MODERATING ROLE OF CORRUPTION CONTROL ON FIRM LEVEL DETERMINANTS OF CORPORATE SUSTAINABILITY DISCLOSURE COMPLIANCE IN NIGERIA

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Peer-review under responsibility of 4th Asia International Multidisciplinary Conference 2020 Scientific Committee

<http://connectingasia.org/scientific-committee/>

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Abstract

This paper explores the moderating effect of corruption control in strengthening the influence of firm attributes on corporate sustainability disclosure compliance in Nigeria. The study focuses on the existing discussion on mandatory disclosure compliance with corporate governance code. The extent of disclosure compliance is measured using a total unweighted disclosure index, developed from a panel dataset of 118 companies listed in the Nigerian capital market. The companies were selected using a proportionate stratified sampling technique. The dataset for the period of 2011 to 2017 were first analyzed by static panel regression analysis using pooled Ordinary Least Square (OLS), Fixed Effect (FE), and Random Effect (RE) models. The regression models were subjected to further robustness checks under dynamic GMM panel regression analysis, to test for possible endogeneity. The findings revealed significant moderating effect of corruption control, evidenced from the interaction of corruption control with selected firm attributes, namely; industry type, leverage and taxation. The research contributes to the existing literature, as it establishes the importance of control of corruption as an additional factor of corporate sustainability disclosure compliance within the context of Nigeria.

Keywords: *Environmental and Social Information; Corporate Governance; Compliance; Corruption Control*

Research Objectives

Corruption has been considered as a global issue over the last three decades (UN, 2017). It is also considered to be a challenge to achieve the sustainable development goals (SDG) of ending extreme poverty by the year 2030 (World Bank, 2018). Corrupt practices constitute a critical setback in the growth of businesses operating in developing economies (Issa & Alleyne, 2018).

Within the preface of the 2003 corporate governance (CG) code issued by the Securities and Exchange Commission (SEC), the commission considers the need to align the content of the code which led to the issuance of the 2011 CG code, which was further replaced by the 2016 CG code. Thus, to ensure improved compliance with the CG code, the findings from this study will serve as a guide when enacting new codes or modifying existing guidelines.

The current study is further motivated by the prevailing rise in the level of corruption across the globe, but particularly in Nigeria, where the phenomenon is considered as a pressing issue. The Business Anti-Corruption Portal (2018) report shows that the issue of corruption is still Nigeria's greatest obstacle to business. Therefore, this study aims to examine the moderating effect of corruption control in strengthening the influence of firm attributes, towards Corporate Sustainability Disclosure Compliance (CSDC).

Methodology

The study is based a deductive approach using quantitative methodological choice. Population comprises of 170 listed companies, list obtained from the Nigerian Stock Exchange official website. The sample size consist of 118 listed companies in Nigeria selected across different industries using the proportionate stratified sampling technique. The firm level data extracted from annual reports of sampled for seven year period (2011 to 2017).

Static Regression Models:

Below are the model used to test the moderating influence of corruption, the interaction variables (β_8) is used to test the moderating effects corruption control.

$$lcsdcit = \alpha_0 + \beta_1 lliqdit + \beta_2 indtit + \beta_3 lleveit + \beta_4 ltaxait + \beta_5 lfsizeit + \beta_6 lfageit + \beta_7 lccont + \lambda_i + \epsilon_{it} \dots\dots\dots (S1)$$

$$lcsdcit = \alpha_0 + \beta_1 lliqdit + \beta_2 indtit + \beta_3 lleveit + \beta_4 ltaxait + \beta_5 lfsizeit + \beta_6 lfageit + \beta_7 lccont + \beta_8 (lliqdit \times lccont) + \lambda_i + \epsilon_{it} \dots\dots\dots (S2)$$

$$lcsdcit = \alpha_0 + \beta_1 lliqdit + \beta_2 indtit + \beta_3 lleveit + \beta_4 ltaxait + \beta_5 lfsizeit + \beta_6 lfageit + \beta_7 lccont + \beta_8 (indtit \times lccont) + \lambda_i + \epsilon_{it} \dots\dots\dots (S3)$$

$$lcsdcit = \alpha_0 + \beta_1 lliqdit + \beta_2 indtit + \beta_3 lleveit + \beta_4 ltaxait + \beta_5 lfsizeit + \beta_6 lfageit + \beta_7 lccont + \beta_8 (lleveit \times lccont) + \lambda_i + \epsilon_{it} \dots\dots\dots (S4)$$

$$lcsdcit = \alpha_0 + \beta_1 lliqdit + \beta_2 indtit + \beta_3 lleveit + \beta_4 ltaxait + \beta_5 lfsizeit + \beta_6 lfageit + \beta_7 lccont + \beta_8 (ltaxait \times lccont) + \lambda_i + \epsilon_{it} \dots\dots\dots (S5)$$

Further check was conducted using the two step system GMM for the possible endogeneity problem in the above models, by introducing the lagged dependent variable ($Llcsdc_{t-1}$) among the regressor in models G1 to G5.

Results

Results from the static model shows three interactions variables ($indt*lccon$, $lleve*lccon$ and $ltaxa*lccon$) have statistically significant moderating effect of corruption control on the corporate sustainability disclosure compliance ($lcsdc$). Conversely, Interaction of liquidity and corruption control ($lliqd*lccon$) appears not to be statistically significant. Findings from the robustness check under the dynamic GMM regression analysis models shows two significant interactions ($indt*lccon$ and $lleve*lccon$) as present in tables 1 and 2 below

Table 1: Static Regression Results for the Moderating Effect of Corruption Control

DV: lcsdc	Model S1	Model S2	Model S3	Model S3	Model S3
Variables:	(RE)	(RE)	(RE)	(RE)	(RE)
lccon	0.00585	0.0692	0.0479	0.0207	0.0550
lliqud*lccon		0.00533			
indt*lccon			0.0344***		
lleve*lccon				0.0219***	
ltaxa*lccon					-0.00602**

Table 2: Robustness Check: GMM Results for the moderating effect of Corruption Control

DV: lcsdc	Model G1	Model G2	Model G3	Model G4	Model G5
Variables:	(GMM)	(GMM)	(GMM)	(GMM)	(GMM)
L.lcsdc	0.182***	0.170***	0.162***	0.173***	0.167***
lccon	-0.00326	-0.0136	-0.0724	-0.0919	-0.0687
lliqud*lccon		0.00859			
indt*lccon			0.0304**		
lleve*lccon				0.0269***	
ltaxa*lccon					-0.00495

Findings

Nigeria is currently intensifying the fight against corruption with special emphasis on its public sector. However, knowledge of the effect of corruption control on corporate sustainability disclosure has not been rigorously ascertained by prior studies. The current fight against corruption couple with focus on environmentally sensitive firms and improved source of funding shall improve the level of corporate sustainability disclosure compliance in Nigeria. Finally, based on our findings we recommend that, regulatory and policy makers must enact policies targeted toward intensifying fight against corruption in both public and private sectors in Nigeria.

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