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Financial Reporting and Stakeholders' Information Needs in Nigerian Companies

Abel Aigbodion Asein

Ph.D. Accounting Student, Department of Accounting,
Babcock University, Ilisan-Remo, Ogun State, Nigeria

Ishola Rufus Akintoye

Professor, Department of Accounting,
Babcock University, Ilisan-Remo, Ogun State, Nigeria

Folajimi Festus Adegbie

Associate Professor, Department of Accounting
Babcock University, Ilisan-Remo, Ogun State, Nigeria

Abstract:

Corporate entities create values with variants of capital which include financial, manufactured, human, intellectual, environmental, social and relationship capitals. However, their stewardship reports, which are IFRS principles-based generalpurpose financial statements (GPFS), satisfy only the information needs of financial capital providers. Although such reports conform to standards and best practices, they create not only the false and misleading impression that organisations only operate with financial capital but also, their decision usefulness is impaired leaving in its trail, information expectation gap. The objective of this study to address the observed problem of information expectation gap associated with GPFS with a view to recommending a Financial Reporting framework that will satisfy the needs of various stakeholders.

As adesk research, the study carried out a literature review of how stakeholders' information needs are addressed incorporate entities' annual reports, standard setters' technical pronouncements, regulations and pieces of legislation in Nigeria. It also reviewed other relevant publications including journal articles and periodicals.

Using the Resource Dependence and Stakeholders' theories, this study supports previous works which established that since value is created by all capitals in an interdependent business environment, all providers of capital should equitably share in the pains and gains. The study reaffirmed the findings of previous studies that the subsisting GPFS have become inadequate to meet both financial and non-financial information needs of stakeholders. The study revealed that a change in the corporate reporting framework will satisfy the information needs of Nigerian stakeholders and also have positive impact on the entity's legitimacy, public perception and its sustainability.

It therefore recommends the mandatory adoption of integrated reporting which contains financial and non-financial information as this would have positive influence on investment and capital allocation decisions of stakeholders of listed entities in Nigeria.

Keywords: *Integrated reporting, variants of capital, stakeholders' information needs, non-financial information, resource dependence*

1. Introduction

As a medium of communicating financial information to shareholders by persons in fiduciary positions, financial reporting, is a critical component of corporate governance. In the Anglo-Saxon dispensation, depicted by the separation of ownership from control, financial report is the major tool of communication between entities and their stakeholders (Jensen & Meckling, 1976; Matuszyk & Rymkiewicz, 2018). The nature and contents of financial reports are therefore important to diverse interest groups including existing and potential investors, regulators as well as providers of various capitals. To retain their decision usefulness, financial reports should be dynamic and responsive to the changing needs of these diverse stakeholders (Camilleri, 2017).

Given the contractual implications of the relationship between the entities' managers and shareholders, the nature and purpose of traditional financial reports, are conventionally defined by standards and laws in various jurisdictions (Johal, 2018; Watts & Zimmermann, 1979). In Nigeria, Sections 334 (1) and 335 of the Companies and Allied Matters Act (CAMA), Laws of the Federation of Nigeria (LFN) 2004 (as amended) and Section 8(1) of the Financial Reporting Council of Nigeria (FRCN) Act no. 6, 2011 require the board of directors, of a listed entity, to prepare audited financial statements, in line with applicable standards, as part of its stewardship reports, which would be presented to shareholders at Annual General Meeting. Also, as part of the listing requirements on the Nigerian Stock Exchange, Section 60 of the Investment and Securities Act (ISA), 2007 requires intending companies to file, with the Securities and Exchange Commission (SEC),

on periodic or annual basis, audited financial statements which of necessity must be in tandem with subsisting accounting standards and the law.

The main aim of the aforementioned requirements is to sustain existing and potential investors' confidence in such GPFS as well as the stock market which provides the framework for investible funds. In other words, these measures are all geared towards enhancing the credibility, reliability and quality of financial information required by providers of financial capital to make their resource allocation decisions (Okafor, Onyali & Onodi, 2016; Wallace, 1988). The thrust of the GPFS is to provide high quality information on the financial position and financial performance of an entity (Brouwer, Faramarzi & Hoogendoorn, 2014; International Accounting Standards Board (IASB), 2018). Therefore, the decision usefulness of such financial statements depends on their quality (Herath & Albarqi, 2017). Although GPFS conform to best practices and standards, they are skewed in favour of financial capital providers creating the false and misleading impression that organisations only operate and create value with financial capital. What this view points to, is the existence of an information expectation gap in corporate reporting. While the information needs of providers of financial capital are adequately addressed by traditional financial reports, the information needs of the providers of other capitals, which are mainly non-financial in nature, are not accommodated in the financial statements (Bek-Gaik, 2015; Busco, Frigo, Quattrone & Riccaboni, 2013a; Matuszyk & Rymkiewicz, 2018). The financial statements prepared by listed entities in Nigeria, are GPFS which contain only financial information (Section 334 of CAMA, 2004; FRCN Act, 2011). The 'non-financial information' contents include the chairman's address, directors' report, notes to the accounts and corporate governance reports. These are narratives that have implications for the financial statements to the extent that a company's comprehensive non-financial information should include its social, environmental and human rights information, impact of its activities on the lives of people and how it is managing its risks in order to improve its social, environmental and financial performance and competitiveness (Eccles & Krzus, 2010; Erkens, Paugam, & Stolowy, 2015; Stolowy & Paugam, 2018).

The adequacy of GPFS is further questioned as stakeholders now desire more non-financial information beyond just financial performance (Ghosh, 2019) and their explanatory notes. Stakeholders of an entity that operates in the Niger Delta area of Nigeria where crude oil is explored, for instance, cannot rely only on financial information to determine its performance and sustainability. The non-financial information contained in environmental and sustainability reports prepared by such an entity, may be crucial to its legitimacy and acceptance by the community (Orshi, Dandago & Isa, 2019; Owolabi, 2009). In essence, there is a major problem: the information needs of capital providers, other than those of financial capital, are not incorporated in the subsisting financial statements. As a result, providers of variants of capital, other than financial capital, do not have adequate information to make optimal investment and capital resource allocation decisions. Their interests are not catered for by both the IASB Conceptual Framework and the associated accounting and reporting standards (Brouwer, Faramarzi & Hoogendoorn, 2014; IASB, 2018). In other words, the subsisting GPFS present incomplete information about the entity and its cost of doing business, making it difficult for providers of capital to properly assess its performance and take informed investment decisions.

Financial statements, as designed by the IASB Conceptual Framework, are defective to the extent that they cannot accommodate relevant and material non-financial information especially as they relate to the cost an entity imposes on the society in the form of negative externalities like gas emission, destruction of the ecosystem and evacuation of wastes into rivers (Bhasin, 2018; Enahoro, 2009). It is to address this problem that the call for the adoption of a more inclusive and robust corporate reporting framework finds great relevance (Bhasin, 2017a; Bhasin, 2017b; Ghosh, 2019; Hoque, 2017; Akintoye, 2019). Thus, the objective of this paper is to evaluate the subsisting financial reporting framework with a view to determining suitable corporate reporting best practices that will satisfy the information needs of stakeholders of companies in Nigeria.

2. Methodology

As a desk research, the study carried out a literature review of how stakeholders' information needs are addressed in corporate entities' annual reports, standard setters' technical pronouncements, regulations and pieces of legislation in Nigeria. It also reviewed other relevant publications including journal articles and periodicals.

3. A Review of Extant Literature

3.1. Conceptual Review

3.1.1. Financial Reporting

This has to do with the preparation and presentation of stewardship reports by persons in fiduciary positions. Such reports must conform with standards and laws of the applicable jurisdiction. In Nigeria, the Financial Reporting Council of Nigeria and the Companies and Allied Matters Act, 2004, as amended, define the nature and content of general purpose financial statements (GPFS) to be prepared by board directors. According to International Accounting Standard (IAS) 1: *Presentation of Financial Statements*, GPFS consists of Statement of Financial Position (Balance Sheet), Statement of Comprehensive Income (Income Statement), Statement of Changes in Equity (which is, assets less liabilities), Statement of Cash Flows, Accounting Policies and Explanatory Notes. In other words, the GPFS, provide financial information on the assets, liabilities and changes in the stock of wealth of shareholders, who are the owners of the business. The ACCA (2015), noted that quality financial statements drive managerial accountability, performance management and improvement as well as capital market efficiency and stability.

3.1.1.1. Issues in Financial Reporting

Despite the age long usefulness of GPFs, the global economic and financial crises of 2007/2008 brought to the fore their inadequacy as reliable measure of the state of health of corporate entities and the need for material non-financial information to be included in corporate reports (Adhariani & de Villiers, 2018; Kilic & Kuzey, 2018). These GPFs no longer reflect the actual worth of the organization neither do they provide adequate comfort to existing and prospective investors as they fail to describe all risks associated with business including social and environmental risks (Cotter, Najah & Wang, 2011; Stubbs, Higgins & Higgins, 2016). As observed by Eccles and Krzus (2010), financial statements do not also adequately describe the opportunities that companies pursue in an environment of relationships, knowledge and services. With GPFs, there is a disconnect between financial and non-financial information in addition to its tendency to hide or ignore value destruction and this might create information expectation gap (Dumay, Bernardi, Guthrie & La Torre, 2017). Thus, the traditional financial reporting no longer meets the information needs of stakeholders as its strength lies in backward-looking information (ICAEW, 2017) whereas, stakeholders need forward-looking information on risks, opportunities and strategies to accelerate value creation (IIRC, 2013). Supporting this view, Kilic and Kuzey (2018) observed that traditional annual reports are generally retrospective and do not offer future prospects or crucial risks that may be relevant in the future. The usefulness or relevance of this back-ward looking GPFs, is further limited by its focus on the quantitative needs of providers of financial capital while material non-financial information needs of other stakeholders are ignored (Kilic & Kuzey, 2018) thereby creating material information gap. Whereas, in the past, stakeholders were primarily interested in financial information, attention is growing for other non-financial organisational aspects such as environmental consequences, social and governance structure (Ghosh, 2019; Hertgers, 2016). The reliance of GPFs on the capitalistic theory of the firm driven by the profit motive restricts its usefulness to just shareholders or financial capital providers. Therefore, according to Busco *et al.* (2013 p.34), it is 'becoming increasingly less fit for purpose'.

Although preparers of corporate reports have sought to fill the observed information gap by issuing non-financial reports in the form of sustainability reports, corporate social responsibility report, strategy report (in UK), corporate governance report, directors report and management commentary, these are largely stand-alone and voluminous reports with no links to other reports and reference to the interdependence between the variants of capital and interconnectivity of information in various reports (Robertson & Samy, 2015). As observed by Beck, Dumay and Frost (2017), the increased volume of non-financial information disclosed in separate company reports reinforces the concept of separation between the economic performance of an entity and its related wider impact. In other words, while shareholders are thrilled by good economic performance, the impact on the environment, which is often negatively profound, is not reflected in corporate reports. It can, inevitably, be inferred that corporate entities are prospering at the expense of society. Besides the fact that this is both morally and strategically unjustifiable, stakeholders need such material and relevant information to make resource allocation decision.

3.1.2. Stakeholders

Stakeholders are persons, entities, social and natural settings that affect or are affected by the value creating activities of business organisations (Bhasin, 2016). They are groups or individuals that can, reasonably, be expected to be materially affected by an organization's economic activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the operations, worth or ability of the organization to create value overtime {International Integrated Reporting Council (IIRC, 2013)}. Stakeholders include providers of financial and other five capitals (human, intellectual, natural, manufactured, social and relationship), employees, customers, suppliers, trade creditors, business partners, local communities, Non-Governmental Organisations (NGOs), environmental groups, legislators, regulators and policy-makers.

Stakeholders can be segmented into internal and external stakeholders (Eccles & Krzus, 2010). Those that have proprietary interests and are part of the entity like providers of financial and manufactured capitals, employees, trade unions, management, members of the board, are internal stakeholders. Whereas, customers, suppliers, trade creditors, business partners, local communities, Non-Governmental Organisations (NGOs), environmental groups, legislators, regulators, providers of other capitals and policy-makers, are external stakeholders. Both internal and external stakeholders have a crucial role to play in determining the content of integrated reports (Naynar, Ram & Maroun, 2018).

3.1.3. Stakeholders' Information Needs

Stakeholders are many and they are as diverse as their composition. Their information needs are not only dynamic but also, are influenced by their level of sophistication (Naynar, Ram & Maroun, 2018). The stakeholders of listed entities in Nigeria require information that will enable them to make optimal investment and resource allocation decisions. Such information may be quantitative or qualitative in nature and can be obtained from different sources including financial statements, websites, stock exchange publications and information subscriptions (Stubbs, Higgins & Milne, 2016). The implication of this is that the current reporting framework cannot provide all the financial and non-financial information required by stakeholders.

More importantly, there is little or no framework for the provision of qualitative non-financial information in annual reports. Even when they are included, such annual reports do not contain narrative non-financial information on how the activities of the entities have impacted the environment or the contributions of other variants of capital to the value creating process of the entity over time (Hoque, 2017). The absence of both a framework and standard for the presentation of non-financial information makes it difficult for investors to compare the performance of different companies (Eccles & Saltzman, 2011). This also reduces the materiality and reliability of such information (Gianfelici,

Casadei & Cembali, 2016). In addition, GPFS are largely backward-looking instead of offering forward-looking information about strategy, performance and risk (Busco, *et al* 2013a). They do not provide an assessment of the risks and opportunities, strategy and business model designed to engage capitals and create value in the short, medium and long term. Put simply, stakeholders need more prospectively useful and reliable information which current financial reports cannot provide. To the investment and stakeholders' community, the information that corporate entities report and disclose only has utility if it reflects on future value (Burgman & Roos, 2006; IIRC, 2013).

3.1.3.1. Dimensions Of Stakeholders' Information Needs

Stakeholders, including those in Nigeria, require both financial and non-financial information to make optimum investment decisions. In line with the global quest for corporate accountability, they desire to know how their entities are managed, their business model, risk management strategy, opportunities that abound and how values will be created over time.

It is instructive to mention that these needs are non-financial, narrative in nature and forward-looking whereas the current GPFS provides only historical quantitative financial information. However, these non-financial needs are not mandatorily required of corporate entities by legislation in Nigeria. For instance, the Sustainability Guidelines released in January 2019 by the Nigerian Stock Exchange, which is expected to provide non-financial information on ESG, requires only voluntary compliance. Thus, listed entities have the justifiable option to include them in their stewardship reports, if they choose. There are no sanctions if they decide not to disclose non-financial information. The same voluntary compliance applies to the Nigerian National Code of Corporate Governance (NCCG) launched by FRCN in the first quarter of 2019. Indeed, the philosophy of the Code is 'comply and explain' rather than 'comply or explain' which King III requires of listed entities in South Africa.

In sum, the information required by stakeholders of listed entities in Nigeria will vary from sector to sector. At a minimum, they will require information that will enhance the quality of their investment and resource allocation decisions. Such information may be quantitative, qualitative or mixed in nature and can be obtained from different sources including financial statements, websites, stock exchange publications and information subscriptions (Stubbs, Higgins & Milne, 2016). The point must be made that what gets included in annual reports and other sources will be a function of stakeholders' activism and sophistication, the source of power and legitimacy of the stakeholders, ownership structure of the entity and board composition (Adegbie, Akintoye & Olusanjo, 2019; Gianfelici, 2016; Matuszyk & Rymkiewicz, 2018; Naylar, Ram & Maroun, 2018; Orshi, Dandago & Isa, 2019). To satisfy these diverse needs, a new corporate reporting framework that can accommodate financial and non-financial information is advocated.

3.1.4. Non-Financial Information and Voluntary Disclosure

Non-financial information refers to all qualitative and narrative information about an organisation's activities the provision of which would enable stakeholders to make resource allocation decisions. In the context of this paper, non-financial information refers to all non-quantitative information required by stakeholders including its strategy and business model, board size, diversity, duality in position, firm characteristics, corporate culture and ownership structure including block-holder ownership (Johal, 2018; Orshi, *et al.*, 2019; Stolowy & Paugam, 2018). Non-financial information would also include narratives on the impact of an entity's activities on the environment, how it is addressing the degradation, its contribution to the human capacity development and other social capitals. Currently, however, these non-financial needs are not mandatorily required of corporate entities by legislation in Nigeria. Voluntary disclosure, which is encouraged, refers to the inclusion of relevant information, in corporate reports, be they financial or non-financial in nature, beyond what is mandatorily required. It involves disclosure in excess of mandatory requirements which the board considers relevant to decision making (White, Lee & Tower, 2007).

Beyond the effort to meet the information needs of financial capital providers, stakeholders now require narrative non-financial information on organisations' business models, governance, strategy, risks and opportunities as well as how value is created in the short, medium and long term (IIRC, 2017; Tweedie, Nielsen & Martinov-Bennie, 2018). Persuaded by the virtues of narrative reporting, the European Union (EU), at the end of 2014, introduced the Non-Financial Reporting Directive 2014/95/EU, the provisions of which require the disclosure of non-financial information matters that relate to business operations by entities with more than 500 employees with effect from December 6, 2016. Following the EU's mandate for non-financial reporting, it was expected, according to Global Reporting Initiative (GRI) (2018), that 6,000 European public-interest entities will publish their sustainability reports in 2018 covering financial year 2017-2018. Expectedly, this will promote the disclosure of material non-financial information on ESG activities, corporate social responsibility and sustainability initiatives desired by various stakeholder groups. This is expected to have positive impact on cost of capital, information asymmetry, corporate legitimacy, reputation and investor base (Lambert, Leuz & Verrecchia, 2007; Martinez-Ferrero, Ruiz-Cano & Garcia-Sanchez, 2016). However, these reports, which exist in different silos in Nigeria, lack the connectivity to impact and drive corporate strategy even as they create values.

For instance, the Sustainability Guidelines released in January 2019 by the Nigerian Stock Exchange, which is expected to provide non-financial information on ESG, requires only voluntary compliance. Thus, listed entities have the justifiable option to include them in their stewardship reports, if they choose. There are no sanctions if they decide not to disclose non-financial information. The same voluntary compliance applies to the Nigerian National Code of Corporate Governance (NCCG) launched by FRCN in the first quarter of 2019. The philosophy of the Code is 'comply and explain' rather than 'comply or explain' which King III requires of listed entities in South Africa.

Orshi *et al.*, (2019) and Gaa (2010) empirically established that under a voluntary compliance regime, the board may selectively choose the information to disclose or not to disclose. Many entities will be loath to disclose too much

information for fear of losing competitive advantage (Sukhari & de Villiers, 2018; Ungerer, 2013). As Burgman and Roos (2006, p.6) noted, 'reporting and disclosure are about the mechanisms of information transfer to outside stakeholders and the extent to which this transfer can take place without compromising the security of the company'.

Thus, for justifiable reason, the board may exercise its discretionary power when making voluntary disclosures to meet the needs of those interested parties such that the security of the entity is not compromised. While reiterating the views of Abeysekera (2008), Roman *et al.*, (2019) observed that the suitability of voluntary disclosure is decided by the intentions of the board of directors. This intention determines strategically which disclosures are adequate to stakeholders and faithfully represent organisational activities. Disclosures cannot be neutrally based on a set of rules (Westley & Mintzberg, 1989). Therefore, except the provision of non-financial information is made mandatory, the information needs of stakeholders will not be served as board members will not embrace or adopt initiative of full disclosure that will lead to the total elimination of information asymmetry due to conflict of interests and other aforementioned factors. More importantly, they will not also disclose if the non-financial information will lead to the release of sensitive business secrets that will impair their competitive advantage. Yet, literature (for example, Eccles, Ioannou & Serafeim, 2014; Elfeky, 2017) has established that companies which disclose more non-financial information will outperform their peers. Thus, the value relevance of non-financial information is not in doubt.

Although voluntary disclosure is salutary, persons with governance responsibilities often exercise discretion on it by considering the costs and benefits involved (Abeysekera, 2013; Kumar, 2013). With voluntary disclosure, organisations can engage in impression management and actually make claims that have not been achieved particularly in the areas of social and environmental performance (Ioannou & Serafeim, 2014). Since some of these disclosures are largely self-laudatory, the purpose of disclosure is vitiated. According to Moolman, Oberholzer and Steyn (2016, p. 603), companies often 'attempt to change perceptions without changing facts'. This is a possible flaw of voluntary disclosure that makes mandatory disclosure more attractive.

Furthermore, voluntary disclosures may create information overload and confusion (Ioana & Adriana, 2014; Matuszyk & Rymkiewicz, 2018) mainly because such reports are standalone, unconnected and not concise. The Zenith Bank 2016 Sustainability report had 144 pages while Lafarge's had 88 pages in addition to their annual reports with 150 and 306 pagination, respectively. Also, the UK's Financial Reporting Council (2011), the IASB (2013) and Naynar, Ram and Maroun (2018), have stated that there is a disclosure-overload problem and that key details are being obfuscated by generic reporting and efforts at impression management (Atkins & Maroun, 2014). The disclosure reports are just general in nature and not specific. How to reconcile this plausible initiative aimed at bridging the information gap with the unintended consequences of information overload is the thrust of integrated reporting, which, as an evolving medium of corporate communication, promotes transparency and voluntary disclosures (IIRC, 2013; IoDSA, 2009).

3.2. Theoretical Framework

For the purpose of this paper, a combination of the Resource Dependence Theory and Stakeholders' theory is adopted. Both theories are compatible to the extent that stakeholders are the providers of the variants of capital with which value is created. No single capital can create value on its own. Capitals depend on each other and are mutually reinforcing. The beauty of the emerging integrated reporting framework is that it brings to the fore this interdependence of capital and the interconnectivity of information such that value creation is enhanced

3.2.1. Resource Dependence theory

Developed by Pfeffer and Salancik, (1978), the Resource Dependence Theory holds that there exists interdependencies between entities and their environments which create uncertainties for the continued existence of the entities. For instance, the resources utilised by businesses are external to them: the raw materials, the labour, financial credits, the market for finished products and the network of distributors are all from outside the entity. These could cease to flow into the entities if not well managed and harnessed. Above all, the right to corporate existence was conferred by a regulatory body outside the entity and can be withdrawn; and even their brand names are a product of public perception of their products. In essence, the environment, based on trust, permits the entity to utilize its resources for value creation. Since there exists a lot of uncertainties about the external environment, an entity should adopt proactive strategies to ensure the continuity of its business. One such strategy is stakeholder engagement designed to meet their information needs. Managers of corporate entities should be accountable to such resource providers as a minimum condition for continued business relation (IIRC, 2013).

Given that business entities owe their continued existence to outside stakeholders, they should endeavour to build social and economic relations with their host communities. Resource dependence theory simply requires that the source of existence be well managed and catered for to sustain the entity. The entity should actively engage and recompense the external stakeholders with physical infrastructure and other benefits that will impact their welfare, enhance their productive capacity and also preserve their natural environment. To continue to enjoy societal acceptability and justify its legitimacy, the entity is required to voluntarily report how its activities affect the people and environment where it obtains its being and what it has done and is still doing to mitigate the negative impact. Such feedback and acceptance by the people will confer more legitimacy on the entity (Orshi, *et al.*, 2019; Owolabi, 2009).

According to Suchman (1995, P 574), 'legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, belief and definitions'. When the organization fails to act and report voluntarily, this might lead to a legitimacy gap. This is the gap indicating a discrepancy between an organisation's actions and what the society expects of it. In essence, the pursuit of profit by corporate entities should not be at the expense of society. It should incorporate people's welfare and care for the

environment. Every corporate entity should rightly bear the cost of its activities just as it enjoys the benefits of success. It should mandatorily contribute to the restoration of the environment in the interest of present and future generation. This is the focus of sustainable development which is defined as 'development which meets the needs of the present without compromising the ability of future generation to meet their own needs (Brundtland, 1987, p.43)'.

3.2.2. Stakeholder Theory

This theory was first espoused by Schwab (1971) when he argued that the management of a modern business entity must serve not only shareholders but all stakeholders if it is desirous of achieving long term growth and prosperity. The theory is based on the assumptions that business entities operate and have their being in a given environment and therefore, their activities will affect or are affected by third parties who might be individuals, group of persons, providers of other variants of capital, the communities, customers, suppliers, trade creditors, employees, regulators and the government. Accordingly, they have a responsibility to promote the well-being of others even if the true intention is to protect their own interest. In other words, the entities must live for stakeholders rather than just their shareholders. In the view of proponents of stakeholder theory (Donaldson & Preston, 1995; Enderle, 2004; Freeman *et al*, 2010), the shareholder theory was too simplistic by assuming that the main purpose of business is to maximize profit. They argued that values are created by corporate entities based on relationships and hence, people, environment and other third parties have a stake in the entities' survival. Simply put, there are various groups interested in or are affected by the activities of a business entity. Satisfying the needs of these interest groups is the philosophy of stakeholder theory which can be segmented into Normative Stakeholders' theory and Managerial Stakeholders' theory (Farneti, Casonato, Montecalvo & de Villiers, 2019; Gray, Kouhy & Lavers, 1995).

While the normative stakeholders' theory espouses the idea that all stakeholders' interests should be served by a corporate entity, the managerial stakeholder theory is associated with the management of stakeholders. Corporate entities strive to manage their stakeholders to achieve the best outcomes. The implication is that the organisation will pay serious 'attention to stakeholders that can influence the organisation and affect its access to the resources it needs to succeed (Farneti, *et al*, 2019, p. 4).' The stakeholders' theory holds that the interests of this diverse audience must be served to enhance the entity's reputation, legitimacy and goodwill. Serving their interests will involve providing full financial and non-financial information which they require to make resource allocation decision.

3.3. Empirical Review

This section presents a review of some relevant literature on how to satisfy the information needs of providers of capital with which values are created. As previously noted, the traditional financial reporting framework provides only historical backward-looking financial information. Accordingly, it fails the test of relevance and faithful representation as fundamental qualitative characteristics of financial statements (Bhasin, 2016; IASB, 2011; Kılıç & Kuzey, 2018; Van Beest, Braam & Boelens, 2009). Given that other capitals are affected and can affect value creation, corporate reports ought to reflect this dependence and connectivity, promote inclusivity of inputs and sustainable approach to business management (Bhasin, 2018). This is the *prima facie* case for a new corporate reporting framework.

It has been established in the literature (Bhasin, 2017; Busco, *et al*, 2013; Demiroglu and Erol, 2016; IIRC, 2013; Johal, 2018) that the subsisting IFRS-based general purpose financial statements do not convey the whole picture of the state of health of corporate entities. Following the 2007/2008 global financial crises, it was realised that the existing traditional financial reporting framework with its emphasis on quantitative output did not provide sufficient insight into the total economic worth of organizations and their ability to create value in the future (Adhariani & de Villiers, 2018; Kiliç & Kuzey, 2018). According to Bhasin (2017, p.36), 'the information needed to evaluate an organisation's ability to create value sustainably over time cannot be gleaned from the prevailing corporate reporting model' represented by IFRS-based GPFs. Demiroglu and Erol (2016) agrees that it is not possible to assess the health of the company solely with financial indicators. Similarly, Matuszyk and Rymkiewicz (2018) observed that traditional financial reporting does not provide the key non-financial information required by investors and other stakeholders to make resource allocation decisions. Shozaburo (2012) had averred that that IFRSs did not also address issues such as the environment, human rights or stakeholders' needs beyond financial performance. The solution proposed by these treatise is a change to a new reporting framework called integrated reporting.

Stubbs, Higgins, Milne and Hems (2014) also carried out a research in Australia to determine the perception of financial capital providers (using investor network as proxy) of integrated reporting and the use of the six-capital framework. The Australian participants in the IIRC's pilot programme were surveyed. While the respondents agreed that there were problems with the subsisting general purpose financial statements, they were not persuaded that the adoption of integrated reporting framework was the solution particularly because they believed that it de-emphasised ESG or sustainability reporting which they had embraced. The study showed the dearth of knowledge about what to report as well as the benefits of integrated reporting by the main stream financial capital providers. The study therefore invited stakeholders especially regulators, standard setters, industry and professional bodies to collaborate and work towards bridging the observed gap. The study appears to have been conducted too early. It was done a year after the release of the IIRC framework in 2013. The fact that the respondents were not persuaded by the six-capital framework of integrated reporting reaffirms the inappropriateness of the timing of the study. Given the fledgling state of the implementation of integrated reporting, it should have made allowance for the learning curve. Besides, the participants were all part of the pilot programme. It would be interesting to know their current perception of integrated reporting.

Also, Loprevite, Ricca and Rupo (2018) examined the propriety of mandatory regulation of integrated reporting for listed companies, both from the perspective of integrated performance sustainability of companies and from that of

relevance of information to providers of financial capital. The study was based on empirical research carried out on a sample composed of companies operating in territories where the adoption of integrated reporting is voluntary (Europe) and those operating in a country where adoption is mandatory (South Africa). The research showed that: in voluntary regimes, levels of integrated performance achieved by companies were higher; mandatory regulation produced positive effects on integrated performance levels in the medium term; and integrated performance indicators are value-relevant, though having different levels of relevance under the two regimes examined. The study is limited by the fact that countries in Europe are governed by EU directives rather than individual country-laws. Pursuant to this, the EU issued a non-financial reporting directive in 2014 for compliance by its member-bodies. With this, it is unclear if we can describe Europe as a territory with voluntary compliance or mandatory compliance regime. Comparison of a country to an economic union of 28 countries appears implausible.

Using a combination of primary and secondary data and a sample size of 250, Okafor, Onyali and Onodi (2016) established that the level of reporting on issues which are of concern to stakeholders was currently low. Since Sustainability Development report defined to encompass Economic, Environmental and Social (instead of Environmental, Social and Governance) issues was the focus of the study, it observed a misalignment between the interests of the organisations and those of stakeholders. While the former was interested in responsible care indicators, the later was interested in remedial measures.

The study however concluded that since corporate reports cannot meet the needs of all stakeholders, the contents of corporate report should be made to address the needs of stakeholders based on 'level of influence' and 'level of interest'. 'Stakeholders who exert a higher level of influence and a higher level of interest should be the main target of the company report efforts (Okafor, Onyali & Onodi, 2016, p.30)'. The study is plausible but its recommendation is a recipe for inconsistency in corporate reporting as the contents, each year will be defined by the intensity of the level of influence or level of interest of some stakeholders. Consistency is a basic axiom in accounting supported by standards and therefore, cannot be sacrificed on the basis of expediency. What may be influential in year n , may be uninfluential in year $n+1$. While acknowledging the fact that sophisticated and powerful stakeholders can influence its contents, the thrust of integrated reporting is to meet the information needs of stakeholders irrespective of economic and social standing. This is in tandem with the perspective of normative stakeholder theory. Here lies the importance of stakeholder engagement to determine their utmost needs and prioritise them for attention and solution. Furthermore, although the study set out to use selected African companies, it only used 13 listed companies from Nigeria and 3 from Ghana when the Nigerian Stock Exchange had 166 listed entities and the Ghana Stock Exchange had 42 companies at the time of the study. The sample is not representative of over 3000 corporate entities in Africa. The study also described the thrust of sustainability reporting as Economic, Environmental and Social (instead of Environmental, Social and Governance) initiatives thereby making it inconsistent with literature.

4. The Case for Integrated Reporting

Integrated reporting is increasingly emerging to meet that stakeholders' information need because it contains both financial and non-financial information required by stakeholders including the negative impact of business activities on the environment. According to the International Integrated Reporting Council (IIRC) (2013, p.7), integrated report is a 'concise communication about how an organisation's strategy, governance, performance and prospect, in the context of its external environment, leads to the creation of value over the short, medium and long term'. Lending its voice to the call for a new reporting framework, the International Federation of Accountants (IFAC, 2017, p.1) in a paper released recently noted that, 'Integrated Reporting is the way to achieve a more coherent corporate reporting system, fulfilling the need for a single report that provides a fuller picture of organizations' ability to create value over time'.

From the perspective of communication with stakeholders, the integrated reporting concept has the great advantage not only of providing the desired connectivity of information but also, of integrating financial and non-financial data into a single concise document. This will increase the effectiveness of research and analysis of data by stakeholders who until now, had to search through numerous corporate publications to obtain decision useful information (Eccles & Krzus, 2010; Matuszyk & Rymkiewicz, 2018). Roman, Mocanu and Hoinaru (2019) shared this perspective when they observed that integrated reporting will help to promote a more cohesive and efficient approach to corporate reporting. Its aim, according to them, is to improve the quality of information available to providers of capitals. In a sense, given that integrated report, according to Alucha, Hussain and Roszkowska-Mendes (2019, p.2) 'does not only reflect processes but gives meaning to events, actions and objects, shapes reality, provides guidance to an understanding of organisational processes', it can be used as an umbrella report for a broad suite of reports and communications. Integrated report will enable greater interconnectedness between different reports that can be leveraged to give stakeholders quality information (IFAC, 2017).

Driven by integrated thinking, integrated report provides stakeholders with both financial and non-financial information to assess the long-term future prospects of the entity in a clear and concise form (Hurghis, 2017, IIRC, 2017). Besides the fact that it creates a strategic tool to determine the degree of association between financial and non-financial performances (Ioana & Adriana, 2014), integrated reporting smoothens the relationship between an entity and the host community thereby legitimizing its existence and enhancing corporate reputation (Ioana & Adriana, 2014; Orshi, Dandago & Isa, 2019). With integrated reporting, entities are best placed to identify opportunities and risks associated with their businesses (IIRC, 2017) and this attribute, will facilitate optimal allocation of corporate resources (Oliveira, Rodrigues & Craig, 2011) with possible positive impact on cost of capital (Frias-Aceituno, Rodriguez-Ariza & Garcia (2014). It is against this background that the growing global trend towards the mandatory adoption of Integrated Reporting as a framework

for corporate reporting finds relevance in Nigeria if the yearnings of stakeholders and providers of other variants of capital for full disclosure of both financial and narrative non-financial information will be satisfied.

However, despite the literature on its benefits (Adhariani, 2018; Bhasin, 2016; Camilleri, 2018; Eccles & Krzus, 2010; IIRC, 2013), many jurisdictions have not made integrated reporting a mandatory reporting framework. Although compliance is voluntary, no entity, listed or not listed, has issued any integrated report in Nigeria since the International Integrated Reporting Council (IIRC) released its International Integrated Reporting Framework in 2013. This paper holds that the subsisting corporate reporting framework in Nigeria can be made to satisfy the information needs of stakeholders if it mandatorily includes financial and non-financial information which are required by the six providers of capital. Such comprehensive information will influence their resource allocation decisions. It will also lead to the elimination of information asymmetry and positively impact stakeholders' investment and resource allocation decisions.

5. Discussions, Conclusions and Recommendation

From the above theoretical and empirical reviews, the point needs to be made that the current financial reporting architecture in Nigeria does not make the preparation and presentation of some non-financial information (e.g., environmental and sustainability reports) to be mandatorily included in annual stewardship reports; notwithstanding the fact that these entities depend on the environment for their resources. Stakeholders in the environment will find this dearth of material non-financial information a challenge as they strive to make optimal resource allocation decision.

Furthermore, accounting numbers in financial statements prepared in Nigeria do not reflect and are not designed to capture, the non-quantitative contributions of all capitals to value creation as well as the level of degradation of the environment caused by productive activities. In view of this, the non-financial information needs of stakeholders who provide capitals, other than financial capital, are not satisfied. The absence of such information, partly accounts for the unrest by militants in Nigeria's Niger Delta forcing the government and the oil majors to evolve strategies to address the negative impact of crude oil exploration in that region. It is imperative therefore for the reporting framework to be changed to make room for better and mandatory disclosures and inclusiveness. The narrow shareholders' wealth maximisation objective, espoused by neoclassical economists over the years, diminishes the decision usefulness of general purpose IFRS-based financial statements to other stakeholders or providers of other capitals in Nigeria. There is the need to evolve a corporate reporting framework that meets the needs of all providers of capital. The view is rife that integrated reporting will achieve the purpose as it provides a framework that will eliminate the observed weaknesses in the subsisting traditional financial reporting. As indicated in the Content Elements of IIRC 2013 Framework, integrated reporting will provide both forward-looking quantitative and non-financial information, business model as well as strategy for value creation in the short, medium and long term. Although it is still largely voluntary in many jurisdictions, Eccles and Krzus (2010) and IoDSA's King III (2009), have advocated that it should be made mandatory because it can improve the quality of reporting, a firm's reputation, systems and processes, resource allocation decisions and profitability. Since it is driven by stakeholders' interests, integrated reporting is more inclusive than shareholders' narrow interests.

To satisfy the information needs of stakeholders of listed entities in Nigeria beyond financial performance, therefore, the corporate reporting framework needs to be changed to mandatorily incorporate both financial and non-financial information in the hope that information asymmetry will be reduced, if not eliminated, preservation of the environment will gain better traction while the stakeholders' perception will be enhanced. These will hopefully reinforce the legitimacy of corporate entities as the costs/benefits of value creation are equitably borne or shared by all capital providers. With a concise, inclusive and comprehensive integrated report which provides insight into risks and opportunities of business activities, stakeholders' capacity to make optimal, value-based decisions, in the context of the big picture and environment, will be influenced and enhanced.

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