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FINANCIAL REPORTING QUALITY AND CORPORATE PERFORMANCE OF BUSINESS ORGANIZATIONS IN NIGERIA

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ABSTRACT

Evidence from previous studies revealed that quality of financial reporting has effect on firms' performance by placing more emphasis on the financial measures of corporate performance with little emphasis on the non-financial measures. Therefore, this study appraises the impact of financial reporting quality on performance using both the financial and non-financial measures of corporate performance. This study focuses on the listed manufacturing companies in Nigeria. Data were sourced primarily and secondarily with the use of questionnaires and annual reports of the selected companies from the periods of 2017 to 2021 respectively. The information supplied in annual reports and the questionnaires were then analyzed distinctively by the use of multiple regression analysis. The result showed that financial reporting has an impact on both financial and non-financial performance of corporate entities in Nigeria. Hence, it recommended that companies should ensure to give credible and equal reports on both the financial and non-financial performance of their businesses.

Keywords: Corporate Performance, Financial Reporting, Financial and Non-Financial Performance, Stakeholders.

1.0 INTRODUCTION

In business and management research, corporate performance has emerged as a crucial and significant area of focus, with widespread applications that span across various domains such as human resources, marketing, operations management, international business, strategy, and information systems.

This is so because the going concern of a company depends largely on its performance. Over the years, companies have been battling with average, low and very poor performance in their business activities. No wonder a lot of firms have become history while those existing are only trying to survive. It was revealed in the study of [(i)] that the performance of companies in Nigeria especially the manufacturing companies is retrogressing at every second. In Nigeria, only insignificant percentage of the quoted firms could be boost of operating at sustainable level while larger percentage is performing at extreme poor level. More so, the Nigeria Stock Exchange release in 2018 as regards the performance of firms in Nigeria attested to the fact that the financial outcome of firms trading on the floor of the exchange is far below expectation. Therefore, this dwindling in the trend of corporate performance called for critical analysis.

Sequel to this, there has been an unending search by managements of companies on the most proper and effective ways to measure performance so as to take corrective step to improve it and ensure the sustainability of their firms. In the search to address this managements' apprehension, scholars have pondered on various measures of corporate performance and what actually influences it. Previous researchers have considered the quality of financial reporting as having great impact on performance. These researchers' claims are related to the release of the IASB in 2013, which established the need for the preparation of financial reports in response to current trends such as geographical expansion, the forces of business globalization and increasing demands for information and transparency from stakeholders, investors, and society have grown substantially.

Hence, the provision of high quality financial reporting information is considered to be imperative because of its great impact on capital providers and other stakeholders in making investment, financing and similar allocation decisions so as to enhance overall market efficiency. Given the potential of financial reporting to communicate a company's current standing and future prospects, it is understandable why its influence on corporate performance is becoming more evident.

However, extant literatures on the link between financial reporting quality and performance have only taken into consideration the financial measures of performance whereas many stakeholders are of the opinion that these traditional financial oriented measures such as earnings and accounting returns which too much emphasis are laid upon are no longer adequately effective and as such focus should be shifted to the non-financial measures such as customer and employee satisfaction, innovation, quality etc which little or no emphasis were laid before. In addition, the study of [ii] affirmed that despite the indispensability of financial measures, yet they are not sufficient enough to measure performance effectively.

1.1 Objective

The objective of this research work is to critically examine the impact of financial reporting on corporate performance taking into consideration:

i. The financial measures of corporate performance
ii. Non-financial measures of corporate performance.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

In the extant literatures, there have been different views on the measures of performance and the impact of financial reporting quality on performance. Therefore, different theories have

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been developed by different scholars to clear the air on this phenomenon. These theories include: Stakeholder's Theory, Stewardship Theory and Voluntary Disclosure Theory.

Stakeholders' theory, Freeman's perspective emphasizes the importance of certain individuals or groups and their relationship with the organization. This view is oriented towards the organization, but Freeman's previous study on stakeholder theory defines stakeholders as any group or individual who can influence or be influenced by the organization's goals. Friedman and Miles support Freeman's definition as it is more balanced and covers a broader range than Stanford Research Institute's (SRI) 1963 definition, which solely focuses on people without whose support and ideas the organization would not exist. Furthermore, Freeman's definition is more inclusive as it encompasses individuals and organizations that the company may not recognize as stakeholders but who perceive themselves as such. In most companies, stakeholders comprise shareholders, employees, customers, lenders, suppliers, local charities, other interest groups, and the government. According to Craig, the stakeholder theory emphasizes that all stakeholders have the right to be informed about the organization's operations, including details about its impact on the environment, community involvement, job opportunities, safety measures, and other matters. Craig further argues that this information should be shared with all stakeholders, even those who are not critical to the organization's survival.

In a similar theory called "Stewardship theory", [(iii)]The expectation of stewards is to protect and grow shareholders' investments by improving business performance, as it is believed that doing so will maximize shareholders' utility function. Within the stewardship paradigm, managers and CEOs are primarily responsible for fulfilling this role. The stewardship concept is defined as self-interested service to the organization, and recognizing the stewardship relationship and treating followers as owners and partners can help achieve organizational and individual obligations[iv]. It is therefore argued that most stewards are motivated solely by the desire to make the best possible decisions, which are typically in the organization's best interest and based on the assumption that the best choice will ultimately benefit stewards as well.

Voluntary disclosure theory is concerned with the extent of information being made available by the managers for the consumption of the stakeholders. Jensen and Meckling noted that, even without control, managers are inclined to provide extra information. This is due to the fact that, as per organizational theory, agents bear a large part of agency expenses. Hence, operators seek to reduce their agency costs with the aim of increasing their profits. Organization theory states that agent expenses arise from information asymmetry in which the manager is more privy to information concerning the organization's performance than the general public. Academic and correct accounting estimations focus on the educational role of intentional disclosures for the capital markets. The Securities Exchange Commission and Financial Accounting Standards Board command obligatory disclosures whereas strategic and optional disclosures are referred to as disclosure writing in accounting. On the other hand, data administration operates by itself. According to the unspoken assumption in disclosure writing, managers possess greater information than others. As such, executives switch between making accounting decisions and divulging facts in order to demonstrate their greater knowledge of an organization's performance than financial experts and oversee declared performance for contracting, political or managerial purposes.

3.0 EMPIRICAL REVIEW

Several evidences have shown that financial reporting quality influences the performance of quoted companies but with different views from different scholars and with more emphasis on financial measures of performance with little focus on the non-financial measures.

The impact of accounting quality on firm performance was examined using abnormal accruals methodology to assess accounting quality and return on Assets (ROA) to determine firm performance across 17 European countries[v]. Findings indicate a significant relationship between accruals and accounting performance measures. Another study highlights the importance of financial reporting quality in decision-making and improved firm performance[vi]. A separate investigation examines the connection between sustainability reporting and firm performance, using panel data logistic regression analysis to measure firm performance through Tobin's Q Ratio, firm size, financial leverage ratio, and return on assets ratio[vii]. Results suggest a positive relationship between sustainability reporting and firm size but a negative relationship with financial leverage

4.0 METHODOLOGY

This study focused on the listed manufacturing companies in Nigeria of 61 companies out of which 36 companies were used as samples size using stratified sampling criteria. This is because of the indispensable contributions of this sector to the economic growth and development of a nation. The data used were gathered from both primary and secondary sources. The primary data were gathered directly from the respondents in the field of research, through the use of questionnaire while secondary data were gathered from the annual reports of the 36 selected manufacturing companies covering the periods 2017 to 2021. Both descriptive and inferential statistical techniques were employed in the analysis of the data obtained.

4.1 Results and Discussion of Findings

Regression analysis and ANOVA were used to achieve the objective of this study. Subsequent to this, the descriptive statistics was obtained.

4.2 Descriptive Results

Descriptive statistical analyses are used to present the collected data and also to carry out preliminary analysis of the data. The result has shown in table 1 below revealed that Return on Equity (ROE) which is used to proxy performance has a mean value of (0.330696), minimum value of (0.0263), maximum value of (1.5800) and the standard deviation of (0.4128295) which depicts a little deviation from the mean. Also, another proxy of performance "Return on Asset (ROA)" has a minimum and maximum value of (0.0043) and (0.2780) coupled with a mean value of (0.092892) and standard deviation of (0.0862528) which shows a significant deviation from the mean. Profit after tax has a minimum and maximum value of (300) and (388983). The mean is (71262), the standard deviation is (115688.914) showing a significant deviation from the mean.

Table 1: Summary of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
SERIAL NO	25	1	25	13.00	7.360
YEAR	25	2017	2021	2019.00	1.443
ROE	25	.0263	1.5800	.330696	.4128295
ROA	25	.0043	.2780	.092892	.0862528
PROFIT_AFTER_TAX	25	300	388983	71262.00	115688.914
Valid N (listwise)	25				

Sorce: Researcher's computation, 2022

ANOVA Result of the relationship between Financial Reporting Quality and Financial Performance

The result of the ANOVA has revealed in table 2 below shows the F test of whether there is significant relationship between the dependent variable and independent variable. Based on the result, it confirmed that there is significant relationship between financial corporate performance (ROE and ROA) and financial reporting quality (profit after tax) which is given by the F-value and P-value of (9.064) and (0.001) respectively. This implies that financial reporting quality has effect on the organizational financial performance of business in Nigeria.

Table 2: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	145109078857.966	2	72554539428.983	9.064	.001[b]
	Residual	176105114944.034	22	8004777952.002		

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	Total	321214193802.000	24			

a. Dependent Variable: PROFIT_AFTER_TAX

b. Predictors: (Constant), ROA, ROE

Source: Researcher's computation, 2022

Regression Analysis Result of the Relationship between Financial Reporting Quality and Financial Performance

Also, regression analysis was carried out and the result from table 3 below shows a constant value of 4473.052 which denote the intercept, hence establishing a positive relationship with the financial reporting, while the row entails the measurement of financial corporate performance. The result further depicts that the coefficient of ROE and ROA are -187267.312 and 1385668.292 respectively. This result relatively shows that Return on Equity (ROE) is negatively influenced by financial reporting (profit after tax) by a factor of -187267.312 and a significant relationship is given by the P-value of 0.013 which is less than 0.05. Return on Asset is positively influenced by financial reporting (profit after tax) given a coefficient of 385668.292 and denoting a positive significant relationship by a t-value of 4.182 with a P-value, 0.000.

Table 3: Regression coefficient

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	4473.052	26601.865		.168	.868
1	ROE	-187267.312	69232.713	-.668	-2.705	.013
	ROA	1385668.292	331366.886	1.033	4.182	.000

a. Dependent Variable: PROFIT_AFTER_TAX

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Source: Researcher's computation, 2022

ANOVA Result of the Relationship between Financial Reporting and Non-financial Performance.

The ANOVA results from table 4 below with F-value and P-value of (5.271) and (0.003) respectively revealed that there is a significant relationship between non-financial performance (corporate social responsibility, productivity and customers' satisfaction) and financial reporting.

Table 4 **ANOVA[a]**

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	2663.784	3	887.928	5.271	.003[b]
1	Residual	7748.716	46	168.450		
	Total	10412.500	49			

a. Dependent Variable: financial reporting

b. Predictors: (Constant), corporate social responsibility, productivity and customers' satisfaction

Source: Researcher's computation, 2022

Regression Analysis of the Relationship between Financial Reporting and Non-financial Performance.

The below table 5 shows R value of 0.506, denoting a strong positive relationship of (50.6%) between the variables. R Square which is the co-efficient of determination reveals a value of 0.256. This is the extent to which financial reporting can be used to determine non-financial corporate performance. The Adjusted R Square which makes an attempt to correct the R Square shows 0.207 i.e., only 20.7% of the variation in the dependent variable is accounted for by the independent variable after all other variables have been taken into consideration. Therefore, there is a positive relationship between financial reporting and non-financial performance.

5.0 FINDINGS

It was discovered that the Information disclosed in the financial statement adequately support good investment decision making and also disclose information on corporate social responsibility. It also show that financial report contribute to the growth of business organization, this is because financial report provide information on trend of quantitative and qualitative performance which must be consider before organization opt for expansion.

The non- financial performance of financial reporting was also tested and this yielded quite an interesting result that reveals that financial reporting should satisfy the need of the people whose stake in the business is enormous. Financial and non-financial, there is need for proper check.

6.0 CONCLUSION AND RECOMMENDATIONS

Based on the observations and discussions carried out on the topic, the study's conclusion was that financial accounting reports are verifiable documents that enable the assessment of organizations' condition and performance, ultimately impacting their corporate performance.

Hence, the discoveries and outcomes of the data gathered from selected companies have economic inference regarding the performance of companies in Nigeria. Therefore to ensure better performance, the following are recommended:

- Companies should ensure to give credible and equal reports on both the financial and non-financial performance of the business.
- Management of manufacturing companies must propose new tactics in improving the quality of financial reporting in order to increase their profit.
- Financial stakeholders and potential investors in publicly traded companies should approach any changes in return on assets (ROA) with caution, as financial reporting directly influences this metric and therefore impacts profit value

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