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Does Corporate Integrated Reporting Matter for the Performance of Nigerian Firms?

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Abstract:

This paper investigated whether corporate integrated reporting matter for the performance of Nigerian firms. Ex-post facto research design was adopted in analyzing the nexus between corporate integrated reporting and firm performance. Data were obtained from audited annual reports and accounts of twenty (20) manufacturing firms listed on Nigerian Stock Exchange during the period 2012 to 2017. The outcome of data analysis revealed that corporate integrated reporting is a significant determinant of firm performance, hence it was concluded that corporate integrated reporting matter for the performance of Nigerian firms, given the moderate nexus between performance measures and corporate integrated reporting of the reporting firms. Besides, corporate integrated reporting seems to have strong connection with earnings per share and return on capital employed. Based on the findings of the study, it was recommended among others that firms should engage in corporate integrated reporting.

Keywords: Integrated Financial Reported, Firm Performance, Return on Equity, Return on Capital Employed, Earnings per Share

1. Introduction

In recent times, corporate integrated reporting (CIR) as it affects the performance of firms has attracted significant attention in both developed and developing countries, given the dynamic and complexity in the business environment. CIR as opined by Dutta (2012), lays a foundation that augments and preserves the value of firms via strategic benefits. According to Jackson, Boswell and Davis (2011), and Painter-Morland (2006), CIR is the way firms around the world clearly and concisely report their performance by specifying what it does, how it creates value, strategies, risk, opportunities, governance, business model as well as giving stakeholders a holistic view of the firm and its future. In the view of Middlebrooks, Miltenberger, Tweedy, Newman and Follman (2009), CIR is forward-looking information such that it enables stakeholders to make a more informed assessment of the future value creation ability of the firm.

Piper, Mang, Knox and Waddell (2012) asserted that CIR forms the basis for a fundamental change in the way in which firms are managed and report to stakeholders. Given the dynamic and complexity in the business spheres, there is the need for firms to engage in integrated reporting while at the same time, researchers are keen on ascertaining whether corporate integrated reporting matter for the performance of firms, hence this study which is geared towards investigating the nexus between corporate integrated reporting and firm performance in Nigeria. In this paper, corporate integrated reporting was measured by risk-opportunities, governance, and business model and firm performance as earnings per share, return on equity and return on capital employed.

2. Review of Related Literature

2.1. Corporate Integrated Reporting

Corporate integrated reporting (CIR) according to Solstice and Vancity (2005) is a reporting framework that meets the needs of both statutory financial and sustainability reporting. By implication, it means firms must have one annual report encompassing both sustainability and financial information. Black-Sun (2012) defines CIR as a holistic reporting that reflects values of sustainability that are fundamental to the reporting organization and its stakeholders. The International Integrated Reporting Council (IIRC) sees CIR as the language evidencing sustainable business practices by which firms around the world communicate values created and how it will be enhanced over the short, medium and long term.

CIR can be regarded as just another reporting convention or a diverse way of attaining the growing global compliance requirements of firms (Solstice & Vancity, 2005). One of the benefits of CIR is that it assists firms to understand how they can create values. The key challenges facing firms is transitioning a traditional annual report that is focused on financial metrics and related detailed disclosures to a broader report that tells the value creation story of an

organization in an understandable way (Andrew, 2013; Adeyanju, 2012). One of the unique characteristics of CIR is that in contrast to compliance-based reporting, there is no archetypal report; hence it has left numerous firms uncertain on how to structure integrated reports.

2.2. Firm Performance

Firm performance can be viewed from the financial statement reported by an entity. It describes the benefit emanating from a firm's shareholdings (Rouf, 2011). Generally, firm performance can be analyzed via the use of financial ratios which express relationships between variables disclosed in financial statements. Financial ratios are used as performance measures when compared with other related meaningful information, either at present or a past similar indicator(s) for the same firm or similar firms in the same industry (Kabayeh, Nu'aimat, & Dahmash, 2012). Prior researches on firm performance have used data on financial ratio. Interestingly, most researches on firm performance have hinged their studies on profitability and market ratios.

This present study employs profitability ratios of performance such as earnings per share, return on equity and return on capital employed. According to Herly and Sisnuhadi (2011), a good performing firm will reinforce management for quality disclosure. Earnings per share is an accounting-based performance measure which represents the profit after tax minus preference dividend divided by number of ordinary shares ranking for dividend. On the other hand, return on equity measures profitability and the effectiveness of companies in utilizing their equity to generate profit. Also, return on capital employed refers to the ability of a firm to use its capital to generate profit. Usman, Amran and Shaari (2016), asserted that return on equity and capital employed represents a firm's profitability accruing from the total equity and capital that the business holds and controls.

2.3. Theoretical Framework

There are numerous theoretical paradigms that can be employed to illustrate the nexus between corporate integrated reporting (CIR) and firm performance. Roel et.al (2015) asserted that inspite of the diverse theoretical paradigms on the nexus between CIR and firm performance, to date there has been inconclusive and mixed empirical evidence. Prominent among these theoretical paradigms are the neoclassical agency theory, agency theory, resource-based theory, triple-bottom line theory etc. Nevertheless, the theoretical framework of this paper is premised on Resource-Based Theory (RBT).

The RBT was postulated by Wernerfelt (1984) and hold that firms are bundles of dissimilar capabilities and resources and that harnessing them effectively would rather lead to improved performance. The underlying philosophy of RBT is that improved performance results to greater reporting (Cortez & Cudia, 2011). Roel et.al (2015) opined that firms can attain improved performance by accomplishing stakeholders' claims and utilizing a proactive reporting strategy. This study employed RBT for the reason that it emphasizes sustainability application of firms which demands plentiful resources for sustainability implementation.

2.4. Prior Studies

Given the dearth of empirical evidences on the nexus between corporate integrated reporting and firm performance in the Nigerian context, this paper builds on existing studies from environmental and sustainability reporting literature. Makori and Jagongo (2013) assessed environmental accounting and firm profitability using fourteen (14) selected listed companies in Bombay Stock Exchange. Data of return on capital employed, earnings, net profit margin, and dividend per share were analyzed via multiple regression. The study found a significant negative connection between environmental accounting and return on capital employed, earnings while a significant positive connection for profit margin and dividend per share.

Esira, Ikechukwu and Ikechukwu (2014) examined the connection between environmental cost management and profitability of oil firms in Nigeria via multiple regression. The study covered a period of 2004-2013 and findings indicated that there is a significant connection between environmental cost management and the profitability of oil firms in Nigeria.

More interestingly is the study conducted by Kwadjo, Hadrian and Xiang (2016) geared towards proposing a framework for analyzing and comparing the quality of integrated reporting between a mandatory (South Africa) and voluntary (Australia) settings. The study draws samples from the Johannesburg Stock Exchange (JSE) and Australian Stock Exchange (ASX). The study concludes by providing a framework on which basis future researchers can employ in examining the nexus between integrated reporting and firm performance.

Nnamani, Onyekwelu and Ugwu (2017) explored the effect of sustainability reporting on financial performance of firms in Nigeria. Data of total asset, return on equity, total personal cost to turnover and return on asset were obtained from annual reports and accounts of three (3) brewery firms quoted on the Nigerian Stock Exchange. Data were analyzed using the OLS estimation technique and findings indicated that sustainability reporting has positive and significant effect on the financial performance of the brewery companies in Nigeria.

Agbiogwu, Ihendinihu and Okafor (2017) assessed the impact of environmental and social costs on performance of Nigerian manufacturing companies. The study used ten (10) randomly selected companies' annual reports and accounts in 2014 and t-test statistical tool was employed in the analysis of data. Data of the study comprised of cost on environmental protection and ROE. Findings showed that environmental and social cost significantly affect net profit margin, earnings per share and return on capital employed.

3. Research Methods

This paper adopts the ex-post facto research design by analyzing the nexus between corporate integrated reporting (independent variable) and firm performance (dependent variable). Data were obtained from audited annual reports and accounts of twenty (20) manufacturing firms listed on the Nigerian Stock Exchange during the period 2012 to 2017. The data obtained comprised of firm performance measures of earnings per shares (EPS), return on equity (ROTE), and return on capital employed (ROCE), and integrated reporting proxy of risk-opportunities (ROP), governance (GOV) and business model (BUM). Canonical correlation statistical tool was employed given the nature of data (multi-variables). In order to analyze corporate integrated reporting, we used dummy variables that is, '0' for non-disclosure and '1' for disclosure. The statistical analysis was performed via STATA 13.0

4. Results and Discussion

Variable	Obs	Mean	Std. Dev.	Min	Max
eps	120	3.091	7.851218	-19.62	21.47
rote	120	4.86425	.7553102	3.16	5.9
roce	120	4.76125	1.028673	0	5.98
gov	120	7.5325	.5404468	6.81	8.59
rop	120	.75	.4348283	0	1
bum	120	.775	.4193332	0	1

Table 1: Descriptive Statistics of Dependent and Independent Variables
Source: Researcher's Computation, 2019

Table 1 reports the descriptive statistics of performance measures (earnings per share: eps, return on equity: rote, return on capital employed: roce) and corporate integrated reporting measures (governance: gov, risk-opportunities: rop, business model: bum) for the manufacturing firms. In the table, eps has a mean of 3.091 and a standard deviation of 7.851. The mean value of rote is 4.864 with standard deviation approaching 0.755, roce has a mean of 4.761 and a standard deviation of 1.029 while gov, rop and bum recoded mean and standard deviations of 7.533, 0.75, 0.775 and 0.541, 0.435 and 0.419 respectively. The means and standard deviation values imply that the datasets are suitable for conducting inferential statistical analysis.

Variable	VIF	1/VIF
rop	1.19	0.837707
bum	1.17	0.854842
gov	1.03	0.971855
Mean VIF	1.13	

Table 2: Variance Inflation Factor Result
Source: Researcher's Computation, 2019

From table 2 above, it is obvious that the mean VIF for all the variables does not exceed the standardized Variance Inflation Factor (VIF) level ($1.13 < 10.0$). This implies that there is the absence of multicollinearity among the variables.

	1	2	3
gov	-1.6337	0.8277	-0.4108
rop	-0.2577	-0.0891	2.4978
bum	1.3226	2.0815	-0.7554

Table 3: Canonical Correlation Result of the Raw Coefficients for
The Green Accounting Variable Set
Source: Researcher's Computation, 2019

From table 3, it can be seen that bum (1.3226) was found to be the most significant corporate integrated reporting (CIR) variable, followed by rop (-0.2577). Also, the result showed that when other variables are held constant, a one unit increase in bum will lead to a 1.3226 increase in the score on the first canonical variate in CIR measures set. In the same way, when other variables are held constant, a one unit decrease in the rop will lead to a -0.2577 decrease in the score on the first canonical variate in CIR measures set as well as gov. Similar circumstance occurred in the score of the second canonical variate in CIR measures set, although a negative sign is attached to gov and bum in the third canonical variate in CIR measures.

	1	2	3
eps	0.0609	-0.1066	0.0557
rote	-0.2322	0.6305	1.1496
roce	0.7199	0.6850	-0.2471

Table 4: Canonical Correlation Result of the Raw Coefficients for
The Second Profitability Variable Set
Source: Researcher's Computation, 2019

In table 4, it was shown that roce (0.7199) was found to be the most significant performance variable, followed by eps (0.0609). In the score of the second canonical variate, roce (0.685) was found to be the most significant performance measures with a negative sign attached to eps (-0.1066). This shows that when other variables are held constant, a one unit increase in roce will lead to a 0.7199 increase in the score on the second canonical variate in performance measures set.

Canonical correlations:-		
0.5781	0.2858	0.0334

Table 5: Canonical Correlation
Source: Researcher's Computation, 2019

The result in table 5 showed that eps (0.5781), rote (0.2858) and roce (0.0334) have positive connection with the sets of corporate integrated reporting variables (gov, rop and bum).

	Statistic	df1	df2	F	Prob>F
Wilks' lambda	.610747	9	277.597	6.9270	0.0000 a
Pillai's trace	.416977	9	348	6.2420	0.0000 a
Lawley-Hotelling trace	.591995	9	338	7.4109	0.0000 a
Roy's largest root	.501959	3	116	19.4091	0.0000 u

Table 6: Tests of Significance for All Canonical Correlations
Source: Researcher's Computation, 2019

The tests of significance for all canonical correlations as reported in table 6 showed that the statistics in relation to Wilks' Lambda, Pillai's Trace and Lawley-Hotelling trace f-statistics and P-values showed vividly that there is significant nexus between CIR (gov, rop and bum) and performance (eps, rote and roce) measures. Besides, the Roy's Largest root suggests a significant nexus between the performance measures and those of CIR measures. It implies that CIR matter for the performance of Nigerian firms. On the overall, the result revealed that CIR and firm performance in Nigeria had moved in both positive and inverse directions.

5. Conclusion and Recommendations

This paper explored the nexus between corporate integrated reporting (CIR) and firm performance in Nigeria. The outcome of data analyses revealed that CIR is a significant determinant of firm performance like earnings per share, return on equity and return on capital employed. Hence, it was concluded that CIR matter for the performance of Nigerian firms, given the moderate nexus between performance measures and CIR of the reporting firms. Besides, CIR seems to

have strong association with earnings per share and return on capital employed. On the basis of findings, it was recommended that firms should engage in corporate integrated reporting.

As a matter of fact, there should be legislative promulgation compelling firms to adopt and implement integrated reporting in their reporting system, as it will help augment performance. Moreover, this study has contributed to knowledge by establishing that corporate integrated reporting matter for firm performance, especially those of manufacturing firms in Nigeria. More importantly, this study was limited in scope to selected manufacturing firms in Nigeria, hence future researches should take into cognizance, an investigation into corporate integrated reporting and performance of banking subsector, oil and gas and other viable sectors of the Nigerian economy.

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