INVESTORS REACTION TO INFORMATION DISCLOSURES ON HUMAN AND SOCIAL FACTORS IN THE ANNUAL REPORTS: EVIDENCE FROM THE NIGIERIAN CAPITAL MARKET

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Abstract

This study examined the reaction of investors towards disclosure of information on human and social disclosure in annual reports of companies. The main objective of the study was to examine how disclosure of information on human and social disclosure will trigger a corresponding reaction by investors in the Nigerian capital market. The main thrust of the study was to examine whether the resurgence of the Nigeria capital market could be attributed to the disclosure of information on human and social factors. The population of the study was the firms listed on the Nigerian stock exchange between 2015 and 2019 from which a sample of sixty firms were selected. The control variable in the study was investor's reaction which was proxied by market capitalisation, while the independent variable was the voluntary disclosure of human and social factors which was proxied by disclosure index developed by the researcher. The data for the study were extracted from annual reports of the selected firms within the period under consideration using contents analysis and based on disclosure index. The data were analysed using descriptive statistics as well as regression models and SPSS version 20. The results of the analysis indicate a positive correlation between human and social factor disclosure and market capitalisation. This implies that increase in disclosure on human and social factors will also lead to increased market capitalisation. The study therefore concludes that increased disclosure will create a positive reaction from investors. Arising from the above the study recommends amongst others that government and regulatory authorities should encourage increased disclosure of information on human and social factors.

Key Words: *Market Capitalisation, Voluntary Disclosure, Human and social factors, Annual reports.*

Introduction

The agitations for increased disclosures in annual reports in the last two decades have generated a lot of interests from not only users of annual reports but also from regulators of financial reporting across the world. This has led various jurisdictions to come out with different moves to encourage preparers of financial statement to increase the disclosure contents of financial statements. The need for increased disclosures became apparent due to the dynamics of business environment coupled with competition across the globe. The global melt down and collapse of some big companies also led to increased agitation for more disclosures in financial statement (Gray, Manson and Crawford, 2017). The demand for increased disclosures was in the area of non-financial information as the users feel that mandatory disclosures was no more exciting and consequently monotonous (Beatie, McIness & Fearnley, 2004). In order to encourage increased voluntary disclosures in annual reports the International Federation of Accountants Committee (IFAC) came out with a policy guidelines number 8 in 2013 in which it emphasized voluntary disclosure in five key areas (National Accountant, 2013).

Investors in the capital market make use of various sources of information in making their investment decisions. These sources include annual report of companies, analysts' reports, stock exchange information, press statements and so on. However, the bulk of information used by investors always come from financial statements. For financial statement to be useful it must contain value-relevant information (Osuala, 2012). Information disclosed in the financial statements are classified into two: mandatory and voluntary. While mandatory disclosures are in accordance with the provisions of the law, standards or regulations; the voluntary disclosures are as deemed necessary by preparers of the financial statements (Shehata, 2014). Discussions on voluntary disclosures in the past usually centered on management discussions and analysis (MD&A) (see Bossolan, 1997, Bossolan and Plumee, 2003). Thus based on the suggestions and recommendations of IFAC, voluntary disclosures should focus on five keys areas: governance, risks, strategies, environment and human and social factors (National, Accountant, 2013).

Investors in the capital market rely greatly on the information contained in the financial statements of companies (Binh, 2012). They carry out analysis of the annual report in order to identify any information that will reveal the future potential of the company. The Nigerian capital market started picking up after the melt down and within this period the tempo for increased disclosure of voluntary information got to the peak. Thus there seems to be a link between the rise of the capital market activities and increased voluntary disclosures. However, going by the fact that mandatory disclosure was no more exciting, it becomes evident that only voluntary disclosure could make the difference.

However, in the recent past, emphasis of disclosure have been on corporate governance and environmental information with little or no attention given to human and social factors disclosures. This creates a gap as to whether disclosure of information on human and social factors could motivate investors in the capital market to react differently particularly with regards to the resurgence of activities in the Nigerian capital market. Consequently this study is therefore conducted in order to evaluate whether the resurgence of the capital market activities is directly linked to the availability of voluntarily disclosed information on human and social factors. The outcome of the study will narrow the identified gap and contribute to the growing literature on voluntary disclosure of human and social factors.

Objectives of the study

The main objective of this study is to examine the relationship between disclosure of information on human and social factors and reaction of investors in the Nigerian capital market. However, the other objective include:

i) To investigate whether the disclosure of information on human and social factors have effect on market capitalization of the Nigerian capital market.

Review of related Literature

Concept of Human and Social Disclosures

The human resources represent a very important aspect of an organisation. This is in view of the fact that it is the human resources that can turn all other resources into product or services. Therefore the quality of human resources will determine the level of performance of any organisation. Firms tend to voluntarily disclose information on human development and training programmes in order to inform stakeholders of the sustainability of their performance. The human capital is considered as intangible asset which creates value for the firm. This is particularly apparent in a knowledge based economy which is characterised by advancement in technology. The human capital is emphasized as a building block that creates value by harmonising the various other components to create value for the firm. Firms attempts to add value and innovation by subjecting its workforce to developmental training. This in turn will impact on the quality of products and services.

The importance of disclosure of information on human and social factors cannot be understated. According to Ebimobowei (2011), users of social accounting adopt the information to assess whether the firm is socially, financially and environmentally responsible. To that extent, the human capital disclosure is considered as the main performance indicator of any organisation (Mohammed, 2015).

There are many suggestions as to the nature of human capital disclosure. Abeysekera (2008) suggests that human capital should include training and development, entrepreneurial skills, employee equity, employee safety, knowledge, productivity, skills, value, expert networks and expert terms. Guthrie & Petty (2000) maintain that human capital include employee competence, know-how, education, vocational qualification, work-related knowledge and work-related competence.

Mohammed (2015) found a strong demand for human capital information among users of financial statements and maintains that this information comes into effect when there is need to arrive at a final decision using subjective premiums and discounts. He further argued that analysts are particularly interested in information about the qualities of fully employed managers as the activities of these categories of personnel can give competitive advantage. Human factors can be disclosed in different ways in the financial statement. However, Ebimobowei (2011) maintains that Nigerian companies prefer to disclose human and social accounting in the director's report, chairman's statements and notes to the accounts in the form of short qualitative information, human resources and community involvement.

Human capital disclosures differ across various sectors. For instance, firms that rely more on non-tangible assets in economic value creation may tend to disclose more of human capital than others (Mohammed, 2015). The disclosure of information on human and social factors have no doubt implications in the investment decision process. The investors tend to place emphasis on the quality of human resources based on the level of training, job security, health and other social welfare packages. This is expected to give assurances of the sustainability of performances over time. This information usually come from voluntary disclosure section in the chairman's and director's report.

Capital Market and Reaction of Investors

Capital market is a market where long term finance can be raised (Akingbohungbe, 1996). Also Osamwonyi (2003) described capital market as a market for long term funds and securities whose tenor extends more than one year. Capital market is a critical component of the Nigerian economy (Islam, Rahman and Yusuf, 2005). It performs crucial role of mobilising funds from the surplus sectors to deficit units. Thereby promoting capital formation. Thus a strong capital market is fundamental to the growth and development of any country because it helps the economy to increase capital formation, provides the necessary elements to manage financial risk, ensures continuity of the enterprise after founders, and providers of funds to governments and companies at more attractive terms (Olajide, 2003). In the same vein, Nzekwu (2003) documented that a sound capital market provides market signals on current estimates and future expectations, helps ensure efficient and sustainable funding of large-scale or long term projects.

Investors in the capital market usually rely on information obtained from various sources for the purpose of making investment decisions. These information are always analysed with a view to identifying areas of strength and weaknesses. One of the major sources of information available to capital market investors in the information disclosed in the financial statements. In this regard the availability of such information is expected to trigger a reactions by investors. Thus financial statements are said to contain value-relevant information when such information are beneficial to investors in their investment decisions. The reactions of investors can be in two ways: either to invest in the company, in which case the information contained in the financial statements are persuasive enough to motivate them to invest in the company; or to decline investing in the company, in which case the information contained in the financial statements are not strong enough to encourage them to invest in the company. When the information available are strong enough the market will react positively in such a way that investors will rush to benefit from the perceived expected returns. The forces of demand and supply will lead to increased price of stock as a result of the increased demand for the company's stock. This increased investments in the capital market will naturally lead to expansion in the market capitalization of the company's stock.

Arguments of whether the mandatory contents of financial statement is no more sufficient for decision making by investors, is no more new (see Suijs, 2011, Boesso & Kumar, 2006).

However, what is new is whether the voluntarily disclosed information on human and social factors have the potency to trigger positive reactions which exacerbated the increased tempo of activities in the capital market. The Nigerian capital market started picking up after the global melt in 2012 which coincided with the time when the policy guidelines on voluntary disclosures were issued by International Federation of Accountants Committee (IFAC) in 2013.

Empirical Literature

There are many studies in extant literature on the relationship between disclosures on human and social factors and capital markets. Hejazi and Hesari (2012) studied the reaction of investors to the disclosure of corporate social responsibilities. The data for the study were sourced from questionnaires administered on professional and non-professional investors. The areas covered were corporate social responsibilities, positive and negative behaviours. The various hypothesis were tested using ANOVA. Their findings indicate that social behaviour is substantially important for investment decision making. They also found that the interaction between social behaviour and financial information has a significant impact on investment probability. They concluded that the disclosure of non-quantifiable social responsibility can have effect on decision making of investors.

Basu, Pierce and Stephan (2018) studied the effect of investor inattention on voluntary disclosure. The motivation for this study came from the fact that managers are more likely to disclose information voluntarily when they perceive that the investors will be more attentive to the disclosure. Thus it is assumed that when managers perceive that investors will give attention to the voluntary information they will be motivated to disclose more. The data for the study came from quarterly earnings announcements from Compustat merged with I/B/E/S between 1998 and 2015 as well as conference calls between 2002 and 2015 and non-GAAP disclosures data between 1998 and 2006. Pearson correlation and multiple regression models were used to test the hypothesis developed for the study. The independent variables consist of earning announcements, conference calls and non-GAAP disclosure; while the independent variable is made up of voluntary disclosure indicators. Their findings indicate that firms are more likely to provide voluntary disclosures when institutional owners are distracted. They also found that voluntary disclosures are more precise, less aggressive and contain less content when investors are less attentive. The suggested that investor's inattention is an important factor determining firm' propensity to provide voluntary disclosures.

Dima, Regab & Hegazy (2018) conducted a study on the determinants of human capital voluntary disclosures in the Lebanese commercial banks. Drawing data from a sample of 16 banks and analysing using multiple regression, they found that age, size and foreign owners explain the level of disclosures of human capital. On the other hand, the study also found that leverage and profitability do not affect the disclosures of human capital. Anifowose, Rashid & Annuar (2017) studied the determinants of human capital disclosures in the post IFRS regime among listed firms in Nigeria. Data were extracted from the annual reports of listed firms using content analysis. The data were analysed using multiple regression model. The result of the analysis indicates that firm size, age and industrial affiliation have significant positive influence on the quality of human capital disclosure among listed firms in Nigeria. However, auditor type and joint audit were found to have significant negative impact on the quality of human capital disclosures.

Ali & Ahmad (2019) investigated the association of organisational attributes with human resources disclosure with evidence from Bangladesh banks. The data from the study were extracted from the annual reports of selected banks using content analysis. The data were analysed using multiple regression model. The proxies for the human capital disclosure were length of service, size of the bank, profitability, total number of employees and number of pages of annual reports. The result of the analysis shows that profitability and number of pages of annual reports are significantly and positively associated with the level of disclosure of human capital of banks while other attributes were found to have no significant impact on the human capital disclosure.

Mohammed (2015) examined the disparity on the desires of human capital disclosures among financial analysts and fund managers in Kurdistan. Using data obtained from annual reports of 100 listed firms in Kurdistan using content analysis, their findings indicate that very limited information are provided by most firms majority of whom are figureheads. Consequently, analysts rely on alternative source of information to get their desired information. Hay (2018) explored the voluntary Human Capital (HC) disclosures determinants in the annual reports of the Lebanese commercial banks. 48 annual reports were examined in the study, representing a sample of 16 commercial Lebanese banks in the period of 2015-2017. The statistical and the regression results showed that size, age and foreign ownership, explain the level of voluntary HC disclosures. In contrast, leverage and profitability were not considered as determinants of HC disclosure in the Lebanese commercial banks.

Birindelli, Ferretti, Chiappini & Cosentino (2020) investigated the intellectual capital disclosure of Italian banks over the years 2016–2017 and found that intellectual capital (IC) disclosure is generally poor and that the intensity of disclosure varies slightly between healthy and distressed banks. They argued that regarding the quality of disclosure, healthy banks present a higher, albeit modest, tendency to disclose non-qualitative and forward-looking information, maybe due to the fact that they are more focused on the strategies and the relationships with stakeholders as opposed to a more short-term approach of the distressed banks. To complement their study on healthy and distressed banks, the researchers repeated the analysis focusing on bank size and independent directors. In this case, results did not show relevant differences in terms of IC disclosure. Hence, their findings suggested the need to consider banks' IC disclosure as a strategic asset for increasing, among others, transparency and reputation.

Mutalib, Haflz, & Hairul (2017) examined the possible determinants of human capital disclosure among listed firms in Nigeria. Their findings indicated a significant positive influence on firm's age, size and industry classification on human capital disclosure. Hamid (2004) provided empirical evidences on the corporate social disclosure practice in the highly regulated industries namely banking and finance. Result from the study on disclosure theme shows that product related disclosure was highest. Comier, Aerts, Ledoux, & Magnan (2009) extended the literature on voluntary disclosure by investigating the impact of precision attribute of social and human capital disclosure on information asymmetry. They provided evidence on how the stock market reacts to different levels of information precision. Overall, results suggested that quantitative disclosure reduces share price volatility and increases Tobin's Q.

Ali (2018) examined the effect of the disclosure of intellectual capital on the market value of shares in Jordanian commercial banks by shedding light on the level of disclosure of intellectual, human, structural and relational capital on the market value of the share. The study community composed of all the Jordanian industrial companies and public shares traded in the Amman Stock Exchange during the study period (2013–2016). The researcher reached the most important results which showed that the general trend in the 4 years (2013–2016) was towards increasing the level of disclosure of the components of intellectual capital. This indicated the continuous increase by the industrial companies at the level of disclosure. However, this level was below the required threshold, not exceeding in all years (56.0%). There is also a relative increase in the level of disclosure of structural capital and interest relative to the disclosure of human capital, which may be seen as a decline in the interest of companies in the development of their human resources compared to the structural aspect and relations with other parties.

Ullah and Karim (2015) studied human resource disclosure in annual reports of listed banks in Bangladesh. The data for the study were extracted from the financial statements of selected banks using contents analysis based on disclosure index established by the researcher. The data were analysed using SPSS version 19. The results of analysis indicates a positive correlation between bank characteristics and human disclosures. The results however shows a poor correlation between asset and human resource disclosure. The study recommends that government and other regulatory bodies should formulate relevant policies which may create a favourable work environment for human resources. Ambrose (2020) examined the relationship between human factor disclosure and market value of deposit money banks in Nigeria. The data for the study were extracted from the financial statements of money deposit banks listed in the Nigerian stock exchange for the years 2015 to 2019 using content analysis. The data were analysed using e-view. The result of the analysis shows that there is positive relationship between human factor disclosure and market value of money deposit banks in Nigeria. It recommends that banks should strive for increased disclosure of human factors in their financial statements.

Theoretical Framework

This work draws from agency theory, capital needs theory and signalling theory. However, the work is majorly anchored on capital need theory. This theory suggests that companies tend to engage more in voluntary disclosures when they have need to raise capital from the capital market. The main thrust of this theory stems from the fact that when companies want to raise capital from the capital market they may choose to increase their disclosure levels. The aim is to increase the perception of investors towards the companies. This theory is hinged on the fact that the company's cost of capital is believed to provide for a premium which captures investor's uncertainty about the adequacy of available information about the company.

Therefore in order to reduce the cost of capital the investors should be able to interpret the prospect of the company through voluntary disclosure (FASB, 2001).

In line with the above, Bayer and Guttman (2012) documented that in the course of managers disclosing information voluntarily in order to improve the perception of investors about the firm's value, they may choose to engage in suboptimal operating, investing and financing decisions. In this case, investor's perception of firm's value is important when firms have need to raise funds from capital market for new investment opportunities. The increased disclosure is necessary for the investors to be able to have a broader view on the prospect of the company. The perception of investors about the company is very crucial as the investors will be convinced that the firm has the capacity of enhancing the realization of their investment objectives. Accordingly voluntary disclosure conveys information that will improve the perception of investors and consequently provide the incentive for investors to make decision whether to invest or not (Binh, 2012).

The capital need theory applies when managers have intention of approaching capital market to raise fund. They tend to publicly make certain information available voluntarily in order to persuade prospective investors to invest in the firm. Thus investors will be persuaded by additional disclosure to invest in the firm.

Methodology

This study is expected to use ex-post facto design. This is because the data for the study will be obtained from financial statements listed companies. The data will be obtained from financial statements of companies using content analysis. The population of the study include all the 196 companies listed on the floor of the Nigerian stock exchange. Some of the companies were eliminated from the list because they did not met the requirements as their shares were not actively traded on the floor and that their financial statements were not also available. Consequently, 60 companies were eventually selected as a sample for the study.

The only hypothesis of the study was developed based on the objectives of the study.

$H_{0:}$ There is no significant relationship between disclosure of information on human and social disclosure and market capitalization in the Nigerian capital market.

Model Development

The control variable in the study is the investors' reaction to voluntary information on human and social factors, which is proxied by market capitalisation; while the independent variable is the human and social factor disclosure which is based on an index constructed by the researcher leveraging on similar index developed by Bolossan (1997), Uchenna & Alhieri (2014), and Ambrose (2020). After careful review of extant literature on similar work, the researcher developed the following disclosure indexes which are used to proxy voluntary disclosures on human and social factors:

- Qualification of employees.
- Training policy
- Employee's welfare
- Workplace safety.
- Labour turnover.
- Promotion policy

Consequently, 360 disclosure-point index was developed and used to measure voluntary disclosure of information of human and social factors.

The first model which shows that voluntary disclosure is a function of human and social factors is established as follows:

VIDSCORE = f(H&SDISC) ……………….. (1)

A model which establishes the relationship between market capitalisation and voluntary disclosure of information on human and social factors is stated as follows:

$$MKTCAP = f(VIDSCORE) \quad . \ \ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Where MKTCAP = Market capitalization

VIDSCORE = Voluntary disclosure score.

Then a functional model is established as

$$MKTCAP = ß_0 + ß_1 H\&SDISC + \mu \ \ldots\ldots\ldots\ldots\ldots (3).$$

Where $ß_0$ and $ß_1$ are coefficients to be obtained from the analysis and μ is the error term meant to measure other factors not captured in the model.

Data collection

The data for the study were extracted from the published annual reports of the 60 selected companies listed on the floor of the Nigerian stock exchange for the period 2015 to 2019. This period was selected to coincide with the period in which the capital market was progressively picking up. This allowed for the isolation of the time frame for the return of the capital market to normal from the other period when activities went on as usual. Contents analysis was used to extract data from the financial statements. Score of 1 was awarded when the disclosure item was found in the financial statements while 0 was awarded when it was not disclosed. The data collated were analysed using multiple regression model.

Results of Data Analysis

The descriptive statistics were minimum, maximum, mean and standard deviation, skewness and Kurtosis. The result is presented in Table 4.1.

Table 4.2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis		Jarque-Bera	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error	Statistic	Prob.
Human and Social Factors	60	.00	.67	.3970	.17103	-1.314	.309	.621	.608	17.31	0.000
Reaction of investors	60	28,312,266.50	2,744,203,312,501.20	103,655,142,039.72	372,825,113,954.19	6.380	.309	44.372	.608	4520.08	0.000
Valid N (listwise)	60										

Source: Researcher's Computation, 2020.

The result of the analysis reveals that the minimum Human and Social Factors disclosures was 0%, maximum Human and Social Factors disclosures was 67%, average Human and Social Factors disclosures was 39.70% and standard deviation was 17.10%. This implies that the selected companies made average Human and Social Factors disclosures of 39.70% and the degree of dispersion of the disclosures from the mean was 17.10%. The value of skewness for Human and Social Factors disclosures was -1.314 which implies that it was highly negatively skewed meaning the left tail of the distribution is longer than the right. The kurtosis value was +0.621 meaning that it was platykurtic showing that its tails are shorter and thinner and its central peak is lower and broader.

The result of the analysis in Table 4.1 further revealed that the minimum value for Investors Reaction proxied by market capitalization was N28,312,266.50, maximum value was N2,744,203,312,501.20, average market capitalization stood at N103,655,142,039.72 and standard deviation was 372,825,113.95. This implies that the average capitalization of the selected companies in between 2015 and 2019 financial years was N103,655,142,039.72 . The value of skewness for investors reaction (market capitalization) was 6.38 which implies that it was highly positively skewed meaning the left tail of the distribution is longer than the right tail. The kurtosis value was +44.37 meaning that it was leptokurtic showing that its tails are longer and fatter and its central peak is higher and sharper.

Test of Hypothesis

The research hypothesis formulated was subjected to test using linear regression analysis and the results are presented in Table 4.2, 4.3 and Table 4.4.

Table 4.2 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.548[a]	.300	.235	.88882	2.072

a. Predictors: (Constant), HUMAN & SOCIAL FACTORS.
b. Dependent Variable: MARKET CAPITALIZATION

Table 4.3 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.286	5	3.657	4.629	.001[b]
	Residual	42.660	54	.790		
	Total	60.946	59			

a. Dependent Variable: Market capitalization
b. Predictors: (Constant), HUMAN & SOCIAL FACTORS.

Table 4.4 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1.	(Constant)	8.862	.413		21.470	.000		
	HUMAN & SOCIAL FACTORS	-1.744	.765	.294	2.280	.027	.783	1.278

H_0: Human and social factors disclosure has no significant effect on investors' behaviour in the Nigerian stock market.

The result of the analysis shown Table 4.4 indicates that the beta value of 0.294 was obtained for Human and social factors disclosures while the p-value stood at 0.027. The t-cal was 2.280 while the t-tab was 2.000. In line with the decision rule of the study, the research hypothesis is rejected and the alternate accepted because t-tab<t-cal. and p-value<0.05. This implies that human and social factors disclosure has significant effect on investors' reaction in the Nigerian stock market.

Discussion of Findings

The result indicates that human and social factors disclosure significantly affect investors' reaction in the Nigerian Stock Market. This was indicated by the result of the analysis where the beta coefficient was 0.294 or 29.4%. This means that 29.4% variation in investor's behaviour is accounted for by human and social factors disclosure made by the companies listed in the Nigerian Stock Exchange. The result indicates a positive relationship between human and social factor disclosures and investor's action. This shows that as disclosure of information on human social factor increases there will be increase in market capitalisation of such firms. This increase will arise as a result of the fact that investors will be motivated by positive information about the firm and would pay a higher price for the shares. Moreover there will be increased in volume of shares purchased.

These findings are in agreement with prior work by Ullah & Karim (2015) who found a positive correlation between human resource disclosure and market value of banks in Bangladesh; and Ambrose (2020) who also found a positive correlation between human factor disclosure and market value of money deposit banks in Nigeria. Moreover Hejari & Hesari (2012) found that social disclosures is substantially important in investment decision making.

Recommendations

The findings of this study reveal a positive correlation between human and social disclosure and market capitalisation. This implies that as disclosure on human and social factors increases the investors in the capital market will react positively by investing in such companies and consequently the share price will rise and there will be increase in market capitalisation of such firms. Thus the confidence of investors will be enhanced by increased disclosure of information on human and social disclosure.

Arising from the above findings the study makes the following recommendations:

a. That regulatory authorities should sensitize the preparers of financial statements to consider the disclosure of information on human and social factors as important as other disclosures.
b. That the management of entities should create conducive working environment which will make preparers of financial statements to be proud of disclosing such information in their annual report.

c. That the users of financial statements (particularly investors) should consider disclosure of information on human and social factors as part of their decision making package.

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