# CORPORATE ETHICAL REPORTING AND FINANCIAL PERFORMANCE: EVIDENCE FROM THE EMERGING MARKET

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## Abstract

This paper examines the degree of comprehensiveness of ethical reporting in annual reports of listed firms in Nigeria. It also looks at the relationship between the extent of corporate ethical reporting and financial performance of the listed firms. In addition, it examines the impact of corporate governance on the financial performance of the listed firms. The study utilises the corporate annual reports for the period 2010-2014 as our main source of secondary data, while the content analysis technique is used to elicit data from the corporate annual report. In testing the research hypotheses, the study adopts the use of descriptive statistics, Pearson correlation and panel least square regression method to analyse the degree of comprehensiveness and the relationship between corporate ethical reporting and financial performance of the listed firms. Findings from the study show that there is lack of comprehensiveness of corporate ethical reporting in the selected industries. In addition, the study observed that a significant relationship exists between corporate ethical reporting and financial performance. Also, the study observed that the relationship between corporate governance and financial performance is not significant. The study recommends the need for a stand-alone report for corporate ethical issues in annual reports of companies in Nigeria.

**Keywords:** Board Size, Corporate Ethical Reporting, Corporate Governance, Ethical Issues, Financial Performance

## 1. INTRODUCTION

Ethical reporting by companies has become increasingly prevalent and there is a comprehensive body of academic literature charting the extent to which companies report on ethical issues (Ahmed & Hamdan, 2015; Belal, Abdelsalam & Nizamee, 2015; Topal & Dogan, 2014; Momoh & Ukpong, 2013; Evangelinos & Skouloudis, 2012; Adams, 2004) in order to enhance the financial performance of organisations. The ethical behaviour of firms and the potential effects of misconduct on society have drawn the interest of researchers, stakeholders and business press on the need for ethical reporting (Berrone, Surroca & Tribo, 2005). Similarly, business ethics have attracted renewed attention due to corporate scandals like those of Enron, WorldCom, Arthur Andersen, Tyco International, and Adelphia that involved unethical business practices (Uwuigbe, Uwuigbe & Daramola, 2014; Solabomi & Uwuigbe, 2013; Izedonmi, 2012).

With the growing importance of ethical compliance and the increasing pressure from different stakeholders for good corporate governance mechanism and the desire to meet ethical standards, have placed businesses under intense pressure to report on ethical issues (Suttipan & Stanton, 2012; Adams & Kuasirikun, 2000). Therefore, from the accounting point of view, the pressure is felt on external reporting (Pramanik, Shil & Das, 2008), which includes reporting ethical issues in annual reports under different accounts. According to Enofe, Ekpulu, Onobun and Onyeokweni (2015) and Salaudeen, Ibikunle, and Chima, (2005), they described ethics as a set of moral principles that guide behaviour. The term ethical issues relates to the right and duties between a company and its stakeholders (Izedonmi, 2012). However, for the purpose of this study, ethics can be described as the moral principles that guide the behaviour of an organisation in order to act well and

provide a greater degree of satisfaction to stakeholders.

Corporate ethical reporting according to Harte, Lewis and Owen (1991) is described as the process of reporting on organisations' compliance with the appropriateness of business practices that allows for disclosure of information that is deemed to be in breach of the policy of the organisation. It is also seen as the process of communicating and demonstrating a company's commitment to improving corporate ethical performance to its stakeholders (Solomon & Maroun, 2012). The items of ethical reporting according to Izedonmi (2012); Adams and Kuasirikun (2000) include: reporting on ethical business practices; political donation, activities and statements; product safety and testing; charitable donations, community involvement and public welfare; customer relations and product quality; equal opportunity and human right policy.

Despite the growing need for corporate ethical reporting, Adams (2004) argued that many studies in annual reports have focused on companies in developed countries like USA, UK, Australia, Japan, Denmark and the Netherlands. However, this is not the same in developing countries (e.g. Nigeria) where weighty pressure for economic survival has no ethical reports documented in annual reports, except in the area of governance structure and environmental issues (Uwuigbe, U (2012; Anku-Isede & Deffor, 2014; Oba & Fodio, 2012; Adeyanju, 2012; Khomba & Vermaak, 2012; Adams and Kuasirikun, 2000). In addition, corporate organisations have often been criticised for their business activities that have concentrated more on profit maximization and less concentration on issues relating to ethical issues and corporate governance structure (Evangelinos & Skouloudis, 2012; Adams, 2002). Furthermore, standards or guidelines that address the shortcomings in the quality and comprehensiveness of corporate ethical reporting are yet to be adopted in the developing countries (Belal, Abdelsalam & Nizamee, 2015; Adams, 2004).

At the international level, two significant organisations are involved in the development of these standards. The organisations are the Institute of Social and Ethical Accountability (ISEA) and the Global Reporting Initiative (GRI) that address all aspects of ethical reporting aimed at bridging reporting-performance gap and improving financial performance. These standards, according to Adams (2004), are based on the premise that, unless, a good corporate governance structure that targets transparency, integrity and accountability are embedded and a stakeholder involvement is in place, corporate reports are unlikely to reflect financial performance.

Corporate governance, according to Jayashree (2006) as cited in Momoh and Ukpong (2013) is described as a system of making directors accountable to shareholders for effective management of the companies in the best interest of the company and the shareholders along with concern for ethics and values. It is characterised by board size, CEO duality and committees of the board (Uwuigbe, Daramola and Anjolaoluwa 2014; Aggarwal, 2013). To this end, the building and petroleum marketing industry have, therefore, been selected for a comparative study of their corporate ethical reports. These industries have been by convenience selected for investigation because of their high propensity to ethical challenges and impacts of their industrial activities on financial performance.

In view of this, the study basically examines the degree of comprehensiveness of ethical reporting of listed firms in the building and petroleum marketing industry in Nigeria. It also looks at the significant relationship between the extent of corporate ethical reporting and financial performance. In addition, it examines the impact of corporate governance (in relation to board size) on the financial performance of the industry. To achieve this objective, the study adopts the international reporting and disclosure standards in the field of ethical and environmental issues (i.e. ISEA and GRI guidelines) that cover all aspects of ethical reporting and governance structure. The rest of the paper is structured into four sections. Section 2 discusses the disclosure standards in the field of corporate ethical reporting. It also reviews the existing literature. Section 3 discusses the methodology of the study, along with a description of the sample and variable measures. The discussion of findings is then presented in section 4. Conclusion and recommendation are provided in the final section.

## 2. DISCLOSURE STANDARDS IN THE FIELD OF CORPORATE ETHICAL REPORTING

The standards in the field of corporate ethical reporting are developed in order to allow a comprehensive disclosure of ethical issues. On the basis of this, corporate organisations are required to ensure sound ethical practices and accountability to stakeholders through corporate ethical reporting and governance systems as advocated by the guidelines or standards of the Institute of Social and Ethical accountability (ISEA, 1999) and Global Reporting Initiative (GRI, 2000). These disclosure standards are, therefore, voluntary. In addition, they exist to bring uniformity and best practice to the format and production of annual reports, improving communication so that stakeholders may be better informed, and more able to carry out comparisons (Adams & Kuasirikun, 2000).

Furthermore, the ISEA and GRI standards are to regulate annual reports of companies that want to follow corporate responsibility by creating reporting guidelines for organisations worldwide (Zuzana, 2008). The GRI's Sustainability Reporting Guidelines published in 2000 focus primarily on the content of sustainability reports but incorporate some of the principles of AA1000 (ISEA,1999). The AA 1000 has been developed to improve accountability and corporate performance by increasing the quality in ethical and environmental reporting. It is also claimed to be complementary to GRI reports, and can be used to enhance annual reports (Zuzana, 2008). Both standards advocate the principle of inclusivity that calls for stakeholder dialogue and for it to be linked with governance structure. They also ensure the comprehensiveness of ethical reporting in order to allow stakeholders to rely on corporate report as a means of assessing financial performance.

## 2.1. Review of Related Literature

In a study carried out by Belal, Abdelsalam and Nizamee (2015), they examined ethical reporting and developmental performance of an Islamic bank in Bangladesh with the use of content analysis as communicated in its annual reports of 1983 to 2010. The findings include a significant relationship and overall increase in ethical disclosures during the study period. In addition, ethical performance and disclosure shifted to more general disclosures such as sustainability, charity, employees, and community-related disclosures. However, Evangelinos and Skouloudis (2012) carried out a study to examine the comprehensiveness of non-financial disclosures of 100 companies operating in Greece. Their findings reveal limited awareness of non-financial disclosures on ethical, social and environmental performance. Similarly, findings from Berrone, Surroca and Tribo (2005) on corporate ethical reporting identity reveal ethical disclosures as not sufficient to enhance financial performance.

In the same vein, Adams (2004) examined the extent to which corporate reporting on ethical and environmental issues reflect corporate performance. Findings from the study reveal a lack of comprehensiveness of reporting. The study also observes the need for other measures like corporate governance systems, stakeholder engagement and mandatory reporting guidelines to improve accountability. Relatedly, a study carried out by Adams and Kuasirikun (2000) on ethical, social and environmental reporting in corporate annual reports of UK and German chemical and pharmaceutical companies show diversity in reporting.

In relation to corporate governance, Onakoya, Fasanya and Ofoegbu (2014) conducted a study to explore the effect of corporate governance characteristics on bank performance in Nigeria. Nine (9) banks were sampled for the period of 2006-2010. Findings from the study, reveal that the board size and ownership structure have a positive impact on return on equity. Similarly, studies from Ahmed and Hamdan (2015) and Tornyeva and Wereko (2012) reiterate a positive and significant impact of corporate governance characteristics on firm performance in Saudi Arabia and Ghana. Similarly, Danoshana and Ravivathani (2014) carried out a study to examine the effect of corporate governance on business performance of 20 listed financial institutions in Sri Lanka. The study covered the period between 2008 and 2012. Return on equity (ROE) and return on asset (ROA) were used in the study. Findings show that corporate governance variables significantly affect business performance. In addition, sizes of the board of directors and audit committee have positive effects on the business's performance.

However, in the work of Moscu (2013) on the impact of the board's characteristics on the performance of the firms registered in Romanian stock exchange for the year 2010, findings reveal positive and statistically insignificant results between board size and return on asset. In a related study conducted by Kumar and Singh (2013) in 176 firms India for the period of 2008-2009 with the use of regression and correlation methods, the results suggest a negative and statistically insignificant relation between board size and Tobin's q. In addition, Gupta and Sharma (2014) conducted a study to determine the impact of corporate governance variables on firm performance in Indian and South Korean companies. Results suggest a limited effect of corporate governance on their financial performance. Similarly, findings from Topal and Dogan (2014) reveal that board size does not have an impact on financial performance with the use of correlation method. On the basis of prior studies, some considerable amount of literature exists on the corporate ethical reporting and financial performance in developed economies, notably the Bangladesh, Greece, United Kingdom and Australia. However, the same is not true in developing economies like Nigeria where there is relatively dearth of literature in this area, hence, the need to study whether corporate ethical reporting and corporate governance systems as advocated by ISEA (1999) and GRI (2000; 2002) impact positively on financial performance.

## 2.2. Development of Hypotheses

Drawing from the literature, the hypotheses to be tested in this study are stated below in their null forms:

**Hypothesis$_1$:** Corporate ethical reporting among selected industries does not lack comprehensiveness.

**Hypothesis$_2$:** There is no significant relationship between the extent of corporate ethical reporting and financial performance.

**Hypothesis$_3$:** Corporate governance has no impact on financial performance of the selected listed firms.

## 3. METHODOLOGY

This study adopts the use of corporate annual reports as a base for its secondary source of data. This is due to the fact that annual reports are the most consistent, reliable and regular medium to communicate with shareholders (Belal, Abdelsalam & Nizamee, 2015). The building materials and petroleum marketing industry, comprising 8 companies, have been selected as a result of their high propensity to ethical challenges and impacts of their industrial activities on financial performance. The choice of these companies arises because of high profile and diversity of ethical issues facing them. The annual reports of the selected companies within the period 2010-2014 are used due to data availability and increased ethical awareness noticed within this period.

To achieve this purpose, the content analysis method of data analysis is adopted. This is due to the fact that the content analysis is the most commonly used method of measuring a company's ethical, social and environmental disclosure in annual reports **(**Belal, Abdelsalam & Nizamee, 2015; Ullah, Yakub, Hossain, 2013; Evangelis & Skouloudis, 2012; Oba & Fodio, 2012**)**. In addition, it allows corporate ethical disclosure to be systematically classified and compared under specific categories and requirements. However, this research measures the corporate ethical reporting in terms of ethical information disclosure, using Adams and Kuasirikun (2000) and Izedonmi (2012) operational definitions. Information disclosure is measured in the categories of ethical business practices; product policies, safety

and testing; political donation, activities and statements; charitable donations, community involvement and public welfare; customer relations and product quality; equal opportunity and human right policy.

Furthermore, and in order to measure the disclosure score, a three-level scale developed by Evangelinos and Skouloudis (2012) which assigns two (2) points if disclosure item is comprehensive, one (1) point if item disclosed is insufficient and zero (0), if no item is disclosed is adopted. As such, a company can score a maximum of thirty six (36) points and a minimum of zero (0). The formula for calculating the disclosure score as suggested by cooke (1992) and as cited by Ulla, Yakub and Hossain (2013) by using these characteristics is expressed below as:

$$DS = \sum_{i=1}^{n} di$$

*Where:*
DS = Disclosure score
d = 2 if item di is comprehensive; 1 = if the item is insufficient and 0 = if no item is disclosed.
n = number of items
i = 1, 2, 3, 4...36

The validity of the annual reports was confirmed by experts and a reliability test for measure of internal consistency was also carried out based on Cronbach's Alpha of 0.685 on ten disclosure items. In addition, the descriptive statistics to test for the normality of the distribution of the variables is used coupled with Pearson correlation coefficient, for test of relationship, and panel least regression method for test of significance are used to analyse the relationship and impact of ethical reporting and corporate governance on financial performance.

## 3.1. Model Specification

For the purpose of measuring the relationship between dependent and independent variables, an econometric model adapted from the study of Ahmed and Hamdan (2015) and Ullah, Yakub and Hossain, (2013) is hereby specified:

ROA = f(CDI + Bsize)  (1)

CDI = f(EBP, PPS, PAS, CIP, CRP, EQO, HRP)  (2)

ROA = f(EBP, PPS, PAS, CIP, CRP, EQO, HRP, Bsize)  (3)

The functional form of the model could be presented explicitly as:

$ROA = \beta_0 + \beta_1 EBP + \beta_2 PPS + \beta_3 PAS + \beta_4 CIP + \beta_5 CRP + \beta_6 EQO + \beta_7 HRP + \beta_8 Bsize + \mu_0$  (4)

*Where:*

ROA = Return on Assets is used as a proxy for financial performance (where ROA is measured as the profit before interest and tax divided by total assets as at the end of the fiscal year under consideration).

CDI = Corporate disclosure index is used as a proxy for corporate ethical reporting. It is a research instrument comprising a series of pre-selected items, which when scored, provides a measure that indicates a level of disclosure. This is represented as: EBP = Ethical business practices; PPS = Product policies and safety; PAS = Political activities and statements; CIP = Charity, community involvement and public welfare; CRP = Customer relation and product quality; EQO = Equal opportunity; and HRP = Human rights policy.

Bsize = Board size is used as a proxy for corporate governance (measured by the number of directors on the board).

$\beta_0$ is the intercept of the regression line, regarded as constant; $\beta_{1-8}$ are the slope of the regression line or independent variables or behaviour parameters. $\mu$ is the stochastic random error term that represents other independent variables that affect the model but not captured. The model specified above captured financial performance (ROA) as dependent variable while corporate ethical reporting (CDI), corporate governance (Bsize), as independent variables.

## 4. DISCUSSION OF FINDINGS

The descriptive statistics as shown in table (1) for the sampled firms indicate that the mean and standard deviation of the variables are: ROA (0.12, 0.07), BSIZE (10.13, 3.10), EBP (7.75, 0.98), PPS (2.25, 0.44), PAS (3.00, 0.72), CIP (3.13, 2.11), CRP (2.75, 1.21), EQO (2.50, 1.89) and HRP (0.00, 0.00) respectively. These results imply that the mean values of all the variables reveal positive averages over the study period. While the standard deviation shows a volatile Bsize, CIP, CRP and EQO respectively. The skewness and kurtosis of the sampled data achieve the test of normality as they are close to zero. Therefore, the Jarque-Bera test accepts the normality of the variables at 5% and 1% level since it is lower than the $X^2$ value of 55.76 and 73.40 at 5% and 1% respectively. Thus, the variables suggest normality.

Furthermore, the results of the correlation matrix between the variables are as shown in table (2). The table (2) presents a correlation coefficient(r) result among the variables. The results show a fairly low data correlation among the variables, except the correlation between PAS, CIP and CRP where correlation between these variables are higher than 0.5. These low pair-wise correlation coefficients show the absence of multicollinearity problem. This absence of multicollinearity problem implies a presence of perfect linear relationship among all the explanatory variables of the regression model.

**Table 1.** Result of Descriptive Statistics of the variables

|  | ROA | BSIZE | EBP | PPS | PAS | CIP | CRP | EQO | HRP |
|---|---|---|---|---|---|---|---|---|---|
| Mean | 0.1179 | 10.1250 | 7.7500 | 2.2500 | 3.0000 | 3.1250 | 2.750 | 2.5000 | 0.00 |
| Median | 0.1155 | 10.5000 | 8.0000 | 2.0000 | 3.0000 | 2.5000 | 2.500 | 2.0000 | 0.00 |
| Maximum | 0.2330 | 15.0000 | 9.0000 | 3.0000 | 4.0000 | 7.0000 | 5.000 | 6.0000 | 0.00 |
| Minimum | -0.1570 | 5.0000 | 6.0000 | 2.0000 | 2.0000 | 1.0000 | 1.000 | 0.0000 | 0.00 |
| Std. Dev. | 0.0730 | 3.0983 | 0.9806 | 0.4385 | 0.7161 | 2.1145 | 1.2142 | 1.8946 | 0.00 |
| Skewness | -1.0285 | -0.3278 | -0.3098 | 1.15470 | 3.53E-17 | 0.8227 | 0.4896 | 0.5154 | NA |
| Kurtosis | 6.2835 | 2.2397 | 2.1200 | 2.33333 | 2.0000 | 2.2217 | 2.3232 | 2.1377 | NA |
|  |  |  |  |  |  |  |  |  |  |
| Jarque-Bera | 25.0207 | 1.6800 | 1.9307 | 9.62963 | 1.6667 | 5.5219 | 2.3611 | 3.0102 | NA |
| Probability | 0.000004 | 0.4317 | 0.3809 | 0.00811 | 0.4346 | 0.0632 | 0.3071 | 0.2219 | NA |
|  |  |  |  |  |  |  |  |  |  |
| Sum | 4.7160 | 405.0000 | 310.0000 | 90.0000 | 120.00 | 125.00 | 110.00 | 100.00 | 0.00 |
| Sum Sq. Dev. | 0.2076 | 374.3750 | 37.5000 | 7.5000 | 20.000 | 174.38 | 57.500 | 140.00 | 0.00 |
|  |  |  |  |  |  |  |  |  |  |
| Observations | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |

*Source: Authors' Computation from E-view 7*

**Table 2.** Correlation matrix between the variables

|  | ROA | BSIZE | EBP | PPS | PAS | CIP | CRP | EQO | HRP |
|---|---|---|---|---|---|---|---|---|---|
| ROA | 1.000 |  |  |  |  |  |  |  |  |
| BSIZE | 0.040 | 1.000 |  |  |  |  |  |  |  |
| EBP | -0.059 | 0.306 | 1.000 |  |  |  |  |  |  |
| PPS | 0.167 | 0.354 | -0.149 | 1.000 |  |  |  |  |  |
| PAS | -0.292 | 0.578 | 0.365 | 0.000 | 1.000 |  |  |  |  |
| CIP | 0.541 | 0.604 | 0.263 | 0.518 | -0.085 | 1.000 |  |  |  |
| CRP | -0.111 | 0.656 | 0.054 | 0.843 | 0.295 | 0.412 | 1.000 |  |  |
| EQO | -0.183 | 0.382 | -0.069 | 0.309 | 0.000 | 0.208 | 0.390 | 1.000 |  |
| HRP | NA | NA | NA | NA | NA | NA | NA | NA | 1.000 |

*Source: Authors' Computation from SPSS version 15*

**Table 3.** Panel Least Square Regression result for hypothesis one

|  | Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|---|
|  | DSC | -0.064865 | 0.014643 | -4.429780 | 0.0001 |
|  | C | 2.886486 | 0.319848 | 9.024561 | 0.0000 |
| R-squared |  | 0.340541 | Mean dependent var |  | 1.500000 |
| Adjusted R-squared |  | 0.323186 | S.D. dependent var |  | 0.506370 |
| S.E. of regression |  | 0.416584 | Akaike info criterion |  | 1.135248 |
| Sum squared resid |  | 6.594595 | Schwarz criterion |  | 1.219692 |
| Log likelihood |  | -20.70496 | Hannan-Quinn criter. |  | 1.165780 |
| F-statistic |  | 19.62295 | Durbin-Watson stat |  | 0.853780 |
| Prob (F-statistic) |  | 0.000077 |  |  |  |

*Source: Authors' Computation from E-view 7*

**Table 4.** Regression Result for Hypotheses two and three

| Model (Constant) |  | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
|  |  | B | Std. Error | Beta |  |  |
|  |  | -.511 | .372 |  | -1.373 | .179 |
|  | Bsize | .046 | .026 | 1.962 | 1.811 | .080 |
|  | EBP | .021 | .022 | .288 | .986 | .332 |
|  | PPS | .354 | .168 | 2.126 | 2.109 | .043 |
|  | PAS | -.089 | .052 | -.877 | -1.712 | .097 |
|  | CIP | -.027 | .029 | -.796 | -.949 | .349 |
|  | CRP | -.147 | .063 | -2.444 | -2.346 | .025 |
|  | EQO | -.017 | .007 | -.450 | -2.469 | .019 |

*Dependent Variable: ROA*
$R^2 = 0.594$; *Adj.* $R^2 = 0.505$; *Durbin-Watson = 1.876; F-statistic = 6.695; sig. = 0.000*
*Source: Authors' Computation from SPSS version 15*

Table (3) displays the result of the regression model used to test hypothesis one (H$_1$) for this study. This table (3) shows the relationship between the pre-selected industry (IND) and disclosure score (DSC) based on their corporate ethical reporting. The result showed that the p-value of the t-statistic of DSC is less than the test of significance at 5%, revealing a significant effect of DSC. The findings

also revealed that the p-value of the overall significance that is, the F- statistic is less than the test of significance. However, the value of $R^2$ is low due to lack of comprehensiveness in the corporate ethical reporting among the selected industries. Hence, we reject the null hypothesis ($H_1$) and accept the alternative hypothesis. The result basically indicates a lack of comprehensiveness of ethical reporting in annual reports of the selected industries. This is because of the brief disclosure of ethical items in annual reports, with the exception of human rights policies (HRP) that were not disclosed, leading to insufficient information provided. The insufficiency and non-disclosure of some items of ethical reporting is as a result of limited awareness on the reporting process as corroborated by Evangelinos and Skouloudis (2012); Berrone, Surroca and Tribo (2005) and Adams (2004). However, this result contradicts the findings of Belal, Abdelsalem and Nizamee (2015) where increase in ethical disclosures was noticed.

Similarly, table (4) shows the regression result for the test of hypotheses two ($H_2$) and three ($H_3$). The determinant of multiple-regression ($R^2$) stood at approximately 0.594. This indicates that a change in the ROA is explained to the tune of 59.4% by the explanatory variables while 40.6% variation remains unexplained. The adjusted $R^2$ of approximately 50.5% shows that $R^2$ indicates the true behaviour of the dependent variable (ROA) according to change in independent variables. Thus, the model fit is good. The value of Durbin-Watson statistic (1.876), which is approximately 2, is within the acceptable limit for zero autocorrelation and it considers the regression analysis as not spurious. In testing for hypothesis two ($H_2$), corporate disclosure index which is a proxy for corporate ethical reporting, a function of EBP, PPS, PAS, CIP, CRP, EQO and HRP reveals that only PPS, CRP and EQO has a p-values lesser than the test of significance at 5%. HRP serves as an outlier and was automatically omitted during the analysis. In view of the low performance effect of EBP, PAS, CIP and HRP as compared to the significant effect of PPS, CRP and EQO, we, therefore, reject the null hypothesis ($H_2$) and accept the alternative hypothesis. Thus, the result depicts a significant relationship between the extent of corporate ethical reporting and financial performance. This implies that corporate ethical reporting items improve the financial performance of the selected firms. This finding is in conformance with existing research results of Belal, Abdelsalem and Nizamee (2015) where there is a significant relationship between ethical reporting and development performance of Islamic bank.

However, findings from the third hypothesis ($H_3$) show that the p-value of 0.08 is greater than the test of significance at 5%. This indicates that there is no impact of corporate governance on financial performance of the selected industries in relation to board size (Bsize) and return on assets (ROA) despite the beta coefficient being positive. This is evident in the p-value of 0.08 and t-value of 1.811. Based on this result, we, therefore, accept the null hypothesis ($H_3$) and reject the alternative hypothesis. This outcome suggests clearly that corporate governance has no influence on financial performance as depicted by return on assets (ROA). The finding is consistent with existing research results of Topal and Dogan (2014) and Moscus (2013) where corporate governance does not have impact on financial performance. However, it contradicts the work of Onakoya, Fasanya and Ofoegbu (2014) and Tornyeva and Wereko (2012), where corporate governance impacts positively on financial performance.

## 5. CONCLUSION AND RECOMMENDATION

This study basically examines the degree of comprehensiveness of ethical reporting in annual reports of selected listed firms in Nigeria. It also looked at the relationship between the extent of corporate ethical reporting and financial performance of the firms. In addition, the study examined the impact of corporate governance (in relation to board size) on the financial performance of the listed firms. Findings from the study show that show a lack of comprehensiveness of corporate ethical reporting among the selected firms. Also, the study revealed that corporate ethical reporting significantly influences the financial performance of the listed firms due to the overriding effect of some variables. However, the study observed that corporate governance has no impact on firms' financial performance in view of the weak governance structure in place. Hence, the study concludes that corporate ethical reporting among the listed firms in Nigeria lacks comprehensiveness. This lack of comprehensiveness of corporate ethical reporting is attributed to the absence of a stand-alone report on ethical issues in the annual reports. However, a significant relationship between corporate ethical reporting and financial performance exists. This is based on the fact that corporate ethical reporting items improve the financial performance of the listed firms. The study further concludes that corporate governance has no impact on the financial performance in relation to board size (Bsize) and return on assets (ROA).

Thus, the study recommends that a stand-alone report on ethical issues in annual reports of companies in Nigeria. In addition, companies should strive to improve financial performance along corporate ethics, transparency, and reporting, board composition, board independence, human rights policy, stakeholder involvement and regulatory compliance.

## 6. LIMITATION/FUTURE STUDY

This study is limited by the fact that the sample covers five years data from the Nigerian stock exchange market. Also, the study only captured the building materials and petroleum marketing industry, leaving all other sectors in the Nigerian listed firms. In addition, only two ethical reporting variables were examined in this study. Hence, future research could consider other variables not captured in this study such as (e.g. external assurance of corporate ethical report, stakeholder engagement, and regulatory compliance).

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## APPENDICES

### Cronbach's Alpha (Reliability Test)
### Scale: ALL VARIABLES

#### Case Processing Summary

|  |  | N | % |
|---|---|---|---|
| Cases | Valid | 40 | 100.0 |
|  | Excluded[a] | 0 | .0 |
|  | Total | 40 | 100.0 |

*a. Listwise deletion based on all variables in the procedure.*

#### Reliability Statistics

| Cronbach's Alpha | N of Items |
|---|---|
| .685 | 10 |

#### Item Statistics

|  | Mean | Std. Deviation | N |
|---|---|---|---|
| ROA | .1179 | .07296 | 40 |
| Bsize | 10.1250 | 3.09828 | 40 |
| EBP | 7.7500 | .98058 | 40 |
| PPS | 2.2500 | .43853 | 40 |
| PAS | 3.0000 | .71611 | 40 |
| CIP | 3.1250 | 2.11451 | 40 |
| CRP | 2.7500 | 1.21423 | 40 |
| EQO | 2.5000 | 1.89466 | 40 |
| HRP | .0000 | .00000 | 40 |
| INDUSTRY | 1.5000 | .50637 | 40 |

#### Scale Statistics

| Mean | Variance | Std. Deviation | N of Items |
|---|---|---|---|
| 33.1179 | 48.528 | 6.96621 | 10 |

#### Variables Entered/Removed[b]

| Model | Variables Entered | Variables Removed | Method |
|---|---|---|---|
| 1 | eqo, pas, cip, ebp, crp, pps, bsize[a] | . | Enter |

*a  All requested variables entered. b  Dependent Variable: roa*

#### Model Summary[b]

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .771(a) | .594 | .505 | .05131 | 1.876 |

*Predictors: (Constant), eqo, pas, cip, ebp, crp, pps, bsize     b) Dependent Variable: roa*

#### ANOVA[b]

| Model |  | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .123 | 7 | .018 | 6.695 | .000[a] |
|  | Residual | .084 | 32 | .003 |  |  |
|  | Total | .208 | 39 |  |  |  |

*a.  Predictors: (Constant), eqo, pas, cip, ebp, crp, pps, bsize b.  Dependent Variable: roa*

**Coefficients[a]**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95% Confidence Interval for B | |
|---|---|---|---|---|---|---|---|
| | B | Std.Error | Beta | | | Lower Bound | Upper Bound |
| 1   (Constant) | -.511 | .372 | | -1.373 | .179 | -1.269 | .247 |
| Bsize | .046 | .026 | 1.962 | 1.811 | .080 | -.006 | .098 |
| Ebp | .021 | .022 | .288 | .986 | .332 | -.023 | .066 |
| Pps | .354 | .168 | 2.126 | 2.109 | .043 | .012 | .695 |
| Pas | -.089 | .052 | -.877 | -1.712 | .097 | -.196 | .017 |
| Cip | -.027 | .029 | -.796 | -.949 | .349 | -.086 | .031 |
| Crp | -.147 | .063 | -2.444 | -2.346 | .025 | -.274 | -.019 |
| Eqo | -.017 | .007 | -.450 | -2.469 | .019 | -.032 | -.003 |

*Dependent Variable: roa*

**Residuals Statistics [a]**

| | Minimum | Maximum | Mean | Std. Deviation | N |
|---|---|---|---|---|---|
| Predicted Value | .0162 | .2112 | .1179 | .05624 | 40 |
| Residual | -.17320 | .09120 | .00000 | .04647 | 40 |
| Std. Predicted Value | -1.808 | 1.659 | .000 | 1.000 | 40 |
| Std. Residual | -3.376 | 1.778 | .000 | .906 | 40 |

*a  Dependent Variable: roa*

***Correlations Matrix of the Variables***
***Correlations***

| | | ROA | bsize | ebp | Pps | pas | cip | crp | eqo | hrp |
|---|---|---|---|---|---|---|---|---|---|---|
| ROA | Pearson Correlation | 1 | .040 | -.059 | .167 | -.292 | .541[**] | -.111 | -.183 | .[a] |
| | Sig. (2-tailed) | | .809 | .719 | .304 | .068 | .000 | .494 | .260 | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| bsize | Pearson Correlation | .040 | 1 | .306 | .354[*] | .578[**] | .604[**] | .656[**] | .382[*] | .[a] |
| | Sig. (2-tailed) | .809 | | .055 | .025 | .000 | .000 | .000 | .015 | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| ebp | Pearson Correlation | -.059 | .306 | 1 | -.149 | .365[*] | .263 | .054 | -.069 | .[a] |
| | Sig. (2-tailed) | .719 | .055 | | .359 | .021 | .101 | .741 | .672 | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| pps | Pearson Correlation | .167 | .354[*] | -.149 | 1 | .000 | .518[**] | .843[**] | .309 | .[a] |
| | Sig. (2-tailed) | .304 | .025 | .359 | | 1.000 | .001 | .000 | .053 | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| pas | Pearson Correlation | -.292 | .578[**] | .365[*] | .000 | 1 | -.085 | .295 | .000 | .[a] |
| | Sig. (2-tailed) | .068 | .000 | .021 | 1.000 | | .603 | .065 | 1.000 | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Cip | Pearson Correlation | .541[**] | .604[**] | .263 | .518[**] | -.085 | 1 | .412[**] | .208 | .[a] |
| | Sig. (2-tailed) | .000 | .000 | .101 | .001 | .603 | | .008 | .198 | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Crp | Pearson Correlation | -.111 | .656[**] | .054 | .843[**] | .295 | .412[**] | 1 | .390[*] | .[a] |
| | Sig. (2-tailed) | .494 | .000 | .741 | .000 | .065 | .008 | | .013 | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| eqo | Pearson Correlation | -.183 | .382[*] | -.069 | .309 | .000 | .208 | .390[*] | 1 | .[a] |
| | Sig. (2-tailed) | .260 | .015 | .672 | .053 | 1.000 | .198 | .013 | | . |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Hrp | Pearson Correlation | .[a] | .[a] | .[a] | .[a] | .[a] | .[a] | .[a] | .[a] | .[a] |
| | Sig. (2-tailed) | . | . | . | . | . | . | . | . | |
| | N | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |

[**] *Correlation is significant at the 0.01 level (2-tailed).*
[*] *Correlation is significant at the 0.05 level (2-tailed).*
*a. Cannot be computed because at least one of the variables is constant.*