



Consequences of Implementing Integrated Reporting in Nigeria Using a DOI Approach

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Abstract: Research efforts have supported the need for more accountability by organisations to stakeholders about their performance in reaching their long term vision through the use of integrated reporting. This study examined the consequences arising from IR implementation using diffusion of innovation theory approach. The study utilized primary data obtained from a survey of 485 users of corporate reports. The data gathered through a questionnaire was analysed using descriptive statistical tools. Purposive sampling technique was used in selecting the sample for the study. The findings showed that corporate governance, financial performance, corporate attributes and the influence of stakeholders in the external environment have significant influence in the diffusion of IR. These users perceived that the benefits of IR adoption have strong motivation for adoption but there are three major factors militating against this diffusion. These include increased monitoring from regulatory authorities; exposure of confidential information and high cost of implementation. It is recommended that regulators of corporate entities in Nigeria should consider phased implementation of IR across various economic sectors rather than mandatory adoption. Secondly, they should liaise with management of quoted companies before embarking on mandatory IR adoption, by providing needed technical and infrastructural support that would ease some of the challenges arising from IR adoption.

Keywords: Integrated Reporting; consequences; governance; performance; external environment; diffusion of innovation

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1. Introduction

The business environment is filled with uncertainties stemming from the activities of several stakeholders in the political, economic, socio-cultural, technological, and

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legal/ regulatory environment. These uncertainties create pressure on organisations to divulge information willingly or otherwise so as to increase corporate legitimacy or image status in society. Research in countries such as South Africa, France, Turkey among others have shown that companies who adopted the integrated reporting framework were driven to adopt the IR framework because of the pressures of stakeholders in the external environment (the regulatory environment), their organisational attributes, corporate governance, financial performance. In view of the varied histories, institutions, diverse socio cultural and legal environments existing in these countries, it is possible that these national differences could also constitute as benefits, challenges or factors that influence the diffusion of integrated reporting (Dumay, Bernardi, Guthrie & La Torre, 2017; De Villiers, Rinaldi & Unerman, 2014).

The sparse concentration of research from Nigeria on the perceived consequences arising from IR implementation and the mixed results from prior studies from developed countries (Frias-Aceituno, Rodríguez-Ariza & García-Sánchez, 2013; Rivera-Arrubla, Zorio-Grimaand & García-Benau, 2017; Uyar & Kilic, 2012; Kilic & Kuzey, 2018) in developed countries makes it imperative for financial reporting researchers to evaluate possible relationships between factors that influence the implementation of IR and the consequences arising from IR adoption in Nigeria.

This study aims to provide empirical evidence on the consequences of implementing integrated reporting framework in Nigeria. More specifically, the study addressed the following research questions:

- i. What are the perceived drivers of IR in corporate Nigeria?;
- ii. What are the benefits arising from IR framework implementation in Nigeria?;
- iii. What are the challenges arising from IR framework implementation in Nigeria?.

The findings from this research would provide insights into the drivers and the consequences of IR implementation. This would enable users of corporate reports to consider the implications of adoption of the IR framework. The Nigerian Securities and Exchange Commission and Financial Reporting Council of Nigeria would find this study significant especially when considering future policy decisions bordering on mandatory implementation of integrated reporting in Nigeria.

The study gathered the perceptions of internal and external users of corporate reports in Nigeria such as management, investment analysts, academia, external auditors, investors and regulators on the general understanding of integrated reporting, drivers and consequences (benefits and challenges) of IR adoption.

2. Literature Review

2.1. Corporate Reporting in Nigeria

Nigerian listed companies experienced a lot of challenges in providing investors with sufficient non-financial (social, economic, governance) and financial information that will enable them understand the risk profile of companies so as to make informed judgements and decisions. This led to the misconception in the minds of prospective investors globally that Nigeria is a risky country for the flow of Foreign Direct Investments (FDIs) (Imeokparia, 2009; Adeyemi & Ayanlola, 2015). In view of this, the Nigerian government adopted the International Standards of Accounting and Reporting (ISAR) and the blue book on investment promotion and facilitation by the United Nations Cultural and Technical Department (UNCTAD) so as to implement a strategy that would attract FDI and improve investment in physical and human capital. When these efforts did not yield the desired results, the government through the Financial Reporting Council of Nigeria in 2011, mandated the adoption of the International Financial Reporting Standards (IFRS) for quoted companies from January 1, 2012. They further promoted awareness on social and environmental reporting, reviewed several regulations and laws such as the Nigerian Code of Corporate Governance (2018) and Companies and Allied Matters Bill (CAMB) (2018). The NCCG (2018) would commence in January 1, 2020 and CAMB (2018) would become an Act ready for implementation as soon as it is ratified by the National Assembly. All these strategies were introduced with the aim of improving comparability, transparency and credibility of corporate reports from Nigeria, restore stakeholders' confidence and boost cross border investment.

Even before the emergence of the IR framework, Nigeria had adopted several elements of the IR framework as evidenced by prior research in Nigeria. For instance, Imeokparia (2009) and Imeokparia (2007) in two different studies, analysed the corporate reports of listed companies in Nigeria and observed that financial, manufacturing, and human capital are more disclosed than intellectual capital while minimal disclosures were made on social, environmental and consumer relationships. This shows that among the eight content elements required to be included in an integrated report; over half of these elements are currently incorporated in the annual reports of Nigerian quoted companies albeit not elaborately discussed. Thus, in adopting the IR framework, Nigerian quoted companies would only be required to increase disclosure contents of certain aspects of their corporate report so as to conform to the requirements of the IR framework.

2.2. Integrated Reporting Framework

The IIRC in 2013 developed the IR framework which describes in detail eight content elements that should be covered in any integrated report. These elements are:

‘organizational overview and external environment, governance, business model, risk and opportunities, strategy and resource allocation, performance, future outlook and the basis for preparation and presentation of the integrated report’ (IIRC, 2013). Diffusion of innovation was propounded in 2003 by Rogers Edward to explain the basis and modalities for adoption and integration of innovations into standard practice. The theory posits that ideas and innovations (including IR) are adopted faster when there are perceived benefits to the potential users or adopters (Rogers, 2003). Robertson and Samy (2014, p.14) enumerated five (5) features that determine the rate of adoption of a process. These include: relative advantage, compatibility, complexity, trialability, and observability. In relation to this study, organisations who would want to implement the IR framework would consider these factors in making their decision.

2.3. Drivers of IR

A review of prior research on the drivers of IR has shown that there are four major categories. These are: corporate attributes (Frias-Aceituno, Rodríguez-Ariza & García-Sánchez, 2013), external environment (Rivera-Arrubla, Zorio-Grimaand & García-Benau, 2017), corporate governance (Uyar & Kilic, 2012), and financial performance (Kilic & Kuzey, 2018). However, there are sparse studies in Nigeria which have assessed the perceptions of users of corporate reports in Nigeria on the extent which these drivers could influence IR adoption, hence this study will fill this gap.

2.4. Challenges Arising from Implementing Integrated Reporting

Okaro and Okafor (2016) identified the voluntary nature of the IR framework, the difficulties of measurement and the subjectivity it will bring to the assurance function were among the challenges of IR adoption. Eccles and Serafeim (2011) highlighted challenges, such as the lack of a universally established yardstick for measuring and reporting non-financial information and the variability of the relevance, applicability and adoption of IR across jurisdictions as barriers to the adoption of Integrated Reporting. The development and expansion of current corporate reporting systems to accommodate IR is a mitigating factor to IR adoption (McNally, Cerbone & Maroun, 2017). Kilic et al., (2018) posits that the risk of loss of corporate confidentiality, and litigation risk exposure arising from IR adoption could inhibit implementation by potential adopters. In addition, the difficulty in comparing, and comprehending the contents of an integrated report arising from the diversity of information disclosed in the reports are some of the challenges arising from implementation of IR (Doni, Gasperini & Pavone, 2016). Finally, due to absence of audit regulations or standards for conducting an audit of the integrated

report, stakeholders confidence on the credibility of the report is reduced (Opisor, 2015).

2.5. Benefits arising from Integrated Reporting implementation

Early advocates of the IR framework believe that its adoption would be beneficial to both corporations and stakeholders. IR would contribute to economic stability and a more viable society (Eccles & Krzus, 2010; Eccles, Cheng & Saltzman, 2010). These benefits include: increased value relevance of corporate reports (Lee & Yeo, 2016); enhanced analyst's understanding of ESG information (Bernardi & Stark, 2018); reduced information risk because investors are willing to accept a lower rate of return from companies as long as more disclosures are made (Zhou, Simnett & Green, 2017); financial market stability (Macias & Farfan-Lievano, 2017); legitimacy and image enhancement (van Zijl, Wöstmann & Maroun, 2017); accountability and transparency of the organisation's activities is increased (Zhou, Simnett & Green, 2017); and stakeholder engagement and empowerment (Havlova, 2015) among others.

3. Methodology

The survey research design was used to assess the perception of users of corporate reports on the general awareness of IR, the drivers of IR, the economic benefits, and economic challenges arising from IR adoption in Nigeria. For the purpose of the survey, population was made up of the users of corporate reports in Nigeria, with particular focus on internal and external users that play a vital role in the preparation and presentation of corporate annual reports. These include investors, regulators, management, external auditors, academia (lecturers, scholars and administrators), investment analysts and stockbrokers. Hence, the population can be regarded as an infinite number of corporate report users which does not have sampling frame.

Purposive sampling technique was utilised to survey the perception of 650 users of corporate reports from four out of the six geopolitical zones in Nigeria. These respondents were selected on the basis that they were familiar with financial and non-financial reporting issues in corporate reporting. Their perceptions on the drivers and consequences (benefits and challenges) arising from corporate implementation of Integrated Reporting framework were sought.

The primary data was sourced from the responses to a survey questionnaire. The questionnaire elicited relevant information on demographic details of respondents, understanding of integrated reporting, drivers of IR and the consequences of integrated reporting- benefits and challenges. A total of 485 copies of the

questionnaire were retrieved and found usable for the study. Table I shows the distribution of respondents across different user profiles and locations in Nigeria.

Table I. Summary of Respondents' Locations

Locations	Investors	Investment Analysts	Regulators	Management	External Auditors	Academia	Total
Rivers	8	1	5	2	12	9	37
Lagos	40	11	13	15	68	89	236
Abuja	7	2	10	7	15	1	42
Ogun	5	4	2	8	23	12	54
Borno	15	5	1	2	12	7	42
Taraba	4	1	1	3	6	5	20
Edo	11	2	2	9	9	21	54
TOTAL	90	26	34	46	145	144	485

Source: Survey responses (2019)

3.1. Validity and Reliability of Research Instrument

Prior to administration of the questionnaire to respondents, construct and content validity was carried out by incorporating the comments and suggestions of experts in academics and the accounting profession on the draft copies of the questionnaire. A pilot study was conducted using the perceptions of 20 respondents on the drivers and economic consequences of IR. The responses were tested for reliability using the Cronbach alpha test of reliability. The result is displayed in Table II.

Table II. Reliability Test Results

Variable	Questionnaire items	Number of items	Cronbach alpha (α)
Understanding of IR	1-8	8	0.77
Drivers of IR	9-23	15	0.70
Economic Benefits of IR implementation	24-31	8	0.84
Economic Challenges of IR implementation	32-43	12	0.73

Source: Compiled by Author (2019)

Data Presentation and Analysis

With the aid of a questionnaire, the opinion of users of corporate reports were gathered to assess their understanding of the drivers of IR adoption in Nigeria as well as the associated benefits and challenges arising from adopting this form of corporate reporting. Table III shows respondents' perceptions of the drivers of IR implementation in order of importance.

Table III. Descriptive Statistics on the Ranking of Drivers of IR Implementation in Nigeria

Drivers	Mean	Ranking
Corporate governance practices	3.9093	1st
Financial performance	3.8474	2nd
Regulatory pressure	3.7134	3rd
Stakeholder pressure	3.7031	4th
Company size and age	3.6990	5th
Institutional or foreign ownership structure	3.5505	6th
Industrial sector	3.5155	7th
Institutional pressure	3.5113	8th
Auditor type	3.4144	9th
Disclosure costs	3.4103	10th

Source: Compiled by Author from Survey (2019)

It can be observed from Table III that respondents perceived corporate governance practices as a major driver of IR adoption. This is followed by financial performance and the external environment - such as regulatory pressure, stakeholder pressure. The company's size and age, ownership structure, industrial sector, institutional pressure were considered as moderately important while the type of auditor and disclosure cost were ranked least important.

4.1. Benefits Arising from IR Adoption

Table IV shows that majority of the respondents opined that IR adoption will create opportunity for FDI attraction, access to the global capital market and overseas listing. IR adoption would enhance the image and legitimacy of Nigerian quoted companies, increase the transparency of information disclosed in reports as well as provide better information for planning, control and decision-making purposes for corporate entities, investors as well as increase capital market participant's confidence when making investment decisions.

Table IV. Descriptive Statistics of Users' Ranking of the Benefits of IR adoption

Statement items	Mean	Ranking
IR provides better information for planning, control and decision-making purposes	4.1464	1st
The Integrated Report will give better understanding to investors of the risk and opportunities	4.0928	2nd
IR creates more confidence in the information presented to capital market participants	4.0784	3rd
IR will enhance the availability and transparency of financial and non-financial information	4.0742	4th

IR will create opportunities to attract foreign direct investment	4.0557	5th
Legitimacy and image enhancement of Nigerian quoted companies will be achieved with IR	3.9897	6th
Companies who adopt IR will gain access to global capital markets and overseas listing	3.9113	7th
Better risk management and effective internal audit unit will result from IR adoption	3.8536	8th

Source: Compiled by Author (2019)

4.2. Challenges Arising from IR Adoption

Table V displays users' perception of the ranking of challenges of IR adoption. Respondents were of the opinion that a major challenge of IR adoption is increased monitoring from regulatory authorities in Nigeria, followed by exposure of confidential information, IR implementation cost, infrastructural challenges in generating resources (human and material), lack of credibility and assurances of the contents in the report and environmental pressure. In addition, the compatibility and complexity factor of DOI theory is hindered when users have, difficulty in comparability and transparency of Integrated Report due to ambiguity in measuring concepts, and difficulty in understanding the contents of an integrated report This agrees with the findings of Oprisor, 2015 and Robertson et al., 2014.

Table V. Descriptive Statistics on Users' Ranking of Challenges of IR Implementation in Nigeria

Challenges	Mean	Ranking
Increased monitoring from Regulators - SEC, CBN, FRCN, NAICOM etc.	3.6784	1st
Exposure of confidential information	3.5567	2nd
Cost of IR implementation	3.4619	3rd
Infrastructural challenges in generating resources to implement IR	3.4495	4th
Lack of credibility and Assurance of the contents of IR	3.4268	5th
Comparability and Transparency of Integrated Reports	3.3794	6th
Ambiguity in measuring concepts e.g. materiality of information disclosed	3.3505	7th
Environmental pressure due to damages	3.2804	8th
Difficulty in comprehension of the contents of IR	3.2722	9th

Source: Compiled by Author (2019)

4.3. Discussion of Findings

The findings of this study show that users of corporate reports perceive corporate governance, financial performance, regulatory environment, and corporate attributes drive IR implementation. The DOI theory posits that ideas and innovations (including IR implementation) are adopted faster when the perceived benefits arising from implementation, outweigh the challenges of the potential users. This study

found that respondents perceived that IR is advantageous to the adopting organisations; it is easily adopted by companies who prepare ESG and Financial reports or by competing companies in the same industry (observability and trialability). Furthermore, the sociological models of the DOI theory assume that as practices become increasingly institutionalized, organisations will often imitate other organisations to enhance legitimacy (Rogers, 2003, Robertson & Samy, 2014). The users consider IR implementation as an opportunity for FDI attraction, global capital market recognition, and overseas listing (enhanced image status and legitimacy). The respondents however expressed misgivings on the increased monitoring by regulatory authorities and exposure of confidential information (complexity). Unless, the regulatory authorities compel organisations to implement the IR framework as subsists in South Africa, higher monitoring and scrutiny of corporate entities will lead to lesser inclination to disclose confidential information or support towards IR framework implementation.

5. Summary, Conclusion and Recommendations

The adoption of IR in corporate Nigeria should be phased in a manner similar with IFRS adoption, so as to encourage early adoption of the IR framework in Nigeria. Mandatory adoption of IR should be discouraged in the early stages due to corporate report users' perceived challenges of monitoring and scrutiny by regulatory authorities as well as corporate disinclination to disclose confidential information. In addition, regulatory authorities in Nigeria, should provide technical and infrastructural resources needed to support IR adoption.

In view of the perceived benefits of IR adoption, more public awareness of the IR framework is required to boost stakeholders' knowledge on the importance and benefits of adopting IR. Avenues such as tertiary institutions, professional bodies' continuous education workshops and seminars should be used to propagate the knowledge of integrated reporting so as to facilitate adoption among quoted companies.

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