

# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## Voluntary Disclosure and Stakeholders Perception of the Quality of Accounting Information among Listed Companies in the Nigerian Stock Exchange

**Dr. Eno Gregory Ukpong**

Lecturer, Department of Accounting, Akwa Ibom State University, Nigeria

**Dr. Imefon Idongesit Udoh**

Lecturer, Department of Business Education, Akwa Ibom State College of Education, Nigeria

**Iniabasi Thomas Essien**

Lecturer, Department of Accounting, Akwa Ibom State University, Nigeria

### **Abstract:**

*The primary language between companies and its stakeholders is the accounting information provided. The study set out to determine how voluntary disclosures influences quality of Financial Reporting volunteered by managers to shareholders in listed Nigerian banks. Two research questions and one hypothesis were stated for the study. The descriptive survey research design was adopted for the study. This research is based on a survey of all companies operating in Nigeria that are listed on the Nigerian Stock Exchange. One instrument for the study was adopted from Silvia, Romualdo & Gerlando (2016) titled Voluntary disclosure index. Another instrument to measure shareholder's perception on quality of information and its effect on investment decision was developed by the researchers. This was validated by experts (Lecturers and Investors). A pilot study was conducted using 20 samples of the questionnaire. The reliability of the data gathering instrument was ascertained using the test- retest method. This gave a coefficient of 0.83, indicating that the instrument was suitable for use in the study. The study population used in this research comprised of preparers (accountants), external auditors and users of accounting information (financial analysts, stockbrokers, bankers, regulators and educators). A sample size of 120 was purposively sampled for the study. Primary data was analyzed by use of Mean and standard deviation to answer the research questions and regression to test the null hypothesis at .05 level of significance. The study concludes that voluntary disclosures influence investors' decision making to a great extent. Based on the results of this study, it is recommended that all companies should disclose any information may positively influence investors' decisions, whether this information is mandatory or optional.*

**Keywords:** Banks, financial reports, decision making, investors, stakeholders

### **1. Introduction**

The forces that give rise in demand of information disclosure in the modern capital market stems from the information asymmetry and agency conflicts existing between the management and the stockholders. Evidently, corporate disclosure brings advantages such as greater stock market liquidity and a lower cost of capital. However, the jury is still out on why managers are not always inclined to increase the level of accounting disclosure to other stakeholders. In addition to these benefits, there are most likely competing elements that may justify tighter managerial control over information, contributing to the importance of decisions about whether or not to disclose information.

Demsetz & Lehn, 1985 in Silvia, Romualdo & Gerlando (2016) asserted that generally, managers do have access to greater information about their businesses. This information is always more specific and elaborate, but they may want to keep that information to themselves for their own personal interest. The shareholders do not have direct access to the business information but the managers, who observe business performance do. In this age when information is power, Scott (2012) observes that this information asymmetry creates ideal conditions for selective and distorted information reporting and a temptation to moral hazard. Thus, greater information asymmetry allows managers to use their discretion for the specific purpose of managing accounting results. Information asymmetry can be reduced through voluntary disclosure. Voluntary disclosures are information disclosed based on the firm's free will and decision, which can be financial or non-financial, disclosed over and above the mandatory requirements (Barako et al., 2006). The impact of corporate disclosure on the value of the firm has received diverse attention in extant studies (e.g. Hassan & Marston, 2010). This is due to the economic consequence of corporate disclosure on the firm. For instance, the cost of corporate disclosure is cheaper compared to cost of less or non-disclosure. This includes cost of law suits that occur when firm information misleads stakeholders. This implies that more attention is needed in the preparation of corporate annual reports. Reporting comprises the last stage of accounting process. The content, amount and format of the information which will be disclosed to the public by the accounting department are governed by the authorities who regulate the

accountancy laws and regulations for that particular country (Agca and Onder, 2007). Reporting and disclosure are the most important tools that companies use to communicate with their stakeholders. According to Edogiawerie & David (2016), disclosure is a crucial element in ensuring the effective allocation of resources in society and diminishing the information asymmetry between company and its stakeholders. Companies have at their disposal two kinds of publishing variants through which they can diminish the informational asymmetry towards their stakeholders: compulsory and voluntary disclosure. The most important publishing variant is represented by the compulsory disclosure. The mandatory character of reporting is ruled at national or even regional level through professional organizations or government authorities, being practiced in most of the countries by all the firms regardless of their size, their judicial, fiscal or national accounting system, the favorite finance sources and other factors with impact on disclosure policy. The second, voluntary disclosure comes to complement the mandatory reporting process that often seems to be inadequate for satisfying user's needs. Traditional financial reporting mostly provide historical information, moreover, in certain industries, conventional accounting and reporting strategies may not be sufficient to accurately represent the complexity of a firm's operations (Mohammed, 2009).

There is no generally accepted definition or theoretical background for voluntary disclosure. Thus, voluntary disclosure can be explained as being an additional offer of information in relation to different national regulations or international referential of business reporting, that is, something that is not compulsory by the law, but becomes voluntary through the behaviour regarding publication. In other words, the voluntary offer of information represents the excess of information, dependent both on the free choice of the enterprise leadership and on the regulations in force, the outside pressures of the capital markets, financial analysts, consulting firms and the cultural factors. Although the voluntary disclosure represents the reporting outside the financial statements, which is not explicitly ruled through norms or laws, it is admitted that many of these voluntary disclosures are made in order to be in agreement with the requests of the stock-exchange commission regarding: the companies presentation, analysis and management presentations regarding risk, opportunities and the results obtained or provisioned., therefore, in order to obtain capital and moreover to attract investors, companies often voluntarily disclose corporate information seen in the absence of regulation ( Edogiawerie and David, 2016). However, disclosure quality (DQ) is the higher quality and accuracy of information disclosed which are better for decision makings and predictions, besides, high quality of information disclosure and information asymmetry causes more coordination between managers and owners (Setayesh and Kazemnezhad, 2010). Whereas disclosure quality defined according to Shuping (2016) as "completeness, accuracy and reliability", and Brown & Hillegeist (2007) used the expression adequate for defining the disclosure quality, which mean as more extensive disclosures are likely to be more informative than brief disclosures, and provide greater transparency also Diamond & Verrecchia (1991) define the disclosure quality as the ability of investors to determine accurate expectations of the stock prices before the disclosure process.

### 1.1. Purpose of the Study

This study aims to examine the effect of voluntary disclosure in quality of accounting information. Specifically, the study sought to

- Ascertain the Voluntary disclosure index for determining the quality of accounting information volunteered by managers to shareholders
- Determine the effect of voluntary disclosure on decision making of investors.

### 1.2. Research Questions

What are the Voluntary disclosure index for determining the quality of accounting information volunteered by managers to shareholders?

To what extent does voluntary disclosure influence the decision making of investors?

- Ho1: There is no significant influence of voluntary disclosure and investor decision making in listed Nigerian firms

## 2. Methodology of Research

The descriptive survey research design was adopted for the study. This involved interviews and the use of questionnaires to collect information from respondents. This research is based on a survey of all companies operating in Nigeria that are listed on the Nigerian Stock Exchange. The research was designed to capture how selected respondents perceive the use of voluntary disclosure in the financial statements in Nigeria. One instrument for the study was adopted from Silvia, Romualdo & Gerlando (2016) titled Voluntary disclosure index. Another instrument to measure shareholder's perception on quality of information and effect on investment decision was developed by the researchers. This was validated by experts (Lecturers and Investors). A pilot study was conducted using 20 samples of the questionnaire. This was to ensure the relevancy of the data gathering instrument. The reliability of the data gathering instrument was ascertained using a test- retest correlation. This gave a coefficient of 0.83, indicating that the instrument was suitable for use in the study. The study population used in this research comprised of preparers (accountants), external auditors and users of accounting information (financial analysts, stockbrokers, bankers, regulators and educators). A sample size of 120 was purposively sampled for the study. Twenty respondents were selected for each of the strata. Primary data were extensively relied upon in the performance of this research. Questionnaires were used to gather the primary data. Some of the instruments were administered personally while some were forwarded as attachments through emails and returned via the same method. Primary data was analyzed by use of descriptive statistics and inferential statistics.

### 3. Model Specification

The use of ordinary Least Squares Regression is preferred due to its ability to show whether there is a positive or a negative relationship between independent and dependent variables (Castillo, 2009). In addition, OLS is useful in showing linear elasticity/sensitivity between independent and dependent variables (Cohen et al., 2003).

For instance, the current study would like to know the percentage by which responses on voluntary disclosure increases or decreases when responses on quality of financial statements change by 1 percent. Furthermore, OLS was useful in showing whether the identified linear relationship is significant or not.

$$Y_1 = a_1 + \beta_1 (VD) + \varepsilon \quad (1)$$

Where:

VD = Voluntary Disclosure

Y1 = Investor Decision

In the model  $a_i$ ,  $i = 1, \dots, 2$  = the constant term while the coefficient  $\beta_i$ ,  $i = 1, \dots, 2$  was used to measure the sensitivity of the dependent variables ( $Y_1$  &  $Y_2$ ) to unit change in the explanatory variable (VD);

$\varepsilon$  is the error term which captures the unexplained variations in the model.

### 4. Presentation of Results

#### 4.1. Research Question 1

What is the Voluntary disclosure index for determining the quality of accounting information volunteered by managers to shareholders?

S/N	Item	Mean	Std. Dev	Remarks
A	Market view			
	Competitive analysis	3.13	0.78	
	Market share	3.34	1.19	
	Assessment of major economic trends market	3.33	1.06	
	Government influence on the company activities	3.28	0.78	
		3.27	0.95	
B	Corporate strategy			
	Plans and corporate objectives	3.01	0.78	
	Alignment of company activities with the stated objectives	3.12	0.81	
	Prospect of new investments	3.13	0.78	
	Sales forecasts	3.34	1.19	
	Earnings forecasts	3.33	1.06	
	Cash flow forecasts	3.28	0.78	
		3.20	0.90	
C	Economic and financial performance			
	Variation in the inventories of goods for sale, inputs or finished products	3.01	0.78	
	Variation in the level of receivables	3.12	0.81	
	Variation in the volume of sales	3.13	0.78	
	Variation in the level of administrative and commercial expenses	3.34	1.19	
	Variation in the level of operational earnings	3.33	1.06	
	Variation in the cost of goods sold, the products manufactured or services provided	3.28	0.78	
	Financial effect from the raising of short and long-term third-party resources	3.07	1.19	
	Financial effect from the application of own resources	3.23	1.06	
	Performance of common and preferred shares	3.55	1.03	
	Global indicators (EVA, EBITDA, MVA)	3.33	0.92	
	Cost of equity	3.12	0.76	
		3.23	0.94	
D	Operational aspects			
	Current production compared to the installed capacity	3.34	0.78	
	Operational efficiency measures	3.33	0.81	
	Dependence of technology, suppliers, customers and labor	3.28	0.78	
	Investments and divestments	3.07	1.19	
	Resources invested in human capital management	3.23	1.06	
	Resources invested in education projects, culture and social development	3.55	1.03	
		3.30	0.94	

Table 1: Mean Analysis of Experts on Voluntary Disclosure Index for Determining the Quality of Financial Reporting Volunteered by Managers to Shareholders

Table 1 shows the summary of the mean responses of experts and investors on key indicators that voluntary disclosures should convey. The respondents all agreed that the disclosure should contain key indicators of market value, corporate strategy, Economic and financial performance as well as operational aspects.

#### 4.2. Research Question 2

To what extent does voluntary disclosure influence the decision making of investors?

S/N	Item	Mean	Std. Dev	Remarks
1	Voluntary disclosure in form of Value added statements has made me to invest more in the company	3.35	0.84	*
2	Voluntary disclosure in form of Hr performance has been useful in helping to gauge the sustainability of human resources in the company	3.28	0.92	*
3	Voluntary disclosure in form of CSR reports has been useful in helping to gauge the sustainability of company activities	3.07	1.19	*
4	Voluntary disclosure in form of environmental reports has been useful in helping to gauge the sustainability of company activities	3.08	1.06	*
5	Voluntary disclosure in form of market share analysis has been useful in helping to gauge the sustainability of company activities	3.55	1.03	*
	Cumulative Mean	3.27	1.01	*

Table 2: Summary of Mean Responses of Investors on the Influence of Voluntary Disclosure on Decision Making  
\*=Great Extent

Table 2 shows the summary of investors' response on how voluntary disclosure influence their decision making. All the items have mean responses above 2.50, the cut-off mean. The cumulative mean is 3.27, indicating that voluntary disclosures has an influence on investment decision making to a great extent.

#### 4.3. Hypothesis

- Ho1: There is no significant influence of voluntary disclosure and investor decision making in listed Nigerian firms

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.931	.142		13.609	.000
	investor decision	.420	.047	.441	8.999	.000

Table 3: Summary of Regression Coefficient Analysis for Significant Influence of Voluntary Disclosure and Investor Decision Making  
 $R=0.441$ ;  $R^2=0.195$

Table 3 shows the summary of the regression test for how of voluntary disclosure influence investor decision making. The result shows that for every unit rise in voluntary disclosure, investor decision making increases by 0.42. This is an appreciable value, indicating that there is a positive influence of voluntary disclosure on investor decision making. The result is statistically significant, since the probability value isles than .05( $p<.05$ ). Thus, there is a significant influence of voluntary disclosure on investor decision making in listed Nigerian firms. The coefficient of determination ( $R^2$ ) is0.195, indicating that 19.5% changes in investor decision is as a result of voluntary disclosure.

#### 5. Discussion of Findings

The research findings identified the voluntary disclosure index for effective accounting information volunteered to stakeholders by managers. This finding is in line with Silvia, Romualdo & Gerlando (2016) which found that this metric favors economic-financial information, although voluntary disclosure is not restricted to this content. Furthermore, this type of information is linked to details of corporate activities in certain segments of the market and may even be disclosed to meet regulatory requirements for that sector of the market

On the influence of voluntary disclosure and investor decision making, the result established a positive influence to a great extent. This findings is akin to Espinosa et al. (2005) examined the relationship between disclosure and liquidity using a sample of Spanish listed firms. They found a positive relationship between disclosure and liquidity using Amihud (2002) illiquidity model.

## 6. Conclusion

The study set out to determine how voluntary disclosures influences quality of Financial Reporting volunteered by managers to shareholders. The study concludes that voluntary disclosures influence investors' decision making to a great extent. Also, information volunteered by the company should have key indicators of market value, corporate strategy, Economic and financial performance as well as operational aspects. An increase in the quality of information disclosure will help the users make informed predictions and aid the evaluation of the company's progress which invariably would reinforce the stock market development.

## 7. Recommendations

Based on the results of this study, it is recommended that all companies should disclose any information may positively influence investors' decisions, whether this information is mandatory or optional.

## 8. References

- i. Agca, A., & Onder, S., (2007). Voluntary disclosure in Turkey: A Study on firms listed in Istanbul Stock Exchange (ISE). *Problems and Perspective in Management*, 5 (3), 241 – 251.
- ii. Barako, D.G., Hancock, P., & Izan, H.Y (2006). Factors Influencing voluntary Corporate disclosure by Kenyan companies. *Corporate Governance: An International Review*, 14 (2), 107–125.
- iii. Brown, S., & Hillegeist, S. A. (2007). How disclosure quality affects the level of information asymmetry. *Review of Accounting Studies*, 12(2-3), 443-477.
- iv. Diamond, D. W., & Verrecchia, R. E. (1991). Disclosure, liquidity, and the cost of capital. *Journal of Finance*, 46, 1325–1360.
- v. Espinosa, M., Tapia, M., & Trombetta, M. (2005). Disclosure and liquidity. Working Paper, University Calos, Madrid.
- vi. Edogiawerie O. & David, J. (2016). Financial reporting and voluntary disclosure in Nigeria quoted companies. *Igbinedion University Journal of Accounting* 1(1):42-58.
- vii. Hassan, O., & Marston, C. (2010). Disclosure measurement in the empirical accounting literature: a review article. Working paper, Economics and Finance. Brunel University.
- viii. Mohammed, H. (2009). Voluntary disclosure in the annual reports of an emerging country: The case of Qatar. *International Accounting review*, 25: 52-65.
- ix. Scott, W. R. (2012). *Financial accounting theory* (6th ed.). Toronto: Pearson.
- x. Setayesh, M. H., & Kazemnezhad, M., (2010). Disclosure in accounting. *Accountant Quarterly*, 8, 227, 66-99.
- xi. Shuping Chen, (2016). A New Measure of Disclosure Quality, Working paper Harvard law school forum of corporate governance and financial regulation.
- xii. Silvia, C., Romualdo, D. & Gerlando, A. (2016). Voluntary disclosure and earnings management: evidence from the Brazilian capital market. *R. Cont. Fin.* 28(74): 249-263,