



# Integrated reporting and corporate performance in Nigeria: Evidence from the banking industry

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# Integrated reporting and corporate performance in Nigeria: Evidence from the banking industry

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**Abstract:** The study examined the impact of integrated reporting on the performance of corporate organizations in Nigeria between 2009 and 2018. The major motivation for the study was the clarion call and the outcry by the public as regards environmental degradation due to firm activities. Unfortunately, such outcry were not really heard as information about the environment has not really been captured in the reports of firms which then makes them not accountable to their immediate environment. In the light of this necessity, the study which considered thirteen banks due to unavailability of data for the intended periods for the remaining five, used profit after tax as the dependent variable and also used IR index as a blend of financial and sustainability reporting, debt to equity ratio and total asset as independent variables. The study employed the classical Ordinary Least Square and Panel Co-integration techniques for analysis revealing that while IR has no significant impact on corporate performance in the short run, it has a significant relationship with firm performance in the long run. Hence, it was recommended that reporting authorities such as the FRCN should mandate firms to adopt the IR standard just like in South Africa as stipulated in their King's Code of Governance in a bid to strengthen such long run relationship. Also, non-financial information that embraces long-term forecasting should be included in corporate reports in a bid to educate relevant entities about its long-term prospects and its ability to continue in the foreseeable future.



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### PUBLIC INTEREST STATEMENT

The public outcry regarding environmental degradation arising from firm production activities resulted in the clarion call by regulatory and professional bodies for the assessment of organizational impact on its environment and its restoration. In this study, we examined the impact of IR on the performance of corporate organizations in Nigeria between 2009 and 2018. Data on annual reports of the sampled banks were used. The result shows that IR has a significant relationship with firm performance in the long run. We recommended that reporting authorities such as the Financial Reporting Council of Nigeria should mandate firms across all sectors to adopt the IR system just like it is done in South Africa as stipulated in their Kings Code of Corporate Governance in a bid to strengthen such long run relationship.

**Subjects:** Environmental Accounting; Integrated Reporting; Financial Accounting

**Keywords:** corporate performance; information asymmetry; integrated reporting; non-financial information

**JEL classification:** G21; G35

## 1. Introduction

The decision-making process of every system thrives on information, and the business environment is not an exception. Oprisor (2014) averred that information plays a vital role in the decision-making process of the business community coupled with the fact that investment decisions rely heavily on financial information at the disposal of investors (Mirza et al., 2019). Hence, reporting which is the communication of information is essential to the continued survival of any business. Meanwhile, every stakeholder relating with an organization is concerned mostly about the performance and the long-term survival tendencies of such firm, hence, the need for corporate reporting. However, the orientation that stakeholders are only concerned about the financial performance of firms has led to the traditional mode of reporting where by reports are separated into categories such as annual report, environmental report and social report which are then published separately for the exclusive access of few people (J. Jensen & Berg, 2012). Moreover, this traditional mode of reporting has been plagued with absence of transparency (Weybrecht, 2010) which then necessitates the need for the convergence of both financial and non-financial information in a single report now referred to as integrated reporting (IR) (Serafeim, 2015).

Furthermore, Eccles and Saltzman (2011) argued that in so much as a firm do not exist in a vacuum and as far as such existence is within the interacting activities of an environment, then, presenting a report without the influencing factors of such external environment and labelling it as a “true and fair view” in its presentation is therefore contestable. Similarly, the financial report of a firm therefore reflects the effect of an external environment on the firm’s activities, hence, the handshake between the firm and the external environment cannot be treated as a *persona non grata* in the place of reporting. The outcry of various entities in this regards has brought to limelight the need for IR which is holistic in its perspective about a firm as it captures both the financial and non-financial information about a firm. In Nigeria, since the establishment of the International Integrated Reporting Council (IIRC) in 2010 and the delineation of its framework for reporting in 2013, banks emerged to be the first set of organizations to train its staff to produce integrated reports in collaboration with the Institute of Chartered Accountants of Nigeria (Iyoha et al., 2017). However, some firms do not see the need for IR yet as some other organizations existing in Nigeria are yet to incorporate the IR system (Umoren et al., 2015).

Advertently, as a result of the benefits of the IR, the framework is becoming generally acceptable and has evolved to be an area of interest to researchers and professionals alike. However, there still exists paucity of empirical studies on the subject matter especially in Nigeria (Iyoha et al., 2017; Lipunga, 2015; Umoren et al., 2015). Ordinarily, firms may not necessarily consider IR as important if there exists no evidence of a positive contribution to performance, hence, it becomes pertinent to ask; will IR improve firm performance better than the traditional reporting style? Meanwhile, the existing studies in literature has generated mixed discoveries as regards the effect of IR on performance as there are evidences of mixed, positive and negative effects while some even discovered insignificant effects (Albetairi et al., 2018; Bijlmakers, 2018; Cosma et al., 2018; Suttipun, 2017). In addition, studies have failed to establish the existence of a long run relationship between IR and firm performance (Jeroe, 2016; Nurkumalasari et al., 2019; Soumilion, 2018), that is, the question as to if a IR has a long run relationship with corporate performance. Therefore, premised on these reasons, it becomes imperative to empirically investigate the effect of IR on corporate performance using the classical OLS and the panel co-integration techniques.

## 2. Conceptual review

### 2.1. Integrated reporting and financial reporting in Nigeria

Essentially, IR is defined as the concise reporting as regards the strategy, governance, performance, and prospects of an organization within its external sphere of influence in a bid to create

value over time (IIRC, 2015). Specifically, IR is a principle-based blend of both the sustainability and financial report into a single narrative (Lipunga, 2015). Although, sustainability reporting is considered a veritable source of information as regard the environmental initiatives of the firm (Gnanaweera & Kunori, 2018), financial reporting contains financial information; therefore, a blend of both in a single report will be highly informative and useful. Information disclosure is a form of accountability on the part of firm management (Adi et al., 2016) and as such, IR is essentially targeted at value creation as regard the organization itself and other stakeholders considering the six kinds of capital as delineated by the IIRC. These include, financial, manufactured, human, natural, social, and relationship capitals as these are viewed as the bedrock underlying the activities of every business as they develop models to manipulate such capital to their desired level through their activities (IIRC, 2015). In line with the above, Soyka (2013) posited that IR captures both the financial and essential non-financial information for public disclosure. According to the IIRC (2013), IR informs integrated thinking which then forms the bedrock for integrated decision. Hence, this decision, which is an encompassing and holistic decision, can then guarantee value creation over time either on short term, medium term, or long term.

Apparently, due to the need for such principle-based framework in guiding corporate reporting, the IIRC which is a global coalition of regulators, investors, companies, standard setting bodies and accounting professionals as well as NGOs was established to provide a sustainable framework for a properly integrated corporate reporting was established in 2010 (IIRC, 2013). The IIRC targeted the framework at ensuring that reports provide details about the external environment, which influences the activities of the organization, the resources and capitals engaged by the organization as well the interactions of the organization with the external environment (Lipunga, 2015).

The IR, which is a principle-based framework hinges on the principles of strategic focus and future orientation, stakeholder relationships, connectivity of information, materiality, conciseness, reliability and completeness as well as consistency and comparability (IIRC, 2015). These seven principles ensure that an integrated report discloses strategies as well as other information about the firm in its entirety. Meanwhile, the elements of an integrated report include organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook as well as basis of presentation. These eight elements collectively form the kernel of IR as specified by the IIRC. These principles and elements therefore ensure that there is a clearly reported nexus between financial and non-financial information in a bid to form a substratum for assessing the current performance and the future state of the business.

Furthermore, a critical look into the elements of IR as explicated by IIRC (2013) provides a more convincing framework for every report. In other words, the elements are like benchmarks, which every report must scale through to be accredited as integrated. Precisely, the element of organization overview and external environment captures every detail about the activities of the organization as well as external factors influencing the organization as a whole, governance captures the structure of the management or governance in relation with its value-creating ability as a firm, the business model element embraces the provision of details as regards the model used by the organization as a stream of business activities to transform inputs into outputs over time, Also, risk and opportunities elements relates to the risks affecting and opportunities at the disposal of the organization to either weaken or bolster its value-creating ability. The element of strategy and resource allocation reveals the intended objectives and the “end point in mind” of the firm as well as the adopted strategies to achieving it, the performance element clearly reveals the extent to which the organization has so far achieved its objectives and the effect of such on the capitals of the organization. The element of outlook is likened to a forecasting element which tries to predict the potential challenges the organization may encounter and the implications on performance while the element of basis of preparation critically evaluates the details of issues contained or included in the report and the mode of quantifying such details (IIRC, 2013; Lipunga, 2015).

Furthermore, Krzus (2011) discussed that a four pronged benefit of IR to the stakeholders as it provides better understanding of the performance of the firm in all spheres which can then inform a better decision-making process for monitoring and review, ensures better decisions, allows deeper engagement with information and lowers the reputational risk of any business. Also, Eccles and Saltzman (2011) further classified the benefits of IR as internal benefits, external market benefits and regulatory risk management benefit. The internal benefit cuts across improve internal resource allocation as well as reduction in reputation risk, the external benefits relates to owners as well as public satisfaction while the risk management benefit embraces the opportunity it provides for the firm to participate in framework or standard setting events.

In Nigeria, various laws and bodies have been established to guide reporting right from the CAMA 1990 to the establishment of the Financial Reporting Council of Nigeria in 2011. Moreover, investors and customers do not consider such information as basis for investment, which has led to the poor attention given to IR by firms in Nigeria (Ogbodo, 2015). However, especially in oil-producing areas, such multi-national firms are seen as the hope of extinguishing poverty through the upgrading of their social and environmental milieu mostly through sound CSR (Mahjoub, 2019). Meanwhile, the outcry in the southern part of the nation as regards oil spillage and poor attention given to the immediate environment has necessitated the need for IR, which can be a means of holding firms accountable for their environment (Okaro & Okafor, 2017). However, as it stands, there exists no formidable framework for IR in Nigeria apart from the ongoing plans to align the country with the international IR standards (Oba & Ibikunle, 2015). Nonetheless, this has not gained preeminence because there exists no framework that mandates firms to report under the IR framework unlike in South Africa which has the Kings code of governance, which necessitates IR (Umoren et al., 2015) coupled with the fact that most educational institutions have failed in updating their curricula to reflect the need for IR in the process of training prospective accountants (Tijani & Ogundeji, 2014). However, as time evolves and the pace of globalization increases, IR will gain dominance in the financial reporting system in Nigeria.

### 3. Theoretical review

In theory, a lot have been linked to IR such as the stakeholder theory by Freeman (1984), legitimacy theory by Lindblom (1994), political economy theory by Gray et al. (1996) as well as the agency theory by M. C. Jensen and Meckling (1976). However, more emphasis will be placed on the agency theory as well as the stakeholder theory.

#### 3.1. The agency theory

The agency theory as propounded by M. C. Jensen and Meckling (1976) assumes that every firm has a form of principal-agent relationship within the walls of its structure. The shareholders who are the investors or owners of the business are considered as the principal while the managers employed to oversee the firm on behalf of the owners are considered the agents. The agency theory assumes that managers are likely to possess self-aggrandizing tendencies by making use of firm resources for activities that will most likely benefit them more than owners. In consonance with the above, Eisenhardt (1989) submitted that the theory recognizes the two major agency problems as presence of information asymmetries between the agent and principal due to the divergence in goals as well as divergence in reaction of both entities to risk. Meanwhile, this study hinges so much on the problem of information lopsidedness between the two entities. Apparently, the goal of every shareholder is wealth maximization, which may differ from that of the manager, which may be self-aggrandizing in nature. As a result, there is tendency for there to be a gap in the information available to both parties. However, the IR perspective assumes that information must be made available in a comprehensive manner to circumvent this asymmetry.

#### 3.2. The stakeholder theory

The stakeholder theory as proposed by Freeman (1984) has the protection of the interest of all relevant parties to a business as its tenet. According to Freeman (1984), stakeholders are entities, which affect or are affected by the activities of a business including the public and the government. These entities include the owners, managers, employees, suppliers, payables, receivables, government, and the public. Hence, an integrated report must be done to provide details, which can comprehensively meet the information

needs of these various stakeholders. Furthermore, insomuch as the firm is a product of its relationship with these entities, constant provision of information to these entities is a major way of securing a long lasting relationship with them (Ofoegbu et al., 2018).

#### 4. Empirical review

Jeroe (2016) examined the effect of IR and non-financial information on performance 44 firms across the world for 2012 and 2013. The study used return on asset and earnings per share as dependent variables and also used IR index, non-financial information disclosure index, firm size, risk as well as the market book value of the firm as independent variables twinned with the use of descriptive statistics and the POLS regression analytical technique, it was discovered that IR and non-financial information reporting has negative effect on firm performance.

Iyoha et al. (2017) assessed the impact of IR on value creation from the perspectives of bankers in Nigeria. The study, which administered questionnaire on about 98 bank employees, revealed that IR has significant impact on value of firms. As a result, it was recommended that awareness campaigns should be done to inform organizations about the need for IR.

Suttipun (2017) explored the effect of IR on the financial performance of 150 firms between 2012 and 2015 in Thailand. The study used TOBINQ as the endogenous variable and also used financial capital reporting index, manufactured capital reporting index, intellectual capital reporting index, human capital reporting index, social capital reporting index, environmental capital reporting index as well as size of firm as exogenous variables coupled with the use of correlation and multiple Least Square regression analysis, it was revealed that reporting of CSR issues as well as capital has positive effect on performance while environmental reporting has negative effect on performance. Hence, it was recommended that value-adding reporting should be considered as value/cost relevance is taken into cognizance in corporate reports.

Albetairi et al. (2018) assessed the effect of IR on financial performance of five firms in Bahrain between 2012 and 2015. The study used business model index, risk and opportunities index, strategy and resource allocation index as well as performance disclosure index as indices of IR forming the explanatory variables while Return on Assets was used as explained variable coupled with the use of POLS regression technique, it was divulged that IR indices have mixed effect on firm performance to the end that risk and opportunities index as well as performance index exert negative influence on performance.

Cosma et al. (2018) examined the effect of Integrated Report on firm value in South Africa between 2013 and 2016. The study used firm value proxied by stock returns as exposed variable while IR as proxied by the national market index return, which is the response of the public to IR was used as the exposure variable coupled with the use of the ordinary least square regression revealing that IR has a positive effect on firm performance. As a result, it was proposed that firm managers should step up in their IR disclosure quality.

Soumillion (2018) examined the value relevance of IR of 63 firms in South Africa in 2017. The study used the adjusted market value of equity as the dependent variable and also used IR quality, corporate social responsibility performance, corporate governance as well as environmentally and socially sensitive index as independent variables coupled with the use of descriptive statistics as well as POLS regression analysis. It was revealed that IR has no significant impact on firm value. Hence, it was recommended that IR should be strictly adhered to and regulated. Bijlmakers (2018) explored the influence of IR on firm value in 56 banking firms Europe between 2010 and 2016. The study adopted TobinQ as the predictant and also used IR index, size, growth, discretionary accruals, return on equity as well as earning quality as predictors coupled with the use of descriptive statistics and the POLS regression technique, it was revealed that IR has no significant impact on firm value.

Nurkumalasari et al. (2019) examined the effect of IR disclosure on value of 14 firms in Asia between 2015 and 2017. The study used TobinQ as the dependent variable and also used the integrated disclosure index, number of subsidiaries, long-term debt ratio, return on asset, total



debt ratio as well as assets as the independent variables coupled with the use of descriptive statistics and POLS regression techniques, it was revealed that IR has no effect on firm value especially in cases of high leverage. Hence, it was suggested that highly levered firms should reduce their debt in a bid to make IR more relevant.

Premised on the theoretical and empirical substantiations pertaining to the relationship between IR and corporate performance, the hypotheses for the study are stated as:

$H_0$ : IR has no significant impact on corporate performance in Nigeria

$H_1$ : IR has significant impact on corporate performance in Nigeria.

The main objective of the study is to examine the impact of IR on corporate performance while specifically, the study intends to examine whether there is presence of a long run relationship between IR and firm performance.

## 5. Methodology

The study made use of cross sectional data culled from the annual reports of the thirteen (13) banking firms for a ten-year period between 2009 and 2018. The thirteen banks were purposely selected out of existing eighteen banks as they were the only banks with data available for the periods under consideration. The rationale behind selecting the banks is due to availability of data. Meanwhile, the time frame of the study was 2009–2018. The justification for this was because the IR framework was implemented in 2010. The data were analyzed using the Ordinary Least Square method to examine the subject matter in the short run and also adopt the panel co-integration test to confirm the existence of a long run relationship between IR and corporate performance.

### 5.1. Model specification

The model used in this study was adapted from the study of Bijlmakers (2018). This study deviates from Bijlmakers (2018) by the inclusion of some other variables as well as tools of analysis such as the Causality test not captured in the study. The model for this study is therefore specified as:

$$PAT = f(IRI, DER, TASS) \quad (1)$$

From Equation (1), it can further be stated in more explicit form as:

$$PAT = \beta_0 + \beta_1 IRI + \beta_2 DER + \beta_3 TASS + \ell \quad (2)$$

Where:

$PAT$  = Profit After Tax

$IRI$  = Integrated Reporting Index

$DER$  = Debt to Equity Ratio

$TASS$  = Total Asset

$\ell$  = Error term

$\beta_0, \beta_1, \beta_2, \beta_3$  = Coefficients of the Estimates

Debt to equity ratio is proxied by ratio of debt to equity. The IR index is measured by scoring the firms based on the disclosure framework as adapted from the studies of (Albetairi et al., 2018; Lipunga, 2015) and displayed in the Table A1.

## 6. Empirical results and discussion

### 6.1. Presentation of results

The results of the OLS analysis presented below will be devoid of the random effect due to the use of the Cochrane Orcutt Iterative method employed to correct autocorrelation in the study as indicated by the Durbin Watson statistics. The use of the iterative method therefore necessitates the use of the AR(1) model, which makes no provision for the random effect as convergence was achieved after 9 iterations. However, the findings were not compromised and presented below as:

However, a critical look at the results revealed that IR exert insignificant impact on firm performance.

**Table 1. Ordinary least squares results (including all effects)**

Independent Var.	Pooled LS	Fixed Effects
IRI	0.054009 (0.431923)	0.032909 (0.488612)
DER	-0.019959 (0.090991)	-0.033218 (0.078319)
TASS	1.003865*** (0.049699)	1.059707*** (0.065507)
C	-4.404567 (1.984421)	-5.2909540 (2.403204)
AR(1)	0.662892 (0.079944)	0.231078 (0.105789)
No. of Observations	96	96
R-Squared	0.970949	0.980642
Adjusted R <sup>2</sup>	0.969672	0.976722
F-Statistics	760.3548	250.1276
Prob. (F-Stat.)	0.000000	0.000000
Durbin Watson	1.987120	1.876740

Note: reported in the parameters are the standard error while \*, \*\*, and \*\*\* represent respective significance level at 10%, 5%, and 1%.

Source: Author's Computation (2019).

**Table 2. KAO-based panel co-integration test**

Kao Residual Cointegration Test		
Series: PAT? IRI? DER? TASS?		
Date: 11/06/19 Time: 22:01		
Sample: 2009 2018		
Included observations: 10		
Null Hypothesis: No cointegration		
Trend assumption: No deterministic trend		
User-specified lag length: 1		
Newey-West automatic bandwidth selection and Bartlett kernel		
	<b>t-Statistic</b>	<b>Prob.</b>
<b>ADF</b>	<b>-3.640615</b>	<b>0.0001</b>
Residual variance	0.407817	
HAC variance	0.320378	

Source: Author's Computation (2019).



The Kao-based panel co-integration test revealed that IR has a long run equilibrium relationship with firm performance as the probability value of the ADF statistics is significant at 5% significance level valued at 0.0001.

## 6.2. Discussion of findings

The study examined the impact of IR on firm performance in Nigeria between 2009 and 2018 taking into cognizance thirteen (13) banking firms. The study adopted the Ordinary Least Square technique for analysis of the short run relationship between the variables and adopted the Kao Panel co-integration test to establish the presence of a long run relationship between IR and firm performance. The result revealed that IR has no significant impact on corporate performance. This implies that an increase (improvement) or decrease (attenuation) in IR does not have any significant impact on the performance of corporate organizations. Hence, IR is not a signal needed to predict performance of firms. This is possible as some investors rely on technical information and other more quantitative data, as a result, IR disclosures are seen as mere additives to the corporate reports of firms and not the main information users are concerned about (Nurkumalasari et al., 2019). In addition, most users of information have been found to judge organizations based on the financial element of the corporate reports and not the integrated element, such judgment then eventually forms the basis for their decisions to either participate in the firm or not as such non-financial information is not used in analysis by financial analysts in the corporate environment (Campbell & Slack, 2011). The non-significant relationship between IR and firm performance discovered in this study is in line with the findings of Bijlmakers (2018), Nurkumalasari et al. (2019) and Soumillion (2018) but negates the findings of Iyoha et al. (2017) and Cosma et al. (2018).

Furthermore, the panel co-integration that there is presence of long run relationship between IR and firm performance. This implies that IR is related to performance of firms in the long run. This is possible as users of corporate information for long-term intentions such as long-term investment will consider other non-financial information that short-term investors may not consider. These non-financial information include governance and adherence to government policies so as the guard against long-term insolvency and to guarantee returns on their inputs in the long run.

## 7. Summary and conclusion

The outcry of various entities associated with the existence of firms has necessitated the need for a comprehensive report which will take into consideration the needs of such entities in a single report—Integrated Reporting. However, there is the need to provide evidence as to the effect of such reporting on the performance of firms. In the light of this, the objective of the study is to examine the impact of IR on the performance of banking firms in Nigeria using the Ordinary Least Square as well as the Kao Panel Co-Integration test.

The study in line with the main objective through the OLS technique concludes that integrated reporting (IR) has no significant impact on performance while the specific objective as satisfied by the Panel Co-integration test concludes that IR has a long run relationship with corporate performance.

This implies that the adoption of IR by firms has not yet translated to a substantial performance although it will eventually affect performance over time. That is, most investors and customers contributing to the firm activities do not consider IR as one of the variables needed in the process of decision making. One major reason for this is the seemingly imperfect market within the nation's economy, which subjects entities to incomplete information (asymmetry). More also, the long run relationship which subsists between IR and performance implies that over a long period of time, IR will evolve to be a major factor determining the performance of firms. This is probable as prospective investors over time pay attention to details reported in financial statements and relevant reports, which will then inform the decisions of long-term investors and other stakeholders.

Thus, the study therefore contributes to the existing debate in literature as regards IR as portrayed by its findings, which then empirically supports the need for IR in organizations in a bid to boost performance and attract investors especially in the long run.

Meanwhile, this study was limited to thirteen banks out of eighteen due to lack of complete information as it pertains to the scope of the study and non-banking firms were also not considered due to lack of adequate time and resources for such enormous coverage

Therefore, it is recommended that reporting authorities such as the Financial Reporting Council of Nigeria should mandate firms across all sectors to adopt the IR standard just like it is done in South Africa as stipulated in their King's Code of Governance in a bid to strengthen the long run relationship existing between IR and corporate performance. In addition, non-financial information that embraces long-term forecasting should be included in corporate reports in a bid to educate relevant entities about the long-term prospects of the firm and its ability to continue in the foreseeable future.

Meanwhile, the study leaves an impetus for future research to consider non-banking firms, financial services sector or a cross section of firms across various sectors as well as a comparative analysis to reflect the sectorial adherence and performance of firms as regards IR.

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#### correction

This article has been republished with minor changes. These changes do not impact the academic content of the article.

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## Appendix

**Table A1. Integrated reporting index scoring table**

<b>IIRC Framework Elements</b>	<b>Basis of Scoring</b>	<b>Maximum Score</b>	<b>Total Maximum Score</b>
Overview and External Environment	Vision and Mission	1	2
	External Environment	1	
Governance	Report of Director's Profile	1	3
	Report of Director's Remuneration	1	
	Report of Board and Audit Meetings	1	
Business Model	Report of Specific Business Model Adopted	1	2
	Inclusion of Business Model in Report	1	
Risk and Opportunities	Report of Risk	1	2
	Report of Opportunities	1	
Strategy and Resource Allocation	Inclusion of strategy and resource allocation	1	1
Performance	Environmental Reporting	1	3
	CSR Performance Reporting	1	
	Financial Performance Reporting	1	
Outlook	Report of future forecasts	1	1
Basis of Preparation	Report of basis of preparation	1	1
Total			15 (100%)

Source: Author's Design (2019).



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