

ACCOUNTING INFORMATION DISCLOSURE AND EARNINGS QUALITY OF NON-FINANCIAL QUOTED COMPANIES IN NIGERIA

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ABSTRACT

This paper assessed the influence of accounting information disclosure on earnings quality of the non-financial quoted companies in Nigeria using annual data for the period 2007 to 2015. The population of the study comprised 141 non-financial companies listed on the Nigeria Stock Exchange. Purposive sampling technique was used to select 65 firms with complete data covering the study period. Data on the accounting information disclosure and earnings quality were obtained from the Annual Reports and Accounts of the selected companies. Employing correlation analysis and ordinary least squares (OLS) regression technique, the results indicated that the relationship between financial disclosure and earnings quality was complimentary in nature. The study concluded that financial disclosure and earnings quality performance are independent of each other and, therefore, they are mutually exclusive and uncorrelated. Hence, they cannot be used as a proxy for one another in analyzing the firms in each industry in Nigeria, however, they play complimentary roles in explaining the firm performance in Nigeria.

Keywords: mandatory disclosure, voluntary disclosure, total disclosure, total accrual, current accrual, cash flow earnings quality

INTRODUCTION

Financial report, as a formal and comprehensive statement describing financial activities of a business organization remains the most important document published by any company to the public, highlighting the state and healthiness of the company. Such a document provides all relevant financial information presented in a structured manner and in a form easy to understand for managerial use for taking prompt and informed decision relating to investment, production planning, expected returns and performance evaluation (International Accounting Standard Board, 2007). Apart from the relevance of a financial report in making management and investment

decisions, it also serves as an important source of information for prospective investors, financial institutions, government regulatory agencies, media, vendors and the general public in assessing the financial status of such organization (Okafor, 2006).

The disclosure and compliance level is determined by how much of such required information is contained in the financial reports of the company (IASB, 2007). Demand for corporate disclosure can arise from the information asymmetry problem and agency conflicts between management and outside investors (Healy & Palepu, 2001). Enhanced corporate disclosure is believed to mitigate these problems. It should reduce the uncertainty surrounding future corporate performance and facilitate trading in shares, as well as dictate the direction of movement in the share price.

Earnings quality has also been viewed, both in theory and empirically, as fundamental determinants of stock returns (Beneish & Vargus, 2002; Ohlson & Juettner-Nauroth, 2005). This is because earnings quality is viewed as a broader measure of asymmetric information. Accordingly, asymmetric information is assumed to lead to higher transaction costs in the form of bi-ask spreads. Those spreads imply lower prices given that investors are interested in returns after transaction costs, while these costs cannot be diversified away. Aboody et al. (2005) have also found that earnings quality is indeed an important pricing factor for the value of firms.

In view of recent experience with the accounting information disclosure and the issue of earning quality in relation to disclosure compliance level, this study becomes imperative and deserves empirical attention.

The rest of the paper is structured as follows: Section two provides information on the review of related literature and hypothesis development. Section three describes the methodology. Results and discussion of findings are presented in Section four. Section five contains summary and conclusion while Section six and seven give recommendations and show contributions to knowledge, respectively.

LITERATURE REVIEW

The Role of Disclosure Quality

According to the conceptual framework for financial reporting of the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB), the intrinsic features that make for quality financial reporting incorporates among others: timeliness, relevance, neutrality, comprehensibility, faithful representation, verifiability and comparability. Thus, the focus is on providing financial reports that aid correct and quality decision-making and not those that are capable of misleading the users and that talk less of the pivotal roles played by predictability and precision in enhancing quality financial reporting (Gajeszky, 2015). There appears to be unanimity among regulators and investors in their demand for high-quality financial reporting because of the widespread belief that the quality of financial reporting directly affects capital markets liquidity and tends to facilitate listing activities (Chen et al., 2015). Levitt (1998) argued that the success of capital market is directly dependent on the quality of accounting and disclosure systems. Disclosure systems that are founded on high-quality standards give investors

confidence in the credibility of financial reporting, and without investor confidence the market cannot thrive.

While “quality” of accounting information and “transparency” of a disclosure system or accounting standards are commonly and interchangeably used terms, a precise definition of quality or transparency that everyone agrees on has been elusive. Pownall and Schipper (1999) defined transparency as “standards that reveal the events, transactions, judgements and estimates underlying the financial statements and their implications.” Levitt (1998) defined good accounting standards as those that produce financial statements that report events in the periods in which they occur, not before and not later.

Ball et al. (2003) and Ball et al. (2000) interpreted transparency as a combination of the properties of timeliness and conservatism. Timeliness is the extent to which current-period financials incorporate current-period economic events, and conservatism is the greater speed with which financials reflect economic bad news than good news. The latter definition seeks to take into account management’s asymmetric incentives such that its reporting of good news is not credible, but bad news reporting is credible. Notwithstanding the differences, a large overlap exists in the various definitions of quality and transparency of accounting information.

The Role of Earnings Quality in the Stock Market

Moh and Winny (2014) described earnings management as a measure of earnings quality. They argued that from the concept of earnings management, earnings quality can be measured based on the degree that managers decline to revise the annual earnings reporting process or the scope to which reported earnings numbers truly represent the fundamental economic performance. Beyer et al. (2014) when trying to compare earnings management and earnings quality saw quality as a mere measurement indicator. They, therefore, took them as two sides of the same coin because they observed that when earnings management was high, earnings quality was low and vice versa.

Mohammad and Ehsan (2011), in their contribution, suggested that accounting decision can be efficiency or managerial opportunism driven. They highlighted that management may intervene in earnings reporting processes so as to manipulate reported income for concealed gain, which implied they have engaged in earnings management. They explained further that managers can make the decision to maximize their current compensation. Earnings management to non-accounting inclined sometimes look like a perfectly ordinary or permissible activity considered unethical if resulted in distorted picture of a company’s financial performance to investors and other users (McNichols & Stubben, 2010).

A firm is said to engage in earnings management when it switches from one accounting method to another or changes policies very often, primarily to affect reported earnings (Kachouri et al., 2015). Cohen and Zarowin (2010) stated that a firm’s reported earnings contains vagueness between accounting profits that can be monitored and economic profits that cannot be noticed, otherwise known as the earnings clumsiness.

Whether or not investors rely on the quality of reported earnings to assess the credibility of their announcements depends on how earnings quality affects the likelihood of such disclosures in the

annual reports. Verrecchia (1983) argued that firms with poor earnings quality face higher information asymmetry and thus issue more expansive disclosures, as the incremental value of such disclosures is greater for these firms. Managers would need to operate a high quality reporting system to be able to provide disclosures that investors would view as credible. Verrecchia (1990) argued that high information quality implies a lower threshold level and thus a higher likelihood of such disclosures, as investors would treat such disclosures as more credible.

The rationale here is that as earnings quality increases, the market exerts more pressure to managers to disclose information by discounting the firm's value if information is withheld. This implies a positive association between such disclosures and earnings quality. Verrecchia (1990) also noted that such a positive association may not be unequivocal due to the indirect effect of the quality of disclosures. In other words, higher quality information can reduce the market uncertainty and thus the incremental value of disclosures and their probability, consistent with a substitute association. Fama and French (1996) also argued that firms with high magnitude of earnings quality, measured as signed abnormal accruals, earn positive risk-adjusted returns and vice versa. Their results receive statistical support by Chan et al. (2001). Xie (2001) explored the impact of exogenous variables on reporting quality, as well as on its economic implications. He provides evidence in favor of the fact that reporting quality has significant effects on the cost of equity capital.

Empirical attempts probing the association between disclosures and earnings quality provide evidence consistent with both a substitutive and a complementary relation, depending on the disclosure and earnings quality strategy chosen. Francis et al. (2008) found a complementary association between the disclosure score and earnings quality. When focusing on the score component relating to the firm's projected information, they find no evidence of a significant association with earnings quality. Imhoff (1998) found that firms issuing earnings forecasts have less volatile earnings than non-forecast firms. Waymire (1985) argued that firms issuing earnings forecasts more frequently have less volatile earnings relative to firms issuing such projections on an infrequent basis. Lang Luundholm (1993) found that firms' ratings were decreasing in the correlation between earnings and returns, a finding that is consistent with firms with less informative financial statements providing additional disclosures. In the same fashion, Demers and Vega (2009) found that net optimism detected in soft information that managers disclose in earnings announcement is priced more for firms with lower quality accounting data, a finding that is consistent with net optimism substituting for poor earnings quality.

The Role of Earnings Quality in Financial Services Sector

The financial services sector is dominated by banks and insurance firms. Banks and insurance firms act as financial intermediaries, mobilizing funds from the surplus units to the deficit units, thereby facilitating the socio-economic development of the country. In particular, insurance companies promote socio-economic activities through risk transfer and indemnification for companies and individuals. Banks provide platforms for payment in addition to mobilization of deposits for onward lending.

The concept of earnings quality is fundamental in accounting and economics (Dichev et al., 2013). This is not surprising as earnings are of great importance to investors, regulators, practitioners and

researchers. Reported earnings, therefore, depend on a myriad of factors, amongst which is the degree of legal enforcement and effectiveness of regulatory agencies, managerial discretions, ownership structure and dispersion and firm performance. In addition to the reporting requirements as enshrined in the Companies and Allied Matters Act (CAMA), the listing and disclosure requirements of the Nigerian Stock Exchange and Financial Reporting Council of Nigeria Act, the financial sector of Nigeria faces specific industry regulations with the Central Bank of Nigeria (CBN) and the National Insurance Commission (NAICOM) as apex regulators. While the CBN regulates the banking industry based on the provisions of the Banks and Other Financial Institutions Act of 1991, the NAICOM regulates the insurance industry based on the provisions of the Insurance Act, 2003.

Iyoha (2009) finds that the CBN and NAICOM have differential impact on accounting practices. In 2009, the CBN conducted a special examination into the books and affairs of deposit money banks (DMBs) and found massive earnings management and unethical practices resulting in the sacking of five CEOs and the takeover of five DMBs. The implication of this action is to compel banks to ensure high earnings quality. Sanusi (2010) submits that one of the very things that went wrong with the banking industry was inadequate disclosure and transparency about financial position of banks

The demand hypothesis, as advanced by Healy et al. (2011) predicts that firms with poor (good) earnings quality tend to disclose less (more) information. Given the above discussion, this paper formulates the following hypothesis:

Ho: Accounting information disclosure is not significantly influenced by earnings quality of non-financial quoted companies in Nigeria.

METHODOLOGY

The data for this study was obtained from a secondary source. This study used panel data to examine the relationship between earnings quality and accounting information disclosure. This relationship was examined in two different ways. First, a univariate analysis was undertaken and the correlation coefficients between earnings quality and disclosure indices were estimated. Second, a multivariate analysis was performed where earnings quality is regressed on disclosure indices, as well as other control variables. Disclosure is represented here using three disclosure indices: TINDEX, MINDEX and VINDEX. TINDEX is the total disclosure index, which includes both mandatory and voluntary items of information. MINDEX is an index of mandatory disclosure and VINDEX is an index of voluntary disclosure items. The inclusion and exclusion of a type of disclosure index resulted in four model specifications. The first examined the association between firm value and TINDEX (model I). The second looked at the relationship between firm value and MINDEX, as well as VINDEX (model II). The third focused on the relationship between firm value and MINDEX (model III). The final model concentrated on the association between firm value and VINDEX on its own (model IV), while the earnings quality was represented by total accruals (TA), total current accruals (TCA) and cash flows (CFs).

A number of control variables suggested from prior studies was used to explain earnings quality (Healy et al., 1999; Lang et al., 2003; Back et al., 2004; Silva & Alves, 2004). These control variables were asset size, profitability, leverage, growth, risk and industry type.

These variables together with their expected coefficient signs are included in the multiple-regression specification as follows:

Earnings Quality = $f(\text{asset size (+), profitability (+), leverage (+), growth (+), industry type (+/-), disclosure (+/-)}$.

Results and Discussion

Early works on financial disclosure treat the quality of the manager's private information as exogenous (see Grossman & Hart, 1980; Milgrom, 1981; Verrecchia, 1983). In such settings, one obtains the result that disclosure mitigates the information asymmetry in the market, so that firms with greater asymmetry increase disclosures to improve shareholders' information environment. If a measure of the firm's earnings quality is used to proxy for information asymmetry (under the belief that earnings quality is causally related to the information asymmetry), the implication is that the level of a firm's disclosure is inversely correlated with earnings quality or a substitutive relation. That is, poor (good) earnings quality firms disclose more (less). This intuition ignores, however, the fact that in such a setting the firm's disclosures would also be based on poor quality information and, hence, a rational expectations market will place less credence on such disclosures. This argument demonstrates the need to endogenize the disclosure decision and recognize that disclosures made by the manager will originate from an underlying information system that may be of poor (or of high) quality.

Correlation (Univariate) Analysis Results

In view of the above reasoning, the starting point is presentation of pairwise correlations between *financial disclosure*, earnings quality metrics and stock price. The result of the correlation analysis is to determine the level of association between financial disclosure and earning quality and stock price. As clearly shown in Table 1, the correlation between earning quality and financial disclosure is low. Except the EQ3, which has a 50% correlation with financial disclosure, all other two measures of earning quality have a very low correlation of 18% and 26%. Mandatory disclosure, however, has also about 50% with earning quality 3 (EQ3). A similar pattern was observed with stock price: the correlations between stock price and financial disclosure are 30%, 25% and 34% for mandatory voluntary and aggregate disclosure, respectively. A major advantage of this lower correlation is that the correlations suggest that multicollinearity may not be a problem. Since there is less violation of the multicollinearity, all the variables can be included in the regression equations (Wallace et al., 1995). More specifically, Table 1 shows that all earnings quality metrics exhibit significant *negative* associations with *financial disclosure*. The negative sign indicates that the relation is *complementary* in nature, consistent with the hypothesis that firms with poor (good) earnings quality issue fewer (more) disclosures.

TABLE 1
Pearcon Correlation matrix

	EQ1	EQ2	EQ3	OVERALL	SPRIC	TINDEX	MINDEX
EQ2	-0.98						
EQ3	0.05	-0.04					
OVERALL							
EQ	0.66	-0.63	0.78				
SPRIC	-0.24	0.29	0.09	-0.07			
TINDEX	-0.18	-0.26	-0.50	0.28	0.30		
MINDEX	-0.10	-0.18	-0.49	0.32	0.25	0.97	
VINDEX	-0.24	-0.33	-0.48	0.22	0.34	0.97	0.87

Source: Annual Reports and Financial Statements (2007-2015)

Multivariate Regression Results Analysis

The relationship between earning quality and financial disclosure was also analyzed using regression models. Four models were estimated and reported in Tables 2 to 4. Each of the tables presents the estimates for the three categories of earning quality. In Table 2, the earning quality 1 was used as a dependent variable, while in Tables 3 and 4 earning qualities 2 and 3 were used, respectively, as the dependent variables. For each of the three earning quality tables, Model I used total financial disclosure (TINDEX) as the measure of disclosure while model II used mandatory disclosure (MINDEX). Model III incorporated voluntary disclosure while model IV used both MINDEX and VINDEX.

The overall statistics for the earning quality 1 (EQ1) model is robust and statistically significant. The adjusted R-squares for each of the models are 70%. This suggests that a higher proportion of the variation in earning quality is explained by the variables included in the models. The F-statistics showed that the estimates are efficient and statistically consistent with expectation. The Durbin Watson also shows that there is little violation of serial correlation and, hence, the model is adequate and robust.

In terms of individual variables in the model and starting from Model I, asset which represents the size of the firms is positively related to earning quality. Specifically, firm size has significant positive effect on earning quality. Firm size remains an important determinant of earning quality irrespective of ways the earning quality is measured; in all the models it remained positive significant, however, the size or magnitude of the effect is relatively small. For instance, in all the models, the size of the coefficient is 0.2, which implies that a 1% increase in firm asset size will only lead to 0.2 % increase in earning quality. The effect of firm size seems not to be affected by the type of financial disclosure as the size of the coefficient is almost the same across the models. The positive relationship found in this study between earning quality and firm size is consistent with previous studies like Popova et al.'s (2013) who also found similar effects of firm size on earning quality of UK firms. Similarly, the findings are consistent with the studies of Cerf (1961), Buzby (1974), Cooke (1989), Omar et al. (2011) and others, The general rule is that large firms achieve greater economies of scale regarding information disclosure than small firms (Omar et al., 2011).

Profitability and leverage were however found to be statistically insignificant in all the four models. Though they are positive, their insignificances make them relevant in explaining earning quality that is very low and inconsequential. However, these results are consistent with Nagar et al. [2003] who find weak or no associations between earning quality, leverage and profitability of firms and equity issuances. Nagar et al. also report no significant associations between management earnings forecast behavior and market to book ratios and stock issuances. Growth and industry type were found, in contrast, to have significant negative effect on earning quality. The effect of growth is relatively smaller, indeed, a 10 % increase in growth of the firms will only result in a 0.5% fall in earning quality. This result is in contrast with Cooke (1989), Wallace et al. (1994) and Omar et al. (2011) who found industry status to be positively correlated with the extent of disclosure (0.1311), but statistically insignificant.

TABLE 2
Earning Quality Measure 1 (EQ1) Models

Variables	Model I	Model II	Model III	Model IV
	0.0215 (24.870) [0.000]	0.0222 (24.939) [0.000]	0.0212 (24.806) [0.000]	0.0213 (24.626) [0.000]
ASSET				
	1.1215 (1.690) [0.092]	1.1418 (1.718) [0.086]	0.1101 (1.662) [0.097]	0.1047 (1.581) [0.115]
PROF				
	-0.3482 (-1.011) [0.313]	-0.2352 (-1.037) [0.300]	-0.2170 (-0.980) [0.328]	-0.1707 (0.772) [0.441]
LEV1				
	-0.0581 (-27.587) [0.000]	-0.0058 (-27.537) [0.000]	-0.0058 (-27.537) [0.000]	-0.0058 (-27.851) [0.000]
GROWTH				
	-0.2497 (-6.225) [0.000]	-2.8028 (-6.000) [0.000]	-3.0376 (-27.645) [0.000]	-0.3009 (-6.435) [0.000]
INDTYPE				
			3.311623 (3.653) [0.000]	1.445841 (3.171) [0.002]
‘VINDE MINDEX				
		0.260981 (3.078) [0.001]		-1.059448 (-2.494) [0.013]
TINDEX				
	2.5615 (3.365) [0.001]			
Adjusted R-squared	0.69901	0.697945	0.70017	0.70319
F-statistics	662.5(0.00)	61.4(0.00)	669.5(0.00)	666.4(0.00)
Durbin-Watson stat	1.897	1.877	1.912	1.832

Source: Annual Report and Statement of Account (2007-2015)

The variable of interest is the financial disclosure variable. The essence of this section is to find out if financial disclosure has any effect on earning quality. As indicated by the t-values of the financial disclosure in the four models, financial disclosure has a t- value greater than 2.0 and a p-value of less than 0.05. This implies that financial disclosure variables are significant determinants of earning quality in the Nigerian industrial sector. Specifically, when the total financial disclosure is used, the size of the coefficient is 2.57, which implies that when the firms are more transparent, the earning quality also increased substantially. Voluntary disclosure seems to perform better than mandatory disclosure. Indeed, when the two disclosures were combined, mandatory disclosure changed from positive to negative signs, which implies complimentary roles. That is, voluntary disclosure tends to mitigate the negative effect of mandatory disclosure on earning quality. This is possible because there may be some information that is statutorily compulsory to be disclosed, but may not be in the interest of the firm. With the voluntary disclosure, a firm can use the opportunity to disclose some other information that will neutralize the possible effect of mandatory disclosure by firm. In a nutshell, both mandatory and voluntary disclosure are significant determinants of earning quality and the two types of disclosures complement each other in enhancing earning quality of non-financial firms in Nigeria. The results support the perspective of agency theory that higher leverage companies disclose more information in order to avoid agency costs (Omar et al., 2011) or assuage investors' concerns about their financial conditions (Wallace et al., 1994; Iatridis, 2008; Inchausti, 1997). The results are consistent with those of prior studies (Wallace et al., 1994; 1995; Iatridis, 2008; Yu, 2011 and others). Furthermore, positive and significant correlation was also found between industry status/ type and the extent of mandatory disclosure, as was indicated in prior studies by Owusu-Ansah (1998), and thus hypothesis 2c is supported. This can be explained by the so-called learning curve (Owusu-Ansah, 1998), when mature companies get used to mandatory disclosure requirements and, consequently, the disclosure index increases over time.

Table 3 presents the estimate of the regression when earnings quality 2 was used. In the two estimated models, firm asset size was not significant, but remained positive as in the case of earning quality 1. The effects of profitability were also found to be insignificant, but positive as obtained in the earning quality 1 regression. Leverage that was insignificant in earning quality 1 was found to be significant but negative when the second earning quality was used as a dependent variable. Also, growth of the firm that was also insignificant was found to be significant but remained negative in effect on earning quality. In terms of relative size of effect, the coefficient of leverage in the earning quality 2 was a little but higher than earning quality 1. Industry type was found to be insignificant in this case, but was significant and negative in the case of earning quality 1.

TABLE 3
Earning Quality Measure 2 (EQ2) Models

Variables	Model I	Model II	Model III	Model IV
	0.0100	0.074606	0.13105	0.17605
	(-0.258)	(-0.1859)	(0.327)	(0.438)
ASSET	[0.796]	[0.853]	[0.744]	[0.661]
	0.41652	0.040731	0.425029	0.439304
	(-1.355)	(-1.323)	(1.384)	(1.431)
PROF	[0.176]	[0.187]	[0.167]	[0.153]

	-0.25913 (-2.520) [0.012]	-0.262944 (-2.553) [0.011]	-0.254937 (-2.483) [0.013]	-0.243648 (2.366) [0.018]
LEV1	-0.4705 (-47.711) [0.000]	-0.000465 (-47.629) [0.000]	-0.000465 (47.797) [0.000]	-0.000466 (47.847) [0.000]
GROWTH	-0.36917 (-1.695) [0.091]	-0.328090 (-1.516) [0.130]	-0.401553 (1.843) [0.066]	-0.394541 (1.812) [0.071]
INDTYPE			0.194562 (4.629) [0.000]	0.466560 (2.197) [0.029]
'VINDE MINDEX		0.167570 (4.266) [0.000]		0.258521 (1.307) [0.192]
TINDEX	0.181451 (4.453) [0.000]			
Adjusted R-squared	0.855771	0.855328	0.856203	0.856401
F-statistics	6222.1	6222.9	6221.4	6220.5
Durbin-Watson stat	1.53201	1.52925	1.53479	1.54068

Source: Annual Report and Statement of Account (2007-2015)

Both mandatory and voluntary disclosures were significant and positive in effect on earning quality. However, voluntary disclosure seems to have higher significant effect than mandatory disclosure. When combined in Model IV, it was observed that mandatory disclosure became insignificant and reduced in terms of effect. This implies that voluntary disclosure has greater influence on firm earning quality and possibly voluntary disclosure may overwhelm the effect of mandatory disclosure.

In the model for the third type of earning quality as reported in Table 4, asset size was also not significant like in the case of earning quality 2 but in contract with earning quality 1. It is not only insignificant, but the coefficient is highly negligible. In almost all the three models, the size of the coefficient is almost zero. Profitability is also insignificant but positive, while leverage is significant with positive effect on earning quality unlike the case of other two previous measures of earning quality. Growth has also become significant and positive but, like the asset of the firm, the value of its coefficient is small and negligible. A 10% increase in the growth of the firm will only result to less than a 0.02% increase in earning quality. Industry status remain insignificant and negative in this model, which also which implies that industrial type has little effect on earning quality no matter how earning quality is measured.

A major observation, and the most noteworthy issues with the earning quality 3, is the significant and size of the three measures of financial disclosure. While in the two previous earning quality models, both mandatory and voluntary disclosure were significant and positive in effect on earning quality, in sharp contrast, both mandatory and voluntary disclosure were insignificant but still maintained their positive effect on earning quality.

TABLE 4
Earning Quality Measure 3 (EQ3) Models

Variables	Model I	Model II	Model III	Model IV
	-0.0053 (-1.700) [0.090]	-0.005 (-1.700) [0.090]	-0.0054 (1.703) [0.089]	-0.0051 (1.618) [0.106]
ASSET	0.338087 (1.556) [0.121]	0.033809 (1.556) [0.121]	0.333321 (1.532) [0.126]	0.351768 (1.6045) [0.109]
PROF	0.360386 (3.641) [0.000]	0.036039 (3.641) [0.000]	0.362401 (3.658) [0.000]	0.355062 (3.563) [0.000]
LEV1	0.00290 (4.658) [0.000]	0.0029 (4.658) [0.000]	0.00289 (4.640) [0.000]	0.0292 (4.677) [0.000]
GROWTH	-0.260757 (-1.826) [0.069]	-0.026076 (-1.826) [0.069]	-0.251387 (1.74) [0.083]	-0.248877 (1.718) [0.086]
INDTYPE			0.346947 (1.248) [0.213]	-0.804492 (0.497) [0.619]
‘VINDE MINDEX		34694.74 (1.2477) [0.2128]		0.108057 (0.722) [0.471]
TINDEX	34858.09 (1.302) [0.194]			
Adjusted R-squared	0.116526	0.116794	0.116254	0.115310
F-statistics	-6290.9	-6290.8	-6290.9	-6290.7
Durbin-Watson stat	1.29931	1.30047	1.29840	1.30505

Source: Annual Report and Statement of Account (2007-2015)

The insignificance of all the three measures of financial disclosure on earning quality when the third measure of earning quality is used is an indication of inappropriateness of the third measure of earning quality. So far, while earning quality performance and financial disclosure relations in the case of the previous two measure are relatively close and highly correlated, the result of the third measure of earning quality is sharply in contrast. The inconsistency of the third measure is more vividly captured by the low value of the adjusted R-square. While the R-square of the first two models was about 70%, the adjusted R-square for third measure of earning quality was just 11%, therefore the result of earning quality 3 seems to be at variance with others.

SUMMARY AND CONCLUSION

The study found that old generation and multinational companies, the conglomerates, are found to be the most well behaved firms, not only in terms of financial disclosure but also in terms of earning quality performance in Nigeria. The conclusion from the results was that financial disclosure and earning quality performance are independent of each other and, therefore, they are mutually exclusive and uncorrelated, hence, they cannot be used as a proxy for one another in analysing the firms in each industry in Nigeria. However, they play complimentary roles in explaining firm performance in Nigeria.

Recommendation

It is interesting to note that the negative relationship and low correlation between financial disclosure and earning quality is suggestive of the fact that financial disclosure compliance and earning quality are not substitute measures of firm performance and rating. Rather, they complement each other. However, the significant effect of financial disclosure, even though they are independent and complementary in nature, suggests that a firm that wants to improve on its earning quality performance can leverage its financial disclosure compliance. It implies that higher disclosure compliance builds confidence in the investors and stakeholders in the industry and this may increase patronage and improvement in the value of earning. More importantly, financial disclosure is found to be the most significant factor influencing earning quality performance. It was also established that voluntary disclosure has greater influence on firm earning quality performance than mandatory disclosure. The results support the perspective of agency theory that higher leverage companies disclose more information in order to avoid agency costs (Omar et al., 2011) or assuage investors' concerns about their financial conditions (Wallace et al., 1994; Iatridis, 2008; Inchausti, 1997).

Contribution to Knowledge

Relating financial disclosure and earning quality performance is seen as a contribution to the literature of evaluating and improving understanding about ethical practice and regulatory enforcement in Nigerian industrial sectors. The deviation from most of the existing studies that have concentrated on banking and financial institutions is another bold attempt to expand the horizon and extend the debate to other sectors of the Nigerian economy. It has brought to the fore the possible roles financial disclosure and appropriate determination of earning quality could play in evaluating and improving the value of firms and how financial disclosure could be used to mitigate the adverse effect of domestic economic and global shock.

It has also provided the implications and benefits of adherence to best practices in the financial information management and implementation of good ethical practices that align with firm's performance. Finally, the empirical results also provide a framework and empirical support that is observed to be consistent with studies of other economies and countries on the role financial information disclosure and earning quality could play in improving firms' values, especially among non-financial quoted firms in developing countries like Nigeria with a small and shallow capital market.

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