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Editor's Desk

The five papers in this special edition are the top five papers that won the award of the call for research initiatives in Africa. The call for papers opened on the 1st of December 2016 through to the 31st of January, 2017. A total of 97 submissions were received by the African Accounting and Finance Association secretariat.

An Implementation Review Committee (IRC) was set up made up of senior academics and professionals in Africa and Africans in diaspora to assess the 97 submission of abstracts. The top ten abstracts were identified and full papers were later submitted and handled by the same IRC. The top five papers which was the target of the advert were selected out of the ten papers. Out of the five papers, the authors of the top three papers were sponsored to present their papers at the African Congress of Accountants (ACOA) in Uganda May 2-5, 2017.

The paper selection process was in line with the agreement in the Memorandum of Understanding (MOU) signed between African Accounting and Finance Association (AAFA) and Pan African Federation of Accountants (PAFA).

The process was sponsored by World Bank Group and the challenge now is to work on a similar research project for ACOA to be held May 2019 in Morocco. The research theme is: 'Sustainability and Relevance of Accounting and Finance Research in Africa'. Watch out for details on our AAFA website: <https://www.aafassociation.com>

Prof Jane Ande

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The Economic Consequences of Environmental, Social and Governance Disclosures by Firms Quoted on the Nairobi Securities Exchange

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Abstract

Purpose: Given the growing interest on alternative reporting framework incorporating non-financial information in annual reports, we empirically examine the economic consequences of disclosure of environmental, social and governance (ESG) information. The economic consequences examined include stock liquidity and firm value.

Design/methodology/approach: Data are gathered from a sample comprising 246 firm-year observations of 50 listed companies in Kenya over the period 2011-2015. Two-stage panel least squares regressions are performed to establish the economic consequences of ESG disclosure. The ESG disclosures are manually scored from the audited annual reports using a disclosure index with 58 items.

Findings: We provide some empirical evidence that ESG disclosures are positively associated with stock liquidity (measured using bid-ask spreads) and firm value (measured using Tobin's Q). This is consistent with the view that ESG disclosures improve an investor's information environment hence improving stock liquidity.

Practical implications: The findings should be of interest to managers, policy makers and advocates of ESG or integrated disclosures. This is because the findings suggest positive capital market economic consequences of ESG disclosure.

Originality/value: The study contributes to the sparse literature on the economic consequences of alternative disclosure frameworks, which are not oriented purely towards financial reporting.

Keywords: Environmental, social and governance disclosures, panel regression, information environment, stock liquidity, Kenya

Paper type: Research paper

1. Introduction and motivation

Globally, sustainable development is an integral aspect of sustainable future. Gore and Blood (2011) emphasize the importance of sustainability reporting as one of the vital steps towards building “sustainable capitalism” where businesses focus on long-term value creation. The United Nations Conference on Sustainable Development Summit 2012 set the purpose and pace for the Sustainable Development Goals (SDGs), which was a shift from Millenium Development Goals. This culminated in the creation of a set of the 17 SDGs. Given the interdependent nature of the society, sustainability has become an important aspect of corporate management and reporting practices.

Khelif, Guidara and Souissi (2015) note the growing attention in emerging markets on the economic consequences of environmental and social disclosure with a focus on firm performance. The purpose of our study is to empirically investigate the economic consequences of environmental, social and governance (ESG) reporting, in terms of firm value and stock liquidity, from a developing country, Kenya. We focus on sustainability reporting due to two reasons:

- (i) sustainability reporting focuses on a wider stakeholder audience especially on the providers of financial capital with a longer term view and
- (ii) sustainability reporting focuses on impacts on the environment, society and the economy

In Africa, there exists a dearth of research studies on ESG disclosure practices. A number of studies have examined voluntary disclosure practices with some focus on social disclosures (Barako, Hancock and Izan 2006; Mathuva, 2016). Other studies have focused on the determinants of environmental and social information or the extent of such disclosure in specific industries (Barako and Brown, 2008; Ponnu and Okoth, 2009; Siregar and Bachtiar, 2010; Villiers and Van Staden, 2006; Mathuva and Mboya, 2016; Mathuva, Mboya and

McFie, 2017). Studies on the economic consequences of sustainability disclosure in Africa have laid emphasis on South Africa, since it is one of the early adopters of ESG disclosures and has even mandated integrated reporting for its listed companies (Solomon and Maroun, 2012; Barth, Cahan, Chen and Venter, 2016) in full Ioannou and Serafeim, 2016). To provide empirical evidence on the effects of sustainability disclosures, additional research studies on the economic consequences of ESG reporting are necessary.

Our study attempts to extend academic literature on the consequences of new reporting frameworks, such as the ESG disclosures. We further contribute to data and methodological aspects in disclosure studies by applying content analysis based on an extended sustainability reporting framework advanced by Yongvanich and Guthrie (2006). Further, the study provides empirical findings on the (un)intended economic consequences of new disclosure frameworks in an emerging country context.

We find some empirical evidence that ESG disclosures by listed companies in Kenya are positively associated with stock liquidity (as measured by bid-ask spreads) and firm value (as measured by Tobin's Q). This is consistent with the view that ESG disclosures improve investor's information environment hence improving stock liquidity. The results also reveal a negative association between ESG disclosures and financial performance. This denotes a potential for unintended economic consequences of ESG disclosures in regard to a company's financial performance.

The rest of the paper is structured as follows. Section 2 presents a brief background on ESG disclosures. Section 3 discusses prior literature and formulates the hypotheses. Section 4 presents the methodology adopted in this study. Section 5 presents the results while Section 6 concludes the paper and highlights the limitations as well as managerial and policy implications.

2. Institutional setting on ESG disclosure

2.1. Sustainability reporting framework

According to GRI (2011), sustainability reporting is viewed as a broad term which entails reporting on economic, environmental and social impacts, which encompass triple bottom line, corporate social responsibility reporting, governance among other forms of reporting. Globally, the European Commission (EC) has acknowledged the importance of ESG disclosure (European Commission, 2014). In the last two decades, ESG disclosures have been widely adopted, with South Africa mandating integrated reporting for listed companies. As of 2013, more than 6,000 companies globally had issued sustainability reports from 100 companies that had done so twenty years ago (Ioannou and Serafeim, 2016). Out of the companies that had issued sustainability reports, 36% were from Europe, 23% from Asia, 15% from Northern America, 14% from Latin America and the Caribbean, 8% from Africa and 4% from Oceania (GRI, 2014). Governments and securities exchange regulators have developed guidelines on ESG disclosures due to the perceived benefit of long-term value creation (Gore and Blood, 2011).

The origin of using conventional accounting to capture ESG disclosures and the subsequent development of sustainability reporting, can be traced back to the 1970s (Carroll, 1999). However, conceptions of sustainability and sustainable development (Bebbington and Gray, 2001), form a foundation for sustainability reporting. Several researchers have outlined the inherent complexities of using accounting as a frame to define how organizations approach sustainability or how they contribute towards sustainable development (Deegan, 2013; Thornton, 2013). A simple description of sustainability as coined in the Brundtland Report is based on the premise that all have a right to a decent life (WCED, 1987). Thus, sustainability is based on normative principles of distributive and political justice (Christen and Schmidt,

2012). Notably, justice applies for both present and future generations (Baumgärtner and Quaas, 2010).

In this study, we employ ESG guidelines derived largely from GRI G4 guidelines (GRI, 2014). We also utilize the ESG guidelines in the integrated reporting <IR> guidelines with a view to obtaining a comprehensive set of ESG disclosures (IIRC, 2013b). Further, we utilize some guidelines provided by OECD on corporate governance (OECD, 2004). Using the three sources, we study ESG disclosures under three broad categories: (i) external capital, (ii) internal structure and (iii) human capital as depicted in Figure 1.¹

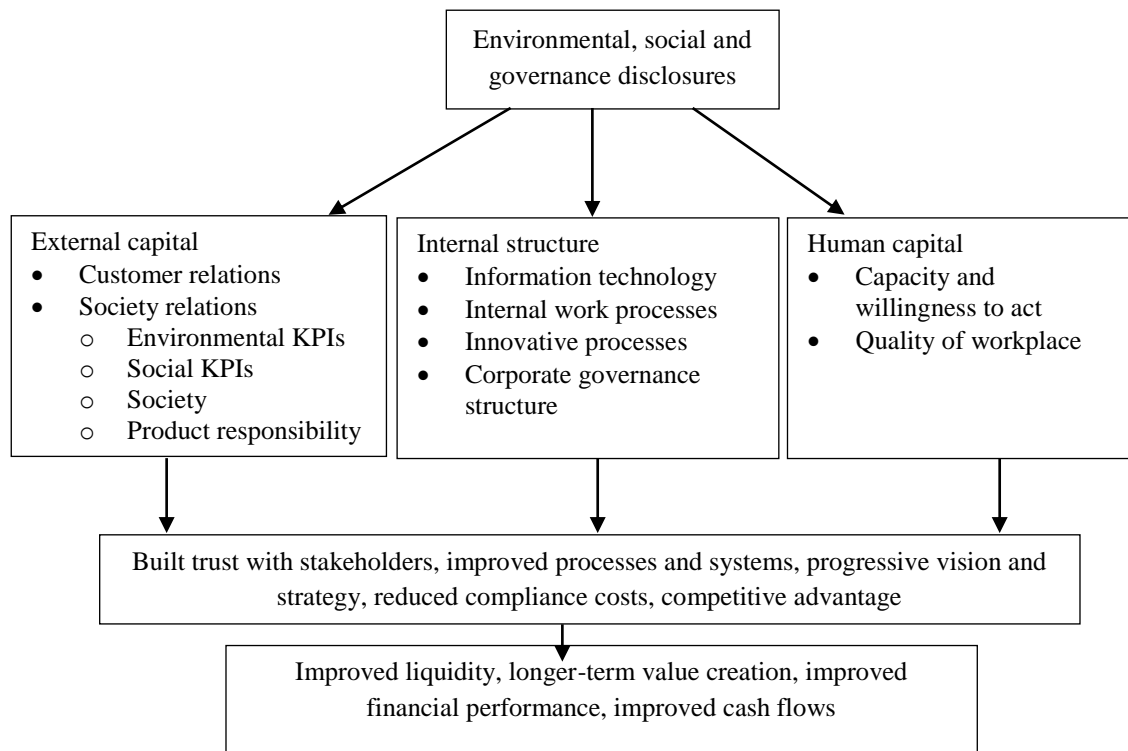


Figure 1: An extended performance reporting framework for ESG

2.2 ESG reporting efforts in Kenya

In Kenya, just like in the wider African context, there is limited focus on corporate sustainability reporting researchwise. Kenya's vision 2030 envisages a financial sector that is

¹ Appendix 1 provides a detailed listing of all the 58 items contained in the ESG disclosure index.

vibrant and globally competitive that promotes high level of savings to finance Kenya's overall investment needs. The revised and newly issued Corporate Governance guidelines 2015 for listed companies in Kenya has for the first time recognized the need for corporate sustainability reporting, albeit voluntary.

This is a clear indication that the regulator expects firms to go beyond the traditional practices of maximizing shareholders wealth but consider broader stakeholder welfare. This will undoubtedly, though not mandatory, incentivize firms to report on sustainability issues. In addition, the Kenya Government enacted Climate Change Act 2016, which set the basis of establishment of Climate Change Council. This effectively brings environmental issues as central to the national development agenda. It is anticipated that companies will borrow from the tone and pace of the government in designing its business practices to reflect environmental, social and governance aspects.

3. Literature review and hypotheses development

3.1 Theories on ESG disclosures

Gray *et al.* (2001) identify three approaches to explain ESG disclosure behaviour (i) decision usefulness, (ii) economic theory and (iii) social and political theory. This study applies decision usefulness approach and legitimacy theories to study ESG disclosure behaviour by listed companies in Kenya. According to the decision usefulness approach, ESG information is useful in making economic decisions targeting long term value creation. Khlif, Guidara and Souissi (2015) argue that environmental and social information may affect future cash flows of the firm. This is because, engaging in ESG disclosure is regarded as a self-regulating mechanism and is useful in avoiding adverse effects of regulatory costs on future cash flows (Khlif, Guidara and Souissi, 2015).

Legitimacy theory, which is considered as a systems-based theory, has widely been used to explain ESG disclosure behaviour in organizations (Gray, Javad, Power and Sinclair, 2001; Deegan and Blomquist, 2006). According to legitimacy theory, an organization is expected to match its values with those of the society so as to access resources. This is meant to gain approval of its aims and place in the society, and this is useful in long term sustainability (Magness, 2006). DiMaggio and Powell (1983) observe that companies engage in ESG disclosure as a way of legitimizing their activities, and this has an effect on long term value. The engagement in ESG disclosure by companies in this study could be in response to societal pressures and the desire to legitimize their activities so as to gain approval by the society in which they operate.

3.2 Empirical literature and hypotheses formulation

3.2.1 ESG disclosure and stock liquidity

Our first attempt is to examine the informational content of ESG disclosures. We argue that if ESG disclosures have any informational content, then this will be reflected in the stock prices and consequently, stock liquidity. According to agency theory, there exists information asymmetry between managers with superior information and financial statement users such

as investors. Francis *et al.* (2008) and Gietzman and Ireland (2005) argue that the informational asymmetry often leads to adverse selection which results in an increase in share prices there by reducing liquidity. As a result, investors demand a premium to cover the adverse selection risk. The disclosure of ESG information could be used to reduce the information asymmetry thereby reducing investors' monitoring cost. ESG disclosure encompasses the disclosure of largely voluntary information over and above that which is mandated by the IFRS. Through ESG disclosure, investors are better able to make rational economic decisions in the presence of more information, alongside that which is provided through traditional financial reporting. To the extent that ESG information helps narrow the information gap between managers and investors, we anticipate a larger increase in liquidity for companies which engage in more ESG disclosure. This reasoning motivates our first hypothesis as follows:

H1 There is a negative association between ESG disclosure and a company's stock liquidity.

3.2.2 ESG disclosure and firm value

Using precepts of institutional theory, we argue that ESG disclosures are positively related to firm value. Past research strongly suggests that ESG disclosure regulations in the realm of financial reporting have a positive effect on the value of a firm (Ioannou and Serafeim, 2014). However, in the absence of regulation for sustainability reporting, the findings in extant studies are mixed. For instance, Jones *et al.* (2007) find a negative relationship between the level of sustainability disclosure and abnormal returns among Australian corporations. Barth *et al.* (2016) establish a positive association between integrated reporting and firm value. Luo and Bhattacharya (2006) on the other hand, state that sustainability reporting can harm market values if firms have a low capacity for innovation. The main argument is essentially oriented towards a business case. Engaging in sustainability reporting improves corporate reputation and creates an image of legitimacy which in turn makes such firms attractive to investors (Barkemeyer, 2007; Hahn and Lülfs, 2014). Alternative streams of research suggest a systematic analysis of the influence specific disclosure items on shareholder value be performed to ensure that no conflict arises between sustainability strategies and wealth maximization (Schaltegger and Figge, 2000). This line of reasoning motivates our second hypothesis as follows:

H2 There is a positive association between ESG disclosure and firm value.

4. Methodology and data

4.1. Content analysis of audited annual reports

Content analysis is a research method for objective, systematic and quantitative description of the manifest of communication (Gray *et al.*, 2001). The first step in content analysis involves identifying a formal framework that enables the exploration of various classes of sustainability disclosures (Cerin, 2010). ESG disclosures were derived from GRI's G4

guidelines, IIRC, UN Global Compact and OECD guidelines in corporate governance. Appendix 1 provides a listing of the ESG disclosure items.

4.2. Estimation model

We model the two economic consequences (stock liquidity and firm value) as a function of ESG disclosure alongside a number of controls. To address potential endogeneity in the variables in the regression model, we utilize a two-stage panel least squares regression in our analyses. The following equation is utilised:

$$ECON_{it} = \beta_0 + \delta_1 ESG_{it} + \beta_1 CGQ_{it} + \beta_2 ACQ_{it} + \beta_3 COMPLEX_{it} + \beta_4 SUST_{it} + \beta_5 CROSS_{it} + \beta_6 SIZE_{it} + \sum_{j=1}^n \beta_j CONTROLS_{it} + \varphi_{it} + \lambda_{it} + \eta_{it} + \varepsilon$$

where, *ECON* represents the economic consequences measured by two proxies: (i) bid-ask spreads (*Bid_Ask*) and (ii) Tobin's Q (*TobinsQ*). φ_{it} , λ_{it} and η_{it} are industry, cross-section and firm-year controls, respectively. Finally, ε is the error term associated with any regression equation. All the other variables are discussed in Table 1. In each model, the control variables utilized are *CGQ* for corporate governance quality, *ACQ* for audit committee quality, *COMPLEX* for firm's complexity, *SUST* for sustainability report issuance, *CROSS* for cross listing and *SIZE* for company size. In the case of *CGQ* and *ACQ*, we utilise a composite index to measure the quality of corporate governance in line with Kent and Zunker (2013) and the quality of audit committee in line with Al-Shaer *et al.* (2017). The disclosure indices used are provided in Appendix 2, Panels A and B. In addition to these variables, we also include controls for the specific variable measuring the economic consequences. In the case of the *Bid_Ask* model, we include *LOSS* for loss-making companies, *BTM* for book-to-market value and *OWN* for foreign ownership. For the Tobin's Q model, we include *ASSET_G* for asset growth, *DIV* for dividend payments, *IBROA* for financial performance and *LEV* for leverage. The inclusion of the control variables is informed by studies such as (Deegan and Gordon, 1996; Wilmshurst and Frost, 2000; Ho and Taylor, 2007; Hahn and Kühnen, 2013; Barth *et al.*, 2016).

Table 1: Variable definitions

Variable type	Measure	Definition	Source
<i>Dependent variables</i>			
<i>Bid_Ask</i>	Stock liquidity	<i>Bid_Ask</i> spread which is calculated following Barth <i>et al.</i> (2016) as the natural logarithm of the median value of daily (Ask-Bid)/(Ask + Bid)/2 measured over month -9 to month +3 relative to a firm's year end. Ask and Bid are daily closing ask and bid prices, respectively, and are obtained from Nairobi Securities Exchange daily market data.	NSE daily stock data
<i>Tobin's Q</i>	Firm value	This is calculated as market to book ratio of total assets. (Total assets - total common equity + [common shares outstanding at year end]*share price at month +3 relative to year end) scaled by total assets	Company annual report and NSE daily stock data
<i>Test variable</i>			
<i>ESG</i>	Environmental, social and governance disclosure	ESG disclosure score measured using the ESG disclosure index. The ESG disclosure score is calculated as actual ESG disclosure items scaled by the maximum expected disclosures.	Company annual reports and sustainability reports
<i>Independent variable included in all models</i>			
<i>CGQ</i>	Corporate governance quality	A measure of corporate governance quality calculated following Kent and Zunker (2013) using the corporate governance index.	Company annual reports, NSE information, company websites, other websites e.g. Bloomberg
<i>ACQ</i>	Audit committee quality	A measure of audit committee quality in line with Al-Shaer <i>et al.</i> (2017) using the audit committee quality index.	Company annual reports
<i>COMPLEX</i>	Firm's complexity	Firm complexity where 1 is assigned where the company has subsidiaries and 0 if it has no subsidiaries.	Company annual reports, websites
<i>SUST</i>	Sustainability report issuance	A binary variable capturing 1 for companies that are listed on the NSE and release stand-alone sustainability reports and 0 if otherwise.	GRI database, Company annual reports and company websites
<i>CROSS</i>	Cross listing	Cross listing status measured using a binary variable: 1 if the company is cross listed within East African region and in other securities exchange markets and 0 if it is not.	Various securities exchange information, company annual report
<i>MKTCAP</i>	Company size	Company size as measured by the natural logarithm of market capitalization at the beginning of the year.	Company annual reports and NSE daily stock price data
<i>Specific control variables for the various dependent variables</i>			
<i>Specific controls for stock liquidity (Bid-Ask) model</i>			

Table 1 Continued: (Variable definitions)

Variable type	Measure	Definition	Source
<i>LOSS</i>	Loss-making companies	Binary variable whereby 1 is assigned if the net income (after tax) but before extraordinary items is negative and 0 if otherwise.	Company annual reports
<i>BTM</i>	Book-to-market value	Calculated as the book value of common shareholders interest in the company scaled by the number of common shares outstanding multiplied by share price at the end of the year.	NSE daily stock price data and company annual reports
<i>OWN</i>	Foreign ownership	The proportion of foreign shareholding in the company as at the end of the year.	Annual reports, NSE data
<i>Specific controls for Tobin's Q model</i>			
<i>ASSET_G</i>	Asset growth	Asset growth measured by the change in year-end total assets scaled by lagged total assets.	Company annual reports
<i>DIV</i>	Dividend payments	Binary variable which takes the value of 1 if the company declared or paid a dividend in the current year and 0 if otherwise.	Company annual reports
<i>IBROA</i>	Financial performance	Net income (after tax) before extraordinary items divided by total assets.	Company annual reports
<i>LEV</i>	Leverage	Ratio of total debt to total debt plus book value of common shareholders' interest in the company.	Company annual reports

4.3. Sample and data

Data were obtained from 50 companies listed on the NSE over the period 2011-2015 as shown in Table 2, panel A. This comprises of 76% of all companies listed on the NSE with total firm-year observations of 246. The ESG disclosure index was manually scored by a trained assistant who is a CPA and pursuing his Master degree in Accounting. The scores obtained were verified on a sample basis by the corresponding author on a regular basis. Further, the manually scored ESG disclosures were compared with similar scores generated by professionals in the field and were found to be comparable. Panel B of Table 2 reports the sectoral distributions of firms in the sample. According to panel B, most of the listed companies included in the sample were in the banking industry (22%) with the lowest representation being from telecommunications and technology companies (2%).

Table 2: Sample breakdown

	<i>Number of firms</i>	<i>Firm-year observations</i>	
<i>Panel A: Sample selection</i>			
Listed companies as at 31 December 2016	66	330	
Less companies suspended from trading	(4)	(20)	
Less companies whose annual reports were unavailable	(12)	(60)	
Companies included in the final sample for the period 2011-2015	<u>50</u>	250	
Less observations for one company which was listed in 2013		(2)	
Less share price observations for two companies which were listed in 2012		(2)	
Final sample observations		<u>246</u>	
<i>Panel B: Industry composition</i>			
Agricultural	6	30	12
Automobiles and accessories	2	10	4
Banking	11	53	22
Commercial and services	8	39	16
Construction and allied	5	25	10
Energy and petroleum	4	20	8
Insurance	4	19	8
Investment	2	10	4
Manufacturing and allied	7	35	14
Telecommunications and technology	1	5	2
Total	50	246	100

5. Results

5.1 Univariate analysis

Table 3 reports the ESG disclosure scores over the period 2011 to 2015. We compare the manually collected ESG disclosure scores, both from annual reports and stand-alone sustainability reports. We could only obtain stand-alone sustainability reports for comparison for three out of four companies which GRI has indicated that they have either complied with GRI's

G2 or G3.² of the three companies, only one had sustainability report available, while the other two had sustainability reports for three and five years respectively. The results show an overall average ESG disclosure level of 15.6% over the five-year period for ESG disclosures obtained from annual reports only. We note a significant increase in average ESG disclosure levels to 16.1% when we incorporate scores for companies that issued stand-alone sustainability disclosures alongside the annual reports. Overall, Kenyan listed companies demonstrate low and stagnated ESG disclosure levels over the period 2011 – 2015.

Table 3: ESG Scores over the period 2011-2015

Year	Source of ESG disclosure scores	N	Mean	Median	St. Dev.	Min.	Max.
2011	Annual reports only	250	0.168	0.172	0.069	0.052	0.345
	Annual reports and stand-alone sustainability reports	250	0.176	0.172	0.089	0.052	0.569
2012	Annual reports only	250	0.167	0.164	0.074	0.052	0.397
	Annual reports and stand-alone sustainability reports	250	0.167	0.164	0.074	0.052	0.397
2013	Annual reports only	250	0.149	0.138	0.070	0.052	0.379
	Annual reports and stand-alone sustainability reports	250	0.156	0.138	0.082	0.052	0.466
2014	Annual reports only	250	0.138	0.112	0.066	0.052	0.328
	Annual reports and stand-alone sustainability reports	250	0.148	0.121	0.084	0.052	0.466
2015	Annual reports only	250	0.144	0.121	0.071	0.052	0.328
	Annual reports and stand-alone sustainability reports	250	0.152	0.129	0.086	0.052	0.483
Overall 1	Annual reports only	250	0.156	0.147	0.071	0.052	0.397
Overall 2	Annual reports and stand-alone sustainability reports	250	0.161	0.155	0.083	0.052	0.569

5.3. Descriptive statistics

The descriptive statistics on all variables utilized in the models are provided in Table 4. According to the descriptive statistics, the bid-ask spread averages 0.146 over the period 2011-2015. This implies that, there is notable trading activity by investors on the NSE compared to that of South African companies which is at -5.97 on average over the period 2011-2013 (Barth *et al.*, 2016). This, however, points to possible lower liquidity for Kenyan listed companies compared to those in South Africa. The Tobin's Q averages 1.569 over the period 2011-2015 which is lower than the Tobin's Q of 1.81 for South African companies over the period 2011-2013 (Barth *et al.*, 2016) and 1.576 and 1.860 for South African and Moroccan companies for the period 2004-2009 respectively (Khlif, Guidara and Souissi, 2015). In general, the other variables show that there are no extreme values that would affect the reliability of the estimated coefficients using the regression model specific earlier.

² GRI's G2 and G3 reporting guidelines superseded G4 guidelines, which have been used to develop the ESG disclosure for the purposes of this study.

Table 4: Descriptive statistics

Variable	N	Mean	Median	Std. Dev.	Min.	Max.
<i>Dependent variables</i>						
<i>BID_ASK</i>	246	0.146	0.139	0.064	0.000	0.359
<i>TOBIN'S Q</i>	246	1.569	1.098	1.683	0.299	9.942
<i>Test variable (variable of interest)</i>						
<i>ESG</i>	250	0.156	0.147	0.071	0.052	0.397
<i>Control variables in each regression model</i>						
<i>CGQ</i>	250	0.656	0.636	0.114	0.364	1.000
<i>ACQ</i>	250	0.714	0.833	0.182	0.333	1.000
<i>COMPLEX</i>	250	0.736	1.000	0.442	0.000	1.000
<i>SUST</i>	250	0.080	0.000	0.272	0.000	1.000
<i>CROSS</i>	250	0.144	0.000	0.352	0.000	1.000
<i>MKTCAP</i>	246	15.724	15.810	2.356	0.000	20.212
<i>Specific controls for stock liquidity (Bid-Ask) model</i>						
<i>LOSS</i>	250	0.112	0.000	0.316	0.000	1.000
<i>BTM</i>	246	1.222	0.788	1.292	-1.686	8.533
<i>OWN_FOR</i>	250	0.030	0.000	0.130	0.000	0.701
<i>Specific controls for Tobin's Q model</i>						
<i>LAGASSET_G</i>	250	0.218	0.123	0.904	-0.872	9.753
<i>DIV</i>	250	0.740	1.000	0.440	0.000	1.000
<i>IBROA</i>	250	0.064	0.047	0.236	-2.079	1.134
<i>LEV</i>	250	0.119	0.000	0.203	0.000	1.042

Table 4 sets out the descriptive statistics for the main variables used in estimation models for a sample of 50 listed companies in Kenya over the period 2011-2015. The sample includes a total of 250 firm-year observations for the 50 companies, except for the variables where share price data is used (e.g., *BID_ASK*, *TOBIN'S Q*, *MKTCAP*, and *BTM*). These variables have 246 observations each over the period 2011-2015. All variables, excluding the test variable *ESG* are winsorized at the 1 and 99 percentiles. All variable definitions are provided in Table 1.

5.4 Bivariate analysis

Table 5 presents the correlation coefficients for the key variables in this study. We find that *ESG* is positive and significantly correlated with *CGQ*, *ACQ*, *Complex*, *SUST*, *MKTCAP* and *DIV*. Consistent with Barth *et al.* (2016), the correlation coefficients reveal that larger and widespread companies are better governed and exhibit higher *ESG* disclosure levels. The highest correlation coefficient is 0.592 between *CGQ* and *MKTCAP*, which is below 0.8. Additional analyses of the variance inflation factors produced factors below 5, which suggest that multicollinearity among the independent variables does not threaten the computational accuracy of the results. To establish the causal relationship between *ESG* disclosure and the four proxies for economic consequences (*Bid_Ask* and *Tobin's Q*), two-stage panel least squares regressions are performed.

Table 5: Correlation matrix

Variable	ESG	CGQ	ACQ	COMPLE X	SUST	CROS S	MKTCA P	LOSS	BTM	OWN_FO R	LagASSET_ G	DIV	IBRO A	LE V
CGQ	.386* *													
ACQ	.337* *	.326**												
COMPLEX	.281* *	.211**	.565**											
SUST	.195* *	.447**	.147*	.177**										
CROSS	0.059	.283**	.163**	.220**	.467**									
MKTCAP	.416* *	.592**	.451**	.281**	.431**	.326**								
LOSS	- 0.036	- .201**	- .183**	-0.017	-0.105	-0.037	-.197**							
BTM	- 0.083	- .188**	-.154*	-0.061	- .346**	- .199**	-.503**	0.025						
OWN_FOR	- 0.047	-0.049	-0.060	.190**	0.103	0.101	0.033	0.065	-0.077					
LagASSET_G	0.022	.169**	0.097	0.066	-0.003	.138*	0.112	-.147*	0.025	-.172**				
DIV	.144*	.209**	.199**	.162*	.141*	-0.043	.286**	- .397**	-.128*	0.096	0.043			
IBROA	- 0.012	0.000	-0.053	-0.012	.278**	.170**	-0.011	- .528**	- .211**	0.044	-0.018	.197* *		
LEV	.128*	0.108	.176**	.309**	.280**	.183**	0.105	.135*	0.117	0.100	-0.014	- 0.046	-0.107	

Table 5 presents Spearman correlation coefficients for key variables in the regression model over the period 2011-2015. * and ** denote significance at the 5% and 1% levels respectively based on a two-tailed test. The sample includes 246 firm-year observations for 50 listed companies on the NSE. All variables, excluding the test variable *ESG* are winsorized at the 1 and 99 percentiles. Variable definitions are provided in Table 1.

5.5. Multivariate analysis

Table 6 reports the regression results for the overall period. In the *Bid_Ask* models and consistent with *H1*, the coefficient of *ESG* is negative and significant (coefficient = -0.108, t-stat. = -1.68) at the 10% level of significance. The negative coefficient is also exhibited when the *ESG* disclosure scores from the annual and sustainability reports (*ESG_2*) are incorporated in the regression models. This means that companies with better *ESG* disclosures have smaller bid-ask spread and higher liquidity. This finding resonates with Barth *et al.* (2016) who find negative association between bid-ask spread and the level of integrated reporting of South African listed companies. The results also reveal that larger listed companies with superior *ESG* disclosure have greater bid-ask spreads (coefficient = 0.004, t-stat. = 1.96). According to the results, loss-making listed companies have greater bid-ask spreads, denoting some level of illiquidity (coefficient = 0.034, t-stat. = 2.65). According to the results, the book-to-market ratio (*BTM*) has a positive and significant association with bid-ask spread (coefficient = 0.008, t-stat. = 2.43). The adjusted r-squared for the regression model is 12.6% and the estimation model is significant (F-statistic = 3.239, p-value = 0.000).

The results in the Tobin's Q model reveal a positive and significant association between *ESG* and Tobin's Q (coefficient = 2.284, t-stat. = 1.75) at the 10% level of significance. The positive and significant coefficient is also manifested when the *ESG* disclosure scores from the annual reports and sustainability reports (*ESG_2*) are used. This is in support of *H2* and seems to suggest that *ESG* disclosures are positively associated with firm value. The results further show that firm value is positive and significantly associated with companies that issue a stand-alone sustainability report (*SUST*) (coefficient = 2.613, t-stat. = 5.46). According to the findings, better performing companies (*IBROA*) are positively associated with firm value (coefficient = 2.011, t-stat. = 5.41). Finally, the findings also reveal a negative and significant association between *ESG* and companies with more than one subsidiaries (*COMPLEX*) (coefficient = -0.718, t-stat. = -2.87). The adjusted r-square of the regression model improves to 52.6% and the model's F-statistic is 12.064 which is highly significant.

Table 6: Regression results

Model	[1]		[2]		[3]		[4]	
Dependent variable	Bid_Ask		Bid_Ask		Tobin's Q		Tobin's Q	
Variable	Coefficient	Std. Error	Coefficient	Std. Error	Coefficient	Std. Error	Coefficient	Std. Error
Constant	-1.035*** (-3.02)	0.343	-1.014*** (-2.95)	0.344	64.244 (1.61)	39.933	60.667 (1.54)	39.475
ESG	-0.108* (-1.68)	0.064			2.284* (1.75)	1.303		
ESG_2			-0.112* (-1.93)	0.058			2.485* (1.85)	1.344
CGQ	-0.055 (-1.16)	0.047	-0.062 (-1.33)	0.047	-1.259 (-1.23)	1.023	-1.180 (-1.17)	1.008
ACQ	-0.013 (-0.47)	0.029	-0.014 (-0.47)	0.029	0.466 (0.78)	0.597	0.463 (0.78)	0.592
COMPLEX	-0.003 (-0.22)	0.013	-0.002 (-0.16)	0.013	-0.718*** (-2.87)	0.250	-0.737*** (-2.96)	0.249
SUST	0.002 (0.11)	0.020	0.012 (0.59)	0.021	2.613*** (5.46)	0.479	2.415*** (4.96)	0.487
CROSS	-0.004 (-0.28)	0.013	-0.005 (-0.41)	0.013	0.299 (1.00)	0.299	0.331 (1.11)	0.298
MKTCAP	0.004** (1.96)	0.002	0.005** (2.02)	0.002	0.196*** (3.88)	0.051	0.192*** (3.80)	0.051
LOSS	0.034*** (2.65)	0.013	0.034*** (2.63)	0.013				
BTM	0.008** (2.43)	0.003	0.008** (2.45)	0.003				
OWN_FOR	-0.023 (-0.75)	0.031	-0.024 (-0.78)	0.030				
LagASSET_G					-0.028 (-0.33)	0.086	-0.030 (-0.35)	0.085
DIV					-0.102 (-0.50)	0.204	-0.083 (-0.41)	0.203
IBROA					2.011*** (5.41)	0.372	1.993*** (5.43)	0.367
LEV					0.292 (0.60)	0.486	0.374 (0.77)	0.487
Firm year controls	Yes		Yes		Yes		Yes	
Cross section controls	Yes		Yes		Yes		Yes	
Industry controls	Yes		Yes		Yes		Yes	
Adjusted R-squared	0.126		0.129		0.526		0.531	
S.E. of regression	0.060		0.059		1.158		1.150	
F-statistic	3.239		3.305		12.064		12.260	
Prob. (F-statistic)	0.000		0.001		0.000		0.000	
Observations	246		246		246		246	

Table 6 reports the panel two-stage least squares regression results for the full sample comprising of 246 firm-year observations for the 50 listed companies on the NSE (with the exception of Model 3 which has 45 observations). All variables have been defined in Table 1. All variables, excluding the test variable *ESG* are winsorized at the 1 and 99 percentiles. T-values are in parentheses while the standard errors are based on White's cross-section standard errors and covariance (d.f. corrected). *, ** and *** denote significance at the 10%, 5% and 1% level respectively based on a two-tailed test.

Overall, we find that there are positive economic consequences associated with ESG disclosures, especially with regard to bid-ask spreads and firm value as measured by Tobin's Q. Specifically, we establish that ESG disclosures are positively associated with stock liquidity and this is consistent with agency theory. The findings provide some empirical evidence in support of the notion that the engagement in ESG improves a firm's information environment. We also establish that firm's engaging in higher ESG disclosure are associated with higher firm value. This may imply that firms engaging in ESG disclosure provide more value-adding information over and above the traditional financial reporting information, and this is manifested in improved stock liquidity.

6. Conclusion

ESG disclosure is an alternative reporting framework advocated for by GRI and extends beyond traditional corporate reporting. The approach focuses largely on the disclosure of non-financial information which has strategic, long term value creation effects in terms of human, intellectual, social, environmental and governance aspects. Despite the importance placed on ESG disclosure, there exists sparse literature on the economic consequences on the alternative reporting dispensation. In this study, we examine the contribution of ESG disclosure on two economic fundamentals: stock liquidity and firm value. We find a positive association between ESG and both stock liquidity and firm value.

Taken all together, we provide some empirical evidence that ESG disclosure improves stock liquidity and firm value in a developing country. This is consistent with the proposition that ESG disclosure reduce investors' informational asymmetry when provided alongside the traditional financial reporting information in the annual report. This study has policy and managerial implications and calls for policy reforms to demand increased disclosure of ESG information. The study reveals that managers can minimize agency conflicts and reduce informational asymmetry between themselves and investors through engaging in increased ESG disclosure. This study is not without limitations. First, all ESG disclosures were obtained from annual reports of listed companies. There are other avenues of disclosure such as company website and other publications which were not examined in this study. However, the study attempted to obtain sustainability information for the few companies that released stand-alone sustainability reports. Secondly, the quality of ESG disclosures studies has not been fully addressed, and this calls for further analyses using more reliable disclosure scores such as those provided in the Financial Reporting Excellence (FiRe) awards. Thirdly, an inherent limitation lies in the study in that the analyses are based on a single-country. Further studies can attempt to address these limitations by conducting cross-country studies and examining ESG disclosures from other sources.

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Appendices

Appendix 1: ESG disclosure index used

General category	Sub-category	Guiding questions
(a) External capital	<i>Customer relations</i>	
	Customer satisfaction	Does the company have measures to rate levels of customer satisfaction? Do they provide the results of customer satisfaction surveys?
	Customer longevity	Does the company have any loyalty programs/special offers for loyal/long-term clients?
	Customer retention	Does the company report on its customer retention rate? E.g. customer lifetime value (CLV)?
	Brand	Does the company report on its primary brands, products, and services?
	Distribution channel	Does the company provide information regarding its distribution strategy?
	Good product quality	Does the company have processes and/or policies that ensure quality of products and/or service offering?
	Customer base	Does the company describe their customer base i.e. target consumers. E.g. Women, adolescents etc.
	Additional/improved services	Does the company have any new or improved services or product offerings?
	Market share	Does the company provide information regarding its current share of the market?
	Sales volume	Does the company give a detailed analysis of its sales volume? E.g. volume per region/area or according to consumer type? N.B. should go beyond IFRS requirements
	Pursuit of new market opportunities	Does the company provide information regarding future opportunities it plans to leverage? E.g. planning to expand to new markets/territories?
	Joint venture and alliances	Does the company report on any strategic alliances or partnerships it has presently?
	Good customer relationships	Does the company report on processes and/or policies in place to improve customer satisfaction?
	<i>Society relations</i>	
	<i>Environmental indicators</i>	
	Materials	Does the company distinguish between renewable/recyclable and non-recyclable materials used to produce and/or package products and services?
	Energy	Does the company distinguish between renewable and non-renewable sources of energy it utilizes e.g. solar power, energy saving bulbs etc.
	Water	Does the company report on the extent of its water usage? Are there any processes in place to recycle/reuse water?
	Biodiversity	Does the company report on its impact on biodiversity? Does it have any policies or processes to reduce its impact on biodiversity?
	Emissions, effluents and waste	Does the company report on its emissions (e.g. CO ₂ /SO ₂ emissions), effluents and/or waste? Does it have any policies or processes to reduce them?
	Suppliers	Does the company use specific environmental criteria in the selection process of its suppliers?
	Products and services	Does the company report on initiatives to reduce the environmental impact of its products/services offering?
	Compliance	Does the organization provide a statement stating its compliance to local environmental regulations (NEMA)/Does the organization report on any fines/fees associated with non-compliance?

General category	Sub-category	Guiding questions
(c) Human capital	Transport	Does the company report on initiatives to reduce the environmental impact of the transportation of its products/employees etc.?
	Trademarks, patents, copyright	Does the company state that it does not infringe on intellectual property of any kind (e.g. trademarks, patents etc.)
	<i>Corporate governance structure</i>	
	Board responsibility	Does the company describe the duties and responsibilities of the board of directors?
	Independence of the board	Does the company comply with regulations regarding board independence? (look for a statement affirming that they do comply)
	Monitoring of board functions	Does the company monitor the board functions through the establishment of a corporate governance committee?
	Compensation	Does the company describe the implementation of its compensation policy to senior executives and board members?
	<i>Capacity and willingness to act</i>	
	Employee competence	Does the company have a policy to support the skills training/career development of its employees?
	Employee satisfaction	Does the company describe how they ensure employee satisfaction e.g. gathering feedback through surveys/employee stock options?
	Employee retention and turnover	Does the company disclose the rate/percentage of employee turnover?
	<i>Quality of workplace</i>	
	Organizational culture	Does the company describe their culture in their report (e.g. core values, principles etc.)
	Rewards, performance measurement	Does the company describe the various ways in which they reward their employees e.g. stock options plans, insurance etc.
	Training and education	Does the company describe various training programs and/or education initiatives for employee development?
	Labour/management relations	Does the company have a trade union relations policy?
	Health and safety	Does the company have a health and safety management system? E.g. OHSAS 18001
	Diversity and opportunity	Does the company make any statement in the support of promoting diversity e.g. gender diversity/religious diversity etc. in its employee base (specifically middle and upper management?)

Appendix 2: Corporate governance and audit committee quality indices

<i>Panel A: Corporate governance quality index</i>				
<i>Corporate governance characteristic</i>	<i>Criteria</i>	<i>Score</i>	<i>Criteria</i>	<i>Score</i>
Board size	= or >9	1	< 9	0
Board gender diversity	At least 1/3 women on board	1	Less than 1/3 women on board	0
Executive directors on board	< or = half of executives on board	1	> half of executives on board	0
Majority of board members are non-executive directors	= or > than 1/2 of board members		< than 1/2 of board members	0
Independent directors on board	Presence of independent director	1	Absence of independent director on board	0
Separate chair of the board and CEO	Yes	1	No	0
Number of board meetings	= or > 6 meetings per annum	1	< 6 meetings per annum	0
Identity of external auditor	Big 4	1	Non-Big 4	0
Presence of social responsibility committee	Yes	1	No	0
Presence of audit committee	Yes	1	No	0
Presence of other committee				
<i>Panel B: Audit committee quality index</i>				
<i>Audit committee (AC) characteristic</i>	<i>Criteria</i>	<i>Score</i>	<i>Criteria</i>	<i>Score</i>
AC size	= or > 3 members	1	< 3 members	0
AC meetings	= or > 3 meetings per year	1	< 3 meetings per year	0
Independent Director(s) in AC	Yes	1	No	0
All AC members are non-executive directors	Yes	1	No	0
Financial expertise of AC members	Yes	1	No	0
Supervisory experience of AC members	Yes	1	No	0

The Unintended Consequences of IFRS Adoption on The Audit Market In Africa: An Oligopoly For The Big4

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Abstract

Purpose: The perceived benefits of IFRS adoption have caused neglect in research on the possible unintended consequences of IFRS on the audit market, specifically in Africa. Motivated by this gap in the literature, we have critically evaluated whether IFRS adoption has created an oligopoly for the Big4 in terms of audit fees and auditor switching in Africa.

Design/methodology/approach: The study is based on publicly available data from 104 companies listed on the stock exchanges in 8 African countries. While we employed binary and multinomial logit regression to model auditor switching, ordinary least square was used to estimate the impact of IFRS adoption on audit fees with some diagnostics tests.

Findings: Companies are likely to replace auditors following the adoption of IFRS. Specifically, the multinomial logit regression confirms that companies are more likely to replace small audit firms with the Big4 (Small to Big -STB). The study also revealed a positive association between increases in audit fee and IFRS adoption. However, the Big4 experience significant fee increase for their services than the small audit firms.

Practical implications: These findings alert Small Medium Practitioners (SMPs) in non-IFRS countries about the potential intense competition in the audit market that can lead to the possible loss of clients to the Big4 after the adoption of IFRS. To mitigate this effect, national Professional Accountancy Organisations (PAOs) should build their local accountants through training and education to handle the complexities and continuous upgrading of IFRS. Such training is very crucial for SMP in Organization for the Harmonization of African Business Law (OHADA) countries, Ethiopia, Djibouti and other countries which are in the process of implementing IFRS.

Originality/value. This is an original study which empirically examines the impact of IFRS adoption on the audit market in Africa. It contributes to the ongoing debate on unintended consequences of IFRS adoption.

Key words: Africa, Audit fees, Auditor switching, Big4, IFRS adoption, unintended consequences,

1.0 Introduction

The introduction of any new accounting framework affects all facets of reporting, yet, majority of studies on IFRS have been geared towards the financial statement effects and firm level analysis (see Bath, Landsman and Lang, 2008; Armstrong, Barth, Jagolinzer, and Riedl, 2010; Daske, Hail, Leuz, and Verdi, 2008; Christensen, Lee, and Walker, 2008). For every change in accounting, there are always losers and winners and IFRS adoption is no exception. Even, the benefits of IFRS may have been overblown (Sunder, 2011). Or perhaps prior studies have exaggerated the perceived economic consequences at the neglect of possible unintended consequences of IFRS on the auditing market (Khlif, 2016) specifically in Africa.

In this era of globalized accounting world, promoters of Foreign Direct Investment (FDI) and private sectors are keen in the strength of local accounting regulations in Developing Countries (DC) for transparent reporting (Samsonora-Taddei and Humperry, 2014). In response to these needs, the Big4 (Deloitte, Ernest & Young, KPMG, and PWC) have positioned themselves as the custodians of IFRS through their continuous sensitization on IFRS, campaigns for IFRS adoption and sponsorships for IFRS programs (Wieczynka, 2016; IFRS Foundation, 2012). Hence users of financial statements including regulators are convinced that global audit firms are better off in providing trust, reliable and accurate accounting services in DC (Comprix, Muller and Sinclair, 2011; Hanlon, 1994). These global firms, as well as regulators, championed the course for global accounting and auditing markets including lobbying World Trade Organisation (Hopper, Lassou and Soobaroyen, 2016). Consequently, the Big4 have gained a global presence through local franchising and auditing of transnational companies (Arnold, 2005).

The growing oligopolistic market of the audit industry and its concomitant dangers is a matter of concern even to the developed countries. The House of Lords of UK has raised alarm on the dominance of auditing of large companies by few audit firms (House of Lords, 2011). Similarly, the European Commission (EC) has classified the growing oligopolistic market of the audit industry as a threat (EC, 2011). Other national authorities and policy makers have also commented on the market concentration in the audit industry (see General Accounting Office, 2003; The American Assembly, 2005; Government Accountability Office, 2008; Oxera, 2006; Financial Reporting Council, 2010).

It is also evidential that the adoption of IFRS triggers the switching of auditors by companies. Wieczynka, (2016) has documented the frequency and direction with which companies in the European Union (EU) switch from local audit firms, to global audit firms, after IFRS has been mandated. Comprix, Muller and Sinclair, (2011) have shown that large companies are more likely to appoint Big4 firms after IFRS adoption.

Moreover, the adoption of IFRS precipitates increase in audit fees due to the increase in effort and time required to audit the detailed and complex requirements of IFRS. Extant literature has revealed the increasing cost of audit services after IFRS adoption in some countries (see Rished and Al-Saeed, 2014; Yacob and Che-Ahmad, 2012 on Malaysia; Kim, Liu and Zheng, 2012; De George, Ferguson and Spear, 2012; Griffin, Lont and Sun, 2009 on New Zealand; Ding, Jeanjean and Stolowy, 2008 on Jordan). Although African countries have been progressively embracing IFRS, this predominance and the consequence of IFRS adoption on the

audit market in Africa have not been quantified. This study therefore critically evaluates whether IFRS adoption has created an oligopolistic market for the Big4.

This study has employed cross country analyses to investigate these unintended consequences of IFRS by (i) examining whether IFRS is associated with an increase in audit fees, (ii) if the increase is higher for the Big4 audit firms and (iii) whether there is a positive relationship between IFRS adoption and auditor switching the impact of IFRS adoption on audit fees and switching of auditors with a specific focus on the Big4 in Africa. Following prior studies Rished and Al-Saeed (2014); Yacob and Che-Ahmad (2012); Kim, Liu and Zheng (2012); De George, Ferguson and Spear (2012); Griffin, Lont and Sun (2009); Ding, JeanJean and Stolowy (2008) and the detailed disclosure requirements of IFRS, we hypothesize that IFRS adoption is associated with an increase in audit fees. On auditor switching, it is assumed that companies will switch to the Big4 in the years surrounding IFRS adoption with the rationale that the Big4 are IFRS experts. In addition to these central questions, we have examined other key factors that are likely to influence auditing fees and auditor switching in Africa, an issue which is still subject to an empirical question.

Consistent with Wieczynska, (2016), our binary logit regression shows that African companies are likely to replace auditors following the adoption of IFRS. Specifically the multinomial logit regression confirms that companies are more likely to replace small audit firms with the Big4 - Small to Big (STB). And the likelihood is stronger in financial institutions. The ordinary least square estimation on the impact of IFRS adoption and audit fees suggest that increases in audit fees have occurred as a result of companies adopting IFRS. However, the Big4 experience significant fee increase for their services compared to the small audit firms. The sectoral analyses highlight the positive significant impact of IFRS adoption on audit fees in the financial, manufacturing and services sectors.

Overall, our results are consistent with the findings of Wieczynska, (2016); Rished and Al-Saeed (2014), Comprix, Muller and Sinclair, (2011); Kim, Liu and Zhen, (2012); De George, Ferguson and Spear, (2012) and the concern of SEC of US (SEC, 2010a; SEC, 2010b) that the adoption of IFRS gives comparative market advantage to the Big4 and is concomitantly a challenge for small audit firms. Our findings also support the UK House of Lords (2011) argument that the audit market is highly dominated by a Big4 oligopoly.

These findings alert local audit firms Small Medium Practitioners (SMPs) in non-IFRS countries about the potential intense competition in the audit market that can lead to the possible loss of clients to the Big4 after the adoption of IFRS. To mitigate this effect, national Professional Accountancy Organisations (PAOs) should build their local accountants through training and education to handle the complexities and continuous upgrading of IFRS. Such trainings are very crucial for SMP in OHADA countries, Ethiopia, Djibouti and other countries which are in the process of implementing IFRS. Companies should be prepared that the benefits of IFRS adoption are concomitant with cost such as increase in audit fees.

In IFRS adopted countries, there is still an opportunity for local audit firms (SMP) to attract clients by upgrading themselves with latest IFRS knowledge. Further SMP should demonstrate their expertise in IFRS by contributing to the discussion on IFRS issues in Africa. Such activities include write-ups in newspapers, comments on IASB exposure drafts, and IFRS articles on the Internet. In addition SMP can form consortium or collaboration to share resources and knowledge to meet the accounting needs of large businesses. It is better for each SMP to

have a share in a large business contract, than to struggle to retain an individual contract with a small business.

The Big4 which may be enjoying competitive advantage due to their expertise in IFRS, should make a commitment to support the SMP by sharing knowledge with them through regular workshops and conferences. It is common knowledge that most Big4 firms in Africa usually start by giving affiliation to a local firm. Hence supporting SMP is preparation of local firm for future franchising.

Whilst our findings are consistent with other prior studies elsewhere, we argue that the Big4 have more oligopolistic power in Africa than in other developed countries. Whereas in the developed countries the non-Big4 such as Grant Thompson, PKF, BDO, Nexia, Baker Tilly among others are well resourced to compete with the Big4, in Africa, the other non-Big4 are limited in resources to face this competitive environment. Thus the Big4 may be sharing the oligopolistic market with the Big6, or Big10 in developed countries. Our findings are therefore, more unique for developing countries where the audit market is dominated by the Big4.

The next section contains literature and hypothesis development on IFRS adoption and audit fees and auditor switching. Section 3 documents the research methods including model specifications. The results and discussions are presented in section 4 and section 5 concludes the paper.

2.0 Literature review and hypotheses development

2.1 IFRS adoption and audit fee

According to Simunic, (1980), theoretically, total audit fee is a component of resource cost of effort and liability loss, which are dependent on the cost of business risk of the client. Seetharaman, Gul and Lynn (2002) have empirically proven a positive relationship between litigation risk (client business risk) and audit fee with the assumption that, the regulatory framework of client business influences audit fees. Vieru and Sechadewitz (2010) concur that audit-pricing decision is affected by changes in regulations and disclosure requirements. Choi, Kim, Liu and Simunic (2008) have predicted that there is a monotonic relationship between the strength of a country's regulatory framework and audit fees. Thus, the stricter or more complex the laws are the higher the audit fees. Empirically, Griffin, Lont, and Sun (2009) have provided evidence of how changes in different regulations affected audit fees in US, Australia and New Zealand. Specifically, they documented a significant increase in audit fees in the year prior to IFRS adoption, the adoption year and years after IFRS adoption in New Zealand.

It is widely held from literature that, the time and effort required for auditing are the basic input for the determination of audit fees (Vieru and Sechadewitz, 2010); Griffin, Lont, and Sun, (2009); Simunic, 2008; Seetharaman, Gul and Lynn, 2002). These two ingredients are dependent on the complexities and requirements of the regulations surrounding auditing, including accounting standards. Pratt and Stice (1994) opine that, in line with the insurance theory, audit fee is dependent on the effort of verification needed in the engagement process. Arguably IFRS is a complex standard and involves comprehensive disclosures, which require more time and effort to audit. Hoogendorn (2006) posits that, complexities of IFRS require the deep involvement of auditors in achieving full compliance. Similarly, Cameran and Perotti (2014) suggest that the adoption of IFRS increases the efforts required for audit, which invariably

increase audit fees. To Ding, Jeanjean and Stolowy (2008), the adoption of IFRS is a major accounting event that increased the complexity of the audit process, and consequently translate into high audit fees. Not only do auditors require more effort to go through all the detailed disclosure but more importantly, auditors demand more effort and time to reduce audit liabilities. The ICAEW (2007) recognizes that conversion to IFRS is complex and detailed which results in an increase in audit risk hence auditors must be cautious as they audit IFRS statements.

Ahmed, Chalmers and Khlif (2013) suggest that audit risk and increase in efforts due to IFRS implementation stem from standards that demand fair valuation (e.g., IAS 40, IFRS 13, IFRS 9 etc). The risk or effort is higher in African countries that are challenged by the absence of a liquid market (Ball, 2006; Hoogendonk, 2006). In the absence of a liquid market, auditors will have to employ different approach and gather more information in order to assess the credibility of management estimates (Glaum, Schmidt, Street and Vogel, 2013). According to Diehl (2010), IFRS being principle based standards, are likely to generate more litigation costs and deprive auditors' specific evidence in the case of audit failure. Consequently, there is the likelihood that auditors will charge higher audit fees as a premium to compensate for risk of material misstatements and litigation which may arise due to complexity of financial statements per IFRS (Cameran and Perotti, 2014; De George, Ferguson and Spear, 2013; Kim, Liu, and Zheng, 2012).

In a cross-country analysis, Kim, Liu and Zheng (2012) found that audit fees increase from 2005 and audit fee premium increase with IFRS adoption and decrease with the improvement in financial statement quality due to IFRS adoption. Thus, IFRS adoption is likely to increase audit fees initially but can reduce the audit fees if implemented correctly by companies because proper IFRS implementation will improve financial statement quality which in turn reduce audit efforts and time for verifying records or justifying recognitions and measurements. Griffin, Lont and Sun (2009) study revealed that increase in audit fees is higher in the second and third years following IFRS adoption than the years that precede the adoption as well as the adoption year. However, there is a significant increase in audit fees for the Big4 clients in the year of adoption as compared to non-Big4 clients. Extending the debate of IFRS adoption and audit fees to Australia, De George, Ferguson and Spear (2013) revealed a significant positive impact of IFRS adoption on audit fees with substantial effect under high equity adjustments. Similarly, Yaacob and Che-Ahmad (2012) found a positive association between IFRS adoption and increased audit fees among Malaysian companies. Vieru and Schedwitz, (2010) also found that both audit and non-audit fees paid to statutory external auditors increased significantly during the adoption period in Finland. Cameran and Peroti (2014) study on non-listed banks also indicated increasing audit fees due to IFRS adoption and especially for banks, which are into derivatives and hedge accounting. Likewise,. Both theoretical and empirical literature has provided evidence that supports the axiom that audit fees increase around the adoption of IFRS. Based on these, we hypothesize that:

H1: There is a positive association between IFRS adoption and audit fees.

2.2 IFRs and increase in audit fees

Prior studies suggest that IFRS adoption causes an increase in audit fees. However, there are contrasting findings as to which set of audit firms benefit from the increase; Big4 or non-Big4. Whereas the Big4 are enjoying the increase in developing countries, the non-Big4 are benefiting in developed countries such as UK. Hassan, Crawford and Power (2014) highlighted

that in addition to the positive association between IFRS adoption and audit fees, non-Big4 clients are the hardest hit in terms of audit fees due to IFRS adoption in UK. Chen (2014) demonstrate that increase in audit fees is high among small firms in the EU (in Australia- De George, 2013). Contrary, Lin and Yen (2011) found that increases in audit fees are much more for Big4 clients after implementation of IFRS in China. Consistent with Lin and Yen (2011); Choi and Yon (2014) also demonstrated that there is a significant increase in audit fees charged by the Big4 following IFRS adoption in South Korea. Rished and Al-Saeed (2014) also showcased similar findings among Jordanian listed companies. A probable reason is non-Big4 auditing firms lack the competence in making a professional judgement and the need to extend more effort than the Big4 dealing with the complexity of IFRS (Carcello, Vanstraelen and Willenborg, 2009). Another plausible explanation may be, in the developed countries, non-Big4 may have demonstrated IFRS expertise knowledge same as their counterpart in Big4 hence their services are valued at par.

However, the case is different in developing countries. The Big4 are always seen as superior in providing quality auditing services for multinational and large companies. In addition, the Big4 contracts with transnational companies in developing countries are an extension of the agreement with client parent companies in developed countries. More so, local firms in DC usually lack professional manpower and expertise hence cannot charge at par with the Big4. It is evidential that, companies in developing countries cannot enjoy the services of the Big4 without the necessary concomitant of high audit fees (Moizer, 1997, Choi and Yoon, 2008). Due to the intense competition over the few large non-multinational companies, non-Big4 firms attempt to bargain on how to stay in business. Consequently, we assumed that Africa being a developing continent provides a more competitive advantage for the Big4 in terms of audit prices. Thus it is hypothesized that,

H2. The increase in audit fees is higher for the Big4 than small firms.

2.3 IFRS and auditor switching

A function of auditing is to ensure the application of appropriate accounting policies including accounting standards (Ball, Holderness, Jensen, and Kaplan, 1991) such as IFRS to reveal the firm's underlying financial position and performance (Stokes and Webster, 2010). Wieczynska (2016) argues that auditing is an important element of the financial reporting process. There is much anecdotal evidence that, the Big4 have more knowledge, specialised personnel and IFRS-related experience. Also they show higher standards for compliance with accounting regulation, and higher accounting quality in financial reporting (Yasar, 2013). Wieczynska (2016) argues that the Big4 competitive advantage from IFRS adoption is due to their possession of high IFRS expertise to deal with the complexity of IFRS, which create intellectual barriers for the local audit firms. It is perceived that, they provide a higher audit quality than other audit firms. In addition they are said to do a better job in financial reporting enforcement and their engagement is associated with higher compliance level with IFRS (Khlif and Achek, 2016; DeFond, Hung, and Trezevant, 2007).

Moreover, they could provide greater assistance in the implementation and transition to IFRS compared to other audit firms (Rouhou, Douagi, and Hussainey, 2015). Consistent with

DeAngelo (1981);Dye (1993) agrees that Big4 auditors are of higher quality than non-Big4 auditors. Carson (2009) suggests that the Big4 are more capable than the non-Big4 because the Big4 have the capacity to provide quality professional judgment which is supported by worldwide branches and advanced technology. Additionally, the Big4 have influence on the specific standard through their involvement in the standard setting process (Chen, 2014)

Likewise,Stokes and Webster (2010) argue that Big4 auditors are more sensitive than non-Big4 auditors to manage misreporting and its effects on the auditor's reputation, therefore they are more likely to ensure stricter compliance with IFRS. According to Dinh and Piot (2014), the complexity of IFRS strengthens the market positions of the Big4 and makes it difficult for local audit firms to compete on the audit market. Chen (2014) suggests that the Big4 already have experience from IFRS voluntary adopters to take advantage of a market in mandatory adopters. Thus auditors with high IFRS expertise such as the Big4 are better off to handle the complexity IFRS brings to the auditing operations. Other scholars such as DeAngelo (1981) and Dye (1993) posit that the Big4 are the market leader in auditing because of their motivation to protect their brand name through better performance. Moreover, the Big4 provide quality audit to avoid lawsuits and ligation that may deplete their wealth and good name (Dye, 1993).

Wieczynska (2016); Khlif and Achek (2016) study posit that as a result of the IFRS regime there has been an enlarged domination of the global audit firms and more specifically Big4 audit firms. Piot, Dumontier, and Janin (2015)'s study concur by providing evidence that Big4 auditors placed more emphasis on auditor risk incentives in the IFRS adoption context, by influencing overly conservative accounting practices in response to the new and uncertain accounting environment. On a cross-border analysis, Dinh and Piot (2014) found that IFRS adoption has increased market concentration for the Big4 with the explanation that, the Big4 have a global network to draw expertise beyond the legal jurisdictions of individual countries.

Comprix, Muller and Sinclair (2011) revealed that IFRS adoption has led to greater switching in auditor-client relationships in countries with greater GAAP changes- small to Big4. Countries with fewer GAAP changes frequently shifted more from Big4 auditors down to local auditor. Clients firms are more likely to switch from small audit firms to global audit firms in the years following IFRS adoption (Wieczynska, 2016). Furthermore, Wieczynska (2016) findings indicate that client firms are more likely to replace small audit firms when adopting IFRS. However, contrary to prior studies, Dinh and Piot (2014) findings do not support the argument that IFRS adoption positively influences market concentration at individual country level.

Since the transition to IFRS represents a complex operation and given the fact that generally, countries impose the full IFRS on listed companies, Big4 auditors will be more able to ensure the safe transition to IFRS in such litigious environment (Dye, 1993).Consequently, IFRS adoption constructs an expert advantage for Big4 audit firms during the transition period of reporting standards and as a result, this may lead to an increased frequency of switching from small audit firms to the Big4 firms. Following from these discussions we hypothesize that:

H3: IFRS adoption is positively associated with auditor switching.

3.0 Methodology

3.1 Sample selection and sample characteristics

Our study is based on publicly available information obtained from a sample of annual reports of African Countries namely Botswana, Ghana, Mauritius, Nigeria, Rwanda, South Africa, Swaziland and Tanzania retrieved manually from two electronic Databases: African Markets and Share Data for South African data. The objective of this research is to examine the consequences of IFRS adoption on the audit market, therefore our population includes only fully mandated IFRS African countries. Currently there are 16³ African countries (IFRS foundation, 2016) that fully require all listed companies to prepare IFRS financial statement. 3⁴of these 16 countries are excluded due to lack of active stock exchanges. To accurately gauge the consequence we limit our dataset to countries that mandated IFRS after 2003 when the first IFRS was issued. Our sampling process results in 8 countries. Though the sample size is small it represents the whole of Africa. There is a continuous exclusion of financial institutions such as banks and insurance companies from samples of prior studies (Friis and Nielsen, 2010; Kim, Liu and Zheng, 2012; Lin and Yen, 2016) as their characteristics differ fundamentally from other firms (Cai, Rahman and Courtenay, 2012; Sellami and Slimi, 2016)and they are regarded as regulated industries (Roychowdhury, 2006). Contrary to that notion this study includes all financial institutions. The big four audit firms are identified in this study as PWC, KPMG, Ernst and Young and Deloitte Touche.

To be included in the sample each firm must have the full annual statements for at least 5 consecutive years. Companies were selected on the basis of the availability of annual reports for the relevant years. Relevant years include 2 years before IFRS adoption, the year of adoption and 2 years after adoption report. For example if company adopted IFRS in 2005 then to be included in the sample set, annual report should be available from 2003 to 2007. The final sample consists of 520 firm year observations across 8 countries in Africa and 104 companies listed on the main exchange boards of the above-mentioned countries. The study covers 5 years; 2 years before IFRS adoption, the IFRS adoption year and 2 years after IFRS adoption for the fiscal years 2002-2014. Due to the variations in country's IFRS adoption date, we rely on individual annual reports to determine its adoption year. A company's IFRS adoption year is determined from the first time it prepared full IFRS financial statements as stated in the annual report. This means that the adoption status of companies in the same country may differ. For instance, in South Africa, most financial institutions started applying IFRS in 2005 whilst some manufacturing companies adopted it in 2006. Since the countries in the sample use different currencies we used the official exchange rate (LCU per US\$, period average) obtained from World Bank to translate the amounts to dollars for each year under observation.

³Botswana, Ghana, Kenya, Lesotho, Liberia, Mauritius, Namibia, Nigeria, Rwanda, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe (IFRS foundation).

⁴Lesotho, Liberia and Sierra Leone

Table 1: Sample Characteristics									
Country	Botswana	Ghana	Mauritius	Nigeria	Rwanda	South Africa	Swaziland	Tanzania	Total
listed companies	26	43	101	223	7	400	10	25	827
Sample	6	7	11	27	6	37	3	7	104
Financial Institutions	5	3	4	11	4	7	1	1	36
Manufacturing	1	3	5	13	2	16	1	5	46
Natural resources	0	1	0	2	0	3	0	1	7
Services	0	0	2	1	0	11	4	0	18

Table 1 above provides sample characteristics of each country. The two countries with the largest listings are Nigeria and South Africa, the latter being the largest stock exchange in Africa. And the country with the smallest number of listed companies is Swaziland. There are variations in the quantity of sample companies crosswise over the countries because of the accessibility of complete financial accounting data. Both South Africa and Nigeria have the highest number of companies used in the study. In aggregate majority of the companies in the sample are from the manufacturing sector with a total number of 46 companies, followed by the financial institutions with 36 companies; 18 companies in the services sector and the minorities of the sample are from the natural resources sector with only 7 companies.

Dependent Variable

Previous studies have commonly used audit fees as a proxy of audit cost in firms (Judy Beckman, Shan, and Troshani, 2016; Loukil, 2016; Riccardi, 2014; De George, Ferguson and Spear, 2013; Comprix, Muller and Sinclair, 2011; Schadewitz and Vieru, 2008). It is measured as the natural log of the sum of audit service fees plus audit –related fees of firm *i* in year *t*. The audit effort is an important consideration needed to accumulate sufficient evidence about the quality of financial statements provided because the audit fee is the product of unit price and the quantity of audit services (Risheh, 2014). Consistent with aforementioned literatures, the total fees that were paid to the statutory auditors were drawn from the annual financial statements in order to analyse whether the IFRS transition is related to the fees paid to auditors. Similar to Redmayne and Laswad (2013) to examine the impact of IFRS adoption on audit fees we compared the pre adoption years i.e. 2 years prior to IFRS adoption, IFRS adoption year and 2 years post IFRS adoption.

Control Variables

Other variables are included to control for additional factors that may affect the amount of the audit fees and auditor switching (Wieczynska, 2016; Campa, 2013). Consistent with

related literature, (Ali and Lesage, 2013), this study controls for certain firm specific variables namely; leverage measured as the ratio of year-end total debt to total assets, size measured as the natural logarithm of total assets, change in size measured as the change in the level of total assets, defined as total assets at the end of the fiscal period $t - 1$ minus total assets at the end of the period $t - 2$, divided by total assets at the end of the period $t - 1$ (Wieczynska, 2016), net profit captures a firm's profitability and is measured as net profit scaled by total assets, and change in net profit measured by net profit at the end of the fiscal period $t - 1$ minus net profit at the end of the period $t - 2$, divided by net profit at the end of the period $t - 1$.

3.2 Model Specification

3.2.1 Auditor switching

Following the works of Wieczynska (2016); Landsman, Nelson and Rountree (2009); Chan, Lin and Mo (2006) we used logit regression model to examine if IFRS affects the likelihood of auditor switching. In our model the dependent variable Z_{it} is a dummy variable for audit firm substitution. Z_{it} is equal to 1 if in year t firm i used a different audit firm to audit its financial report (i.e. looking at FY_{t-1} report) than the firm used in FY_{t-1} . Given the likelihood of multiple directions of auditor switches (i.e. from Small to Big (STB), Big to Small (BTS), Small to Small (STS),) we employed a multinomial logit model. This allows for comparison of possibility of the likelihood of each direction of audit firm substitution to the reference category of no audit switching.

The regression model takes the following form:

$$Z_{it} \log \frac{p(AS_{it}=\pi)}{1-\pi} = \alpha_0 + \beta_1 IFRS_{AD_{it-1}} + \sum_{k=1}^k x_{it} - 1 + \sum_{k=1}^k c_{it} + \varepsilon_t$$

Where x_{it-1} is a vector of control variables consisting of *size*, *leverage*, *chgsiz*, *chgnetprofit*. The variable of interest is $IFRS_{AD_{it-1}}$. IFRS adoption – a categorical variable equals 1 if firm i used IFRS in FT_{t-1} annual financial report and if it used non IFRS standard; 'zero' otherwise. β_1 examines if IFRS adoption is associated with the likelihood of auditor switching.

3.2.2 Audit fees and IFRS Adoption

We further investigated other likely consequences that may arise following adoption of IFRS. This time we examined the relationship between IFRS adoption and auditor fees, where auditor fees (continuous variable) is our dependent variable, and IFRS adoption as our focused explanatory variable. β_2 – the coefficient of $IFRS_{AD_{it-1}}$ measures the change in the slope of auditor fees arising from $IFRS_{AD_{it-1}}$. This regression is estimated using ordinary least square (OLS).

$$AF_i = \alpha_0 + \beta_1 IFRS_{AD_{i-1}} + \beta_2 Big4 + \sum_{k=1}^k x_i - 1 + \varepsilon_t \quad (\text{Where } AF_i \text{ is auditor fees for firm } i).$$

3.2.3 Diagnostic tests and validity tests

To check for the validity and suitability of our OLS model, we test for heteroscedasticity and multicollinearity. According to the Brusch-Pagan/ Cook Weisberg test results, there is presence of heteroscedasticity with $\chi^2 11.75$ and $p > \chi^2 0.005$. Hence we obtain the White

(robust) standard error instead of the usual standard error. Our results on the Variance in Factor (*VIF*) (<5.0) the paired wised correlations does not indicate any issue of multicollinearity among the variables.

4.0 Analysis and discussion

4.1 Descriptive statistics

Table 2 below shows the reporting standards used before and after IFRS adoption. IFRS indicates the adoption year; IFRS-2 represents two years before IFRS; IFRS-1 represents a year before IFRS; IFRS+1 is one year after IFRS and IFRS+2 is two years after IFRS. Of the 104 companies 85 started using IFRS in the country year of adoption, whereas 19 were using their national GAAP. Only 2 companies were still using National GAAP in 2 years post IFRS period.

Table 2: Reporting standards and IFRS adoption					
Variable	IFRS-2	IFRS-1	IFRS	IFRS+1	IFRS+2
Sample	104	104	104	104	104
IFRS	6	12	85	102	104
T GAAP	98	92	19	2	0

Table 3 below shows the Auditor type and switch. Although the Big4 (B) firms have more clients than the non-Big (S) firms in all the years, the difference is much higher from the IFRS adoption year onwards. The switching of the auditor represented by STB is greater in the year of IFRS adoption than in the year before or after IFRS. The other auditor switch that has a notable change is BTB which has a higher number during the year of adoption as well as after the year of adoption. The auditor switch that has the smallest number is STS. No company switched STS during the year of adoption; however there was a switch from BTS by companies in the sample.

Table 3: Auditor Type and Switch					
	IFRS-2	IFRS-1	IFRS	IFRS+1	IFRS+2
Sample	104	104	104	104	104
Big4 (B)	55	63	86	85	83
Small (S)	49	41	18	19	21
STB	5	7	43	15	8
BTS	0	2	3	5	8
BTB	1	0	5	5	3
STS	0	1	0	2	0

Table 4 represents the percentage change in audit fees. In IFRS-1 there was a change of 11% and during the IFRS year it increased by 17% to 28%. However, audit fees decreased in IFRS +1 to 19% and two years post IFRS, it was 17% which is a 2% decrease from 19%. According to Kim, Liu, and Zheng (2012) this can be due to the fact that it takes time and effort for auditors to learn about new IFRS rules and during the initial IFRS year the fees are bound to increase, however the learning effect is likely to become insignificant after the initial year of IFRS adoption. And in the initial year of adoption firms are required to apply IFRS retrospectively to one year prior to IFRS for the purpose of establishing comparative financial statements (Kim, Liu and Zheng, 2012). Rwanda has the highest percentage change in audit fees during the year of IFRS adoption of 39%, followed by Swaziland of 33%. Nigeria's percentage change during the IFRS year is 22%, which is almost similar to 23% of both Tanzania and South Africa. Mauritius has the least percentage decrease in audit fees of 15% in the IFRS adoption year, which is almost similar to Ghana's of 18%. A year before IFRS adoption, South Africa has the least percentage change of -6% as compared to 17% for Botswana, which is the highest. Mauritius is also lower a year before IFRS with 4%. Swaziland has 11% change a year before IFRS and is almost similar to Tanzania that has 10%, and Rwanda 12%. Nigeria and Ghana have 8% and 9% respectively. Botswana has the highest percentage change a year after IFRS of 27%, however there is a high decline two years after IFRS to -2%. South Africa has the least percentage decrease a year after IFRS of 12% and a further decrease of 9% two years after IFRS.

Table 4: Percentage change in audit fees					
	IFRS-2	IFRS-1	IFRS	IFRS+1	IFRS+2
Total sample	0	11%	28%	19%	17%
Botswana	0	17%	32%	27%	-2%
Ghana	0	9%	18%	17%	13%
Mauritius	0	4%	15%	15%	16%
Nigeria	0	8%	22%	12%	13%
Rwanda	0	12%	39%	15%	18%
South Africa	0	-6%	23%	12%	9%
Swaziland	0	11%	33%	20%	22%
Tanzania	0	10%	23%	13%	11%

4.2 Regression results

From the Table 5 below, the coefficient of IFRS in the full sampled model is 0.52 and statistically significant. This indicates that controlling for other variables, fees charged by audit firms is 0.52 dollars higher for companies using IFRS standard than companies not using IFRS. However the increase in audit fees is higher for the Big4 audit firms. Consistent with prior literature Hassan (2014); Cameran and Peroti, (2014); Choi and Yon (2014); Lin and Yen (2011) we find a positive and significant association between IFRS and audit fees represented by IFRS_AD. The reason behind the increment in audit pricing is due to the extra burden put on the auditors (Yaacob and Che-Ahmad, 2012). IFRS standards require more perplexing complex fair value measurements and additional disclosures and therefore more auditing effort (Friis and Nielsen, 2010). The positive coefficients of Big4 also suggest that the Big4 charged a higher level of audit fees than local or non-Big4 firms (Risheh, 2014).

Table 5 OLS regression results on audit fees (full sample and sectorial analysis)(@10%, ** @5% Significant level*)**

	<i>Full Sample</i>		<i>Financial institutions</i>		<i>Manufacturing</i>		<i>Natural Resource</i>		<i>Services</i>	
Variable	C.F	S.E	C.F	S.E	CF	S.E	C.F	S.E	C.F	S.E
<i>IFRS_AD</i>	0.52**	0.09	0.77**	0.56	0.43**	0.25	0.20	0.32	0.31*	0.76
<i>Big4</i>	0.06*	0.98	0.12**	0.07	0.23*	0.32	0.10	0.13	0.21	0.55
<i>Size_{it-1}</i>	0.31**	0.20	0.96**	0.09	0.68**	0.15	0.65**	0.56	0.58**	0.65
<i>ChgSize_{it-1}</i>	0.35*	0.23	0.41*	0.11	0.61*	0.18	0.15	0.98	0.32*	0.66
<i>Net_profit_{it-1}</i>	.003	0.03	0.04*	0.07	0.12	0.13	-0.05*	0.96	0.12	0.56
<i>Chgnetprofit_{it-1}</i>	0.08**	0.05	0.23**	0.12	0.32	0.19	0.003	0.65	-0.23	0.61
<i>Leverage_{it-1}</i>	-0.17	0.11	-0.03	0.14	-0.12	0.25	0.05	0.56	0.32	0.62
<i>_cons</i>	2.24**	0.15	2.16**	1.23	1.65**	0.98	0.98**	0.85	1.78**	1.13

Number of OBS

36

46

7

11

Pseudo R²

0.51

0.44

0.38

0.45

The results of the control variables are worth noting. The coefficient of the firm-specific variables *Size_{it-1}*, *ChgSize_{it-1}* are significant and are consistent with prior studies indicating that audit fees are positively associated with client size, (Kim, Liu and Zheng, 2012; Yaacob and Che-Ahmad, 2012). Given the fact that the bigger the firm is, the more complex its audit will be. *Chgnetprofit_{it-1}* which captures a firm's profitability is also significantly correlated with audit fees. However neither *Leverage_{it-1}* nor *Net_profit_{it-1}* are significant either at the 5% or at the 10% level.

There is a significant change in the audit fees in the financial institutions because IFRS requires detailed disclosure for that sector and also complexity of their products and contracts. Other possible reasons can be attributed to the peculiarities of the financial industry, its specific regulation and the fundamental differences in their financial accounting relative to non-financial firms (Sellami and Slimi, 2016). Moreover the complex and new IFRS (such as IFRS 9 and 13) is more applicable in the financial institutions than other sectors. The services sector and the manufacturing sector also have a significant change in the audit fees. As indicated by PWC, (2011) the transition of IFRS for manufacturing and consumer products companies have shown that there are some interpretation and application challenges unique to the manufacturing and consumer products industry. However the change in the audit fees in the natural resources sector is not significant, because there are not much IFRS standards that regulate the reporting of natural resources industry. Additionally IFRS is a principle based framework and is short on industry guidance (PWC, 2012).

The binary and multinomial logit regression model results in respect of IFRS adoption and auditor switching are presented in Table 6. Following Wieczynska (2016) we report only the coefficient and White (robust) standard error with an indication of significant level at 5% and 10%. From the first model we established the relationship between a binary outcome-Auditor switching and IFRS adoption with other control variables. Specifically the results show that the likelihood of auditor switching is 0.23 higher for companies that adopt IFRS standard than non-IFRS companies. The related odds are 1.2586. This suggests that the relative likelihood of firm switching auditors following IFRS adoption is 26% higher than without IFRS. The positive and significant coefficient of *IFRS_AD* indicates that IFRS adoption influences companies' decision to replace audit firms. Similarly, the control variables; *Chgsize*, *Chgnetprofit* also have positive significant impact on switching of auditors. Implying that growing companies are likely to switch auditors than large companies.

The multinomial logit model was used to estimate the direction of auditor switch. Unlike, Wieczynska, (2016) who identifies four directions of switch, our interest is in three forms of switch; Small to Big4 (STB), Big4 to Small (BTS), Small to Small (STS). As presented in the second part of the table 4.6, it is only STB that have significant positive coefficient for *IFRS_AD_{it}*. The coefficient of *IFRS_AD_{it}* for STB is 0.42. Exponentiating this value, we obtained the relative probability or the relative odds of 1.521962. These results indicate that the relative probability of firm switching auditor from STB is 52% higher during years of IFRS adoption when the firms have the same size, income and leverage. Thus in consistent with Wieczynska (2016), IFRS adoption is likely to cause companies to switch from small audit firms to the Big4. Growing companies, measured by *Chgsize* and *Chgnetprofit*; are most likely to switch from small audit firms to the Big4. A plausible reason is that as the companies expand, small audit firms may not have the resources to render quality services. Moreover, growing companies will most likely want to associate with the Big4 for credibility.

Table 6 - Binary and multinomial logit regression results (full sample)

Table 6: binary and multinomial logit regression results (full sample)(* @10%, ** @5% Significant level									
	Binary logit Model				Multinomial logit Model				
	Switch _{it}			STB		BTS		STS	
Variable	C.F	S.E		CF	S.E	C.F	S.E	C.F	S.E
IFRS_AD	0.23*	0.18		0.42**	0.56	-1.50	1.50	1.03	1.07
Size _{it_1}	1.44	0.56		0.76*	1.34	-0.69*	2.41	-0.92	1.07
ChgSize _{it_1}	0.02*	0.35		0.12**	0.09	-0.23*	0.56	0.15*	0.89
Net_profit _{it_1}	1.95	0.03		1.27	0.19	-.263	0.19	-0.07*	0.09
Chgnetprofit _{it_1}	0.12**	0.08		0.25**	0.89	-0.13	1.10	0.09	0.06
Leverage _{it_1}	-0.56	0.24		0.219	0.62	0.03*	1.35	0.35**	0.15

To further understand the impact of IFRS adoption on auditor switching in Africa, additional binary logit regression is conducted on a sectorial basis. The results are presented in table 7. Under the financial institutions and manufacturing sectors *IFRS_AD_{it}*, have positive significant coefficient at 5%, 10% respectively. Implying that companies within these sectors are more likely to switch auditors following the adoption of IFRS. The results also show that, the impact of IFRS adoption varies among sectors. Financial institutions are probable to switch auditors to the Big4 because, they are involved in complex and market related transactions and their associated detailed disclosures compared with companies in the natural resources and services sector.

Table 7 : binary and multinomial logit regression results (sectorial analysis)(<i>*@10%, ** @5%</i>)								
	<i>Financial institutions</i>		<i>Manufacturing</i>		Natural Resource		Services	
Variable	C.F	S.E	CF	S.E	C.F	S.E	C.F	S.E
<i>IFRS_AD</i>	0.68**	1.36	0.07*	0.799	0.02	0.15	0.05*	0.09
<i>Size_{it_1}</i>	0.17*	2.44	0.39	1.99	0.76*	0.03	0.42*	0.08
<i>ChgSize_{it_1}</i>	0.04**	0.89	0.43**	1.32	0.13**	0.06	0.22**	0.32
<i>Net_profit_{it_1}</i>	0.30	0.36	0.21	0.36	-1.55	0.31	1.09	1.27
<i>Chgnetprofit_{it_1}</i>	0.61**	0.41	0.19*	1.23	0.82	0.21	0.28*	0.97
<i>Leverage_{it_1}</i>	-1.16	1.14	0.03*	1.93	-.033	3.60	-0.55	0.69
<i>_cons</i>	-1.45**	1.46	-0.80**	1.13	-1.38**	1.72	-1.52**	1.54
<i>No of obs</i>	36		46		7		11	
<i>Pseudo R²</i>	.51		.44		.38		.45	

Number of OBS

104

104

Pseudo R²

0.0587

0.0823

5.0. Conclusion

The purpose of this study was to analyse some of the unintended consequences of IFRS on the audit market, by (i) examining whether IFRS is associated with an increase in audit fees, (ii) if the increase is higher for the Big4 audit firms and (iii) whether there is a positive relationship between IFRS adoption and auditor switching.

The study focused on publicly available data from 104 companies listed on the stock exchange in 8 African countries from 2002-2014. The Big4 audit firms are identified in this study as Deloitte Touche, Ernest & Young, KPMG and PWC. The study controlled for other firm specific characteristics namely leverage, size, change in size, net profit and change in net profit. The study employed binary and multinomial logit regression to model the auditor switching. Ordinary Least Square was also used to estimate the impact of IFRS adoption on audit fees with some diagnostics tests. Additional investigations were done on a sectorial basis.

Consistent with prior studies, our findings suggest that IFRS adoption (i) is associated with increased audit fee, (ii) influences auditor switching and (iii) the impact varies among sectors.

The ordinary least square estimation suggests increases in audit fees as a result of companies adopting IFRS. However, the Big4 experience significant fee increase for their services than the small audit firms. The sectorial analysis highlights the positive significant impact of IFRS adoption on audit fees in the financial sector. This is due to the market-based measurements and detailed disclosure of product and services (e.g. financial instruments) within the financial sector.

Other possible reasons can be attributed to the peculiarities of the financial industry, its specific regulation and the fundamental differences in their financial accounting requirements relative to non-financial firms. On the contrary, the change in the audit fees in the natural resources sector is not significant, because there are not many specific IFRS standards that regulate the financial reporting of natural resources industry.

The multinomial logit regression confirms that companies are more likely to replace small audit firms with the Big4. The results show that both financial institutions and manufacturing sectors are more likely to switch auditors following the adoption of IFRS. Financial institutions are probable to switch to the Big4 because, they are involved in complex and market related transactions hence their financial statements are associated with detailed disclosures compared to companies in the natural resources and services sector.

This paper has extended the debate on the unintended consequence of IFRS on the audit market and specially a neglected area, Africa. Researchers can use this study as a foundation to explore the consequences of IFRS adoption such as mobility of accounting professionals across borders, the growth of global professional qualifications such as ACCA in Africa. Our results are useful to small practicing accounting (SMP) firms in non-IFRS countries. Furthermore, contrary to previous studies on developed country our paper examines the effects of IFRS on the audit market in Africa, which is an emerging economy. More precisely our study alerts the National Professional accountancy bodies about the need to train their local accountants in order to prepare them for the unintended waves that IFRS brings on the auditing market. This study is however not free from limitations. A notable limitation is the availability of historical data for some of the countries in our sample, which restricted us to use fewer companies.

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Improving Corporate Sustainability Reporting Through the Adoption of Integrated Reporting: A Study of Nigerian and South African Firms

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Abstract

There is a body of literature suggesting that integrated reporting <IR> can enhance the quality of sustainability reports. This study investigated, by means of a comparative analysis with South African (SA) firms acclaimed to have improved in sustainability reporting, whether or not the quality of sustainability reporting can be improved in Nigeria (NG) through the adoption of <IR>. A purposive sampling technique was applied to select equal number of NG and SA banks that embedded sustainability reports within the annual reports. Using a disclosure checklist designed in line with the GRI G4 framework, divulgence on economic, environmental and social sustainability issues were content-analysed. It was observed that; portion of space devoted to sustainability reporting in annual reports was positively, strongly and significantly correlated with the quality of the report ($r = .637$, $p = .001 \leq .05$); the extent of disclosure by NG (SA) firms is very low (average); firms from both countries significantly differ in the extent of disclosure on economic sustainability ($p = .001 \leq .05$) and social sustainability ($p = .016 \leq .05$) on the account of the adoption of <IR> by South African firms, but firms do not significantly differ in the extent of environmental sustainability disclosure ($p = .256 > .05$). Overall, NG and SA banks significantly differ in the extent of sustainability disclosure on the account of the adoption of <IR> by SA firms ($p = .006 \leq .05$). To achieve a better quality of sustainability reporting, it was recommended that financial reporting regulatory authorities should consider the adoption of <IR> in Nigeria.

Keywords: *corporate social responsibility, GRI, integrated reporting, sustainability, sustainability reporting*

1. Introduction

Organisations normally exist as recognisable elements of the society (Bowler, 1981; Mullins & Christy, 2013). On the basis that the society provides context for firms' existence, enabling environment and requisite resources with which organisations carry on their affairs and survive, it is not unthinkable that there should be some form and level of interaction between the society and organisations. Targeting to minimise externalities emitting from the manner of their operations, pre-emptively boycotting regulatory sanctions, and seeking acceptance and recognition in the society, firms typically attempt to legitimise their existence by 'giving back' to the society through engagement in corporate social responsibility (CSR) or sustainability projects (Patten, 1992; Deegan & Rankin, 1996; Brown & Deegan, 1998; Deegan, 2002; Gonçalves, Medeiros, Niyama & Weffort, 2013).

While not seeking to discredit the erstwhile efforts by firms to showcase their social responsibility endeavours through the rendition of either CSR reports embedded within annual reports or issuance of standalone CSR reports, it is desirable to ensure that such reports are not self-laudatory and capricious, especially against the backdrop that CSR reporting is admittedly voluntary in many countries (AAA Financial Accounting Standard Committee, 2002; Uwuigbe & Jimoh, 2012; Oyerogba, 2014; Huang, Pepper & Bowrey, 2014; Nwobu, 2015). To put to an end to arbitrariness in CSR reporting, attempts have been made to develop guidance, through issuance of guidelines and frameworks upon which sustainability reports can be prepared and judged for quality of disclosure. The adoption of some of the frameworks has been imposed in certain jurisdictions (for example China, Denmark, Malaysia, South Africa) (Ioannou & Serafeim, 2014) and implied in others.

The CSR reporting nomenclature has evolved overtime, as the reports have been designated with different names including; sustainability report, sustainable development report, annual and sustainability report, and corporate sustainability report. In this study, corporate social responsibility (CSR) and sustainability are used interchangeably.

The growth in sustainability concerns globally (KPMG, 2013a; KPMG, 2013a; Sulkowski & Waddock, 2014) and attendant escalation in the rendition of sustainability reports in many territories of the world (Eccles, 2011; Maguire, 2011; Makiwane & Padia, 2013) are pointers that CSR has evolved in practice (Orij, 2007) and research (Cramer, 2002; Adeyemi & Ayanlola, 2014; Uwuigbe & Jimoh, 2012; Idowu, 2014; Nwobu, 2015). The ubiquity of the sustainability dialogue is further accentuated by inroads which the subject has made to different disciplines (such as accounting and finance, government, law, amongst others), as well as the gamut of studies carried out under different subthemes across various sectors including; sustainability practices (Cramer 2002; Collett & Hrasky, 2005; Samina, 2012; Uwuigbe & Jimoh, 2012; Oyewo & Badejo, 2014); sustainability and investment decisions (Hope & Fowler, 2007); linkage of CSR to Norton and Kaplan's (1992) balanced scorecard (Huang, Pepper & Bowrey, 2014); country and firm-level characteristics affecting the preparation of sustainability reports (Jensen & Berg, 2012; Barakat, Pérez & Ariza, 2015); impact of CSR on firm performance (Margarita, 2004; Mackey, Mackey & Barney, 2007; de Klerk & de Villiers, 2012; Khaled & Fares, 2012; Olanrewajue, 2012; Uwuigbe & Egbide 2012; Sarwar, Zahid & Ikram, 2012; Dragu & Tiron-Tudor, 2013; Duke & Kankpang, 2013; Ajide & Aderemi, 2014; Iqbal, Ahmad, Hamad,

Bashir & Sattar, 2014); outcomes from mandating sustainability reporting (Ioannou & Serafeim, 2014); the interaction between corporate social investment and integrated reporting (Potter, Singh & York, 2013); the interaction between CSR and value of quoted firms (Fodio, Abu-Abdissamad & Oba, 2013); deepening the quality of sustainability reporting and disclosure (Asaolu, Agboola, Ayoola & Salawu, 2012; Adeyemi & Ayanlola, 2015); CSR disclosure and firm characteristics (Oyewo & Badejo, 2014; Nwobu, 2015), amongst others.

There is a body of literature (for example Samkin, 2012; Makiwane & Padia, 2013) suggesting that integrated reporting (hereafter, <IR>) has enhanced quality and quantity of sustainability reports. <IR> is the preparation of a corporate report which synthesizes both financial and non-financial information, covering economic, environmental, social and governance issues in an organisation (Eccles & Saltzman, 2011; Main & Hespenheide, 2012; Churet & Eccles, 2014; Adams, 2015). Conventional financial reports provide financial information but not a holistic picture of performance (Krzus, 2011; Eccles, 2012). To help users of information make decisions, stakeholders should have a good grasp of other aspects of an entity's performance spanning across how the business is managed, its future prospects, organisational policy on environment and attitude to social responsibility, amongst others (Ministry of Economics, Japan, 2014; Adams, 2015). These issues informing the decisions of stakeholders, which <IR> seeks to address, are often gleaned from published annual reports. The users of corporate reports are growingly becoming sophisticated because conventional financial reports are no longer satisfying their information needs (E&Y, 2013; PwC, 2013). In view of the apparent failure of conventional financial reports in addressing the protracted challenges of information asymmetry, <IR> has gained entry and assumed prominence in corporate reporting (Burritt, 2012; Eccles, 2012; Holmes, 2013). <IR> improves the quality of corporate reporting (Hindley & Buys, 2012).

Hughen, Lulseged and Upton (2014) posited the role of CSR in enhancing the long-term value and strategic operations of a company. The documentation of the long-term value creation by a firm will therefore require some form of sustainability reporting. <IR> requires organisations to report how they are creating value— not just for owners but other stakeholders economically, environmentally and socially; as a result, organisations preparing integrated reports will advertently report on sustainability. Considering that an integrated report is the 'one report' (see Eccles, 2011) that provides an holistic view of an entity's state of affairs, sustainability and sustainability reporting by extension are impliedly integral parts of <IR> (IoDSA, 2010; Marx & Van Dyk, 2011a; Stubbs & Higgins, 2011; Busco, Frigo, Quattrone & Riccaboni, 2013; GRI, 2013c; IIRC, 2013; KPMG, 2013a; KPMG, 2013b; Sokya, 2013; Bohlhoff & Starnitzky, 2014; Eccles & Serafeim, 2015).

It has been worryingly noted in literature (for example, Idowu, 2014; Lugard, 2014) that Nigerian firms pay lip-service to sustainability — by extension, CSR reports accompanying annual reports do not present a true and fair view of the sustainable development activities embarked upon by them. Maguire (2011) noted as well that this *green washing* applies in other territories. Notwithstanding that sustainability reporting is voluntary in most countries of the world, Asaolu et al (2012); and Uwuigbe and Jimoh (2012), corroborated by Adeyemi and Ayanlola (2015) have called for the regulation of CSR reporting in Nigeria; their contention stems from the observation that the depth of sustainability disclosures by Nigerian firms is

shallow. In this regard, Oyerogba (2014) lamented that as the level of adequacy and reliability of information by listed companies in developing countries is lagging behind in comparison to developed countries, so is corporate reporting practice in Nigeria weak. In contributing to the debate, Adeyemi and Ayanlola (2014) decried that Nigerian companies are not doing so well with CSR disclosure. Nwobu (2015) puts sustainability reporting by Nigerian firms to be average at best.

Research on CSR in Nigeria is scant (Uwuigbe & Jimoh, 2012; Duke & Kankpang, 2013; Idowu, 2014); worse still, studies on CSR have recurrently been investigated in the Nigerian oil and gas sector (for example, studies by Bustany & Wysham, 2000; Ifeka, 2004; Asaolu et al, 2012; Idowu, 2014; Lugard, 2014), abandoning other sectors. For example, Asaolu et al.'s (2012) scrutiny of multinational corporations operating in the Nigerian oil and gas industry concluded that the firms fared badly in their environmental and social reporting scorecards which could be partly responsible for the imbroglio and upsurge of unrest in the Niger-Delta region, thereby calling for the localisation of sustainability reporting framework in Nigeria in line with international best practices as practised in countries like France, Germany and South Africa.

The under-researching of CSR in Nigeria affects the financial service sector as well. Whereas Idowu (2014) observed that Nigerian banks commit less than three per cent (3%) of their profit after tax to CSR, ergo calling for improvement in CSR initiatives in the sector, studies specifically focusing on deepening sustainability disclosures in financial service sector seem to be terse; instead, most of the few studies in this sector (for example, Olanrewajue 2012; Uwuigbe & Egbide, 2012; Fodio, et al., 2013; Ajide & Aderemi, 2014; Oyewo & Badejo, 2014; Nwobu, 2015) have prominently dwelt on sustainability reporting vis-à-vis firm characteristics, firm value and firm performance. Over the past four years, sustainability reporting has received attention in Nigerian banks on the account of the affirmation of the Nigerian Sustainable Banking Principles (NSBP) in 2012 by the Central Bank of Nigeria (CBN) and the Nigeria Bankers' Committee (Egwuatu, 2013; Nelson & Orioha, 2015; Nwobu, 2015). Seeing that there is evidence of an increase in CSR activities by Nigerian financial institutions in recent times, Lugard (2014) contended that the current state of CSR in Nigerian banks is yet to be examined. Accordingly, it is paramount to assess whether the introduction of the NSBP has translated into appreciable amelioration in CSR reporting by Nigerian banks.

The study investigated whether or not sustainability reporting can be improved by Nigerian firms through the adoption of <IR>. However, the approach utilised was an inter-country comparative study of Nigerian firms with South African firms operating in the financial service sector. The rationale for contemporaneously benchmarking Nigerian (NG) banks with South African (SA) banks is tri-partite. First; globally, the financial service sector is topmost of the ten leading sectors publishing self-declared integrated reports from 2010-2012 (GRI, 2013c). Correspondingly, the financial service sector in South Africa (with 18% rating) is the next highest ranking sector after the mining sector (with 19%) in the publication of self-declared integrated reports (GRI, 2013c). Second; there is evidence that South Africa is taking the lead on sustainability reporting in the entire African continent (Uwuigbe, 2011; GRI, 2013c; Nwobu, 2015). Third; improvement in sustainability reporting by South African firms has been credited to adoption of <IR> which was mandated by the King III report for publicly quoted firms on the

Johannesburg Stock Exchange [JSE] (IoD, 2009; Hanks & Gardiner, 2012; GRI, 2013c; IIRC, 2013; Oyewo, Obigbemi & Uwuigbe, 2015).

If it could be established that South African firms outperformed Nigerian firms in sustainability reporting quality and quantity on the account of South-African firms concurrently adopting <IR> and applying the GRI guideline in preparing CSR reports, then the supremacy of <IR> over conventional reporting could be argued and the introduction of <IR> in the Nigerian environment recommendable.

The aim of the study is to investigate, through a comparative analysis, whether Nigerian and South African firms differ in the extent of sustainability disclosure on the account of the adoption of <IR> by South African firms. The research objectives are as follows:

- (i) To assess the extent of disclosure on sustainability by Nigerian banks
- (ii) To evaluate the extent of disclosure on sustainability by South African banks
- (iii) To examine the extent to which Nigerian and South African banks differ in the degree of sustainability disclosure on the account of the adoption of <IR> by South African banks.

The rest of the paper is divided into five sections (2-6). After the literature review and development of research hypotheses in Section 2, Section 3 delves into the research design. Next, results and discussion of findings are covered in Sections 4 and 5 respectively, followed by conclusion and recommendations in Section 6.

2. Literature Review and Hypotheses Development

2.1 Frameworks for sustainability reporting

Different frameworks subsist for sustainability reporting some of which are (Asaolu et al, 2012; Zyl, 2013) : Global reporting initiative sustainability reporting guideline developed by Global Reporting Initiative (GRI); Social Accountability 8000 developed by Social Accountability International; Organisation for Economic Cooperation and Development Guidelines for Multinational Enterprises developed by Organisation for Economic Cooperation and Development (OECD), Environmental Management (ISO 14001, EMAS); Code for Responsible Investing by Institutional Investors in South Africa (IoDSA, 2010); JSE Socially Responsible Investment (SRI) Index Minimum Requirements and Criteria; the Ecologically Sustainable Development set out in the National Environmental Management Act (NEMA) in South Africa (1998); the Nigerian Sustainable Banking Principles (CBN, 2012; Bangudu, 2013; Egwuatu, 2013). This study focused on two sustainability frameworks:

- (I) the GRI framework and;
- (II) the Nigerian Sustainable Banking Principles (NSBP).

(I) The GRI framework for sustainability reporting

The GRI guideline is the most definitive, widely-accepted and commonly- applied framework for sustainability reporting globally (Asaolu et al, 2012; Maguire, 2011; Hindley& Buys, 2012). The GRI is a rigorous framework for sustainability reporting. Maguire (2011) stated that the GRI is increasingly becoming the *de factor* standard on sustainability reporting across the world. The latest is the GRI G4 framework launched in May 2013 (GRI, 2013a; GRI, 2013b; CIMA paper F3 study text, 2014). The GRI G4 broadly categorised sustainability disclosures into three; economic, environmental and social performance indicators. There are sub-categories and aspects within the three broad categories. The GRI also published additional guidelines for banks, which was adopted in this study, and are briefly discussed thus;

(a) Economic sustainability: The economic sustainability perspective is concerned with the impact of the entity on the economic conditions of its stakeholders, the flow of capital among different stakeholders, and the entity's impact on economic systems at local, national and international levels (Eccles, 2011; GRI, 2013a; GRI, 2013b; CIMA paper F3 study text, 2014). The economic performance indicators cover; market presence, indirect economic impacts, and procurement practices.

(b) Environmental sustainability: The environmental sustainability standpoint is concerned with the impact of the entity on living and non-living natural systems including land, water, air and ecosystem (GRI, 2013a; GRI, 2013b; CIMA paper F3 study text, 2014). Environmental sustainability also covers entity's impacts on inputs (such as energy and water), outputs (such as emissions, effluents and wastes) and compliance with environmental regulations. Environmental sustainability indicators include; materials, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance, transport, overall, supplier environmental assessment, and environmental grievance mechanisms.

(c) Social sustainability: The social sustainability dimension focuses on the entity's impact on the social systems within which it operates (GRI, 2013a; GRI, 2013b; CIMA paper F3 study text, 2014). The social sustainability indicators are sub-categorised into four; labour practices & decent work, human rights, society, and product responsibility, elaborated below:

- (i) Labour practices and decent work covers the following aspects — employment; labour/management relations; occupational health and safety; training and education; diversity and equal opportunity; equal remuneration for women and men; supplier assessment for labour practices; and labour practices grievance mechanisms.
- (ii) Human Rights aspects are — investment; non-discrimination; freedom of association and collective bargaining; child labour; forced or compulsory labour; security practices; indigenous rights; assessment; supplier human rights assessment; and human rights grievance mechanisms.
- (iii) Society covers these aspects — local communities; anti-corruption; public policy; anti-competitive behaviour; compliance; supplier assessment for impacts on society; and grievance mechanisms for impacts on society

- (iv) Product Responsibility aspects are — customer health and safety; product and service labeling; marketing communications; customer privacy; compliance; product portfolio; audit; and active ownership

(II) *The Nigerian Sustainable Banking Principles (NSBP)*

The NSBP is a guideline on sustainability reporting peculiar to the Nigerian financial service sector, which was approved by the Central Bank of Nigeria (CBN) and the Nigerian Bankers' committee in July 2012, with a view to improving the quality of sustainability practice and disclosure by Nigerian banks (Bangudu, 2013; Nelson & Orioha, 2015). The motivation for the issuance of the NSBP stems from the observation that Nigerian banks are doing little in the way of practicing and reporting on sustainability. In September 2012, the regulatory body (CBN) issued a circular directing banks, discount houses and development finance institutions to implement the Nigeria Sustainable Banking Principles (CBN, 2012). The NSBP has eight principles; (i) Principle 1: Business Activities: Environmental and Social Risk Management (ii) Principle 2 – Firms Business Operations: Environmental and Social Footprint (iii) Principle 3 – Human Rights (iv) Principle 4 – Women's Economic Empowerment (v) Principle 5 – Financial Inclusion (vi) Principle 6 – Environmental & Social (E&S) Governance (vii) Principle 7 – Capacity Building (viii) Principle 8 – Collaborative Partnership; and (ix) Principle 9 – Reporting.

2.2 The Interaction between Integrated Reporting <IR> and Sustainability Reporting

An integrated report connects the past, present and future activities of an organisation—this integrated approach to reporting can potentially rouse stakeholders' confidence in an entity (Adams & Simnett, 2011; Zyl, 2013). Eccles, Krzus and Tapscott (2010) designated integrated report to be the 'one report' because it deconstructs separately-prepared financial and nonfinancial reports by enmeshing both into a single integrated report. Regardless of industry, size or establishment motives, organisations worldwide are adopting <IR> (Adams & Simnett, 2011; GRI, 2013c; James, 2013; Kaya & Turegun, 2014).

Most firms prepare sustainability reports as part of their integrated reports using the GRI guideline (Zyl, 2013). In South Africa, the King III report recommended the use of the Global Reporting Initiative (GRI) framework in the rendition of a sustainability report embedded within an integrated report (IoD, 2011; Zyl, 2013), because firms attempting to explain their value-creation process (in an integrated report) will unavoidably comment on sustainability (in a CSR report); sustainability reporting is therefore an intrinsic element of <IR>. GRI has helped companies to prepare integrated report and has formed part of the <IR> checklist (GRI, 2013c). <IR>, sustainability reporting and the GRI guidelines are therefore closely linked and intertwined (Hughen et al, 2014; Sulkowski & Waddock, 2014).

There have been refinements in the quality and quantity of sustainability reporting due to <IR> (E&Y, 2013; IRAS, 2013; Makiwane & Padia, 2013; Purkayastha & Srinivasa Rao, 2013). Samkin (2012), and Solomon and Maroun (2012) concurred that environmental, social and governance issues disclosed in annual reports prepared in an <IR> fashion improved. Eccles and Saltzman (2011) agreed that advancement in sustainability reporting can be achieved through <IR>. Hindley and Buys (2012) upon studying sustainability reporting practice in the South African mining industry concluded that the quality of sustainability report prepared using the

GRI framework improved when, embedded within an integrated report. Potter et al.'s (2013) and Sierra-García, Zorio-Grima and García-Benau's (2015) findings corroborated Hindley and Buys' (2012) position that preparing integrated report improves the quality of CSR reporting. These observed upswings perhaps account for the practice of voluntarily adopting <IR> by some firms in some quarters where adoption of <IR> has not been mandated. To Maguire (2011), firms issue integrated reports to incorporate sustainability into strategy such that the two closely interact like Siamese twins. Jensen and Berg (2012) reported that an awareness of corporate responsibility (in terms of social and environmental issues) is a good indicator of an <IR> company.

In tandem with studies from other countries as discussed in the foregoing, there are empirically-supported the rendition of sustainability report by South African firms upon the adoption of <IR> (for example, Hindley & Buys, 2012; Carels, Maroun & Padia, 2013; IRAS, 2013; Zyl, 2013). Notwithstanding that <IR> has not been adopted nor sustainability reporting mandated in Nigeria, Nigerian firms still publish sustainability reports in annual reports (Asaolu, et al., 2012; Oyewo & Badejo, 2014; Adeyemi & Ayanlola, 2015). With the issuance of the NSBP, sustainability concerns have particularly increased in the Nigerian financial sector lately (Bangudu, 2013; Nwobu, 2015). Based on these discussions, it is hypothesized that;

H₀₁: Nigerian and South African banks do not significantly differ in the extent of sustainability disclosure on the account of the adoption of integrated reporting by South African firms

Sustainability ramifications mostly reported by firms are the economic, environmental and social (CIMA paper F3 study text, 2014). Thus, the overarching hypothesis is devolved into the following sub-hypotheses:

H_{01a}: Nigerian and South African banks do not significantly differ in the extent of economic sustainability disclosure on the account of the adoption of integrated reporting by South African firms

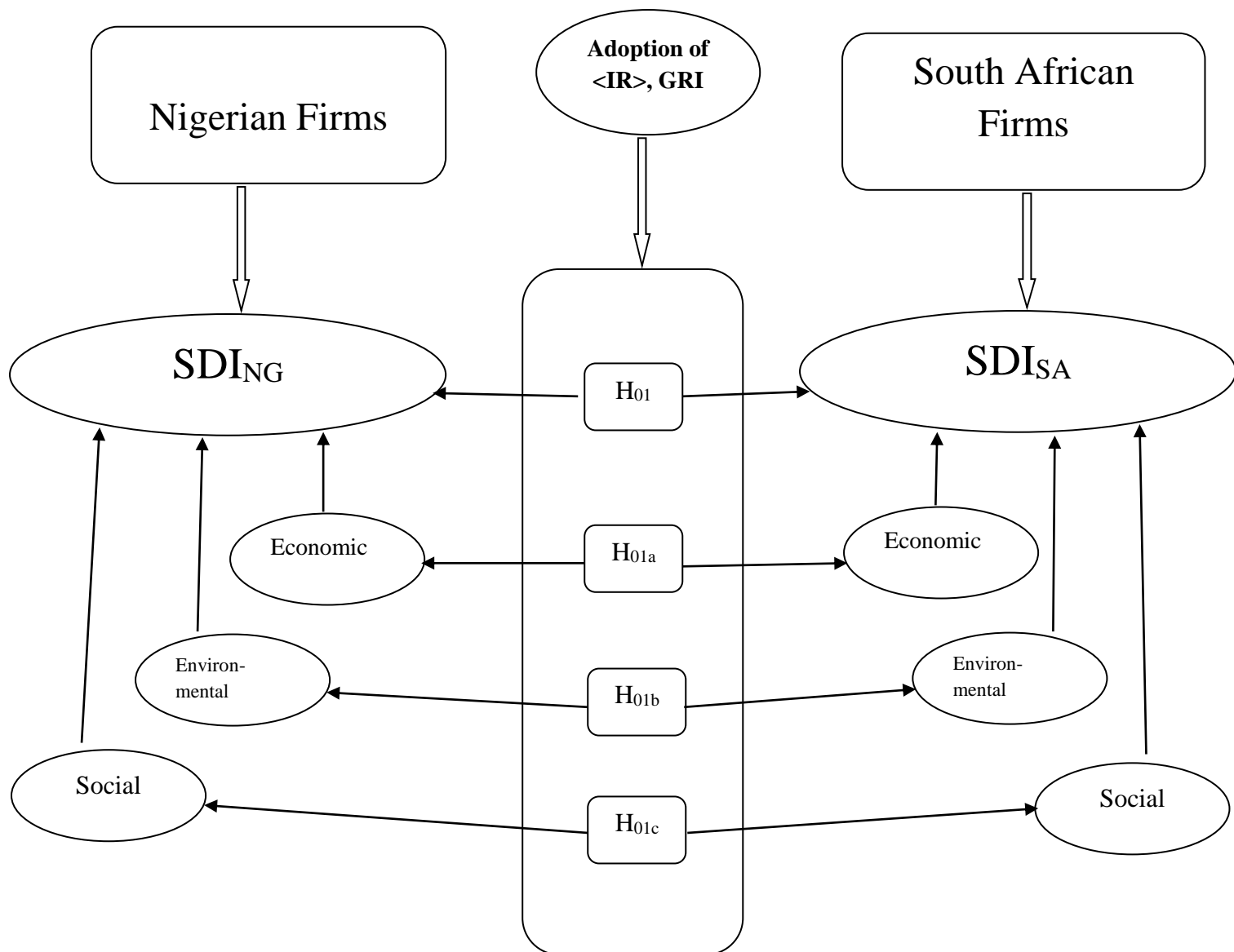
H_{01b}: Nigerian and South African banks do not significantly differ in the extent of environmental sustainability disclosure on the account of the adoption of integrated reporting by South African firms

H_{01c}: Nigerian and South African banks do not significantly differ in the extent of social sustainability disclosure on the account of the adoption of integrated reporting by South African firms.

2.3 Conceptual Framework

The conceptual framework which is a depiction of the extent of difference in disclosure on economic, environmental, social and overall sustainability between NG (SDI_{NG}) and SA (SDI_{SA}) firms on the account of the adoption of <IR> and GRI by SA firms is illustrated in Figure 1.

Figure 1: Conceptual Framework Nigerian (NG) and South African (SA) Firms



Source: Developed by Authors (2017)

2.4 Theoretical Framework

There are a number of theories that have been cited to explain the motivation behind sustainability practices and CSR reporting by firms. For example, according to legitimacy theory, firms are motivated to embark on sustainable reporting for legitimation reasons.

Legitimation is the manner in which an organisation goes about seeking societal endorsement of the essence of its existence and activities. Neu, Warsame and Pedwell (1998) suggest that organisations try to maintain their legitimacy because it helps to ensure the continued inflow of capital, labour and customers supplied by the society which are necessary for viability. This perception reveals that when firms engage in CSR endeavour which appears *prima facie* that they are benefiting the society by giving back to it, it is in effect indirectly and ultimately for their (firms') benefit—to keep the flow of resources. Several authors have invoked the legitimacy theory in CSR studies (for example, see Patten, 1992; Lindblom, 1994; Deegan & Rankin, 1996; Bansal & Roth, 2000; Deegan, 2002; Milne & Patten, 2002; Idowu, 2014; Lugard, 2014; Mousa & Hassan, 2015; Adeyemi & Ayanlola, 2015) because of its most-appropriateness in explaining the opportunistic behaviour of firms, consequently its prominence, preponderance, and predominance amongst the other theories accounting for the society-organisation interaction on the CSR platform.

Another theory that has been used to explain the motivation for sustainability reporting is the stakeholder theory. The theory extends the stakeholder-groups originally from the shareholders to several other stakeholders (such as host community, employees, government, suppliers, and competitors, etcetera), as well as the relationship among them. Pressure from the stakeholders therefore coerces firms to disclosure social and environmental information (Watts & Zimmerman, 1978). The stakeholder theory suggests that the resources of the organisation should not be primarily focused on the concerns or needs of the shareholders or owners. When annual reports are published, it should contain information that will serve the needs of all stakeholders in the organisation. This reasoning should provoke the disclosure of financial and non-financial information by firms covering different aspects including economic, environmental, social and governance issues.

According to contingency theory, internal and external factors which apply to organisations, societies or countries may influence the preparation of sustainability report by a firm or group of firms. Jensen and Berg (2012) noted certain characteristics prevalent in countries where integrated reports and sustainability reports are prepared:

- (a) Countries with a high investor protection, with financial systems characterised by disperse ownership and with high degrees of market coordination tend to have adopted <IR>
- (b) <IR> companies are more like to be based in countries where there is high level of expenditure on tertiary education and higher trade union density
- (c) Countries where there is an awareness of corporate responsibility (in terms of social and environmental issues) are likely to adopt <IR>
- (d) <IR> companies are more likely to be based in countries which place emphasis on self-expression, secular-rational values and quality of life.

Firm-level characteristics which may influence the preparation of integrated reports, especially in territories where sustainability and <IR> is voluntary include; size, profit, degree of multi-nationality and stakeholder pressures (Jensen & Berg, 2012). Other studies that have applied the contingency theory to CSR researches include Adeyemi and Ayanlola (2015).

3. Research Design

The population of the study is comprised of publicly-listed deposit money banks (or commercial banks) operating in Nigeria (NG) [made up of 22 banks (see CBN, 2015)] and South Africa (SA) [with 16 registered banks (see Moneyweb, 2015)] as at December 2014. In

accordance with other studies (Uwuigbe & Jimoh, 2012; Duke & Kankpang, 2013; Idowu, 2014), a purposive sampling technique was applied to select equal number of firms that prepared a sustainability report (for NG firms) and firms that embed a sustainability report in the annual integrated report (for SA firms) in both countries. Meanwhile, some SA firms issuing a standalone sustainability report do not incorporate sustainability reports in the integrated report, while some others issued a condensed or abridged version of such report in the integrated annual report (Molate, Klerk & Ferreira, 2014); the approach adopted was to select SA firms that featured sustainability reports in their annual integrated reports in order to provide an equal basis to judge sustainability disclosure by NG and SA firms. The 2014 annual reports were selected for evaluation as they were the most recent, publicly-available annual report simultaneously available in both countries as at the time of undertaking the study. Allowing for equal number of firms from both countries, the selection criteria produced twenty-two (22) firms, consisting of eleven (11) NG firms and eleven (11) SA firms respectively. The eleven (11) emerging NG banks were; Diamond Bank, Fidelity Bank, First Bank, First City Monument Bank (FCMB), Guaranty Trust Bank (GTB), Skye Bank, Sterling Bank, Unity Bank, United Bank for Africa (UBA), Wema Bank and Zenith Bank. The eleven (11) South African (SA) banks selected were; African Bank Limited, Albaraka Bank Limited, Barclays Africa Group, Bidvest Bank Limited, FirstRand Bank, Investec Bank Limited, Mercantile Bank Limited, Sasfin Bank Limited, Standard Bank of South Africa, South African Bank of Athens Limited, and UBank Limited (previously Teba Bank Limited).

Source of data

Disclosures on sustainability in selected annual reports and accounts were content-analysed. The quantitative content analysis methodology is a procedure that quantified qualitative information, in a number of ways using count of words, sentences and pages and has been used by different researchers overtime (for example, Patten, 1992; Gray, Kouhy & Lavers 1995; Deegan & Gordon, 1996; Deegan & Rankin, 1996; Deegan et al., 2002; Molate, Klerk & Ferreira, 2014). Prior studies on sustainability disclosures have employed the content-analysis approach (for example, see Deegan & Gordon, 1996; Asaolu et al., 2012; Solomon & Maroun, 2012; Uwuigbe & Egbi 2012; Mousa & Hassan, 2015; Nwobu, 2015).

The disclosure checklist and the sustainability disclosure index

The GRI 4 framework is the most acclaimed framework guiding the preparation of sustainability and upon which sustainability disclosures can be judged (Maguire, 2011). As a result, the disclosure checklist that guided content-analysis was developed with recourse to the general GRI G4 framework and the specific GRI G4 framework for financial service sector (designated 'GRI Financial Services Sector Supplement issued'). Other studies have also either adopted or adapted the GRI guideline to develop a disclosure checklist (for example, Hindley & Buys, 2012; Adeyemi & Ayanlola, 2014; Molate et al., 2014). The *GRI Financial Services Sector Supplement issued* document contains a set of disclosures for use by all financial service organisations (GRI, 2013a). Together, the GRI G4 guidelines and the *Financial Services Sector Supplement issued* make up the reporting framework for the financial services sector as it reflects specific disclosures applicable to financial service firms (GRI, 2013a). The *Financial Services Sector Supplement issued* covers key aspects of sustainability performance that are meaningful and relevant to the financial services sector and which are not sufficiently-covered in the general GRI G4 guidelines. Consistent with Gray et al. (1995) and Molate et al. (2014), analyses also

cover the quality of disclosure (extent) and quantity of disclosure (number of pages, and proportion of the annual report dedicated to CSR reports) in order to allow for robustness in analysis of disclosure. Social, economic and environmental sustainability were examined as a basis for comparison of disclosure because these are the three CSR spectra usually followed (Idowu, 2014; Nwobu, 2015).

Indices were developed for the purpose of classifying extent of CSR disclosures in annual reports. The extent of disclosure was rated on a 5-point rating scale as done in prior studies (Asaolu et al., 2012; Zyl, 2013). The scale, adapted from Marx and Van Dyk (2011a) and Zyl (2013), was developed within the purview of the degree to which the CSR information met qualitative characteristics of useful financial information as set out in the International Accounting Standards Board (IASB) conceptual framework such as relevance, faithful representation, comparability, verifiability, timeliness, and understandability (Marx & Van Dyk, 2011b; Deloitte, 2012; Zyl, 2013) and the GRI G4 principles for defining report quality such as balance, comparability, accuracy, timeliness, clarity and reliability (GRI, 2013b; CIMA paper F3 study text, 2014). The likert-type measurement scale (in appendix 3) guided the assigning of scores on the extent of disclosure. The economic perspective had 8 items (maximum score of $5 \times 8 = 40$ obtainable for a firm), environmental perspective had 5 items (maximum score obtainable by a firm is $5 \times 5 = 25$), and the social perspective had 20 items across the four aspects (maximum score of $5 \times 20 = 100$ obtainable for a firm). Overall, the maximum score obtainable across the three sustainability categories by a firm is 165 (economic, 40; environmental, 25; social, 100).

The sustainability disclosure was scaled down to 100, and weights attached to each of perspective thus:

$$\text{Economic} = 40/165 \times 100 = 25\% \quad (1)$$

$$\text{Environmental} = 25/165 \times 100 = 15\% \quad (2)$$

$$\text{Social} = 100/165 \times 100 = 60\% \quad (3)$$

The disclosure index across the three perspectives for each firm, based on the weighting in equations (1), (2), and (3), was derived as follows:

$$\text{Economic Sustainability Index (EcSI)} = X_1 / 40 \times 25 \quad (4)$$

$$\text{Environmental Sustainability Index (EnSI)} = X_2 / 25 \times 15 \quad (5)$$

$$\text{Social Sustainability Index (SsSI)} = X_3 / 100 \times 60 \quad (6)$$

Where X_1 , X_2 and X_3 represent scores obtained by individual firm on economic, environmental and social sustainability disclosures.

$$\text{Sustainability Disclosure Index (SDI)} = \sum (\text{EcSI}, \text{EnSI}, \text{SsSI}) \quad (7)$$

The breakdown of raw scores and indices of participating firms produced from applying the mathematical procedures in equations (4) to (7) is presented in appendix 1a and 1b. Basis for assigning designations to firms based on SDI scores is furnished in appendix 4.

Data-analysis Techniques

Descriptive statistics (frequency counts, percentage, minimum value, maximum value, mean, standard deviation and standard error) and inferential statistics (Pearson correlation and independent sample t-test) were applied in analysis. Normality was tested using the Kolmogorov-Smirnov test. Following confirmation that data followed a normal distribution (p values of economic, environmental, social and overall sustainability indices being .960, .907, .846 and .745 > .05 respectively, in appendix 5), the independent sample t-test (a parametric statistical technique) was applied to assess extent of difference in disclosure between NG and SA firms. Inferences were deduced at 5% significance level. Data analysis was aided with the use of Microsoft *Excel 2013* edition and IBM *SPSS* version 21.

4. Results

This section is dedicated to the presentation of results and discussion of analysis. Descriptive analysis is first presented, followed by inferential analysis and test of hypotheses. The section ends with a discussion of findings.

Descriptive Analysis

Analysis on the quantum of pages dedicated to sustainability reporting by NG and SA firms presented in Table 1 reveals that SA firms dedicated more pages and portion of their annual reports to sustainability reporting than the Nigerian firms. Specifically, a certain Nigerian firm reported CSR in 1 page and another dedicated 25 pages (the maximum for NG firms) to the report. The average number of pages dedicated to sustainability reporting by NG firms is 7 pages. These results contrasts sharply with the statistics for SA firms, dedicating a minimum of 5 pages, maximum of 42 pages and an average of 13 pages (12.64 approximated) to sustainability reporting in annual reports.

Table 1: Descriptive Statistics of the volume and proportion of annual report dedicated to sustainability reporting by NG and SA firms

	N	Minimum	Maximum	Mean	Std. Deviation
Volume of annual report dedicated to CSR – Nigerian firms	11	1	25	7.00	7.44312
Volume of annual report dedicated to CSR – South-African firms	11	5	42	12.64	10.500
Proportion dedicated to CSR- Nigerian firms (in %)	11	.29	8.77	3.0464	2.48199
Proportion dedicated to CSR- South-African firms (in %)	11	3.00	12.73	7.4500	3.25672

Source: Analysis of data extracted from annual reports of sample firms

An analysis of the portion dedicated to CSR reporting in the annual reports (computed by denominating the number of pages sustainability report covered by the number of pages in the annual report, expressed in per cent) is also presented Table 1. Results show that NG firms dedicated an average of 3.05% and SA firms an average of 7.45% (which is more than twice the average portion NG firms dedicated). Overall, since SA firms devoted more space to sustainability reports (which is an abridged version of the full, standalone sustainability report) in their annual integrated reports in comparison to the CSR report of NG firms rendered in a

conventional annual report, it is concluded that <IR> improves the quantity of sustainability reporting.

Economic sustainability disclosure

Table 2: Economic sustainability disclosure indices of NG and SA firms

Nigerian Firms			South African firms		
Index (max: 25.00)	Frequency	Percent	Index (max: 25.00)	Frequency	Percent
.63	2	18.2	3.13	1	9.1
1.25	3	27.3	4.38	2	18.2
1.88	1	9.1	5.00	2	18.2
2.50	2	18.2	5.63	1	9.1
3.75	1	9.1	7.50	3	27.3
5.63	1	9.1	10.63	1	9.1
6.25	1	9.1	11.88	1	9.1
Total	11	100.0	100.0	11	

The result of analysis on economic sustainability disclosure presented in Table 2 evinces that, from the maximum score of 25.00 obtainable, the minimum score for NG firms is 0.63 against SA firms' 3.13 and the maximum of the NG firms is 6.25 against SA firms' 11.88. Also, 5 (45%) SA firms had more than the maximum score (6.25) of the NG firms. 8 (73%) NG firms had scores ranging from .63 to 2.50 which is less than the 3.13 minimum score of SA firms. Mean score of NG firms on economic sustainability disclosure is 2.50, which is less than SA firms' mean of 6.59 (Table 7). It is concluded therefore that SA firms disclosed more on economic sustainability than NG firms.

Environmental sustainability disclosure

Table 3: Environmental sustainability disclosure indices of NG and SA firms

Nigerian Firms			South-African firms		
Index (max: 15.00)	Frequency	Percent	Index (max: 15.00)	Frequency	Percent
.00	1	9.1	.60	1	9.1
.60	1	9.1	1.20	1	9.1
1.20	1	9.1	2.40	2	18.2
1.80	1	9.1	4.20	3	27.3
2.40	1	9.1	4.80	2	18.2
3.00	1	9.1	8.40	2	18.2
3.60	1	9.1	Total	11	100.0
4.20	2	18.2			
6.00	2	18.2			
Total	11	100.0			

Result of the analysis on environmental disclosures contained in Table 3 shows one NG firm did not delve at all into environmental issues in its sustainability report which accounted for the overall minimum score of .00 for NG firms; 2 (18%) NG firms had the highest score of 6.00 from a maximum of 15.00 obtainable. The minimum score of 0.60 for SA firms implies that all SA firms disclosed on environmental sustainability. 2 (18%) SA firms each having an index of 8.40 surpassed the 6.00 maximum environmental disclosure score of NG firms by 2.40 (8.40 - 6.00). The mean score of NG firms on environmental disclosure of 3.00 in comparison to the mean of the SA firms of 4.15 (Table 7) suggests that SA firms slightly disclosed more on environmental sustainability than NG firms.

Social sustainability disclosure

Result on social sustainability disclosure indices of NG and SA firms presented in Table 4 reveals the minimum score of NG firms to be 2.40 which is over three times less than the minimum of SA firms (7.80). The minimum score of 7.80 for SA firms also surpassed the scores of 6 (55%) NG firms having scores in the range of 2.40 - 7.20, which is below 7.80.

Table 4: Social sustainability disclosure indices of NG and SA firms

Nigerian Firms			South-African firms		
Index (max: 60.00)	Frequency	Percent	Index (max: 60.00)	Frequency	Percent
2.40	1	9.1	7.80	1	9.1
3.00	1	9.1	9.00	2	18.2
4.80	2	18.2	10.20	1	9.1
5.40	1	9.1	14.40	1	9.1
7.20	1	9.1	15.00	1	9.1
10.80	1	9.1	16.20	2	18.2
11.40	1	9.1	18.60	2	18.2
14.40	1	9.1	25.80	1	9.1
15.00	1	9.1	Total	11	100.0
16.80	1	9.1			
Total	11	100.0			

The maximum score of SA firms (25.80) exceeded the maximum score of NG firms (16.80) by an index of 9.00 (54%). The mean score of SA firms of 14.62 in comparison to that of NG firms of 8.73 (Table 7) establishes that SA firms markedly disclosed more on social sustainability than NG firms.

Overall sustainability disclosure

The combined sustainability disclosure indices for the twenty-two (22) firms in both countries are presented in Table 5. The minimum sustainability index for NG (SA) firms is 3.03 (11.53). The lowest score for SA firms (SDI_{SA}) exceeded the minimum score for the NG firms (SDI_{NG}) by almost four times (3.8 times). The SA firm with the minimum sustainability disclosure index (SDI) of 11.53 surpassed 5 (46%) NG firms in SDI score. The NG firm with the highest SDI of 26.65 exceeded 6 (55%) SA firms in scores; stated differently, 5 (45%) SA firms had SDI scores above the maximum score of NG firms. Also, the maximum score of SA firms (44.83) exceeds that of NG firms (26.65) by almost two times (1.7 times). SA firms generally had higher SDI designations than NG firms (for example, unlike NG firms that had one 'B' and no 'B+' designation, SA firms had four 'B' and one 'B+' designations). The overall mean SDI of NG firms ($SDI_{NG} = 14.23$) is strikingly below the mean SDI of SA firms ($SDI_{SA} = 25.35$) [Table 7]. This is graphically depicted in appendix 6; it is concluded that SA firms generally disclosed more on sustainability in annual reports than NG firms.

Table 5: Overall sustainability disclosure indices of NG and SA firms

Nigerian Firms				South-African firms			
Index (max: 100.00)	Frequency	Percent	Designation	Index (max: 100.00)	Frequency	Percent	Designation
3.03	1	9.1	C	11.53	1	9.1	C
6.03	1	9.1	C	14.58	1	9.1	C
7.25	1	9.1	C	20.00	1	9.1	C+
9.68	1	9.1	C	23.60	1	9.1	C+
10.95	1	9.1	C	24.23	1	9.1	C+
12.05	1	9.1	C	24.78	1	9.1	C+
15.05	1	9.1	C+	26.70	1	9.1	B
18.10	1	9.1	C+	28.50	1	9.1	B
23.50	1	9.1	C+	29.28	1	9.1	B
24.23	1	9.1	C+	30.90	1	9.1	B
26.65	1	9.1	B	44.83	1	9.1	B+
Total	11	100.0		Total	11	100.0	

The checklist with details of sustainability disclosures on each of items by Nigerian and South African firms is delineated in appendix 2. Under the economic sustainability disclosure measures, SA firms populated most of the cells across the 5 disclosure ratings than NG firms. The few NG firms clustered around category 1-2 except 2 firms that were rated 4 per disclosure on economic impact. This distribution pattern accounts for difference in extent of disclosure between NG and SA firms on the EcSI. The distribution pattern under environmental sustainability disclosure was such that dispersal of scores between NG and SA firms was almost equal, as firms from both countries populated most cells in the range of 1-2 except certain firms (recurrently SA firms) having outlier scores of 4. This logically explains the slight variation in

EnSI between NG and SA firms. Under the social sustainability measures, dissemination for most firms from both countries were in the range of 1-3. Though some few firms scored above average (with a rating of 4), most were SA firms; this accounts for the noticeable difference in SsSI between NG and SA firms. Overall, the pattern of diffusion on sustainability disclosures was such that most SA firms were clustered around the middle of the 5-point tapered scale (range of 2-4) while most NG firms were concentrated at the lower part of the scale (range of 1-2), thus the difference in SDI among firms from both countries.

Results from Inferential Analysis

Descriptive analysis provided *prima facie* evidence that the extent of disclosure on sustainability differed between firms from the two countries. In this section, the paper delved into deeper analysis on differences in disclosure, employing inferential statistical tools.

The interaction between quantity and quality of Sustainability Disclosure

From results in Table 1, it was established that SA firms devoted more space in annual reports to sustainability reporting (quantity of disclosure); result in Table 5 also established that SA firms disclosed more on sustainability than NG firms (quality of disclosure). It was therefore investigated as to whether the quality of disclosure is congruous with quantum of disclosure by correlating the overall sustainability disclosure indices (SDI) with the proportion of entire report dedicated to sustainability reports by all the twenty two (22) firms. The result is presented in Table 6.

Table 6: Correlation between sustainability indices and space dedicated to CSR report

		Proportion of entire report dedicated to CSR
Overall sustainability disclosure index	Pearson	.637**
	Correlation	
	Sig. (2-tailed)	.001
	N	22

The result emitted from this analysis furnished in Table 4 shows a positive, strong and statistically significant relationship ($r = .637$, $p = .001 \leq .05$). The difference in the extent of disclosure on CSR between NG and SA firms could be adduced to the quantum of space dedicated to CSR reporting by entities from the two countries. The result in Table 5 adds more noise to the earlier inference drawn from Table 1 that SA firms generally dedicated more space to CSR reporting than NG firms, hence greater extent or quality of disclosure by SA firms than NG firms.

Analysis of difference in extent of disclosure by Nigerian and South African firms

Differences in sustainability disclosure was analysed using the independent sample t-test; result is as presented in Table 7.

Table 7: Group Statistics on sustainability disclosure by NG and SA firms

Sustainability perspective	Firm Group	N	Mean	Std. Deviation	Std. Error Mean	P value from t-test
Economic [EcSI]	Nigerian Firm	11	2.5000	1.93649	.58387	.001
	South-African Firm	11	6.5909	2.72952	.82298	
Environmental [EnSI]	Nigerian Firm	11	3.0000	2.02583	.61081	.256
	South-African Firm	11	4.1455	2.53786	.76519	
Social [SsSI]	Nigerian Firm	11	8.7273	5.14997	1.55277	.016
	South-African Firm	11	14.6182	5.39515	1.62670	
Overall [SDI]	Nigerian Firm	11	14.2273	7.95985	2.39998	.006

There appears to be differences in the mean score of firms from both countries, with SA firms having higher mean score than NG firms across the three sustainability dimensions, thereby resulting in marked difference in the overall sustainability score (Table 7). Specifically, the difference in economic ($p = .001 \leq .05$), social ($p = .016 \leq .05$) and overall ($p = .006 \leq .05$) sustainability disclosures respectively between NG and SA firms is significant at 5%, while environmental sustainability is not statistically significant ($p = .256$). Judging on the basis of overall mean score using the interpretation guide in appendix 4, NG firms were designated 'C' (very low; $SDI_{NG} = 14.23$) and SA firms 'B' (average; $SDI_{SA} = 25.35$) as to the extent of disclosure on sustainability.

Analysis of difference in extent of disclosure among Nigerian firms

NG firms were dichotomised based on the application of NSBP in preparing sustainability reports, into adopters (applied NSBP) and non-adopters (did not apply NSBP). The objective in this regard was to assess the adequacy of the NSBP in improving the quality of sustainability reporting among NG banks. Some firms stated their adoption of the NSBP without presenting reports using the framework. Since the approach was to recognise the substance of the reporting rather than mere declaration or statement of intent to apply the guideline, such firms were categorised as non-adopters. Difference in extent of disclosure were analysed between adopters and non-adopters (result reported in Table 8).

Table 8: Extent of Difference in Sustainability Disclosure among NG firms

Sustainability perspective	Firm Group	N	Mean	Std. Deviation	Std. Error Mean	P value from t-test
Economic	Did not apply NSBP	6	1.7708	1.21299	.49520	.227
	Applied NSBP	5	3.3750	2.40442	1.07529	
Environmental	Did not apply NSBP	6	2.1000	1.80997	.73892	.109
	Applied	5	4.0800	1.86869	.83570	
Social	Did not apply NSBP	6	5.3000	3.20687	1.30920	.006
	Applied	5	12.8400	3.83249	1.71394	
Overall	Did not apply NSBP	6	9.1708	5.18665	2.11744	.011
	Applied	5	20.2950	6.35596	2.84247	

Firms that applied the NSBP (firms that did not apply the NSBP) had mean score of 3.38 (1.77), 4.08 (2.10) and 12.84 (5.30) on economic, environmental and social sustainability respectively; the overall sustainability score was 20.30 (9.17). At 5% significance level, p values establish that adopters and non-adopters of the NSBP do not significantly differ in economic ($p = .227 > .05$) and environmental ($p = .109 > .05$) sustainability disclosures but differed significantly as per social sustainability ($p = .006 \leq .05$) and the overall sustainability disclosure ($p = .011 \leq .05$). Since firms that applied the NSBP in the rendition of sustainability report had higher SDI score than others that did not, it is concluded that the adoption of the NSBP has, to some extent, deepened the quality of sustainability disclosure by Nigerian banks.

Analysis of difference in disclosure between Nigerian firms adopting NSBP, Nigerian firms not adopting NSBP and South African firms

Analysis was performed on the gap in extent of disclosure between NG firms that adopted the NSBP and SA firms applying the GRI on one hand (results in Table 9); and NG firms that did not adopt the NSBP and SA firms applying the GRI framework on the other hand (results in Table 10), with a view to finding out the extent to which the introduction of NSBP has improved the quality of sustainability reporting by Nigerian banks.

Table 9: Comparison of disclosure by NG firms applying NSBP and SA firms applying GRI

Sustainability perspective	Firm Group	N	Mean	Std. Deviation	Std. Error Mean	P value from t-test
Economic	NG Applying NSBP	5	3.3750	2.40442	1.07529	.040
	SA applying GRI framework	11	6.5909	2.72952	.82298	
Environmental	NG Applying NSBP	5	4.0800	1.86869	.83570	.960
	SA applying GRI framework	11	4.1455	2.53786	.76519	
Social	NG Applying NSBP	5	12.8400	3.83249	1.71394	.520
	SA applying GRI framework	11	14.6182	5.39515	1.62670	
Overall	NG Applying NSBP	5	20.2950	6.35596	2.84247	.271
	SA applying GRI framework	11	25.3545	8.81896	2.65902	

From the result of analysis in Table 9, there appears to be some divergence in the extent of disclosure on economic (NG, mean = 3.38; SA, mean = 6.59; $p = .040 \leq .05$), environmental (NG, mean = 3.38; SA, mean = 6.59; $p = .960 > .05$), social (NG, mean = 12.84; SA, mean = 14.62; $p = .520 > .05$) and overall sustainability disclosures (NG, mean = 20.30; SA, mean = 25.35; $p = .520 > .05$) with SA firms having higher disclosure indices across the three sustainability perspectives and the overall sustainability disclosure. Aside the economic sustainability which shows statistically-proven significant difference in extent of disclosure at 5% significance level, inferential analysis result suggests that the difference in disclosure between firms from both countries is not so pronounced as to retain statistical significance at 5%. The five (5) NG firms applying the NSBP had an overall mean score of 20.30, designated 'C+' (low), which is a slight improvement upon the 'C' (very low) designation based on overall average SDI score of NG firms. As the gap between NG firms that adopted the NSBP (mean SDI = 20.30) and SA firms applying the GRI (mean SDI = 25.35) is still wide (though not statistically significant at 5%), it is inferred that the NSBP has helped to marginally step-up the quality of sustainability reporting in Nigeria in comparison to global standards.

Table 10: Comparison of NG firms not applying NSBP and SA firms applying GRI

Sustainability perspective	Firm Group	N	Mean	Std. Deviation	Std. Error Mean	P value from t-test
Economic	NG non-NSBP adopters	6	1.7708	1.21299	.49520	.000
	SA firms applying GRI	11	6.5909	2.72952	.82298	
Environmental	NG non-NSBP adopters	6	2.1000	1.80997	.73892	.103
	SA firms applying GRI	11	4.1455	2.53786	.76519	
Social	NG non-NSBP adopters	6	5.3000	3.20687	1.30920	.002
	SA firms applying GRI	11	14.6182	5.39515	1.62670	
Overall	NG non-NSBP adopters	6	9.1708	5.18665	2.11744	.001
	SA firms applying GRI	11	25.3545	8.81896	2.65902	

In Table 10, the mean difference between NG firms not adopting NSBP and SA firms applying GRI is wide and statistically-significant for three sustainability indices except environmental sustainability (Table 10). The 6 Nigerian non-NSBP adopters have a very low SDI mean score of 9.17 (designated 'C'), which dampened the 20.30 SDI mean score of the 5 NSBP adopters, thus weighing down the overall SDI mean score of NG firms to 14.23. In sum, NG firms that applied NSBP in preparation of sustainability report designated C+ generally scored higher than others that did not apply the NSBP (designated 'C'). This suggests that the overall gap in sustainability disclosure between NG and SA firms would have been wider but for the introduction of the NSBP.

Hypotheses Testing

The results from descriptive analysis in Table 2 and inferential analysis in Table 7 ($p = .001 \leq .05$) support the conclusion that there is significant difference in the extent of disclosure on economic sustainability between NG firms that do not prepare sustainability report using the GRI guide and SA firms preparing sustainability report using the GRI guideline as part of an integrated report and the difference is statistically significant at 5%. The null hypothesis (H_{01a}) is therefore rejected but the alternate hypothesis accepted that Nigerian and South African banks significantly differ in the extent of economic sustainability disclosure on the account of the adoption of integrated reporting by South African firms.

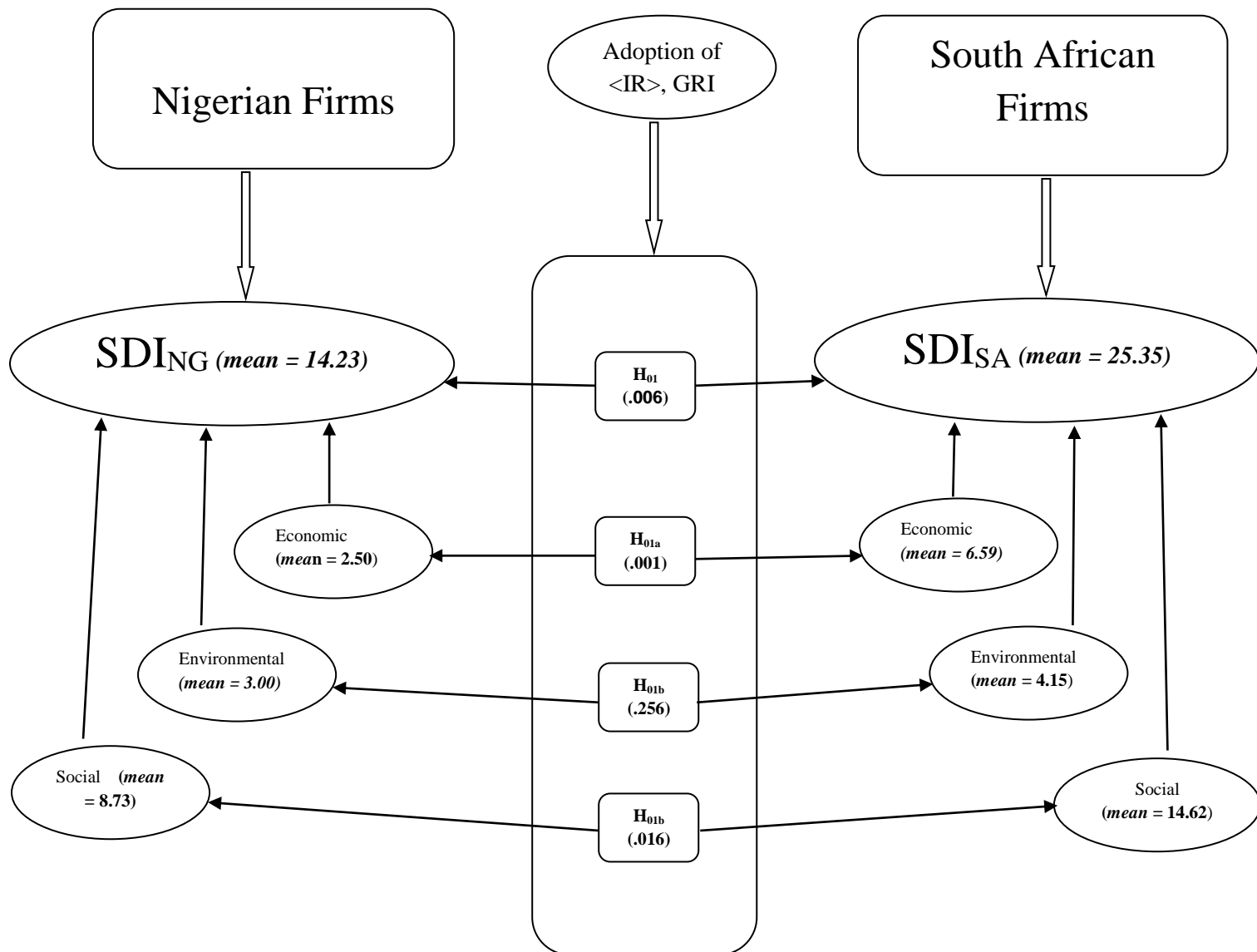
Descriptive analysis result in Table 3 shows that although there are some differences in extent of environmental sustainability disclosure between NG and SA firms, the difference failed

to retain statistical significance when inferential statistics was invoked to judge the magnitude of difference (results in Table 7, $p = .256 > .05$). The null hypothesis (H_{01b}) is therefore retained that Nigerian and South African banks do not significantly differ in the extent of environmental sustainability disclosure on the account of the adoption of integrated reporting by South African firms. The result in Table 4 shows evidence of difference in the extent of disclosure between NG and SA firms on social sustainability. This difference in disclosure is statistically-proven by the results contained in Table 7 ($p = .016 \leq .05$), hence the null hypothesis (H_{01c}) is rejected and the alternate hypothesis retained that Nigerian and South African banks significantly differ in the extent of social sustainability disclosure on the account of the adoption of integrated reporting by South African firms.

The difference in the extent of disclosure across the three sustainability perspectives culminates to the extent of difference in overall sustainability disclosures between firms from both countries (Table 5). Inferential analysis on difference in disclosure lending credence to this conclusion is contained in Table 7 ($p = .006 \leq .05$). Also, since the null form of two (H_{01a} and H_{01c}) out of the three sub-hypotheses is rejected, the overarching null hypothesis (H_{01}) is therefore reject, while the alternate hypothesis prevails; thus, it is concluded that Nigerian and South African banks significantly differ in the extent of sustainability disclosure on the account of the adoption of integrated reporting by South African firms.

The conceptual framework, reproduced with statistical results incorporated (p values of t -test placed in parentheses), is presented in Figure 2.

Figure 2: Conceptual framework on extent of sustainability disclosures by Nigerian (NG) and South African (SA) Firms reproduced, incorporating statistical results



Source: Developed by Authors (2017)

5. Discussion of Findings

The extent of sustainability disclosure was assessed across the economic, environmental, social and the overall disclosure by NG and SA firms using sustainability reports enshrined in annual reports. SA firms disclosed more on economic sustainability than NG firms. Noting that

disclosure on environmental sustainability was low by firms from both countries, this perspective recorded the least score as observed by other studies from Nigeria (Uwuigbe & Jimoh, 2012) and South Africa (Zyl, 2013). Uwuigbe and Jimoh (2012), from the study of selected Nigerian firms, noted that firms almost avoided disclosing on environmental issues. Zyl (2013) from the study of a cross-section of twenty-three (23) South African firms contended that disclosures relating to environmental sustainability are still very low amongst the firms. In spite of the overall low disclosure on environmental sustainability, South African firms still disclosed more than Nigerian firms. Consistent with prior studies (for example, Teoh & Thong, 1984; Uwuigbe & Jimoh, 2012; Oyewo & Badejo, 2014), this study documents that firms from both countries generally disclosed more on social sustainability; South African firms disclosed more than Nigerian firms though.

With an average SDI score of 14.23 from a maximum of 100.00, the extent of sustainability disclosure by Nigerian firms is rated very low (research objective one); this finding aligns with prior studies (Asaolu et al, 2012; Uwuigbe & Jimoh, 2012; Adeyemi & Ayanlola, 2014; Adeyemi & Ayanlola, 2015; Nwobu, 2015). Taking into account the SDI score of South African firms being 25.35, the extent of sustainability disclosure in abridged sustainability reports inculcated in annual integrated reports of South African firms is adjudged average (research objective two). Albeit South African firms incorporated abridged sustainability reports in annual integrated reports aside the issuance of full, separate or standalone CSR report by some of them, the extent of sustainability disclosure in such condensed CSR reports was significantly higher than what is contained in the average CSR report rendered by a Nigerian firm (research objective three). South African firms devoted more space to sustainability reports in annual reports than Nigerian firms. The observation that the quality of sustainability disclosure correlated strongly, positively and significantly with the quantum of space dedicated to sustainability reporting in annual reports bolsters the result of the significant difference in extent of disclosure extent between firms from both countries with South African firms disclosing more (research objective three).

Nigerian firms that adopted the NSBP showed some evidence of improvement over the others not applying the principle to render sustainability reports. The comparison of the quality of disclosure by Nigerian firms applying the NSBP with South African firms presenting abridged sustainability reports, rendered as part of integrated reports, using the GRI guidelines showed some gaps (though difference not so pronounced as to retain statistical significance at 5% level of significance), with SA having higher score. This means the NSBP still somewhat falls below the *de factor* global standard on sustainability reporting (the GRI framework).

6. Conclusion and Recommendations

This paper focused on examining whether the adoption of integrated reporting can improve the quality and quantity of sustainability reporting in Nigeria. The approach followed was to comparatively analyse sustainability reports of twenty-two (22) firms (11 each from Nigeria and South Africa). Bearing in mind that some South African firms published standalone sustainability reports, the study selected South African firms that incorporated sustainability reports in their annual integrated reports with a view to comparing disclosures with Nigerian

firms that commonly rendered sustainability reports as part of conventional annual reports. It was observed that the portion of space devoted to sustainability reporting was significantly correlated with the quality of the CSR report. It is documented that there is significant difference in the extent of disclosure on sustainability between Nigerian and South African firms, with firms from South Africa disclosing more on the account of adopting integrated reporting and preparing sustainability reports using the GRI guideline. However, Nigerian firms preparing sustainability reports using the Nigerian Sustainable Banking Principles (NSBP) showed some evidence of improvement in CSR reporting quality.

This paper has contributed to scant research on measures that can be taken to deepen sustainability reporting quality in Nigeria. The comparative analysis approach used in investigating the place of integrated reporting in contributing to the quality of sustainability reporting combined with studying the subject of integrated reporting in its earliest or formative stage further reinforces the originality of the paper and its contribution to knowledge.

This study is not without its limitations. The study focused on financial service industry in Nigeria and South Africa. Results obtained from this sector may not be applicable, transferable or generalisable to other sectors; there is therefore the need to examine what obtains in other sectors. The study used content analysis technique to evaluate and rate disclosure on sustainability; analysis was limited to what was disclosed. The disclosure checklist was interpretively constructed, as is the scale used to quantify and rate the extent of disclosures—the limitations of content-analysis therefore apply. Milne and Alder (1999) pointed out that no universal rule of thumb or universal minimum standard which can be adopted for content-analysing the reliability of social and environmental disclosures subsists. To the extent that the scale is appropriate, results are reliable. To ensure validity of the research instrument, the most definitive and recent framework on sustainability reporting (the GRI G4) and the framework peculiar to financial service sector were both used as a guide in drawing up the disclosure checklist.

The introduction of the Nigerian Sustainable Banking Principles (NSBP) appears to have elevated sustainability reporting quality in Nigerian banks for adopters. Whilst noting that certain Nigerian firms claiming to apply the NSBP in rendering sustainability reports still recorded low scores (for example, *NF7*, SDI = 12.05; *NF10*, SDI = 15.05 in appendix 1a), the noticeable discrepancy in the extent of disclosure between Nigerian firms that applied the NSBP and South African firms that applied the GRI framework establishes the inadequacy of the NSBP in improving sustainability reporting in Nigeria in comparison with international sustainability reporting standards. Certain aspects of sustainability featured in the GRI framework were not covered in the NSBP (discussed in section 3.2). Whereas the instigation of the NSBP is considered a move in the right direction in stemming the tide on poor sustainability reporting in the banking sector, the guideline may have to be reviewed, revised and benchmarked against other globally-renown sustainability reporting guidelines such as GRI 4 to step-up its potency in enhancing sustainability reporting quality.

Aside the financial service sector where the NSBP applies, other sectors in Nigeria having no framework on CSR reporting but seeking elevation in the quality of such reports may consider preparing CSR reports using the GRI guidelines. Firms voluntarily adopting <IR> using the GRI guideline in CSR reporting in countries where sustainability reporting is not mandated attributed their decision to adopt to meeting stakeholders' expectations (GRI, 2013c). Regulatory authorities in other sectors may also consider adopting or adapting the GRI guideline in

providing guidance for firms operating in the sector to instill high quality in sustainability reports. At the moment, a bill (the Corporate Social Responsibility bill) seeking the regulation of CSR and the establishment of the CSR commission is in offing in the Nigerian legislative arm (National Assembly, 2008; Oserogho & Associates, 2014). When birthed, following the passage of the CSR bill into law, the Commission may consider adopting or adapting the GRI guideline in discharging part of its responsibilities of creating standards for social responsibility of corporate organisations that is consistent with international standards, with a view to improving quality of CSR disclosure. As the practice and reporting quality of sustainability anticipatorily improves in Nigeria, firms may have to demonstrate their commitment to sustainability reporting by issuing standalone sustainability reports, aside sustainability reports imbued in conventional annual reports, as done globally (South Africa inclusive).

Nigeria has not adopted <IR> and by extension none of the Nigerian firms applied the GRI guide on sustainability reporting. To the extent that South African firms outperformed Nigerian firms in sustainability disclosures on economic, environmental and social matters on the account of South African firms preparing integrated reports, and on the basis that in other parts of the world, sustainability reporting improved due to the adoption of <IR>, it is recommended that financial reporting regulatory authorities and other relevant government machineries should consider the adoption of <IR> in Nigeria in the nearest future to improve the quality of corporate reporting in general, and sustainability reporting in particular. As the characteristic limitations of conventional financial reporting growingly and rapidly paves way for <IR>, it is conceivable that <IR> is the next major evolution in corporate reporting. There are also evidences of collaboration between the International Integrated Reporting Council, IIRC (issuer of <IR> framework) and the International Accounting Standards Board, IASB (issuer of International Financial Reporting Standards, IFRS) [IIRC & IFRS Foundation MOU, 2013], an indicator that <IR> may be the future of corporate reporting. In this light, Nigerian firms may start proactively considering ways of implementing <IR> especially now that the transitioning to IFRS is ebbing out. The adoption of <IR> in Nigeria should simultaneously achieve betterment in the quality of sustainability reporting and corporate reporting.

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APPENDICES

Appendix 1a: Sustainability Disclosure Scores and Indices of Nigerian firms

Firm Code	Score	Economic	Environmental	Social	SDI (Total)	No of pages Annual Report	No of pages on CSR in Annual Report	Pro Portion (%)
NF1	Raw	1	1	8	10	346	1	0.29
	Scaled	0.625	0.6	4.8	6.06			
NF2	Raw	4	7	19	30	89	2	2.25
	Scaled	2.5	4.2	11.4	18.18			
NF3	Raw	9	3	28	40	285	25	8.77
	Scaled	5.625	1.8	16.8	24.24			
NF4	Raw	10	10	24	44	225	12	5.33
	Scaled	6.25	6	14.4	26.65			
NF5	Raw	4	10	25	39	288	15	5.21
	Scaled	2.5	6	15	23.5			
NF6	Raw	1	0	4	5	193	1	0.52
	Scaled	0.625	0	2.4	3.03			
NF7	Raw	2	6	12	20	200	4	2.00
	Scaled	1.25	3.6	7.2	12.05			
NF8	Raw	6	7	5	18	214	6	2.80
	Scaled	3.75	4.2	3	10.95			
NF9	Raw	2	2	8	12	164	4	2.44
	Scaled	1.25	1.2	4.8	7.25			
NF10	Raw	2	5	18	25	267	4	1.50
	Scaled	1.25	3	10.8	15.05			
NF11	Raw	3	4	9	16	125	3	2.40
	Scaled	1.875	2.4	5.4	9.68			
	Raw	44	55	160	259			

Appendix 1b: Sustainability disclosure scores and indices of South African firms

Firm Code	Score	Economic	Environmental	Social	SDI (Total)	No of pages Annual Report	No of pages on CSR in Annual Report	Pro Portion (%)
SF1	Raw	8	4	27	39	116	8	6.90
	Scaled	5	2.4	16.2	23.60			
SF2	Raw	19	14	15	48	200	6	3.00
	Scaled	11.88	8.4	9	29.28			
SF3	Raw	12	4	31	47	76	9	11.84
	Scaled	7.5	2.4	18.6	28.50			
SF4	Raw	17	14	43	74	110	14	12.73
	Scaled	10.63	8.4	25.8	44.83			
SF5	Raw	8	8	17	33	95	6	6.32
	Scaled	5.00	4.8	10.2	20.00			
SF6	Raw	7	7	27	41	332	13	3.92
	Scaled	4.38	4.2	16.2	24.78			
SF7	Raw	9	7	24	40	88	5	5.68
	Scaled	5.63	4.2	14.4	24.23			
SF8	Raw	12	7	25	44	110	10	9.09
	Scaled	7.50	4.2	15	26.70			
SF9	Raw	12	8	31	51	416	18	4.33
	Scaled	7.50	4.8	18.6	30.90			
SF10	Raw	7	2	15	24	552	42	7.61
	Scaled	4.38	1.2	9	14.58			
SF11	Raw	5	1	13	19	76	8	10.53
	Scaled	3.13	0.6	7.8	11.53			
	Raw	116	76	268	460			

Appendix 2: Disclosure checklist with breakdown of sustainability disclosures by Nigerian and South African firms

	1	2	3	4	5
1.ECONOMIC SUSTAINABILITY					
To what extent does the report disclose the direct economic value generated and distributed, disaggregated into direct economic value generated (revenues), economic value distributed (e.g. operating costs, Employee wages & benefits) and economic value retained?	(3)*	(1)*	(1)*	(3)*	(1)*
To what extent does the report disclose and contextualizes risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure.	(1)*				
Did the firm report on total monetary value of financial assistance received by the organisation from governments during the reporting period, including, as a minimum, tax relief and tax credits, awards, financial assistance, incentives and benefits?		(1)*			
Does the report contain significant proportion of workforce compensated based on wages subject to minimum wage rules, ratio of the entry level wage by gender at significant locations of operation to the minimum wage, percentage of senior management at significant locations of operation that are hired from the local community and general market presence?	(1) [≠]	(2)*			
Does the report disclose significant indirect impact such as; changing the productivity of organisations, sectors, or the whole economy, economic development in areas of high poverty, economic impact of the use of products and services?	(2) [≠] (3)*	(4) [≠] (4)*	(1)*	(2) [≠] (1)*	(1)*
Were there disclosures on business goals for community investments? Was context provided for the community investment activities and elements? Was data provided for performance assessment?	(2) [≠]	(4) [≠] (2)*	(4)*	(1)*	
Was community investment broken down into themes (e.g., arts, education etc.), regions/geographical areas, types (in cash; in kind such as staff-volunteering; in-kind such as reduced fee, foregone revenue fee or refusal to charge a charitable organisation; and management costs) and/or amount expended in relation to profit proportion?	(1)*	(4) [≠] (4)*	(1) [≠] (3)*		
Was disclosure made with respect to the amount expended on community investment? Was the amount expended related as a proportion of the total profit generated? Was the expenditure situated within the context of, or in comparison with prior year expenditure on community investment?		(2) [≠] (2)*	(2)*	(2)*	(3)*
2.ENVIRONMENTAL SUSTAINABILITY					
Are the impacts of entity's operation on Materials, Energy, Water disclosed and contextualized? Was amount expended on remedying damages caused by use of materials, dissipation of energy and water contamination disclosed?	(2) [≠]	(2) [≠] (3)*	(3) [≠] (3)*		

Are the impact of entity's operation on greenhouse gas (GHG) emissions, effluents and waste disclosed, contextualized and measurable targets for reduction stated?	(1) [≠]	(2) [≠] (2)*	(3) [≠] (3)*	(3)*	
Are the firm's products and services environmentally compliant? Are future improvement targets imbued into the firm's sustainability strategy?	(3)*	(1) [≠] (1)*	(1) [≠] (1)*	(1)*	
Did the company report compliance and/ or non-compliance with, or prosecution by relevant environmental laws? Was payment for non-compliance with environmental laws disclosed? Were instances of flaunting environmental laws and/ or prosecution reported?	(2)*	(3) [≠] (1)*	(1)*	(1)*	
Does the firm have a mechanism in place where the impact of its operation on the environment is reported? Did the report disclose the number of, or instances of externalities reported through its environmental grievance mechanism?	(3) [≠] (2)*	(4) [≠] (5)*		(1) [≠]	
3.SOCIAL SUSTAINABILITY					
3.1 Labour Practices and Decent Work					
Is there an employment policy? Does the firm have an employment policy guiding labour practice and supporting decent work? Are there results demonstrating the linkage of the employment policy to actual performance achieved by the firm?	(1) [≠] (1)*	(2) [≠] (5)*	(2) [≠] (3)*		
Are there mechanisms in place for management-employee interaction and employee engagement?	(1)*	(4) [≠] (4)*	(1) [≠] (2)*	(3)*	
Are structures in place to monitor employee health and safety and well-being? Does the report disclose expenditure on health and safety; details of injuries, and man-hour lost to fatalities/diseases/injuries/accidents?	(3) [≠]	(4) [≠] (5)*	(1) [≠] (2)*	(1)*	
To what extent does the report discloses average hours of training per year per employee, total hours dedicated to, and amount expended on employee training and development?	(1) [≠] (1)*	(4) [≠] (1)*	(1) [≠] (5)*	(2) [≠] (3)*	
Is there a policy in place for diversity, equal opportunity and equal remuneration for female and male employees? Are there statistics evidencing adherences, compliance or sustenance of diversity and equal opportunity and equal remuneration claims?	(1) [≠]	(5) [≠] (2)*	(1) [≠] (5)*	(3)*	
Are there mechanisms in place for reporting, resolving and managing labour practice grievances? Is labour turnover disclosed and contextualized?	(4)*	(1) [≠] (1)*	(1)*	(2)*	
3.2 Human Rights					
Does the report contain policy on upholding human rights, non-discriminatory practice and freedom of association with legitimately constituted groups?	(1) [≠] (2)*	(6) [≠] (4)*	(1)*		
Does the organisation have a policy protecting against child, forced or compulsory labour? Are there specifically funded or supported anti-child, anti-forced labour programmes? Was expenditure on such projects disclosed?		(2) [≠]			
Are security practices and programmes disclosed? To what extent was		(1) [≠]			

disclosure made with respect to expenditure on protecting lives and properties in the society?		(1)*			
Are mechanisms in place for reporting, resolving and managing human rights grievances? Are disclosures made on human rights grievances contextualized?	(2)*	(1) [‡] (1)*			
3.3 Society					
Does the firm have a policy on supporting local communities such as access points in low-populated or economically disadvantaged areas? Are there initiatives to improve access to financial services for disadvantaged people (financial inclusion programme)? Did the report disclose programmes and expenditure in support of local communities?	(2) [‡]	(3) [‡] (1)*	(4) [‡] (4)*	(2) [‡] (6)*	
Does the firm have a policy on anti-corruption, anti-competitive behaviour and upholding compliance with societal ethical values? Are there evidences in the report suggesting support for upholding the policy?	(1) [‡]	(2) [‡] (3)*	(3)*		
Does the firm have a mechanism in place for assuring and monitoring that its major suppliers uphold human rights? Are evidences presented to support the existence, functioning and effectiveness of such mechanisms	(1)*	(2) [‡] (3)*	(1) [‡]		
Are mechanisms in place for reporting, resolving and managing grievances arising from the entity's impact on the society? Are disclosures detailed and well contextualized?	(1) [‡] (2)*				
3.4 Product Responsibility					
Are there mechanisms in place to ensure customer health & safety, and product & service labeling such as initiatives to enhance financial literacy? Are there disclosures with respect to moves or initiatives to make the financial products affordable especially for the financially disadvantaged?	(1) [‡]	(2) [‡] (1)*	(1) [‡] (1)*	(2) [‡] (1)*	
Does the report contain mechanisms in place to ensure customer privacy? Are there disclosures on enforcements of duty of secrecy owed customers?	(1)*	(3)*			
Are there evidences presented in the report that the firm respects or complies with regulations on product (financial service) responsibility and communication with customers?	(1) [‡] (1)*	(3) [‡]	(4)*	(1)*	
Are there disclosures in terms of monetary value and percentage on loan portfolios for business lines by specific region, size, and sector?		(1)*			
What is the disclosure extent on coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures?		(1) [‡] (2)*	(1)*		
What is the disclosure extent on number and percentage of organisations held in the institutions portfolio with which the reporting organisation has interacted on environmental and social issues	(1) [‡]				

Source: Developed by Authors (2017) Notes: Figures in parentheses represent the number of firms under each category of disclosure (Legend: [‡] for NG firms; * for SA firms)

Appendix 3: Likert scale scores and interpretation

Interpretation	Assigned score
No Disclosure - The subject is not mentioned in the report at all	0
Just Mentioned- The subject is only mentioned briefly in the report with no context provided	1
Disclosure to a less extent - The subject is only mentioned briefly in the report (which might include measured results) with little context provided	2
Disclosure to a moderate extent - The subject and measured results are discussed and a measurable target is provided for the current and/or future.	3
Disclosure to a large extent - The current year performance on the subject is discussed against the target and mitigation is provided to improve performance	4
Significant disclosure - Full integration is achieved by linking the risk, target, and mitigation with the financial aspects on the subject.	5

Source: Adapted from Zyl (2013)

Appendix 4: Guide to interpretation of SDI score

Score (Based on 100.00)	Interpretation	Designation
Below 15.00	Very low	C
15.00-24.99	Low	C+
25.00-39.99	Average	B
40.00- 54.99	Above average	B+
55.00-69.99	High	A
70.00-100.00	Very High	A+

Source: Developed by Authors (2017)

Appendix 5: One-Sample Kolmogorov-Smirnov Test of Normality

		Economic sustainability performance	Environmental sustainability performance	Social sustainability performance	Overall sustainability disclosure index
N		22	22	22	22
Normal Parameters ^{a,b}	Mean	4.5455	3.5727	11.6727	19.7909
	Std. Deviation	3.11714	2.31623	5.96483	9.98170
Most Extreme Differences	Absolute	.108	.121	.131	.145
	Positive	.108	.121	.082	.099
	Negative	-.104	-.107	-.131	-.145
Kolmogorov-Smirnov Z		.506	.565	.613	.680
Asymp. Sig. (2-tailed)		.960	.907	.846	.745

a. Test distribution is Normal.

b. Calculated from data.

Appendix 6: Line chart on Sustainability Disclosure by NG and SA firms



Culture, Corruption and Sustainable Development in Zambia: An Institutional and ‘Two Publics’ Theory Perspective

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Abstract

Purpose: This paper investigates accountability practices in terms of how these may be implicated within social and cultural environments. The paper further explores how the dialectical nature of social and cultural values in different environments may compromise the professional functioning of actors and institutions of accountability to explain extant accountability practices.

Design/Methodology/Approach: The study draws on the concept of institutional pluralism and Ekeh's (1975) post-colonial theory of two publics to devise a critical lens for analysing the influence of social and cultural values on actors operating within Zambia's institutions of accountability. Empirical data was collected through semi-structured interviews with 24 key respondents drawn from Zambia's main institutions of accountability including Offices of the Auditor General and the Accountant General, the Public Accounts Committee of Parliament, the Judiciary, the Anti-Corruption Commission and Transparency International – Zambia. Archival evidence was also drawn upon to compliment primary data which was analysed qualitatively based on the main themes emerging from the data and in line with the conceptual framework.

Findings: Findings point towards the prominence of the dialectical nature between the social and cultural values emerging from the two publics. While professional ethics and values embraced within the civic public like financial regulations and good governance may promote sound accountability practices suitable for sustainable development, a number of undesirable practices including nepotism, favouritism and political patronage appear to be detrimental to the attainment of sustainable development in Zambia. The primordial public is equally seen to adversely influence accountability practices since vices like corruption and bribery seem to be embraced and promoted by members of the public.

Policy implications: These findings entail that a number of social and cultural practices within both publics may not promote sound accountability practices suitable for the attainment of sustainable development. From an accounting perspective, the study's findings call for increased advocacy on good governance, encouraging globally and locally accepted accountability and reporting frameworks, and holding actors and institutions of accountability to account for their actions. In view of the dialectics in social values emerging from the two publics, such an accountability mechanism would require integrating globally and locally acceptable accountability norms and practices that foster sustainable development.

Originality: While many studies tend to rely on archival data, this study draws on primary evidence on matters of corruption and lack of accountability in Africa. The study is also among the first in accounting research to draw on institutional pluralism and Ekeh's theory of two publics to depict dialectics embedded within social and cultural environments and their influence on accountability practices. Accordingly, the study contributes towards filling the gap of undertaking accounting research of a critical nature focused on African (Rahaman, 2010).

Keywords: *Accountability, corruption, culture, Ekeh's theory of two publics, institutional pluralism, sustainable development, Zambia.*

1. Introduction

Corruption and lack of accountability are regarded as critical impediments to development (Lederman, Loayza, Soares, 2005). The vices constitute a major obstacle to democracy, impede economic development and prosperity, and ultimately erode social order, peace and stability (Lawal, 2007; Yeganeh, 2014; Otusanya, Lauwo, Ige, Adelaja, 2015). Others (for example, Neu, Everett, Rahaman, Martinez, 2013) even consider corruption as the single greatest obstacle to economic and social development. Research on corruption has proliferated in recent years in response to numerous factors including a heightened focus by governments and public policymakers on the negative impact of corruption on economic performance and societal welfare such as loss of government revenue. Within the African continent, it is claimed that corruption slows the wheels of development (Everett, Neu, Rahaman, 2007; Akbar and Vujic, 2014). Evidence from economics and political science literature suggests that certain corruption indicators are negatively correlated with important economic outcomes to the extent of impeding sustainable development. For instance, Burki and Perry (1998) claim that corruption impedes economic growth via reduced private investment, limits development, increases child mortality, stifles literacy and social equality (Gerring and Thacker, 2004; Lederman et al, 2005).

While literature attempting to explore causes of corruption and lack of accountability has grown in recent years, little is known about how actors and institutions of accountability may contribute towards the escalation of the vice particularly within developing countries. Although an increasing body of literature has considered the role played by accountants and auditors in financial corruption (e.g., Sikka, 2009; Sikka, Filling, Liew, 2010; Otusanya and Lauwo, 2010; Otusanya, Lauwo, Ajibolade, 2013), research is still lacking on how social and cultural values influence the professional judgement of accountants and other accountability actors. Further, despite some studies recognising the importance of cultural values in shaping business ethics (for example, Hopper and Hoque, 2004; Hopper, Tsamenyi, Uddin, Wickramasinghe, 2009), the influence of social and cultural values on corrupt behaviour within public institutions has not received sufficient attention particularly in the accounting literature. Paradoxically, it is believed that most corruption takes place within the public sector (Abdulai, 2009; Pillay and Kluvers, 2014). This paper seeks to contribute towards addressing the above gap.

Pursuant to the United Nation's sustainable development agenda as reflected by its Sustainable Development Goals (United Nations, 2015), there is urgent need for a better understanding not only of factors that may accelerate the attainment of SDGs but also those that may impede the process of achieving these goals. Consequently, there is increased need for a better understanding of how accountability practices of actors and institutions of accountability may be implicated within their social and cultural environment (Pillay and Kluvers, 2014). Such an understanding may provide an enhanced perspective of corruption and similar vices that may enable the critical accounting community to effectively contribute to the sustainable development agenda (Rahaman, 2010). This study is an attempt at exploring how social and cultural values within the Zambian context may escalate lack of accountability and corruption to the detriment of sustainable development. Accordingly, this study is aimed at addressing the following research questions:

1. How do social and cultural values explain corruption and lack of accountability within public institutions in Zambia?
2. What effect does corruption and lack of accountability have on economic and sustainable development within the Zambian economy?

In order to explore the above questions and the complex nature of culture and how it may counteract efforts aimed at accelerating economic and social development, the paper draws on the concept of institutional pluralism and Ekeh's (1975) post-colonial theory of two publics. These theoretical lenses helped to depict how actors and institutions of accountability may find themselves at crossroads during the discharge of their accountability mandates as they attempt to legitimate themselves to dialectical social and cultural values within their operating environment. The rest of the paper proceeds as follows. The next section reviews the literature and theory informing the study while the research design is discussed in section 3. Research findings are presented in section 4 while a discussion of findings is presented in section 5. The paper closes with and concluding comments and recommendations.

2. Literature review

The section begins with a review of concepts and other relevant studies before discussing theories relevant for empirical analysis.

a. Culture, accountability and corruption

While lacking a universal definition, corruption is often taken to refer to the abuse of office for personal gain; or the use of official position, rank or status by an office bearer for personal gain (Shah, 2007; Neu et al, 2013). Generally, corruption and lack of accountability are believed to be products of diverse factors including illiteracy, low income levels, poverty and a lack of sound institutional frameworks of governance (Svensson, 2005; Lafenwa, 2009; Alabi and Fashagba, 2010). Others (for example, Shah, 2007) contend that corruption within the public sector is a result of failed institutions of accountability. An alternative body of research equally suggests that corrupt practices are implicated within the social and cultural values of a given social setting. While accountants and other accountability actors are perceived to possess the virtues that can help to fight corruption (Francis, 1990), literature suggests that the cultural context within which accountants discharge their duties may compromise their ability to fight corruption and promote sound accountability practices (Everett et al, 2007). The manner in which culture influences accounting, accountability and corruption is explained in ensuing sections.

2.1.1 Cultural values and their influence on accountability practices

Culture has been acknowledged as a social phenomenon that has shaped human existence as well as the various aspects of life that have to do with man (Kuchta and Sukpen, 2011). As Francis (1990) has argued, accounting is a moral practice that is implicated within human agency. Cultural factors have been identified as a critical determinant in a country's accounting system

(Hofstede, 1980; Askary, 2006; Hauriasi and Davey, 2009). While definitions of culture abound, Hofstede (1984, p. 82) defines it as ‘the collective programming of the mind which distinguishes the members of one human group from another’. A cultural system may comprise various dimensions including language, religion, morals and values, law, education, politics, social organisation, and material culture (Askary, 2006; Young, 2013). The understanding of cultural influence is important since every national accounting system is largely regarded to be a reflection of the country’s economic, social and cultural specifications. For instance, Hauriasi and Davey (2009) have pointed out that accounting can no longer be regarded as a device that merely documents and reports the facts of economic activity but rather ‘as a practice that is intrinsic to, and constitutive of social relations’ (Miller, 1994, p. 31). Accordingly accounting, though universal, takes on the nature and characteristics of the society or country within which it is practiced (Kuchta and Sukpen, 2011). While Hofstede’s (1980) model provides a useful foundation for understanding cultural dimensions, Gray (1988) proposed that a theoretical framework incorporating culture could be used to explain national and international differences in accounting systems.

Gray (1988) suggests that societal values influence the accounting and accountability subculture. He contends that national and societal culture is likely to permeate organisational and occupational subcultures with varying degrees of integration. This understanding entails that accounting systems and practices can influence and also be influenced by societal values (Young, 2013). In this model, the attitudes of accountants are deemed to be related to and derived from societal and work-related values to explain the differences in the practice of accounting and accountability in individual countries. Gray (1988) proposes four accounting values that may affect accountants’ professional ethics, practice and judgement. Firstly, there is professionalism as opposed to statutory control – this is the dichotomy for the preference of professional judgment and self-regulation versus complying with strict legal requirements and control (Askary, 2006). This concept is important in accounting as it is the accountant’s job to make independent legal and ethical decisions in any practice. A preference for independent professional judgment is consistent with a preference for a loosely knit social framework where there is more emphasis on independence, a belief in individual decisions, and respect for individual endeavour (Radebaugh, Sidney, Erwin, 2006).

The second dimension is uniformity versus flexibility. Uniformity reflects a preference for the enforcement of uniform accounting practices between organisations and for the consistent use of such practices over time while flexibility reflects the enforcement of practices in accordance with perceived circumstances of individual institutions (Kuchta and Sukpen, (2011). The third dimension is conservatism as opposed to optimism to reflect a preference for remaining cautious in measurements when dealing with an uncertain future rather than being more optimistic and risky in reasoning (Young, 2013). The fourth and final dimension is secrecy versus transparency which reflects a preference for confidentiality and the disclosure of information about the organisation’s activities only to those who are most closely involved with its management and financing as opposed to a more transparent, open, and publicly accountable approach (Radebaugh et al, 2006). As organisations are held to higher accounting and auditing standards, management and others within the organisation are forced to be more transparent about the use of the organisation’s assets, making corrupt practices by management and others more difficult

to commit and conceal (Malagueno, Albrecht, Ainge, Stephens, 2010). Accounting seeks to make the economic transactions of an organisation transparent. A key reason for keeping transactions secret by accountants and other accountability actors is to conceal corrupt practices (Hall and Yago, 2000, p. 2).

While Gray's (1988) model is often applied in reference to the influence of culture on accounting practices, the model is equally applicable for understanding the attitude of accountants and other accountability actors towards engaging in unethical behaviour like corruption. Rodriguez et al (2005) and Luo (2005) have suggested that the relationship between organisations and corruption is multi-dimensional since corruption becomes embedded in the norms and rules used by organisations and society. Luo (2005) argues that an organisation is the basic unit in which corruption can develop through unchecked opportunistic individual and collective behaviour (Pillay and Kluvers, 2014). Kamoche and Harvey (2006) contend that the informal rules and regulations of a society are linked directly to a society's accountability culture and its sub-cultures. These informal rules and regulations help to control the behaviour of members of the group by indicating acceptable interaction, norms, roles, and behaviours in prescribed social settings. Accordingly, the introduction of explicit anti-corruption rules may have little effect if the implicit values and norms supporting corruption are supported by powerful individuals and have become entrenched within society. Thus, it would be expected that legislative and institutional measures designed to curb corruption would be resisted by those in the public service who gain from the established organisational culture. Anti-corruption measures will not be supported, resources will not be allocated to fight corruption and an anti-corruption culture will not be encouraged (Pillay and Kluvers, 2014). The next section presents the theoretical framework informing this study.

b. Theoretical review

In an attempt to understand how culture may influence the professional judgement of actors of accountability and the functioning of institutions of accountability, the study draws on institutional pluralism and Ekeh's (1975) theory of two publics as suitable theoretical lenses to inform the conceptual framework for analysis. The sections below elaborate the two components of the framework.

2.2.1 Institutional pluralism

A strand of neo-institutional theory termed 'institutional pluralism' is considered to enhance an understanding of the heterogeneous nature of social and institutional environments and the ability of organisations, groups and individuals to respond to such environments (Yu, 2013). Institutions are generally perceived as 'comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life' (Scott, 2008, p. 48). Institutional pluralism is defined as the presence of more than one institutional logic in the environment, generating multiple institutionally given identities and mythologies that legitimate organisations, groups and individuals (Kraatz and Block 2008: 244). Institutional logics are cultural beliefs and rules that shape the cognitions and behaviours of actors and form a basis for reasoning, provide criteria for legitimacy, and help organise time and space (Thornton and Ocasio, 2008; Dunn and Jones, 2010; Yu, 2013). Institutional logics are

perceived as originating within societal sectors such as professions, corporations, the market, the state, the family, and religions whereby individuals and organisations that regularly interact cohere on shared rules and beliefs (Dunn and Jones, 2010).

Consequently, individual conceptions and expectations of accountability practices are increasingly regarded as being implicated in the wider cultural and institutional processes. Contrary to institutionalisation processes in environments where a single institutional structure dominates and exerts isomorphic influences, institutionalisation in pluralistic environments requires organisational actors to engage in integrative and adaptive work (Kraatz, 2009). This challenge arises due to the fact that public institutions are expected to respond to diverse and often contradictory institutional expectations in the course of discharging accountability mandates. In doing this, it is crucial for actors to establish legitimacy to extant structures as in turn these affect access to resources and even organisational survival. This challenge implies that actors in pluralistic environments should exercise choice under such multiple pressures. For instance, Dunn and Jones (2010) found that plural logics of care and science in medical education were supported by distinct groups and interests, fluctuated over time and created dynamic tensions about how to educate future medical professionals. The current study considers that multiple institutional and cultural logics have an influence on the professional judgement of accountability actors to the extent of creating variations on accountability practices in different social contexts. These variations are consistent with Ekeh's (1975) theory of two publics discussed below.

2.2.2 The theory of two publics

Ekeh's (1975) theory of two publics postulates that there are two public realms within post-colonial Africa, each with different types of moral linkages to the private realm. Eke terms these publics as the primordial and civic publics. The primordial public comprises families, rural communities, and ethnic and religious groupings (Onuoha, 2014; Egede, 2016) that influence and determine an individual's public behaviour. On the other hand, the civic public is historically associated with the colonial administration and has become identified with popular politics in post-colonial Africa. It is based on civil structures including the military, the civil service, the police, and the executive, judicial and legislative arms of government. The fundamental assumptions upon which these publics are based are believed to have considerable influence on the cultural orientation of societies, institutions, organisations, groups and individuals (Onuoha, 2014).

Despite the two publics being existent within the same society, they appear to be founded on dialectical moral principles. For instance, Ekeh (1975) contends that the primordial public is moral and operates on the same moral imperatives as the private realm while the civic public in post-colonial Africa is amoral and lacks the generalised moral imperatives operative in the private realm and in the primordial public. Under the primordial public, the individual is morally bound to his society in terms of broadened kinship groups (Onuoha, 2014). As Hopper et al (2009) have noted, colonial politics divided people into white imperialists and local inhabitants. It is believed that many African societies regard the colonial state with ambivalence and have had considerable misgivings about its morality, preferring the communal values engendered by Africa's kinship systems. For instance, state determined taxation was regarded as a coercive

practice and a punishment rather than as a citizen's duty. Consequently, this means that state taxes may not be considered as a collective good and corrupt practices and embezzlement associated with such resources may not be resented in the primordial public to such an extent as they would be in the West (Goddard, Assad, Issa, Malagila, Mkasiwa, 2016).

Ekeh (1975) argues that most educated Africans are citizens of the two publics in the same society. Individuals in the post-colony are perceived to belong to a civic public from which they gain materially (presumably through employment) but to which they give only grudgingly. On the other hand, they belong to a primordial public from which they derive little or no material benefits but to which they are expected to give generously and do give materially (Onuoha, 2014).

Accordingly, individuals working in the public sector are perceived as operating in both publics where they have to switch from a moral posture in the primordial public to amoral postures in the civic public (Goddard et al, 2016). The dialectical nature of the social and cultural values arising from the two publics is considered to have immense influence on individuals. For instance, it is claimed that the amoral posture associated with the civic public promotes laziness among African societies. Ekeh (1975) further contends that corruption arises directly from the amorality of the civic public and the legitimation of the need to seize resources from the civic public in order to benefit the primordial public. According to Ekeh, the logic of the moral and amoral dialectics operating within the two publics is that it is legitimate to rob the civic public in order to strengthen the primordial public. Ekeh (1994) identifies two forms of corruption in post-colonial Africa. The first is embezzlement of funds from the civic public or from the government. The second form is more intractable in which the resources of the civic public are diverted for the use of the primordial public by officials and is widely accepted as legitimate (Goddard et al, 2016). It is argued that these forms of corruption are only existent in the civic public.

Public officials who enrich their primordial groupings to the detriment of the civic public are often hailed as heroic. However those who uphold the norms of conduct in the civic public without benefitting local communities are by their impartiality condemned in their primordial public (Goddard et al, 2016). Osaghae (2006) argues that this amorality is conducive to the opportunistic, lawless and corrupt tendencies that characterise the public sector in many post-colonial African countries. While good governance places emphasis on legal/rational rules, this may be contrary to the cultural values of the primordial public which emphasises kinship ties and communal values. Moreover, the civic public is not only by its nature amoral but has participants in influential positions who are expected to employ government resources to further private and communal interest. Corruption might also be perceived to be less of an issue and even justifiable based on the need to subvert resources from the civic public in order to support primordial communities including friends and relatives.

For instance, it is reported that Tanzanian attitudes towards issues such as transparency, corruption and accountability are different to those found in the West (Goddard et al, 2016). Government leaders who act as patriarchs, providing material benefits to local communities, may enjoy considerable respect within society even if the benefits they distribute are corruptly acquired (Lawson and Rakner, 2005; Goddard et al, 2016). Such primordial values are expected

to be consistent with the Zambian context due to the proximity and cultural similarities of the two countries. It is therefore expected that accountability actors, as individuals operating within both publics, may equally be entangled in these cultural dialectics to the extent of compromising their ethical and professional judgement. The blending of institutional pluralism with the theory of two publics provides a useful critical lens for analysing accountability practices and how these are implicated within pluralistic social and cultural environments.

3. Methodology

This study was based on a qualitative research approach that is suitable for exploring the study's research questions. Consistent with interpretive research, a qualitative approach helped to investigate the socially constructed nature of matters under study. In order to explore how social and cultural values may influence the functioning of actors and institutions of accountability, empirical data was collected through archival evidence and semi-structured interviews. Interviews were conducted with respondents drawn from different institutions of accounting, auditing and accountability. Such institutions include offices of the Auditor General (AG) and the Accountant General (ACG), Public Accounts Committee (PAC) of Parliament, the Judiciary, the Anti-Corruption Commission (ACC) and Transparency International – Zambia (TIZ). These institutions are mandated either with the preparation of national accounts, reviewing, auditing and examining of such accounts, advocating for public and financial accountability, reporting and investigating cases of alleged corruption and financial mismanagement, and interpreting the law when such cases are brought for prosecution before the courts of law.

Data collection that commenced in May 2015 was initially based on archival evidence that involved reading through PAC and AG's reports together with treasury minutes from the Office of the Secretary to the Treasury for the period 2010 – 2014. This background study helped to understand the recurrent accountability issues and their potential causes within public institutions. These 'thematic issues' provided useful insights in the course of developing the interview protocol. Based on a purposive sampling approach, interviews were conducted with 24 respondents working within institutions of accountability listed above. The study targeted individuals whose profiles were deemed to be consistent with Ekeh's (1975) theory of two publics. These individuals are those who are educated, work within public institutions of accountability (civic public) and emerge from local communities (primordial public). Such respondents were also regarded to be operating in pluralistic environments since they had to legitimate themselves not only to their employing institutions and professional duties but also to the local communities they operate in. Such primary data collection also helped to draw on actors' internal conversations through close empirical encounters (Yang and Modell, 2013; Modell, 2015).

At the commencement of fieldwork in July 2016, target respondents were informed of the research aim in advance and anonymity was guaranteed to each of them. Further, an agreed time was scheduled to meet with each interviewee and an outline of the research project together with the research protocol were made available at least five (5) working days before the interview. Interviews were also conducted with two confidential informants working within one of the institutions who did not wish to be interviewed through formal arrangements for purposes of their own confidentiality. While the study initially targeted a sample size of 30, the number of

interviewees was influenced by uncontrollable factors on the part of the researcher including limited access. Twenty four key respondents were interviewed, distributed as follows: ten respondents were drawn from the AG's office, four from the ACG's office, five from the ACC, two from PAC, two from TIZ and one from the Judiciary. Fifteen (15) respondents were drawn either at director level or higher while the rest were just below director level.

Out of the total sample of 24 respondents, there were 15 accountants/auditors, 4 economists, 3 administrators and 2 lawyers. In view of the sensitive nature of the subject matter, three respondents requested that the interview should be recorded only through note-taking rather than tape-recording. Interviews took a semi-structured approach where the interview questionnaire provided a general guide but allowed respondents to delve into issues that they considered important regarding the matters under study. To ensure consistency and the comparability of responses, the same issues were covered during each interview (O'Dwyer et al, 2011; Atkins and Maroun, 2015) in terms of the nature of accountability practices and how social and cultural pressures influence actors and institutions of accountability in the discharge of their mandate. Interviews were conducted in English and lasted an average of 50 minutes each. Recording each interview gave the researcher the opportunity to focus on the interview conversation and to examine interviewees' responses (Bryman and Bell, 2007). Recorded interviews also provided the chance to listen to the interview over and over again while transcribing. Audio recordings were transcribed as soon as possible after the interview to enable the observation of emerging themes and the comparison and contrasting with existing ones. Transcripts were subsequently subjected to content analysis. This entailed coding the data in view of recurring themes that were deemed to address the study's research questions and consistent with the conceptual framework. Data analysis was conducted based on identified accountability practices and challenges in order to compare and contrast the experiences of different individuals in their discharge of accountability mandates. The result of the coding process was the generation of a summary for each transcript which assigned the transcript content to different themes aggregated under a set of codes (Silverman, 2011).

4. Findings

In line with the study's conceptual framework, the findings presented below depict accountability practices arising from social and cultural influences. The findings are categorised according to the influence of social and cultural values of each public on accountability and corrupt practices and the subsequent implications on sustainable development.

4.1 Corruption and accountability in the civic public

Corruption and accountability practices within the civic public are associated with cultural shifts due to changes propagated by dispensations in political regimes. In attempting to explain the reasons for the escalation in corruption levels within the country, DHRA explained that Zambia experienced fundamental cultural changes upon becoming a multi-party democracy in 1991. It is believed that low levels of corruption were witnessed in the country during both the Kaunda (pre-1991) and Mwanawasa (2001 – 2008) regimes while the opposite is considered true about the Chiluba regime (1991 – 2001). During the other two regimes (Kaunda and Mwanawasa), actors and institutions of accountability were empowered and supported in their fight against

corruption. Consequently, a culture of fear to engage in corruption prevailed within government institutions during these regimes.

Field evidence indicates that another cause of corruption within the civic public is the lack of commitment from government institutions, including the Executive, in the fight against corruption. It is reported that arms of government often deliberately cut budgetary allocations order to incapacitate institutions of accountability and compromise their effectiveness. DPAAD referred to this amoral posture as 'lack of political will' to fight corruption by government. Nepotism and favouritism are also deemed as undesirable social practices that have promoted the growth of corrupt activities within the civic public. RM argued that lack of accountability may continue to escalate in the country and in post-colonial Africa as long as public institutions continue to be run by friends and relatives of those in government who normally cannot be questioned in case of any suspicions of corruption. Consequently, accountability procedures are compromised and a culture of secrecy has emerged within the civic public where individuals would rather shield close friends and relatives from prosecution than expose them.

Another factor that is believed to have contributed to high levels of corruption especially within the civil service is the prominence of political patronage where political cadres are offered jobs that are supposed to be performed by professionals. Consequently, individuals have been appointed to run public institutions not based on their credibility but solely on political patronage. Such practices compromise accountability practices. DP contended that despite the increase in the number of institutions of accountability witnessed in the country, most of these had been created by government for symbolic purposes as a way of playing to the gallery. He lamented that these institutions are the work of rhetoric by political actors who wish to be viewed as conforming to global practices of good governance while deliberately leaving lacunas that can be exploited to circumvent the accountability system. In corroborating the above account, PD stated that corruption had become an institutionalised way of running business transactions particularly within public institutions. The gravity of the amorality is reflected by the fact that offering bribes to public officials has become an acceptable practice by individuals and firms.

Corrupt practices are equally perceived to be linked to the shift in cultural values being embraced in the country. The emerging competitive lifestyle within the country is believed to escalate the temptation for people to draw resources from illegitimate sources so as to keep up with their colleagues. Competitive lifestyles within with the civic public are believed to explain the escalation in corruption levels. Out of the desire to own property and stay ahead of peers, individuals including accountability actors have embraced amoral attitudes and resorted to engaging in corrupt practices. The implication of the permeation of such cultural values into society is that individuals who operate within institutions of accountability and government structures may be absorbed into this culture – leading to a neglect and abuse of their accountability mandate.

4.2 Corruption and accountability in the primordial public

Corruption and lack of accountability within the primordial public appears to be premised on primordial relations. For instance, acquitting a friend by a court judge or embezzling government resources for the benefit of family relations may not be perceived to be wrong by some

government authorities. RCC reiterated that government Ministers have at some point been acquitted and pardoned of criminal offenses based on their relations and friendships with senior government officials like the President. In support of the above account, ADMAAD explained that primordial relations often prevent accountability actors from fulfilling their mandates in line with their professional values. To the contrary, family and friend relations compromise the professional judgement of accountability actors.

Consistent with Ekeh's (1975) position, social and cultural values within the primordial public suggest that those who embezzle government resources for the benefit of the primordial public may even be praised within society. PRO explained that such cultural values have become prominent in the country in recent years where society cares less about the sources of people's income. Consequently, corrupt individuals have assumed an elevated social status to the extent of being referred to as 'ba mudala' [big man]. Primordial values and practices suggest that giving bribes and kickbacks may be totally acceptable within certain social settings. PALG argued that some cases that are often referred to as corruption and bribery may not really be corruption but just a form of appreciation for the service rendered by the other party. He cited the example of providing gifts in order to obtain a piece of land from traditional leaders. Upon being asked if such practices were acceptable even in public institutions, the accountant was quick to point out that engaging in similar acts within the civic public would be unethical because there are different rules, regulations and procedures of acquiring land from public institutions.

However, the accountant's initial position was fully supported by the SIO who reiterated that African cultural values forbid approaching traditional leaders empty-handed. Instead, one has to approach a chief with a gift that may ultimately pave way for a request for land at a later stage. These dialectical values present great implications in terms of accountability practices within the civic and primordial publics. It is evident from the foregoing paragraphs that practices that are normally regarded as immoral and unethical within financial regulations may be embraced and accepted in the primordial public since they benefit local communities.

4.3 Corruption and its implications on sustainable development

As alluded to in the introduction, the effects of corruption can be devastating including loss of government revenue and a consequent retardation in economic and social development. Corruption equally has an adverse impact on sustainable development since lost income compromises government's ability to meet current and future needs of society. Respondent accounts highlight considerable concerns with the effects of corruption and lack of accountability on national development. For instance, a PAC member lamented that corruption was costing government huge amounts of resources since most contracts awarded to friends and relatives are often abandoned before they are completed. Another member of the PAC added that it is common practice in government circles for contractors to be paid in full before the commencement of works. Unfortunately, most of such contracts are never completed and defaulting contractors are never followed up because they are likely related to senior government officials. Consequently, government ends up losing colossal sums of money that should have gone towards infrastructure development. The PAC member explained.

Corroborating the above account, DSA stated that while K10 million (\$1 million equivalent) of donor-funded resources was embezzled from the Ministry of Health in 2009 by some government agents, the amount currently appearing in court is much lower due to the falsification and disappearance of documentation by agents operating within the investigative system. The above account demonstrates how corrupt practices can be initiated and perpetuated by actors operating within institutions of accountability with devastating effects. Corruption, while benefitting a few individuals in the primordial public, has detrimental economic and social effects to members of both the civic and primordial public. Consistent with the position of many authors including Lederman et al (2005), Lawal (2007), Yeganeh (2014) and Otusanya et al (2015), the above accounts highlight the adverse effects of corruption to economic and social development. The accounts equally demonstrate how corruption, leading to substantial losses of government revenue, would compromise sustainable development and the welfare of society at large due to its negative impact on economic performance and societal welfare (Everett et al, 2007; Akbar and Vujic, 2014).

5. Discussion of findings

This study attempted to understand the influence of social and cultural values on corruption and accountability practices and the functioning of actors and institutions of accountability. The study drew on the concept of institutional pluralism and Eke's (1975) theory of two publics to depict how these actors and institutions may find themselves in situations where they have to respond to multiple institutional pressures as they attempt to legitimate themselves to different social pressures. In terms of institutional pluralism, the paper has demonstrated the multiplicity of social and cultural values and practices within Zambia's society. Such an environment entails that accountability actors have to legitimate themselves to multiple cultural and institutional logics and normative orders. As Kraatz (2009) points out, actors and institutions operating within pluralistic environments find themselves playing in multiple games with multiple rules that may not necessarily be in tandem with each other. Field data suggests that while contemporary accountability practices like good governance are promoted globally, these may be questioned within certain societal and cultural settings that embrace kinship values. Such a scenario carries the risk that while actors and institutions of accountability may wish to fulfil their duties in a professional manner, they may equally find themselves at variance with certain traditional values and beliefs.

Eke's (1975) theory of two publics equally helped to shed light in the course of analysing differences in the cultural effects on accountability and corrupt practices. As discussed in earlier sections, the key characteristic of the primordial institution is a strong moral purpose including a moral responsibility on the part of individuals to ensure collective wellbeing (Goddard et al, (2016). The study has demonstrated that the dialectical nature of social values and practices implicated within the two publics entails that actors and institutions of accountability have to straddle between the civic and primordial publics in the course of discharging their duties. Within the civic public, various institutions of accountability have been put in place to promote accountability and fight corrupt practices. Paradoxically, corruption and lack of accountability appear to go unabated and at times even perpetuated by these institutions. The amoral posture

prominent within the civic public is seen to lead to opportunistic, lawless and corrupt tendencies where resources are embezzled from government agencies for the benefit of individuals, family and friends. Several field accounts epitomise this tendency including the scandal involving donor funds at the Ministry of Health where different accountability actors collaborated to falsify and obliterate accounting evidence. Strangely, such corruption scandals are carried out not only with the full knowledge of government officials but also with their absolute protection. These jointly-orchestrated activities are often done with the promise of sharing the proceeds of corruption among different participants.

Equally disturbing is the role played by actors and institutions of accountability in facilitating corrupt practices through nepotism and political patronage. In complete dereliction of their accountability mandates, senior government officials are reported to engage in and perpetuate corruption and bribery through collusion with junior officers. Even in instances where friends and relatives are brought before courts of law for allegedly engaging in corrupt practices, a number of reports indicate that certain actors and institutions of accountability go to the length of shielding accused persons from prosecution. In other instances, convicted individuals have been pardoned of their crimes by institutions including the Presidency. Some Presidents, for instance, have even embraced and escalated corruption as an acceptable cultural value even within public institutions to the extent that those fighting corruption have not been supported by such regimes. The case in point is the Chiluba regime (1991 – 2001) where corruption was almost institutionalised and institutions of accountability were deliberately underfunded as a means of incapacitating them. Such regimes have been associated with the promotion of undesirable practices including nepotism, favouritism and political patronage as guiding factors in the appointment of individuals to run civic institutions. At the core of such regimes, corruption and lack of accountability exist without being challenged.

Within the primordial public, corrupt activities appear not as criminalised as in the civic public. To the contrary, it seems normal and acceptable that resources can be stolen from government agencies for the benefit of members of the primordial public including traditional leaders, friends and relatives. This lack of accountability is also explained by the fact that the primordial public appears to be guided by a different set of accountability norms and values from those in the civic public. The findings reported by this study suggest that corruption may be embedded within the social values of local communities (despite not being regarded as corruption – an evil). This position is depicted by multiple accounts indicating that individuals who have accumulated wealth through unethical means are in fact adored in the primordial public rather than despised. Corrupt individuals who act as patriarchs, providing material benefits to the community, appear to enjoy considerable respect within society despite the benefits they distribute being corruptly acquired (Lawson and Rakner, 2005; Goddard et al, 2016). An elevated status has been conferred on such individuals and prestigious titles given to them within local communities to the extent that even young men are referred to as '*ba mudala*' [big man]. Such dispositions entail that despite the belief in sound accountability and governance practices by individuals running institutions of accountability; their embracing of primordial beliefs makes accountability practices to look alien in their operating environment. In order to legitimate themselves to local

communities, these individuals may elect to disregard their professional values and ethics and participate in the embezzlement of public resources. Such dialectical cultural values are clearly detrimental to the achievement of improved financial and public accountability.

6. Conclusions and recommendations

The foregoing findings present considerable implications of lack of accountability and corrupt practices on sustainable development. Field accounts and the extracts from the AG's reports indicate that colossal sums of public resources are lost each year through deliberate corrupt practices. Instances of unexplained expenditure, financial misapplication, unaccounted for revenue and undelivered materials have led to the loss of huge amounts of government resources that could otherwise have gone towards infrastructure development including schools and hospitals. The loss of such exorbitant amounts equally creates inequality among citizens as resources intended for enhancing the lives of the majority are diverted from the national treasury for the benefit of individuals. Consequently, corruption and inequality appear to feed off each other as they create a vicious circle between corruption, unequal distribution of power and of wealth in society. What is worrying is that these corrupt acts appear to be accepted and thrive within government institutions and society at large. For a country like Zambia that heavily relies on revenue from the sale of copper, the loss of such revenue puts the country and its citizens at great risk in terms of sustainable development. A depleting revenue source like minerals entails that government resources lost today cannot be recovered in future years and generations. There is increased need to ensure that sound accountability frameworks, structures, frameworks, institutions and values are instituted for purposes of fighting corruption in order to achieve sustainable development.

From an accounting perspective, this scenario calls for increased advocacy on good governance, encouraging globally and locally accepted accountability and reporting frameworks, and holding actors and institutions of accountability to account for their actions. In view of the dialectics in social values emerging from the two publics, such an accountability mechanism would require integrating globally and locally acceptable accountability practices that promote sustainable development for the benefit of the majority. Evidently, the issue of corruption is a not only an economic and political problem but equally a social and cultural vice that requires the accounting community to play its role (Everett et al, 2007). This study contributes to the literature in several ways. The paper is among the first in accounting research to draw on institutional theory and Eke's (1975) theory of two publics to investigate how social and cultural norms and values may either promote or impede accountability practices.

This is a novel approach for understanding accounting and how social values may be implicated within accountability practices. Such an approach helps to understand that good accountability and governance mechanisms may not be globally effective but need to be modified and tailored to suit the needs of local communities. The study is also among the first to draw on primary evidence from actors working within institutions of accountability, a feat not common in accounting research (Noussi, 2012). Unlike relying solely on archival evidence, such a methodological approach helps to understand accountability challenges by drawing on internal

conversations with actors themselves through close empirical encounters (Yang and Modell, 2013; Modell, 2015). While a growing body of literature depicts lack of accountability and corruption mainly as political and economic problems, this study contributes to the literature through explicating corruption and lack of accountability as predominantly social and cultural problems. Accordingly, the study contributes towards filling the gap of undertaking accounting research of a critical nature focused on African contexts (Rahaman, 2010).

This study is not without its limitations. Firstly, it must be noted that there are considerable difficulties associated with collecting primary data on corrupt activities because corruption is, by its very nature, of mutually beneficial dishonesty and very difficult to investigate. Accordingly, the current study relied heavily on accounts emerging from actors working in institutions of accountability rather than from individuals that engage in corruption themselves. Consequently, it is likely that some respondents could not freely express themselves for fear of ramifications from political authorities. This is evidenced by some respondents electing to be interviewed from confidential locations. Future research could attempt to draw on the experience of retired employees of institutions of accountability who would be expected to speak with much more independence on matters of accountability than employees still in service.

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Public Sector Accounting Reforms and Sustainable Development Goals in Nigeria: Transparency and Accountability Critique

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Abstract

Purpose: This study discursively engages with public sector accounting reforms in the context of how much they promote accountability and transparency that potentially reduce corruption and safeguard public resources to achieve sustainable development goals in Nigeria

Design/methodology/approach: The paper adopts a conceptual approach to articulate how public sector accounting reforms could promote primarily the achievement of Sustainable development goal(SDG) in Nigeria subject to the institutionalisation of transparency and accountability to combat corruption, which is an albatross to achieving any of the UN Sustainable development goals.

Findings: The paper indicates that accounting reforms could be incapable of eliminating corruption and delivering the achievements of SDG on zero poverty without a deliberate institutionalization of accountability and transparency in the Nigerian public sector governance. Whereas institutionalised accountability and transparency are necessary pre-conditions for those reforms to achieve their policy thrusts, the reforms instead seek to achieve accountability and transparency without first reforming the institution of corruption that is a threat to those accounting reforms. The paper further shows that the extent those reforms actually promote accountability and transparency is tenuous given the weak institutional and governance structures in which they are embedded.

Research Limitations/Implications: Given that the paper is conceptual in nature, it suffers from the limitation of generalisation of its findings. However it sets the tone for future empirical research on the subject matter.

Originality/Value: To the best knowledge of the authors, this is the first conceptual paper that has engaged the public sector accounting reforms in Nigeria through the lenses of accountability and transparency within the context of achieving SDG 1 implicating corruption in the process. It therefore contributes to the literature on accounting reforms and sustainable development goals within the context of an emerging market.

Keywords: Public sector accounting reforms, Sustainable Development Goals, Nigeria and less-developed economies, Poverty and corruption, Accountability and transparency.

Paper type: Research Paper

1. Introduction

The pervasiveness of poverty in Nigeria is evident and such level of poverty is apparently furthered by the systemic existence of corruption in public sector governance evidenced by lack of accountability and transparency. Despite recent and ongoing grandiose reforms in public sector accounting and financial management practices in Nigeria (such as the introduction of accrual accounting bases in the public sector financial accounting and the implementation of the Treasury single account as well as e-payments platforms in the nation's financial management), this paper offers to articulate that while such accounting reforms could potentially reduce corruption and trigger monetary savings to reduce poverty, they are in themselves incapable of eliminating corruption and delivering the achievement of Sustainable Development Goals (SDGs), specifically SDG 1 – No Poverty – without a deliberate institutionalisation of accountability and transparency in the Nigerian public sector governance. It is against this backdrop that this study has adopted the theoretical lenses of accountability and transparency to interrogate the extent to which SDG- 1 can be achieved through the new public sector accounting reforms. The insight offered by this paper is that public sector accounting reforms detached from strong governance mechanisms are incapable of achieving any sustainable development goals.

With the level of corruption in public sector governance in Nigeria, the need for public sector accounting reforms becomes apparent. Several initiatives have been made to tackle this menace. Some of which include the adoption of the international public sector accounting standards (IPSAS), the use of Treasury single account (TSA) in public sector financial management and the use of e-payment platforms –such as in payroll through the Integrated personnel payroll information system (IPPIS) and Government Integrated Financial Management Information System (GIFMIS). Other areas where e-payment platforms exist also ranges from contract payments to payments for supplies among others. Given these reforms agenda in accounting and financial management scenarios, the objective is to entrench accountability and transparency by eliminating corruption which is an albatross to achieving any sustainable development goals specifically the SDG 1-No poverty. The informative nature of the IPSAS and the provision for the move from cash accounting to accrual accounting system suggests that nothing would be hiding as revenues are to be recognised when earned and expenditure when liabilities for such is incurred. Available evidence shows that such accounting reforms promotes informative accounting disclosure (Parker et al 1999; Matheson 2003; Iyoha et al 2010; Dellotte 2013) by reducing information asymmetry. Whereas, such reforms are alleged as political rhetoric to secure international legitimacy, (Bakre and Lauwo 2016), Delloite (2013) states that it is more informative. However, these reforms would be incapable of achieving the sustainable development goal without a deliberate institutionalisation of accountability and transparency in the Nigerian public sector governance. Gambling (1987) put up an argument on the need to strengthen the institution of accounting, otherwise any product of accounting becomes just as (Hind, 1988) observed as an exercise in futility. Gambling argues that accounts describe the relationships which exist between certain collaborators in the firm, rather than the activity of the firm itself. Against this scenario, it seems more valuable to see the “government account” as formal representations of the dealing of human collaborators. Even in the outwardly simplest of examples, the relationships in these organisations are exceedingly complicated.

Essentially, the interests the accountability serves – self-interest or public interest (Egbon, 2015) would determine its trajectory towards sustainable development, since, according to Grossi and Pianezzi (2016), accountability that holds the ethos of social contractarianism privileges the general will or public interest. If public interest is privileged, in all probability, accountability will have implications for wealth-creation and viable economy which are only achievable when resources are appropriately accounted for by those to whom they are entrusted (Bakre&Lauwo, 2016, Iyoha &Oyerinde, 2010).

The importance of accounting in the context of accountability and social change cannot be over-emphasized as accounting and other numerical technologies increasingly form an integral part of the process of democratic change in our contemporary society (Liguori &Steccolini, 2014; Rahaman, Everett, &Neu, 2007). Emphasis on public sector accountability in Nigeria is imperative given the manifest accountability deficit in relation to public expenditure in the country (Iyoha &Oyerinde, 2010; Kifordu, 2010). Accountability deficit is boosted by poor transparency and such trend ultimately erodes public confidence and trust in the government and a pointer to bad governance. While reforms might be mobilised to rebuild public trust, many public sector reforms are apparently frustrated by bad governance (Lassou& Hopper, 2016), weak institutional settings (Richard 2002) and lack of capacities for reform implementation(Jones 2007).Accountability as a mechanism helps to achieve accountable governance and bridge the gaps between citizens and government and promotes public confidence in government (Bovens, 2010). Nevertheless, while accountability can be mobilised as “institutional countervailing powers” against overbearing and improper governments (Bovens, 2010, p. 955), the limited power of the citizens to demand and monitor performance is apparently a barrier to effective public accountability (Paul, 1992).

The need to also address corruption within the scope of this paper anchors on the fact that corruption is a bane to governance and effective government accounting reforms (Adhikari &Jayasinghe, 2017). It is also evident that politicians, judiciary, lawmakers and business actors as human/institutional agents that benefit from corruption also mobilise forces to impede substantive institutional reforms and investigation into corrupt practices (Sargiacomo, Ianna, D’Adreamatteo, &Servalli, 2015). Thus, human agents can use structures to deliberately obstruct transparency regarding public spending and thereby undermine accountability (Agyenim-Boateng, Stafford, & Stapleton, 2017). Such deliberate act is made possible when the rules and regulations are very complex. As Grossi and Pianezzi (2016) argue, politicians, bureaucrats and business actors capitalise on the complexity of rules to subvert them to further self-interest. A well-entrenched information-enabled checks and balances are necessary to promote transparent information flow in government business.

The importance of accounting in accountability process and transparency is further underscored by the fact that accounting provides financial information through financial statements (and other relevant accounting reports) and provides a monitoring mechanism of checks or audit on those reports in order to promote accuracy and ultimately accountability and fraud detection. But more information disclosure does not necessarily translate to more effective transparency (Agyenim-Boateng et al., 2017; O’Neill, 2006), neither does more transparency automatically translate to accountability (Jenkins & Goetz, 1999). However, accounting is perceived as a powerful technology for controlling stakeholders (Annisette &Neu, 2004; Neu, 2000), promoting institutional change and reforms (Liguori &Steccolini, 2014), and creating or enacting realities (Hines, 1988; 1991). Accountability applied within the logic of checks and

balances is an instrument of fighting corruption and abuse of public office. Agyenim-Boateng et al. (2017) and Heald (2012) argue that the effectiveness of public accountability is shaped by how transparency mechanisms are structured. Checks and balances are effective when there is strong institutional arrangement and mechanism for enforcing such controls. Grossi and Pianezzi (2016) also argue that robust enforcement mechanisms, effective whistle blowing programmes and active participation of civil society in democratic governance are essential in the fight against corrupt practices in the public sector. Apparently, when such factors are allowed to play out, they potentially facilitate transparency within public sector accountability and governance.

The remainder of this paper is organised as follows. Section 2 presents the literature review and theoretical motivation of the study by discussing the various reforms that have taken place over the period in Nigeria, section 3 discusses accountability and transparency, section 4 is the design and methodology used, section 5 provides insight into the finding of the study while section 6 is the summary, conclusion and recommendations.

2. Literature Review and theoretical Motivation

Within the concept of accounting reforms lies accountability and transparency theory which showcased the peoples and institutional willingness to respect and judiciously use the accounting system put in place by government. In the context of this paper, attention is paid to both the demand and supply-side of accountability theory. Theoretically, there must be commitment from both the users of information and the institution that renders the accounting services for a reform to achieve the purpose for which it is meant. Thus accounting reforms when detached from institutional accountability and transparency are incapable of achieving sustainable development goals in Nigeria. In our conception, accountability theory has the role of explaining the behaviour of organizations in implementing accounting reforms in order to fulfill the accountability and transparency objectives of government that potentially reduces corruption and safeguard public resources to achieve sustainable development goal. The level to which the actions of government are desirable, proper and appropriate within some constructed system of norms and values depends largely on the institutional acceptance of the particular reform agenda. Rather than viewing accountability as something that must be exchanged among institutions and accounting users, accountability exist as a symbolic representation, thus the continued presence of corrupt practices at various levels of government. This appears so due to the inability of the system to address the institutional corruption in Nigeria. Therefore, the key argument of this paper is that public sector accounting reforms do not take into consideration the reach and depth of institutionalized corruption; as such these reforms are likely to fail and not be useful in meeting the Sustainable development goals.

The academic literature concerning this reform has tended to focus on discussions of the merits of the change (for example, Guthrie 1998), analysis of the period of the change and technical issues associated with the change (for example, Walker, Clarke & Dean 1999), potential unforeseen consequences of change (for example, Potter, 1999) In recent literature, focus was on Descriptive studies of government accounting reforms (Christiaens,2005; Coy et al, 2010), Empirical studies on the implementation of accounting reforms (Christaen,2009 ;Jones

&Pendlebury,2012),Theories explaining why governments choose to adopt accrual accounting(Luder et al., 2010) without necessarily providing theoretically informed accounts that discursively engages with accounting reforms in the context of how much they promote accountability and transparency that potentially reduces corruptions and safeguard public resources to achieve sustainable development goal. Christiaens and Rommei (2008) argue that the implementation of government accounting reforms appear to be less successful in most countries either because of misuse of the information or because insufficient attention is paid to the application of the reforms without recourse to the institution. Moreover, most studies in this area has been conducted majorly within the context of developed economy as opposed to developing countries. Again not many of such studies exist within the Nigeria sub-region and within the context of emerging markets economy such as Nigeria, hence this study. The three main accounting and financial management reforms operational in Nigeria are hereunder discussed with a view to knowing how they reduces corruption that promote SDG in Nigeria.

2.1 International Public Sector Accounting Standards - IPSAS

During the early 21st century, there were a number of corporate scandals in which investors were misled by the financial statements of apparently healthy companies which then collapsed. This was one of the reasons why the International Accounting Standards Board (IASB)developed its conceptual framework in order to assist standard-setters in developing and revising new standards and to guide preparers in areas where standards are silent (Deloitte, 2013). Apart from initially developing the conceptual framework, IASB adopted and revised the already existing International Accounting Standards (IASs) and issued International Financial Reporting Standards (IFRSs). IASB equally developed IPSAS for public sector entities. IPSAS then became a brand new accounting reforms promulgated and issued to harmonize accounting principles and practices in the public sector organisations (Jones et al 2015). The IPSAS which was developed by the same IASB in 2001 and became operational in most Africa countries as from 2011 (IPSASB 2007) and in Nigeria in 2013 following its adoption by the Financial Reporting Council of Nigeria (FRCN).

The purpose of IPSAS is, among other things, to foster transparency and accountability in the public sector financial management and accounting (Hamisu 2015). Nevertheless, the extent to which IPSAS since its adoption has achieved that purpose is contestable, given the unabated corrupt practices since its adoption in Nigeria. For instance, in 2016, Nigeria ranked among the 134th out of 138thin corruption perception index, which largely suggests lack of transparency and accountability in public sector financial management and accounting.

IPSAS provides for accrual accounting as opposed to the traditional cash basis accounting practice. In this practice, income is recognized when earned and not when money is received and expenses incurred and not when money is paid. This new reform allows the government emulates the private sector accounting basis reform. International Federation of Accountants –Public Sector Committee (IFAC-PSC) identifies four different bases of accounting; cash, modified cash, modified accruals and full accruals IFAC 1994). Cash and Accruals represent two end points on a spectrum of possible accounting and budgeting bases. Modified accrual accounting system recognizes transactions and other events on an accrual bases but certain classes of assets or liabilities are not recognized. For example, non-financial assets at the time of purchase can be expensed (Chriaens &Reyniers, 2009). Accrual accounting provides more comprehensive information about governmental entities and whether these entities are operating economically and efficiently. According to Luder (1992), a more informative

accounting system performs two basic functions: it supplies comprehensive and reliable information on public finance and provides a basis for improved financial control of government activities(Ouda,2003).

Discussing public sector accounting in context of improving the government financial reporting towards accrual based accounting which is one of the significant provision of the new accounting standards adopted recently in Nigeria brings inevitable question. And the question is: what is the final purpose of the improvement of the information value of the financial reports of public sector organisations?. The state budgets or budgeting accounting?. Theoretically, the significant trend towards accruals in financial statements of public sector entities has appeared to have resulted in accrual budgeting. The extent to which this position applies in Nigeria appears debatable. Jones (2007) posits that the focus of good fiscal policy must be primarily on fiscal aggregates. While this position appears to be true in the context of accrual systems, others believe that the accrual accounting has often been introduced as an accounting system separate from the budgetary accounting, which remains on a commitment basis and cash or near cash basis. The pragmatic attraction of this is that the wealth of additional information provided in accrual accounts is just that additional information. This appears not to be so if the real position of the financial transactions of government is to be disclosed. The path the country has decided to follow also entails risks and preparatory actions needed especially where the institutional setting appears weak and capacities for proper implementation missing.

2.2 Electronic payments

Another reform in the public sector organisation initiated by the Federal Government of Nigeria is the electronic payment (e-payment) platform through the IPPIS and MISGIF, both of which are payroll information and communication technology driven payments system. The purpose of these payments platform is to entrenched accountability and transparency in government payment system which literature had reportedly said are marred by corruption, lack of transparency, mismanagement and other related practices.

According to Nwankwo (2014) about N23 billion is being lost yearly by government due to fraud and other related corrupt practices such as payments to ghost workers etc while billions of naira are always diverted yearly to private pockets by managers of MDAs in Nigeria. The history of e-payments in Nigeria can be traced back to 2003 when the Nigeria apex bank CBN adopted e-banking platform; a measure initiated to encourage cashless economy. This initiative was partly successful because of the telecom policy document launched in September,2000 by the Federal Government and with the formal adoption of Global System for Mobile Communication(GSM) in 2001(Gholami et al 2010). With the success gained in the GSM operation in Nigeria, National e-government Strategies (NeGST) was commissioned in March 2004 through a public private partnership. The National e-government strategies enable government to identify the various areas where electronic application is possible in governance. This gave birth to the IPPIS and the MISGIF. The adoption of the inter-bank settlement system in December, 2006 through the Nigeria Electronic Fund Transfer (NEFT) and the Real Time Gross Settlements (RTGS) further strengthened the e-payment system in Nigeria.

2.3 Treasury Single Account

Treasury Single Account (TSA) was another reform introduced to enhance accountability and transparency of government finances. It is a public sector accounting system under which all government revenue, receipts and income are collected into a single account, usually maintained

by the country's central bank and all payments done through this same account. The primary purpose of TSA is to ensure accountability of government resources, enhance transparency and avoid misappropriation of public funds (Obinna 2015). This reforms would enhance the elimination of idle funds usually left by government agencies in different commercial banks.

Before the introduction of these new accounting reforms, successive governments in Nigeria have been operating with multiple commercial banks in flagrant disregard to the provisions of section 80 and 162 of the 1999 constitution. Akande (2015) opines that such practice was encouraging corruption in the MDAs as they manage their resources like independent empires. Consequently, these fragmented and multiple accounts by MDAs created chance to blur transparency, accountability and efficiency in the management of public resources over the years. Cem (2013) states that a country with multiple fragmented accounting arrangement pays for its institutional deficiencies in multiple ways.

Specific application of TSA differs among countries. For example, in Nigeria commercial banks collect on behalf of MDAs which is paid direct to centralized account with the clearing of balance of that account to zero in each daily transactions. Different models of TSA have various levels of commercial bank involvement. In France and Brazil, Commercial banks are not involved at all whereas in United Kingdom and Sweden, Commercial banks are significantly involved while in Peru commercial banks managed the consolidated account rather than the Central Bank (Lienert 2010). At the moment much statistical evidence has yet to be available on TSA implementation in Nigeria.

3. Sustainable Development Goal, Corruption and Accountability

SDGs are a global policy framework which is an improvement on the Millennium Development Goals (MDGs) framework that was mobilised to address important issues such as poverty, education, health, inequality, environment, etcetera, before expiration in 2015. While both MDGs and SDGs are global targets, their implementation is carried out at the national level by individual countries. Implementation at the national level apparently attenuates or alters these seemingly ambitious goals, which, however, various countries have integrated into their national development plans and strategies (Jacob, 2017). Both MDGs and SDGs are a collaboratively determined global development agenda crafted under the auspices of the United Nations (UN). The SDGs comprise 17 goals and 169 targets expected to be achieved by year 2030 and are considered as a more ambitious agenda than the MDGs (Jacob, 2017; Vandemoortele, 2014).

In order to achieve all the dimensions of the SDGs, poverty elimination is a desideratum because poverty has implications for health, education, social participation, and interaction with the natural environment. Prior studies show that hundreds of million people live in extreme poverty globally. Over 70% of the global extremely poor people live in Southern Asia and Sub-Saharan Africa, while 50% of the global poor are in lower-middle income countries – including China, India, Indonesia and Nigeria. Thus, Poverty remains a serious global challenge (Liu, Yu, Wang, 2015; United Nations, 2012). As such, the first goal of the sustainable development agenda is poverty elimination as both are inextricably intertwined (Liu et al., 2015). The 'no poverty' goal of the SDGs by year 2030 means that zero number of people will have been living on less than \$1.25/day (Liu et al., 2015). While this expectation is achievable, it is apparently fraught with corruptions and lack of accountability. These observed flaws notwithstanding, the SDG 1 provides a target that responsible nation states might take as the minimum threshold in the fight against poverty. The promotion of accountability that reduces corruption necessitated

the various reforms. Agbibo (2012) state that corruption is a major barrier to development in Africa. Corruption is the diversion of scarce public resources for private gain, which ultimately hinders equitable distribution of public goods/services and sustainable development (World Public Sector Report, 2015). Corruption manifesting within the bureaucratic and political landscapes is one of the problems allegedly undermining Africa's development (Agbibo, 2012). This situation is evident in Nigeria and makes the citizens helpless and unable to hold the political elites to account for their actions (Iyoha & Oyerinde, 2010). Benavides et al. (2013) note that significant accounting reforms can promote transparency, accountability and ethical government. Apparently, government best practice in the fight against corruption in the public sector can also involve monitoring and internal controls further strengthened by government's internal and external audits. There is also a belief in some quarters that market interventions such as privatisation, downsizing, deregulation, decentralisation, etc., are a more effective approaches of fighting corruption than government or state interventions, but empirical evidence also shows that such practices have facilitated corruption (Grossi & Pianezzi, 2016; Roberts, 2015; Sikka & Lehman, 2015). The hope of the corrupt, of course, is that their conduct will remain invisible behind the appearances of due process and inspection; that it will be impossible to disentangle their deceit from their legitimate exercise of authority (Roberts, 2015). In an environment with weak institutional framework, accounting reform practices are considered inadequate in the fight against corruption without first reforming the 'institutions of corruption'. Involving corruption within the discourses of poverty and development is imperative as corruption has implications for both poverty and sustainable development (Sikka & Lehman, 2015). For example, poverty and underdevelopment in Nigeria have been extensively linked to the scale of corruption in the country (Agbibo, 2012; 2014). The flourishing of corruption in Nigeria is largely connected to the manner in which the political system is configured and contrived to condone, pardon and reward rather than punish and censor corruption (Agbibo, 2014). Deeply embedded in this system, is the concept of 'Nigerian factor'. This concept which we do not intend to go into in order to remain focused is invoked by the corrupt to render impotent the state fight against corruption, and represents an institutional context of corruption in Nigeria. Given the above, accountability is not only important at the point of giving and receiving information and passing sanctions where necessary, but also at the point of negotiating what should constitute accountability or how accountability requirement should be constituted. As such, the democratic participation of civil society is an important element in this process. Given the state-citizens accountability relationship, active democracy is a necessary factor for the underlying social contract to succeed (Grossi & Pianezzi, 2016). Within this social contractarian ontology, the will of individuals is subordinated to the general will which reflects the common interest of the citizens of the state and so the common good is privileged over self-serving interest. As such, the identity of the individual is embedded in the community to which he or she belongs, and so are his or her political and moral obligations (Grossi & Pianezzi, 2016). Public accountability, therefore, is what ties the community to the government. However, representative democracy can be abused by those who are elected or appointed to represent the public interest. Accordingly, the need for institutionalising accountability becomes essential. In such context, the public sector is obligated to provide accounts that are accessible to the citizens in a transparent manner while the citizens would enjoy democratic privileges to pose questions, pass judgment, and sanction account holders when necessary. But corruption flourishes when there is weakness or absence of

such institutional arrangements (Grossi & Pianezzi, 2016). Thus any reform becomes more useful when institutions are first reformed.

In the public sector landscape, the accountability of public officials is an important element of good governance. Lack of democratic accountability exists when political office holders pursue self-interest by appropriating the power the public delegated to them to pursue the general will (Grossi & Pianezzi, 2016). Democratic accountability reinforces transparency which potentially promotes good governance. In mainstream literature of accountability both in the public sector and organisational domains, accountability and transparency are interwoven. Transparency is to make things open (Gray, 1992). Nevertheless, critics also suggest that what is claimed as transparent in the contemporary modern society is potentially an opaque transparency (Garsten and de Montoya, 2008; Roberts, 2009; Zyglidopoulos & Fleming, 2011). This again reinforces the need for accountability expectations, controls and mechanisms for judging and enforcing accountability performance to be democratically or jointly determined by the civil society of which accounting profession is an integral part.

In many developing and poor countries, the institutions that enforce accountability are not only weak but also are corrupt (Krawczyk, Sweet-Cushman, & Muhula, 2013). But scholars still believe that accountability can be strengthened through citizens' access to more information and citizens' use of the information to pressurise the government to act in the public interest (Shah & Schacter, 2005). While more transparency gives room for more scrutiny (Cornwall, Lucas, & Pasteur, 2000; Garsten & de Montoya, 2008; Guthrie & Parker, 1990; Jenkins & Goetz, 1999; Krawczyk et al., 2013), it is equally true that access to more information does not necessarily guarantee accountability (Krawczyk et al., 2013). The importance of accounting in accountability and transparency process is further underscored by the fact that accounting provides financial information through financial statements (and other relevant accounting reports) and provides a monitoring mechanism of checks or audit on those reports in order to promote accuracy and ultimately accountability and fraud detection. But more information disclosure does not necessarily translate to more effective transparency (Agyenim-Boateng et al., 2017; O'Neill, 2006), neither does more transparency automatically translate to accountability (Jenkins & Goetz, 1999). However, accounting is perceived as a powerful technology for controlling stakeholders (Annisette & Neu, 2004; Neu, 2000), promoting institutional change and reforms (Liguori & Steccolini, 2014), and creating or enacting realities (Hines, 1988; 1991). Accountability applied within the logic of checks and balances is an instrument of fighting corruption and abuse of public office. Agyenim-Boateng et al. (2017) and Heald (2012) have argued that the effectiveness of public accountability is shaped by how transparency mechanisms are structured. Checks and balances are effective when there is strong institutional arrangement and mechanism for enforcing such controls. Grossi and Pianezzi (2016) also argue that robust enforcement mechanisms, effective whistle blowing programmes and active participation of civil society in democratic governance are essential in the fight against corrupt practices in the public sector. Apparently, when such factors are allowed to play out, they potentially facilitate transparency within public sector accountability and governance.

4.0 Design/Methodology

This paper adopts a conceptual approach to articulate how the public sector accounting reforms could promote primarily the achievement of SDG 1 subject to the institutionalisation of effective accountability and transparency to eradicate corruption which is an albatross to achieving any

SDGs. Thus, the study adopts a conceptual analysis to analyse the extent accounting reforms are actually embedded in accountability and transparency as to enhancing corruption elimination and safeguarding of public resources towards achieving sustainable development goals in Nigeria. In this regard, accountability and transparency provide the theoretical lenses of examining the effectiveness of the accounting reforms.

4. Findings and discussion

Based on the conceptual approach employed in this study where three main reforms were conceptually reviewed. Finding of the review indicates that accounting reforms are in themselves incapable of eliminating corruption and delivering the achievement of SDG on zero poverty without a deliberate institutionalisation of accountability and transparency in the Nigerian public sector governance. Moreover, the paper identifies the potential difficulty of trying to achieve the policy thrusts of accounting reforms within the landscape of accountability and transparency. Although institutionalised accountability and transparency are necessary pre-conditions for those reforms to achieve their policy thrusts, the reforms instead seek to achieve accountability and transparency without first reforming the ‘institution of corruption’ that is a threat to those accounting reforms. The paper further shows that the extent those reforms actually promote accountability and transparency is tenuous given the weak institutional and governance structures in which they are embedded. Furthermore, the accounting reforms targeted to fight the demand-side of corruption and not also the supply-side of corruption are potentially incapable of promoting public sector accountability and transparency and indeed sustainable development goal because public sector corruption is an interactional transaction between public sector actors (politicians and bureaucrats) and private/business actors.

6.0 Summary, Conclusion and Recommendations

Achieving SDGs in a country requires a deliberate government’s effort involving the mobilisation of institutions, policies, reforms, and cooperative participation of civil society, business and the public. While all the SDGs are important, SDG 1 which sets a target of zero poverty stands out given the magnitude of poverty in Nigeria. Poverty is a commonplace in Nigeria basically due to endemic public sector corruption that transfers public wealth to a few privileged individuals. This suggests that the fight against poverty must commence with the fight against corruption. While reforms are required to check corruption, successive governments in Nigeria have enacted several reforms with the façade of promoting accountability and transparency in public sector governance. Those reforms have focused on the activities of bureaucrats and not politicians, whereas the politicians are prominently established within the corruption web in need of accountability and transparency check. With this defect, these reforms are reducible to political rhetoric to secure international legitimacy and support as the level of implementation of such reforms in the public sector governance is debatable. At face value, the enactment of accounting reforms suggests that accountability and transparency would be achieved, whereas organised corruption involving collusion between politicians, bureaucrats and businesspeople undermines the policy thrust of accounting reforms. When accounting reforms fail to eliminate corruption that facilitates the conversion of public resources to private use, the achievement of SDG 1 – no poverty – would remain elusive.

Based on the foregoing, we recommend as follows:

1. As the effectiveness of policies and reforms do not lie in their level of sophistication but on how much they are relevant to the needs they serve and are products of stakeholder engagement, rules should be simplified because complex rules and regulations can provide fertile grounds for individuals to abuse public power by hiding behind such complexity to violate regulations.
2. Civil society participation and engaged reasoning need to be harnessed in the process of institutionalising accounting reform change that will promote the public interest and good governance.
3. Accounting profession must, more than symbolically, mobilise and enforce its professional ethics on accountants to make them potential ethical subjects. However, accounting profession cannot do it alone without ethically transformed political and business actors who are also 'subjects' of corruption. Thus, for accounting to meaningfully contribute to national economic prosperity and development and the fight against corruption, the elites and citizens must support the ethical ideals of accountability and transparency.

7.0 Limitation/Significance of the Study

Given that this paper is conceptual in nature, it suffers from the limitation of generalisation of its findings. However, it sets the tone for expanded future empirical research on this topic. Specifically, the paper provides good foundation for further studies that would want to empirically draw relationships between poverty, corruption, transparency and accountability, and public sector accounting reforms in Nigeria or any other developing countries with similar characteristics.

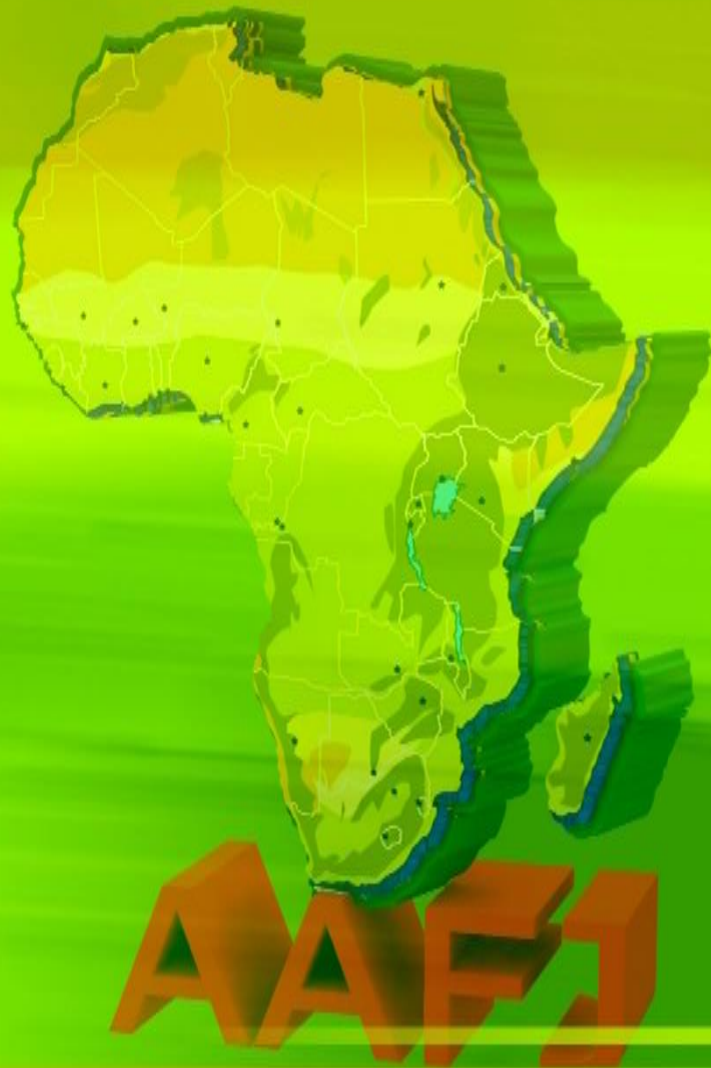
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