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The effect of corporate reporting on public confidence; empirical evidence from quoted companies in Nigeria

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ABSTRACT

The primary objective of this study is to investigate the effect of Corporate Reporting Practices (CRP) on Public Confidence (PC) in the Nigerian quoted firms. We relied on the Nigeria Stock Exchange (NSE) reports to source for our data from all quoted companies registered with it that cut across the country, though most of them have their corporate headquarters in Lagos. Our sample size of 389 was arrived at based on the group of elements selected from the 76 quoted firms we studied. The instruments used for data collection were the research questionnaire for quantitative data, in-depth interview and observations. The analyses were done using the Statistical Package for Social Science (SPSS) quantitative data analysis. Using these tools, descriptive and inferential statistics were carried out, also Linear and Multiple Regressions, Factor analysis and Partial Correlation Coefficient were used to test our stated research hypotheses. These findings were arrived at from the analyses of generated data. Corporate Governance was observed to have strong and significant relationship with Investment Decisions and Stock Market Stability, but weak and positive relationship with Economic Growth. We discovered that Audit Reports have strong, positive and significant effects on Public Confidence. This was translated through the measures of Public Confidence. Despite the positive effect of Social and Environmental Issues on Public Confidence, generally, there was a very weak though positive effect of Social and Environmental Issues and Stock Market Stability. The results further proved that Technology has greater positive and significant mediation on CRP-PC relationships than legal framework. Conclusively, CRP of firms has significant influence on public confidence as regards investment decision, stock market stability and economic growth. In view of the aforementioned, we recommended that, there should be specific criminal penalties for any person that is involved in the manipulation, destruction, or alteration of financial records. Management and the board of directors should take personal responsibility for accuracy and completeness of corporate financial report. External auditors of quoted companies must not carry out non-audit service or the same clients whose account they are auditing.

Background / Problem of the study

The issue of building public confidence dates back to the famous Joint Stock Act of 1844. Under the Act the company is financed with capital invested by shareholders who receive transferable shares. The Act separated control of companies from ownership. Managers were know as *Directors* while owners where called *Shareholders*. To ensure that their investments were properly managed, it was mandatory for the managers to give account of their stewardship to the owners at the end of a specified period known as the *Accounting period.*

To give the report credibility, the shareholders appointed auditors to:

- carry out independent examination of the records and the accounts prepared by the Directors and
- give their independent opinion on the "true and fairness" of the financial statements.

The shareholder relied on the audited financial statements for investment decisions, and business continued to grow. As time went on, the opinion expressed on the financial statement was relied on by other stakeholders such as employees, creditors, would-be investors, customers, government, and the general public in reaching informed investment and other business decisions.

According to Schuetze *et.al* (2003), the foundation upon which investors confidence is built, is an audit of the financial statement of the organization by an independent auditor, who gave an independent opinion on the "true and fair" view of the information that is contained in the corporate report.

Governments have continued to make laws empowering the Accounting Profession to audit financial statements of publicly traded companies. Since the 1930's, some defining characteristics of the auditing profession are its integrity, independence and trust.

The accounting profession set standards to regulate the activities of their members in their responsibilities of keeping accurate accounting records, and preparing financial statements. For those in public practice, auditing standards and ethical codes have been issued to guide them.

However, cases are bound where organizations that have reported robust financial performance suddenly collapsed even after Auditors have given them clean audit report. According to Barlaup *et.al* (2009), corporate failures where managers prepared fraudulent financial statements and auditors issued clean opinions on the fraudulent statements have eroded trust among investors, and other users of corporate reports.

The corporate collapses of the new millennium give testimony to the accounting scandals widely reported to have been caused by incompetence, or greed of Directors, company executives and auditors.

According to Andrew *et.al* (2006), the seeds of the recent collapses are said to have originated in South East Asia in 1977 and then spread to Europe, America, Asia, Africa and Australia.

The collapse of **Enron** (U.S) *one of the world's leading energy, natural gas, communication giants* with a claimed revenue of nearly US $ 101Billion in the year 2000, but suddenly collapsed in 2001, brought confusion and uncertainty to the business world. It had a devastating effect on employees, banks, investment banks, lenders, creditors, and investors. The fall was abrupt and unanticipated (Wikipedia).

In US alone between 2000 – 2003 the following companies collapsed **Xerox** (2000), **Enron** (2001), **Aol** (2002), **Adelpedia** (2002), **Duke Energy** (2002), **Global Crossing** (2002), **Sunbeam** (2002), **Tyco** (2002) and **Parmalat** (2003). Similarly, in Australia between March to September 2001, **Harris Scarfe**, **HIH Insurance**, **One Tel** and **Ansett Airlines**, also collapsed.

Other world leading companies that have also collapsed included **Cinar** (Canada), **Allfirst** (Allied Irish), **Ahold** (Netherlands), **Gazprom** (Russia), **Aremissoft** (Cyprus), **Sumitomo** (Japan), **Lernout & Hauspie** (Korea) .

In Nigeria, between the years 2004 to 2008, the financial sector and other sectors have witness the collapse of many companies and banks including **All state Trust Bank**, **Societe General Bank (SGN)**, **Trade Bank** etc. In recent times a lot of mismanagement, resulted in the near collapse of banks like, **Oceanic bank**, **Union bank**, **Intercontinental bank** which led to their being bailed out by the Central Bank of Nigeria in 2009.

Review of related literature

The public confidence has been shaken due to the crises in corporate reporting. This happened during the great depression of the 1930s, then again about a decade ago, when **Enron**, **Worldcom** and other corporations collapsed because of manipulation in financial reporting caused by company executives, Board of Directors, Independent Auditors and negligence on the part of Regulatory and Rating Agencies. In the past two to three years this has reoccurred again. The economic meltdown which started in the U.S and spread to other countries has caused a lot of havoc on companies; again investors lost their investments, employee lost their jobs, creditors and other interest groups suffered the same fate.

The various interest groups have lost confidence in corporate reporting and corporate Governance. According to Dipiazza and Eccles (2002) faith in corporate reporting is perhaps at an all time low. Yet without this faith, the capital market cannot function. Trust and confidence are essential for the economy to function and grow. In addition to regulations and contracts, trust and confidence guide interactions in the business world. Modern society and its economy could not function without a minimum level of trust. Often trust and honesty are taken for granted and people forget that these qualities are crucial foundations for a smooth functioning economy.

According to Barlaup *et.al* (2009), modern economies are shaped through interaction among rational, utility maximizing individuals. But Fukuyama (1995) observes that rational utility maximization is not enough to give a full satisfying account of why successful economies prosper or unsuccessful ones stagnate and decline. The degree to which people value work and trust one another also has direct impact on economic life. Empirical evidence suggests that people do not only care about their own material well being but also consider others' interests.

Trust and confidence have always been important but are even more important in today's complex, changing business environment. Development in information and communication technology has transformed how businesses are organized and individuals function. Advancement in Technology has led to increased globalization, some businesses that once had simple structures have grown into multinational conglomerates and many companies struggle to compete. According to Krasna (2005), while the consequences of these changes are often positive, the "new" world generates immense pressure on organizations and individuals.

Changes in the business world make it harder for people to trust. Decline in confidence is evident. In recent times, a widespread cultural change has undermined shared values. Various incidents in the recent past have lowered the level of trust in Corporate Governance and in the capital markets. Accounting scandals in Enron, WorldCom, Parmalat to mention but a few have undermined people's reliance on financial information and shaken the confidence in Corporate Governance and capital markets.

The Accounting profession has always cherished and honoured the public trust in their profession and is proud of their heritage in serving the public interest. Unfortunately an increasing number of financial scandals by high profile companies, coupled with bankruptcies of major companies caused by reported financial statement fraud and related audit failures, have eroded public confidence in the financial reporting process and auditing functions.

Rebuilding public confidence therefore requires a considerable coordinated effort of all members of the Accounting profession, Accounting firms, Nigerian Accounting Standard Board and Standard-Setting Bodies.

Melancon (2002), rightly states that "we must restore our most priceless assets – our reputation, we must reach back to our score roots which earned us enormous respect as trusted advisors".

The concept of corporate Governance has become paramount mostly in response to corporate collapses, corporate raiders and destabilizing mergers and acquisitions, as well as business fraud and corruption. Issues of accountability, monitoring and disclosure, standard setting and global best practices are key issues. According to Oyedele (2010), it is now clear that companies can no longer manage the effects of their business practices simply by paying taxes and complying with national regulations. They are expected to take on greater responsibilities for managing their impact on society.

Implementing Corporate Governance is facilitated through standards and common codes of conduct. While firms themselves have set the standards, governments have played a role in defining common rules. Codes of Conduct have been created internationally, providing principles of business that promote benchmarking issues for human rights, workplace safety, transparency, environmental management, consumer protection and fighting corruption.

Methodology

The independent variable –Corporate Reporting is operational zed by corporate governance and audit report, while **the dependent variable- Public Confidence is operational zed by investment decision and stock market stability.** Size and the type of industry are used as moderating variables. This 2 by 2 matrix arrangement gave rise to the following hypotheses;-

HO1: Corporate Governance practices have no significant effect on investment decision.

HO2: Corporate Governance practices have no significant effect on stock market stability.

HO3 Audit reports have no significant effect on investment decision.

HO4: Audit reports have no significant effect on stock market stability.

Questionnaires were used to collect the data used for the analysis. Given that the study is an impact one, simple regression analysis was used to analyse the data using the SPSS package.

Result

Table 1: Results of Corporate Governance and Public Confidence Test

Predictor Variable	**Index**	**Investment Decision**	**Stock Market Stability**	
Corporate Governance	R	.458	.796	
	R^2	.213	.520	
	VIF	1.088	1.136	
	P-Value	.004	.004	
	T-Test	4.647	3.146	

Source: ***Survey Data 2011 and SPSS Window Output Version 17.0***

Key

R = Correlation Coefficient

R^2 = Level of Correlation Coefficient

VIF = Varian Inflation Factor

The results of Hypotheses one showed that Corporate Governance as a dimension of Corporate Reporting Practices has a coefficient of .458 and R^2 = .213 with P-Value of .004 at 2–tail test which is less than Alpha of .05 and a T-Test of 4.647 which is greater than 2. This implied that there is a positive, moderate association with Investment Decisions and the effect of the corporate Governance on Investment Decision is significant as proved by the T-Test result and the P-Value. This therefore implies that **Hypotheses one (HO_1) is rejected**.

On hypotheses two ($H0_2$), the relationship between Corporate Governance and Stock Market Stability is strong, positive and significant R = .796 and R^2 = .520. Also, the T-Test and P-Value results showed that Corporate Governance has a positive, strong and significant effect on Stock Market Stability, as such, **hypotheses two ($H0_2$) is rejected**.

Table 2: Results of Audit Report and Public Confidence Test

Predictor Variable	**Index**	**Investment Decision**	**Stock Market Stability**	
Audit Report	R	.578	.723	
	R^2	.489	.595	
	VIF	1.088	1.136	
	P-Value	.003	.000	
	T-Test	12.004	5.794	

Source: Survey Data 2011 and SPSS Window Output Version 17.0

Key

R = Correlation coefficient

R^2 = Level of correlation coefficient

VIF = Varian inflation factor

The table revealed the hypotheses results and the effects of the associations. Audit Reports have R=.578 and R^2=.489 for its effect on Investment Decisions. The significant level of the effect is very high as shown by the T-Test which is greater than 2 and P-Value< .05. In view of this, **hypotheses three (HO_3) is rejected**; as such Audit Reports have significant effect on Investment Decision.

On Hypotheses four (HO_4), the effect of the association of Audit Report with Stock Market Stability is strong, positive and significant. This is revealed by the results of R = .723 and R^2 = .695. The T-Test is greater than 2 and the P-Value<.05. **The hypotheses Four (HO_4) is rejected**, **thus Audit reports have significant effect on Stock Market Stability**.

Discussion of findings

A corporate reporting practice positively affects public confidence in Nigeria

This is indeed the main focus of this study which also helps to take care of our number one research question i.e. assessing the existing level of Public Confidence in Corporate Reporting Practices in Nigeria. The concept of public confidence means that the investors deserve information that is timely, easy to understand, easy to analyze, complete, accurate and trustworthy to enable them to make investment decision. Fakuyama (1995); he goes on to define Trust as the expectation that arises within a community of regular honest and cooperative behaviour, based on commonly shared norms. In the business environment where relationships exist between the shareholders of a company and the company management team, confidence is built. This is necessary to assure investors that their investments are not only safe, but increasing in value.

It is therefore pertinent that corporate reporting is viewed as one management instrument used in building the confidence of the shareholders. Schuetze *et al* (2003) noted that, the foundation upon which investor's confidence is built is the audit of the financial statements of the organization by an independent auditor who gives an independent opinion on the true and fair view of the information that is contained in the Corporate Reports of firms. Lack of transparent and reliable corporate reporting has resulted in corporate distress and failures around the world when managers, auditors, directors, regulatory agencies etc have not done their work in an honest and transparent manner (Dipiazza and Eccles, 2002). They further stressed that, faith in corporate reporting is perhaps, at an all time low. *The public confidence has been shaken due to the crisis in corporate reporting,* as expressed by a manager in one of the firms under study. Bovens (2004) concluded that, trust and confidence are more important in today's complex and dynamic business environment.

It was therefore, not surprising when our study revealed a significant and strong relationship between Corporate Reporting Practices and Public Confidence in Nigerian firms. Austin (2009) and Adeyemi (2006) have both observed the publication of fictitious financial reports that not only killed the confidence of local investors, but ridiculed the nation at the international business circle. One could still remember the cases of AP, Cadbury and Lever Brothers, to mention a few.

Corporate Reporting are viewed from the angle of Corporate Governance (CG), Audit Reports (AR), Financial Reports (FR) and Social and Environmental Issues (SEI). This aligned with Fukuyama (1995), Barlaup *et al* (2009) and Dipiazza and Eccles (2002) positions on the dimensions of Corporate Reporting System. In fact, Oyedele (2010) argued that, these dimensions are taken as a greater responsibility for managing their impact on the society. On the other hand, Bovens (2004) expressed the key elements of Public Confidence to include our study dependent variables which include Investment Decisions, Stock Market Stability and Economic Growth. Dipiazza and Eccles (2002) submitted that companies have special responsibilities since the growth of their firms depends on their roles in Corporate Reporting Practices. In the same vein, The Economist (2003) concluded that, the costs of the firms poor information is a high one. Thus, this corroborate our study findings that the elements of Corporate Reporting Practices significantly and strongly influence Public Confidence as reflected in Investment Decisions, Stock Market Stability and Economic Growth. In line with these general findings, we looked at the specific findings of our study, which are discussed below.

Corporate governance has strong and significant effect on public confidence

Corporate Governance according to Ali (1999) is the set of processes, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. It is the structure put in place for companies to be managed and directed toward attaining success at the interest of the owners. Adeyemi (2010) and Downes and Russ (2005) argued that Corporate Governance refers to the roles and responsibilities of the Board of Directors (BOD) and the right of shareholders. In order to prove this argument, our study revealed that Board of Directors and Chief Executive officers of the firms do not perform the same functions, thereby allowing for division of labour and avoiding conflict of interest that will ensure checks and balances, as such enrooting the rights of the shareholders.

The study further revealed that, most investors have access to transparent, accurate and reliable information in the firms, while a good number of the respondents, precisely 42% of them also claim that the information available is not transparent and accurate. Barlaup *et al* (2009) supported this when he observed that managers prepare fraudulent financial statements and auditors issue clean audit report on the fraudulent statements, thereby eroding trust among investors.

Good Corporate Governance aims to promote culture of integrity and high ethical standards from the firms. Dipiazza and Eccles (2002) posit that Corporate Governance helps to enforce Investment Decisions with respect to the accuracy, integrity and standards of the financial reports of the companies. In the same vein, the prevention of exploitation of investors is a priority in Corporate Governance. Suffice to say here that, these arguments aligned with our major findings that, Corporate Governance have strong and significant effect on Public Confidence. Reflecting this on the measures of Corporate Governance, we discovered that, the impact is stronger and significant with Investment Decisions and Stock Market Stability, than Economic Growth with a weaker relationship. Oyedele (2010), while giving credence to our finding argued that, Corporate Governance ensures that investors and other stake holders in the companies have adequate rewards. This can only be made possible through a trusted and standardized report. No wonder, Holmes and Laurson (2007) observed that issues of accountability, monitoring and disclosure, standard setting and global best practices are key issues in Corporate Governance. Good corporate governance must ensure that there is an audit committee in place. As Arens et al (1999) observed that the role of the audit committee is to ensure a smooth and effective audit function by acting as an intermediary between the auditor and the Board of Directors.

The decisions taken by Directors and managers affects the community, the quality of life and indeed the safety of health and life of the people at all level. So, satisfying the need of the people of the community is a major responsibility of the directors through qualitative and standardized reporting system. If Investment Decisions is to be beneficial and Stock Market Stability is to be assured then Corporate Governance must be seen to work for all players in the companies and this will eventually translates to Economic Development. Wrong decisions and fraudulent practices will certainly make a company distressed as Ihendinihu (2007) has observed that in recent times scars of distressed/ failed companies of all sizes and description litter the business terrain

At this juncture, we ventured into discussing the next findings in our work, which is, Audit Report (AR) has significant and positive and strong effect on Public confidence.

Audit reports strongly and significantly impact on public confidence

Audit reports is a very strong component of Corporate Reporting Practices, as it provides the framework within which, auditors and managers are required to operate in the public interest (Lovell, 2005; Davis, 2002; Fukuyama, 1995 and Relly, 2006). Low (2002) posits that an effective and objective audit is an essential part of good corporate governance. Corroborating this argument, our findings showed that Auditor's independence does influence Public Confidence and their adherence to professional ethics is a must. Anandarajah (2001) states that auditors must ensure that good corporate governance are adopted. They must act as the guardian of the company's financial integrity. This therefore justify our findings that, the pressure to falsify reports though high, but the level of committing auditing crime is very minimal, this is largely due to the penalties that await defaulters of standards associated with audit reports.

Auditors are responsible for providing assurance on the financial statements that management produces and reports to stakeholders. Suffice to say that, Audit Reports strongly, positively and significantly impact on Public Confidence. Specifically, the impact of Audit Reports on the measures of Public Confidence i.e. Investment Decisions, Stock Market Stability and Economic Growth is strong and significant. This shows that auditors are the guardians of company's financial integrity (Anandarajah, 2001). Furthermore, Peel and O.Donnell (1995) said that external auditors can only play their role well if they are independent and objective. . Auditors must maintain an attitude of Professional skepticism, throughout the audit. This assertion was affirmed by our study findings, as such, Public Confidence on corporate reports could be improved upon through integrity of the external auditors. In line with the results and arguments on the relationships between Corporate Reporting Practices and Public Confidence of the Nigerian firms, we further explored the third findings i.e. Financial Reports impacts Public Confidence significantly.

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