 1991; Gunningham *et al.*, 2005; Gray and Shadbegian, 2005; Medelhoff and Gray, 2005; Shimshack and Ward, 2005) have enhanced compliance. Each of these activities encourages compliance by raising the potential cost of non-compliance. Frequent inspections also increase the likelihood that regulators will discover and penalise violations (Dimento, 1989).

Furthermore, beyond individual experience, organisations may be influenced by enforcement activities that affect other organisations in the broader regulatory community (Short and Toffel, 2007). For example, the overall stringency of an inspection regime can influence companies' expectations that regulators will detect their violations (Epple and Visscher, 1984; Cohen, 1987; Cohen, 2000). Additionally, high-profile enforcement actions against other firms have motivated some companies to improve their compliance and monitoring of compliance practices (Thornton *et al.*, 2005). The fines imposed in actions against companies have been shown to significantly improve compliance not only within the punished firm, but also at surrounding companies (Shimshack and Ward, 2005).

Although corporate disclosure will reflect the effectiveness of the interaction between the features of the financial reporting system (Barth, Landsman and Lang, 2008), Myddelton (2004, p. 59) argues that there is sometimes duplication and contradiction in regulatory requirements, which makes enforcement difficult to achieve, as well as creating complexity for corporate organisations.

Furthermore, Donaldson and Dunfee (1994) argue that 'coercion can invalidate consent' (p.263), and the spirit of self-policing can 'totally evaporate' if the law is too oppressive (Harvard Law

Review, 2003, p.241). In addition, Simpson (2002) argues that coercion does not create compliance among corporate offenders because sanctions may over-punish firms, which could result in a backlash from other industry members who may view the law as heavy-handed and unfair. Therefore, instead of influencing firms to self-correct their deviant behaviour, coercion may drive them to conceal their wrongdoing and avoid detection (Pfarrer *et al.*, 2005).

This thesis covers three regulatory regimes in Nigeria's financial reporting environment, and refers to them as weak regulatory regimes, semi-strong regulatory regimes and strong regulatory regimes. The enforcement activities are more effective during a period of strong regulatory regimes. This leads to the following hypothesis

> **$H_7$:** *Disclosure compliance is higher in a period of strong regulatory regimes relative to weak regulatory regimes*

#### 5.4.4.2. Voluntary diffusion

Oliver (1991) argues that organisations are more likely to accede to the requirements of an institutional environment when the environment is highly interconnected. This is consistent with DiMaggio and Powell (1983), Meyer and Rowan (1977) and Pfeffer and Salancik (1978) who argue that interconnectedness facilitates a voluntary diffusion of norms, values and shared information. It is also consistent with DiMaggio and Powell's (1983) argument that a high degree of structuration and interconnectedness in an institutional environment promotes institutional isomorphism and conformity.

Furthermore, Meyer and Rowan (1977) argue that relational networks serve to elaborate collective myths and values, which leads to conformity with institutional elements. The networks serve as conduits for social and technical information (Gulati, 1998) and facilitate a diffusion of acceptable behaviours (Davis, 1991). Firms can also experience informal pressures through personnel exchange, board interlocks, membership in trade associations and sharing similar auditors (Granovetter, 1985).

Oliver (1991) argues that the lower the degree of organisational interconnectedness in the institutional environment the more an organisational defiance and manipulation are likely to occur. However, Oliver noted that compromise and avoidance responses (e.g. bargaining, buffering) can still occur in a highly interconnected environment because inter-organisational linkages involve a loss of control and discretion which managers would want to minimise by decoupling internal organisational processes from the influence of external relationships.

Consistent with Granovetter (1985), who argues that firms can experience informal pressures by sharing similar auditors, this thesis argues that audit firms can exercise pressure on corporate organisations by referring to their authority to qualify their audit report. Additionally, large audit firms are more likely than small audit firms to report mis-statements and errors, and to ensure compliance by their clients with statutory and regulatory reporting rules (Ahmed and Nicholls, 1994). The logic for this argument is as follows: first, larger audit firms invest more than smaller firms to maintain their reputation as providers of quality audits. They therefore have a greater incentive to report inadequate disclosure by their clients (Lobo and Zhou, 2001). Second, large audit firms suffer more in terms of reputation for their failure to detect and report corporate misstatement. For example, Jensen (2006) argues that many firms deserted Arthur Anderson in the wake of the Enron case when concern arose that investors and users of annual financial statements were doubtful of the quality of annual reports audited by Arthur Anderson. Third, lager audit firms have a higher exposure to legal liability. Hence, large professional auditors could enhance the diffusion of accounting standard practice across firms (Ahmed and Nicholls, 1994; Raffournier, 1995; Patton and Zelenka, 1997).

The foregoing suggests that large firms have greater incentives for ensuring greater compliance. Furthermore, corporate organisations would be willing to appoint one of the big four audit firms with a view to enhancing the credibility of their annual reports. Additionally, corporate financial year end could affect the appointments of audit firms. Since most listed companies' financial year ends in December, the big four arguably have the resources to cope with peak demand, whereas, a small audit firm might not.  Therefore, this thesis anticipates that higher disclosure would be associated with the big four audit firms. The aforementioned argument leads to the following hypothesis:

> **$H_8$:** *There is a significant positive association between the level of mandatory disclosure and having been audit by one of the big four audit firms*

### 5.4.5. Context of institutional pressures

#### 5.4.5.1. Uncertainty

Several authors argue that uncertainty is a multidimensional construct (Clemens, Bamford and Douglas, 2008; Boiral, 2005; Mitchell and Saren, 2006; Pinkse, 2007). Hinnings *et al.* (2003) argue that uncertainty comes from two primary sources: the environment (an exogenous source); and the tasks faced by organisational members.

Milliken (1987) defined uncertainty as consisting of three separate dimensions: state, effect and response uncertainty. State uncertainty is the ambiguity that managers perceive in the business environment, specifically their lack of understanding regarding changes in the business environment. Effect uncertainty is the uncertainty about the implications of a given state of events and its likely impact on firms' abilities to function (Milliken, 1987, p. 137). Response uncertainty represents a manager's inability to evaluate the impact of potential approaches that firms could adopt, such as when the management is unable to evaluate the impact of the outcome of a pending event, or the outcome of their response to a threat or unique opportunity provided to the organisation (Milliken, 1987, p.137).

Miller and Shamsie (1999) argue that state uncertainty exists in the general environment while effect and response uncertainty occur within the firm. Miller and Shamsie (1999) also argue that state uncertainty affects the entire industry while effect and response uncertainty only affects individual firms. Huff (1978) argues that in situations of high effect/response uncertainty, managers follow existing laws. She further argues that if managers do not have a clear picture of how their general environment affects them or how their decisions can translate into performance, they choose to follow existing rules of behaviour.

Furthermore, Mizruchi and Fein (1999) argue that imitating other firms' behaviour occurs when a clear course of action is unavailable. Such uncertainty leads a firm to check competitors' actions and responses (Peteraf and Shanley, 1997). However, Thompson (1967) argues that high environmental uncertainty could lead to avoidance strategies as organisations attempt to buffer themselves from the vulnerabilities of operating in an unpredictable environment.

The focus of this study is on effect uncertainty, that is, uncertainty about the effect of information disclosure on a firm's market value. In this regard, Dye (1990) argues that uncertainty about investors' interpretations of corporate disclosure affects managers' disclosure behaviour. Therefore, a manager's belief about how an investor will interpret private information, could influence a decision about disclosure.

This thesis argues that the extent of uncertainty about investors' responses to information disclosure is captured by the degree of variability in daily return on market share price. Consistent with Bushman *et al.* (2004), Demsetz and Lehn (1985) argue that the standard deviation in market return captures volatility in market return, and that this is used to proxy uncertainty. This study anticipates that a standard deviation in daily return on market share price would influence information disclosure. With a higher level of manager's inability to predict how the market would respond to information if disclosed in annual reports, corporate managers would tend to withhold the level of information disclosure in their annual reports. This discussion leads to the following hypothesis.

> **$H_9$:** *There is a significant negative association between the level of mandatory disclosure and standard deviation in return on market share price of Nigerian listed companies*

### 5.4.5.2. Interconnectedness

While formal coercive sanctions are enforced through legal or official means, interconnectedness among industry members takes the form of informal operating norms and practices, which may induce voluntary compliance (Braithwaite and Fisse, 1983; Innes, 1999). Therefore, it is plausible to suggest that stronger, closer ties among firms could lead to stronger self-policing within an industry, which will increase disclosure. This increased disclosure arises when firms imitate similar, large, and/or successful firms within their network (Deephouse, 1996; Fligstein, 1985; Haunschild and Miner, 1997; Haveman, 1993).

For example, Edelman *et al.* (1992) found that professionalism and network ties in the legal field helped diffuse informal practices regarding firm arbitration procedures into de facto 'laws of the land', even though no formal laws regarding these procedures had ever been passed. Similarly, Rao, Davis and Ward (2000) found that the interrelation of company boards (interlocks) had an impact on whether or not a firm left NASDAQ to join the NYSE, irrespective of performance implications.

Different measures could be used to proxy interconnection among firms. This thesis focuses on a proxy that could have a direct impact on firm's disclosure policies and the level of disclosure. This thesis argues that non-Nigerian nationals on the board would facilitate the diffusion of international best practice in financial reporting. The extent to which this facilitation could be enhanced is measured by the proportion of members of the board of directors who are non-Nigerian in the respective organisation.

However, the non-Nigerian national on board may be interested in a symbolic response to institutional pressure given that they have an interest to protect (Pfeffer, 1981). For example, the non-Nigerian board members may be rent seekers, who would want to avoid higher taxes on their holdings. Therefore, these non-Nigerian on board would use their position to facilitate a reduction in the level of information disclosure. This discussion leads to the following hypothesis.

> **$H_{10}$:** *There is a significant negative association between the proportion of non-Nigerian nationals on boards and the level of mandatory* d*isclosure in annual reports of Nigerian listed companies*

## 5.5. Hypotheses development based on Greenwood et al. (2011) model

The hypothesis in this section uses the Greenwood *et al.* (2011) framework to identify organisational and institutional characteristics that could affect corporate disclosure.

### 5.5.1. Complexity of institutional regimes in Nigeria

This study covers three regulatory regimes in Nigeria; this thesis refers to these as weak regulatory regime (2000-2002), semi-strong regulatory regime (2003-2011), and strong regulatory regime 2012/13. The weak regime was characterised by a high degree of institutional “fragmentation”, the semi-strong regulatory regime is characterised by a “formal structuring” of the regulatory environment, and the strong regulatory regime is characterised by “centralisation/unification” of the regulatory environment.

During the weak regulatory regime, several regulatory agencies such as the SEC, NSE, CAC, FRC, PENCOM, and the Inland Revenue Service formulate their own rules for financial disclosure. The interests and demands of these institutional agencies regarding the contents of financial reporting and disclosure are differentiated which results in a fragmented regulatory environment. During semi-strong regulatory regime, the NASB Act 2003 was used as a legislative instrument to enforce compliance with the accounting standards issued by the NASB.

During the strong regulatory regime, the government has established the Financial Reporting Council (FRC) via the FRC Act 2011 and all the hitherto self-regulatory agencies such as PENCOM, SEC, NSE, ICAN etc are members of the FRC. In addition, the IFRS was adopted for the preparation of corporation financial reports, effective from the period commencing from 1$^{st}$ January 2012. This situation leads to a "centralisation/unification" of the regulatory environment for financial reporting. This "unification" strengthens regulatory enforcement, and therefore, it is plausible to suggest that the ability of organisations to exercise discretion in financial disclosure will be minimised in during a strong regulatory regime. This discussion leads to the following hypothesis:

***H*$_1$*:*** *Intra-industry variation in the level of mandatory disclosure is lower during period of strong regulatory regime relative to a period of weak regulatory regime in Nigeria*

### 5.5.2. Organisational field

Greenwood *et al.* (2011, p. 334) argue that the nature and extent of institutional complexity facing organisations is fundamentally shaped by the *structure* of the organisational fields (i.e. the industry) within which they are located. Two implicit approaches to compare the structure of organisational fields are the contrasts between "emerging" and "mature" fields (Wooten and Hoffman, 2008; Anand and Peterson, 2000; Child, Lu and Tsai, 2007; DiMaggio, 1991).

A matured field is characterised by regularised inter-organisational relationships, that is, the existence of identifiable patterns of interactions combined with an articulated *institutional infrastructure* (Greenwood *et al.,* 2011). These institutional infrastructures are examined in terms of the roles of “collective actors”, such as professional associations (Greenwood, Suddaby and Hinnings, 2002; Lounsbury, 2002; Purdy and Gray, 2009; Washington, 2004), mechanisms of enforcement, such as the loss of accreditation and/or withdrawal of legitimacy (Quinn, Trank and Washington, 2009; Zuckerman, 1999), and increasing state regulation (Dobbin and Dowd, 1997).

Furthermore, a matured field is characteristically more settled, and institutional complexity is minimised because tensions between competing logics have been worked out at institutional field level. In addition, institutional demands in a matured field are more predictable, relative to emerging fields (Dejean, Gond and Leca, 2004; Garud, Jain and Kumaraswamy, 2002; Lawrence and Phillips, 2004). Furthermore, the institutional logics in a matured field have been clarified and built into regular organisational practice, hence variation in organisational practice due to organisational discretion is reduced (Greenwood *et al.*, 2011).

On the other hand, emerging fields are typically unsettled and have a highly permeable boundary that allows actors from other fields to enter with relative ease, bringing with them practices rooted in logics from other fields (Maguire *et al.*, 2004). The entrance of actors from other fields complicates the balance of interests within an emerging field. Therefore, organisations in emerging fields are faced with a high degree of institutional complexity due to a lack of consistent and predictable institutional demands.

In Nigeria, some industries have a long established financial reporting history, such as those in the consumer goods industry, while some industries can be classified as emerging organisational fields, such as those in the services and healthcare. In addition, due to the economic significance of some industries in Nigeria, such as those in the oil and gas and financial services, there have been frequent changes in regulation that affects the reporting practices of companies in these sectors. This thesis argues that the level of disclosure in long-established industries and highly regulated industries would be different from those of other sectors. This leads to the following hypothesis.

***$H_2$:*** *Intra-industry variation in the level of mandatory disclosure differs among industries categories in Nigeria*

### 5.5.3. Organisation attributes

#### 5.5.3.1. Organisation field-level position

Greenwood *et al.* (2011) argue that an organisation's field-level position concerns the location of the organisation in its industry or organisational field. The authors defined organisation field-level position in terms of whether an organisation is located at the "centre" or "periphery". Abbott (1988) associates dominant organisations in the field with those at the centre while subordinate firms are those at the periphery.

Malerba and Orsenigo (1996), Philips and Zukerman (2001) and Podolny (1993) argue that organisations at the centre are those that are distinguishable by their visibility, status, resources (usually their size) and the media attention they receive. For example, Roberts (2003) and Rowley and Berman (2000) argue that social and environmental activists have targeted Nike, McDonalds, Starbucks and Home Depot in part because of their market leadership status. Leblebic, Salancik, Copay and King (1991) argue that organisations located at the "periphery", such as small firms, are more motivated to deviate from established practices because they are less restricted by institutionalised relationships and expectations. Furthermore, Greenwood *et al.* (2011) argue that for several reasons organisation at the periphery of a field are less likely to experience the same intensity of institutional complexity and therefore their responses might differ fundamentally from those of centrally located organisations. For example, Ahmadjian and Robinson (2001) found that organisations at the centre of their field were most reluctant to abandon the traditional Japanese practice of providing lifelong employment due to the media's perception about this practice.

From another perspective, Singhvi and Desai (1971) argue that organisation at the periphery finds it costly to accumulate detailed information while organisations at the centre have greater resources to implement GAAP and are better placed to benefit from reduced costs of preparing financial information (Murphy, 1999). Organisations at the centre are also likely to realise the possible benefits of better disclosure, such as easier marketability of securities and greater ease of financing (Singhvi and Desai, 1971).

The perspective of this thesis is that the visibility of an organisation in its field, proxied by its size, is an indication of its position in its organisational field. Furthermore, a large company would attract political pressure, pressure from regulatory institutions, and pressure from capital market participants, which would add to the commitment of organisation to increase disclosure as its size increases. The foregoing discussion leads to the following hypothesis.

***$H_3$*: *Intra-industry variation in the level of mandatory disclosure in annual reports of Nigerian listed companies is positively associated with corporate size.***

#### 5.5.3.2. Organisation structure

Institutional pressures 'enter' an organisation through the interpretation and meaning given by occupants of structural positions (Greenwood and Hinnings, 1996). Since actors "represent" and import into an organisation norms of logics to which they have been primarily exposed, the presence of multiple intra-organisational communities will not only heighten an organisation's experience of institutional complexity, but also influence its possible response (Greenwood and Hinnings, 1996). However, the occupants of structural positions are "quite likely to differ in their awareness of, and receptivity to these institutional pressures (Delmas and Toffel, 2008, p.102). Furthermore, the degree to which these "representatives" are committed to, and actively advocate, a particular logic can vary (Binder, 2007). In addition, the motivation and capability of social referents to enforce their demands vary. Therefore, not all agents police their logics with the same insistence and demand for compliance, nor are they *able* to (Greenwood *et al.* 2011).

The perspective of this thesis is the nature of an organisation operations could influenced the extent to which the occupants of structural positions can police institutional demands. This thesis argues that a labour intensive organisation would likely have strong labour unions that would police institutional demands in contrast to a capital intensive organisation. Labour charges on turnover ratio (Patelli and Prencipe, 2007; Depoers, 2000) have been used to measure the potential for labour pressure on organisational practice. The labour charges on turnover ratio suggest that the wage bill is a representative of the intensity of labour pressure in a firm. This measure suggests that organisational employees are users of financial reports, and that information disclosure could lead to increased pressure from employees to demand higher salaries. Therefore, if management assume that information disclosure would motivate a demand for higher wages private information may be withheld.

The perspective of this thesis is that capital intensity is a better proxy for an organisation structure. Belkaoui and Karpik (1989) measure capital intensity as the ratio of gross fixed assets to turnover, that is, the amount of investment in fixed assets that is required to generate one unit value of turnover. This study argues that where substantial investment in fixed assets is required to enter an industry, this could be a significant barrier to new entrants to the industry or market even when existing companies have earned monopoly profit and made this known through increased disclosure (Patelli and Prencipe, 2007). It follows that firms with a high entry barrier could increase information disclosure without a potential loss of profit to competitors.

Furthermore, capital intensity could contribute to the disclosure infrastructure if this is required to increase the level of disclosure (Oliver, 1991). In addition, high capital intensity could suggest low labour intensity, which implies that an organisation with high capital intensity would be less susceptible to pressure from labour unions that police institutional requirements. Besides, capital intensity may suggest that the operations of the organisation are complex, and that the organisation potentially have more information to disclose, which increases the level of information disclosure.

However, corporate managers may face difficulties aggregating information arising from the complex nature of its operations, and information may be merged when preparing the annual reports. This suggests that corporate organisation with high capital intensity may not necessarily increase their level of information disclosure.

The foregoing discussions suggest that the intensity of capital would influence the level of disclosure. Therefore, it is expect that an increase in capital intensity would lead to an increase in the level of disclosure. The discussion leads to the following hypothesis.

***$H_4$*:** *There is a significant positive relationship between capital intensity and intra-industry variation in the level of mandatory disclosure.*

#### 5.5.3.3. Organisation governance

Chung and Luo (2008) and Ocasio (1997) argue that actors who bring their interpretations of priorities in their institutional environment and preferable outcomes to the organisation decision process influence that organisation's decisions. Actors (such as employees, management and professionals) are "carriers" (Zilber, 2002) and they "represent" and give voice to institutional logics (Pache and Santos, 2010). They therefore serve as channels through which institutional pressures "enter" an organisation.

This thesis focus on occupants of corporate governance positions, that is, corporate board members. Recent corporate governance literature suggests that CEOs and other top executives are key factors in the determination of corporate practices. This literature argues that managers have their own styles when making strategic decisions, and attempts to imprint their personal marks on the company they manage (Business Week, 2001).

Similarly, Pfeffer (1972) argues that boards of some firms with particular perceived characteristics are chosen deliberately to maximise important resources for the firm. For example, if some management styles are more performance enhancing than others, better-governed firms may be more likely to select managers with such styles. In such cases, managers do not only impose their idiosyncratic style on the firm they lead, but are purposefully chosen by firms because of these specific attributes (Bertrand and Schoar, 2003). Furthermore, Bertrand and Schoar found that managers who hold an MBA degree appear overall to follow strategies that are more aggressive while older generations of CEO appear overall more conservative in their decision-making.

Based on the foregoing discussion, this thesis focuses on the nationality of CEO as peculiar characteristics that would influence the level of disclosure. This perspective is consistent with Singhvi (1968) who found that Indian companies managed by locals disclosed less information than their non-Indian counterparts. This thesis argues that the nationality of CEOs would influence the level of mandatory disclosure in the annual reports of Nigerian listed companies. Therefore, the proportion of non-Nigerian nationals on board would significantly contribute to observed differences in the level of disclosure. This argument is based on the reasoning that non-Nigerian board members are individuals who has international experience and exposure on the best financial reporting practice.

However, these individuals have their self-interest to protect. For example, they could avoid disclosing information that would lead to higher taxes, in such circumstance; increase in the proportion of non-Nigerian board member would lead to a reduction in the level of mandatory disclosure. This discussion leads to the following hypothesis.

***$H_5$*:** *There is a significant negative relationship between the level of mandatory disclosure in the annual reports of Nigerian listed companies and the proportion of non-Nigerian nationals on boards*

#### 5.5.3.4. Organisation ownership

The impact of organisational ownership on the level of disclosure can be evaluated in terms of the form of ownership and who owns the organisation (Greenwood *et al.,* 2011). Based on the perspective on *who owns* the organisation, Goodrick and Salancik (1996) found that *public* and *private* hospitals differed in their responses to the use of caesarean operations. Similarly, Chung and Luo (2008) and Miller *et al.* (2010) found that strategies and decisions in *family-owned* and managed firms are influenced by "community" norms rather than exclusively by those of the market. Furthermore, Lounsbury (2001) found that publicly-funded universities diplomatically aligned their responses to the preference of governments from which they received funds.

The perspective of the *form* of ownership focus considerable attention on publicly traded corporations and the role of the board of directors as conduits through which stakeholder interests and their normative preferences are represented (Hillman and Dalziel, 2003).

This thesis focuses on the proportion of issued shares owned by board members. This thesis argues that board members have an access to private information about their company; therefore, there is no incentive to incur additional costs of increasing information disclosure in the corporate annual report. However, the personal wealth of these board members could be affected by the level of disclosure, as the market could penalise the company for failing to disclose its private information when the market perceives that the company has private information, which it fails to disclose (Nagar *et al.,* 2003). The need to avoid such market penalty would motivate the board members to disclose their private information. The aforementioned discussion leads to the following hypothesis.

***$H_6$*: *There is a significant positive relationship between the proportion of share ownership by directors and intra-industry variation in the level of mandatory disclosure***

### 5.5.3.5. Organisation identity

Identity at the organisational level is an attribute that distinguishes an organisation from others that shares the same institutional category (Albert and Whetten, 1985; Whettten, 2006). Identities serve as a filter "for interpreting and responding to strategic issues and environmental changes" (Glynn, 2008, p. 408); hence, identities shape an organisation's discretion when confronted with a complex institutional environment (Greenwood *et al.,* 2011). It follows therefore, that the more an organisation values its identity, the more it shapes how the organisation perceives and responds to institutional complexity. Although different empirical measures of organisation identity could be used, this study focuses on age, leverage and audit fees.

#### 5.5.3.5.1. Age

Moingeon and Ramanantsoa (1997) argue that while history is instrumental in defining corporate identity, identity is instrumental in guiding history. Age as a proxy for organisation identity suggests that older organisations have historical antecedents that shape the organisation's behaviour, including disclosure compliance. Similarly, Melewar and Karaosmanoglu (2006) argue that stakeholders' perceptions of organisations are formed over a long period; hence, the history of organisational activities such as on information communication could influenced the current level of disclosure.

This study argues that older organisations would have an established culture and norms on disclosure. Therefore, external pressure may not lead to an increase level of disclosure since an old organisation may find it difficult to change their disclosure behaviour. However, an older organisation may accumulate experience to increase the level of disclosure, therefore, the older the organisation, the higher would be the level of disclosure. This discussion leads to the following hypothesis.

***$H_7$*: *There is a significant positive relationship between a firm's age and intra-industry variation in the level of mandatory disclosure***

### 5.5.3.5.2. Leverage

Greenwood *et al.* (2009, p.9) argue that firms with a high debt ratio tend to sell assets to reduce their reliance on loan providers and consequently on external debt financing. This strategy would help reduced corporate monitoring by debt-holders, and avoidance strategy becomes a strategic alternative (Oliver, 1991). However, organisation with high debt ratio could choose to increase information disclosure in order to benefit from lower cost of debt (Fama and Jensen, 1983). This suggests that high debt ratio would lead to increased level of disclosure. This leads to the following hypothesis.

***$H_8$*: *There is a significant positive relationship between leverage and intra-industry variation in the level of mandatory disclosure***

### 5.5.3.5.3. Audit fees

Another means by which a relevant external agency would distinguish a firm is the credibility of the firm's financial reports. Richardson (1987) argues that accounting information disclosure gains credibility in part through its association with independent professionals. This is because professional associations such as accountancy have convinced external parties of their moral and ethical superiority and that they set higher moral and ethical standards for themselves than other non-professional occupational groups (Kieser, 1989; Randle, 2004a, 2004b).

However, the status of the individual members of the professional group will determine its ability to enhance the credibility of the organisation associated with them. For example, Han (1994) argues that firms often use large high-status audit firms because they convey more legitimacy than small low-status audit firms, even if the latter have the capacity to handle their audits. Status in this context refers to the prestige granted the audit firm because of its position in a social structure rather than its observed performance (Gould, 2002; Podolny, 1993).

Podolny and Phillips (1996) argue that statuses are transferred through exchange relationships. From the perspective of financial reporting, the value of this exchange relationship between an organisation and the professional audit firm is measured in this thesis by audit fees. This suggests that higher audit fees may signal higher credibility of the financial reports. The foregoing discussions suggest that corporate organisations would increase the amount of audit fees to enhance the credibility of their financial reports. This leads to the following hypothesis.

***$H_9$*****:** *There is a significant positive relationship between audit fees and intra-industry variation in the level of mandatory disclosure*

## 5.6. Conclusion

Previous studies have tended to ignore the role of institutions in the process of information disclosure. This thesis offers a perspective on the impact of institutions on the level of mandatory disclosure. The discussions recognise the interests of agents, and that these interests are moderated by institutional norms in the information disclosure process. The selected predictive factors are based on the Oliver (1991) and Greenwood *et al.* (2011) framework.

The Oliver framework suggests that organisation disclosure compliance is a strategic response to institutional pressures while the Greenwood *et al.* framework suggests that the degree of an organisation’s exposure to institutional complexities varies, resulting in a variation in organisational responses. The next chapter discusses the research strategy and methodology of the study.

# Chapter Six

# Research strategy and methodology

## 6.1. Introduction

Researchers have used several methods to investigate the effect of institutions on economic outcomes including quasi-experiments, experiments, micro-level surveys of managers' perceptions of institutional constraints in countries where their firms operate, and descriptive cluster analyses (Wysocki, 2011). Quasi-experiment studies make a distinction between exogenous and endogenous institutions such as a country's colonial origin (Acemoglu *et al.,* 2001) or geographic location (Hall and Jones, 1999). Other studies rely on proxy indicators of business environment such as the strength of the legal system (La Porta *et al.,* 1997, 1998), regulatory constraints (Djankov *et al.,* 2003b) and governance attributes (Kaufman *et al.,* 1979). However, this approach struggles to distinguish observed country-level institutions from sector- or region–specific effects on economic outcomes (Wysocki, 2011). In addition, the approach suggests that the identified institutional variables affect average economic outcomes and a very small number of independent variables can be manipulated in experimental study. These issues make them inappropriate for exploratory analysis (Trotman, 1996; Libby *et al.,* 2002; Bonner, 2008; Libby and Seybert, 2009).

Furthermore, the direct survey of managers' opinions on important institutional factors addresses the limitations in experimental studies (Commander and Svejnar, 2007). However, survey variables are subjective and the measurement errors do correlate with the explanatory variables in a regression model (Bertrand and Mullainathan, 2001). In addition, survey responses are only valid when the respondents have relevant insight into the phenomenon being investigated (King, 2002). Additionally, survey studies suffer the limitation of an inability to include control variables and there is a limit to the number of variables that can be held constant in a survey.

Furthermore, surveys and experimental studies run the risk that participants will not respond in the same manner as they would in a natural environment, and this results in various forms of response bias (Groves *et al.,* 2004).

Although the different methods can provide an answer to different parts of a research question and triangulation method can provide the strongest basis for valid conclusions. However, resource and time constraints limit the use of the triangulation method in this thesis. This study uses archival data from corporate annual reports to evaluate the impact of institutions on the level of corporate disclosure. Archive methods rely on arms-length statistical analysis of key variables and attempt to retrieve meaning by ex post facto interpretations of tests of significance (Tomkins and Groves, 1983). This approach assumes that the meanings of variables will be ‘stable’ and ‘situation-independent’.

This thesis aims to illuminate the impact of institutional factors on the level of corporate disclosure in an historical context, which makes archival method necessary. In addition, archive method provides a basis for generalisation, and therefore, supports a potential convergence of findings from different institutional contexts. It also provides evidence to support the construct validity of the research instrument (Maines and Wahlen, 2006). Additionally, the research question addressed in this thesis makes the archive method appropriate. The method also benefits from analysis of data that arises from conducting business within a complex institutional environment, and therefore indicates the outcome of judgments and decisions made by individuals.

## 6.2. Research strategy

The sample for this study is drawn from 148 listed companies on the Nigerian Stock Exchange (NSE) at the end of 2013. While it is relatively easy to access firms’ annual reports in developed economies, this is not the case in Nigeria. For example, although the NSE report indicated that there were 148 active stocks on the Exchange at the end of 2013 (NSE X-Compliance Report, 2013), the annual reports submitted by these companies to the stock exchange merely consisted of statement of financial position, income statement, cash flow statement, and statement of changes in equity. Therefore, these reports are not detailed enough to extract relevant items information required for disclosure in accounting standards.

Consequently, this study explored three alternative sources for data collection. First, the library of the Nigerian Securities and Exchange Commission's (SEC), however, due to poor record management by the SEC some pages have been removed from the available annual reports. To complement the available data from the SEC, a search was made for annual reports on the respective companies' websites. However, only the most recent annual reports for some the companies were available. Therefore, this study obtained additional annual reports from African Financial website.

Based on the aforementioned challenges, the sample was based on the availability of annual reports from 2000 to 2012. This study focused on the years 2000, 2005 and 2012. The selection of these years was influenced by the waves of regulatory reforms in Nigeria that affected corporate financial reporting. These include a major programme of privatisation, global financial crisis and post-financial crisis, all of which have had significant economic impact, on corporate financial reporting.

The year 2000 was selected because it was the first full year for corporate financial reporting after the completion of the second phase of privatisation and commercialisation in Nigeria. The privatisation programme suggests that there would have been significant change in corporate ownership. Consistent with previous studies, this thesis argues that a change in ownership due to privatisation would result in changes in corporate disclosure practice (Abdelsalam and Weetman, 2007).

The year 2005 was selected because it was the first full year to prepare annual reports after the Nigerian Accounting Standard Board (NASB) Act 2003, which was signed into law in July 2003. Since the Act was a legal instrument to enforce compliance with the Nigerian Accounting standards, this thesis argues that if the Act had been effective it would have had significant impact on the level of disclosure in annual reports of Nigerian listed companies by 2005.

Nigeria adopted the IFRS/IAS for financial reporting effective from 1st January 2012. Corporate organisations whose financial year-ends were in December would prepare the first time IFRS-based financial reports in December 2012, and those with year-ends in other months would prepare theirs in 2013. A dummy variable was used to represent each of these years in the empirical analysis.

The samples 100 firm-years, made up of 57 listed companies. This represents an average of 41% of listed companies in the respective industries. This sample size is a fair representation when compared with Street, Gray and Bryant (1999, p.13) who sampled 49 firms out of 221 firms, representing 22% of their study population. The total number of listed companies on the NSE varies from year to year due to newly listed equities and delisted equities. However, this study included firms that were listed in the earlier years but have been delisted by the Exchange in recent years for their inability to satisfy post-listing requirements, this is to avoid survival bias.

The NSE had 11 industry classifications on the main board in 2013, these are agriculture, conglomerates, construction and real estates, consumer goods, financial services, health care, information communication and technology, industrial goods, natural resources, oil and gas and services. However, the following industry categories were not included in the sample for this study, financial services with 47 listed companies because of the specialised nature of companies in this sector. ICT with 7 listed companies because this sector consisted of newly listed companies and did not have publicly available annual reports prior to 2005, and natural resources with 4 listed companies because this sector consisted of newly listed companies and did not have publicly available annual reports prior to 2005. Table 8 presents the distribution of the number of listed companies in each industry and the number of companies sampled in each industry. The sample is spread across eight sectors: agriculture, conglomerates, construction and real estates, consumer goods, healthcare, industrial goods, oil and gas, and services, and is made up of 36 percent of the listed firms in year 2000, 49 percent in 2005 and 39 percent in 2012/2013. The list of companies sampled is present in appendix 1.

*Table 8 Sample distribution by industry categories*

| Year | Industry | Active Stocks | Available Annual Reports | Percent of Active Stocks With Annual Reports |
|---|---|---|---|---|
| 2000 | Agriculture | 2 | 1 | 50% |
| | Conglomerates | 6 | 1 | 17% |
| | Construction/Real Estates | 6 | 0 | 0% |
| | Consumer Goods | 16 | 8 | 50% |
| | Health Care | 8 | 0 | 0% |
| | Industrial Goods | 16 | 6 | 38% |
| | Oil & Gas | 7 | 4 | 57% |
| | Services | 10 | 5 | 50% |
| | **Total** | **71** | **25** | **35%** |
| 2005 | Agriculture | 3 | 2 | 67% |
| | Conglomerates | 8 | 1 | 13% |
| | Construction/Real Estates | 6 | 2 | 33% |
| | Consumer Goods | 14 | 14 | 100% |
| | Health Care | 8 | 4 | 50% |
| | Industrial Goods | 24 | 6 | 25% |
| | Oil & Gas | 8 | 7 | 88% |
| | Services | 12 | 5 | 42% |
| | **Total** | **83** | **41** | **49%** |
| 2012/13 | Agriculture | 4 | 3 | 75% |
| | Conglomerates | 6 | 2 | 33% |
| | Construction/Real Estates | 4 | 2 | 50% |
| | Consumer Goods | 18 | 11 | 61% |
| | Health Care | 9 | 4 | 44% |
| | Industrial Goods | 19 | 3 | 16% |
| | Oil & Gas | 8 | 2 | 25% |
| | Services | 19 | 7 | 37% |
| | **Total** | **87** | **34** | **39%** |
| | **Total Firm-year sample** | | **100** | |

| Industry | Sample Size | Percent of Total Sample |
|---|---|---|
| Agriculture | 6 | 6% |
| Conglomerates | 4 | 4% |
| Construction/Real Estates | 4 | 4% |
| Consumer Goods | 33 | 33% |
| Health Care | 8 | 8% |
| Industrial Goods | 15 | 15% |
| Oil & Gas | 13 | 13% |
| Services | 17 | 17% |
| **Total Firm-year sample** | **100** | **100%** |

**Source:** Author’s computation, 2014

## 6.3. Research method

### 6.3.1. Selection of accounting standards for evaluation

The goal of this study is to evaluate the impact of institutions on the level of disclosure in the annual reports of Nigerian listed companies. Accounting standards that set out the minimum disclosure guidelines have been used as the basis for evaluating the level of disclosure. The selection of accounting standards was influenced by a consideration of the applicability of selected standards to all sampled firms. Consequently, some specialised accounting standards or standards that focuses on specific industries are considered not to be appropriate for inclusion in the evaluation of the level of disclosure. Therefore, this thesis includes the following Nigerian Statements of Accounting Standards (SASs) and the corresponding IFRS/IASs. SAS 1 disclosure of accounting policies, SAS 2 information to be disclosed in Financial Statements, SAS 3 accounting for property, plant and equipment and SAS 21 earnings per share. The corresponding IASs/IFRS are IAS 1 presentations of financial statements, IAS16 property, plant and equipment and IAS 33 earnings per share. Table 9 summarises the number of items checked in each of the standards.

***Table 9 Summary of accounting standards used for computation of disclosure index***

| **GAAP Title** | **IAS/IFRS Items** | **SAS Items** |
|---|---|---|
| Presentation of financial statements/ Disclosure of accounting policies (IAS1/SAS1) | 92 | 18 |
| Information to be disclosed in Financial Statement (IAS5/SAS2) | NA | 87 |
| Property plant and equipment (IAS16/SAS3) | 16 | 8 |
| Earnings per share (IAS33/SAS21) | 12 | 7 |
| **Total** | **120** | **120** |

Source: Author’s computation, 2014

Although the Nigeria Accounting Standard Board (NASB) had issued thirty statements of accounting standard prior to its replacement by the FRC in 2011 (see appendix 2), not all of the standards are included in this study for the following reasons. Eight of the national accounting standards are industry-specific standards such as the accounting standards for banks, insurance, oil and gas and communication industries. Nine of the standards may be biased in favour of specific industry such as accounting standards on lease, investments, segment reporting, consolidated financial statements, foreign currency conversion. Two of the standards would not make a significant contribution to the computation of disclosure index, these are accounting standards on abridged financial statements and on interim financial reporting.

### 6.3.2. Measurement of the level of disclosure

Cooke (1998) argues that disclosure is an abstract concept that cannot be measured directly. He argues that a suitable proxy such as an index of disclosure can be used to determine the extent of information disclosed by a firm. Therefore, this study has used a disclosure index to measure the extent of disclosure in corporate annual financial statements or notes to the accounts. Curuk (2009) argues that the procedure for the measurement of the extent of disclosure (that is the creation of a disclosure index) can be summarised as follows:

1. Construction of a disclosure-scoring sheet/template
2. Scoring the disclosure items
3. Creation of disclosure index

#### 6.3.2.1. Construction of disclosure scoring sheet

Curuk (2009) argues that there is no general theory regarding the number and selection of items to be included on a disclosure-scoring sheet, and that the scope of the selection of information items usually depends on the focus of the study. This study has used two sets of scoring sheets, first, a scoring sheet based on the Nigerian accounting standards and second, a scoring sheet based on IFRS/IAS. The Nigerian standards-based scoring sheet is a self-constructed scoring that is comparable to a prior study in Nigeria that used a disclosure-scoring sheet. The IFRS/IAS based self-constructed scoring sheet used the Deloitte (2011), PwC (2012) and KPMG (2012) IAS/IFRS disclosure checklists as a validation check. This approach is consistent with Al-Akra, Eddie and Ali (2010) who validated their self-constructed scoring sheet against the PwC and KPMG disclosure templates. Appendix 3 presents the scoring sheets used in measuring the level of disclosure in this study.

#### 6.3.2.2. Scoring the disclosure items

Disclosure index studies adopt self-constructed disclosure indices which can be unweighted or weighted and assumed that the extent of disclosure is a sound proxy for disclosure quality (Botosan, 1997). Empirical evidence does not clearly show whether unweighted or weighted indices are better since prior studies shows non-significant (Chow and Wong-Boren, 1987) and significant differences emerged in the results of these indices (Naser and Nuseibeh, 2003).

This thesis uses an unweighted disclosure index for several reasons. First, an unweighted index obviates the need for making judgements as to the relative importance of each information item. This is because research shows that individuals and even experts have poor insight into their own judgement process (Slovic, 1969; Ashton, 1974). Furthermore, an unweighted index permits an independent analysis devoid of the perceptions of a particular annual report user group. The differential weighting system has several problems, which are documented in the literature (Firer and Meth, 1986; Dhaliwal, 1980; Owusu-Ansah, 1998). Also, earlier studies demonstrated that the equal weighting system is superior to the differential weighting system (Einhorn and Hogarth, 1975; Tsalavoutas, 2011) because it avoids the biases of the weighting system.

The most commonly used approach to computing the index is a modified dichotomous procedure, in which an item scores one if it is disclosed zero, if it is not disclosed, and NA if it is not applicable (Curuk, 2009). A similar approach was adopted in this study, in that the contents of a company's annual report are checked against the items on the scoring sheet and coded as one (for disclosed), zero (for not disclosed) and NA (for not applicable) depending on whether the report contained the item of information which is relevant to the particular company.

Two potential problems may arise with the computation of a disclosure index. First, many items may not be applicable to the reporting enterprise. Second, there is the issue of interpreting a company's non-disclosure of accounting items. Companies may simply not have a particular accounting issue or alternatively they may be failing to report their non-compliance with the rule. To minimise the impact of these problems, consistent with Cooke (1989) the annual reports were thoroughly read before they were scored to ascertain if undisclosed information items were indeed inapplicable to the companies. Next, the applicability of any information item was confirmed by reviewing preceding and succeeding years' annual reports, since Nigerian listed companies are required to disclose comparative figures for each financial statement item. Finally, the applicability of items was determined by logical reasoning (Owusu-Ansah, 2000). For example, it is logical to expect a company to disclose its accounting policy for inventory valuation if it owns some kind of inventory.

Similarly, for a paragraph of the accounting standard that requires that accounting policy on consolidation should be disclosed, this study first checked whether or not the company prepares consolidated financial statements. Where a company does not prepare such statements, then the requirement to disclose the policy on consolidation is not applicable. In addition, if the standard requires a company to disclose its significant relationship with an ultimate parent or associated company, this study first checked the section of the annual report on the distribution of shareholding and significant shareholders to establish that the company has an associate or subsidiary of another company. This procedure helps to establish whether the requirements to disclose the relationship with an associate or parent company are applicable to the company.

Having scored the disclosure sheet for each company in the sample for each year, a disclosure index was created to measure the extent of disclosure.

### 6.3.2.3. Creation of disclosure index

The disclosure index is a ratio computed by dividing the total actual score awarded to a company by the total maximum score that particular company is expected to earn. In other words, the mandatory disclosure index (MDI) for each company is computed as the total number of mandatory items disclosed by the company divided by the total number of relevant items of mandatory disclosure requirements. The index is defined as follows:

$$MDI_{jt} = \frac{\sum_{i=1}^{n_{jt}} x_{ijt}}{n_{jt}} \qquad (1)$$

where

$MDI_{jt}$ = mandatory disclosure index for the $jt$ company in year$t$, where $t$ is 2000, 2005 or 2012/13

$n_{jt}$, = number of mandatory items that were relevant for the $jth$ firm in year $t$,

$x_{ijt}$= 1 if the $ith$ (relevant) item is disclosed by the company $j$ in the year $t$;

$x_{ijt} = 0$ if the $ith$ (relevant) item is not disclosed.

Therefore $0 \leq MDI_{jt} \geq 1$

According to Tsalavoutas (2011) there are two variants of unweighted disclosure index; the Cooke index and the Partial Compliance (PC) index. The Cooke's index divides the total number of mandatory items disclosed by the company by the total number of mandatory disclosure requirements. Tsalavoutas (2011) argues that the commonly used Cooke's method suffers a serious limitation due to the difference in the number of disclosure items required for each standard. For example table 9 indicates that there is a significant difference in the number of items required for disclosure in each of the selected standards, and shows that while the

IAS1/SAS1/SAS2 requires a larger number of items to be disclosed other standards such as the standards on earnings per share require fewer items. Street and Gray (2001) and Tsalavoutas, Evans and Smith (2010) argue that the disclosure compliance index may be substantially biased because of these differences in the number of items required for disclosure and the method employed for measuring disclosure. Similarly, Al-Shiab (2003, p. 222) argues that standards which require more items to be disclosed, or standards with more items included in the index are unintentionally and indirectly not treated equally with those that require fewer items to be disclosed.

Based on this, Tsalavoutas (2011) suggests unweighted partial compliance (PC) as an alternative method that avoids this problem. The partial compliance index is adjusted for non-applicable items in the construction of the disclosure index. Therefore, the partial disclosure index for each company is measured by dividing the number of items disclosed by the number of applicable items on each accounting standard (Al-Shiab, 2003, p. 223). Consistent with Tsalavoutas (2011) this study measured both Cooke index and PC index and tests the difference in these indices with a t-test. However, this study focuses on items required for disclosure rather than measurement items in the computation of the disclosure level (Street and Gray, 2001).

### 6.3.3. Validity and reliability test of disclosure index

To ensure that the disclosure index for each company reflects its true disclosure behaviour, this study evaluates the validity and reliability of the disclosure index.

#### 6.3.3.1 Validity of disclosure index

Carmines and Zeller (1991, p.17) define validity as ‘the extent to which any measuring instrument measures what it is intended to measure’. Hassan and Marston (2010) argue that three measures of validity exist: criterion validity, content validity and construct validity. Criterion validity is a measure of how well one instrument stacks up against another instrument or predictor (Litwin, 1995, p. 37). A correlation between a measured variable and an external variable are used to assess criterion validity. A significantly high correlation between the measure and an external criterion suggests that the instrument is a valid measure for the criterion. For example, Botosan (1997) measured the correlation between her self-constructed disclosure index and each of the Association for Investment and Management Research (AIMR) scores. Hope (2003b) compared his own scoring of accounting policy disclosures against the Centre for International Financial Analysis Research (CIFAR) for a sample of 21 firms. In addition, he compared CIFAR's overall disclosure scores with various countries' 'Best Annual Report Awards' and with Botosan's 1997 scores. However, criterion validity is not an appropriate measure of validity in social science because most social science focuses on theoretical concepts for which there are no known criterion for comparison (Carmines and Zeller, 1991).

Content validity focuses on how well an instrument measures what it is intended to measure, and is assessed by seeking subjective judgement from non-experts and/or professionals, hence it can be referred to as face validity. However, this type of validity is not sufficient to conclude the validity of a measure due to concerns about biases in the perception of individuals on the construct being measured (Dhaliwal, 1980). Construct validity is generally used in social science studies. Construct validity focuses on the extent to which a measure performs in accordance with theoretical expectations. If the measure was consistent with theoretical expectations, then one would conclude that the measure of the construct is valid (Carmines and Zeller, 1991, p. 27). In addition, a test of construct validity requires a pattern of consistency of findings with prior studies. This study uses construct validity to evaluate the validity by evaluating the extent to which the model results conform to results of prior disclosure studies.

#### 6.3.3.2. Reliability of disclosure index

The reliability of a measure refers to its consistency and the notion consists of external and internal reliability (Bryman and Cramer, 1999). External reliability refers to the consistency of a measure over time and is evaluated by administering a test on two occasions to the same group of participants. For the construct to be reliable people who scored high on the test initially should also score high when retested. The problem with such a procedure is that intervening events between the test and the retest may account for any discrepancy between the two sets of results, therefore, the use of an external reliability test is not deemed fit for this study.

Internal reliability is used when an instrument is measuring a single idea on a different scale and the aim is to test whether the instrument is internally consistent. One of the procedures for estimating internal reliability is the *split-half reliability test*. In this test, the response to the instrument is divided into two groups either randomly or on an odd-even basis. The correlation between each half of responses is estimated which could vary between 0 and 1. The nearer the result to 1 the more internally reliable is the instrument. Bryman and Cramer (1999) recommend a correlation coefficient of at least 0.8. This thesis tests the reliability of the self-created disclosure index by randomly splitting the computed disclosure level to two and a correlation coefficient was estimated. The results indicate that there was no significant bias introduced in scoring the disclosure for each company, which suggests that the disclosure index for each company is reliable.

### 6.4. Data measurement and analysis

This study uses both descriptive, univariate and multivariate analysis to provide answer to the research questions. The descriptive statistics are various measures of central tendency such as the mean, median, standard deviation, maximum and minimum. The univariate analysis is a paired-samples t-test and a Wilcoxon matched-pairs signed-ranks test for disclosure indices. Due to the unequal number of samples in each year, the SAS PROC GLM is used to evaluate differences in the level of disclosure by companies, by years and by type accounting standards. Since the computed F statistic in the analysis of variance does not tell how the means differ, this thesis performs post hoc tests on the computed level of disclosure. The multivariate regression model is used to evaluate the relationship between the proxies for institutional antecedents and the level of disclosure.

### 6.4.1. Measurement of the dimensions of the Oliver's (1991) framework

The Oliver (1991) framework is used to identify organisation characteristics that could influence the level of disclosure in corporate annual reports. Table 10 presents the summary of the empirical measures for the ten dimensions of the framework.

***Table 10 Measures of the dimensions of the Oliver's (1991) framework***

| Institutional Antecedents | Dimensions | Variables | Empirical Measure |
|---|---|---|---|
| Cause | Social fitness/ Legitimacy | Size | Natural logarithm of turnover |
| | Economic efficiency | Sales per employees | Ratio of turnover to employees size |
| Constituents | Multiplicity of constituents | Taxes, interest and dividend paid | Proportion of taxes, interest and dividend paid to turnover |
| | Dependence | Free cash | *Dechow, *et al.* (1996) *Ex Ante* measure of the demand for external financing |
| Content | Consistency with Firm's goals | Board shareholding | Natural log of percent of board holding |
| | Discretionary Constraints | Subsidiary company | Dummy variable if company is a subsidiary |
| Control | Legal coercion | Regulatory regimes | Regulatory periods are divided into three regulatory phases weak regulatory regime (2000), semi-strong regulatory regime (2005) and strong regulatory regime (2012/13) A dummy variable 1 is assigned to periods corresponding to the respective regulatory regime, 0 otherwise |
| | Voluntary diffusion | Big 4 audit | dummy variable 1 if a company is audited by one of the big four audit firms, 0 otherwise (The big four are KPMG, Deloitte, PwC, Ernst &Young) |
| Context | Uncertainty | Standard deviation of returns on daily | Standard deviation of daily return on market share price market share over each of the company's financial year period |
| | Interconnectedness | Proportion of non-nationals on board | Number of non-national on board to board size |

*Consistent with Dechow *et al.* (1996) *Ex Ante* measure of the demand for external financing is measured as follows:

Free cash = Cash from Operations + Cash from Financing= Dividends Paid +Interest Paid + Capital Investment -

Cash from Financing= Cash from operations – (Dividend +Interest + Capital Investment)

$$FreeC_t = \frac{OpC_t - [Div_t + Int_t + Inv_t]}{CA_{t-1}} \tag{2}$$

where: $CA_{t-1}$= current assets in previous period.

It is assumed that current assets are readily convertible into cash and represent the stock of funds available for the firm. When FreeC is negative, the absolute value of the ration $(1/FreeC)$ provides an indication of the number of years that the firm can continue its current level of operating and investment activities from internally generated funds.

This thesis uses four models to examine the association between the level of disclosure and firm-level institutional factors. The functional relationship is defined as follows:

$$\begin{aligned} MDI_{ijt} = \alpha_0 &+ \beta_1 Legit_{ij} + \beta_2 Eff_{ij} + \beta_3 Multiplicity_{ij} + \beta_4 Dependence_{ij} \\ &+ \beta_5 Consistency_{ij} + \beta_6 Constraint_{ij} + \beta_7 Coercion_{ij} + \beta_8 Voluntdiff_{ij} \\ &+ \beta_9 Uncertainty_{ij} + \beta_{10} Interconnectedness_{ij} + \varepsilon_{it} \end{aligned} \tag{3}$$

where

$MDI_{ijt}$= Cooke, PC, Cooke's log odds and PC log odds index

Consistent with prior studies, this thesis analysed the regression models for four dependent variables: the Cooke index, partial compliance index, and the logarithms of the odds ratio of these indices (Akhtaruddin 2005; Ali *et al.*, 2004; Owusu-Ansah and Yeoh, 2005; Tsalavoutas, 2011; Hodgdon *et al.*, 2009; Lopes and Rodrigues, 2007). This approach allows for the comparison of the results of the regression models (Leventis, 2001).

One of the main assumptions of the classical linear regression model is that the independent variables do not correlate with each other. This study checked for multi-collinearity with a variance inflation factor (VIF) < 10 as a threshold (Gujarati, 2003, p. 62). This study also tested for the presence of multi-collinearity in the independent variables with a correlation matrix.

A problem of heteroskedasticity can arise in regression analysis because of the presence of outliers (Gujarati, 2003, p. 390). Outliers is a common problem in cross-sectional data and the presence of outliers in either the dependent or independent variables can contaminate the results of the coefficient estimates. The estimates break down when they take on values arbitrarily which are far from the true value, were the data not contaminated by an outlier. Although there are circumstances, in which data can be justifiably winsorised that is, removed from the dataset. However, unusual observations are not necessarily bad observation, it is reasonable that such data is not disregard in the analysis.

In a situation when outlying observations that could ruin the least square estimate cannot be removed with justifications and such outlying data cannot necessarily be spotted, robust regression techniques are required. Robust regression aims to fit a model that describes the majority of a sample (Rousseeuw and Leroy, 1987). Robustness is achieved by giving the data different weights within the calculation of the estimates, so that outlying data have a relatively smaller influence on the regression estimator (Draper and Smith, 1998).

An ‘S’ estimation was introduced by Rousseeuw and Yohai (1984) to measure the fraction of an estimator that has been contaminated and causes the estimates to take on an arbitrary value. This study uses the ‘M’ estimation technique introduced by Huber (1973) and the ‘‘MM’’ estimation technique introduced by Yohai (1987) to correct for outliers. The ‘M’ estimation technique is used extensively in data analysis when one assumes that contamination is mainly in the response or dependent variable. The 'MM' estimation corrects for outliers in both the dependent and independent variables. The 'MM' estimation produces a higher statistical efficiency.

Furthermore, the disclosure scores are not normally distributed, which violates a major assumption of the classical OLS regression. To mitigate this problem, this study transformed the disclosure index by computing a log of the odds ratio of the disclosure index which are used for the regression analysis. Consistent with Tsalavoutas (2011), Al-Shammari *et al.* (2008) and Al-Shiab (2003), the log of the odds ratio is computed as follows:

$$Y = \log\left(\frac{p}{1-p}\right) \qquad (4)$$

where $Y$ is the transformed level of compliance and $p$ is the ratio of companies' disclosure. These are compute for the PC method and Cooke's index. The use of log of the odd ratio is consistent with Cooke (1998, p. 211) who argues that since the disclosure index is a metric ratio, it is legitimate to transform it when used in a regression analysis. This approach also avoids the production of less powerful results (Leventis, 2001).

### 6.4.2. Measurement of the dimensions of the Greenwood et al.'s (2011) framework

This study builds on Deephouse's (1999) articulation of firm level strategic conformity to institutionalised practices to measure intra-industry variation in the level of disclosure. Deephouse (1999, p. 152) argues that individual firms can be different to some degree from others and still maintain legitimacy, provided the firm selects strategies within the range of acceptability. This is based on the argument that members of an organisational field are indifferent to certain amounts of differentiation (Suchman, 1995; Ashforth and Gibbs, 1990).

The implication is that the level of disclosure for a particular firm may be different from the average level of disclosure in its organisational field (industry). Therefore, consistent with

Deephouse (1999) and Finkelstein and Hambrich (1990), this study computes a strategic deviation in the level of disclosure, which is measured as follows:

$$Z_{it} = \frac{x_{it} - \overline{x_{\iota t}}}{\sigma_{xi}} \qquad (5)$$

where

$Z_{it}$ = the standardised frequency of items disclosed by focal firm in year $t$

$x_{it}$ = the frequencies of items disclosed by focal firm in year $t$

$\overline{x_{\iota t}}$ = the mean of the frequencies of items disclosed by all sample firms in year $t$

$\delta_{xi}$ = the standard deviation of the frequencies of items disclosed by all sample firms in year $t$

This thesis argues that investors would base their decisions on the number of items of information disclosed in annual reports. In addition, an investor will be influenced by differences in items disclosed in the annual report. Furthermore, most investors in Nigeria are not fully knowledgeable about the overall items required for disclosure by relevant accounting standards and therefore would not seek to use them as a denominator to calculate a disclosure index. To explain the determinants of variation in disclosure, this study uses the Greenwood *et al.* (2011) framework to identify factors that would explain intra-industry variation in the level of disclosure. The empirical measures of these variables are present in table 11.

***Table 11 Measures of dimensions of the Greenwood et al. (2011) framework***

| **Conceptual Framework** | **Dimensions** | **Empirical measures** |
|---|---|---|
| Institutional complexity | Waves of regulatory regimes | Fragmentation: dummy variable 1, for period 2000, 0 otherwise<br>Formal Structure: dummy variable 1, for period 2005, 0 otherwise<br>Centralisation: dummy variable 1 for period 2012/13, 0 otherwise |
| Organisational field | Industry dummy | Dummy variable 1 for each of the following industry category, 0 otherwise:<br>Agriculture<br>Services<br>Conglomerates<br>Consumer goods<br>Industrial goods<br>Gas and oil<br>Healthcare<br>Construction |
| Organisation Attributes | Organisation field position | Natural logarithm turnover |
| | Organisation structure | Capital intensity |
| | Organisation ownership | Proportion of board shareholding |
| | Organisation governance | Proportion of non-Nigerian nationals on board |
| | Organisation identities | Age since established |
| | | Proportion of total assets financed by debt |
| | | Audit fees |

**Source:** Author, 2014

The functional form of the relationship between variation in the level of disclosure and the predictor variables is stated as follows:

$$ZMD_{ijt} = \alpha_0 + \beta_1 Regregime_{ij} + \beta_2 Industry_{ij} + \beta_3 lnTurnover_{ij} + \beta_4 Capintensity_{ij} + \beta_5 PropBoardSharehold_{ij} + \beta_6 PropNonNigBoard_{ij} + \beta_7 Age_{ij} + \beta_8 Leverage_{ij} + \beta_9 Auditfees_{ij} + \varepsilon_{it} \quad (6)$$

where: $ZMD_{ijt}$= Standardised frequency of mandatory items disclosed by focal firm for each year.

Equation (6) has two types of dummy variables, one for the group effects (industry dummies) and the other for time effects (regulatory regimes dummies). Therefore, this thesis estimates a two-way fixed-effect model. The two-way fixed model explores the fixed effects of industry variables and the time (regulatory regimes variables). The functional form of the two-way fixed-effect model is stated as follows:

$$y_{it} = \alpha + \mu_i + \tau_i + X_{it}\beta + \varepsilon_{it} \tag{7}$$

Where $\alpha$ is the intercept

$\mu_i$ = dummy coefficient for industry $i$

$\tau_i$ = dummy coefficient for regulatory regime time period

$\beta$ = slopes for other variables in the model

$\varepsilon_{it}$ = error term

Consistent with Park (2009), the functional form for estimating the dummy coefficients for the industry and time variables are stated as follows: For industry group dummy:

$$d_i^* = (\bar{y}_{i*} - \bar{y}_{**}) - (\bar{x}_{i*} - \bar{x}_{**})\beta \tag{8}$$

For time dummy

$$d_t^* = (\bar{y}_{*t} - \bar{y}_{**}) - (\bar{x}_{*t} - \bar{x}_{**})\beta \tag{9}$$

where

$\bar{y}_{i*}$ = dependent variable (DV) mean of group $i$

$\bar{y}_{*i}$ = dependent variable (DV) mean at time $t$

$\bar{x}_{i*}$= mean of independent variables (IVs) of group $i$

$\bar{x}_{*t}$ = mean of independent variables (IV) at time $t$

$\bar{y}_{**}$ = overall mean of the dependent variables

$\bar{x}_{**}$= overall mean of the independent variables

The time effect (regulatory regime dummy) reflects the overall deviations in disclosure caused by trends in overall corporate disclosure. The industry dummy reflects time-invariant influences of industry sector on the change in disclosure in that sector. According to Park (2009), it is expected that the slopes of the non dummy variables should remain constant. Park (2009, p.52) proposes five strategies to estimate the parameters of the two-way fixed effect model. This thesis uses two of these strategies. The first strategy dropped one dummy from each category of the dummy variables and used the dropped dummy as a reference category. The second strategy includes all dummy variables and imposed restrictions on the cross-section and time-series dummy parameters. The restriction is state in functional form:

$\sum \mu_i = 0$ and $\sum \tau_t = 0$.

The approach that drops one dummy variable from each category helps avoids the problem of perfect colinearity and of heteroscedasticity. The estimated coefficients of dummy variables are interpreted as the difference between the variation in the reference category and that of the estimated dummy.

The second approach imposed a restriction on the dummy variables. The estimated coefficient of dummy variables in this second approach is interpreted as deviations from the overall average change in dependent variable. The sign of the deviation can be either positive or negative. A positive sign indicates divergence that is, the sector's and time's average disclosure is higher than the average overall disclosure level. A negative sign indicates convergence that is, the sector's and time's average disclosure is lower than the average overall disclosure level, suggesting that firms in the sector need to increase their disclosure level to reach average disclosure level for all sampled firms.

### 6.4.3 Poolability test for panel data regression models

In the fixed effect model, it is expected that the coefficients of the slope variables and constant should remain the same irrespective of the strategy used to estimate the model. According to Park (2009, p. 21), poolability tests whether or not slopes are the same across groups or over time. Thus, the null hypothesis of the poolability test is $H_0: \beta_{ik} = \beta_k$. This test uses the $F$ statistic,

$$F_{test} = \frac{\left(e'e_{Efficient} - e'e_{Robust}\right) / (n+T-2)}{e'e_{Robust} / (nT-n-T-k+1)} \approx F[(n+T-2)K, (nT-n-T-k+1)] \qquad (10)$$

where

$n =$ number of industry

$T =$ number of time periods

$N = nT =$ number of observations

$k =$ number of regressors excluding dummy variables

$K = k + 1$ regression model including the intercept

$e'eEfficient$ = SSE of pooled OLS

$e'\ e_{Robust} =$ SSE of the OLS regression for the industry (group) $i$ dummy variable

The robust model drops a dummy from each category while the efficient model includes all dummies but imposes a restriction. If the null hypothesis for the F-test is reject, the panel data is not poolable which suggests that the model with the restriction is better than the one with the dropped dummy variable. This study uses SAS® for the entire analysis with the syntax and codes for the analysis being based on relevant SAS documentation.

## 6.5. Conclusion

Although different research methods have been used to study the level of disclosure in corporate annual reports, this thesis presents an argument in favour of archival research. The chapter gives detailed explanations of the procedure for computing the level of disclosure. The approach and strategy adopted to provide answers to the research questions were discussed. The next chapter presents the empirical evidence on the first empirical question.

# Chapter Seven

# Firm-level institutional determinants of mandatory disclosure

## 7.1. Introduction

This chapter presents empirical evidence on the level of disclosure and the impact of institutional factors on the level of mandatory disclosure in the annual reports of Nigerian listed companies. This thesis draws on prior literature (Tsalavoutas, 2011; Al-Shiab, 2003; Tsalavoutas *et al.* 2010) to estimate four types of level of disclosure. These are Cooke's index, Partial Compliance (PC) index and the odds of the logarithms of these indices. This study also computes the level of disclosure for each accounting standard. The second section of this chapter presents the results on the level of mandatory disclosure and the differences in disclosure levels. The second section of this chapter presents the multivariate results on the impact of institutional factors on the level of mandatory disclosure.

## 7.2. The level of mandatory disclosure in annual reports of Nigerian listed companies

Table 12 presents the descriptive statistics for the level of mandatory disclosure for the years selected for this study. Table 12 shows that the level of mandatory disclosure was in the range of 26% (minimum disclosure level) to 65% maximum disclosure level for 2000, 32% to 73% in 2005 and 56% to 95% in 2012. The mean shows a generally increasing trend in the level of disclosure over the selected years. This suggests that over the selected years, the sampled companies have increasingly been providing more information in their annual reports.

***Table 12 Descriptive statistics of the level of mandatory disclosure***

| | **CookeIndex** | | | **PCIndex** | | | **Accounting Information CookeIndex** | | | **PPE&eps CookeIndex** | | | **Accounting Information PCIndex** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2000 n=23** | **2005 n=43** | **2012 n=34** | **2000 n=23** | **2005 n=43** | **2012 n=34** | **2000 n=23** | **2005 n=43** | **2012 n=34** | **2000 n=23** | **2005 n=43** | **2012 n=34** | **2000 n=23** | **2005 n=43** | **2012 n=34** |
| Mean | 42 | 49 | 75 | 46 | 46 | 77 | 41 | 46 | 80 | 44 | 57 | 59 | 46 | 53 | 82 |
| Stddev | 12 | 10 | 8 | 11 | 11 | 8 | 13 | 11 | 9 | 16 | 15 | 10 | 13 | 11 | 8 |
| Max | 65 | 73 | 94 | 65 | 73 | 94 | 73 | 73 | 100 | 82 | 95 | 82 | 73 | 88 | 100 |
| Min | 26 | 32 | 56 | 30 | 31 | 56 | 19 | 31 | 56 | 23 | 32 | 39 | 22 | 31 | 56 |

**Source: Author's computation**

The standard deviation shows a decreasing rate of variability in the level of mandatory disclosure by the sampled companies. In addition, an increase in the maximum levels of disclosure was observed in the year 2012, which was the first year of mandatory IFRS adoption in Nigeria. This result is consistent with prior disclosure studies, which suggest that IFRS adoption leads to increased disclosure (Curuk, 2009; Abdelsalam and Weetman, 2007). One possible reason for the increased disclosure is that corporate managers wanted to demonstrate that the previous year's disclosure was low, not because of their inefficiency but because Nigerian GAAP was of poor quality and that, the previous accounting regime did not allow a higher level of disclosure to be made in the financial statements (Tsalavoutas, 2011). However, the substantial increase in the level of disclosure may trigger the suspicion of shareholders that the improved disclosure is a result of a 'transitional big bath' leading to a misleading perception about corporate transparency in Nigeria (Inchausti, 1997). The consequence would be inappropriate adjustment of stock price of listed equities.

Table 13 shows the computed mandatory disclosure level in the annual reports of the sampled companies. This thesis sampled 23 firm year in 2000, 43 in 2005 and 34 in 2012. The template for the computation of the level of mandatory disclosure in 2000 and 2005 was based on the

Nigerian national accounting standards. The template for year 2012 was based on International Financial Reporting Standards (IFRS) and International Accounting Standards.

Table 13 reports the percentage levels of mandatory disclosure computed on the Cooke index. Consistent with past studies (Curuk, 2009, Abdelsalam and Weetman, 2007), the results in table 13 indicate that the level of disclosure requirements generally improve over time, with increasing aggregate levels.

***Table 13 Level of mandatory disclosure in annual reports of Nigerian listed companies***

| | | **CookeIndex** | | | **PCIndex** | | |
|---|---|---|---|---|---|---|---|
| **S/N** | **Company** | **2000** | **2005** | **2012** | **2000** | **2005** | **2012** |
| 1 | UACN | 65 | 73 | 84 | 65 | 71 | 84 |
| 2 | WAPCO | 64 | 67 | 76 | 64 | 73 | 76 |
| 3 | PZ | 57 | 56 | 81 | 65 | 56 | 81 |
| 4 | NBC | 57 | 57 | nc | 57 | 54 | nc |
| 5 | BETAGLASS | 56 | nc | nc | 63 | nc | nc |
| 6 | FLOURMILL | 51 | 56 | 92 | 51 | 51 | 92 |
| 7 | CAP | 49 | 53 | 72 | 56 | 46 | 75 |
| 8 | OANDO | 48 | 70 | 94 | 55 | 73 | 94 |
| 9 | RTBRISCOE | 42 | 42 | 80 | 42 | 39 | 80 |
| 10 | NESTLE | 42 | 53 | 76 | 42 | 46 | 79 |
| 11 | BCC | 42 | 46 | nc | 48 | 37 | nc |
| 12 | ASHAKACEM | 37 | 33 | nc | 42 | 31 | nc |
| 13 | NIWICABLE | 36 | nc | nc | 41 | nc | nc |
| 14 | OKOMUOIL | 35 | 33 | 63 | 39 | 32 | 66 |
| 15 | DUNLOP_DNTR | 35 | 47 | nc | 35 | 41 | nc |
| 16 | NB | 35 | 46 | 84 | 39 | 37 | 88 |
| 17 | CONOIL | 35 | 49 | nc | 39 | 46 | nc |
| 18 | 7UP | 33 | 47 | 72 | 38 | 37 | 75 |
| 19 | VONOPRODUCT | 33 | 42 | nc | 38 | 34 | nc |
| 20 | CHEVRON_MRS | 33 | 41 | nc | 38 | 36 | nc |
| 21 | ACADEMY | 28 | 48 | 56 | 32 | 41 | 56 |
| 22 | TOTAL | 28 | 38 | nc | 32 | 41 | nc |
| 23 | UPL | 26 | nc | 75 | 30 | nc | 78 |
| 24 | PRESCO | nc | 37 | 60 | nc | 37 | 63 |
| 25 | LIVESTOCK | nc | nc | 68 | nc | nc | 71 |
| 26 | STUDPRESS | nc | 44 | nc | nc | 37 | nc |
| 27 | TRANSEXPR | nc | 49 | nc | nc | 51 | nc |
| 28 | AIRSERVICE | nc | nc | 74 | nc | nc | 74 |
| 29 | ABCTRANS | nc | nc | 81 | nc | nc | 81 |
| 30 | REDSTAREX | nc | nc | 78 | nc | nc | 78 |
| 31 | NAHCO | nc | 60 | 74 | nc | 64 | 74 |
| 32 | GUINNESS | nc | 51 | 77 | nc | 42 | 80 |
| 33 | CHAMPION | nc | nc | 61 | nc | nc | 64 |
| 34 | DNMEYER | nc | 41 | nc | nc | 36 | nc |
| 35 | UNILEVER | nc | 68 | 73 | nc | 58 | 76 |
| 36 | CADBURY | nc | 32 | nc | nc | 31 | nc |
| 37 | NNFM | nc | 44 | nc | nc | 42 | nc |
| 38 | UTC | nc | 41 | nc | nc | 44 | nc |
| 39 | DANGSUGAR | nc | nc | 74 | nc | nc | 77 |
| 40 | HONYFLOUR | nc | nc | 66 | nc | nc | 69 |
| 41 | NASCON | nc | nc | 72 | nc | nc | 75 |
| 42 | ENAMELWA | nc | 41 | nc | nc | 44 | nc |
| 43 | UACN_PropDev | nc | 56 | 79 | nc | 53 | 79 |
| 44 | JBERGER | nc | 43 | 85 | nc | 42 | 85 |
| 45 | COSTAIN | nc | 58 | nc | nc | 54 | nc |
| 46 | NIGROPES | nc | 42 | nc | nc | 42 | nc |
| 47 | DANGCEM | nc | nc | 78 | nc | nc | 78 |
| 48 | BERGER | nc | 51 | nc | nc | 47 | nc |
| 49 | TRANSCORP | nc | nc | 77 | nc | nc | 77 |
| 50 | GLAXOSMITH | nc | 53 | 77 | nc | 54 | 77 |
| 51 | MAYBAKER | nc | 51 | 76 | nc | 47 | 76 |
| 52 | FIDSON | nc | nc | 74 | nc | nc | 77 |
| 53 | NEIMETH | nc | 51 | nc | nc | 47 | nc |
| 54 | PHARMDEKO | nc | 46 | 64 | nc | 42 | 67 |
| 55 | MOBIL | nc | 44 | nc | nc | 49 | nc |
| 56 | AP_Forte | nc | 48 | 78 | nc | 39 | 78 |
| 57 | BOCGAS | nc | 56 | nc | nc | 53 | nc |

**Source:** Author's computation, Note: nc*= not computed due to non-availability of annual reports

The results in table 13 show substantial variations in the levels of mandatory disclosure among the sampled companies ranging from 94% for Oando in 2012 to 26% in 2000 for UPL. The level of compliance in 2000 suggests that ineffective enforcement of disclosure regulations, coupled with financial and human resources constraints to implement disclosure requirements have contributed to the observed low-level disclosure.

Furthermore, the results show an increase in the overall average level of disclosure in 2005 relative to 2000. Table 13 shows that companies with increased level of mandatory disclosure in 2005 included UACN, WAPCO, Flour Mills, Oando, Nestlé and Chevron/MRS oil. However, despite the NASB Act 2003, which was then the legal instrument to enforce compliance, some of the sampled companies had a marginal decrease in the level of disclosure. Among these companies are Ashaka Cement Company and Okomu oil. In addition, table 13 shows a significant increase in the level of mandatory disclosure in 2012. This was the first year of IFRS adoption in Nigeria; the result suggests that the IFRS disclosure requirements permits increased disclosure relative to the Nigerian national accounting standards.

To ascertain the financial reporting standards that contribute most to the degree of variations observed in the average levels of disclosure, table 14 reports the level of disclosure for each accounting standard for each regulatory regime.

***Table14 Level of mandatory disclosure based on selected accounting standards***

| | | Accounting Information Cooke Index | | | PPE& eps Cooke Index | | | Accounting Information PC Index | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **S/N** | **Company** | **2000** | **2005** | **2012** | **2000** | **2005** | **2012** | **2000** | **2005** | **2012** |
| 1 | WAPCO | 73 | 73 | 82 | 41 | 50 | 57 | 73 | 73 | 82 |
| 2 | UACN | 68 | 71 | 86 | 59 | 77 | 79 | 68 | 71 | 86 |
| 3 | NBC | 58 | 54 | nc | 55 | 64 | nc | 58 | 54 | nc |
| 4 | PZ | 56 | 56 | 90 | 59 | 55 | 54 | 67 | 56 | 90 |
| 5 | OANDO | 49 | 73 | 100 | 45 | 64 | 75 | 59 | 88 | 100 |
| 6 | RTBRISCOE | 46 | 39 | 86 | 32 | 50 | 61 | 46 | 47 | 86 |
| 7 | FLOURMILL | 46 | 51 | 99 | 64 | 68 | 71 | 46 | 61 | 99 |
| 8 | BETAGLASS | 46 | nc | nc | 82 | nc | nc | 55 | nc | nc |
| 9 | BCC | 44 | 37 | nc | 36 | 68 | nc | 53 | 45 | nc |
| 10 | CAP | 42 | 46 | 78 | 68 | 73 | 54 | 51 | 55 | 83 |
| 11 | OKOMUOIL | 39 | 32 | 71 | 23 | 36 | 39 | 47 | 43 | 76 |
| 12 | ASHAKACEM | 39 | 31 | nc | 32 | 41 | nc | 47 | 37 | nc |
| 13 | DUNLOP_DNTR | 37 | 41 | nc | 27 | 64 | nc | 37 | 41 | nc |
| 14 | NB | 37 | 37 | 85 | 27 | 68 | 82 | 45 | 45 | 90 |
| 15 | VONOPRODUCT | 36 | 34 | nc | 27 | 64 | nc | 43 | 41 | nc |
| 16 | NESTLE | 34 | 46 | 80 | 64 | 73 | 61 | 34 | 55 | 85 |
| 17 | CONOIL | 34 | 46 | nc | 36 | 59 | nc | 41 | 55 | nc |
| 18 | CHEVRON_MRS | 34 | 36 | nc | 32 | 55 | nc | 41 | 43 | nc |
| 19 | 7UP | 31 | 37 | 77 | 41 | 73 | 57 | 37 | 45 | 82 |
| 20 | NIWICABLE | 29 | nc | nc | 55 | nc | nc | 35 | nc | nc |
| 21 | TOTAL | 27 | 41 | nc | 32 | 32 | nc | 33 | 49 | nc |
| 22 | UPL | 25 | nc | 79 | 27 | nc | 61 | 31 | nc | 84 |
| 23 | ACADEMY | 19 | 41 | 56 | 55 | 68 | 54 | 22 | 49 | 56 |
| 24 | PRESCO | nc | 37 | 67 | nc | 36 | 39 | nc | 45 | 71 |
| 25 | LIVESTOCK | nc | nc | 72 | nc | nc | 54 | nc | nc | 77 |
| 26 | STUDPRESS | nc | 37 | nc | nc | 64 | nc | nc | 37 | nc |
| 27 | TRANSEXPR | nc | 51 | nc | nc | 45 | nc | nc | 61 | nc |
| 28 | AIRSERVICE | nc | nc | 80 | nc | nc | 54 | nc | nc | 80 |
| 29 | ABCTRANS | nc | nc | 85 | nc | nc | 68 | nc | nc | 85 |
| 30 | REDSTAREX | nc | nc | 84 | nc | nc | 61 | nc | nc | 84 |
| 31 | NAHCO | nc | 64 | 79 | nc | 50 | 57 | nc | 78 | 79 |
| 32 | GUINNESS | nc | 42 | 79 | nc | 73 | 68 | nc | 51 | 84 |
| 33 | CHAMPION | nc | nc | 67 | nc | nc | 43 | nc | nc | 71 |
| 34 | DNMEYER | nc | 36 | nc | nc | 55 | nc | nc | 43 | nc |
| 35 | UNILEVER | nc | 58 | 78 | nc | 95 | 57 | nc | 69 | 83 |
| 36 | CADBURY | nc | 31 | nc | nc | 36 | nc | nc | 31 | nc |
| 37 | NNFM | nc | 42 | nc | nc | 50 | nc | nc | 51 | nc |
| 38 | UTC | nc | 44 | nc | nc | 32 | nc | nc | 53 | nc |
| 39 | DANGSUGAR | nc | nc | 78 | nc | nc | 61 | nc | nc | 83 |
| 40 | HONYFLOUR | nc | nc | 70 | nc | nc | 54 | nc | nc | 74 |
| 41 | NASCON | nc | nc | 76 | nc | nc | 61 | nc | nc | 80 |
| 42 | ENAMELWA | nc | 44 | nc | nc | 32 | nc | nc | 53 | nc |
| 43 | UACN_PropDev | nc | 53 | 85 | nc | 64 | 61 | nc | 53 | 85 |
| 44 | JBERGER | nc | 42 | 90 | nc | 45 | 71 | nc | 51 | 90 |
| 45 | COSTAIN | nc | 54 | nc | nc | 68 | nc | nc | 65 | nc |
| 46 | NIGROPES | nc | 42 | nc | nc | 41 | nc | nc | 51 | nc |
| 47 | DANGCEM | nc | nc | 84 | nc | nc | 61 | nc | nc | 84 |
| 48 | BERGER | nc | 47 | nc | nc | 59 | nc | nc | 47 | nc |
| 49 | TRANSCORP | nc | nc | 83 | nc | nc | 57 | nc | nc | 83 |
| 50 | GLAXOSMITH | nc | 54 | 83 | nc | 50 | 61 | nc | 54 | 83 |
| 51 | MAYBAKER | nc | 47 | 82 | nc | 59 | 57 | nc | 57 | 82 |
| 52 | FIDSON | nc | nc | 80 | nc | nc | 54 | nc | nc | 85 |
| 53 | NEIMETH | nc | 47 | nc | nc | 59 | nc | nc | 57 | nc |
| 54 | PHARMDEKO | nc | 42 | 72 | nc | 55 | 39 | nc | 51 | 77 |
| 55 | MOBIL | nc | 49 | nc | nc | 32 | nc | nc | 59 | nc |
| 56 | AP_Forte | nc | 39 | 86 | nc | 73 | 54 | nc | 47 | 86 |
| 57 | BOCGAS | nc | 53 | nc | nc | 64 | nc | nc | 63 | nc |

**Source**: Author's computation, Note: nc*= not computed due to non availability of annual reports

The results in table 14 show that there is substantial variation in the levels of disclosure on each of the accounting standards. The level of disclosure ranges from 100% in 2012 (perfect disclosure) in the case of accounting standards on information to be disclosed in financial statements, to 19% in 2000 (very low) for the same accounting standard. For example, Oando plc had 100% disclosure level in 2012 but had about 50% disclosure level in 2000 on similar accounting standards. This suggests that this company might indicate to the users of annual reports that the level of disclosure in previous years was low, because the requirements of the then accounting standards did not permit increased disclosure, or that the regulatory regime was very weak.

Furthermore, table 14 shows the level of mandatory disclosure on individual accounting standards for the sampled companies, and for each year. The level of disclosure varied in the annual reports of the sampled companies. Several examples of this variation are restrictions on dividends distribution, contingent assets, amount of post balance sheet events, deferred tax on revalued property plant and equipment, actuarial gains or loss on employees' pensions, the effect of reclassified assets on depreciation provisions, diluted earnings per share before extra-ordinary items, and effect of policy change on diluted earnings per share. Additionally, variations exist for revised amounts on provision for contingent liability and assets, discount amount on provision for contingent liability and assets, the timing of outflow on provision for contingent liability and assets, and probable inflow from provision for contingent liability and assets. In addition, changed segments in segment reporting, reasons for changes in segment and the effect of such changes, write off on quoted investment, and reasons for not writing off the value of quoted investment. Furthermore, director opinions on the market value and cost of quoted investment, restriction on the title of assets, amount secured on liabilities, errors due to incorrect account estimates, accounting policy on diluted earnings per share, accounting policy on segment reporting and the terms of loans to related party were not consistently reported.

However, the sampled companies consistently disclosed some items of information. For example, cash and bank balances, auditor remuneration, director remuneration, taxes on income, net income or loss, basis for property plant and equipment, year addition to property plant and equipment, and year disposal from property plant and equipment. In addition, book value of property plant and equipment by category, closing value of inventory, depreciation policy, taxes on reported income, and cash flow statement items were all consistently disclosed. This suggests that Nigerian firms commonly disclosed items that may be of common interest to the users of annual reports, but failed to disclose items, which may not be familiar to uninformed users.

Overall, the main evidence that emerges from examining the level of disclosure for the sampled companies is that, despite the adoption of IFRS for financial reporting in Nigeria, the level of disclosure among Nigerian listed companies varies substantially. This result demonstrates that a high degree of heterogeneity exists when it comes to the importance that Nigerian companies attach to accounting standards disclosure requirements.

Table 15 provides further statistical evidence on the sources of variation in the level of disclosure. Table 15 shows an F value of 58.46 and p value of <.0001 and this result indicates that a significance difference exists in the level of disclosure. By comparing the average level of disclosure for each year, the results shows that the level of disclosure was not significantly different in 2000 but was significantly different in 2005 and 2012. This provides the basis for rejecting the first hypothesis, that is, H1: There is no significant difference in the level of mandatory disclosure across regulatory regimes in Nigeria.

***Table 15 Analysis of variance in the level of disclosure***

| | The ANOVA GLM procedure for level of disclosure | | | | | |
|---|---|---|---|---|---|---|
| | **Mean** | **RMSE** | **Coeff Var** | **R-Square** | **F Value** | **Pr > F** |
| Overall difference | 57.02 | 10.99 | 19.27 | 0.63 | 58.46 | <.0001 |
| **Sources of Difference** | | | | | | |
| Indices | | | | | 5.83 | 0.00 |
| Year | | | | | 341.85 | <.0001 |
| Indices*Year | | | | | 13.93 | <.0001 |
| Companies_Yr2000 | | | | | 8.96 | <.0001 |
| Companies_Yr2005 | | | | | 7.84 | <.0001 |
| Companies_ Yr2012 | | | | | 5.81 | <.0001 |
| Year Effect 2000 | 43.93 | 13.17 | 29.98 | 0.02 | 0.69 | 0.60 |
| Year Effect 2005 | 50.12 | 11.43 | 22.80 | 0.12 | 7.14 | <.0001 |
| Year Effect 2012 | 74.60 | 8.54 | 11.45 | 0.50 | 41.33 | <.0001 |

**Source:** Author's computation

Table 15 also shows that significant difference exists in the level of disclosure of the sampled companies. This provides the basis for rejecting the second hypothesis, that is, H2: There is no significant difference in the level of mandatory disclosure across listed Nigerian companies. Furthermore, table 15 shows that there was a significant difference in the level of disclosure on each of the accounting standards. This provides the basis for rejecting the third hypothesis, that is, H3: There is no significant difference in the level of mandatory disclosure on each accounting standards. This thesis investigates the factors that might account for the observed differences in the level of disclosure in the next section.

### 7.3. Firm-level institutional determinants of the level of mandatory disclosure

Institutional factors stated in the Oliver (1991) model are used to identify relevant organisational characteristics that are in turn used to predict each of the four disclosure compliance variables.

### 7.3.1. Descriptive statistics

Table 16 presents the descriptive statistics of the variables used in the analysis to provide answers to the second empirical question.

***Table 16 Descriptive statistics on the dimensions of Oliver (1991) framework***

| | Mean | | | Median | | | Standard Deviation | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2000** | **2005** | **2012** | **2000** | **2005** | **2012** | **2000** | **2005** | **2012** |
| **Variable** | **n = 23** | **n = 43** | **n = 34** | **n = 23** | **n = 43** | **n = 34** | **n = 23** | **n = 43** | **n = 34** |
| Turnover | 10.93 | 24.90 | 80.00 | 8.48 | 5.41 | 17.70 | 10.01 | 37.00 | 132.59 |
| Effcy | 1.26 | 1.40 | 1.54 | 1.20 | 1.32 | 1.53 | 0.23 | 0.26 | 0.26 |
| TaxIntDivprop | 0.08 | 0.11 | 0.11 | 0.05 | 0.08 | 0.09 | 0.07 | 0.17 | 0.09 |
| FreeCash | -4.31 | 5.04 | -6.29 | -1.17 | -0.19 | -0.53 | 6.61 | 37.38 | 32.12 |
| BoardHoldingPct | 5.01 | 5.87 | 13.89 | 0.24 | 0.81 | 5.06 | 12.32 | 11.96 | 17.57 |
| Subsidiary | 0.30 | 0.33 | 0.24 | 0.00 | 0.00 | 0.00 | 0.47 | 0.47 | 0.43 |
| BigAuditorDmy | 0.70 | 0.77 | 0.74 | 1.00 | 1.00 | 1.00 | 0.46 | 0.42 | 0.44 |
| Transreturn | 2.65 | 2.48 | 2.19 | 2.33 | 2.48 | 2.08 | 1.59 | 1.18 | 0.81 |
| PropNonNat | 26.21 | 28.97 | 19.22 | 27.27 | 33.33 | 16.67 | 22.19 | 23.78 | 20.22 |

Note: Total sample consists of 100 non-financial Nigerian firms. The following corresponds to each dimension of the Oliver framework. Turnover (turnover) for legitimacy, sales per employees (effcy) for economic efficiency. Taxes, interest and dividend paid (TaxIntDivprop) for multiplicity. FreeCash for dependency, Proportion of board holding (BoardHoldingPct) for consistency with firm's goal, subsidiary for discretionary constraint, big 4 audit firms (BigAuditorDmy) for voluntary diffusion, standard deviation of daily return on market share price (transreturn) for uncertainty and proportion of non-Nigerian national on board (PropNonNat) for

Table 16 shows the descriptive statistic for each corresponding period of regulatory waves in Nigeria. The results are interesting; firstly, there is a consistent increase in the average turnover of the sample companies over the years from an average of 10.9 billion Nigerian Naira in 2000 to 80 billion Nigerian Naira in 2012. Several factors might be responsible for this increase. First, the inflation rate might have contributed to the increase rather than providing an indication of increased productivity. Second, the sample size in the latter period was greater than the sample size in 2000. The increased sample size might have contributed to the increase in average turnover. However, the increased turnover signifies an increased economic significance of the sample firms.

The standard deviation of turnover indicates the variability in the turnover of the sampled companies. This increased from 10.01 billion in 2000 to 132.59 billion Nigerian Naira in 2012. This increase in standard deviation of turnover could be due in part to differences in the composition of sample size in the two periods. Although the average efficiency level increased over the years, the variation in efficiency among the sampled firms remained constant in 2005 and 2012. This suggests a relatively similar efficiency level for all the sampled firms.

The free cash indicates the amount available for investment from internal operations after the payment of dividends and interest. The average free cash of -4.31 in 2000 shows that the sample firms would need an average of four years to generate the required funds for capital investment from their normal level of operating activities. However, there was a reverse to a positive free cash value of 5.04 in 2005. The increased free cash suggests an increase in the level of confidence in Nigerian businesses during the period, which might be attributable to a relatively stable political environment in Nigeria at that time. As noted in chapter two of this thesis, the elected civilian government of 1999 successfully handed over to another elected political office holder for the first time in Nigerian political history. The relative political stability increased business confidence and hence the demonstrable increase in free cash flow.

However, the free cash dropped to -6.29 in 2012. This shows that it would take the sampled companies about 6 years to generate the funds required for capital investments from their normal operating activities. The global financial crisis and general economic downturn in Nigeria in the period 2008 to 2010 might have contributed to this result. This suggests that Nigerian companies would struggle for a long period of years before they would be able to achieve a very strong cash position.

The proportion of board shareholding increased from an average of 5 percent in 2000 to 14 percent in 2012. This significant increase in board share holding in 2012 is due to board members acquiring an increasing stake in the companies they managed. This trend is an indication that these managers expects good outlook for their companies and that there is a potential for increasing their wealth by the share holding in their companies.

The volatility of the return on daily stock price was reduced in 2012 compared to the previous two periods. This might have resulted from the increased confidence of investors in the capital market due to the adoption of IFRS in Nigeria. Similarly, the standard deviation of the variation in stock return reduced significantly from 1.59 in 2000 to 0.81 in 2012.

It is interesting to note that the average proportion of non-Nigerian nationals on boards reduced significantly from 26.21 percent in 2000 to 19.22 percent in 2012. This result suggests that most multinational companies invested in Nigerian companies as rent-seekers and appointed their representatives to the boards of these companies. The significant reduction in the proportion of non-Nigerian nationals on board could be attributed to the effect of the global financial crisis, during which time, most multinational companies sold their shareholding in Nigerian companies, repatriated their invested capital and withdrawn their representatives from the board of these companies. This result is consistent with the observed reduction in the average number of multinational affiliated companies from 0.48 percent in 2000 to 0.29 percent in 2012.

Table 17 shows the correlation matrix for the model variables. This study performs an initial investigation of the independent variables by a multicolinearity test. For robustness, both Pearson’s parametric and Spearman’s non-parametric coefficients are reported. Noticeably, the magnitude and direction of both coefficients are very similar, suggesting that no serious non-normality problems exist. Both indicate further that correlations among variables are fairly low, implying that there are no major multicollinearity problems. Additionally, this thesis examined the Variance Inflation Factor (VIF) among the independent variables (for brevity not reported here). All of the VIF are less than 10 suggesting that no serious multicolinearity problem exists.

## *Table 17 Correlation matrix of model variables*

| | i/j | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cooke_Index | 1 | | 0.91*** | 0.94*** | 0.81*** | 1*** | 0.91*** | 0.45*** | -0.04 | 0.11 | -0.03 | 0.11 | -0.03 | 0.24** | -0.19* | -0.16 | -0.47*** | -0.32*** | 0.75*** | -0.11 | 0.01 | 0.19* | -0.02 | -0.07 | -0.09 | 0.10 | 0.11 |
| PC_Index | 2 | 0.91*** | | 0.77*** | 0.96*** | 0.91*** | 1*** | 0.44*** | 0.05 | 0.11 | -0.03 | 0.08 | 0.01 | 0.31*** | -0.11 | -0.14 | -0.45*** | -0.18* | 0.58*** | -0.25*** | 0.00 | 0.22** | 0.05 | -0.03 | -0.10 | 0.04 | 0.12 |
| Accindex | 3 | 0.90*** | 0.69*** | | 0.68*** | 0.94*** | 0.77*** | 0.41*** | -0.09 | 0.11 | -0.07 | 0.16 | -0.06 | 0.21** | -0.17 | -0.15 | -0.44*** | -0.41*** | 0.82*** | -0.06 | 0.05 | 0.19* | -0.06 | -0.09 | -0.12 | 0.13 | 0.12 |
| Othersindex | 4 | 0.83*** | 0.96*** | 0.65*** | | 0.81*** | 0.96*** | 0.41*** | 0.04 | 0.11 | -0.06 | 0.14 | 0.01 | 0.25** | -0.09 | -0.14 | -0.44*** | -0.20** | 0.61*** | -0.23** | 0.05 | 0.18* | 0.09 | -0.04 | -0.16 | 0.01 | 0.11 |
| Cookelogodds | 5 | 0.99*** | 0.90*** | 0.90*** | 0.82*** | | 0.91*** | 0.45*** | -0.04 | 0.11 | -0.03 | 0.11 | -0.03 | 0.24** | -0.19* | -0.16 | -0.47*** | -0.32*** | 0.75*** | -0.11 | 0.01 | 0.19* | -0.02 | -0.07 | -0.09 | 0.10 | 0.11 |
| pclogodds | 6 | 0.90*** | 1.00*** | 0.68*** | 0.96*** | 0.90*** | | 0.44*** | 0.05 | 0.11 | -0.03 | 0.08 | 0.01 | 0.31*** | -0.11 | -0.14 | -0.45*** | -0.18* | 0.58*** | -0.25*** | 0.00 | 0.22** | 0.05 | -0.03 | -0.10 | 0.04 | 0.12 |
| lnturnover | 7 | 0.49*** | 0.46*** | 0.45*** | 0.42*** | 0.52*** | 0.47*** | | 0.34*** | -0.12 | 0.00 | -0.44*** | 0.28*** | 0.41*** | 0.06 | 0.23** | -0.22** | -0.12 | 0.32*** | -0.14 | -0.33*** | 0.10 | 0.25*** | -0.17* | 0.33** | -0.18* | 0.05 |
| Efficient | 8 | -0.14 | -0.10 | -0.18* | -0.11 | -0.13 | -0.09 | 0.30*** | | -0.48*** | 0.03 | -0.15 | 0.29 | 0.24 | 0.10 | 0.05 | 0.11 | 0.03 | -0.13 | -0.21** | 0.07 | -0.15 | 0.14 | -0.22** | 0.47*** | -0.18* | -0.20** |
| Multi_Const | 9 | 0.01 | -0.06 | 0.05 | -0.09 | 0.00 | -0.06 | -0.15 | -0.28*** | | -0.01 | -0.11 | 0.11 | -0.03 | -0.09 | 0.08 | -0.06 | -0.13 | 0.18 | 0.22** | -0.16 | 0.06 | 0.19* | 0.18* | -0.42*** | -0.04 | -0.02 |
| FreeCash | 10 | -0.13 | -0.08 | -0.17* | -0.07 | -0.19* | -0.10 | -0.22** | 0.01 | -0.03 | | -0.02 | -0.16 | 0.01 | -0.16 | 0.03 | -0.14 | 0.15 | -0.04 | 0.02 | 0.01 | -0.03 | 0.04 | -0.11 | 0.01 | -0.04 | 0.12 |
| BoardHolding | 11 | 0.12 | 0.06 | 0.27** | 0.07 | 0.10 | 0.04 | -0.38*** | -0.11 | -0.13 | 0.19* | | -0.40*** | -0.33*** | 0.06 | -0.39*** | -0.17* | -0.14 | 0.30*** | 0.22** | 0.35*** | 0.08 | -0.33*** | -0.10 | -0.26** | 0.32*** | 0.01 |
| Subsidiary | 12 | -0.04 | 0.00 | -0.07 | -0.01 | -0.06 | 0.00 | 0.27*** | 0.29*** | 0.00 | -0.03 | -0.23** | | 0.18* | 0.02 | 0.37*** | 0.07 | 0.02 | -0.09 | -0.16 | -0.27** | -0.13 | 0.10 | 0.23** | 0.08 | 0.14 | -0.15 |
| BigAuditor | 13 | 0.24** | 0.30*** | 0.13 | 0.25** | 0.24** | 0.29*** | 0.43*** | 0.19* | 0.03 | -0.13 | -0.23** | 0.18* | | 0.17* | 0.02 | -0.11 | 0.10 | -0.01 | -0.33** | -0.33*** | 0.12 | 0.18* | -0.01 | 0.09 | 0.09 | 0.14 |
| transreturn | 14 | -0.16 | -0.12 | -0.14 | -0.09 | -0.16 | -0.12 | 0.14 | 0.11 | -0.0003 | -0.13 | -0.17 | 0.03 | 0.19* | | -0.05 | 0.03 | 0.12 | -0.15 | 0.09 | -0.14 | 0.08 | 0.11 | -0.19** | -0.02 | 0.11 | 0.02 |
| NonNattoBrd | 15 | -0.16 | -0.11 | -0.19* | -0.11 | -0.16 | -0.10 | 0.23** | 0.10 | -0.06 | 0.08 | -0.32*** | 0.37*** | 0.02 | -0.08 | | 0.04 | 0.15 | -0.18 | 0.16 | -0.21** | -0.23** | 0.25** | -0.09 | 0.03 | -0.09 | 0.04 |
| weakregime | 16 | -0.47*** | -0.45*** | -0.44*** | -0.44*** | -0.47*** | -0.45*** | -0.22*** | 0.11 | -0.06 | -0.14 | -0.17* | 0.07 | -0.11 | 0.03 | 0.04 | | -0.47*** | -0.39*** | -0.04 | -0.03 | 0.01 | 0.01 | 0.17* | 0.07 | -0.16 | -0.13 |
| semistrongreg | 17 | -0.32*** | -0.18* | -0.41*** | -0.20** | -0.32** | -0.18* | -0.12 | 0.03 | -0.13 | 0.15 | -0.14 | 0.02 | 0.10 | 0.12 | 0.15 | -0.47*** | | -0.62*** | -0.05 | -0.08 | -0.07 | 0.02 | -0.03 | 0.08 | 0.04 | 0.08 |
| strongregime | 18 | 0.75*** | 0.58*** | 0.82*** | 0.61*** | 0.75*** | 0.58*** | 0.32*** | -0.13 | 0.18* | -0.04 | 0.30*** | -0.09 | -0.01 | -0.15 | -0.18* | -0.39*** | -0.62*** | | 0.09 | 0.11 | 0.07 | -0.02 | -0.12 | -0.15 | 0.10 | 0.03 |
| Agric | 19 | -0.12 | -0.24 | -0.0009 | -0.24** | -0.12 | -0.23** | -0.12 | -0.14 | 0.12 | 0.004 | 0.06 | -0.16 | -0.33*** | 0.06 | 0.16 | -0.04 | 0.09 | -0.05 | | -0.11 | -0.05 | -0.18* | -0.11 | -0.10 | -0.07 | -0.06 |
| Services | 20 | 0.002 | -0.01 | 0.07 | 0.04 | -0.01 | -0.01 | -0.32*** | 0.01 | -0.13 | 0.22** | 0.35*** | -0.27** | -0.33*** | -0.14 | -0.21** | -0.03 | 0.11 | -0.08 | -0.11 | | -0.09 | -0.30*** | -0.18* | -0.16 | -0.12 | -0.10 |
| Conglomerat | 21 | 0.19* | 0.21** | 0.15 | 0.19* | 0.18* | 0.20** | 0.09 | -0.14 | 0.09 | -0.01 | -0.01 | -0.13 | 0.12 | 0.12 | -0.23** | 0.01 | 0.07 | -0.07 | -0.05 | -0.09 | | -0.15 | -0.09 | -0.08 | -0.06 | -0.05 |
| Consumergds | 22 | -0.02 | 0.04 | -0.04 | 0.07 | 0.00 | 0.04 | 0.23** | 0.00006 | 0.18* | -0.02 | -0.32*** | 0.10 | 0.18* | 0.12 | 0.25** | 0.01 | -0.02 | 0.02 | -0.18* | -0.30*** | -0.15 | | -0.30*** | -0.28** | -0.21** | -0.16 |
| Industrialgoo | 23 | -0.06 | -0.03 | -0.10 | -0.04 | -0.07 | -0.03 | -0.16 | -0.19** | 0.07 | -0.03 | -0.05 | 0.23** | -0.01 | -0.18* | -0.08 | 0.17* | -0.12 | -0.03 | -0.11 | -0.18* | -0.09 | -0.30*** | | -0.16 | -0.12 | -0.10 |
| GasandOil | 24 | -0.08 | -0.09 | -0.12 | -0.13 | -0.05 | -0.08 | 0.32*** | 0.62*** | -0.23*** | -0.17 | -0.13 | 0.08 | 0.09 | -0.02 | 0.03 | 0.07 | -0.15 | 0.08 | -0.10 | -0.16 | -0.08 | -0.28** | -0.16 | | -0.11 | -0.09 |
| Healthcare | 25 | 0.09 | 0.06 | 0.10 | 0.03 | 0.07 | 0.05 | -0.17 | -0.17* | -0.07 | -0.02 | 0.35* | 0.14 | 0.09 | 0.09 | -0.09 | -0.16 | 0.10 | 0.04 | -0.07 | -0.12 | -0.06 | -0.21** | -0.12 | -0.11 | | -0.07 |
| Construction | 26 | 0.11 | 0.11 | 0.07 | 0.11 | 0.10 | 0.11 | 0.06 | -0.18* | -0.03 | 0.02 | -0.08 | -0.15 | 0.14 | 0.01 | 0.04 | -0.13 | 0.03 | 0.08 | -0.06 | -0.10 | -0.05 | -0.16 | -0.10 | -0.09 | -0.07 | |

Notes: The bottom left of the table contains Pearson's correlation coefficients, whereas the upper right half of the table shows Spearman's correlation coefficents. ***, ** and * indicate that correlation is significant at the 1%, 5% and 10% level respectively. Variables are defined as follows: Computed index based on Cooke's method ( Cooke_Index), Computed index adjusted for non-applicable items (PC_index), Index based on information to be disclosed in financial statements (Accindex), index based on property plant and equipment and earnings per share (othersindex), odds of the logarithm of Cooke index (Cookelogodds), odds of the logarithm of Partial index (pclogodds), logarithm of turnover (lnturnover), sales per employee ( Efficient), ratio of interest, dividends and taxes to turnover (Multi_Const), standard deviation of daily return on market share price (transreturn). Free cash, proportion of board shareholding (BoardHolding), proportion of non-Nigerian ationals on board (NonNattoBrd).

Table 17 suggests a statistical significant link between the level of mandatory disclosure and the explanatory variables. Turnover, big four audit firms, strong regulatory regimes are significant and positively related to the level of mandatory disclosure, while standard deviation of daily return on market share price is significantly and negatively associated with the level of mandatory disclosure. However, the results suggest no significant link between the level of mandatory disclosure and the proportion of interest, dividend and taxes to turnover, free cash, board shareholding and proportion of non-Nigerian nationals on the board of sample firms.

### 7.3.2. Multivariate analysis

Table 18 presents the results of multivariate analysis. The table shows the results for the OLS regression, the 'M' and the 'MM' robust regression estimates. As discussed in section 6.4.1 of chapter six of this thesis, the 'M' robust regression adjusts for the presence of outliers in the dependent variables while the 'MM' robust regression adjusts for outliers in both the dependent and independent variables. The F value is significant at 1percent. This shows that the independent variables are significantly associated with the level of disclosure. The adjusted $R^2$ for the first panel shows that 69 percent of the Cooke index is predicted by the independent variables. Although not shown on the table, the results of the VIF show that there is no multi-collinearity problem among the independent variables. All the computed VIF are less than the maximum expected value of 10. The estimated Akaike information criterion (AICR) and the Bayesian information criterion (BICR) are lower in the MM estimates of robust regression than the M estimates of robust regression. This implies that the MM estimation technique is more efficient than the M estimation.  Based on the MM estimation technique, the R-squared shows that 64 percent of the Cooke index is predicted by the independent variables.

### *Table 18 Impacts of the dimensions of the Oliver (1991) framework on the level of mandatory disclosure*

PANEL A: Dependent variable using Cooke index

| | | Int. | Turn | Effcy | TaxIntD | Free Cash | board hold | Sub | semireg | strong reg | big4 | stdret | prop non nat | F val | Rsq | AdjRsq |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OLS | est | 39.91*** | 2.69*** | -9.28** | -5.37 | -0.01 | -0.05 | -0.60 | 7.62*** | 27.13*** | 5.50** | -2.05** | -0.10** | 20.72*** | 0.722 | 0.687 |
| | se | (7.31) | (0.85) | (4.29) | (8.33) | (0.03) | (0.61) | (2.27) | (2.52) | (3.47) | (2.41) | (0.83) | (0.05) | | | |
| M Rob | est | 39.75*** | 2.75*** | -10.08** | -5.60 | -0.02 | 0.13 | 1.07 | 10.12*** | 28.61*** | 4.80** | -2.08*** | -0.12*** | | 0.648 | |
| | se | (7.11) | (0.83) | (4.16) | (8.10) | (0.03) | (0.60) | (2.21) | (2.45) | (3.38) | (2.34) | (0.80) | (0.05) | | | |
| MM Rob | est | 39.59*** | 2.76*** | -10.08** | -5.55 | -0.02 | 0.15 | 1.28 | 10.49*** | 28.88*** | 4.61** | -2.11*** | -0.13*** | | 0.640 | |
| | se | (7.13) | (0.83) | (4.10) | (7.85) | (0.03) | (0.60) | (2.22) | (2.53) | (3.39) | (2.31) | (0.81) | (0.05) | | | |

PANEL B: Dependent variable using log odds of Cooke index

| | | Int. | Turn | Effcy | TaxIntD | Free Cash | board hold | Sub | semireg | strong reg | big4 | stdret | prop non nat | F val | Rsq | AdjRsq |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OLS | est | -0.63* | 0.15*** | -0.44** | -0.17 | -0.002 | 0.007 | -0.08 | 0.31*** | 1.18*** | 0.24** | -0.11*** | -0.005** | 21.75*** | 0.731 | 0.70 |
| | se | (0.34) | (0.04) | (0.20) | (0.39) | (0.001) | (0.03) | (0.11) | (0.12) | (0.16) | (0.11) | (0.04) | (0.002) | | | |
| M Rob | est | -0.33 | 0.11*** | -0.48*** | -0.23 | 0.0005 | 0.003 | 0.05 | 0.40*** | 1.28*** | 0.23** | -0.08** | -0.005** | | 0.612 | |
| | se | (0.31) | (0.04) | (0.18) | (0.36) | (0.001) | (0.03) | (0.10) | (0.11) | (0.15) | (0.10) | (0.04) | (0.002) | | | |
| MM Rob | est | -0.47 | 0.11*** | -0.40** | -0.20 | -0.007*** | 0.005 | 0.03 | 0.40*** | 1.27*** | 0.26** | -0.09** | -0.005** | | 0.613 | |
| | se | (0.32) | (0.04) | (0.19) | (0.35) | (0.002) | (0.03) | (0.10) | (0.11) | (0.15) | (0.10) | (0.04) | (0.002) | | | |

PANEL C: Dependent variable using partial compliance index

| | | Int. | Turn | Effcy | TaxIntD | Free Cash | board hold | Sub | semireg | strong reg | big4 | stdret | prop non nat | F val | Rsq | AdjRsq |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OLS | est | 37.36*** | 2.87*** | -11.09** | -10.31 | 0.001 | 0.27 | 0.57 | 8.82*** | 18.77*** | 6.41** | -1.79* | -0.09* | 8.62*** | 0.519 | 0.458 |
| | se | (8.54) | (0.99) | (5.00) | (9.73) | (0.04) | (0.72) | (2.66) | (2.94) | (4.05) | (2.81) | (0.96) | (0.06) | | | |
| M Rob | est | 36.34*** | 2.95*** | -11.64*** | -9.98 | -0.003 | 0.46 | 0.91 | 11.21*** | 19.30*** | 6.34** | -1.50* | -0.12** | | 0.493 | |
| | se | (7.79) | (0.91) | (4.56) | (8.88) | (0.03) | (0.66) | (2.43) | (2.69) | (3.70) | (2.57) | (0.88) | (0.05) | | | |
| MM Rob | est | 35.31*** | 3.08*** | -11.80*** | -10.01 | -0.005 | 0.47 | 1.20 | 12.13*** | 19.69*** | 5.79** | -1.48* | -0.12** | | 0.474 | |
| | se | (7.75) | (0.91) | (4.56) | (8.72) | (0.03) | (0.66) | (2.49) | (2.79) | (3.69) | (2.55) | (0.87) | (0.05) | | | |

Note: Total sample consists of 100 non-financial Nigerian firms. The determinants of the computed Cooke index were estimated by regressing the index on corporate characteristics. Corporate characteristics were selected based on the Oliver (1991) framework. The following correspond to each dimension of the Oliver framework. Turnover (turn) for legitimacy, sales per employees (effcy) for economic efficiency. Taxes, interest and dividend paid for multiplicity, proportion of board holding for consistency with firm's goal, subsidiary dummy for discretionary constraint, semi strong and strong regimes for legal coercion, big 4 audit firms for voluntary diffusion, standard deviation of daily return on market share price for uncertainty and proportion of non-Nigerian nationals on board for interconnectedness. Significant levels are indicated as follows: ***1%, **5%, *10%, standard errors in parentheses.

Based on the regression results in table 18, this study accepts the following hypotheses

**$H_1$:** *There is a significant positive relationship between organisation size and the level of mandatory disclosure in annual reports of Nigerian listed companies*

**$H_2$:** *There is a significant negative association between efficiency and the level of mandatory disclosure in annual reports of Nigerian listed companies*

**$H_4$:** *There is a significant negative association between free cash and the level of mandatory disclosure in annual reports of Nigerian listed companies*

**$H_7$:** *Mandatory disclosure is higher in a period of strong regulatory regimes relative to weak regulatory regimes*

**$H_8$:** *There is a significant positive association between the level of mandatory disclosure and having been audit by one of the big four audit firms*

**$H_9$:** *There is a significant positive association between the level of mandatory disclosure and standard deviation in return on market share price of Nigerian listed companies*

**$H_{10}$:** *There is a significant negative association between the proportion of non-Nigerian board members and the level of disclosure in annual reports of Nigerian listed companies*

The significant variables in the OLS regression models are also significant in both the M and MM estimates of robust regressions. However, the ‘M’ and ‘MM’ show a lower probability values for turnover, the standard deviation of daily return on market share price and the proportion of board members who are non-Nigerian nationals. On the other hand, the OLS model shows a stronger significant level for the big four audit firms.

The directions of the coefficients of the model variables are consistent with the propositions of the hypotheses. For example, size is proposed to have a positive association with the level of mandatory disclosure, and the results show a positive coefficient. This demonstrates the robustness of the regression estimates. By focusing on the size of the coefficients in Table 18, strong regulatory regime has the highest positive significant coefficient. This implies that the level of disclosure increased significantly during strong regulatory regimes. Although this finding is not surprising, the results give some level of confidence in the validity of the instruments used for this study. Similarly, companies audited by one of the big four firms have a high positive coefficients.  This result suggests that the big four audit firms are powerful carriers of institutional norms.

Panel B in table 18 shows that the results for log-transformed levels of disclosure are similar to the untransformed levels of disclosure in Panel A. However, both the F ratio and the adjusted $R^2$ for the log transformed Cooke index are higher at 22.2 and 73.5 percent respectively than for the untransformed index. In addition, the free cash variable is significant on the MM robust regression. By focusing on the coefficients, strong regulatory regimes have the highest positive significant coefficient of 1.10. This suggests that a one-year increase in strong regulatory regimes makes companies 1.1 times more likely to increase disclosure compliance relative to weak regulatory regimes. Size has a coefficient of 0.16, which suggests that with one million Naira increase in sales, companies are more likely to increase the level of disclosure 0.16 times. On the other hand, the negative coefficient of 0.42 for efficiency implies that companies seeking to increase efficiency are 0.42 times more likely to reduce the level of disclosure. Furthermore, the results for the Partial Compliance index in Panel C of table 18 shows that both the F ratio the adjusted $R^2$ estimates of 8.58 and 51.8 percent respectively are lower than the estimate for the Cooke index in Panel B. This indicates that the predictor variables have a stronger impact on the overall level of disclosure.

## 7.4. Discussion of results on the impact of institutions on mandatory disclosure

The Oliver's (1991) model of institutional theory is used to provide an explanatory framework for the research question: what factors can explain organisation disclosure compliance? The findings in this thesis have several implications, which are articulated in the discussions in this section. This articulation enables this study to appreciate and to be able to put in proper perspective the need for a concerted effort by all stakeholders to address the identified implications and to overcome emerging challenges.

### 7.4.1. Impact of legitimacy

Oliver (1991) argues that an organisation's need for legitimacy is one of the causes of institutional pressure. This thesis uses revenue as a proxy for legitimacy beacuse it indicates the economic significance or importance of an organisation in its environment. Although other proxies such as total assets, number of employees or number of shareholders could ha ve been used, these are deemed inappropriate in the context of this study. For example, measure such as net value of assets may have a less precise valuation.

The result shows a significant positive relationship between revenue and disclosure, this is consistent with other studies that used the Oliver model or other institutional theory models. For example, in the study of employer adoption of childcare services in The Washington State Employment Security Department, Goodstein (1994) proxied legitimacy by organisational size and found a significant positive relationship between adoption of childcare services and size. Similarly, in the study of the choice of accounting standards in Sweden Municipal Corporations, Collin *et al.* (2009) use size as a proxy for legitimacy and find a significant positive relationship between choice of accounting standards and a Municipal Corporation's size.

The significant positive relationship between revenue (proxy for legitimacy) and disclosure suggests that as organisations penetrate the markets they serve as implied by increased revenue, they “communicate honestly” (Suchman, 1995, p. 600) in order to maintain a pragmatic legitimacy within their exchange networks. This increased information disclosure enhances the reputation of the organisation, and investors in turn will be more likely to trust their investments to the company because the increased communication helps in risk assessment (Swanda, 1990; Chauvin and Hirschey, 1994). The legitimacy resulting from honest communication also enhanced the organisation’s competitive advantage (Deephouse and Carter, 2005; Deephouse, 2000), this enables the organisation to maximise shareholder returns.

In addition, as a firm’s size increases, it becomes visible to the institutional community, which places the organisation under intense pressure to maintain legitimacy (Suchman, 1995). The visibility of the organisation to the institutional community makes it feel a normative pressure to increase disclosure, which helps the institutional community evaluate the organisation’s activities. However, an organisations might be willing to comply with institutional pressures when institutional and technical factors (cost and benefits) converge, that is to say, when institutional pressures are strong and disclosure would benefit the organisation, it would lead to an increased disclosure (Goodstein, 1994).

### 7.4.2. Impact of efficiency

The study shows a significant negative relationship between organisation efficiency and disclosure compliance. Consistent with Watson *et al.* (2002) efficiency is measured as sales per employee. Suchman (1995, p.600) argues that to maintain legitimacy, corporate organisations seek to “protect accomplishments”. The negative relationship between efficiency and the level of disclosure suggests that to cope with competitive pressure from the product market, a firm rationalised its labour force, that is, reduced the number of employees (Greenwood *et al.* 2009). Although the rationalisation helps the firm improved on sales per employee, there would be pressure from labour unions and government who would want an increase in the level of unemployment. As a strategy to minimise these pressures, the companies reduced the level of information disclosure in order not to provide information that would be used by labour unions to increase their pressure on the organisation.

Furthermore, when firms rationalised their employees size, investors might increase the risk profile of the company (Miles and Covin, 2000) because of perceived potential going-concern, operational or strategic risks. In response, the company reduced the level of information disclosure as a strategy to mitigate these perceived risks. In addition, firms might lose experienced and skilled staff when it rationalised, consequently, productivity and quality of work such as disclosure was affected negatively.

The foregoing discussion suggests that when a divergence exists between institutional and technical requirements, organisations try to avoid institutional requirements. Such avoidance strategies include concealment, (that is disguising non-conformity) and buffering (that is, loosening institutional attachments) (Oliver, 1991). The results indicate a reduced commitment to institutional requirements. Furthermore, it indicates that the organisation loosened its attachments to the institutional goal of increased employment as it downsized its labour force in response to intense market competition.

### 7.4.3. Impact of legal coercion

This study uses a dummy variable to proxy legal coercion behind institutional pressures. The coefficients of the dummy variables in table 18 show that the level of disclosure during the strong regulatory regime has the highest impact on the level of disclosure. This result suggests increased enforcement action is essential for improved disclosure in emerging capital markets (Jaggi, 1975; Shaffer, 1995). The result also suggests that enforcement actions in Nigeria have been effective over time. This result is consistent with Abdelsalam and Weetman (2007) who studied changes in accounting disclosures in Egypt in periods before and after the government privatisation programme and found that compliance with established regulations improved over the period.

The result indicates that potential costs of non-compliance due to SEC’s frequent inspections (Dimento, 1989) of financial statements might have contributed to the increased level of disclosure. The results also suggest that the overall stringency of regulatory regimes has influenced companies’ expectations on regulator’s potential detection of violations, which lead to increased compliance (Epple and Visscher, 1984; Cohen, 1987; Cohen, 2000).

In addition, the increased level of disclosure suggests that corporate managers and accountants have become more familiar with the disclosure requirements over time, and there is an increased incentive for corporate managers to increase disclosure. Some of these incentives include the need to raise equity capital on the Nigerian Stock Exchange and the desire to win the Nigerian Stock Exchange annual corporate award.

2012 was the first year of IFRS adoption in Nigeria and it corresponds to the strong regulatory regime in this study. The increased level of disclosure during this period suggests that corporate managers have demonstrated their commitments to international best practice in financial reporting, and to transparent financial reporting (Leuz and Wysocki, 2006), without which, they would have voluntarily delisted their securities from the Nigerian Stock Exchange (Leuz, Triantis and Wong, 2006).

### 7.4.4. Impact of voluntary diffussion

The big four audit firms were use as a proxy for voluntary diffusion of institutional pressure for disclosure. The result shows a significant positive impact of voluntary diffusion on corporate disclosure compliance. This result is consistent with Goodstein (1994) who finds a significant positive relationship between voluntary diffusion and organisation adoption of childcare services.

Suchman (1995, p.600) argues that corporate organisations will "stockpile trust" as a strategy to maintain pragmatic legitimacy. The result suggests that an organisation's proximity to the big four-audit firm enhaced its external legitimacy, the organisation adopts policies or structures that enables it to increase the level of disclosure (Galaskiewicz, 1991). Furthermore, the expertise of these big audit firms and their commitment to institutional requirements impacted their clients' level of disclosure, this is due to the ability of the big four to discover shortcomings in their clients' accounting systems (DeAngelo, 1981).

In addition, the results suggest that auditors vary their preferences towards what their clients should disclose; large audit firms are more inclined to adhere to statutory and regulatory rules (Wright, 1983). One reason for this result is the large auditor's exposure to legal liability which influences their commitment to "police operations" (Suchman, 1995, p.160) of their clients. This policing of their clients have contributed to the increased level of disclosure by firms audited by them.

However, investors must evaluate the disclosure level of the client portfolio of these big four audit firms. If for example, all organisations audited by the big four audit have a high level of disclosure, investors might conclude that the big four facilitates an increased level of disclosure, probably due to their expertise, international exposure, resources and commitment to ensure their clients are transparent. However, if there were inconsistencies in the level of disclosure, it would be difficult to conclude that the big four have a significant impact.

Furthermore, an attempt to evaluate the level of disclosure by the clients of the big four audit would result in an additional cost of investment decisions. In addition, the big four may have a policy to accept audit assignments from firms that are committed to increased disclosure. In which case, investors' efforts to compare the disclosure level of the client portfolio of the big four would not have an incremental benefit.

Another issue that merits the attention of both investors and regulators is the auditors' ability to maintain a professional and independent stance towards clients, which is important to guarantee the auditors' ability to pressure its clients to increase disclosure. If the auditor colludes with its clients to obtain advantage (Bazerman *et al.* 1997), auditing of an annual report becomes a ritual that is designed to afford a sense of comfort that at least the firm has been audited, rather than facilitating increased disclosure (Tagesson and Erikson, 2011; Power, 2003; Carrrington and Catasus, 2007).

The foregoing discussions suggests that the institutional settings in which both corporate organisations and the auditor operates are important to guarantee voluntary diffusion of institutional requirements. Nigeria institutional environment for financial reporting has improved in the most recent periods; auditors could be questioned for any perceived irregularities in their client's financial statements. This improved institutional environment has facilitated auditors' willingness to put normative pressures on their clients that have in turn led to the increased disclosure (Power, 2003).

Based on the result, the Financial Reporting Council of Nigeria (FRC), SEC, NSE, CAC and the professional accounting bodies such as ICAN, should facilitate a process where the big four review the audit working papers of the smaller audit firms. In addition, when financial year-ends are concentrated in one month of the year such as December, the smaller auditors might not have adequate resources to cope with client audit demands even though they may have the relevant professional competency. Therefore, regulators could facilitate the spread of corporate financial year-end across the months of the year. This would both enhance the ability of the smaller auditors to cope with the audit demands of their clients and facilitate fair competition in the audit market in Nigeria.

The results in this study suggests the need to examine the audit opinions for a closer investigation of the differences in reporting styles of both the big four and smaller audit firms. One should expect that the smaller audit firms should qualify their audit opinions in their client's financial statement, as the low disclosure suggests inadequate audit evidence.

### 7.4.5. Impact of uncertainty

The standard deviation of daily return on market share price over the company's financial year is used as a proxy for uncertainty in the Oliver (1991) model. The result show that the level of disclosure is significantly and negatively influenced by standard deviation of daily return on market share price. This is consistent with Guerreiro *et al.* (2012) who measured uncertainty on a five-point likert scale and found a significant negative association between voluntary IFRS adoption and environmental uncertainty in Portugal. The result is also consistent with Land and Lundholm (1993) who found a significant negative relationship between standard deviation of stock returns and disclosure. The result supports Oliver's (1991) argument that the higher the level of uncertainty in the organisation's environment, the lower the level of organisational acquiescence to institutional pressures.

The negative significant coefficient implies that when corporate organisations are uncertain about the effect of information disclosure on market share prices, corporate managers will withhold information. Therefore, that there is the need for consensus among corporate managers, regulators, investors and stock market participants on information that is relevant for their decision-making. However, it might be difficult to reach a consensus on such optimal disclosure level (Burchell *et al.* 1980).

Furthermore, due to potential litigation for misinforming the heterogeneous users of the corporate financial reports, corporate managers have reduced the level of disclosure (Alexander, 1991). In addition, the high concentration of share ownership of Nigerian corporate entities might have affected negatively on free float and market liquidity. Since dominant shareholders are interested in capital appreciation rather than gains from daily stock trading, an increased disclosure might not lead to appropriate adjustments to market share price.

Furthermore, the significant negative coefficient suggests that there is no news in the information disclosed by corporate managers. Investors and analysts might have accessed the information and made appropriate adjustments to the market price prior to disclosure in annual reports. This situation suggests a serious problem of insider trading and abuse, which needs to be addressed by market regulators. Additionally, the negative association might be due to an inefficient capital market, that is, the market does not efficiently adjust for information disclosure on corporate market share prices.

Furthermore, the negative association also suggests that, high transaction costs could have impeded market response to information disclosure. When transaction costs are high relative to the expected returns, there might not be adequate market transactions in response to increased information disclosure. In this case, the capital market regulators need to ensure that the costs to execute trading orders do not prohibit market participants from taking advantage of information disclosure and from making appropriate adjustments to market share prices.

Furthermore, in instances when capital market regulators put a corporate equity on technical suspension for a long period for several reasons such as a proposed merger and acquisition or equity offer for sale, information disclosure is not adjust on share price due to inactivity of the company’s equity. When a number of stocks are placed on technical suspension, it would lead to the observed negative relationship between the level of disclosure and standard deviation of stock returns. Additionally, lack of market depth in Nigeria, where very few firms are the major drivers of transactions on the NSE could have resulted in the negative relationship between the level of disclosure and standard deviation of return on daily stock prices.

However, market sentiments and herding behaviour, which are neither quantifiable nor included in this study, could have been a significant driver of market share reactions. Despite this observation, the results suggest that uncertainty in investors' responses to information disclosure provides an incentive to corporate organisations to withhold information.

### 7.4.6. Impact of interconnectedness

The proportion of non-Nigerian nationals on the board is used to proxy interconnectedness of the organisation to its institutional environment. The result shows a significant negative relationship between the proportion of non-Nigerian nationals on the board and corporate disclosure compliance. This result is inconsistent with Guerreiro *et al.* (2012) who find a positive association between voluntary adoption of IFRS and interconnectedness. Similarly, Goodstein (1994) measured the degree of interconnectedness in the institutional environment as the number of business, professional and labour unions, and membership organisations in a particular country. He found a weak positive association between environmental interconnectedness and organisation adoption of work family care by the US public sector.

Furthermore, Kraatz and Moore (2002) studied the adoption of professional programmes such as Computer Science courses by American liberal arts colleges during the 1970s and 1980s, when these colleges were led by presidents who had recently migrated either from colleges that had professional programmes or from lower-status colleges. Kraatz and Moore (2002) found a negative association and interpreted their results to imply that migration will only prove to be influential when other forces tend to favour change, and they therefore express scepticism about the overall importance of executive migration.

Suchman (1995, p.160) argues that corporate organisations would "co-opt constituents" as a strategy to gain pragmatic legitimacy. The negative association between the level of disclosure and the proportion of non-Nigerian nationals on boards suggests that the co-opted members of the international community to the board of corporate organisations in Nigeria do not lead to an increased disclosure. The result suggest that these coopted members of the institutional community have their self interst to protect, for example, they might want to avoid taxation, circumvent exchange controls and avoid other political costs (Kobrin, 1978), therefore, they used their position to hide or avoid disclosing adequate information about the company on which they are board members.

Furthermore, the negative relationship between the proportion of non-Nigerian nationals on the board and disclosure could be due to a lack of familiarity with the requirements of Nigerian national accounting standards (World Bank ROSC, 2004). This lack of familiarity may have resulted from the complexity of accounting standards disclosure requirements. In addition, the tenure of these non-Nigerian nationals on the board could be a limiting factor. If these non-nationals have not spent adequate time on the board, they might not be familiar with the company routines and financial reporting systems. Therefore, internal antecedents would prevail on the financial reporting outcome (Gibbins *et al.*, 1990). Furthermore, non-Nigerians on the board might not implement a change in the culture of low level of disclosure.

The foregoing suggests that although the entry of outsiders may contribute to the diffusion of normative models (DiMaggio and Powell, 1983), the result in this study suggests that the ability of non-Nigerian board members are bound by organisation’s history, values, beliefs and interests within an organisation (Fligstein, 1991).

### 7.4.7. Impact of organisation dependence

The MM robust regression in panel B of table 13 shows a significant negative relationship between free cash and disclosure. Free cash is used to proxy the degree to which an organisation is dependent on a source of institutional pressure. The free cash indicates the number of years an organisation could finance its investment and growth strategies from internal operations without recourse to raising external funds. The results show a weak significant negative relationship between free cash and disclosure compliance. This result is consistent with Nagar *et al.* (2003) who found a negative association between a firm's issue of common shares exceeding 20 percent of market value and disclosure. However, the result is not consistent with Guerreiro *et al.* (2012) who finds a significant positive relationship between voluntary adoption of IFRS and organisational dependence measured by a dummy variable if a focal firm is a subsidiary of a multinational company.

The weak negative relationship between free cash and disclosure suggests that a more financially independent organisation can avoid or resist increasing disclosure. Therefore, Nigerian corporate managers who are able to finance their investment from internally generated funds, could continue to perpetuate themselves in office, and withhold information that enhance an effective assessment of these managers by capital market audiences. The inadequate information disclosure limits the ability of the capital and labour market to effectively monitor and discipline corporate managers (Shleifer and Vishny, 1989). Investors would suffer from adverse selection due to inadequate disclosure as they are not able to distinguish between failure to disclose and managers not having private information to disclose.

Several factors could cause corporate managers to want to depend on internal funds. First, ownership structure affects investors' demand for information disclosure. For example, when ownership is highly concentrated, the dominant owner might want to avoid dilution of control. Therefore, when the organisation is in need of additional investment funds, the dominant owner might provide the required funds from private sources. Although the company might be listed on the Stock Exchange, the listing could be solely for the purposes of enhancing the organisation's prestige and legitimacy but not for the purpose of raising capital on the stock market.

This result supports the resource dependence argument of institutional theory that the lower the degree of external dependence on pressuring constituents, the greater the likelihood of organisational resistance to institutional pressures (Oliver, 1991). In other words, if an organisation can afford to be independent of institutional constituents, it could strategically resist the pressure from such constituents.

### 7.5. Summary of results on institutional determinants of mandatory disclosure

This study could not reject seven of the ten Oliver's institutional antecedents, which are used as determinants of the level of mandatory disclosure in Nigeria. From a theoretical perspective, this study offers strong support for institutional theory, and is consistent with Collin *et al.* (2009, p.163) who found that institutional theory has been more successful than Positive Accounting Theory in predicting accounting choice. From an empirical perspective, this study offers new insight into determinants of organisation disclosure compliance.

The results suggest that volatility in stock returns signals pressure on corporate organisations to reduce information disclosure. Furthermore, due to the complexity in the operations of the capital market, corporate managers might not be in a position to predict the reaction of market participants to a disclosed piece of information. Therefore, higher return volatility might signal uncertainty to corporate managers and therefore motivate them to withhold information. However, a competing explanation is that of rational expectation hypothesis.

Another significant variable which is not commonly included in disclosure studies is the efficiency variable. This is measure by sales per employee (Watson *et al.*, 2002). The significant negative relationship between efficiency and disclosure in this study is consistent with Watson *et al.* (2002), and suggests that organisation who seeks to increase efficiency would reduce the level of disclosure. The policy implications of these results are discussed in chapter nine of this thesis. The next chapter presents the results on the determinants of intra-industry variation in mandatory disclosure.

# Chapter Eight

# Institutional determinants of intra-industry variation in mandatory disclosure

## 8.1. Introduction

Previous studies have paid attention to how organisational fields are structured by a "dominant logic" (Thornton and Ocasio, 2008), suggesting an isomorphic response to a dominant logic, but we know little about how and why organisations respond to multiple institutional logics (Greenwood *et al.*, 2009). This chapter presents and evaluates empirical evidence on the impact of market and nonmarket institutional logics on the level of disclosure by Nigerian listed companies.

While some institutional scholars argue that corporate organisations are confronted with multiple and conflicting logics (Reay and Hinnings, 2005; Hoffman, 1999), others argue that organisation's response to their institutional context is unlikely to be uniform (Greenwood *et al.*, 2009). Based on the latter argument, this chapter evaluated the determinants of intra-industry variation in the level of disclosure. The measure of this variation is similar to a proxy for strategic difference used in prior studies (Deephouse, 1999). This thesis uses the frequency of items of information disclosure in corporate annual reports to calculate differences in the level of disclosure, that is, the difference between industry-average levels of disclosure and the frequency of items disclosed by individual firms in the industry, scaled by the industry standard deviation of items disclosed. The measure indicates how well a company reveals financial information relative to its competitors in the same organisational field.

To predict why a company's level of disclosure is different to those of other competitors in the organisational field, this study uses the Greenwood *et al.* (2011) analytical framework to identify relevant institutional factors that can predict differences in the level of corporate disclosure in annual reports. These factors are emphasised to the extent that they can help an organisation gain or maintain legitimacy. Section two presents the descriptive statistics of the variables. Section three presents the multivariate analysis, and section four summarises and discusses the implications of the results. Section 6.4.2 in chapter six provides detailed explanation about the procedure for measuring the model variables.

## 8.2. Descriptive statistics

Figure 5 presents the frequency of items disclosed by sample firms on different accounting standards.

***Figure 5 Frequency of items disclosed by sample companies***

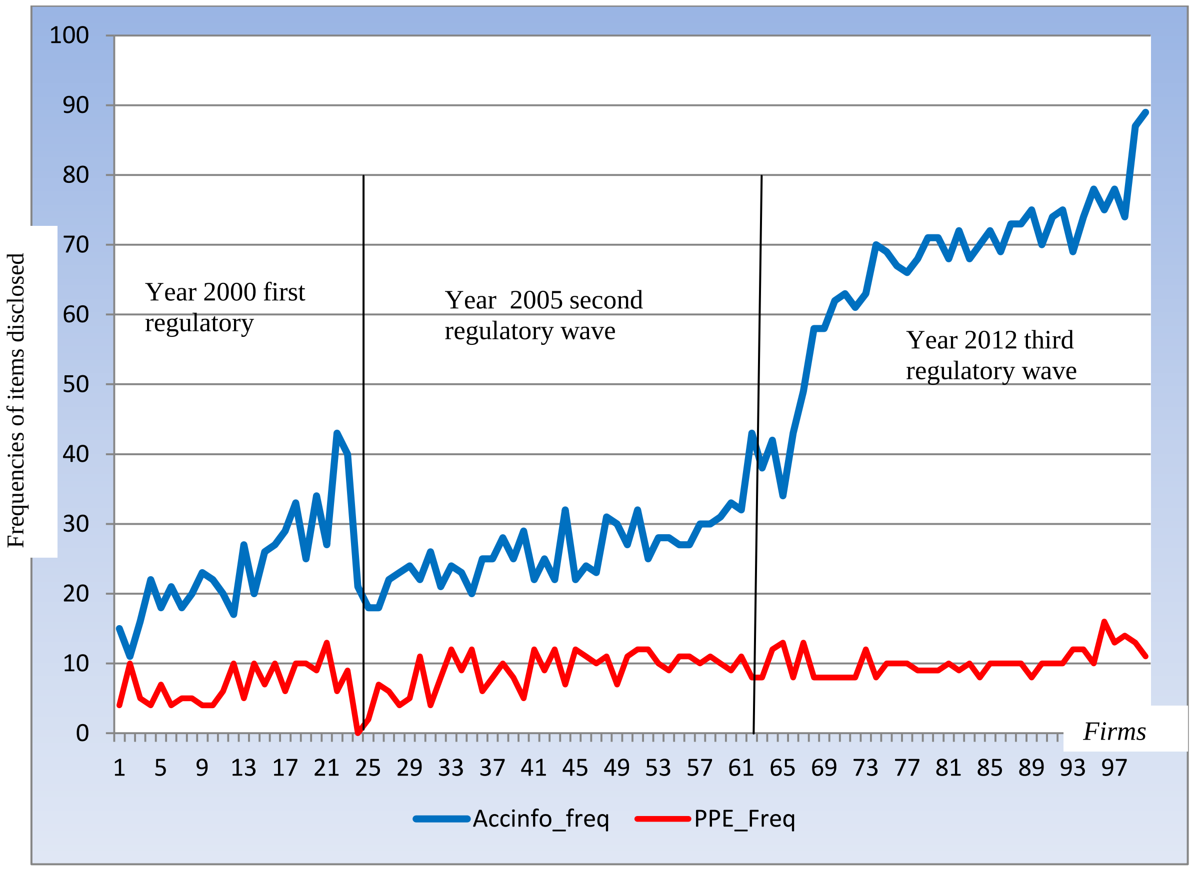



Figure 5 presents the frequency of items disclosed by the sample firms on each accounting standards during the periods covered in this study. This study checked 120 items in the annual financial reports of the sampled firms during the selected periods before and after the adoption of IFRS in Nigeria. As indicated in table 9, accounting standards on disclosure of accounting policy and information to be disclose in financial statement required 105 items for disclosure. Accounting standard on property plant and equipment requires 8 items for disclosure and accounting standards on earnings per share requires 7 items for disclosure.

Figure 5 shows that in 2000, the highest number of items disclosed for combined accounting standards on disclosure of accounting policy and information to be disclose in financial statement was around 40 items, while some of the companies disclosed just 15 items. In this same year, the highest number of items disclosed for combined accounting standard on property plant and equipment and accounting standards on earnings per share by one of the sampled firms was around 12 items while some of the sampled companies disclosed just 5 of these items. These results indicate a significant variation in the number of items disclosed by the sampled firms.

Furthermore, in 2005, figure 5 shows that one of the sampled companies disclosed 40 items, which was the highest for that year for combined accounting standards on disclosure of accounting policy and information to be disclose in financial statement, while some of the sampled companies disclosed about 20 items of the same set of accounting standards. On the other hand, most of the sampled companies disclosed about 10 items for combined accounting standard on property plant and equipment and accounting standards on earnings per share in 2005. Although the minimum number of items disclosed on all these accounting standards was higher in 2005 than in 2000, the highest disclosure remained at about the same level. This result suggests that the NASB Act 2003 might have contributed to the increase in the minimum level of items disclosed in corporate annual reports in 2005, but was not able to push the highest disclosure level beyond the 2000 level.

2012 was the first year of IFRS adoption in Nigeria. The level of disclosure was based on companies that used IFRS for financial reporting for the first time to prepare their financial reports for the financial year-end 2012/13. During the period, one of the sampled companies has the highest level of disclosure on presentation of financial statements. The company disclosed about 90 of the required items in its financial reports. However, one of the sampled companies has the lowest disclosure level for presentation of financial statements disclosing about 40 items on the accounting standard. In the same year, one of the sample companies with the highest disclosure level for combined property, plant and equipment and earnings per share disclosed 15 items, while the company with the least disclosed 10 items on both standards.

Figure 5 shows a significant increase in the number of items disclosed after IFRS adoption; however, there was a significant variation in the number of items disclosed by the sampled firms. This result is consistent with prior studies, which argue that IFRS adoption leads to more information transparency. However, the result shows that there were differences in the level of information disclosure despite IFRS adoption. The low level of disclosure by some of the sample companies is consistent with the argument that when new regulations are introduced, managers, accounting staff and auditors need time to actively engage in learning and applying the new rules (Abayo, Adams and Roberts, 1993). In addition, full implementation of the new regulation in practice may lag behind legal implementation (Rahman, Perera and Ganish, 2002), especially if financial or technical resources are not readily available. The result also suggests that Nigerian corporate managers should be encouraged to improve on the level of disclosure by providing relevant education and training that enhance familiarisation with accounting standard disclosure requirements. Although the Financial Reporting Council of Nigeria (FRC) has taken steps to provide such training through the FRC Academy, the FRC needs to create awareness about the activities of the FRC Academy and make it accessible to everyone involved in corporate financial reporting. Table 19 presents the descriptive statistics for the predictor variables, which are based on the Greenwood et al. framework.

***Table 19 Descriptive statistics for the dimensions of Greenwood et al. (2011) framework***

| | **Mean** | | | **Median** | | | **Standard Deviation** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2000** | **2005** | **2012** | **2000** | **2005** | **2012** | **2000** | **2005** | **2012** |
| **Variable** | **n = 23** | **n = 43** | **n = 34** | **n = 23** | **n = 43** | **n = 34** | **n = 23** | **n = 43** | **n = 34** |
| Cap_intensity | 0.85 | 0.88 | 0.92 | 0.85 | 0.90 | 0.95 | 0.08 | 0.11 | 0.07 |
| NonNatprop | 26.21 | 28.97 | 19.22 | 27.27 | 33.33 | 16.67 | 22.19 | 23.78 | 20.22 |
| BoardHoldPct | 5.01 | 5.87 | 13.89 | 0.24 | 0.81 | 5.06 | 12.32 | 11.96 | 17.57 |
| MVE | 9.02 | 27.02 | 138.96 | 2.83 | 5.66 | 15.31 | 13.82 | 50.53 | 377.15 |
| Age | 38.43 | 43.25 | 41.72 | 38.73 | 44.99 | 42.61 | 11.44 | 13.40 | 19.91 |
| DebtFin | 7.04 | 14.03 | 16.85 | 3.96 | 9.54 | 17.19 | 7.66 | 10.07 | 12.40 |
| AuditFees | 4.88 | 8.66 | 65.22 | 4.20 | 6.95 | 22.53 | 3.91 | 7.89 | 150.00 |

Note: Total sample consists of 100 non-financial Nigerian firms. The table shows determinants of intra-industry variation in disclosure. Corporate characteristics were selected based on the Greenwood *et al.* (2011) framework. The following correspond to each dimension of the framework. (Cap_intensity) represnts organisation structure. (NonNatprop) represents organisation governance. (BoardHoldPct) represents organisation ownership. Market value of equities (MVE) represents organisation position. Age, Debt Finance (DebtFin) and Audit Fees (AuditFees) are proxies for organisation identities.

Table 19 shows the descriptive statistics for the predictors of intra-industry variation in the level of disclosure. The average market capitalisation of equity measured by market value of equity (MVE) increased significantly over the sampled periods. The average market value for the sample firms increased from 9 billion Naira in 2000 to 138.9 billion Naira in 2012. The increase in seasoned equity and initial public offering in the immediate period preceding the global financial crisis in Nigeria, and the increase in sample size, contributed to the observed increase in average market value of the sample firms over the sample periods. The median value of market value of equity was significantly lower than mean value, demonstrating that the market positions of the sample firms were significantly different to each other.

The proportion of total assets financed by long-term debt (measured by debt finance) doubled from 7 percent in 2000 to 14 percent in 2005; however, it increased marginally to 17 percent in

2012. The low proportion of debt finance in the capital structure suggests that Nigerian listed companies used more equity finance than debt finance. The implication of this low debt ratio is reduced pressure from debt holders for an increase in the level of disclosure. The standard deviation of debt finance remains relatively stable over the period, which suggests that the sample firms maintains relatively the same level of debt finance over time.

The average audit fees almost doubled from 5 million Naira in 2000 to 9 million Naira in 2005. The average audit fees increased significantly to 65 million Naira in 2012. With 2012 being the first year of IFRS adoption in Nigeria, the result suggests that the implementation of IFRS could have contributed to an increased scope of audit assignment, which resulted in an increase in audit fees. In addition to the variables shown in table 19, other dummy variables were included in the evaluation of the determinants of intra-industry variation in disclosure compliance. These variables are the dummy variables for industry classification and the dummy variables for the three regulatory regimes.

## 8.3. Multivariate analysis

Table 20 presents the results of the results of multivariate analyses on the determinants of intra-industry variation in disclosure level.

***Table 20 Impacts of the dimensions of Greenwood et al. (2011) framework on mandatory disclosure***

PANEL A Standardised value of frequencies based on overall items disclosed

| | Int | wkreg | semireg | strgreg | Capint | Turn | Agric | Serv | Congl | Cosgds | Indgds | GasOil | Health | Constr | NonNat | Brdhold | Age | DebtFin | audfees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Restric | -4.25*** | 0.59*** | 0.17 | -0.77*** | 1.95** | 0.06 | -0.95*** | 0.27 | 0.35 | -0.08 | 0.29 | -0.23 | 0.05 | 0.29 | -0.01 | 0.05 | 0.29 | 0.02** | 0.43*** |
| | | (1.33) | (0.17) | (0.12) | (0.19) | (0.98) | (0.10) | (0.33) | (0.23) | (0.42) | (0.18) | (0.22) | (0.27) | (0.29) | (0.34) | (0.004) | (0.05) | (0.20) | (0.01) |
| | (0.13) | | | | | | | | | | | | | | | | | | |
| LSDV | -4.60*** | | -0.42* | -1.36*** | 1.95** | 0.06 | | 1.22*** | 1.30** | 0.87** | 1.24*** | 0.72 | 1.00** | 1.24** | -0.01 | 0.05 | 0.29 | 0.02** | |
| | 0.43*** | | (1.31) | | (0.23) | (0.35) | (0.98) | (0.10) | | (0.41) | (0.61) | (0.41) | (0.43) | (0.48) | (0.46) | (0.50) | (0.004) | (0.05) | (0.20) |
| | (0.01) | (0.13) | | | | | | | | | | | | | | | | | |
| MM | -4.47*** | | -0.41* | -1.28*** | 1.71 | 0.05 | | 1.30*** | 1.34** | 0.91** | 1.26*** | 0.71 | 0.95** | 1.33** | -0.01 | 0.06 | 0.33 | 0.02** | 0.41*** |
| | | (1.42) | | (0.25) | (0.37) | (1.08) | (0.10) | | (0.44) | (0.65) | (0.44) | (0.46) | (0.52) | (0.48) | (0.54) | (0.004) | (0.06) | (0.21) | (0.01) |
| | (0.14) | | | | | | | | | | | | | | | | | | |

PANEL B Standardised value of frequencies excluding items on information to be disclose in financial statements

| | Int | wkreg | semireg | strgreg | Capint | Turn | Agric | Serv | Congl | Cosgds | Indgds | GasOil | Health | Constr | NonNat | Brdhold | Age | DebtFin | audfees |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Restric | -3.18** | 0.43** | 0.17 | -0.60*** | 0.61 | 0.05 | -1.22*** | 0.30 | 0.31 | 0.27 | 0.41* | -0.11 | -0.36 | 0.39 | -0.002 | 0.13** | 0.34 | 0.02* | 0.34** |
| | (1.42) | (0.19) | (0.13) | (0.20) | (1.04) | (0.10) | (0.36) | (0.24) | (0.45) | (0.19) | (0.23) | (0.29) | (0.31) | (0.36) | (0.005) | (0.06) | (0.21) | (0.01) | (0.14) |
| LSDV | -3.97*** | | -0.26 | -1.03*** | 0.61 | 0.05 | | 1.52*** | 1.53** | 1.49*** | 1.63*** | 1.11** | 0.86* | 1.61*** | -0.002 | 0.13** | 0.34 | 0.02* | 0.34** |
| | (1.40) | | (0.24) | (0.37) | (1.04) | (0.10) | | (0.44) | (0.65) | (0.44) | (0.46) | (0.51) | (0.49) | (0.54) | (0.005) | (0.06) | (0.21) | (0.01) | (0.14) |
| MM | -3.28** | | -0.05 | -0.97*** | 0.26 | 0.002 | | 1.38*** | 1.46** | 1.67*** | 1.40*** | 1.25*** | 0.75* | 1.64*** | -0.01 | 0.15*** | 0.33* | 0.02** | 0.37*** |
| | (1.33) | | (0.23) | (0.34) | (1.03) | (0.09) | | (0.40) | (0.58) | (0.40) | (0.42) | (0.47) | (0.44) | (0.48) | (0.004) | (0.05) | (0.19) | (0.01) | (0.13) |
| | PANEL A | | | | | | | | | PANEL B | | | | | | | | | |
| | **F Val.** | **R Sq** | **Adj. R Sq** | | | | | | **F Val.** | **R Sq** | **Adj. R Sq** | | | | | | | | |
| Rest | 4.83*** | 0.482 | 0.38 | | | | | | 3.32*** | 0.39 | 0.27 | | | | | | | | |

Note: Total sample consists of 100 non-financial Nigerian firms. The determinants of standardised cross-sectional variation in frequencies of items disclosed were estimated by regressing the standardised intra-industry variation in frequencies of items disclosed on corporate characteristics. Complexity of institutional environment is proxy by weak, semi-strong and strong regulatory regimes. Capital intensity (Capint) proxy for organisation structure. Turnover (Turn) proxy for organisation field position. Organisational field is proxy by industry classification. Eight industry dummies are agric, services, consumer goods, industrial goods, oil and gas, healthcare and construction. Non-Nigerian Nationals on boards (NonNat) proxy for organisation governance, board holding (Brdhold) proxy for organisation ownership, age, debt finance and audit fees (audfees) proxies for organisation identities. Selected significant levels are indicated as follows: ***1%, **5%, *10%, standard errors in parentheses.

Table 20 shows the results of the impacts of corporate attributes on intra-industry variation in the level of disclosure in the corporate annual reports of Nigerian listed companies. This study estimated three models, first, the standardised frequencies of total items disclosed in the annual reports, second, the standardised frequency of total items disclosed excluding the frequencies of IAS 1 items disclosed in annual reports and the respective SAS 1and SAS 2. Third, the standardised frequencies of items disclosed on SAS 3 and SAS 23, with the respective IFRS/IAS. Three regression models are estimated for each of these three standardised frequencies; these are regression models with restriction to dummies variables, the Least Squares Dummy Variable (LSDV) regression model and the MM robust regression.

This thesis accepts the F statistics of a poolability test for both time and industry dummies. This suggests that the model with one of the time and industry dummies dropped is better than the model with the restriction imposed. The poolability test also indicates that coefficients of the independent variables are consistent and stable, suggesting that the results of the coefficients estimate are efficient. The detailed procedure for conducting the poolability test was explained in section 6.4.3 of this thesis.

The results in panel A of table 20 shows a significant negative relationship between semi-strong and strong regulatory regime periods in the LSDV model. The dummy for the strong regulatory regime has the highest negative coefficient. The significant negative coefficient indicates a reduction in the differences in the level of disclosure by the sampled firms during these periods. This suggests a potential impact of regulatory coercion that enhanced isomorphic or uniform disclosure practice (DiMaggio and Powell, 1983). In addition, the results show a significant and positive relationship between capital intensity and standardised variation in the level of disclosure. This indicates that organisation structure proxied by capital intensity contributes to observed differences in the level of disclosure. A further discussion on this variable is given in section 8.4.6

Except for the oil and gas industry, industry classifications show a significant and positive relationship with standardised differences in the level of disclosure. The agriculture industry was used as the reference category, which indicates that as one moves from agriculture to other sectors, for example the industrial goods sector, the differences in level of disclosure was higher. Non-availability of a national accounting standard for the agriculture sector contributed to the observed difference in the level of disclosure by companies in the agriculture sector relative to those of other sectors.

Furthermore, the result shows a significant and positive relationship between debt finance and standardised differences of disclosure. This result indicates that companies with a higher proportion of their assets financed by debt capital disclose more information in their annual reports. This is a result of pressure from debt-holders on the companies to disclose more information for monitoring purposes; alternatively, companies with higher debt may disclose more information to reduce monitoring costs. In addition, the result in panel A of table 20 shows a significant and positive relationship between audit fees and standard differences in the level of disclosure. This indicates that organisations that pay higher audit fees disclose more information in their annual financial reports. Further discussion on this variable is given in section 8.4.4

The results in panel B in table 20 show a significant and positive relationship between the proportion of board shareholding and level of disclosure on property, plant and equipment, and earnings per share. Further discussion on this variable is present below in section 8.4.5

By combining the results in both panel A and B in table 20, this study does not reject the following hypotheses:

***$H_1$*:** *Intra-industry variation in the level of mandatory disclosure is lower during a period of strong regulatory regime relative to a period of weak regulatory regime in Nigeria*

***H$_2$:*** *Intra-industry variation in the level of mandatory disclosure differs among industry categories in Nigeria*

***H$_4$:*** *There is a significant positive relationship between capital intensity and intra-industry variation in the level of mandatory disclosure.*

***H$_6$:*** *There is a significant positive relationship between the proportion of share ownership by directors and intra-industry variation in the level of mandatory disclosure*

***H$_8$:*** *There is a significant positive relationship between leverage and intra-industry variation in the level of mandatory disclosure*

***H$_9$:*** *There is a significant positive relationship between audit fees and intra-industry variation in the level of mandatory disclosure*

## 8.4. Implications of the impacts of institutions and corporate attributes on intra-industry variation in mandatory disclosure

This thesis could not reject six out of the nine dimensions of the Greenwood *et al.* (2011) framework used to explain intra-industry variation in the level of disclosure. The next sections discussed the implications of these results.

### 8.4.1. Impacts of regulatory regimes

The study covers three periods; 2000 coded as a weak regulatory regime, 2005 coded as a semi-strong regulatory regime and 2012 coded as a strong regulatory regime. The model with restriction shows that a weak regulatory regime is significant and positively related to standardised variation in the level of disclosure. This is the result of a fragmented regulatory environment, which lacks cohesive disclosure requirements. For example, during the weak regulatory regime, the disclosure requirements of SEC, NSE, NASB and CAMA differ. This situation provides an opportunity for corporate managers to exercise discretion in decision-making around disclosure. Nigeria adopted the IFRS during the strong regulatory regime. However, a strong regulatory regime is significantly and negatively associated with intra-industry variation in dislosure. This indicates that strong enforcement regime reduced variation in corporate reporting practice, which is to say that organisations have little discretion under a strong regulatory regime.

These results have many implications. First, during a stringent enforcement actions and sanctions corporate organisations attempt to minimise penalty costs, and by conforming to an established disclosure norms. Second, during a weak and fragmented regulatory regime, powerful organisations leverage lack of specificity in disclosure requirements (Goodrick and Salancik, 1996) to exercise discretion on disclosure requirements (Oliver, 1991). During the weak regime, the potential impact of regulation depends on the balance of probability between self-interest and the power of relevant regulatory enforcement mechanisms (Perrow, 1986). Some powerful organisations were able to alter the balance of power, and their self-interest supersedes normative requirements.

The foregoing results suggest that regulatory agencies need to brace up for the challenge of ensuring uniformity in the level of disclosure (Mezias, 1990). To meet the challenge of ensuring uniform disclosure among Nigerian listed companies, the enforcement mechanism might have to depend on organised community groups in the immediate vicinity of non-compliant firms to enforce compliance with disclosure requirements (World Bank, 2000). One example of such organised community groups is shareholders' associations, which can play a crucial role in pressing for information, and thus encourage increased disclosure compliance. However, the proliferation of shareholders associations in Nigeria and their pursuit of self-interest (Uche, 2015), would inhibit their effectiveness in enhancing uniform level of disclosure. In addition, the litigation process in Nigeria is very cumbersome, costly and time-consuming (World Bank, 2015). Judicial decisions are often belated and not timely enough to rectify the effect of corporate malpractice. This suggest that shareholders associations and other community groups would not be encouraged to pursue litigation as an option to encourage improved level of corporate disclosure.

In addition, effectiveness of whistle blowing within and outside an organisation would contribute to an improved level of disclosure. However, the Nigerian institutional environment does not encouraged whistle-blowers due to the institutional barrier of a lack of freedom of speech to publish independent media reports about corporate actions, and a lack of institutional protection of whistle-blowers from repression and victimisation.

### 8.4.2. Impact of industry classification

Table 20 shows that all the industries have significant positive coefficients in relation to the industry used as a reference category. This result indicates that the nature and extent of institutional complexity facing organisations is fundamentally shaped by the *structure* of the organisational fields (i.e. the industry) (Greenwood *et al.*, 2011, p. 334). The significant positive impacts suggests that some industries are "matured" while some are "emerging", making the companies in these industries subject to different levels of pressure from their institutional environment.

Furthermore, the difference in the level of disclosure indicates a firm's responsiveness to consumers and stakeholders concerns on their legitimacy as it affects the credibility and believability of the information produced by these industries (Aldrich and Fiol, 1994; Scott, 1995; Suchman, 1995). Additionally, the difference may result from unique operational features of firms in each sector, and the historical antecedents of companies in each of these sectors might account for the observed differences in the level disclosure. For example, whilst Nigerian nationals historically own the agriculture sector many industrial goods, construction and conglomerates corporations were historically the subsidiaries or branches of multinational corporations in Nigeria, particularly during the colonial era. These historical antecedents might have contributed to the significant differences in corporate disclosure compliance.

In addition, the stage of economic development in Nigeria has a differential effect on the demand for accounting information in different sectors. For example, because of the significant role of oil revenue in Nigeria, investing public might presume that oil and gas would yield higher returns than those of other sectors. Consequently, investors might exert more pressure on the oil and gas sectors than for instance, the agriculture sector for increased information, and this would be an incentive for firms in the oil and gas sector to increase disclose.

Furthermore, the number of listed firms in each sector would influence the interconnections of firms in each sector; this would affect the level of disclosure (Goodstein, 1994). Sector with higher level of interconnections would encouraged voluntary diffusion of financial reporting practice, which would contribute to an increased level of disclosure by firms in these industries.

Besides, business, financial and operational risks vary from industry to industry. For example, the construction sector by its nature has higher operational risks than does the agricultural sector. Therefore, investors in the construction sector would put more pressure on those firms to disclose more information that would help mitigate the risks on their investment.

Similarly, some sectors face more stringent regulation than others, for example, the oil and gas sector due to its economic significance to the government of Nigeria, which would result in a higher level of disclosure. Firms in sectors that are vulnerable to litigation would disclose more information to protect their companies and shareholders from the adverse financial consequences following reputational damage (O'Rourke, 2003). In addition, corporations operating in sectors that cause more environmental damage or questionable human rights issues are pressured to disclose more information about their operations. In other words, corporations operating in an environmentally sensitive sector would disclose more information as they attempt to comply with environmental standards and codes.

Finally, the proprietary cost of full disclosure varies from one industry to the other. Any one firm in an industry that attempts a balanced disclosure alone faces the risk that bad news could have a negative impact on the firm's valuation while competitors that are more secretive are not discipline by the market. For example, investors may misinterpret highly selective disclosure of good performance as indicating that the firm is less risky (Blacconiere and Patten, 1994). Therefore, the management's perception of investors' interpretation of the information disclosed would affect the level of disclosure in each industry.

### 8.4.3. Impact of debt finance

The results in table 20 show that debt finance is significant and positively impact intra-industry variation in disclosure. This implies that an increase in debt finance increases the difference in the level of disclosure. Several reasons could account for this result. First, debt can be used as a tax shield; firms with a high debt ratio would be more transparent in information disclosure. This conclusion is based on the argument that a positive link exists between a firm's disclosure level and its indebtedness, and firms with high leverage are urged by creditors to disclose more information to help them handle their credit risk (Hossain *et al.* 1994). Furthermore, increased disclosure could result in a lower cost of debt.

However, the source and the nature of debt, rather than the proportion of debt capital, could contribute to a differential effect of debt capital on information disclosure. If for example, a company issued debenture and several investors subscribed to it, the demand for accounting information would be different to a situation when the debt was provided by a bank in term of loan or where private individual provided the debt. The he bank or an individual debt provider could have a representative on the board of the company and thus have an access to the company's private information. The conclusion is consistent with Zarzeski (1996) who argues that if firms have a higher level of public debt, there would be a higher agency problem in which case detailed financial disclosure is required to ensure observance to debt contracts; but financial disclosure decreases with leverage when creditors have direct access to information.

Furthermore, Bushman and Piotroski (2005) argue that taxation provides a mechanism for the state to extract wealth from corporations and shareholders, therefore, when a firm's tax burden is increasing, the firm would take measures to reduce their tax payment. This suggests that firms that have exhausted or are close to exhausting legal opportunities to avoid taxation by using debt capital would tend to be less transparent than other firms that are yet to exhaust opportunities for tax avoidance.

### 8.4.4. Impact of audit fees

Table 20 shows a significant positive relationship between audit fees and intra-industry variation in disclosure. Suchman (1995, p. 589) argues that organisations link their activities to professionals with external authority and competency in order to gain or maintain legitimacy. The result indicates that corporate organisations derived legitimacy from the audit services offered by external auditors. Therefore, firms that pay higher audit fees increases their level of disclosure to maintain a legitimacy of association with external audit firms, which enhanced the credibility of their annual reports (Francis, 2004).

However, an audit fee could result from an increased time by the audit's partners to hold meetings with audit committees (Goodwin and Munro, 2004). Therefore, increased audit fees may not necessarily result in increased disclosure. In addition, as an organisation becomes more complex the audit risk increases. Therefore, an increase in audit fees may be due to size and complexity of the organisation, and at the same time, larger and complex organisations may have more information to disclose. Therefore, the combination of size and audit fees would simultaneously influence the level of disclosure.

Furthermore, a profitable organisation would be less risky than a loss-making organisation. Therefore, the auditor’s perception of audit risks may lead to increased audit fees, which may not lead to an increased disclosure. In addition, audit tenure would influence the audit risk assessment, and the specialisation and size of the audit firm would influence the bargaining power of the audit firm, and consequently, the audit fees. The foregoing discussions suggest that many factors influence audit fees, and therefore, a need to investigate factors that influence audit fees in the financial reporting process.

#### 8.4.5. Impact of board share holding

Panel B in table 20 shows the result on frequency of items disclosed on accounting standards on property plants and equipment (IAS 16/SAS 3) and earnings per share (IAS 33/SAS 23). The result shows a significant positive relationship between intra-industry variation in disclosure and the proportion of issued shares owned by board members. This result is consistent with Nagar *et al.* (2003) who argue that stock price-based incentive contracts effectively encourage disclosure.

The result indicates that board members increase earnings-related disclosure to signal their credible commitment and to build a reputation that they are not expropriating residual shareholders (Gomes, 2000). This commitment is necessary to ensure that residual or minority shareholders do not discount the stock price, which ultimately affects the wealth position of these board members.

However, where board members own a substantial proportion of the issued shares, this it would results in concentrated ownership. Significant share ownership by board members provided them the opportunity to form an alliance with politicians who desire secrecy in private business dealings. The directors would want to secure their position in the company while engaging in unethical business transactions by reducing the level of disclosure. This suggests that the standard of ethics in the business environment (Bradshaw and Miller, 2007) will affect the incentive of board members to either increase or withhold earnings-related disclosure.

#### 8.4.6. Impact of capital intensity

Although not very robust, the result shows a significant positive relationship between capital intensity and variation in disclosure. Capital intensity indicates complexity in the organisational structure, or barriers to entry. When capital intensity provides a barrier to entry, an organisation increased the level of disclosure; this in turn reduced the problem of adverse selection among investors. The firm also benefits from reduced cost of capital, and foreign investors are attracted to the capital imarket. Policy-makers benefit from reduced budget for monitoring and enforcement and can utilise resources to promote the reputation of the capital market. This suggests that barrier to entry is beneficial to all capital market participants.

### 8.5. Summary of results on intra-industry variation in corporate disclosure

This chapter has built on the idea that organisations experience institutional complexity, and that both organisational field and organisational attributes determine organisational response to institutional pressures for increased disclosure. The results speak to the argument that an organisation's response are a function of the degree of institutional contradiction (Friedland and Alford, 1991: 256), rules specificity (Goodrick and Salancik 1996), and the enforcement mechanism (Leuz and Wysocki, 2008; Wysocki, 2011). The results show how an organisation's attributes have affected their response to external pressure to increase information disclosure (Greenwood *et al.* 2011). In addition, the results show that firms do not respond uniformly to disclosure requirements, which suggests that a one-size accounting standards do not fit all firms in different industries.

This study contributes to our knowledge of corporate disclosure practice, and demonstrates that the Greenwood et al. framework can be used in financial accounting research. However, it is important to understand how individual organisations process the complexity that confronts them in the environment; this will involve looking inside individual organisations. Therefore, an additional study is required to investigate how individual organisations make sense of and cope with, conflicting institutional pressures. The line of argument advanced by March (1994) that decisions are shaped by situational recognition, identity and the application of rules could be a starting point for such research. Furthermore, to appreciate the strategic responses of organisations to institutional complexity, further research could examine why particular logics are given salience (Greenwood *et al.,* 2011, p. 351). In other words, we need to understand how an organisation handles a potential loss of legitimacy from social audiences whose pressures they ignored.

# Chapter Nine

# Summary, implications and recommendations

## 9.1. Introduction

Ball, Robin and Wu (2003) argue that the incentives for the preparers of financial reports depend on the sources of demand for, and political influence on financial reporting. Similarly, Leuz, Nanda and Wysocki (2003) argue that there is a link between a country's legal and institutional factors and the quality of reported financial information to outside investors. Consistent with these views, Leuz *et al.* (2003) argue that mandated accounting rules and regulations cannot be considered in isolation without an understanding of the economic and institutional factors that affected a firm's reporting incentives. Furthermore, Holthausen (2003) proposed that within-country studies are necessary to control for institutional variables and to maintain the specific characteristics of a disclosure regime.

This thesis advances our knowledge of the determinants of the level of mandatory disclosure in corporate annual reports by using institutional frameworks to provide an explanation for this phenomenon. The theisis provides answers to three empirical questions: What is the level of mandatory disclosure in corporate annual reports of Nigerian listed companies? What factors can explain the level of mandatory disclosure in corporate annual reports of Nigerian listed companies? What factors can explain intra-industry variation in the level of mandatory disclosure by Nigerian listed companies? The next sections present the summary of results of the empirical investigations of these questions, the policy implications of these results, and the recommendations and limitations of the study.

## 9.2. Contribution of this study

This study contributes to the literature on the impact of institutional pressures on corporate reporting practice (Nyquist, 2003; Prakash, 1999; Prakash and Kollman, 2004). In particular this study use the Oliver (1991) and Greenwood *et al.* (2011) institutional framework to identify organisational characteristics that affects corporate disclosure behaviour in Nigeria. This study contributes to the literature by addressing the criticism that institutional theory downplays the role of agency and interests in organisational decision processes (Covaleski and Dirsmith, 1988; DiMaggio, 1988; Oliver, 1991; Powell, 1991; Scott, 1987).

When benchmarked against the existing literature, this study offers several key insights. First, increased organisation's legitimacy leads to an increased level of disclosure. Second, increased organisation's efficiency leads to a reduced level of disclosure. Third, strong institutional regime increased the level of an organisation's compliance with institutional requirements. Fourth, voluntary diffusion of institutional requirements through recognised professionals such as the big four audit firms increased organisation's compliance with institutional requirements. Fifth, uncertainty (e.g. economic uncertainty) reduced the level of an organisation's compliance with institutional requirements.

The study offers the following additional insights, organisations face institutional complexities to which they respond in different ways, in other words, organisations vary in their receptivity and response to institutional complexity. This finding is consistent with Weber *et al.* (2004) who argue that the perception and definition of the situation affects the selection and application of rules.

## 9.3. Policy implications of the research findings

Based on the results of this thesis, practitioners and policy-makers involved in financial reporting can develop a better understanding of the forces that shape corporate disclosure behaviour, which would in turn assist with the implementation of appropriate regulations (Welford, 1998).

The results show variation in the level of mandatory disclosure, which underscores the importance of understanding the procedures employed and issues considered by corporate managers in their decisions on whether to disclose a particular item of information. If these accounting rituals were well-understood (Gibbins *et al.*, 1990), the investor would ultimately be fully responsible for his/her reliance on accounting information. Understanding the accounting rituals will also enable investors to perform an objective appraisal of his/her investment decision in the light of information at his/her disposal. In addition, it will prevent misallocation of funds or the problem of adverse selection. The foregoing suggests that corporate managers should be required to discuss under one section in the annual report, those particular items of accounting information that are not applicable to them in any particular year.

In addition, the variation in the level of mandatory disclosure could be the result of a lack of specificity or open-ended disclosure requirements in the accounting standards (Goodrick and Salancik, 1996). Lack of specificity provides an incentive for corporate managers to interpret the disclosure requirements to suit their self-interest. This implies that regulators should be specific when identifying the information that should be disclosed in the accounting standards. On the other hand, variation in the level of disclosure might indicate that some corporate organisations have a complete disregard for the disclosure requirements. Among possible reasons for this disregard could be ineffective oversight of the reporting practices.

Furthermore, some corporate organisations might wield significant power in the financial reporting environment (Perrow, 1986). Organisation can become powerful because of the resources they control, their political connections or because the sanctions imposed for violation are insignificant, comparable to the potential gains resulting from violations. This suggests that penalties or sanctions imposed for violation should be sufficient to deter corporate organisation from non-compliance with disclosure requirements.

However, in a stable institutional environment, the most powerful organisations would have little or no room to exercise discretion regarding disclosure requirements (Mezias, 1990). Therefore, the variation in the level of disclosure is a reflection of the instability in the institutional environment for financial reporting in Nigeria. The institutional environment for financial reporting in Nigeria is destabilised by persistent changes to the leadership of regulatory enforcement agencies such as the CAC, SEC and NSE. The instability in leadership results in instability in enforcement methods and inconsistent application of sanctions against corporate organisations. The lack of stability also results in the selective application of enforcement action against corporate managers. This provides an incentive to corporate organisations to deviate from full compliance with disclosure requirements.

In addition, individual investors have no voice in the determination of the content of disclosure requirements in Nigeria. These imply that the information needs of the investor are not adequately represent when coding the disclosure requirements in the various accounting standards. Since the users of corporate annual reports are heterogeneous, individual organisations might have considerd the peculiarity of its user's group when deciding on the information to disclose. This might have led to the observed differences in the level of disclosure and therefore, it was difficult to achieve uniform disclosure level in corporate annual reports.

Furthermore, attempts to disclose information that satisfies the information needs of every user might lead to information overload, and investors and other users might incur extra processing costs if seeking advice from analysts or investment advisers. Organisations might vary their level of disclosure to mitigate the cost of information overloads.

The foregoing suggests that the forces influencing corporate disclosure are conflicting and complex. It remains a challenge to attain optimum disclosure levels and variations would continue to exist in the level of disclosure in corporate financial reports. This study also demonstrates that variation exists in corporate disclosure despite the adoption of IFRS.

### 9.4. Recommendations of the thesis

The foregoing implications suggest the need for a regulatory reform in Nigeria. Such reforms should not be a mere response to a widespread perception of inadequacy of existing regulations, but should be appropriate to the uniqueness of the Nigerian financial reporting environment. In addition, the reform should allow for a regulation that minimises public loss of trust and confidence. The government should weigh compliance burdens on corporate organisations to avoid providing an incentive to corporate organisation to devise complex avoidance strategies.

Furthermore, the results suggest the need to evaluate the impact of regulatory intervention when formulating a reform agenda. Prior to embarking on a regulatory reform, the government should consult other stakeholders; this would assist with the adoption of a reform that will effectively solve any perceived financial reporting problems. The government should establish a framework that clearly states the procedure for such consultation and should consider all criticisms in the development phase of any reporting regulation. Lack of proper consultation could have been one of the reasons for the failure of the NASB Act 2003 in Nigeria to achieve its intended objectives, the Act was repealed due to its ineffectiveness (FRC, 2012).

In addition, regulators should undertake a Regulatory Impact Assessment (RIA), that is, reporting regulation should follow a due process to ensure that the benefits do not outweigh the cost of compliance. However, the regulator should not rely exclusively on the use of RIA beacuse some of the benefits and costs of such an assessment would not be quantifiable. For example, trust is an essential element of any regulatory objective, which might be difficult to quantify. In addition, the parameters used to estimate the costs and benefits might become irrelevant to future environmental conditions (Thomadakis, 2007). This suggests the need to consider potential future development that allows for innovation in the financial reporting process. Undue restrictions that do not consider potential future development would stifle flexibility and result in the production of unreliable financial reports. The regulator should trust the preparers of financial reports to apply appropriate judgements suitable to the peculiar business conditions when preparing their corporate annual reports. However, the question that merits attention is, to what extent should the regulator allow corporate managers to exercise discretion in the financial reporting process?

Furthermore, regulators should distinguish inadvertent non-compliance because of an honest mistake or misinterpretation of the disclosure requirements from a deliberate attempt at falsification with fraudulent intentions. If the regulator applies sanctions on corporate organisations when an honest attempt was made to fulfil regulatory objectives there is a risk that the preparer of corporate annual reports would perceive the law to be too harsh and oppressive. This would provide an incentive to devise avoidance strategy such as escaping the regulatory environment (Oliver, 1991).

Political leaders should ensure the independence and autonomy of the enforcement mechanism and the appointments of the leadership for these agencies should not be based on political affiliations. This would enhance consistent application of sanctions for violating disclosure requirements. Similarly, corporate organisations that are not satisfied with any sanctions or penalties imposed on them should be able to challenge these in appropriate law courts. This would enhanced managerial perception that the law is fair, and the perception of the civil society that the regulation is effective. In addition, it would influenced the confidence and trust of the public that invests in the capital market.

Furthermore, the government should establish a Compliance Advisory Panel (CAP), which should work in collaboration with the Financial Reporting Council of Nigeria (FRC) and corporate organisations. The role of the panel would be to liaise with corporate organisations on compliance matters and advise regulatory bodies on the reasons for observed deviation in corporate disclosure requirements. In addition, the panel should be charge with the role of surveying the level of disclosure in corporate annual reports and rank corporate organisations by the level of disclosure. The best performing organisation should be rewarded annually; this reward would provide an incentive to corporate organisations to improve their level of disclosure. Additionally, the panel should be charged with the responsibility of helping to clarify and communicate specific disclosure requirements to corporate organisations. This would ultimately help to restore confidence and trust in corporate financial reports, and promote a culture of good compliance in Nigeria.

Furthermore, the government should commit to ensuring a clear division of responsibilities between government ministries and enforcement mechanisms; this will help preserve the independence of enforcement mechanisms. The enforcement mechanism’s staff and management should act independently from any market interest and should not seek to take direct instructions from any other government entity when making enforcement decisions. The present practice whereby the Financial Reporting Council is dependent on the annual subscriptions of individual professional members in Nigeria could put pressure on the FRC to take a lenient stance against violations from powerful donors. To mitigate this, the FRC should have access to adequate separate annual budget allocations, with the autonomy to implement its budget allocations.

The government should pay particular attention to the views of investors when proposing changes to financial reporting regulations. This should be addressed as part of an impact assessment. The government should avoid making piecemeal changes or ad hoc amendments to regulatory requirements in order to enhance the stability of the regulatory system. The enforcement mechanism such as the CAC, FRC, SEC and NSE should create and update on a continuing basis, a public registry of regulations, or use other means to ensure that domestic and foreign businesses can easily identify all requirements that are applicable to them. These enforcement mechanisms should have electronically accessible, interactive websites to make regulatory information available to businesses and the public, and to receive comments on regulatory matters (BIS, 2011). Furthermore, there should be adequate protection for whistle-blowers who report corporate abuse of financial reporting standards.

The government should review non-regulatory policies such as exchange rates, inflation, subsidies and government procurement, and adjust them when they unnecessarily distort the willingness of corporate managers to be transparent in financial reporting. This implies that the government should adopt a dynamic approach to ensuring that reforms are carried out in a systematic and logical order. The government should remove any unnecessary regulatory burdens on corporate organisations to lessen the compliance costs for business, improve overall compliance and stimulate economic efficiency of the entire regulatory system.

The FRC should develop a collaborative arrangement with each of the key sector regulators- the NSE, SEC, ICAN, ANAN, CBN, NDIC, NAICOM, PENCOM, to draft sector-based financial reporting standards. In addition, the FRC should provide necessary support such as workshops, training and technical notes, to ease compliance. Although the FRC has taken steps in this direction by establishing the FRC academy, the FRC should create an awareness of the activities of the academy, which should be easily accessible to all preparers of corporate financial report.

The results show that the big four auditors have a significant and positive relationship on intra-industry variation in the level of disclosure. This suggests a need for a formal collaboration between the accounting profession (ICAN/ANAN) and the financial reporting regulators. The FRC should make formal arrangements with practicing members of the accounting professions for the big four to conduct a review of financial statements audited by smaller auditors, with a view to enhancing the quality of their financial statements. This arrangement should include the mechanism for exchanging confidential information that would enhance effective monitoring and enforcement of financial reporting requirements (World Bank, 2013).

Furthermore, there is a need to nurture a conscious progressive academic-practitioner interface; given the capability of the academic community to propel an advanced professional accounting practice. The academic community's engagement in research is a major source for acquiring new knowledge about any phenomenon, and such knowledge is a *sine qua non* for improved financial reporting practice. Therefore, there is need to establish a research fund that should be managed independently, to provide funding for quality accounting research.

### 9.5. Limitation of the study

The study suffers some limitations that are commonly associated with archival research. First, archival research typically tests theoretical predictions (Friedman, 1953), however, it is difficult to assess which theory best fits the data in archival research because key variables potentially proxy for multiple theories (Graham *et al.,* 2005). For example, Graham, Harvey and Rajgopal (2005, p.4) argue that size might explain reporting decisions because of political costs, the information environment or firm risk. Furthermore, Graham *et al.* (2005) argue that large sample analyses may not always speak to the relative importance of competing hypotheses for a phenomenon because the explanatory variable with the least measurement error might dominate the analysis.

In addition, unobservable variables can cause self-selection bias that affects the result of the empirical analysis. To correct for omitted variables, one must find a suitable proxy for the unobserved variables. For example, organisation power can influence the level of disclosure in annual reports (Perrow, 1986). However, this study do not control for the influence of organisation power since it is difficult to identify an appropriate proxy for power. This is one of the limitations of this study. Furthermore, a problem of simultaneous endogeneity can occur when an observed variable depends on unobserved exogeneous variables (variables that do not relate to the specified model). A two stage least square (2SLS) or three stage least square (3SLS) can address this problem, however, this thesis does not identify exogenous variables that correlate with the independent variables but not with the dependent variable.

Additionally, evaluating legitimacy issues empirically has its methodological challenges, such as the practical problems of assessing subjective perceptions and the beliefs of relevant parties. In other words, an inability to measure the perceptions of relevant social audiences about the legitimacy of corporate organisations is a limitation in this study.

Furthermore, whilst the findings in this thesis are robust and significant, it employs a dichotomous measure of corporate disclosure, which considers every items required in the accounting standards as equally important. Whilst results of unweighted and weighted indices are generally the same, future studies may improve the analysis by constructing weighted and weighted mandatory disclosure indices. In addition, data availability poses a limitation to the present study; unavailability of data prevents a proper evaluation of the trend in corporate disclosure to have a proper understanding of disclosure behaviour of listed Nigerian companies. However, it is interesting to note that despite the difficulty in measuring data, this study has been able to document the direct effects of institutional complexity on organisations' financial reporting practices.

## 9.6. Recommendation for further study

Although this study finds supports for significant aspects of the Oliver (1991) framework, a joint use of the Oliver model and economic theories for an empirical study of this nature might have the potential to yield more robust results (Collin *et al.*, 2009). Furthermore, this study focuses only on acquiescence (compliance) as a form of strategic response, further research should be designed in financial accounting research to evaluate the five forms of strategic responses proposed by Oliver's model and assess whether effective compliance or resistance represent the responses that most organisations exhibits. In addition, research should extend to evaluate the motivating factors behind effective compliance or resistance.

Furthermore, in order to have a full understanding of an organisation's strategic responses to institutional complexity, a further study should examine why particular logics are given salience (Greenwood *et al.*, 2011, p.351). That is, it is important to understand how an organisation handles potential loss of legitimacy from an institutional audience whose prescriptions they ignored. In addition, we need to understand how organisations managed the losers among the competing and conflicting institutional audiences of financial reporting.

Furthermore, as data availability improves, future studies may need to investigate how other country-level institutional factors such as Gross Domestic Products (GDP) affects the level of mandatory disclosure in corporate annual reports. Additionally, this thesis has collected data from corporate annual reports to conduct the quantitative analyses. However, annual reports can sometimes convey mixed messages; therefore, future studies may employ a qualitative approach, such as face-to-face interviews and case studies to evaluate the commitment of corporate managers to disclosure requirements. This may provide a holistic understanding of the different determinants of, and motives for, mandatory disclosures.

In addition, the results indicate that the level of disclosure by corporate clients of the big-four audit firms was higher than the level of disclosure by clients of non-big audit firms. A future could investigate whether there is systematic difference in their reporting styles and audit opinions. Finally, future studies may investigate the effectiveness of the whistle-blowing system and its impact on the level of compliance with accounting standards disclosure requirements.

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## Appendices

## Appendix 1 List of sample companies

| S/no | Company | Industry |
|---|---|---|
| 1 | 7UP | Consumer Goods |
| 2 | ABCTRANS | Services |
| 3 | ACADEMY | Services |
| 4 | AIRSERVICE | Services |
| 5 | AP_Forte | Natural Gas and Oil |
| 6 | ASHAKACEM | Industrial Goods |
| 7 | BCC | Industrial Goods |
| 8 | BERGER | Industrial Goods |
| 9 | BETAGLASS | Industrial Goods |
| 10 | BOCGAS | Natural gas and oil |
| 11 | CADBURY | Consumer Goods |
| 12 | CAP | Industrial Goods |
| 13 | CHAMPION | Consumer Goods |
| 14 | CHEVRON_MRS | Natural Gas and Oil |
| 15 | CONOIL | Natural Gas and Oil |
| 16 | COSTAIN | Construction and Real Estate |
| 17 | DANGCEM | Industrial Goods |
| 18 | DANGSUGAR | Consumer Goods |
| 19 | DNMEYER | Consumer Goods |

| | | |
|---|---|---|
| 20 | DUNLOP_DNTR | Consumer Goods |
| 21 | ENAMELWA | Consumer Goods |
| 22 | FIDSON | Healthcare |
| 23 | FLOURMILL | Consumer Goods |
| 24 | GLAXOSMITH | Healthcare |
| 25 | GUINNESS | Consumer Goods |
| 26 | HONYFLOUR | Consumer Goods |
| 27 | JBERGER | Construction and Real Estate |
| 28 | LIVESTOCK | Agriculture |
| 29 | MAYBAKER | Healthcare |
| 30 | MOBIL | Natural Gas and Oil |
| 31 | NAHCO | Services |
| 32 | NASCON | Consumer Goods |
| 33 | NB | Consumer Goods |
| 34 | NBC | Consumer Goods |
| 35 | NEIMETH | Healthcare |
| 36 | NESTLE | Consumer Goods |
| 37 | NIGROPES | Industrial Goods |
| 38 | NIWICABLE | Industrial Goods |
| 39 | NNFM | Consumer Goods |
| 40 | OANDO | Natural Gas and Oil |
| 41 | OKOMUOIL | Agriculture |
| 42 | PHARMDEKO | Healthcare |

| | | |
|---|---|---|
| 43 | PRESCO | Agriculture |
| 44 | PZ | Consumer Goods |
| 45 | REDSTAREX | Services |
| 46 | RTBRISCOE | Services |
| 47 | STUDPRESS | Services |
| 48 | TOTAL | Natural Gas and Oil |
| 49 | TRANSCORP | Conglomerate and Holding |
| 50 | TRANSEXPR | Services |
| 51 | UACN | Conglomerate and Holding |
| 52 | UACN_PropDev | Construction and Real Estate |
| 53 | UNILEVER | Consumer Goods |
| 54 | UPL | Services |
| 55 | UTC | Consumer Goods |
| 56 | VONOPRODUCT | Consumer Goods |
| 57 | WAPCO | Industrial Goods |

## Appendix 2 List of national accounting standards issued by the NASB

| SAS | Title | Effective Date | Equivalent | Included? |
|---|---|---|---|---|
| SAS 1 | Disclosure of Accounting Policies | Jan 1, 1985 | IAS 1 | Yes |
| SAS 2 | Information to be disclosed in Financial Statement | Jan 1, 1985 | IAS 5 | Yes |
| SAS 3 | Accounting for Property, Plant and Equipment | Jan 1, 1985 | IAS 16 | Yes |
| SAS 4 | On Stocks | Jan 1, 1987 | IAS 2 | No |
| SAS 5 | On Construction Contracts | Jan 1, 1988 | IAS 11 | No |
| SAS 6 | On Extra-ordinary items and Prior year adjustments | Jan 1, 1988 | IAS 8 | No |
| SAS 7 | On foreign currency conversions and translation | Jun 1, 1988 | IAS 21 | No |
| SAS 8 | On Accounting for employees retirement benefits | Jan 1, 1991 | IAS 19 | No |
| SAS 9 | Accounting for depreciation | Jan 1, 1990 | IAS 4 | No |
| SAS 10 | Banks and Non-bank financial Institutions Part 1 | Dec31,1990 | IAS 30 | No |
| SAS 11 | On Leases | Dec31,1992 | IAS 17 | No |
| SAS 12 | On Accounting for deferred Taxes | Jan 1, 1993 | IAS 12 | No |
| SAS 13 | On Accounting for investments | Jan 1, 1994 | IAS 25 | No |
| SAS 14 | Petroleum Industry: Upstream Activities | Jan 1, 1994 | N/A | No |
| SAS 15 | Banks and Non-bank Financial Institutions, Part 11 | Jan 1, 1997 | IAS 30 | No |
| SAS 16 | Accounting for Insurance Business | Jan 1, 1998 | N/A | No |
| SAS 17 | Petroleum Industry: Downstream Activities | Jan 1, 1998 | N/A | No |
| SAS 18 | On statement of Cash flows | Jan 1, 1998 | IAS 7 | Yes |
| SAS 19 | Accounting for Taxes | Jan. 1, 2001 | IAS 12 | No |
| SAS 20 | Abridge Financial Statements | Jan 1, 2002 | N/A | No |
| SAS 21 | On Earnings Per Share | Jan 1, 2002 | IAS 33 | Yes |
| SAS 22 | On Research and Development costs | Dec31,2006 | IAS 38 | No |
| SAS 23 | Provisions, Contingent Liabilities and Contingent Assets | Dec31,2006 | IAS 37 | No |
| SAS 24 | On segment reporting | Jan 1, 2007 | IAS 14 | No |
| SAS 25 | On Telecommunication Activities | Jan 1, 2008 | N/A | No |
| SAS 26 | On Business combinations | Jan 1, 2008 | IFRS 3 | No |
| SAS 27 | On consolidated and separate financial statements | Jan 1, 2008 | IAS 27 | No |
| SAS 28 | On investments in Associates | Jan 1, 2008 | IAS 28 | No |

| | | | | |
|---|---|---|---|---|
| SAS 29 | On Interests in Joint Ventures | Jan 1, 2008 | IAS 31 | No |
| SAS 30 | On interim Financial Reporting | Jan 1, 2008 | IAS 34 | No |

**Appendix 3 Template for disclosure index on selected Nigerian national standards**

## SAS1/ IAS1 Disclosure of accounting policies: disclosures requirements

21 Where there are several acceptable accounting bases, a reporting enterprise should disclose the basis used especially where the knowledge of such basis is significant in understanding and interpretation of the financial statements R1

22 Accounting policies should be prominently disclosed as an integral part of the financial statements under one caption rather than as notes to individual items in the financial statements R2

23b Where there are changes in policy, nature of changes to accounting policy should be disclosed R3

23c Where there are changes in policy, justification of such changes in accounting policy should be disclosed R4

23d Where there are changes in policy, effect of such changes in accounting policy on current year's profit should be disclosed R5

23e Where there are changes in policy and the effect of such changes is not ascertainable the fact should be indicated R6

SAS1 Disclosures requirements Stated in Appendix

SAS1 Accounting policy should be disclose under one caption, the Basis of accounting R7

SAS1 Accounting policy on consolidation should be disclosed R8

SAS1 Accounting policy on Goodwill should be disclosed R9

SAS1 Accounting policy on Investments should be disclosed R10

SAS1 Accounting policy on Fixed Assets should be disclosed R11

SAS1 Accounting policy on Depreciation should be disclosed R12

SAS1 Accounting policy on Stocks and Works-in-progress should be disclosed R13

SAS1 Accounting policy on Turnover should be disclosed R14

SAS1 Accounting policy on Contracts in progress should be disclosed R15

SAS1 Accounting policy on Long-term contracts should be disclosed R16

SAS1 Accounting policy on Foreign currencies conversion should be disclosed R17

SAS1 Accounting policy on Deferred taxation should be disclosed R18

**SAS2/ IAS5 Information to be disclose in financial statements**

11 The financial statements of an enterprise should state:

a. the name of the enterprise R19

b. the period of time covered R20

c. a brief description of its activities R21

d. its legal form R22

e. its relationship with its significant local and overseas suppliers including the immediate and ultimate parent, associated and affiliated company R23

12 Financial statements should include the following:

a. statement of accounting policies R24

b. balance sheet R25

c. profit and loss account or income statement R26

d. notes to the accounts R27

e. statement of source and application of funds R28

f. value added statement R29

g. five year financial summary R30

13 Financial implication of inter-company transfer and technical management agreements between the enterprise and its significant local and overseas suppliers including its immediate and/or ultimate associated, affiliated company should be disclosed. R31

14 Financial statements should show corresponding figures for the preceding period R32

15-21 Balance sheet specific disclosures: the balance sheet or related notes should disclose the following information

15 Assets

Fixed asset- property, plant and equipment

a. land: freehold and leasehold R33

b. buildings R34

c. plant and equipment R35

d. other categories of assets, suitably classified R36

e. accumulated depreciation for each category R37

f. separate disclosure in a note form should be made for assets on lease and assets acquired on instalment purchase plan R38

g. items on lease and assets acquired on instalment plan should disclose the type of assets involved, their amounts and period covered. R39

h. items on lease and assets acquired on instalment plan should disclose their amounts R40

i. items on lease and assets acquired on instalment plan should disclose the period covered. R41

16 Other long-term assets

a. long-term investments (quoted and unquoted) distinguishing between:

i. investment in subsidiary R42

ii. investment in associated company R43

iii. other investment R44

b. all long-term debts including their tenure R45

c. intangible assets:

i. goodwill R46

ii. patents, trademarks and similar assets R47

iii. deferred charges such as: pre-incorporation expenses; pre-production expenses and re-organisation expenses R48

d. write-offs during the period on investment should be disclosed R49

e. the market value of investments should be disclosed R50

17 Current assets

a. stocks and spare parts R51

b. current portion of long-term debts R52

c. trade debts R53

d. prepayment and sundry debtors R54

e. directors' debit balances R55

f. subsidiary and associated companies' debt balances R56

g. short-term investments (including treasury bills, certificates of deposit and commercial notes) R57

h. deposits with Central Bank against imports R58

i. amount awaiting remittance to overseas creditors R59

j. cash and bank balances R60

18 Capital and Reserves-

a. the variety of ownership interests such as ordinary and preference shares R61

i. number, nominal value and amounts of shares authorised and issued R62

ii. the rights, preferences and restrictions with respect to the distribution of dividends and to the repayment of capital R63

iii. cumulative preference dividends in arrears R64

iv. shares reserved for future issue under options, sales contracts and options for conversion of loans and debentures into shares, including the terms and amounts R65

v. movement in the Share Capital Accounts during the period R66

b. other shareholders' interest, indicating movement during the period and any restrictions on their capitalisation by way of bonus shares R67

| | | |
|---|---|---|
| | i. share premium or discount | R68 |
| | ii. revaluation surplus | R69 |
| | iii. revenue and capital reserves | R70 |
| | iv. retained earnings | R71 |
| 19 | Long-term Liabilities | |
| | a. secured loan | R72 |
| | b. unsecured loan | R73 |
| | c. loans from holding, subsidiary and associated companies | R74 |
| | d. details of applicable interest rates, repayment terms, covenants, subordinations, etc. should be disclosed. | R75 |
| 20 | Current liabilities | |
| | a. amount due to holding, subsidiary and associated companies | R76 |
| | b. trade creditors | R77 |
| | c. other creditors and accrued expenses | R78 |
| | d. dividends payable | R79 |
| | e. current taxation | R80 |
| | f. current portion of long-term liabilities | R81 |
| | g. bank loans and overdrafts | R82 |
| 21 | General | |
| | a. restrictions on the titles to assets | R83 |
| | b. restrictions on the distribution of dividends | R84 |
| | c. securities given in respect of liabilities | R85 |
| | d (i). the method of providing for pension and retirement scheme | R86 |
| | d(ii). disclosure indicating whether the scheme is funded or unfunded | R87 |
| | e. contingent assets and contingent liabilities | R88 |
| | f. amounts approved or committed for future capital expenditure | R89 |
| | g. events that have occurred after the balance sheet date but before the financial statements are approved by the Board | R90 |
| 22 | Profit and Loss Account (Income Statement) the following information should be disclosed | |
| | a. turnover/sales and other operating revenue | R91 |
| | b. other earnings: distinguishing between interest income, income from investments and other sources | R92 |
| | c. interest charges | R93 |
| | d. Taxes on income | R94 |
| | e. Unusual charges | R95 |

f. unusual credits R96

g. depreciation R97

h. auditor's remuneration R98

i. director's emoluments R99

j. net income R100

23 Source and application of funds (No longer relevant)

24 Value Added Statement -the statement should show separately the following

a. sales to outsiders R101

b. purchases- distinguishing between imported and local items

c. benefits to various groups such as:

i. employees R102

ii. owners and other suppliers of capital R103

iii. government R104

iv. money retained for maintenance and expansion of the enterprise R105

**SAS3/ IAS16 Accounting for Property, Plant and equipment (PPE)**

45a the basis for determining the book value of PPE should be disclosed R106

45b Where more than one basis for determine the value of PPE is used the book value determined under each basis in each category of PPE should be disclosed R107

45c where PPE are stated at revalue amounts, the methods adopted to compute these amounts should be disclosed R108

45c upon valuation of PPE policy with regard to frequent valuations should be disclosed R109

45c upon valuation of PPE the nature of indices used should be disclosed R110

45c upon valuation of PPE whether external valuers are involved should be disclosed R111

45d financial statements should disclose movement in each category of PPE

(i.e. additions and disposals) during the year R112

45e financial statement should disclose contingent capital gains tax and deferred tax liability attributable to any revaluation surplus incorporated

in financial statements R113

**SAS21 /IAS33 Earnings per share**

53 An enterprise should present basic and diluted earnings per share on the face of the income statement, and the historical financial summary with equal prominence R114

54 An enterprise should present basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share) R115

55 An enterprise should present basic and diluted earnings per share statistics for earnings per share before extraordinary items R116

56a An enterprise should disclose the amounts used as numerators in calculating basic and diluted earnings per share, and the reconciliation of those amounts to the net profit or loss for the period R117

56b An enterprise should disclose any changes in the number of shares used to compute earnings per share R118

56c An enterprise should disclose the financial effect on diluted earnings per share of any adjustments resulting from changes in accounting policy applied in preparing and presenting the financial report R119

57 An enterprise should disclose by way of notes, ordinary share or potential ordinary share transactions that occur after the balance sheet date when they are of such importance that non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions R120

**Appendix4. Template for disclosure index on selected International Financial Reporting Standards**

**IAS1: Presentation of Financial Statements**

| | |
|---|---|
| Statement of Financial Position | R1 |
| Comprehensive Income | R2 |
| Statement of Changes in Equity | R3 |
| Statement of Cash flow | R4 |
| Notes of significant accounting policies and explanatory | R5 |
| Comparable financial Statement | R6 |
| Equal Prominence presentation | R7 |
| Related notes for each statements | R8 |
| Explicit Statement of compliance with IFRS | R9 |
| Departure from IFRS with explanation | R10 |
| Prominently display name of reporting entity and any change in name | R11 |
| Display whether statements are group or individual | R12 |
| Display Information about reporting period | R13 |
| Display Reporting Currency | R14 |
| Displayed Rounding e.g. thousand, millions | R15 |
| Display reason for changed accounting period | R16 |
| Separate current and non-current assets | R17 |
| Separate current and non-current liabilities | R18 |
| Minimum Line items on face of Balance sheet | |
| Balsheet property plant and equipment | R19 |
| Balsheet Investment property | R20 |
| Balsheet Intangible | R21 |
| Balsheet financial assets | R22 |
| Balsheet investment equity method | R23 |
| Balsheet biological assets | R24 |
| Balsheet inventories | R25 |
| Balsheet trade and other receivables | R26 |
| Balsheet cash and equivalent | R27 |
| Balsheet asset for sale | R28 |
| Balsheet trade and other payable | R29 |
| Balsheet provision | R30 |
| Balsheet financial liabilities | R31 |

| | |
|---|---|
| Balsheet current tax liabilities | R32 |
| Balsheet current tax asset | R33 |
| Balsheet defer tax liabilities | R34 |
| Balsheet defer tax asset | R35 |
| Liabilities included in disposal | R36 |
| Non-controlling interest | R37 |
| Capital attributable to owners | R38 |
| Reserve attributable to owners | R39 |
| Required disclosure for Share capital and reserves | |
| Share number authorised | R40 |
| Share number issued and fully paid | R41 |
| Share par value or nominal par value | R42 |
| Begin and end period share number reconciled | R43 |
| Description of rights and restrictions | R44 |
| Disclose share held by sub and associates | R45 |
| Share reserve for options and contracts | R46 |
| Nature and purpose of reserve share | R47 |
| Comprehensive Income | |
| Profit or loss | R48 |
| Total of other comprehensive income | R49 |
| Comprehensive income for the period | R50 |
| Profit or loss allocated between owners and non-controlling | R51 |
| Profit or Loss statement | |
| Revenue | R52 |
| Gains and loss from fin assets derecognise | R53 |
| Finance costs | R54 |
| Share of associate profit or loss | R55 |
| Reclassified fin asset gain or loss | R56 |
| Tax expense | R57 |
| Total amount of discontinue items | R58 |
| Depreciation or amortisation | R59 |
| Employee benefits | R60 |
| Changes in Equity | |
| Present separate changes inequity | R61 |
| Reconcile begin and end equity components | R62 |

| | |
|---|---|
| Show contribution by owner | R63 |
| Show distribution to owner | R64 |
| Show changes in owner interest in subsidiary | R65 |
| Analyse other comprehensive income by items | R66 |
| Dividends information to be disclosed in notes | |
| Amount div proposed | R67 |
| Div per share | R68 |
| Notes presented in the following order | |
| Statement of IFRS compliance | R69 |
| Summary sig acctg policies | R70 |
| Supporting info for fin statement items | R71 |
| Contingent liabilities | R72 |
| Entity risk management obj | R73 |
| Entity risk management policies | R74 |
| Significant accounting policies | R75 |
| Judgement notes in applying acctg policy | R76 |
| Key assumption about the future | R77 |
| Period sources of estimation uncertainty | R78 |
| Capital Disclosure | |
| Entity objectives for managing capital | R79 |
| Entity policy for managing capital | R80 |
| Describe capital it manage | R81 |
| Nature of external capital requirements | R82 |
| How its meeting its objectives | R83 |
| Quantitative data about entity capital | R84 |
| Period to period changes in capital | R85 |
| Compliance with external capital requirements | R86 |
| Consequence of noncompliance with ext cap reqrmts | R87 |
| Other information | |
| Entity domicile and legal form | R88 |
| Country of incorporation | R89 |
| Address registered office | R90 |
| Principal activities | R91 |
| Name of parent if part of group | R92 |

**IAS16: Property, Plant and Equipment**

| | |
|---|---|
| Ppe basis or measuring carrying amt | R93 |
| Ppe depreciation methods | R94 |
| Ppe useful lives or dep rates | R95 |
| Ppe gross carrying amt | R96 |
| Ppe accumu dep | R97 |
| Ppe additions | R98 |
| Ppe disposals | R99 |
| Ppe acquisitions | R100 |
| Ppe revaluation increase or decrease | R101 |
| Ppe impairment or losses | R102 |
| Restriction on asset title | R103 |
| Revaluation date | R104 |
| Independent valuer involved | R105 |
| Cost value compared with revalued amt | R106 |
| Revaluation surplus | R107 |
| Fairvalue ppe revalued | R108 |

**IAS 33: Earnings Per Share**

| | |
|---|---|
| Eps basic | R109 |
| Eps diluted | R110 |
| Eps basic numerator | R111 |
| Eps diluted numerator | R112 |
| Eps basic and diluted reconciled | R113 |
| Basic weighted avg numb of share | R114 |
| Diluted weighted avg numb of share | R115 |
| Post bal sheet ord share transact | R116 |
| Adjust tbasic eps due to errors or changed policy | R117 |
| Adjust diluted eps due to errors | R118 |
| Adjust basic eps due to cap bonus split | R119 |
| Adjust dilute eps due to cap bonus split | R120 |