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OFF-BALANCE SHEET (NON-FINANCIAL) INFORMATION DISCLOSURES AND FINANCIAL PERFORMANCE OF QUOTED FIRMS IN THE NIGERIAN INDUSTRIAL SECTOR

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Abstract

The study examined effect of off-balance sheet (non-financial) information disclosure (NFID) on financial performance of quoted firms in the Nigerian industrial sector. The regressor is non-financial information measured by intellectual capital, risk management, corporate governance, environmental performance and social performance disclosure. Meanwhile, the regressed is financial performance and is measured by return on asset. Again, the study controlled for firm size and fanatical leverage. The study spanned from 2012 to 2021 over 10 firms in the Nigerian industrial sector. The study adopted the panel least square estimate. Meanwhile, the secondary source of data contained in the annual reports of the firms listed in the Nigerian industrial goods sector and the Nigerian exchange group fact book from 2012 to 2021. The study recorded that, intellectual capital, risk management, and social performance disclosure influenced return on assets both positively and significantly. However, environmental performance disclosure reduced return on asset greatly. Hence, the paper concludes that, higher intellectual capital, risk management, corporate governance & social performance disclosure improves firm performance. As such, the management of the targeted firm needs to disclose more intellectual capital and social performance, and risk management items. .

Keywords: Non-Financial Information Disclosures, Financial Performance, Quoted Firms, Nigerian Industrial Sector.

INTRODUCTION

The concept of non-financial information disclosure otherwise known as off-balance sheet information has gained much scholarly attentions in present times. This is in recognition of the inadequacies of traditional/conventional financial information reporting to meet the yearnings of different stakeholders associated with a firm (PWC, 2017). Consequently, the level of interest from stakeholders in corporate social, environmental, and ethical performance has risen significantly. In like manner, Hervé and Luc (2018) argued that, off balance sheet items yield

positive results. Succinctly, off-balance sheet items are critical measure of investors' decision making.

Considering the relevance of off-balance sheet activities on firm performance, there is a growing number of firms are publishing information evidencing the impact made by their activities on the environment, corporate governance, society, and human rights. Maroun (2017) added that, the inclusion of non-financial information in corporate financial reporting in recent times contributes immensely to information transparency. Based on reported presented by Ernst and Young (2017), 38% of Nigerian investors agreed strongly that, such non-financial reports improve their investment decisions. The authors added that, in recent time, the use of financial ratios only cannot meet the need of present investors. To address this issue, firms must adopt an integrated reporting approach.

Nevertheless, the issue which surrounds the linkage between off-balance sheet items remained one of the most controversial issues within the accounting parlance. Hervé and Luc (2018) submitted that, most capital providers place less attention on off-balance sheet information. More so, despite the continued use of financial information for investment decision making among quoted firms in Nigeria, there has been a continued failure of private entities in Nigeria. In view of this, the current study however expressed concerns over the alarming rate in the need for non-financial reporting in the recent years and its relevance for investors' decision making is yet to be investigated.

Sequel to the foregoing issues, the current study examined the effect of off-balance sheet disclosure on the financial performance of quoted firms in the Nigerian industrial sector.

REVIEW OF RELATED LITERATURE

The term "off-balance sheet disclosures" according to Yusuf (2016), are those metrics which include ratios, index scores, counts and other information not presented in the basic financial statements. Hence, it is also recognized as off-balance sheet information disclosure. According to Omaliko, Nwadiakor, and Nweze (2020), non-financial information disclosure is viewed as qualitative information in the companies' reports which exclude financial statements and related footnotes. According to PWC (2017), NIFD are off-balance items which also have some financial implications. For example, intellectual capital is the most significant resource in such firm. Hence, managements of firms must pay keen attention on the welfare of the human asset should such a firm desire to achieve outstanding financial performance (Stewart, 2017). As important as the financial ratios, how the organization is structured in terms of size, numbers of members, and how decisions are made are other critical issues that a firm must consider should such firm desire to continue as a going concern. Other critical issues such as risk management (risk mitigation approaches), environment performance (biological communities' assurance) and social performance (fairness in the workplace) are (Okolie & Igaga, 2020; Umar, Mustapha, and Yahaya, 2021).

Theoretically, the paper hinges on the legitimacy theory proposed by Donovan in 1984. The theory presents two (2) basic ideas upon which a firm should legitimize their activities. The two basic ideas is that, the firm must ensure that its activities and actions must be in congruent with whom it believed has the necessary attributes to affect the firm's image and ultimately, existence (Donavan, 1984). Also, through disclosure of their off-balance sheet activities such as risk

management (risk mitigation approaches), environment performance (biological communities' assurance) and social performance (fairness in the workplace) are (Okolie & Igaga, 2020; Umar, Mustapha, and Yahaya, 2021) firms can legitimize their activities. The theory further stressed that, a firm's going concern is dependent on public acceptance by socially and economically inclined stakeholders.

Nzekwe, Okoye and Amahalu (2021) studied the effect of sustainability (environmental, social, and economic performance) reporting on financial performance (cash value added) of quoted 11 industrial goods companies from 2008-2019. The researchers adopted the Panel least square regression estimation technique. They confirmed that, sustainability reporting (environmental, social, and economic performance reporting) improved the sampled firms' financial performance (cash value added) significantly.

In another related study, Ibrahim, Mohammed, Agbi, and Kaoje (2021) examined the interplay between sustainability (economic, environmental, & social) reporting and the performance (ROA) of 12 oil and gas companies from 2009 to 2019. They used the content approach as presented by the Global Reporting Initiatives (GRI). They confirmed that, economic and social reporting influenced ROA of target companies minimally while environmental influenced ROA of target companies significantly. Similarly, Umar, Mustapha, and Yahaya (2021) evidenced that, environmental influenced ROA of target firms significantly. However, economic reporting reduced ROA of target firms significantly from 2009-2018.

Again, Okolie and Igaga (2020) reported that, sustainability (economic, environmental & social) reporting influenced EPS of target banks from 2012 to 2018. This findings supported the findings of Johari and Komathy (2019) and Kabir, Ibrahim, Magaji, and Sulaiman (2019) but deviated from the findings of Erhinyoja and Ekwueme (2019) whom reported that, sustainability (economic, environmental, and social) reporting has mixed effect on firm performance;

RESERCH METHODOLOGY

Research Design, Population and Sampling Technique

The study adopted the ex post facto research design owing to the fact that the design is suitable for variable that inherently cannot be manipulated or because its manifestation since they have already occurred in retrospect. The study population intends to covered the all the 21 quoted industrial goods firms as at 31st December, 2021. However, the sample size relate to 10 of these firms were purposively sampled.

Method of Data Collection and Data Analytical Technique

The paper sourced data contained in the annual reports of the sampled firms from 2012 to 2021. The technique for the data analysis is the panel least square estimate. The model is feasible for prediction, other diagnostic tests were conducted. These include Normality test, and variance inflation factors alongside descriptive statistics and correlation analysis.

Model Specification

The study modeled after the works of Okoye (2016), Hashim and Koon (2016). Their model read:

$$ROE = \beta_0 + \beta_1 ICD + \mu \text{-----} 1$$

$$ROA = \beta_0 + \beta_1 RMD + \mu \text{-----} 2$$

$$ROE_{it} = \beta_0 + \beta_1 ICD_{it} + \beta_2 RMD_{it} + \beta_3 CGD_{it} + \mu \text{-----} 3$$

Where:

Where:

ROA = Return on Equity

ICD = Intellectual Capital Disclosure

RMD = Risk Management Disclosure

CGD = Corporate Governance Disclosure

However, the current study included EVD & SPD into the model and also used ROA to replace ROE. Hence, the modified model is restated as:

$$ROA_{it} = \beta_0 + \beta_1 ICD_{it} + \beta_2 RMD_{it} + \beta_3 CGD_{it} + \beta_4 EPD_{it} + \beta_5 SPD_{it} + \beta_6 FSZ_{it} + \beta_7 LEV_{it} + \mu \text{-----} 4$$

Table 1

Operationalization of Study Variables

Denotation	Nature of Variable	Measure	Apriori Expectation
ROA	Dependent	Profit after Tax (NPAT) divided by Total Asset	Nil
ICD	Independent	A dichotomous procedure by (GRI). Assign 1 if a firm discloses any of the items otherwise 0.	Positive
RMD	Independent	A dichotomous procedure by (GRI). Assign 1 if a firm discloses any of the items otherwise 0.	
EPD	Independent	A dichotomous procedure by (GRI). Assign 1 if a firm discloses any of the items otherwise 0.	
SPD	Independent	A dichotomous procedure by (GRI). Assign 1 if a firm discloses any of the items otherwise 0.	
FSZ	Control	Log. of Total Assets	
LEV	Control	Debt divided by Equity	

Source: Researcher's Compilation Results (2023).

RESULTS AND DISCUSSIONS

The following preliminary analysis are presented from table 2 to 5

Table 2

Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
ROA	0.112114	0.086200	0.735300	-0.1044	0.106454	100
ICD	3.055401	3.195900	4.490900	1.520900	0.758719	100
RMD	2.855975	2.690900	4.410900	1.170900	0.855997	100
CGD	0.607611	0.571400	1.000000	0.142900	0.184617	100
EPD	0.607140	0.571400	0.857100	0.142900	0.172728	100
SPD	0.582000	0.600000	0.800000	0.200000	0.167802	100
LEV	1.487303	1.437200	3.516400	0.136700	0.922590	100
FSZ	7.402177	7.467300	9.229000	5.876700	0.864504	100

Source: Researcher's Compilation Results (2023).

Table 2 evidenced that, the mean value of ROA among the sampled firms was 0.112114. By implication, about 11.21% of the observations had off-balance items. Meanwhile, the mean value of ICD, RMD, CGD, EPD, and SPD for the sampled firms' were 3.055401, 2.855975, 0.607611, 0.607140, and 0.582000 respectively. By implication firms' with ICD values of 3.055401 disclosed intellectual capital in the financial statements, firms with RMD values of 2.855975 moderately disclosed RMD while firms with CGD values of 0.607611 moderately disclosed CGD. Again, firms with EPD and SPD values of 0.607140 and 0.582000 moderately disclosed SPD. Meanwhile, the sampled firms recorded average LEV and FSZ are: 1.487303 and

7.402177. However, ROA, ICD, RMD, CGD, EPD, SPD, LEV, and FSZ deviated by 0.106454, 0.758719, 0.855997, 0.184617, 0.172728, 0.167802, 0.922590, and 0.864504 respectively. This implies that, most of the variables did not exhibit high variation. These low variations in ROA, ICD, RMD, CGD, EPD, SPD, LEV, and FSZ values among the sampled firms justify the need for this study as we assume that firms with higher ROA, ICD, RMD, CGD, EPD, SPD, LEV, and FSZ values are higher profit making firms than those firms with high ROA, ICD, RMD, CGD, EPD, SPD, LEV, and FSZ values.

Furthermore, ROA, ICD, RMD, CGD, EPD, SPD, LEV, and FSZ recorded minimum values of -0.1044, 1.520900, 1.170900, 0.142900, 0.142900, 0.200000, 0.136700, and 5.876700. However, they reported maximum values of 0.735300, 4.490900, 4.410900, 1.000000, 0.857100, 0.800000, 3.516400, and 9.229000.

Table 3

Normality Test

Variables	Jarque-Bera	Probability	Observations
ROA	491.3385	0.000000	100
ICD	5.144693	0.076356	100
RMD	5.624001	0.060085	100
CGD	2.793498	0.247400	100
EPD	3.475599	0.175907	100
SPD	3.140387	0.208005	100
LEV	4.225029	0.120933	100
FSZ	3.596525	0.165586	100

Source: Researcher's Compilation Results (2023).

Table 3 evidenced that, ROA has a Probability value of 0.000000 signaling that it deviated from normality assumption. Meanwhile, ICD, RMD, CGD, EPD, SPD, LEV, and FSZ has a Probability value of 0.076356, 0.060085, 0.247400, 0.175907, 0.208005, 0.120933, and 0.165586 respectively. This signals that, ICD, RMD, CGD, EPD, SPD, LEV, and FSZ are normally distributed. Provided that other diagnostic tests are held constant, the model is feasible for parametric analysis.

Table 4

Correlation Analysis

Variables	ROA	ICD	RMD	CGD	EPD	SPD	LEV	FSZ
ROA	1.000000							
ICD	0.628296	1.000000						
RMD	0.472254	-0.050955	1.000000					
CGD	0.729643	-0.005298	-0.009524	1.000000				
EPD	-0.319080	0.115827	0.031109	0.025826	1.000000			
SPD	-0.060654	-0.063070	0.008867	-0.034653	-0.027367	1.000000		
LEV	0.634774	0.122611	-0.029053	0.069160	0.100872	0.024472	1.000000	
FSZ	0.000578	0.049386	-0.058332	-0.012014	-0.119294	-0.102443	-0.254084	1.000000

Source: Researcher's Compilation Results (2023).

The correlation analysis shows that, though ICD, RMD, and LEV are positively related with ROA but such relationship is moderate. This is owing to the fact that their correlation coefficients estimated at: 0.628296, 0.472254, and 0.634774, are within the range of 30% to 69%. Meanwhile, CGD has a positive strong associated with ROA. Meanwhile, FSZ though is positively related with ROA but such relationship is weak.

Although, both EPD and SPD are negatively related with ROA but such relationship is moderate in the case of environmental performance disclosure but weak in SPD. The result is presented in table 5.

Table 5
Multi-collinearity Test

Variable	VIF	Tolerance Value (TV)
ICD	1.5991	0.6254
RMD	2.2937	0.4360
CGD	1.4436	0.6927
EPD	2.1393	0.4674
SPD	3.8272	0.2613
LEV	1.4936	0.6695
FSZ	1.6743	0.5973
Average	2.0673	0.5357

Source: Researcher's Compilation Results (2023).

From the table 5, the variance inflation factors for all the study variables range from 0.26129 to 0.669523. This suggests that the study variables are free from multi-collinearity problems. To further attest that, the tolerance values for all the variables ranges from 1.493601 to 1.674287. This also indicates that, the study variables are free from multi-collinearity problems. Multi-collinearity feature according to Agbogun and Ehiedu (2022) exists when the value of TV is less than 0.20 or where VIF exceeds 10 i.e. $VIF > 10$. This reveals that the model is fit for parametric analysis.

Regression Result

The preliminary analyses presented in table 2 to 5, each variable are discussed thus:

Table 6
Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.522180	0.367495	20.46879	0.0000
ICD	0.897082	0.088993	10.08032	0.0000
RMD	0.897004	0.096480	9.297327	0.0000
CGD	0.137430	0.015313	8.974834	0.0000
EPD	-0.897482	0.085865	-10.45229	0.0000
SPD	0.902529	0.084805	10.64235	0.0000
FSZ	0.139010	0.010031	13.85854	0.0000
LEV	-0.048354	0.052932	-0.913517	0.3633
R-squared	0.812121	Mean dependent var		0.112114
Adjusted R-squared	0.802128	S.D. dependent var		0.106454
F-statistic	81.26451	Durbin-Watson stat		1.801416
Prob(F-statistic)	0.000000			

Source: Researcher's Compilation Results (2022)

The panel least square estimate reported in table 4.5 evidenced that, ICD has a coefficient value of 0.897082, high t-value of 10.08032 and a p-value of 0.0000 while SPD has a coefficient value of 0.902529, high t-value of 10.64235, and a p-value of 0.0000. Similarly, CGD has a coefficient value of 0.137430, high t-value of 8.974834 and a p-value of 0.0000. By implication, the higher ICD, SPD and CGD will record high ROA. However, EPD has a negative coefficient value of -0.897482, high negative t-value of -10.45229 and a p-value of 0.0000. By implication, if environment performance disclosure reduces, ROA will increase by 89.74%. The possible reason for this is that, most of the firms in the Nigerian industrial sector are conservative towards tendering the immediate environments which they business reside. As such, the result is not surprising.

CONCLUSION AND RECOMMENDATIONS

The study examined effect of off-balance sheet (non-financial) information on performance of quoted firms in the Nigerian industrial sector. The study adopted the panel least square estimate. Having subjected the model to series of analysis alongside the various results discussed, the study concludes that, provided that, higher intellectual capital, risk management, corporate governance and social performance disclosure improves the return on asset of firms quoted in the Nigerian industrial sector over the studied periods. Hence, the paper concludes that, higher intellectual capital, risk management, corporate governance & social disclosure improves firm Performance. As such, the management of the targeted firm needs to disclose more intellectual capital and social, and risk management items.

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