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## INITIAL ACCEPTANCE LETTER

Dear **Ojeka, Stephen Aanu , Mukoro, Dick Oluku and Kanu, Clementina**  
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After having carefully evaluated your article titled "**Does Financial Reporting Disclosures Enhance Firm Financial Performance in the Nigerian Manufacturing Companies?**" and taken the referees' advice into consideration, the editors came to the conclusion that your paper is suitable for publication in our Journal. In order to save time, the referees communicated their opinion to us verbally. As part of our evaluation process, we normally ask the opinion of two referees who are experts in the relevant field of research. The paper is also read by the editor. If both of the referees and an editor concur in their view, their decision is final. We consult a third referee if there is a difference of opinion. In order to expedite the proceeding, which is one of the objectives of the journal, we do not require a full report on the paper from the referees. The choice of referees and the fact that we require a consensus view between the referees and an editor ensures, however, that the process is as fair as possible. We will include your article in the forthcoming issues of the journal upon receipt of the publication fee.

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Yours sincerely,

Adrian Marcus Steinberg, PhD  
Managing Editor

# **Does Financial Reporting Disclosures Enhance Firm Financial Performance in the Nigerian Manufacturing Companies?**

**BY**

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## **Abstract**

Financial reporting has always been an important factor for investment decision making of shareholders and other stakeholders of a firm in considering returns that have been made or expectation of what should be made. This study investigates empirically, the relationship between financial reporting disclosures in annual reports and the performance of listed manufacturing companies in Nigeria between 2005 and 2009. The disclosure variables include: Timeliness, Board size, type of Auditors Report and the percentage of value added retained for expansion were used as the measures of financial reporting disclosure while Return on Equity (ROE) was used as the measures of financial performance. Size and age were used as the control variables. The study used secondary data and Panel Least Square Regression for the data analysis. The results showed that there is a significant relationship between financial reporting disclosures and financial performance except in the case of percentage of value added retained for expansion size where there was no significant relationship found. It is, therefore, recommended that the Nigerian Federal Government, through her various regulatory agencies, ensure more disclosures is made in the financial report as this is an important means of addressing liquidity problem in the manufacturing sector for financial performance.

**Keywords:** Financial Reporting Disclosures, Financial performance, Manufacturing firms, Nigeria

## **1.0 Introduction**

The extent of growth or performance of a firm is reported or communicated to the providers of capital and other stakeholders through the financial reports. Financial reporting plays an important role in decision making for a firm as it makes a framework for the analysis of the performance of the firm. Gray, Meeks and Roberts (1995) submitted that investors demand information in order to assess the timing and uncertainty of current and future cash flows so that they may evaluate firms and make other investment decisions such as choosing a portfolio of securities. It is a known fact that the extent to which business organizations report their activities especially as it has to do with finance, is one of the determining factors of the business performance and growth of the business organization (McMahon 1996).

When financial report is of high quality (especially as it has to do with disclosures), sourcing and attracting funds both locally and internationally become possible. Financial disclosures help users of financial report to know how exactly their resources are being utilized. It would also assist to predict the performance or otherwise of the business entity and most importantly, during the period of credit crunch that the Nigerian manufacturing companies is currently facing because the manufacturing sector remains a sensitive part of the Nigerian economy. It is the real sector that stimulates the gross domestic Product (GDP) of the country as a result of its various productive activities which involve, among many other contributions, the exportation of Nigerian made products to the rest of the world to boost foreign reserve and strengthen the Naira. The sector is also known for its job creation, especially for the young graduates, school leavers and artisans. This sector is vital to the survival of the country and the actualization of the Millennium Development Goals (MDGs) development goals and, of course, the vision 20:2020.

Therefore, in the face of the dearth of investment in the manufacturing sector and, most especially, from the banking sector, there is need to focus strongly on how the manufacturing sector can begin to generate profit on its assets that will stimulate the growth of the sector. Therefore, one of the best ways to do this is to look critically at the reporting patterns of this sector especially the listed firms. This is to ensure that stakeholders (i.e. the providers of funds) have unlimited access to every detail in the financial report and able to understand all the facts behind the figures that have been produced. This is to encourage sourcing of funds at relatively low cost of capital which will ultimately lead to firm financial performance since the main focus of financial reporting is information about earnings and the components of earnings.

In order to achieve the above, the Securities and Exchange Commission codes 2011 (SEC Code, 2011) mandated listed firms to make certain information available for the users in form of disclosures in the financial report. The question, therefore, is, to what extent do the financial disclosures influence the financial performance of firms, especially in the manufacturing sector? Has the policy on financial disclosure made any significant contributions to the performance of firms and what has been the level of compliance thus far? Similar studies have been carried out in the context of Nigeria (see Uwuigbe and Egbide, 2012; Mgbame, Otuya & Ovie, 2013). These studies have focused on the extent of human resource accounting disclosures, environmental disclosures, and corporate social responsibility disclosure in the Nigerian firms. Thus the question still remains: what is the influence of financial disclosures on the firm financial performance in Nigeria? The objective of this study, therefore, is to find out the influence of financial disclosures on financial performance in the Nigerian manufacturing sector. The financial disclosure is decomposed into time lag, type of auditor's report, value added retained for expansion and board size while the financial performance is measured by Return on Equity (ROE).

The rest of the paper is structured into four parts. Part 2 discusses the literature and hypotheses development and part 3 the methodology, part 4 discusses the analysis and implication of findings while part 5 is the conclusion and recommendation.

### **Statement of Research Hypotheses**

To address the objectives already stated, the following hypotheses are stated:

H<sub>0</sub>: There is no significant relationship between Time Lag and Return on Equity of listed manufacturing companies in Nigeria.

H<sub>0</sub>: There is no significant relationship between the type of external auditor's report and the Return on Equity of listed manufacturing companies in Nigeria.

H<sub>0</sub>: There is no significant relationship between value added retained for expansion and Return on Equity of listed manufacturing companies in Nigeria.

H<sub>0</sub>: There is no significant relationship between board size and Return on Equity of listed manufacturing companies in Nigeria

## **2.0 Literature Review**

### **2.1 Financial Reporting Disclosures**

The financial reporting disclosures of companies are usually specified by the responsible regulatory agency. These disclosures are the basic tools used for communication between a company and its stakeholders. Dhaliwal, Khurana & Pereira (2011) reasoned that disclosure is an important means through which the information of a firm is conveyed to the outside investors of the firm. The most important transactions of the company are usually represented in the financial statements as the mandatory disclosures while the voluntary disclosures are used to provide information that explain the mandatory disclosures better and satisfy the needs of the user. Hossain (2008) posited that the decision

of management about whether to disclose information or not is based on weighing the expected costs and the benefits of making the information public.

The length of time taken by the auditors to perform their audit clearly has an effect on the timelines and the relevance of the financial reporting released to investors for investment decisions which means the more time passes between the year end and the disclosure date, the value of the information reduces and becomes less relevant (Wermert, Dodd, & Doucet, 2000; Almosa & Alabbas, 2008; Dumlu and Saltoglu (2011). Value added on the other hand is the worth of an investment in a company, which is a period that is equal to its sales less brought-in-goods and the statement of value added is more useful to the employees of a company than the income statement. It reports the calculation of value added and its application to the stakeholders of the company (Van Staden, 2000). Igben (2009) maintained that although there is no laid down format for the preparation of the value added statement in Nigeria, companies are required to include the statements in their annual reports.

In addition, in term of board size and composition, Yermack (1996), Sanda, Mikailu and Garba (2005) posited that small boards are more efficient in decision-making because there is less agency cost among the board members which is more associated positively with high firm performance. However, Kyereboah-Coleman (2007) differed and indicated that large boards enhanced shareholders' wealth more positively than smaller ones. But the issue here is that, does disclosing the board size in the financial report have any significant impact on the financial performance? Investors might be interested in the composition and the size to know the diversities and the calibre of the team they have entrusted their resources into. They might want to know the expertise of the board members to turnaround their interest and stake in the firm for maximum returns.

### 3.0 Research Methods

The focus of this study is on the manufacturing sector in Nigeria. According to the Nigerian Stock Exchange listings, the total number of manufacturing firms is 110. A sample size of 22 companies listed on the Nigerian Stock Exchange from 2005 to 2009 was selected. In obtaining the sample of 22, this study employed the judgmental non-probability sampling technique which was on the basis of availability and accessibility of the financial report of the chosen companies. The sectors include: Agriculture, Food and Beverage, Conglomerates, Health care, Building material, Industrial goods, Automobile, Breweries, Chemicals and paints. The firm performance was measured by Return on Equity (ROE) as the dependent variables while the independent variables were measured by namely: time lag, type of auditor's report, value added statement and board size.

**Table 3.1 Summary of Variables Measurement/Description**

Name of variables	Acronym	Measurement
<b>Dependent Variable</b>		
Return on Equity	ROE	PAT/Equity
<b>Independent Variables</b>		
Time Lag in publication	TLIP	It is calculated by the amount of days between the year or period end and the day provided and signed by the independent auditors.
Type of Auditors Report	TOAR	The type of report which is prepared for the company in the financial statement by the independent auditors whether qualified or unqualified report
Percentage of Value Added Retained For Expansion	POVARE	The disclosed percentage of the value added retained for expansion on the value added statement
Board Size	BSIZE	The number of people on the board as at the day of the year or period end.
Size of the firm	FSIZE	This is the book value of the total asset of the firm at the end of financial year.
Firm Age	FAGE	This is measured as the number of years the company has been publicly traded or exists since the first Annual General Meeting (AGM)

### 3.1 Model Specification

The mathematical description of the relationship existing between the variables (business performance and financial reporting disclosures) which will be analyzed with the use of the tools discussed above is represented below:

$$Y = \beta_0 + \beta X_i + \mu_{it} \dots \dots \dots (1)$$

$$ROE = TLIP + TOAR + POVARE + BSIZE + FSIZE + AGE \dots \dots \dots (2)$$

Based on regression, the model specification therefore becomes:

$$ROE_{it} = \beta_0 + \beta_1 TLIP_{it} + \beta_2 TOAR_{it} + \beta_3 POVARE_{it} + \beta_4 BSIZE_{it} + FSIZE_{it} + AGE_{it} + \mu_{it} \dots \dots \dots (3)$$

Where:

TLIP = Time Lag in publication

TOAR = Type of Auditors Report

POVARE = Percentage of Value Added Retained For Expansion

BSIZE = Board Size

FSIZE = Size of the firm

FAGE = Age of the firm

### 4.0 Analysis and Presentation of Results

**Table 4.1 Panel Least Square Regression Analysis**

Source	Sum of squares	Df	Mean Square	Number of obs=	110
Model	9.3818951	6	1.563649180	F( 6, 103)	= 8.23
Residual	19.563192200	103	0.189933905	Prob > F	= 0.00000
Total	28.945087400	109	0.265551260	R-squared	= 0.32410
				Adj R-squared	= 0.28480
				Root Mean Squared Error	= 0.43581

  

ROE	Coef.	Std. Err.	T	P> t	[95% Conf. Interval]
TLIP	-0.0028404	0.0009310	-3.05	0.003***	-0.0046867 -0.0009940
TOAR	0.4125484	0.1464668	2.82	0.006***	0.1220661 0.7030307
BS	0.1370294	0.0512179	2.68	0.009***	0.0354507 0.2386080
POVARFE	-0.0002570	0.0002593	-0.99	0.3240	-0.0007712 0.0002571
LOGSIZE	0.1129225	0.0350793	3.22	0.002***	0.0433510 0.1824940
LOGAGE	-0.1326492	0.1823055	-0.73	0.4680	-0.4942091 0.2289107
Constant	-2.7225510	1.0403110	-2.62	0.0100**	-4.7857620 -0.6593405

Note: ROE in this table represents Return on Equity, and it represents one of the business performance variables for this study; TLIP represents Time Lag in publication, TOAR represents Type Of Auditors Report, BS represents Board Size, POVARE represents



Percentage Of Value Added Retained For Expansion, LOGSIZE represents log of the size of the company, LOGAGE represents log of the age of the company. \*\*\*= significant at 1%; \*\*= significant at 5%; \*= significant at 10%

From the results in Table 4.1, the time lag in publication (TLIP) was significantly negative in the equation (i.e. ROE) at 1%, 5% and 10% level. Thus the null hypothesis was rejected and the alternative hypothesis accepted. The implication of this, is that, early release of financial report would enable and was significant at 1%, 5% and 10% level. It also shown in the table that, board size has a positive sign and was significant. This means, the display of board with large members in the financial report stimulates the interest of shareholders to invest significantly in the firm's equity for maximum financial performance. This result is in line with the finding of Kyereboah-Coleman (2007) where it was indicated that large boards enhanced shareholders' wealth more positively than smaller ones. Surprisingly, percentage of value added retained for expansion (POVARFE) has a negative coefficient and was not significant. The implication of this could be that, POVARFE does not really required additional finance from the shareholders; it is the re-investment of certain amount into the business for expansion without a charge/cost that can weigh down any expected return on equity.

## **5. Conclusion and Recommendation**

This study investigated the relationship between financial reporting disclosures and firm financial performance in the manufacturing sector in Nigeria. The results showed that financial reporting disclosures especially the explanatory variables considered in this study have a significant positive impact in driving the financial performance of firms in the manufacturing firms in Nigeria. It also point out to say that shareholders and investors are motivated to surrender funds for equity finance when certain disclosures are made in the financial report. Hence this study submitted that, the new International Financial Reporting Standards (IFRS) which is hoped to encourage more disclosures would further help to strengthen the financial performance of the firms.

Therefore, the federal government through the various regulatory agencies should ensure more disclosures are made, which will guide investors in their decisions whether to invest or not to. This paper further recommend that, apart from the statutorily disclosures, any firm(s) willing to experience sustainable financial performance and expansion, especially during the liquidity problem currently experiencing in the economy, should strive to ensure that all that the investors need to know are disclosed in the financial report, in order to sustain the loyalty and commitment of the shareholders in term of equity. For example, banks which are the major source of finance to the real sector currently were hit the more as the tapering effect combined with the continued monetary policy tightening by the Central Bank of Nigeria caused investors to dump the stocks. Cash Reserve Requirement on public sector deposits which is likely to be raised to 100 per cent with that of private sector deposits also set to be increased to 15. Consequently, if this happens, the banks will still thrive to grow earnings via a better cost management, increasing focus on non-interest income, and growth in loan books, especially to real sector. As a result, the uncertainties in the global economy, monetary policy tightening and political tensions and the recent depression in the market which has also been linked to the suspension of the Central Bank Governor may further worsen the already deteriorating situation making it impossible for the real sector to access funds or at a very high cost of capital.

This study like other previous studies does have its limitation and therefore, the conclusions drawn should be interpreted with caution which would invariably serve as opportunities for further investigation in future research in this area this is because the study captured the listed manufacturing sector in Nigeria. Therefore, companies which operate in the financial sector are excluded since they have special practices and operations. This could be looked at in future research work.

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