



# Firm Size and Financial Performance: A Determinant of Corporate Governance Disclosure Practices of Nigerian Companies

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## Abstract

Corporate governance disclosure is a voluntary requirement for companies in Nigeria. Some companies have disclosed their level of adherence under a separate heading in the published financial reports of the company, while some do not report and some partly disclose their level of adherence. What factors could therefore be responsible for voluntary disclosure of the corporate governance practices Nigerian companies? Is voluntary disclosure as a result of performance or size? This study therefore evaluates the role of financial performance and the size of firms in the voluntary disclosure of Nigerian companies. Using the financial data of 137 companies both from the financial and the non financial sectors in Nigeria, this study uses the weighted logistic regression method of analyses to evaluate the type of relationship that exists between corporate governance disclosure practices of Nigerian companies with company size and financial performance. The study reveals that there is a significant positive relationship between the financial performance of companies and corporate governance disclosure. It also revealed that there is a significant positive relationship between firm size and corporate governance voluntary disclosure. It was therefore recommended that regulators should put in place measures to ensure that all companies operating in Nigeria are mandated to disclose the corporate governance information in a separate section of the annual report, alongside all other information.

**Keywords:** Corporate Governance, Voluntary Disclosure, Firm Size, Firm Performance

## Introduction

Accounting exists primarily to provide relevant information to the various stakeholders, which is dependent on the type of relationship that exists between the company and the stakeholder. Accounting, which is also the language of business, informs the various stakeholders of a business the summary of all the various activities that transpired in the business entity during a given period of time in a quantitative manner

(Chih-Fong & Yen-Jiun, 2009). Accounting is the channel of communication in a business enterprise, through which the managers of the business relate with the owners and other stakeholders in the business.

The stakeholders of a business enterprise are the users of the financial report of a business enterprise or anyone who has interest either directly or indirectly in a business enterprise (Murya, 2010; Appalachian, 2006; Freeman,

Wicks, & Parmar, 2004), while financial reports are the end products of the accounting activities of a business entity (Universal College of Accountancy, 2004). The contents of these reports however are financial data which if properly analyzed is transformed into accounting information that is used for economic decision-making by the users (Murya, 2010; Chih-Fong & Yen-Jiun, 2009).

The ability of the financial reports to meet the needs of its users is what informs its usefulness and the level of reliability (Uadiale, 2012) placed on it by its users (Kothari, Karthik & Skinner, 2010). Thus when a financial report is unable to meet the needs of its users, it becomes of little or no value. The value of financial data is subject to the quality of report presented, which is subject to the rate at which the users rely on the information it gives (Kothari, Karthik, & Skinner, 2010). If the content of the financial data is faulty, it gives a wrong picture of the business enterprise, which also affects the level of reliability of such documents, thus faulting the credibility of the financial report (Uadiale, 2012). To enhance the value of financial statements, the various information needs of the various users must be met.

Due to the inadequacies of the contents of the various documents in ensuring proper disclosure from the preparers of financial reports and the identification of the need for effective governance practices, the international financial and corporate environment adopted the code of corporate governance. In Nigeria, the financial regulators also published this code in 2003, which was further amended in 2011. This code is expected to regulate the excesses of the executives and ensure effectiveness of the non-executive directors in the company. The code stipulates the need for adequate disclosure of the level of adherence of the company to the contents of the code.

However, to what extent have Nigerian companies adhered to the contents of this code with respect to disclosure? What is the role of firm performance in the level of disclosure of Nigerian companies? What is the role of firm size in the disclosure of corporate governance in Nigerian companies? This study therefore attempts to determine the type of relationship that exists between the financial performance of companies and corporate governance disclosure

as well as evaluate the relationship that exist between firm size and corporate governance disclosure. The following research hypotheses are posited:

**H<sub>1</sub>:** There is a negative relationship between firm performance and corporate governance voluntary disclosure in Nigeria

**H<sub>2</sub>:** There is a negative relationship between firm size and corporate governance voluntary disclosure in Nigeria

## Review of Literature

### Corporate Governance in Nigeria

The collapse of notable industrial and financial giants like Enron, Worldcom, Parmalat, etc as well as the rate of earnings restatements and claims of earnings manipulation by chief executives of failed corporations resulted in a number of Corporate Governance reforms and enactments all over the world. Some of the enactments include; the Blue Ribbon Committee 1999; Sarbanes-Oxley Act, United State House of Representatives 2002; Securities and Exchange Commission 2002; Business Roundtable 2002; SAS No. 89, AICPA 1999; SAS No. 90, AICPA 1999). In Nigeria, rules like the Prudential guidelines of 1990, Corporate Governance Codes of SEC, 2003, CBN, 2006, Insurances code of 2009 and SEC Code 2011, were some of the efforts to checkmate and correct the governance activities and structure of corporate bodies in the country (Bello, 2011). These codes and pronouncements/documents were enacted to give a lasting solution to the problems at hand and has been viewed as the antidote for the prevention of the reoccurrence of such problems experienced in the past. The Enron scandal, the Worldcom collapse, collapse of 26 banks in Nigeria in the year 1997 as well as the Cadbury Nigeria Plc case of falsification of report in 2006 have been linked to misinformation on the part of the financial report preparers and the board of directors. This has been said to be as a result of unavailability of reliable accounting information (Adeyemi & Asaolu, 2013).

Corporate governance, has been said to be a major issue of concern of all the pronouncements and codes and has received wide acceptance by all across the globe, with individual countries enacting country targeted codes of corporate governance to curb the reoccurrence of the past

dilemma. Effective corporate governance however, hinges on transparency, accountability, and corporate control. corporate governance has been identified as an instrument that will improve investors' perception of the reliability of a firm's performance, as calculated from the reported earnings (Bugshan, 2005).

The code of governance and best practices was first published in Nigeria in the year 2003. This code is expected to control the authority of those saddled with the responsibility of directing the affairs of the enterprise, supervise the actions of the executives, ensure transparency and accountability in company governance within the regulatory framework and other purposes as listed in the code (Security & Exchange Commission, 2003).

However, the bodies saddled with the supervisory, regulatory and enforcement roles should have the authority, integrity and resources to carry out their duties in a professional and objective manner (OECD, 2004), so as to enforce the laws enacted by them and other regulatory bodies. The inconsistencies and lack of harmonization of the various regulations guiding financial reporting in Nigeria (Microfinance Africa, 2010; Okoye & Alao, 2008), and the lack of regulatory uniformity in the time allowed for annual returns of financial statements, have affected the financial reporting culture in Nigeria (Microfinance Africa, 2010). This has been a major issue in the Nigerian business environment, where companies publish financial reports of five years once in every five years, giving room for misappropriations and creative accounting. Also, some companies present theirs once in two years, while some once in three years. In a country like Nigeria, it is difficult to get the financial reports of companies for the year 2012 in June 2013, even when some sectors have mandated a change in financial year to December every year.

In Nigeria, there is also the problem of duplication of authority, and overlapping authority, whereby two or more regulatory bodies are in charge of a single aspect of the business and reporting requirements. While the Company and Allied Matters Act required that companies make returns to Corporate Affairs Commission (CAC) after presentation at the Annual General Meeting, which should not be more than 9 months after its preparation, the Insurance companies law stipulates that insurance companies make their

returns not later than 30th September of every year. For banks, their returns are required to be made not later than 4 months after its financial year end. This therefore brings conflict on when the report should be presented and which of the laws is supreme and should be followed. A company therefore hides under the umbrella of the law that is most favourable. Penalties and sanctions are however not strictly meted on defaulters, while the penalties are trivial compared to the offence committed, thus a gap in the Nigerian business law.

Compliance with CAMA is not strictly monitored by CAC, which may be as a result of the overlapping rules and regulations of the various regulatory bodies, while some of the provisions of CAMA are not consistent with the International Financial Reporting Standards (Okoye & Alao 2008). With the assumption that the objective of accounting standards, principles or regulations are to facilitate the use of financial statements in the efficient allocation of resources in an economy, without misinforming the average, unsophisticated investor, which thus reflect SEC's mission of promoting fairness (Kothari, Ramanna, & Skinner, 2010), the Nigerian investor has not fared well as a result of the lack of harmonization of the various laws and regulations in the Nigerian financial reporting environment.

### **Corporate Governance and Voluntary Disclosure**

Financial reporting disclosures are major instruments adopted by investors in making informed financial decisions on whether to invest in a company or not. Financial reporting disclosures are essential to the stakeholders of companies, since they use these disclosures for economic decision making about their investment in the company (Hasan, Hossain, & Swieringa, 2010). The accounting principles of disclosure requires that financial statements should present all relevant information which will not mislead the users of the report in decision making (Adeyemi & Asaolu, 2013).

A meta-analysis of 29 studies (Kamran & John, 1999), shows that there is a significant and positive relationship between the disclosure levels and the corporate size of the sampled studies. This therefore shows that prior studies conducted outside Nigeria revealed that firm performance has a positive effect on the

disclosure level of companies. This is a pointer to the fact that a company with good financial report is likely to disclose detailed information about the company, while a company with losses may likely hide important information about the company. Also, from the study it can be inferred that the bigger the size of companies, the higher their disclosure level, which suggests that big companies disclose more than the small companies. A study on the role of firm size on voluntary disclosure of Nigerian companies by (Ismail, 2011), concluded that there is a significant positive relationship between voluntary disclosure of Nigerian firms and their size. It was also stated that there is a positive significant relationship between firm performance and voluntary disclosure in financial reports. However, (Ismail, 2011) considered other disclosure parameters, while this study is considering the corporate governance disclosure of the sampled companies.

The code of corporate governance as published is expected to ensure greater transparency and fairness on the part of the executive directors, ensuring that all the detailed information relating to the company is disclosed. As asserted, corporate governance is significantly associated with the overall financial reporting disclosure index (Hasan, Hossain, & Swieringa, 2010). Adeyemi & Asaolu (2013) noted the transparency and adequate disclosure of information are key attributes of good corporate governance. It is also expected that the code if effectively complied with holds the management of the organization accountable to the shareholders and other stakeholders in the company. However, disclosure of all types of information is influenced by corporate governance attributes, ownership structures and corporate characteristics (Barako, 2007; Chau & Gray, 2002).

### **Voluntary Disclosure and Firm Performance**

Research has shown that one of the factors responsible for the level of voluntary disclosure of companies is performance. The level of profitability of a company has been associated to the level of voluntary disclosures of companies, (Hasan, Hossain, & Swieringa, 2010) in a study conducted in Bangladesh concluded that the profitability level of companies is significantly associated with the overall financial reporting disclosures index. Also Adeyemi & Asaolu (2013), adopting the use of panel data for the period

2005-2009 for 13 banks in Nigeria, concluded that financial reports disclosure is an important indicator of potential performance of the sampled banks in Nigeria. Umoren & Okougbo (2011) noted that corporate managers are usually reluctant to give detailed information about a non-profitable outlet or product, which may result into partial disclosure of a lump profit attributable to the whole company. This therefore leads to the question: what is the relationship between firm performance and corporate governance voluntary disclosure in Nigeria?

### **Voluntary Disclosure and Firm Size**

The size of a business enterprise affects different things in the business, such as the goodwill, customer loyalty, patronage as well as its level of responsiveness to the stakeholders. The size of the business will determine the shareholder base as well as the capital base of the business which informs the level of stewardship expected from the managers of the business and the board of directors. Small size company may not necessarily publish its reports and when this is done, it may be as a result of the statutory requirements. However, large companies because of the large number of shareholders and the diverse background of its shareholders will be forced to disclose all necessary information, so as to retain and enhance its goodwill, investment and attract more investors to the company. Past studies have shown that large firms usually adopt voluntary disclosures more often than smaller ones (Khodadadi, Khazami, & Aflatooni, 2010; Barako, 2007). This therefore propels the need to identify the type of relationship that exists between firm size and corporate governance voluntary disclosure in Nigeria.

### **Methodology**

This study adopts the weighted logistic regression method to determine the type of relationship that exists between firm performance, firm size and corporate governance voluntary disclosure in Nigerian companies. This study adopted the use of panel data for 137 companies for the period 2003 to 2010. This data was subjected to the heteroscedasticity test, which shows that the data was heteroscedastic, thus the need to apply weight on company basis (Kim & Imai, 2012). The heteroscedasticity of the data is as a result of the varying sizes of companies in the sample as well as the performance. The logistic regression

method was adopted because of the binary nature of the dependent variable. Dummy variables were used to capture corporate governance voluntary disclosure. Companies that voluntarily disclose their level of adherence to the code of corporate governance in a separate section in the financial statements are coded 1, while companies that do not were coded 0 as appropriate. The study used return on assets (ROA) as a proxy for measuring financial performance, total asset (TA) for measuring size, while corporate governance disclosure information was retrieved from the financial statements of the sampled companies for the period of study. Ownership structure was however used as control variables for the model. The control variables used are the percentage of management ownership in the business, presence of block ownership as well as the involvement of family members on the board of the companies.

### Model Specification

$$\text{COPGVDIS}_{it} = \text{TA}_{it} + \text{ROA}_{it} + \text{MGTOWN}_{it} + \text{BLOCKOWN}_{it} + \text{FAMIBIZ}_{it} + e_{it} \dots \dots \dots \text{Equation (1)}$$

Where:

$\text{COPGVDIS}_{it}$  is Corporate governance disclosure of company  $i$  in year  $t$

$\text{TA}_{it}$  is the total asset of company  $i$  in year  $t$

$\text{ROA}_{it}$  is the return on assets of company  $i$  in year  $t$

$\text{MGTOWN}_{it}$  is the percentage of management ownership in company  $i$  in year  $t$

$\text{BLOCKOWN}_{it}$  is the block ownership of company  $i$  in year  $t$

$\text{FAMIBIZ}_{it}$  is the status of family ownership of company  $i$  in year  $t$

$e$  is the residual

### Results

This section presents the data used in the course of this study, using the research methods as enumerated in the previous section.

**Table 1: Descriptive Statistics**

Variable	N	Mean	Std Deviation	Minimum	Maximum
COPGVDIS	685	.4744526	.4997118	0	1
TA	747	2.37e+08	1.23e+09	389	2.35e+10
ROA	747	.0443113	.2018449	-2.04132	2.263246
MGTOWN	685	10.57496	19.518	0	100
BLOCKOWN	685	.9489051	.2203522	0	1
FAMIBIZ	685	.0934307	.2912477	0	1

Table 1 above gives the descriptive analyses of the data used for this study. The table further shows the unbalanced nature of the data used for analyses. The mean of the corporate governance voluntary disclosure is 47%, the mean of the

return on assets is 4.4%, the mean of percentage of management ownership is 10.6%, the mean of block ownership is 94.9% and the mean of family business is 9.3%.

**Table 2: Correlation Coefficient Matrix**

	COPGVDIS	ROA	TA	MGTOWN	BLOCKOWN	FAMIBIZ
COPGVDIS	1.0000					
ROA	0.0631	1.0000				
TA	0.1015	0.0156	1.0000			
MGTOWN	0.0477	0.0575	0.0843	1.0000		
BLOCKOWN	0.0337	-0.1221	-0.0869	0.1190	1.0000	
FAMIBIZ	-0.0074	0.0947	0.0582	0.4845	0.0749	1.0000

The matrix above shows that there is no strong correlation between the dependent variable (Corporate Governance Voluntary Disclosure) and the independent variables (Firm Size (TA) and Financial Performance (ROA)). Also there is no strong correlation between the dependent and the independent variables with the control variables. There is positive correlation between all the variables except family business. This

therefore means family businesses are not likely to voluntarily disclose information. Also this shows that there is a positive correlation between firm financial performance and corporate governance voluntary disclosure. It further shows that there is a positive correlation between firm size and corporate governance voluntary disclosure.

**Table 3: Effect of Firm Size and Financial Performance on Corporate Governance Voluntary Disclosure**

Variables	z-value	P> z  Sig	Coef	Std. Error
TA	16.73	0.000*	2.42e-10	1.45e-11
ROA	16.15	0.000*	.9766034	.0604653
MGTOWN	1.54	0.124	.0010391	.0006752
BLOCKOWN	9.12	0.000*	.425144	.0466326
FAMIBIZ	-16.71	0.000*	-7761239	.0464366
CONSTANT	-16.01	0.000*	-7282443	.0454754

\* Significant at 1% significant level

Table 3 above shows that there is a significant positive relationship between firm size and corporate governance voluntary disclosure of companies in Nigeria. This therefore indicates that the higher the size of the company, the higher the probability that companies will voluntarily disclose their level of adherence to the code of corporate governance in a separate section. This findings is in consonance with the study of Adeyemi & Asaolu (2013). Also the table above shows that there is a positive and significant level of relationship between firm performance and corporate governance disclosure of companies in Nigeria. This is a pointer to the fact that the higher the financial performance of a company, the higher the probability that the company will voluntarily disclose its level of adherence to the code of corporate governance in Nigeria. Also the bigger the size of a firm, the higher the probability that the company will voluntarily disclose its level of adherence to the code of corporate governance. This may be as a result of the company goodwill, which may be affected when the company is sanctioned or as a result of the company's ability to employ or attract able hands who see to it that all rules are adhered to for improved corporate brand. This is in agreement with the study of Khodadadi, Khazami, & Aflatooni (2010).

### Conclusions and Recommendations

This study, therefore concludes that companies with good public image as a result of financial performance and size are likely to disclose their level of adherence to the code of corporate governance in a separate section, which is expected to be the practice in the company. This therefore connotes that firms that are big in size will have a healthy corporate governance culture, while firms with good performance will not be afraid to disclose their level of adherence to the code of corporate governance, because they have nothing to hide.

This study however recommends that investors should consider the firm size of the company they intend investing in, as well as the performance of the companies, as these are pointers to the corporate governance culture of such companies. It is also recommended that the regulatory bodies engage in activities that will propel the small and medium sized enterprises to disclose all the necessary information required of them in the published financial statements with great emphasis on corporate governance disclosure. This will help improve the corporate governance practices of companies in Nigeria.

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