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ABSTRACT

Financial reporting system and disclosure are very important means of communicating financial performance and information asymmetry to the shareholders and users of accounting information. It is stated that corporate disclosure is crucial for an efficient capital market. The demand for sound financial reporting emanates from asymmetry and principal agent conflicts that are the conflict between the managers’ and the shareholders’. This research paper is purely a conceptual review. Financial performance measurements technique like Return on Asset (ROA) and Tobin’s q are discussed and there linkages with corporate governance mechanism. The paper proposes to use multivariate panel data analysis on the corporate reporting transparency variables and proxy for firm performance. The increase in economic change, globalization of trade and businesses and internationalization of capital market has called for better transparent financial reporting.

Key words: Financial Transparency, Corporate Governance, Information Asymmetry, Firm Performance and Agency theory

INTRODUCTION

Corporate financial disclosure is crucial for the operational capital market that is efficient [16]. Firms provide disclosure either voluntary or mandatory through regulated financial reports and statement which includes financial statements, footnotes, management discussion, corporate governance, compliance to International Financial Reporting Standard (IFRS) and analysis, and other regulatory compliance [16]. Furthermore, a lot of companies employ voluntary communication, such as “management forecasts, analysts’ presentations and conference calls, press releases, internet sites, and other corporate reports”[16]. Other information disclosures of firms are by the third parties in business, such as experts, financial analysts, and the financial press industry.
The latest corporate governance and the scandal in financial reporting in both developed and developing economies have led to the world realizing the need for that sound and good corporate governance (CG) practices [12]. These includes transparency of financial information and full disclosure (T&D)[21]. Additionally, these are important for long-term sustainability of firm as well as for efficient allocation of capital in the in the business environment both local and internal market. Starting with the Sarbanes-Oxley Act in the US, many countries have experienced an unprecedented amount of governmental and institutional intervention and are now in the process of restructuring their current laws, regulations and enforcement capabilities within the framework of best corporate governance practices.

The objectives of this research paper is to examine the peculiarities of disclosure properties in Nigeria and its relationship between firm performances and its relationship between the various dimension of disclosure such as ownership structure and investor relations, financial transparency and information disclosure, and board management structures and processes” [21] and firm performance in Nigeria [9, 36]

**Literature Review and Hypotheses Development:**

**Disclosures:**

In order to promote excellent corporate governance and code of best practice in Nigeria, firms should engage in increased disclosure and transparent reporting beyond the statutory requirements in the CAMA[30]. The board should be responsible that the financial statements and report present a true and fair view of the general affairs of the company. The BOD/Companies should ensure that the company’s annual report includes CG report in percentage that carries clear information on the strength of the company’s governance structures, policies and practices to stakeholders. The report should include the following:

1. composition of Board of directors as set out in governance Code stating names of chairman, the CEO, executive and non-executive directors as well as independent directors of the company
2. The roles and responsibilities of the board setting out matters which are reserved for the board and those delegated to management.
3. The Chairman’s statement in the annual report should provide a readable Summary of the company’s overall performance for the period under review and future prospects and should reflect the collective view of the Board of directors.
4. The annual report or statement should contain a statement from the Board with regards to the company’s degree of compliance with the provisions of this corporate governance Code.
5. In evaluating and reporting on the extent of compliance with this corporate governance Code, the board of directors may engage independent experts. Where such is done, the name of the consultant should be disclosed in the annual report. A summary of the report and conclusions of the consultant shall be included in the firm’s annual report.

**Financial Reporting Transparency:**

Transparency is integral component to corporate governance, excellent transparency reduces the asymmetry information between firm’s management and financial shareholder’s (equity and bondholders and creditors and other interested parties in business), mitigating the agency problem in corporate governance [5, 29]. In Nigeria, Africa and most part of the world, lack of transparency is ascribed to the closures of notable organization such as banks [28]. Financial transparency of the organization in totality also includes public information on firm regulations and policies [28]. Company’s asset risks could be in bad shape as a result of weak transparency. Furthermore, [7] argues that timely incorporation of economic losses in the published financial statements can increases corporate governance effectiveness. Institutional Variables Used to Measure Corporate transparency comprises Financial accounting disclosures of major stakeholders, Timeliness of disclosures, Information dissemination and completeness of information [28]

**Importance of Transparency:**

Transparency in this context is defined as “public disclosure of reliable and timely information that enables users of such information to make an accurate assessment and judgment of an organization financial condition and performance, business activities, risk profile and risk management practices”[4]. This definition identifies that disclosure of accounting information alone does not automatically result in transparency of the organization as a whole. To achieve transparency, an institution must provide timely, accurate, relevant and sufficient disclosures of qualitative and quantitative information that enables users to make proper and enhanced assessment of the firms activities and risks inherent in those activities that can leads to the overall performance [4, 21].

Strong transparency and disclosure keep corporate stakeholders and other interest in the business better informed about the way the firm is being managed and governed. In addition, studies suggest that better disclosure has a positive impact on the efficient functioning of capital markets as it sends signal to the potential investors. In particular (Healy & Palepu, 2001) review research on financial reporting standards and voluntary disclosure of accounting and non-accounting information by management, and concludes that the increased pace of general activities of the business concern. Managers can be stimulated to make voluntary disclosure for so many reasons. First of all they can
be driven by the expectation of reducing the cost of capital by reducing the information asymmetry and the uncertainty of return on investment perceived by investors [24]. Secondly, managers can voluntarily disclose when the shares are in bad situation or earnings performance, when they are held accountable in order to reduce the likelihood of evaluating their performance and to explain why bad performance [4]. In this case, managers may likely disclose relevant and material information in order to protect themselves from possible legal actions for inadequate or untimely disclosure [21,32] however, talented managers may have an incentive to make voluntary earnings forecasts in order to enable the market to appreciate their role and capabilities [25]. Furthermore, the literature suggest that it is in the company’s interest to provide more voluntary disclosures, thereby reducing the information asymmetry component and increasing the state of confidence by the public and the firm's cost of capital and increasing the firm's stock liquidity [4,23].

Firm Performance:

Nuryaman [27] defined “performance as a description of level of achievement of the implementation of an activities / programs / policies in realizing the goals, purpose, mission and vision of the establishments as stated in the formulation and long term schemes (strategic planning) of an institution, can generally be said that the performance is the achievement which can be achieved by firms in a particular period.” Nuryaman [27] posit that the measurement performance can be described as a process of measuring the usefulness measures. This measurement is tailored towards identifying weakness of any firm and performance of the companies. This measure of performance is either the accounting measure or the market measure of firm performance [19]. The accounting measure of performance is ROA which is indicated by market profit margin on sale and Earning Per Share (EPS). The firm earnings and the profit for the year are measured from the amount of capital contributed for the running of the business.

Transparency and firm performance:

Corporate financial transparency is an act of signaling the detail transactions of a firm to the users of their statement and reports. Management researchers have applied signaling theory to help explaining information asymmetries in the broad of research effort [20]. Similarly, agency problem is solved when the BODs report is transparent in a way that information asymmetries adversely impact on the owners ability to effectively monitor whether his interest is been properly taken care of [1].

Chronic poor financial or firm performance could be as a result of sharp practices and corruption, false financial reporting which could lead to poor firm performance. The research conducted by Rogers [28] identifies that companies that disclose all relevant and material information in their annual financial and reports are said to be transparent. The study that find out that financial transparency have a strongest link with financial performance [9,37]. In a similar research [21] provide both empirical and theoretical evidence that market transparency is found to have enhanced productivity of many organizations. Chiang [9] postulated that transparency of ownership structure, financial disclosure and financial transparency and board and management disclosure have serious positive implication on firm performance. In contrast, Major and Marques (2009) in his research, “the relationship between IFRS and financial performance” states that there is need to give more priority to sound and good corporate governance practices as the research reveals that IFRS convergence and adoption is not linked with higher corporate performance. The level of relationship of IFRS with performance cannot be compared to that of good and strong corporate governance [11]. From the above explanations, the following is hypotheses:

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

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

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

Theories:

Signaling theory is highly concerned with reducing information asymmetry between parties in business. When top management increase stockholding in their organization, they will communicate to the capital market that the method employed in the diversification is in the best interest of stakeholders in business (Brandes, Hadani, & Goranova, 2006; Edogbanya & Kamardin, 2015; Spence, 1973; Zhang & Wiersema, 2009). On the other hand, agency theory can also be used to explain the behavior of the Independent variables and the dependent variables. It explain that the right of the owners of business is protected to a greater level as a result that the owners will know the detail activities of their activities [17]. The two theories explained above can perfectly support the framework developed by the study.

Research Framework and Methodology:
Methodology:

The propose population for this research is the total public listed companies listed on the Nigerian Stock Exchange market. The total listed companies are 192 out of which 136 companies which are the non-financial companies are sampled for this study. The researcher proposes 100 companies out of the sampling frame using [22]. The scope of the research is between 2010-2013 to take care of pre and post adoption of IFRS as an indicator of transparency. The researcher will employ dynamic panel data to analyze data collected from secondary source and annual financial report of companies under study. Multivariate regression will be used to test for the following, multicollinearity, normality, homoscedasticity and linearity.

Table 1.2: Operationalization of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Acronyms</th>
<th>Operationalization</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin’s Q</td>
<td>QRATIO</td>
<td>This is the ratio of the market value of common shares plus the total debt divided by the book value of the total asset of the company</td>
<td>Haniffa and Hudaib, (2006) Latif et al., (2013)</td>
</tr>
<tr>
<td>Return on Assets (ROA) %</td>
<td>ROA</td>
<td>Earning before tax (EBT) divided by the total assets</td>
<td>Haniffa and Hudaib, (2006)</td>
</tr>
<tr>
<td>Transparency</td>
<td>TRAOWN</td>
<td>Total score of the transparency in the entire category listed and the compliance and adoption of relevant reporting standards by organizations. It is dichotomous for 1 for disclosure and 0 if otherwise</td>
<td>Tsamenyi et al., (2007)/Zaheer (2013), Adelopo, (2011b) Meek et al., (1995)</td>
</tr>
<tr>
<td>Financial transparency and information disclosure</td>
<td>FINTRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management structure and process</td>
<td>BOMASP</td>
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The Disclosure Scoring Index:

This study focuses on the disclosure of ownership structure, financial transparency and information disclosure, board management process and firm performance of in Nigeria. T&D scores will be examined using the disclosure items adapted from the study of Tsamenyi et al. [35], Meek et al., [26], Adelopo [2] searching best practice of information disclosure items in the 2010-2013 annual reports of the sample firms. To measure the information transparency of selected firm. The transparency and disclosure attributes is divided into three sub-set these are “transparency of ownership structure and investments with 11 attributes, financial transparency and information disclosure with 17 attributes and board and management structure and process with 14 attributes” which brings the number of attributes to 42 that is included in this study [2,26]. One score point is awarded for each criterion for a firm that meets it and zero for otherwise and NA for not applicable. The inclusion of each attribute is scored on a binary basis as “yes” “no” and “N/A” to ensure objectivity. Each “yes” answer is equal to one point and the overall T&D score for each firm is calculated. The scoring methodology is also in consonant with [35,36,26] who states that Unweighted scores are used for number of reasons because of its subjectivity that would be involved in allocating weights when user preferences are unidentified and when users in different nations are likely to assign different weights to similar attributes. This measurement is in line with Chow and Wong-boren. The information attributes were developed in line with the information T&D rules contained in the OECD principles. The study adapts this scoring guideline because it is in line with Nigeria SEC of CG Guidelines on best practices. The OECD principles recommends CG framework that will ensure timely and precise disclosure is made on
companies’ financial position, performance, ownership and governance.

Model Specification:

Independent variables consist of corporate reporting variables adopted from Chiang [9] Kosedag and Aksu[21] and Tsamenyi et al. [35] namely transparency of ownership structure and investments (TRAOWN)financial transparency and information disclosure (FINTRA) and board and management structure and process (BOMASP). The dependent variables for this study include Tobin Q (QRaito) to take care of market performance and Return on Asset (ROA) to take care of accounting performance. The following are proposed models to analyze the relationship between the various corporate reporting transparency variables and corporate firm performance

Model 2:

\[
\begin{align*}
\text{Tobin } Q &= \alpha_0 + \beta_1 \text{TRAOWN} + \beta_2 \text{FINTRA} + \\
\text{ROA} &= \alpha_0 + \beta_1 \text{TRAOWN} + \beta_2 \text{FINTRA} + \\
\end{align*}
\]

Find above the explanation of the variables in table 1.2.

Conclusion:

Corporate governance is an important and key factor in solving agency problem between the agent and the principle [17]. The implementation of corporate governance code will lead to performance of companies in Nigeria. The signaling theory is also used in this paper to explain the relationship between disclosure and firm performance. It is also important to note that panel data analysis will be applied in analyzing data collected for this study.

REFERENCES

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