

VOLUNTARY CORPORATE INFORMATION DISCLOSURE AND IMAGE PROMOTION IN NIGERIA AMIDST FINANCIAL CRISIS

Damagum, Ya'u Mohammed

Abstract

Voluntary corporate information is often used by firms to 'explain themselves' to investors. This paper investigates the extent of such disclosures by firms in Nigeria during the recent global economic meltdown. Applying content analysis technique on annual reports drawn from 50 quoted firms, evidence shows that voluntary disclosure is relatively low and not in tune with Investors' preferences. Much is therefore left to be done by the accounting profession in Nigeria towards improving the quantum of such disclosures particularly for purposes of enhancing corporate growth and overall development of the economy.

Key words: *Voluntary Corporate Information, Annual Reports, Content Analysis, Investors' Preferences.*

Introduction

The effects of the recent global economic crisis were so pervasive that some observers equate its impact to that experienced during the great depression of the 1930s (Financial Times, 2008). Among others, the recent crisis led to the collapse of financial markets in several countries including Nigeria. Amidst such crisis, it is likely that firms as

suggested by Verrecchia (2001) would like to increase their quantum of voluntary disclosure so as to reduce information asymmetry and lower their costs of capital. Going by this conjecture, and the fact that empirical findings regarding the extent of voluntary disclosure and the relevance to user needs are still inconclusive, this paper sets out to ascertain the quantum of voluntary disclosure among firms in Nigeria and the extent to which such disclosure tally with the expectations of users. Using a compiled checklist of likely voluntary disclosure items and a scoring scale ranging from 0 to 5 points, annual reports of 50 firms were content analyzed with the results indicating among others that; the overall disclosure levels are low and with no evidence of consonances with the expectations of perceived users. The rest of the paper is organized as follows: Section two provides a statement of the problem while the third specifies the research objectives. A review of prior literature is provided in the forth section while the fifth outlines the research design and methodology. Results and discussions are contained in the sixth section with conclusion and suggestions for further research comprising the sixth and seventh sections respectively.

Statement Of The Problem

Going by general public opinion, it can be deduced

that the recent global financial crisis must have resulted in serious loss of confidence among corporate investors in many economies. As a testimony to that, in the Nigerian context, massive erosion of the market values of shares of quoted firms remains an indelible testimony. Going by the tenets of the information asymmetry theory, firms under such circumstances are most likely to try addressing this massive loss of confidence through a strategy of increased disclosure of voluntary information. In the Nigerian context it would appear that even if firms in the environment are willing to employ such strategy, the information being provided may not be adequate and relevant to the needs of users. This paper seeks to investigate the performance of Nigerian firms in this regard so as to identify the challenges on the part of the country's accounting profession if any.

Objectives

The paper is focused towards achieving the following its objectives.

- 1) Ascertaining the quantum of voluntary information disclosed by firms in Nigeria through their annual reports and other sources
- 2) Establishing the degree of consensus between firms and investors regarding voluntary information preferences
- 3) Suggesting possible areas needing further research concerning firms and their information disclosure strategies, investors' information needs, confidence crisis and the development of corporate Nigeria

Review Of Related Literature

Voluntary disclosure as defined in the literature, (Firth, 1979; Raffournier, 1995; Wallace, 1988) is the practice by which firms voluntarily provide users with information above statutory limits. Factors accounting for voluntary disclosure include among others; need to boost investors' confidence (Cooke, 1991), satisfy environmentally induced political pressure (Cooke, 1992; Meek et al. 1995) and what Lang and Lundholm (1993) refer to as bandwagon

effect.

Over the years a significant volume of literature has emerged in respect of the voluntary information disclosure decisions of firms and the studies in this area can be grouped into three.

The first are those focusing on the quantum of disclosure (Botosan and Plumlee, 2002; Buzby, 1974; Cooke, 1989; Firer and Meth, 1986; Glen and Debreceeny, 2007; Wallace, 1988). Wallace (1988) conducted his study on the disclosure practices of Nigerian firms with the aim of ascertaining the extent of mandatory corporate disclosure in the environment. Based on a sample of 47 companies and a content analysis of their annual reports, he found among others that the level of disclosure was low with only 4 companies i.e. about 9 % achieving up to 50 % disclosure level.

The Second group investigates the effects of factors such as Size, Profitability, Status of Auditors and Industry belonging (Ettredge et al. 1999; Firth, 1979; Khalid, 2005; Meek et al. 1995; Wai and Nilmini, 2006; Wallace et al. 1994). Meek et al. conducted a study on the voluntary disclosure practices of US, UK and Continental European Multinational Corporations. Using a sample of 126 firms comprising; 116 from US, 64 from the UK and 46 from Continental Europe, they developed a disclosure checklist and reviewed the financial statements of the firms to determine the extent of disclosure. Further, the disclosure scores and a multiple regression model were used to find the extent to which the disclosure levels could be explained by factors including; International Exposure, Size and Profitability. Some of their findings were that Industry grouping and Size influence disclosure levels but not the case with leverage and profitability.

The third group consists of studies linking disclosure to market activities like; Share Price reactions, Cost of Capital effects and Shareholder reactions (Botosan and Plumlee, 2002; Easley and O'Hara, 2004; Healy and Palepu, 2001; Lang, and

Lundholm, 1996). Despite the large volume of existing literature in this segment, the findings remain generally inclusive. While for instance Botosan and Plumlee (2002) found no significance evidence of interaction between information disclosure and firms' cost of capital, Frost et al. (2002) confirm the hypothesis that the strength of disclosure systems associate positively with market liquidity after controlling for; stock exchange size and legal system (Ewa, 2004).

Despite the high volume of literature in this research paradigm, it would appear not much has been documented in respect of the developing countries in general. This study therefore seeks to close this void by examining the voluntary disclosure practices of firms in Nigeria especially in the era of financial crisis. The conjecture being tested is that firms would like to promote their images so as to able to wade through the problems induced by financial crisis. This is expected since as observed by Elliott and Elliott (2008), amidst financial crisis there would always be something of an explosion in the demand for information by a wide range of participating groups including, most importantly investors, bankers, creditors, trade unions, employees, market regulators and the general public. **METHODOLOGY**

The research data was sourced from the year 2008 Published Annual and Corporate Governance Reports submitted to the Securities and Exchange Commission (SEC) by Quoted firms. A sample of 50 Nigerian firms quoted on the Lagos Stock Exchange was selected using size as the criteria. Initially a total of 80 firms were selected with the final sample reduced to 50, the rest of the firms being eliminated mainly for two reasons; incompleteness of reports (21) and non-availability of reports (09). Size is controlled for in the selection process since as observed by Cohen (2004) voluntary disclosure can be expensive and as found by Meek et al. (1995) size has a positive influence on the voluntary disclosure decisions of firms.

Disclosure Checklist

For purposes of identifying the specific voluntary information to look out for, a disclosure checklist was constructed with reference to checklists used earlier in the literature by Firth (1979), Meek et al. (1995) and Raffournier (1995). The checklist contains a total of 51 variables sub-divided into 6 categories as provided in table 1.

Table 1
Breakdown of Information Disclosure Items

S/N	Category of Information	Number of Variables	%
1	Board Policy Issues	10	19.61
2	Products, Major Markets and Competition	09	17.65
3	Major Expansion and Disposal Plans	07	13.72
4	Contributions to Charity and Social Responsibility	08	15.69
5	Staffing and Personnel Issues	06	11.76
6	Impact of Inflation and Other Economic Variables on Performance	11	21.57
	Total	51	100

Source: Author's own grouping

Scoring Criteria

The scoring criteria is based on a scale ranging from 0 to 5 meaning, 0 is awarded where an expected information is not disclosed, and 1 to 5 points awarded were an item is disclosed with no of points depending on degree of details. This approach though criticized for its subjectivity (see Cooke, 1992 and Raffournier, 1995), is still considered capable of ensuring equity in a scoring process since in the opinion of Cooke (1991), firms disclosing more details are rewarded above those providing scanty information. Going by the adopted scoring process, the total disclosure (TD) score for each firm is expressed as follows;

Further, in order to avoid situations where firms are

$$TD = \sum_{i=1}^m d_i$$

Where;

$d = 1$ to 5 if an item d_i is disclosed and to what extent 0 if the item d_i is not disclosed

$m =$ the maximum number of items covered in the disclosed index

awarded 0 scores in cases of information items not relevant to them, a situation that others consider as penalty (Cooke 1989; Raffournier 1995) we adopt a system of excluding in the scoring criteria, items which are considered irrelevant in cases of the individual companies. For example, information on employee participation in profit sharing and other schemes is relevant only to companies that operate such schemes. With such adjustments, the maximum score (M) firms can earn varies and is obtained thus;

$$M = \sum_{i=1}^n d_i$$

Where;

$d =$ expected item of disclosure

$n =$ the number of items which the firm is expected to disclose given that, $n \leq 51$

The total index for each firm is then obtained as TD/M . These individual firm indices are then divided by 50 the total number of firms in the sample to have the mean values which form the basis for our analyses and discussions.

Guthrie and Parker (1990) observed that validation is an integral part of any empirical research and thus to ensure the safeguarding of validity and reliability of the research data, one independent scorer was engaged to repeat the scoring process which led to the resolution of divergences in the individual scores awarded.

Results and Discussion

To aid in the analyses and discussion of our results, reference is made to an Investors' corporate information ranking obtained from a 2006 Survey by the European Union's Corporate Governance Institute. In the survey investors were asked to rank various voluntary corporate information based on the following scale of preference: Highly Relevant 4 (Points); Very Relevant $(3$ Points); Relevant $(2$ Points); Fairly Relevant $(1$ Point); Not Relevant $(0$ Point). A summary of results from the survey is displayed in table 2

Table 2
Voluntary Information Preferences by Investors

S/N	Information Category	Weight	Ranking
1	Board Policy Issues	4.95	1
2	Products, Major Markets and Competition	4.91	2
3	Major Expansion and Disposal Plans	4.89	3
4	Contributions to Charity and Social Responsibility	2.16	4
5	Staffing and Personnel Issues	2.11	5
6	Impact of Inflation and Other Economic Variables on Performance	1.98	6

Source: European Union Corporate Governance Institute.

The table shows among others that information on directors, their interests and board policies had the highest weight of preference while impact of inflation and other economic variables on

performance was of the least preference given a weight of 1.98. These results are married to the results of our content analyses and the combination provided in Table 3.

Table 3
Summary of Disclosure Statistics and Ranking

Item of Disclosure	Weight Attached	Users' Ranking	% of Firms with Zero score	% of Firms With max. Score	Mean Score	Firms' Ranking
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Board Policy Issues.	4.95	1	41.5	12	22.33	3
Products, Major Markets and Competition.	4.91	2	60.21	28	20.21	5
Major Expansion and Disposal Plans.	4.89	3	23.11	54.62	35.55	1
Contributions to Charity and Social Responsibility.	2.16	4	45.11	35.87	19.36	6
Staffing and Personnel Issues	2.11	5	53.84	23.21	24.23	2
Impact of Inflation and Other Economic Variables on Performance.	1.98	6	45.97	27.82	20.37	4

Source: Annual Reports and SEC Returns.

Column 1 of the table shows the weights attached to the various items of voluntary disclosure by users. This indicates the degree of importance average users attach to each category of information.

In column 2, the table shows the ranking preferences of users in respect of all the information items in our index.

The mean score for each item is provided under column six, while the seventh column is used to show the ranking of the mean disclosures.

Assessing the Quantum of Voluntary Disclosure

Going by the contents of the table, the variable with the highest disclosure score is Major Expansion and Disposal Plans with a mean score of 35.55 % which comes first by the firm's ranking. This level of voluntary disclosure can be classified as very low given that, Wallace (1988) had earlier reported a disclosure level above 50 % among firms in the same environment even though his study covered a combination of voluntary and mandatory disclosures. The disclosure level is also low going by the findings of Naser and Nuseibeh (2003) who documented evidence of voluntary disclosures levels ranging up to 50 % among Saudi Arabian firms. Earlier Wallace et al. (1994), reported disclosure levels approaching 80 %

among Spanish firms. In the current context, the relatively low voluntary disclosure visible amongst Nigerian firms may be attributed to the fact that such information disclosure is not a subject of any regulation and so, firms are at liberty to provide such information or not. At the same time, the effect of the cost of disclosure can not be completely ruled out since as reported in the literature (Cooke 1991; Meek et al. 1995), costs can have inherent influence on disclosure. For instance direct costs in the form of the resources used in gathering, processing, auditing and communication of information can be very high. These apart, as rightly observed by Depoers (2000), there are the indirect costs relating to competitive disadvantage, with their associated disincentives to innovate or invest, and the costs resulting from interference or regulation by governments. Meanwhile, the issue of costs hindering corporate information disclosure is still contestable since some users have criticized this apparent constraint on two grounds. That firstly, the legitimacy of external users' information needs should be recognized even when such information is not also used for managerial purposes. Secondly, that such differences are considerably overemphasized by firms since much of the information requested by users is also required by firms for their planning, control and other needs. What seems clear therefore is that apart from the cost factor, firms may not like to sustain high levels of disclosure since decisions and the consequences are characterized by imprecision and uncertainty. For instance, as observed by Adams (2002), the benefits and indirect costs of disclosure cannot be so easily identified and measured. So if for example, behavior does alter as a result of disclosure, how can the changes attributable to the availability of new information be isolated from the multitude of other influences? Along similar line, Frankel et al. (1995) wondered how for example could the effect be measured of disclosure or non-disclosure on, a firm's potential to raise capital; its employees' increased/decreased bargaining power or increased awareness of the decline/improvement in company profitability; and on the competitive advantages obtained by

other firms. On the basis of these observations it would therefore appear that firms in Nigeria seem not to have considered using information disclosure as a means of reducing the side effects of the recent global economic crisis for reasons of costs and failure to appreciate the benefits of such disclosures.

The second segment of the result from this study shows that firms in the Nigerian environment disclose information not necessarily in harmony with user preferences. As shown by statistics in table 2, there is a wide gap between users' and firms' ranking of the items disclosed. While for instance to users, information on board policies is of highest importance with an attached weight of 4.95 points, by the firms' preferences, this information is ranked third with a mean disclosure of just 22.33 %. Similarly only 20 % of the firms had maximum scores with regards to this variable while 18.50 % of the firms scored zero in this area. On the other hand, users give second priority to products, major markets and competition with a weight of 4.91 points whereas; firms view this information as fifth priority resulting in a mean disclosure score of just 20.21 %. Additionally, only 28 % of the firms had maximum scores in this area with 42.30 % of them scoring zero. This lack of alignment between users' and firms' preferences may probably be linked to underdeveloped, narrow and insensitive nature of the Nigerian capital market which makes firms assume that voluntary disclosures may not have any impact on the attitudes of the investing public. Probably firms too are aware of the perception in the literature that corporate information is always belated (Whittington, 1993), incomplete and irrelevant to the decision needs of users (Botosan and Plumlee, 2002; Easley and O'Hara, 2004). But even then, there is still the need for firms especially in an era of financial crisis to see to it that they provide relevant and reliable information to the market. In this direction, the International Accounting Standards Committee (IASC) and the American Institute of Certified Public Accountants concur that; information must be relevant and reliable if it is to be useful to investors

in estimating companies' future cash flows. Backing up this view is the fact that, economic theory generally suggests a negative association between disclosure level and the cost of equity capital (Ewa 2004; Botosan and Plumlee 2002). If this theory holds in practice, it means firms in Nigeria could be able to project their images to the investing public and other providers of funds through voluntary disclosure especially in era of financial crisis. This by implication is what the firms are not able to achieve in view of the low and irrelevant nature of their current disclosures. What is required therefore is for firms in Nigeria to find means of improving their information disclosure efforts especially during periods of economic downturns. For now, the low level of such disclosure and the failure to align same with the information preferences of users mean a gross challenge to both the firms and their accountants. The country's accounting profession comes into focus in this regard since its members play vital role in corporate information gathering, auditing and presentation. The production and dissemination of qualitative corporate information according to Elliott and Elliott (2008) brings about benefits to both users and the reporting firms. Accounting professionals should therefore take as a challenge, the need to improve their service delivery to firms in the country. This is not only for purposes of promoting corporate harmony, growth and the overall development of the nation's economy, but also a means of placing the country in the right position to cope with current global trends in corporate reporting especially given the global passion for the enhancement and harmonizing of the existing framework through the advent of International Financial Reporting Standards (IFRS).

Conclusion and Recommendations

This paper reports on the quantum of voluntary disclosure by Nigerian firms and the alignment of preferences between them and information users. By content analyzing the annual and corporate governance reports of a sample of 50 firms, it was observed that the volume of voluntary disclosure is not only low, but also not in tone user

preferences. This development may not be unconnected with cost, the undeveloped and narrow nature of the capital market in the country and the failure of accounting professionals to provide qualitative services especially as it affects information preparation, quality assurance, auditing and reporting. Therefore, the accounting profession in the country has to find ways of confronting such a challenge especially in periods of financial crises such as the one recently experienced.

Consequent to the findings and conclusions from this paper there appears the need for further research especially for purposes of ascertaining other possible reasons for the low level of voluntary disclosure in the Nigerian environment. Similarly, since in this paper firms were examined collectively without recourse to industry or other classifications, it is recommended that research efforts be put towards investigating the patterns of voluntary disclosure associated with firms in different sectors of the economy.

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