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## ROLE OF SELF-HELP GROUP IN PROMOTING ECONOMIC DEVELOPMENT OF RURAL AREA: A CASE STUDY OF DHEKIAJULI REGION

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### ABSTRACT

*A self help group (SHG) is a registered or unregistered group of micro entrepreneurs with homogenous social and economic background voluntarily coming together with an average size of 15 people. They are encouraged to make voluntary thrift on a regular basis. They use these pooled resources to make smaller interest bearing loans to their members in addition to engage themselves in productive activities. This process helps them imbibe the essentials of financial intermediation and to take part in the effort of inclusive financing. The SHG-Bank linkage scheme has proved its efficacy as a main stream programme to cater to the neglected group of society such as woman, poor and deprived sections for availing formal financial services. With a view to evolving supplementary credit strategies for reaching the unreached rural poor in the rural areas SHGs plays innovative role in giving hope to the poor through providing credit, thus furthering rural development in the society.*

### KEYWORDS

SHG-Bank linkage, financial inclusion, microfinance, microcredit, poverty alleviation, rural area, self help group.

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### INTRODUCTION

Inclusion of economically poor and weaker section of the society under the system of economic and financial empowerment has remained as an area of big challenge in India since the beginning of the first five year plan that was initiated in 1952. Various schemes and programmes were formulated and introduced for alleviation of the economic fortune of the socio-economically downtrodden people of the society since the national independence. But, any such programme rarely succeeded in establishing socio-economic equity in our country. Poverty is a product of socio-economic inequality, lack of percolation of economic benefit achieved by a nation up to the lowest strata of the society. In all the developing countries of the world including India poverty is considered as the biggest social problem that deters them from their targeted developmental programmes. In the highly populous South-East Asiatic countries of the world which constitute one-third of the world population, the countries are struggling for removal of poverty and the great sunk of their annual budget aim at providing food, shelter, and education and health facilities to their poverty-stricken masses.

Microfinance is an institutional finance provider to the micro-enterprises, small enterprises, and poor households in the rural and informal sectors of developing countries. The inability of the formal banking system to cater the significant demand for financial services in the rural areas including the basic financial services such as safe savings and short – term credit for both productive activities and consumption has led to the emergence of microfinance as an innovative and experimental tool.

For operationalisation of microfinance and credit institution in the rural areas required formation of institutions within the easy reach of the poor. To fulfill such a need the concept of Self- Help Groups (SHGs) came up. A SHG is defined as- a voluntary group valuing personal interaction and mutual aid as means of altering or ameliorating problems perceived as alterable, pressing and personal by most of its participants. Over the last few years, the self help approach has been utilized in a growing number of projects and programmes. As Kirsches report in their study, the World Bank as the main source of finance for SHGs in the field of rural development. The SHG serve as both financial service institutions cum micro level employment generation units. Interestingly, the SHGs are the smallest financial institutions that serve a variety of support facilities for economic up liftmen of the poor people. The parametric and non- parametric support areas of a SHG are-

1. Helps the poor to save small amount of money on monthly basis and deposit in the SHG account helping them to develop saving habit and to utilize the fund collection for productive and income generating activities.
2. To inculcate a collective or co-operative mind set along with interdependency for fund, creativity, designed market etc. within their area of living. Such an intention of the SHGs also enhances social bonding.
3. Helps the poor people to identify their skill and the way to contribute to their personal and to the national economy.
4. To provide scope to make effective use of public aid provided in the form of collective government contribution for community economic activities.
5. To make the SHG a democratic institution to be created, contributed and managed by the contributors themselves through a policy instrument created by them. Such mode of operation makes the contributors, public members to realize their community responsibility and rule.

### OBJECTIVES OF THE STUDY

The present study is designed and preceded on the basis of the following objectives:

1. To assess the different activities of Self-Help Groups in socio- economic welfare of its members.
2. To study the role of Self- Help Group in promoting microfinance activities in the study area.

### METHODOLOGY

In the present study data has been collected from both primary and secondary sources. Collection of primary data was made by personal interview with the office bearers and the members of various self-help groups of Dhekiajuli sub- division. The secondary information was collected from the published annual reports of NABARD, DRDA, Banks, NGOs and various journals, articles etc. concerned with the study area.

There is around 200 Self- Help Groups functioning in the study area. It is being a cumbersome to study the entire Self-Help Groups in the study area, 10 such Self-Help Groups are selected through stratified random sampling method for the present study. The fact and figures of the sample Self- Help Groups for the last four years from 2010 to 2016 has been considered for the present study.

**BRIEF INTRODUCTION OF SELF- HELP GROUPS OF THE STUDY AREA**

The self-help groups are mostly located in rural areas of Dhekiajuli sub- division of Sonitpur district, Assam. In the present study the self- help groups are selected exclusively from the rural areas of the study area. These SHGs were formed between 2003 to 2016. The members size of these SHGs are between 10 to 20. These SHGs are registered under the National Rural Livelihood Mission (NRLM). The selected SHGs for the said study were started with main objectives of providing economic benefits to the members including creation of employment, up gradation of their standard of living. The members of these SHGs are charged from Rs. 10 to Rs.50 as an admission fees during the initial period along with share money of Rs. 10 to Rs. 50 per head. The collected money from the members is deposited in the respective bank accounts of the SHGs. The Self – Help Groups of Dhekiajuli region are playing an important role in inducting positive changes in standard of living of the members. They have taken various socio- economic and welfare decisions through which they can upgrade their standard of living to a considerable extent. The following table illustrates various socio-economic and welfare measures taken up by various self help groups of the study area.

**TABLE 1: DIFFERENT SOCIO- ECONOMIC AND WELFARE ACTIVITIES TAKEN UP BY THE SHGS**

Sl. No.	Name of SHGs	Quantum of internal loan disbursement (in Rs.)	Total profit (in Rs.)	Association with Bank account/insurance policy cover	Category of utilization of amenity	Utilisation in other welfare activities
01	Kamala SHG	30500	17000	All have bank a/c, insurance policies taken(2)	purchase CTV(2)	
02	Mamoni SHG	21000	5000	All have bank a/c	purchased furniture	Donate for Marriage
03	Nomal SHG	11000	6300	All have bank a/c, insurance policies taken(5)		
04	Ankur SHG	31900	24000	All have bank a/c	Construct pucca house (1)	
05	Parijat SHG	22400	21600	All have bank a/c	purchased utensils(2)	
06	Maa Mahila SHG	45000	21600	All have bank a/c, insurance policies(2)	Taken Electricity line	
07	Pranati SHG	18000	16800	All have bank a/c	Purchase CTV(2)	Donate for Edn(1)
08	Trishna SHG	22000	27000	All have bank a/c	Construct house	
09	Shakti SHG	35000	12000	All have bank a/c	Purchase mobile	
10	Bina SHG	42800	3000	All have bank a/c, insurance policy (2)	Purchase ceiling Fan	Donate for temple
	Total	279600	154300			

Source: Primary

The various socio- economic welfare activities undertaken by the members of various SHGs of the study area to which loan is sanctioned and share of profit received by the members is presented in Table- 1. It is reflected from the table that the members of the various SHGs actively participate in promoting socio-economic welfare of the society as well as for themselves. All the studied SHGs taken together have sanctioned and disbursed a total of Rs. 279600 as loan and shared on average 60% of profit by its member beneficiaries for undertaking different socio-economic as well as welfare activities for up gradation of their standard of living by acquisition of durable goods for household uses like purchasing color television, fan, furniture, getting electricity connection, construct houses etc. Many member beneficiaries have contributed individually to the society by adopting various welfare activities. Some of them could also extend financial help to the needy section of the society.

**TABLE 2: SOURCES OF ECONOMIC ACTIVITY AND EMPLOYMENT GENERATION OF SHGS**

Sl. No.	Name of SHGs	Sources of fund			Utilization of fund (in Rs.)	Activity undertaken	Employment generation (in persons)
		Contribution (in Rs.)	Bank Loan (in Rs.)	Interest received (in Rs.)			
01	Kamala SHG	54000	50000	5490	56798	Monetary business	NIL
02	Mamoni SHG	36000	20000	3780	30756	Goatery	2
03	Nomal SHG	2880	20000	330	20846	Monetary business	NIL
04	Ankur SHG	12000	65000	4785	66757	Monetary business	NIL
05	Parijat SHG	28800	20000	2688	85400	Piggery	4
06	Maa Mahila SHG	21600	165000	2700	108000	Poultry Firm	2
07	Pranati SHG	6720	115000	720	62724	Monetary business	NIL
08	Trishna SHG	18000	120000	880	74376	Goatery	NIL
09	Shakti SHG	8640	170000	2100	93620	Beauty parlour	3
10	Bina SHG	14400	270000	2700	126140	Monetary business	NIL
	Total	203040	1015000	26173	725417		11

Source: Primary

Table -2 indicates that the studied self- help groups have mobilized a total fund of Rs. 12,44,213 including membership contribution of Rs. 2,03,040, loan from bank and other financial institutions of Rs. 1015000 and interest earning of Rs.26173 from internal lending during the last six years from 01-04-2010 to 31-03-2016. The fund is utilized for granting internal loan, distribution of share of profit, share of loan amount etc. It is found that the studied SHGs earned Rs. 26,173 as an interest from loan and advances sanctioned to its members. The utilization of fund is also found to be encouraging which accounts for 58.30 percent of the total fund of Rs.12,44,213. It is observed that 50% of the studied SHGs are involved with monetary business and rest of 50% appears to carry out economic activities. It is also observed that the studied 10 SHGs are able to provide employment to 11non – members indicating that an individual SHG is found to be capable to generate employment one non-member. Further, the studied self- help groups are playing an important role in rural economic development by creating employment opportunities, undertaking various economic activities and above all as a microfinance institution.

**MAJOR FINDINGS**

1. The capital base and financial position of the studied SHGs have found to be gaining strength as function as a microfinance institution;
2. The SHGs are using the fund in a very encouraging way in economic activities as also in providing loan to the group members. The total loan amount of all the studied SHGs is Rs. 2, 79,600 from 1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2016. This shows that SHGs are generating micro financial character spontaneously;
3. All the groups collect substantial fund in the form of interest both from the members and the banks. The total interest received by the studied SHGs between 1<sup>st</sup> April 2010 and 31<sup>st</sup> March 2016 is Rs.26, 173 which is encouraging as micro financial institutions;
4. All the SHGs have disbursed about 60% of their revenue as dividend to their members up to 31<sup>st</sup> March 2016. This dividend became helpful for the individual groups as well as for individual members. They are able to enhance their standard of living promoting infrastructural development with the help of dividend provided;

5. With the help of loan amount many group members have started various business operation like goatery, piggery, poultry firm etc. which show that many members have secured the path of economic development;
6. The most noticeable aspect of the studied SHGs is that these groups are able to provide employment opportunities to 11 persons within a time span of 7 years. As a micro financial entity such achievement is undoubtedly promising and
7. The most significant aspect is that the SHGs not only generate employment opportunity by their economic activities but 50% SHGs serve as exclusive bankers by their involvement in traditional monetary business. Such business provides self-dependency particularly to the rural housewives. Earlier they need to depend on others for their monetary requirements.

## CONCLUSION

The role of Self- Help Groups (SHGs) in economic development of rural masses is highly significant as the role of all women SHGs in socio- economic empowerment and capacity building of the poorest and the most disadvantaged women-folk cannot be underrated. The healthy growth and rapid development of the SHG can be achieved through a strong partnership with banks, NABARD and NGOs. Provision of systematic training to the members, financial help through internal lending, experience sharing through federation of SHGs and sustainability through participatory approach may act as catalyst for the sustainability of women SHGs throughout the world. The development of proper mechanism for evaluation of performance of SHGs is needed to identify the reasons for non- performing or less performing groups and to take appropriate action to improve their functioning. The SHGs of the study area are found to be exemplary self-help groups in promoting microfinance institution and raising socio- economic and political status of women.

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**DETERMINANTS OF UNEMPLOYMENT IN PAKISTAN REVISITED****AZRA****Ph. D. SCHOLAR****DEPARTMENT OF ECONOMICS****PRESTON UNIVERSITY****ISLAMABAD****Dr. MUHAMMAD AFZAL****PROFESSOR****DEPARTMENT OF ECONOMICS****PRESTON UNIVERSITY****ISLAMABAD****ABSTRACT**

*This paper made an econometric investigation of unemployment scenario in Pakistan for the period 1990-2017. Unemployment is of much concern to policy makers and politicians. GDP growth, population growth, inflation, value added by agriculture and industry and government expenditure were found to be the major causes of unemployment in Pakistan. Positive CPI coefficient reflects stagflation. Prices are increasing but output stagnates that does not lead to fall in unemployment. Population growth contributes enormously to unemployment. Increase in value-added by both agriculture and industry can help reduce the army of unemployed youth coupled with relentless reduction in population growth. Increase in development expenditure is expected to curtail unemployment. Both tests show cointegration among the under consideration variables. OLS results were found to be better than GMM. OLS does not suffer from Endogeneity problem and hence OLS estimation results are reliable. Unemployment could be combated if both agriculture and industry contribution to GDP is enhanced.*

**KEYWORDS**

Pakistan, unemployment, economic growth.

**JEL CODES**

E10, E24, J60.

**1. INTRODUCTION**

**M**acroeconomics has several goals. Low unemployment and price stability are the major objectives. It is less likely that the both are achieved simultaneously, keeping in view the famous and well known inflation- unemployment trade-off. Exploding population growth and poor macroeconomic performance seem to be the principal causes of unemployment in any country particularly developing countries where population growth knows no bounds. Population growth situation in Pakistan is alarming.

Unemployment is a situation when an able bodied person is searching for a job but is unable to get even at the prevailing market wage rate. The costs of unemployment are not less worrying than inflation. Fall in the production of the economy is the principal disadvantage of unemployment as the unemployed workers do not contribute positively to the production. Since the unemployed do not pay taxes, tax-payers also bear the brunt of some of the output cost of the unemployed (Afzal & Awais, 2012). According to GOP (2010-11) unemployment is a state in which individuals are able and also willing to work at the current wage rate prevailing in the market, but they are unable to find any job. It is an observable fact. Unemployment increased in 1990s due to low economic growth rate, fiscal tightening, and several other issues in Pakistan.

Pakistan is basically an agrarian country. Several fundamental causes of unemployment in agriculture sector are backward status, lack of agricultural education, less quantity use of fertilizers, low quality seeds and pesticides, and decreasing demand for manual work due to improvement in technology. These factors are responsible for general and disguised unemployment in the agriculture sector. Disguised unemployment is that type of unemployment where people are seem to be working but actually they are not participating in the productive activity or rightly say that their marginal productivity is zero (Cheema & Atta, 2014).

Having lack of absorption capacity, unemployment has been the major issue in developing countries. The high unemployment rate in South Asian countries is one of the main issues that distinguish them from those of the developed economies. The excessive rate of unemployment negatively impacts the economy which further causes unstable economic circumstances. The focus of every government is to create employment opportunities through various productive activities, by using all available resources. Increasing rate of population growth is an alarming issue in developing countries including Pakistan. A rapid increase in population raises many socio-economic issues in an economy. Unemployment, for long time period always creates poverty, financial problems, homelessness, increasing crime rate and many other issues including, social isolation, loss of confidence, and self-esteem. All these factors are responsible for the erosion of a healthy society (Maqbool, Mahmood, Sattar, & Bhalli, 2013).

Unemployment is among the major macroeconomic variables that portrays the health of an economy. A high rate of unemployment reflects that people are not earning according to their desire and ability. People who voluntarily do not want to work like retired people, full time students, and children are not included in the unemployed category. In short, unemployment means the state when people who are willing and able to do a work but fail to get the desired job (Aqeel, Qureshi, Ahmed, & Qadeer, 2014).

Keeping in view the vital importance of employment, the objective of this paper is to empirically analyze unemployment situation in Pakistan for the period 1990-2017. Previous studies have addressed the unemployment issue in Pakistan from their own perspective. Conventional variables have been used which do not throw sufficient light on the resolution and gravity of the problem. The present paper is based on well- defined econometric techniques. Therefore, the problem is studied from a much broader perspective to get pragmatic guidelines. Unemployment is an important subject which directly or indirectly creates further economic hurdles. If the available resources are properly utilized in Pakistan, the problem can be taken care of.

**2. LITERATURE REVIEW**

A lot of literature is available on the subject matter, highlighting various causes and consequences regarding increasing rate of unemployment. Many studies have investigated determinants of unemployment. Some studies used Microeconomic perspective and others considered macroeconomic factors of unemployment. These studies dealt with developed and developing countries. Different theoretical models were used for assessing the determinants of unemployment. The job search model was presented by (Mortensen 1970; Lippman & McCall 1976). According to this model, the unemployment depends on offered job and on acceptance of job. The job offered depends on expertise of labor, education, work experience and the demand condition of labor in local area.

Assaad, El-Hamidi, and Ahmad (2000) empirically examined the various determinants of unemployment in Egypt. The study reported that in the labor market of Egypt unemployment was flourishing with constant rate. Analysis shows that the educated female sector is being affected more than that of male counterparts

by the transition to a private sector economy. The females face domestic issues to enter in the job market, especially in the private sector. The study suggests that there is good policy atmosphere that is appropriate for labor-intensive techniques; exports oriented industries would help to absorb the new applicants into the labor market.

Khan (2002) studied the unemployment among educated manpower in Pakistan. And reported that the educated unemployed are generally located in urban areas, and being young, capable of organizing themselves and belonging to middle class can exert their influence and act as a powerful pressure group. Valadkhani (2003) study examined the major causes of Iran's unemployment and used simultaneous-equation model based on annual data from 1968 - 2000. The study found that the unemployment rate responded positively to output gap and increasing economic uncertainty and negatively to the higher growth rates of real investment and inflation.

Kalim (2003) studied the determinants of unemployment in Pakistan based on unemployment, population growth and real growth rate of GDP for the period 1986-1999 and concluded that population growth rate in Pakistan was extremely high compared to other developing countries. Both low GDP and population growth were the major contributors to unemployment in Pakistan. Akhter and Shahnaz (2005) reported that youth unemployment in Pakistan declined when GDP annual rate of growth was higher than 4.25% per year. The study concluded that the investment in private sector had long lasting impact compared to public sector investment to increase employment opportunities for youth. Micro level data from households showed that vocational training had no positive effect on employment.

Shu-Chen Chang (2005) studied economic growth, trade, foreign direct investment (FDI) and unemployment in Taiwan and applied VAR method of variance decomposition and impulse response function analysis. Study confirmed no relationship between FDI and unemployment whereas negative relationship between unemployment and economic growth was confirmed. Monastiriotis (2006) used Keynesian and monetarist approaches to study unemployment in UK. Theoretically the study shed light on Keynesian and monetarist explanations of unemployment and explained how the two main theoretical approaches perceived the role of price stability, macroeconomic shocks and labor market rigidities for unemployment. Pallis (2006) explained the relationship between inflation and unemployment in new European Union member states for the period 1994-2005. This paper concluded that the application of common policies across an economy was questionable because of the different effect of these policies on inflation and unemployment.

Rafiq, Ahmad, and Ullah (2008) examined the unemployment situation in Pakistan for the period 1998-2008 and concluded that the population growth contributed to unemployment while inflation and FDI had negative impact on unemployment. Kyei and Gyekye (2011) argued that unemployment was one of the most significant determinants of the welfare of any nation.

According to Afzal and Awais (2012) the success of government policies depends on low inflation and low unemployment. Inflation refers to a condition in which the price level is continually rising at a rapid rate. Import prices and fiscal indiscipline were reported as the major causes of inflation. Unemployment resulted from lack of employment opportunities and was a permanent feature of the economy. Unemployment situation in Pakistan got worse due to rapid population growth, uninspiring economic growth, fiscal indiscipline, rising debt-servicing and non-development expenditure which had adversely affected Pakistan economic development and poverty reduction. They argued that if policymakers increased aggregate demand, they may minimize unemployment only at the cost of higher inflation.

Aurangzeb and Asif (2013) studied the macroeconomic determinants of unemployment in Pakistan, India and China for the period 1980-2009 and used inflation, exchange rate, GDP and population as the determinants of unemployment in the said countries. Based on time series techniques like cointegration and Granger causality, study reported diverse results for the sample countries. The study suffers from flaws due to econometrics techniques.

Arsalan and Zaman (2014) studied the key factors responsible for unemployment in Pakistan for the period 1999-2010 and OLS was used based on data on inflation, foreign direct investment, GDP, and population growth and reported negative connection between the afore-said variables whereas population growth had positive impact on unemployment suggesting that population growth contributed to increase in unemployment in Pakistan. Sabir and Naaz (2015) concluded that growth rate of population and literacy rate had significant positive relation with unemployment while GDP had negative impact on unemployment in Pakistan.

### 3. MODEL AND DATA

#### MODEL: UNEMPLOYMENT

Unemployment model is developed by assuming that the following variables are expected to have a significant influence on unemployment.

UN=unemployment rate is the ratio of the number of unemployed individuals to the total labor force. Data for unemployment as percentage of total labor force were collected from WDI (2018).

GDP growth ( $Y_p$ )

GDP growth measures the aggregate macroeconomic performance of an economy that affects almost all facets of the economy. This also influences the inflation and unemployment in the economy and GDP growth may be construed as the mother of all macroeconomic problems. If it is doing well, it will take care of all conceivable problems. Thus its importance in influencing the unemployment is an open secret.

Population growth ( $POP_g$ )

Pakistan has one of the highest population growth rate in the world. Population pressures are threatening land, forests and water resources. The poor bears the brunt of the negative effects of population growth. They become landless, face loss in jobs, and the government reduction of expenditure on education and health. Pakistan was the 13<sup>th</sup> most populous country in the world with a population of 32.5 million in 1947. Today Pakistan is the 6<sup>th</sup> most populous country in the world. Except India, China and Indonesia; Pakistan's projected population will far exceed other Asian countries in 2025. Pakistan though ranked 6<sup>th</sup> in size adds more than twice as many peoples to the absolute growth of world population than USA which ranks third (Afzal & Awais, 2014). The citation clearly reveals that *population growth is the most potential source of unemployment in Pakistan*.

CPI= Inflation

Inflation is a condition of continually and rapidly rising price level that persists over a long period of time. Inflation is anticipated when prices increase at a rate which all economic agents (consumers, workers, investors and firms) expect to rise, or it may be unanticipated, when the increase in prices is not expected or are larger than expected. Excessive government borrowing from the central bank, increase in food and oil-prices, supply-shocks, law and order situation and energy crisis, governance problems were the major problems causing inflation in Pakistan (Afzal & Awais, 2012).

CPS=Value added by industry and agriculture

Value-added by industry and agriculture constitutes the commodity producing sectors (CPS). Agriculture, industry and services are three vital parts of Pakistan GDP. Their share in GDP has varied over the decades. Today industry, agriculture and services share in GDP is 21%, 21.8, and 58.1% (GOP, 2013-14) respectively. Services were not used as additional explanatory variable because its growth is linked with agriculture and, industry growth. If both are performing well, services sector will also grow.

Despite more than 70 years of vigorous industrialization, agriculture is still the mainstay of the economy in terms of its contribution to GDP, employment and foreign exchange earnings. Agriculture also contributes to growth as supplier of raw materials to industry as well as market for industrial products. Not only more than 40% labor force is engaged in agriculture but also it is host to more than 60% rural population which is directly or indirectly linked with agriculture. The performance of these sectors depends on GDP growth because GDP can be taken as an index reflecting the overall health of the economy including political stability as well as official policies having bearing on the growth of these sectors.

Since the very beginning of the country Pakistan has strongly pursued import-substitution industrialization for balance of payments (BoPs) reasons as well as rapid growth and development to reduce dependence on agriculture and foreign countries. Industrial production is used here as an index or measure of the structural change that accompanies the process of growth and development. Moreover, industrial production can be taken as a proxy for the rate of investment in previous years at which labor and capital have been transferred from agriculture and industry (Afzal 2004). Since these sectors have more than 40% share in GDP growth, therefore, agriculture and industry as percentage of GDP are added as another independent variable. It is an open secret of the economic development of a

developing country that the share of agriculture in GDP declines over the years. Therefore, the performance of these sectors has decisive influence on output and employment.

G=Government expenditure

Government expenditure refers to the purchase of goods and services, including both public consumption and public investment, and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer. Government is a big consumer notably in developing countries. Government expenditure (G) has significant impact on employment. Unemployment declined in 1990s as the government slashed its development expenditure that added to the unemployment of the army of unemployed youth and poverty. Based on above-mentioned brief explanation the following model of unemployment is proposed:

$$\ln UN = \lambda_0 + \lambda_1 \ln Y_p + \lambda_2 \ln POP_g + \lambda_3 \ln INF + \lambda_4 \ln CPS + \lambda_5 \ln G + \phi$$

ln= natural logarithm. Log is used to smooth the data. The expected sign of the coefficients is:

$$\lambda_1 < 0, \lambda_2 > 0, \lambda_3 < 0, \lambda_4 < 0 \text{ and } \lambda_5 < 0$$

**DATA**

Annual data for all variables of the model were obtained from Government of Pakistan (GOP), Economic Survey (1997-98, 2005-06, 2011-12, 20017-18) for the period 1990-2017.

**4. EMPIRICAL RESULTS**

**Model-Unemployment**

Dependent variable: lnUN

**TABLE 1: METHOD: FULLY MODIFIED LEAST SQUARES (FMOLS)**

Variable	coefficient	Std. Error	t-Statistic	Prob.
lnCpi	0.04	0.09	0.44	0.66
lnyp	-0.03	0.03	-1.03	0.31
lnpopg	0.02	0.13	0.17	0.86
lnCps	1.46	0.84	1.74	0.09
lnG	-1.12	0.17	-6.42	0.000
C	-1.51	3.68	-0.41	0.68
R <sup>2</sup>	0.52	Ad.R <sup>2</sup>	0.41	DW= 2.02

The results of unemployment model (Table 1) are not according to expectations. CPI coefficient is positive and insignificant suggesting that increase in inflation increases unemployment rate. This is against the traditional inflation- unemployment trade-off. Positive CPI coefficient reflects stagflation that is there is inflation and stagnation. Prices are increasing but output stagnates that does not lead to fall in unemployment. GOP statistics show that economy has not been performing well leading to fall in unemployment.

Increase in economic growth (yp) will help reduce unemployment. During the current decade economy has not been performing well. During 2012-17, GDP growth rate was not enviable. Both agriculture and manufacturing sectors did not follow desirable pattern. Exports recorded negative growth leading to huge external debt and depreciation of the exchange rate (GOP 2016-17). Therefore, unemployment has followed an increasing trend.

Population growth has the expected positive sign but has insignificant coefficient. This has assumed alarming proportions over the last decades that are adversely affecting all facets of the economy. Population growth contributes immensely to unemployment because it exceeds more than job opportunities. Rapid population growth has added fuel to the agonizing unemployment situation.

CPS has correct and significant coefficient. Increase in value-added by both agriculture and industry can help reduce the army of unemployed youth coupled with relentless reduction in population growth. This means that increase in economic growth and development is most likely to help reduce population growth. As people become more educated and their standard of living also augments, they will think about family size. Government expenditure has expected negative and significant coefficient. Increase in Government expenditure particularly development expenditure will go a long way to curtail unemployment.

**Cointegration**

Time-series econometrics focuses on the time-series properties of the economic variables in order to overcome the problem of spurious regression. It is important to see whether the variables are stationary or not. A time series having unit root is called a nonstationary time series. A time series is stationary if mean, variance and covariance are time invariant (Gujarati 2004). Therefore, examination of stationarity/nonstationarity is important before doing any empirical work which is closely linked to the tests for unit roots. Cointegration may provide useful information about the relationship between the nonstationary variables. The theory of cointegration attempts to study the interrelationships between long-run movements in economic time series. Most economic theories are about long-run behaviour (Maddala, 2001). Therefore, cointegration between two series implies that there exists a long-run relationship between them which suggests that the variables move together over time so that short-term disturbances from the long-term trend will be corrected.

ADF has the following equation:

$$\Delta Y_t = \beta_0 + \beta_1 t + \gamma Y_{t-1} + \sum \beta_j Y_{t-p} + \epsilon_t$$

If the computed  $\tau$ -statistic is less < MacKinnon critical values then we do not reject the hypothesis that  $H_0: \gamma = 0$  the given time series has unit root that is it is nonstationary or is integrated of order one. A time series is integrated of order one if it becomes stationary after it has been differenced one time. Now if  $H_0: \gamma = 0$  is rejected, then first difference stationary is confirmed which means that the original time series is integrated of order one (Gujarati, 2004).

ADF (Table 2) results show that the underlying variables are nonstationary (NS) in first difference though mixed in level form suggesting that the data are examined for cointegration. VAR lag order selection criteria recommends lag 1. Both tests show cointegration among the under consideration variables meaning that there is long-run relationship among the variables.

**TABLE 2: ADF TEST - UNEMPLOYMENT MODEL**

Variable (log)	Level	First difference	Result
Yp	-3.27 (0.09)	-6.25 (0.0001)	NS
popg	-7.29 (0.0000)	-6.85 (0.0000)	NS
cpi	-1.73 (0.71)	-4.06 (0.0057)	NS
cps	-3.22 (0.10)	-3.67 (0.04)	NS
g1	-1.69 (0.73)	-5.40 (0.0009)	NS

\*MacKinnon (1996) one-sided p-values.

Test critical values: 1%level=-4.46,

5% level=-3.46

10% level= -3.26

TABLE 3: COINTEGRATION RESULTS: (MODEL- UNEMPLOYMENT) lnUN lnCpi lnyp lnpopg lnCps lng

Null	Alternative	$\lambda$ -trace	5%CV	$\lambda$ -max	5%CV
$H_0: r = 0^*$	$H_1: r = 1$	124.21*	95.75	56.80	40.07
$H_0: r \leq 1$	$H_1: r = 2$	67.41	69.82	24.68	33.87
$H_0: r \leq 2$	$H_1: r = 3$	42.73	47.85	19.60	27.58
$H_0: r \leq 3$	$H_1: r = 4$	23.13	29.79	14.94	21.13
$H_0: r \leq 4$	$H_1: r = 5$	8.19	15.49	5.73	14.26
$H_0: r \leq 5$	$H_1: r = 6$	2.46	3.84	2.47	3.84

Both tests indicates 1 Cointegrating equation at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

**GMM Estimation Results**

Different estimation techniques are used to estimate an econometric model. Ordinary Least Squares (OLS) method is the most basic and popular method of estimation. However, this method faces Endogeneity problem. GMM is a general model that estimates parameters in a statistical model. GMM method possesses desirable statistical properties of consistency, efficiency, and asymptotic normality. Moreover, GMM overcomes Endogeneity problem. GMM literature assumes stationarity in the variables of the model.

TABLE 4: MODEL (UNEMPLOYMENT)

Dependent Variable: Unemployment

Method: Generalized Method of Moments

instrument specification: lnun(-1) lnimports lnm2 lnindustry lnbd

lnindustry lnbd

Variable	Coefficient	Std. Error	t-Statistic	Prob.
c	-10.82	38.08	-0.28	0.7791
lnCpi	0.05	0.36	0.16	0.8738
lnyp	0.04	1.37	0.02	0.9779
lnpopg	3.57	8.57	0.41	0.6804
lnCps	-1.01	0.56	-1.80	0.0859
lng1	-1.01	0.56	-1.80	0.0859
ar(1)				
R <sup>2</sup>	0.38	Adj R <sup>2</sup> = 0.23	DW = 2.13	J-statistic 0.99(0.32)

Unemployment Model was estimated with FMOLS (Table 1) and GMM (Table 4). FMOLS results are preferable.

TABLES: ENDOGENEITY TEST: MODEL - UNEMPLOYMENT

Equation: lnun (model-II)

specification: lnun lnCpi lnX1 lnpopg lnCps lng1 c

instrument specification: c lnun(-1) lnimports lnm2 lnindustry lnbd

lnindustry lnbd

ndogenous variables to treat as exogenous: lnCpi lnX1 lnpopg

lnCps lng1

	Value	df	Probability
Difference in J-stats	2.029058	5	0.8451
J-statistic summary			
	Value		
Restricted J-statistic	3.694052		
Unrestricted J-statistic	1.664994		

Endogeneity test based on Chi-square statistic tests the null hypothesis that regressors are exogenous. Endogenous variable corresponds to the dependent variable while explanatory variables represent exogenous variable (Gujarati 2004). Since  $H_0$  has been accepted due to insignificant value by the Endogeneity test for the unemployment model (Table 5) meaning that the regressors are exogenous and it is concluded that OLS estimation results are reliable and mostly preferred to GMM results as OLS and GMM tables demonstrate. Therefore, OLS does not suffer from Endogeneity problem.

**7. CONCLUSIONS**

This paper made an econometric investigation of unemployment scenario in Pakistan for the period 1990-2017. Unemployment like inflation and investment is an important macro variable which is of much concern to policy makers and politicians. GDP growth, population growth, inflation, value added by agriculture and industry and government expenditure were found to be the major causes of unemployment in Pakistan. The positive CPI coefficient suggests that increase in inflation increases unemployment. Positive CPI coefficient reflects stagflation that is there is inflation and stagnation. Prices are increasing but output stagnates that does not lead to fall in unemployment.

Population growth has had assumed alarming proportions adversely affecting all facets of the economy. Population growth contributes enormously to unemployment because it exceeds the job opportunities. Increase in value-added by both agriculture and industry can help reduce the army of unemployed youth coupled with relentless reduction in population growth. Government expenditure has expected negative and significant coefficient. Increase in development expenditure is expected to curtail unemployment. The fundamental variables are nonstationary (NS) suggesting that the data are examined for cointegration. Both tests show cointegration among the under consideration variables.

GMM estimation was also made in order to compare with OLS results; OLS results turned out to be better than GMM. OLS does not suffer from Endogeneity problem. Therefore, OLS estimation results are reliable.

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**CONTRACT FARMING IN ODISHA: A CASE STUDY OF DHENKANAL DISTRICT**

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**ABSTRACT**

*Though there has been a substantial development of all the sectors of the economy, agriculture still continues to remain the main stay of the people of Odisha. Being an important agricultural belt, growth of this sector is necessary for not only ensuring food security and reduction of poverty in rural areas, but also in sustaining the growth of the other sectors of the economy. This paper thus tries to study the impact of participation in high value crop like sugarcane, through contract farming arrangements in Odisha, on the rural farm households of Dhenkanal district. The study has been undertaken by conducting a field survey in four sugarcane producing blocks of the district, using in-depth interview with observational techniques. The sample was restricted to 100 sugarcane contract, 50 sugarcane non-contract and 50 non-sugarcane farmers, across the study area.*

**KEYWORDS**

contract farming, farm households, reduction of rural poverty, sugarcane.

**JEL CODES**

Q10, Q14.

**1. INTRODUCTION**

Agriculture has remained a neglected sector of the Odisha economy. The share and growth of the sector has shown wide variations from year to year. The sector suffers from frequent natural calamities like cyclones, drought, flash floods and animal menace, together with localised adverse weather events too. Odisha is considered as the climate change hotspot of India. Because of the susceptibility of the State to natural calamities, increased variability in rainfall and low irrigation coverage, food grain production fluctuates from year to year. As such, farmers face livelihood insecurity and are in distress. Paddy, which is a dominant crop of the State, has shown a declining trend in both productivity and production acreage. Against this backdrop, there arises an urgent need to provide food security, livelihood security and nutritional security to the farming community by improving agricultural production and productivity. It was thus considered necessary to take note of the changing situation and bring out a policy that could meet the current challenges in this sector. To bring the agricultural sector out of the perils of subsistence farming, the Government of Odisha decided to embark upon commercialisation of agriculture, through a system of contract farming.

**2. REVIEW OF LITERATURE**

There is a plethora of literature examining the role of contract farming in agricultural diversification and development and its impact on the contracting farmers and the farm economy. The literature on contract farming as a tool for development is scattered through different disciplines. The essence of contract farming involves a commitment by a producer/farmer or out grower to provide an agricultural commodity of a particular type, at a time and a price and in the quantity required by a known buyer. It refers to a range of initiatives taken by the private agri-business companies to secure access to smallholder produce (Minot, 1986). Companies provide services to farmers and in return receive access to farmers' produce. Glover (1987) described contract farming as an institutional arrangement that combined the advantages of plantations - quality control, coordination of production and marketing and of small production - superior incentives, equity considerations etc. The contract provides the farmer with the assured sale of the crop and at times provides for technical assistance, credit, services, or inputs from the purchaser (Binswanger et al, 1995). Contract farming is also defined as an intermediary institution between spot markets and vertical integration (Key and Runsten, 1999). Contract farming can imply an out grower scheme that provides production and marketing services to farmers on their own land (Pauri Baumann, 2000). It can be defined as "an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at pre-determined prices" (Eaton and Shepherd, 2001). It basically consists of four elements: pre-agreed price, quality, quantity and time (Singh, 2002).

The trend towards contract farming and the reasons behind it have been extensively described for the agro-food industry in the developed countries (Martinez and Reed, 1996; Royer and Rodger, 1998). Another development relevant for contract farming in developing countries is the reduction in the role of the state in marketing, input and technical services. As the provision of inputs and services by independent firms is often weak, Contract farming can solve the problem of farmer access to inputs (Key and Runsten, 1999). It provides many opportunities as well as challenges to the farmers. Whilst acknowledging that contracts are often exploitative, Glover (1984, 1987) emphasises that contract farming and out grower schemes have very often led to a significant rise in living standards. Ramaswami et. al. (2006) focussed on the efficiency factor in contract farming by Indian poultry producers. Similarly, Miyata et al. (2007) examined the impact of contract participation on the household income of onion and green apple farmers in China. Sukhpal Singh (2000) reveals that the contracting farmers were better off with reliable income, new and better farming skills, better soil management and outlet for bulk sales.

Contracts can be categorised as formal (or written) and informal (or verbal). In agriculture, contracts are often simple and verbal (Olesan and Bogetoft, 2004). Most contracts are informal and incomplete. In developing countries, Informal contracts are generally more efficient (Bijman, 2004). They are self-enforcing in nature, where the parties have the incentives to honour the contract in all contingencies. Such incentives can be both economic and social (Nootboom, 2002 and Klein Woolthuis et al., 2005). However, if contract farming becomes the norm, then people will lose food security. The firms will have their say in respect of the type of crops to be produced and the inputs to be used.

**3. IMPORTANCE OF THE STUDY**

Though several policies and programmes have been initiated to improve the performance of agriculture sector in the State, the Government through its Agricultural Policy, 2013 envisages a shift from the present level of subsistence agriculture to a profitable commercial agriculture, promotion of sustainable agricultural development, enhancement of productivity of important crops, encouragement of crop substitution and modern farming system through long term investments in agriculture by both private as well as public sector, increase access to credit for small and marginal farmers and encourage contract farming.

Contract farming practices, even though a new concept has been practiced informally since long in the State. Over the years, it has made headway in the arena of cultivation. The inclination of the farmers towards instant cash and assured market has lured them for contract farming. Increasing number of farmers are now giving up traditional farming practices and entering the process of contract farming. In the year 2006-2007, contract farming was first introduced to crops like cotton and oilseeds. Later on, it was extended to other crops like sugarcane, maize, lemongrass and groundnuts. Thus it is considered imperative to study the equity and efficiency implications of contract farming of sugarcane in the State with special reference to the district of Dhenkanal, a major farmland of the State.

#### 4. STATEMENT OF THE PROBLEM

Odisha's agriculture is dominated by small and marginal farms. About 82 per cent of the holdings are less than 2 hectares in size, which are getting further subdivided. The cropping pattern of these farms is dictated by food needs and food crops occupy more than 85 per cent of the cropped area. This restricts the scope for income expansion through higher value non-food crops. However, Sakthi Sugars Ltd., being the only sugar mill in the district of Dhenkanal, has entered into contract schemes with the sugarcane growers. So it has become imperative to examine the impact of contract farming on the small and marginal farmers growing sugarcane, study its performance in terms of economic development and suggest measures for its success. It is also essential to analyse the basic inputs that are needed by the farmers to shift from food crop to non-food crop.

#### 5. OBJECTIVES OF THE STUDY

Objectives set forth for the study are:

- (i) To analyse the causes for adoption of contract farming in sugarcane.
- (ii) To examine the terms and conditions of contract farming and its equity and efficiency implications on contracting partners.
- (iii) To examine the existing policy of the Government of Odisha with regard to contract farming and its implementation.
- (iv) To propose suggestions and recommendations in order to make it efficient and equitable to benefit the growers.

#### 6. HYPOTHESIS

The study proposes to test the following hypotheses as gleaned from theory, with data collected from both primary and secondary sources.

H1 : Contract farming increases crop yield rate.

H2 : Growers get higher price than the market price for their crop produce.

H3 : Contract farming enhances farm income.

H4 : Farmers shall get an easy access to agricultural inputs which include seeds, fertilisers, pesticides, credit, farm machinery, technical advice, extension services etc., that may be otherwise unavailable.

#### 7. RESEARCH METHODOLOGY

The adoption of a sound methodology, consistent with objectives in any empirical investigation, forms an integral part of the study. Here, it is essential to understand the concepts of equity and efficiency pertaining to the present study, before adopting the statistical techniques and other methods for research. Such a measure will give a proper perspective to the study. Equity can be assessed on the basis of a comparison between the relative benefits enjoyed by the contracting farmers and the contracting agency, by the large holders and small holders or by the farmers belonging to the higher caste or lower caste. Efficiency refers to the effectiveness and consequences of adoption of contract farming on these farmers. More specifically, its impact on crop yield, farm income and long term impact on environment, both with and without contract farming. In this study, a multi-stage stratified random sampling technique was followed to examine the operational efficiency of contract farming in Odisha.

In the first stage, for assessing the performance of contract farming, the district of Dhenkanal was chosen as the study area because of the successful operation of the Sugar mill and the widespread cultivation of sugarcane through contract farming, therein. In the second stage, four blocks namely, Dhenkanal Sadar, Kamaskhya Nagar, Bhuban and Gondia were selected from the district of Dhenkanal. In the third stage, two villages from each of the identified blocks were selected, according to highest production area coverage. Finally contracting and non-contracting sugarcane farmers and farmers producing other crops in adjoining lands were selected randomly, from each village. A total of 100 contracting, 50 non-contracting and 50 other farmers were included in the study.

A field survey was then conducted to identify the contracting and non-contracting farmers producing sugarcane in four blocks of the district of Dhenkanal. Participatory Rural Appraisal techniques like Group Discussions, Case studies and semi-structured interviews were made use of in course of the research. Data have been collected from both primary and secondary sources. Published secondary data and household survey data were used in the study. Secondary data on various parameters were collected from Statistical Abstracts of Odisha. Data on sugarcane production, productivity, area covered, irrigation facilities available and the number of farmers engaged in contract farming were obtained from the secondary sources such as the respective Block offices, the District Agricultural Office, the Directorate of Agriculture and Statistics, The Odisha State Agricultural Marketing Board, the Department of Co-operation and other published data were collected.

#### 8. RESULTS AND DISCUSSIONS

In an environment, where production risk is high, it becomes difficult for these capital starved farmers to make efficient production choices. It was hence felt that contract farming could be one of the best solutions, which may reduce the polarisation of the rich and poor and thereby encourage these farmers to compete with the very large and rich farmers. Wide price fluctuations, unorganised and inefficient markets, limited market access and ultimately the weak bargaining power of the small growers have paved way to the participation of the private sector through contract farming. The role of contract farming through private sector participation has tried to make optimum use of land and farm resources in order to maximise agricultural produce.

Being a lucrative crop, the area under sugarcane cultivation in the district of Dhenkanal has been expanding progressively over the years. More and more farmers are growing sugarcane on contract basis to sell sugarcane at the pre-guaranteed specified price through contracts with Sakthi Sugars, Pvt. Ltd., which is the only sugar mill in the district. Taking care of the need of the hour, the Government of Odisha has taken a lot of initiative to promote sugarcane cultivation and maintain a continuous supply chain. In order to shift from the present level of subsistence agriculture to a profitable commercial one, the State APMC Act has been amended to include contract farming.

#### 9. FINDINGS

An attempt was made to assess the socio-economic characteristics of sample households, which have a great impact on the behavioural pattern of the contract, non-contract and farmers producing other crops. The caste configuration of the sample households reveals that the majority of the contract farmers (49 %) belong to Schedule Caste, followed by Socially and Economically Backward Classes (25%) and only 23 per cent are of General caste. Of the total of 50 Non-contracting farmers, 50 per cent belong to SEBC, 3 per cent are of General caste and only 9 per cent are SC. In the non- sugarcane farmer households, majority (46%) belong to SEBC, 34 per cent are of General category and 20 per cent belong to SC (Table1). Thus there are more SC among the sugarcane contract farmers than among non-contract farmers and non-sugarcane farmers. This indicates that the inclination to adopt contract farming is more pronounced in the case of Schedule Castes, while the farmers belonging to the upper castes prefer to cultivate on their own and show less interest in contract farming.

TABLE 1: CASTE CONFIGURATION OF SUGARCANE CONTRACT, NON-CONTRACT AND NON-SUGARCANE FARMERS ACCORDING TO SOCIAL GROUP

Category	Number of Households		
	Sugarcane Farmers		Non-Sugarcane Farmers
	Contract	Non-Contract	
SC	49 (49.0)	09 (18.0)	10 (20.0)
ST	03 (0.3)	- (0.0)	- (0.0)
SEBC	25 (25.0)	25 (50.0)	23 (46.0)
GEN	23 (23.0)	16 (32.0)	17 (34.0)
TOTAL	100 (100.0)	50 (100.0)	50 (100.0)

Note: Figures within parentheses indicate percentages of total

Source: Field Survey

Table 2 reflects the various causes for entering into contract farming. Small farmers mostly face the constraint of assured market with a fair price. The most important reason cited by the sugarcane farmers to enter into contract farming was the promise of a steady and increased income that comes with an assured market (45.3%), low risk involved (23.6%), greater access to a reliable market, coupled with guaranteed and stable pricing structure i.e high returns (17.0%), better access to credit, inputs and extension services and increase in on-farm diversification. Thus, small and medium holders in the sample villages found themselves inclined towards contract farming.

TABLE 2: CAUSES FOR ENTERING INTO CONTRACT FARMING: FREQUENCY OF RESPONSES

Causes	Number of Households			Weighted Score in %age
	Contract Farmers - Rank			
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	
Assured Market	79	15	5	45.3
Higher Returns	8	34	10	17.0
Low Risk	9	39	37	23.6
To diversity firm activity	2	4	19	5.5
Free extension service	1	1	12	2.9
Timely supply of credit and inputs	1	7	17	5.7
Total	100	100	100	100.0

Source: Field Survey

It is also revealed that across all farmer categories, 78.5 per cent are in the age group forty to sixty years and a greater percentage of contract farmers are found to be literates. Education is said to play an important role in motivating the sugarcane farmers to enter into contract farming. Interestingly, there are no marginal farmers among the contract farmers. However, the small and medium farmers are found to be the dominant (73%) among these contract farmers. Among the non-contract group of sugarcane farmers, 88 per cent are small and medium, 10 per cent are medium and only 2 per cent are large. This implies that most of the sugarcane farmers who are small and medium and literates too, opt for contract farming rather than cultivating on their own. However, among the respondent non-sugarcane farmers (farmers producing other crops), there were no large farmers at all. This indicates that the large farmers mostly prefer to cultivate sugarcane. But the question of viability of small farmers under contract farming has been solved amicably by the field data collected and conclusions that followed. It was found that the productivity of the small farmers was almost comparable to their large counterparts. The small farmers, in fact showed a rise in their income levels after starting cultivating sugarcane under the scheme of contract farming.

It was found that the crop was being cultivated by the farmers for their own economic stability and sustenance many years before the Sakthi Sugars made its entry. The produce was being utilised either for gur manufacture or supply to kandsari units operating in the vicinity. Being a traditionally cane growing area, most of the contract farmers were found to be acquainted with the farming operations but practiced primitive agronomical practices. Though they were by and large found to be knowledgeable, yet were keenly receptive and amenable to suggestions and advice, for improvement and updating their skills. Results show that during the period 2008 to 2014, the area under production in the district has gone up by 29.41 per cent, production by 39.58 per cent and yield per hectare by 7.85 per cent, during the same period. This increase in area, production and productivity definitely indicates the role of contract farming in improving the performance of the sugarcane cultivators and in a way, bringing about an upward movement in the status of these farmers, especially the small holders, though the achievement is not adequate.

It was observed that many contract farmers were discouraged by the delay in payments and were in constant fear of the frequent destruction of crops elephants, who may leave them bankrupt. At the same time, the Sugar mill also resorted to unnecessary manipulation of norms for their self-weighted interest. Though standard grades are fixed by the Sugar mill, they at times reject the produce on grounds of poor quality but later on purchase the same produce at a lower price. The inability to understand the terms of the contract is also a crucial lacuna of the system.

The contract agreement is signed by the contracting sugarcane farmers and the contracting sugar mill. The agreement is a formal and written one, which is prepared by the contracting Sugar mill. The terms and conditions are specified therein. The Sugar mill undertakes to provide inputs like technical knowhow, seeds, fertilisers, pesticides/weedicides (plant protection chemicals), pump sets for irrigation, soil testing, machinery for harvesting, credit facilities, transportation and marketing of the produce. The farmer in turn, agrees to supply the produce to the Sugar mill at the pre-agreed price. The cost of all the inputs provided are deducted from the post-harvest payments made. However, the procurement price is fixed by the government and is revised from time to time. But the quality of the procured produce is determined by the Contracting Sugar mill and is weighed at the procurement centre.

## 10. RECOMMENDATIONS

In the light of the above findings, the following suggestions are made for making the scheme of contract farming a better option for the practice of growing sugarcane traditionally. Since there are no specific and strong policy on contract farming, there is the need to develop a legal framework, which should incorporate the key elements of the linkage between the sugarcane farmers and the Sugar mill. The basic guidelines of contracts should specify the time, price, quantities, payment procedures, insurance, standards/quality, transportation and marketing arrangements. Periodical monitoring and evaluation of the contractual requirements and obligations should be stressed upon. The Sugar mill being more powerful than the contract farmers, takes advantage of its bargaining clout to its financial advantage. By strengthening the farmer organisations, the contract negotiating skills can help in redressing the potential of the buyer for exploitation of farmers and enforcing the poorly formulated contracts.

For successful implementation of contract farming, co-ordination and organised action are advisable for both sides. In fact, an ideal contract farming practice in this case, should be such, in which the Sugar mill provides seeds, other inputs, technological know-how, supervision and buys back the produced canes at the prefixed prices without a murmur, protecting itself as well as the farmers by insurance in case of market failures. Such contracts however, should be bi-lingual i.e both in English and Odia, to enable the contract farmers understand the terms and conditions laid therein, and avoid future litigations.

**11. CONCLUSION**

However, Contract farming should not be considered as a panacea to solve all related problems of sugarcane production and its marketing. Rather it could be evaluated as a way of providing easy access to credit, inputs, information and technology and a good market for the canes. Though, contract farming can lead to sustainable farming practices, it is clearly a win-win situation for both the farmers and the Sugar mill. With the rising seed and fertiliser costs and consequent rise in debts, contract farming seems to be the only choice left to these farmers. But the government has failed to provide the farmers with the essential protection and support required for viability on a sustained basis. Thus, the need for government intervention to step in and monitor the contract farming practices is the call of the hour. For any eventualities, the law should provide for a reasonable protection and escape route equitable to both parties. Legislations and regulations must be called for to strengthen the contract farming mechanism. For in the game of contracting, the government must control the game as a tough referee. Due to absence of transparency, the Sugar mill at times shows a low recovery percentage of sugar. There are also reports of violation of contracts by the farmers in lure of higher prices. The Sugar mill, in turn should develop long term relationship with farmers and adopt such policies which are conducive for sustained agricultural growth.

To take remedial and precautionary steps for violation of contracts by either parties, there should be provision for a right to appeal before the competent authority. Adequate compensation should be provided for, in case of rejection of produce on any ground. Contract farming can however, prove to be the best option for narrowing the wide degree of disparity in income, in agricultural sector and prove to be effective in the process of agricultural growth of the area under study.

**12. LIMITATIONS**

Though various studies have been conducted on contract farming, most of the studies are based on secondary data. Few literatures are available on contract farming in India based on primary data. Moreover, though only very few studies have been conducted so far to assess the efficiency and equity implications of contract farming in Odisha, no in-depth study on the contract farming of sugarcane has been done, yet.

In this backdrop, this study will attempt to critically examine the equity and efficiency implications of contract farming in Odisha, with special reference to the role of Sakthi Sugars Pvt. Ltd., situated in the Dhenkanal district of Odisha., by using both primary and secondary data. The findings of the study will help in formulating appropriate policy on contract farming and help in redesigning the scheme to enhance its operational efficiency and effectiveness in helping the small farmers in particular, to face the growing challenge and threat posed to them by frequent market failures by shifting from traditional cultivation and management practices to market oriented commercial production, which can help in employment generation, income growth and provide greater security.

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## DETERMINANTS OF THE PROPENSITY TO CREATE BUDGETARY SLACK IN NIGERIA: BEHAVIOUR RELATED THEORIES PERSPECTIVE

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### ABSTRACT

*The study investigated the determinants of the propensity to create budgetary slack in Nigeria from the perspective of behaviour related theories. The study is a survey of subordinate managers and employees of firms listed in the Nigerian Stock Exchange. The data used for the analysis were obtained from questionnaire administered on 1,340 employees of the 177 firms quoted on the main board of the Nigerian Stock Exchange as at December, 2017 out of which 338 were retrieved, and only 269 (79.58%) were found usable. The validity and reliability of the test items were estimated through factor analysis, while the specified model was estimated using a qualitative response (ordered logit and probit) model, after diagnostic tests such as normality, multicollinearity and heteroscedasticity were conducted. The study reveals that the propensity to create budgetary slack in Nigeria is moderately high. The analysis shows that multiple use of budget, pressure, and participation all has positive and significant relationship with the creation of budget slack. On the other hand, reward, ethics, organizational commitment, size and information asymmetry have negative but significant relationship with the creation of budgetary slack. The analyses also show that organizational stability has a positive but insignificant relationship with the creation of budgetary slack. The study recommends that subordinate managers and employees who participate in the budgeting process should be closely monitored by management of firms and that management should also maintain close contact with the environment to enable them have a working knowledge of the local operating conditions to reduce information asymmetry and budgetary slack. The study also recommends that if budget targets must be used for evaluating performance of employees and managers, firms must ensure that the budget targets reflect operating realities and conditions. Furthermore, the study recommends that firms should ensure all employees imbibe a culture of strong international best practices by placing high premium on ethics and reputational concerns.*

### KEYWORDS

budgetary slack, opportunism, intentions, behavior, propensity.

### JEL CODES

E20, F20, G10, G20, O15, O16.

### 1. INTRODUCTION

The global meltdown at the dawn of the 21<sup>st</sup> century which sent shock waves across national economies opened up a new vista in the operation of firms in Nigeria. Expectedly, this phenomenon exacerbated the competition in the business environment and became the harbinger of the intense quest for survival among firms, compelling businesses to explore measures for controlling operations and making better decisions. Interestingly, target setting became a common feature among Nigerian firms – both large corporations and small and medium scale enterprises (SMEs). Prior to these events, budgeting was more of annual routine exercise. There were no monthly performance reviews (MPRs) or quarterly performance reviews (QPRs) and managers were not held responsible for achieving budget targets. In a bid to surmount competition and ensure a healthy financial performance and position, management of firms began to set targets for individual managers and branches. With time, this process became part of conditions for employment as prospective employees are required to sign a contract of employment containing clauses of deliverables expected of them such as customer acquisition, increase in sales and market share, deposit mobilization and so on. Consequently, staff appraisal was then tied to the budget for the period and payment of the variable portion of staff pay and continuity on the job are tied to performance to wit: achievability of planned targets.

When organizations use budgets for performance evaluation, and as basis for some compensation plans, there is the tendency to provide economic incentive for subordinate managers to misrepresent their capability and create slack into the budget (Damrongsukniwat, Kunpanitchakit, & Durongwatana, 2015). This is because humans as rational beings always seek to maximize their interest and are therefore prone to engaging in dysfunctional behaviours that are usually at variance with the goals of the organization. Creation of slack into the budget makes a budget to be achieved with relative ease and paints an untrue picture of employees' performance, leading to failure in achieving the fundamental purpose of the budget, and making the practice of comparing actual performance to budgeted data a meaningless exercise (Yuen, 2004).

Firms in Nigeria (especially financial services firms), frequently evaluate managers' performance in comparison with their operating budgets which are also used for target setting and resource allocation decisions as well as rewarding/sanctioning managers. In view of the pervasive influence of budgeting and the heavy reliance placed on it by Nigerian firms, it is not unlikely that the tendency to create slack into the budget by employees of these firms will be high as the frequent staff turnover and the attendant job insecurity in the country could compel managers and employees to create slack into the budget as a way of obviating job loss. While previous studies such as Leavin, Karim and Siegel (1997), Indjejikian and Matejka (2006) used performance target achieved as perceived by managers to measure budgetary slack creation because budgetary slack is not amenable to direct observation; Damrongsukniwat, Kunpanitchakit and Durongwatana (2015)

used achievability of annual performance target (that is, variance between actual and budget amounts) to measure budgetary slack. These researchers argue that the more easily a target is achieved, the higher the likelihood of slack having been built into the budget. These arguments seem to suggest that budget target may not be achievable unless it contains slack.

Previous studies like Merchant and Manzoni (1989); Leavin, Karim and Siegel (1997), Indjejikian and Matejka (2006) used performance target achieved as perceived by managers to measure budgetary slack creation because budgetary slack is not amenable to direct observation. Damrongsukniwat, Kunpanitchakit and Durongwatana (2013) used achievability of annual performance target (that is, variance between actual and budget amounts) to measure budgetary slack. They argue that the more easily a target is achieved, the higher the likelihood of slack having been built into the budget. These arguments seem to suggest that budget target may not be achievable unless it contains slack. This study advocates that using the ease of achieving the target to imply the presence of slack is subjective. The study takes the view that behavioural intention and orientations constitute more objective measures of budgetary slack as slack itself is more of a behavioural phenomenon than otherwise. Intentions are strong factors that inspire behaviour. Therefore, this study measured budgetary slack creation by the simultaneous consideration of the influence of behavioural intention and opportunistic behaviour through the constituent elements of behavioural intention and opportunistic behaviour. Moreover, while the study conducted by Steven (2000; 2002) which examined the concern for personal reputation and ethics as factors that influence budget slack was carried out in a contrived environment, this study relied on survey.

Studies have been conducted in Nigeria on various aspects of the determinants of budgetary slack. Such studies like Adeyemi and Omorogbe (2012), Ajibolade and Akinniyi (2013) and Ogiedu and Odi (2013), concentrated mainly on budget participation which is just one of the determinants of budgetary slack. This study provides a broader perspective of the determinants of budgetary slack through the consideration of the various components of behavioural intention and opportunistic behaviour as theoretical factors that influences the creation of budgetary slack. Similarly, Ogiedu, Isenmila, and Otolor (2017) examined the relationship between behavioural intentions and the creation of budgetary slack by looking at three variables: attitude towards slack, subjective norms and perceived behavioural control. On their part, Otolor, Ogiedu, and Isenmila (2017) studied the determinants of budgetary slack creation from the opportunistic behavior viewpoint by examining the three variables of opportunistic behavior, information asymmetry, and budget participation. This study combined four behavior related perspectives: Attitude, subjective norm, perceived behavioural control, and opportunistic behavior.

In the light of the foregoing, the main objective of this study is to ascertain the determinants of the propensity to create budgetary slack in Nigeria from behaviour related theories perspective. To achieve this objective, the following research questions were formulated: 1) What is the extent of the propensity to create budgetary slack by managers and employees of Nigerian firms? ; (2) To what extent does reward affect the propensity to create budget slack?: (3) What is the relationship between ethical/ reputational concern and the propensity to create budget slack? ; (4) What is the relationship between budget pressure and the propensity to create budgetary slack?; (5) What is the relationship between organisational commitment and the propensity to create budgetary slack?; (6) What is the relationship between organisational stability and the propensity to create budgetary slack?; (7) What is the relationship between multiple use of budget and the tendency to create budgetary slack? (8) What is the relationship between size of the organisation and the propensity to create budgetary slack?; (9) what is the relationship between budget participation and the tendency to create budgetary slack? (10) what is relationship between information asymmetry and the propensity to create budgetary slack?

**To achieve the objectives of the study, the following hypotheses formulated in the null form were tested:**

*H<sub>01</sub>: There is no significant relationship between reward and propensity to create budgetary slack.*

*H<sub>02</sub>: There is no significant relationship between ethical/ reputational concern and the propensity to create budgetary slack.*

*H<sub>03</sub>: There is no significant relationship between budget pressure and the propensity to create budgetary slack.*

*H<sub>04</sub>: There is no significant relationship between organisational commitment and the propensity to create budgetary slack.*

*H<sub>05</sub>: There is no significant relationship between organisational stability and the propensity to create budgetary slack.*

*H<sub>06</sub>: There is no significant relationship between multiple use of budget and the tendency to create budgetary slack.*

*H<sub>07</sub>: There is no significant relationship between size of the organisation and the propensity to create budgetary slack.*

*H<sub>08</sub>: There is no significant relationship between budget participation and the tendency to create budgetary slack.*

*H<sub>09</sub>: There is no significant relationship between information asymmetry and the propensity to create budgetary slack.*

The remainder of this paper is divided into sections: (2) Literature review and hypotheses development, (3) Methodology, (4) Data analysis and Discussion of findings, and (5) summary of findings and recommendation.

## 2. LITERATURE REVIEW

### 2.1 INTRODUCTION

The objective of this section is to explore existing literature on the determinants of budgetary slack. The section reviews literature that clarifies the key concepts of budgetary slack, and also reviews literature on the variables and the development of the hypothesis. The section is concluded with a theoretical framework.

### 2.2 BUDGETARY SLACK

The notion of organizational slack formulated by Barnard (1938) marked the beginning of discussions on budgetary slack in the literature on accounting. According to Banovic (2005), until the early 1950, accounting literature and practices treated budgeting as a technical phenomenon only. But he also pointed out that practitioners were of the opinion that organisations where good technical budgeting was practiced, sometimes had social-psychological events related to budgeting that were undesirable.

Padding the budget (introducing slack into the budget) is the practice of reducing or underestimating budgeted revenues and/or increasing or overestimating budgeted costs in order to have budgeted targets that are easy to achieve. The introduction of budget slack increases the likelihood that actual revenues will be more than the budgeted amounts. In other words, budgetary slack hedges against unexpected circumstances that are adverse. It potentially diminishes the purpose of comparing actual performance to budgeted data by creating wastages and inefficiencies (Bhimani, Hongren, Datar & Foster, 2008; Hopewood, 1972; Yuen, 2004).

Budgetary slack results when employees or managers hide some privileged information from their superiors, and intentionally misrepresent that information in order to derive personal benefit, and maximize their own utility by over estimating costs and under estimating revenue (Damrongsukniwat, et al., 2013). According to Stevens (2000) "While top management has the formal power to accept or reject the proposed budget, they may be unable to detect the level of slack in the budget due to subordinates' private information regarding local operating conditions" (p.4).

Merchant(1985), posits that the existence of budget slack affects the budgeting process negatively because budgetary slack provides the avenue for a budget to be easily achieved and gives a false perception of manager's performance, defeating the primary purpose of budget. Young (1985) defines budget slack as "the amount by which subordinates underestimate their productive capability when given a chance to select a work standard against which their performance will be measured" (p.831).

In the views of Merchant (1985), budgetary slack is the difference between budgeted amounts in a particular area and what is considered appropriate. Slack entails the use of organisations' resource by employees in excess of what is required (that is, employees' unreasonable utilisation of resources) in terms of their efforts toward achieving the objectives of the organisation (Merchant & Van der Stede, 2007)

Lukka (1988) defines bias in the budget as a deliberately created difference between the forecast or estimate about the future and the proposed budget figure. Budgetary slack has also been defined as the intentional overestimation of costs or resources needed to accomplish a proposed task and/or underestimation of revenues and productive capabilities (Dunk & Nouri, 1998).

Slack in the budget is created when subordinates understate their capacity to perform a task either by overestimating costs of carrying out the tasks and/or underestimating revenue derivable, or by understating the capabilities of a segment or unit of a business (Hobson, Mellon & Stevens, 2011). Budgetary slack refers to the excess/shortfall between the budgeted resource and the resource required for the attainment of the goals of the organisation efficiently (Kilfoyle & Richardson, 2011). Stevens (2002), defines budget slack as the amount by which a subordinates underestimate their productive capability at the time of preparing the

budget/estimates on the basis of which his performance will be measured. It is the amount by which requirements for resources exceed what is necessary or understatement of productive capabilities by budget actors (Bradshaw, Hills, Hunt, & Khanna, 2007). Slack can be considered to be a multidimensional construct that has both negative and positive implications for the organisation (Sprinkle, 2003).

In this study, the researcher adopted the definition of budgetary slack proposed by Chow, Cooper, and Haddad (1991) which is stated as the subordinates' intentional biasing of performance targets below their expected levels and capabilities in order to make budgeted targets more easily achievable (*Italics, ours*). We therefore define budgetary slack as the intentional biasing of performance targets by subordinates below their expected levels and capabilities during budget proposal section in order to make budgeted targets more easily achievable. This definition is based on the review of the two theories upon which this work rests.

### 2.3 LITERATURE REVIEW ON VARIABLES

There are two types of variables in the study: the dependent and the independent variables. The dependent variable is budgetary slack while the main independent variables are attitude towards slack, subjective norm, perceived behavioural control, and opportunistic behavior.

#### 2.3.1 Attitude and budgetary slack

Attitude is a measure of the individual's belief about the outcome of the behavior and evaluation of the expected outcome. The practice of linking rewards to budget performance can lead to budgetary slack. The stronger the link between the reward and performance, the greater the motivation to create slack into the budget (Heneman, Schwarb, Fossum & Dryer, 1980).

Attitude towards budgetary slack entails the individual's positive or negative assessment of the result of creating budgetary slack. Thus, attitude refers to the innate rational behaviour of employees which propels them to create slack into the budget. Attitude towards budget slack is determined by reward and ethical reputational concerns and it is these two variables that are used to represent attitude towards budget slack in this study.

##### 2.3.1 (a) Reward and budgetary slack

The practice of linking rewards to budget performance can lead to budgetary slack. Prior studies show that expected rewards motivate employee to perform. However, the ability of a monetary reward system to motivate employees depends on whether the employee's perception of the relative capacity of the system and their belief that improved performance can lead to achievement of rewards (Vroom, 1964). The major determination of how compensation influences motivation to perform largely depends on the relationship between performance and pay (Lawler, 1971). It has been found that the stronger the link between reward and performance, the greater the motivation to create slack into the budget (Heneman, Schwarb, Fossum & Dryer, 1980). In the views of Lawler (1971), the necessary condition for pay to motivate performance is the belief by employees that high quality performance leads to increased pay. When rewards such as career advancement (promotion) and pay are based on employees' ability to meet set targets, budgetary slack is created by the actors to make achievability of target easy. It can therefore be argued that when a firm's reward system is linked to achievement of budget targets, managers are motivated to create budgetary slack in anticipation of rewards for the achievement of targets, that is, improved remuneration package (Hannan & Kuang, 2012). The hypothesized relationship between reward and propensity to create budgetary slack is stated thus:

*Hypothesis 1: There is no significant relationship between reward and propensity to create budgetary slack*

##### 2.3.1 (b) Ethical /Reputation Concerns and budgetary slack

Budgetary slack which results from opportunistic use of private information is an ethical issue which occurs when subordinates deliberately decide to withhold accurate information or misrepresent actual information to superiors (Maiga & Jacobs, 2008; Sprinkle, 2003). When an organisation hires a person for a job, that individual brings in both specialized job skills and personal ethics. Ethics refers to a set of principles a person uses to decide whether an action is reasonable or unreasonable (Collins, 2012). Employees and managers who have high concern for reputation strives to uphold high ethical standards and would usually detest creating slack into the budget, while those with low concern for ethics will do otherwise. The apriority expectation of the relationship between ethical/reputational concern and the propensity to create budgetary slack is stated as follows:

*Hypothesis 2: There is no significant relationship between ethical/ reputational concern and the propensity to create budgetary slack*

#### 2.3.2 Subjective norm and budgetary slack

Subjective norm refers to a person's belief regarding the thinking of others about the propriety of creating slack in the budget. Managers and employees feel that employers expects them to meet target and this can sometimes propel them to create slack so that they can achieve set target easily. The relationship between subjective norm and budgetary slack is captured under: budget monitoring and budget pressure and these variables constitute or form the basis for the hypotheses based on subjective norms below.

##### 2.3.2 (a) Budget pressure and budgetary slack

Budget pressure constitutes one of the important factors that contribute to the creation of slack in the budget. The process of budgeting requires commitment from everybody involved. The possibility of the budget goals not being achieved is a probable a source of pressure. This pressure can create tension and make the individual to attempt to overcome the pressure by creating slack into the budget. Studies conducted by Yuen (2007) and Tagwireyi (2012) found that tight budgets could lead to behaviours that are not desirable by managers who are put under intense pressure to attain such targets. Employees and managers exhibit behavior to create budget slack when they underestimate their productive capacity to remove possible work pressure from the perceived tight budgets so as to satisfy personal aspirations in years of good fortune, with the hope of converting the slack into profit during years of unfavourable fortunes. Thus, budgetary slack increases with pressures that result from targets that appear hard to achieve. Therefore, hypothesized relationship between budget pressure and propensity to create budgetary slack is stated thus:

*Hypothesis 3: There is no significant relationship between budget pressure and the propensity to create budgetary slack*

##### 2.3.2 (b) Organisational commitment and budgetary slack

There is no generally agreed definition of organisational commitment. However, some attempts have been made to define the concept. Ogiedu and Oda (2013) define organisational commitment "as either employee's attitudes or as a force that binds an employee to an organisation" (p.255). Organisational commitment has also been described as the passion an employee has for the organisation he/she works for resulting from his/her willingness to identify with the organisation's expectations (goals and values) and a strong desire to remain loyal and continue to be a part of that business (Porter, Steers, Mowday & Boulian, 1974; Steers, 1977).

Organisational commitment is not just a passive interest in or obedience to the organization; it encompasses the willingness of the employee to work for the overall interest of the organisation (Eker, n.d). Qi (2010) argues that when subordinates participate in the process of budgeting, it has the tendency to motivate them and increase their commitment thereby improving their job satisfaction and performance. Moreover, the degree to which the organization and management are committed to the budget has significant impact in the determination of whether or not employees/managers will create slack into the budget. Also the extent to which lower level subordinates are monitored at the point of preparing the budget have the tendency of reducing the possibility of slack creation as such practices will be detected easily (Bradshaw, et al., 2007). Consequently, the apriori expectation is expressed as follows:

*Hypothesis 4: There is no significant relationship between organisational commitment and the propensity to create budgetary slack*

##### 2.3.2 (c) Organisational stability and budgetary slack

Stability creates certainty in an organisation but change in structure has the capacity to diminish the benefits of this stability and create budgetary slack in the organisation. In stable organisations, the chance of budgetary slack being created by the operators of the budget appears to be lower (Bradshaw, et al., 2007). Organisations that are relatively stable are not likely to mount unnecessary pressure on employee to meet set targets. Therefore, the relationship between organisational stability and propensity to create budgetary slack states as follows:

*Hypothesis 5: There is no significant relationship between organisational stability and the propensity to create budgetary slack*

#### 2.3.3 Perceived behavioural control and budgetary slack

When employees perceive that the budget targets are hard to achieve, they may be tempted to adopt measures that could assist them achieve the target by playing games. Perceived behavioural control refers to the perception of the ease or difficulties that the individual may encounter while attempting to perform the behaviour. Perceived behavioural control is employees' perception of the relative ease or difficulties they may encounter while carrying out their functions.

Undue emphasis on meeting the budget goals and multiple use of budget can engender perceived behavioural control and consequently, the creation of slack in the budget. Dimensions of behavioural control include multiple use of budget and size of the organisation

### 2.3.3 (a) Multiple use of budget and budgetary slack

The use of budget for both performance and accountability measures is described as multiple use of budget. The practice of putting great emphasis on the attainment of budget target and the use of budget for the performance evaluation of subordinates potentially leads to high job-related tension. High budget emphasis thus, encourages employee to find ways of protecting themselves from risk of not meeting such budget target (Lukka, 1988). Overemphasis on this measure can lead to a form of dysfunctional behaviour where a manager embarks on actions that improve budgetary performance in the short run but bring long term damage to the firm. Managers who engage in this kind of behaviour usually have short period to stay in their present position. These are usually cases where managers spend between three to five years in a position of responsibility before being promoted or transferred to a new area of responsibility. Thus, it is their successors who pay the price for their myopic behaviour (Shields, 2005).

The most appropriate way to avoid such behavior is to ensure that managers are evaluated based on more than one dimension, including among others long-run attributes such as productivity, quality, and personnel development. It is quite true that financial measures of performance are relevant, but overemphasis on them can produce undesired outcomes (Bhimani et al., 2008). The multiple use of budget has the tendency of encouraging managers to create slack in the budget at the time of formulating the budget to cover any unexpected expense and still be within the budget while at the same time enhancing their performance (Bradshaw, et al., 2007). Therefore, the hypothesized relationship between multiple use of budget and the tendency to create budgetary slack states as follows:

*Hypothesis 6: There is no significant relationship between multiple use of budget and the propensity to create budgetary slack*

### 2.3.3 (b) Size of organization and budgetary slack

In larger entities, the detection of budgetary slack will no doubt be cumbersome hence the chances of the existence of slack will be high. Therefore, there is the possibility of a positive relationship between the size of the company and the prospect of budget slack occurring (Bradshaw, et al., 2007). Size in this study shall be measured with total assets. Given that goal of every organization is to enhance the size of its statement of financial position, the higher the total asset the greater the size of the firm. Large organisations may not be able to monitor all employees during the budgeting process hence the chances of creating slack may be high. The presumed relationship between multiple use of budget and budgetary slack is hypothesized thus:

*Hypothesis 7: There is no significant relationship between size of the organisation and the propensity to create budgetary slack*

### 2.3.4 Opportunistic behaviour and budgetary slack

Viewed from Agency Theory, slack in an organization is created in the form of budgetary slack as a result of discretionary behaviour that occurs in an agency relationship as a consequence of the existence of bonding and monitoring costs which enable the agent to have sufficient control over certain resources that can be exploited to satisfy personal preferences at the expense of the organisation (Jensen & Meckling, 1976; Leitner, 2009). This is what Williamson (1964) referred to as opportunism. Opportunism is defined as a serious attempt to satisfy individual gains through dishonesty or insincerity in business dealings. Creating slack into the budget increases agency cost as it leads to suboptimal decisions in the allocation of resources since such decisions are predicated on inaccurate information (Maiga & Jacobs, 2008). In the budgeting process, these problems occur through information asymmetry when subordinate managers and employees are allowed to participate in setting budget targets.

#### 2.3.4 (a) Participation in budgeting and budgetary slack

Budget participation describes a situation whereby subordinates are allowed to take part in and exercise influence on the budgeting process and budget targets. In this study, the term "participation" is conceptualised as participation in setting performance objectives or targets, which include financial and non-financial targets as distinct from most prior accounting literatures which narrowly interpreted participation conceptually as budget participation (Sholihin & Pike, 2013). Budget participation can affect an organisation's goals either positively or negatively depending on the level of employee commitment.

Participation in budget provides the opportunity and space for the employee to engage in the creation of slack (Young, 1985). Lowe and Shaw (1968) stated that employee do budgetary slack to protect their own interest and this action is economic rational behaviour. This is also supported by Lukka (1988) who argued that a high degree of participation gives subordinate managers the opportunity to contribute directly to the creation of slack and vice versa. This leads us to the next hypothesis as follows:

*Hypothesis 8: There is no significant relationship between budget participation and the tendency to create budgetary slack*

#### 2.3.4 (b) Information asymmetry and budgetary slack

Information asymmetry refers to a situation where there is a difference in the amount of information between two or more parties in a contractual relationship. The direct effect of information asymmetry in any transaction is that the party who possesses more information derives more benefits than the other who may have less (Klann, Gomes, Gruel, & Bezerra, 2014; Pires, 2008). The actions related to information asymmetry manifests in the two forms: adverse selection, which takes place prior to the contract, and moral hazard, which occurs after the contract has been entered into (Santos, 2007). Adverse selection is indicated when principal and agents do not possess the same amount of information which consequently results to information asymmetry. The implication is that the principal is unable to determine the effect of the agent's actions as they both possess different amount of information because the agent decides to hoard information for personal benefit (Faria & Silva, 2013). Thus, adverse selection describes the possibility of one party obtaining information which aids decision geared towards private benefits. In other words, the employee will bias the information for the purpose of maximizing personal interest (Varian, 2006). The intentional provision of false and misleading information is what some researchers have described as employee dishonest reporting of privileged information (Presslee, 2013; Salterio & Webb, 2006).

Moral hazard on the other hand, arises from the difficulties principals encounter in the course of attempting to predict which opportunistic action the agent would take after their hiring, and the problem becomes glaring only after the agreement has been signed by the parties to the contract (Nascimento & Reginato, 2009). The problem of moral hazard occurs because of the possibility of one of the parties in a contract deciding to change his/her behaviour after the contract agreement has been sealed, leading to consequential damage to the unsuspecting party (Faria & Silva, 2013; Pindyck, 2002). The hypothesized relationship between information asymmetry and the propensity to create budgetary slack is stated thus:

*Hypothesis 9: There is no significant relationship between information asymmetry and the propensity to create budgetary slack*

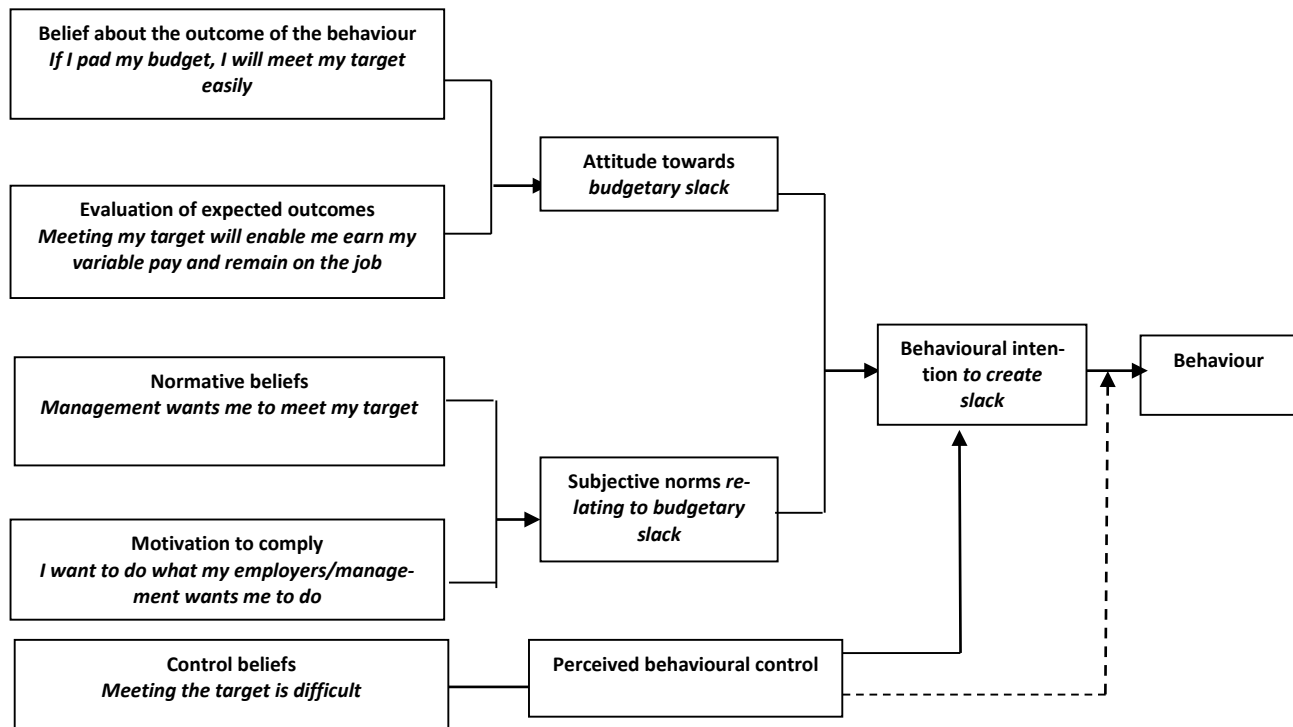
## 2.4 THEORETICAL FRAMEWORK: AGENCY THEORY AND THE THEORY OF PLANNED BEHAVIOUR

The study is based on two broad theories: the agency theory and the theory of planned behavior. Employees and managers as agent act on behalf of the organisation, and as rational being, there is the tendency that they may not always act in the interest of the organisation but seek ways to maximize personal goals. This creates agency problem, hence in part rest on the agency theory. From the Agency Theory perspective, organisational slack is created in the form of budgetary slack as a result of discretionary behaviour which occurs in the agency relationship as a consequence of the existence of bonding and monitoring costs which gives the agent sufficient control over certain resources that can be exploited to satisfy personal preferences at the expense of the organisation (Jensen & Meckling, 1976; Leitner, 2009). This is what Williamson (1964) referred to as opportunism. Opportunism is defined as a serious attempt to satisfy individual gains through dishonesty or insincerity in business dealings.

The Theory of Planned Behaviour (TPB) which is an extension of the Theory of Reasoned Action (TRA) has been used to explain and predict a wide range of behaviours relative to a limited set of constructs (attitude toward the behaviour, subjective norm, perceived behavioural control, and behavioural intention) and in these theories, salient beliefs are considered very important (Ajzen, 2002; Ajzen & Fishbein, 2000; Sutton, et al., 2003). The key components of the TPB used in this study which is depicted in figure 1 (italics, ours) was adopted from Munro, Lewin, Swart and Volmink (2007):



FIGURE 1: ADAPTED FROM MUNRO ET AL. (2007)



The model which describes the links between beliefs, attitudes, norms, intentions, and behaviour of individuals holds that intention to act is both the immediate determinant and the best predictor of the behaviour and that intention is itself the result of the combined influence of the person's subjective norms and attitudes that shape the pattern of behaviour (Su & Ni, 2013; Fishbein & Ajzen, 1975). Budgetary slack as a behavioural phenomenon is usually a premeditated action which the individual can decide to perform or not to perform. The more the motivation to carry out the behaviour, the more likely the performance and a behavioural intention finds expression in behaviour only if that behaviour can be exhibited at the volition of the person i.e., if the person has the ability (behavioural control) to decide at will whether to perform or not perform the behaviour (Ajzen, 1985, 1991; Boston University School of Public Health, 2013).

### 3. METHODOLOGY

This section gives an overview of the methods, procedures and steps the researcher adopted in the study to ensure that the results of the inquiry are valid, accurate and dependable. The section covers the research design, population and sampling technique, data sources and data collection methods, model specification and operationalization of variables and data analysis method.

#### 3.1 RESEARCH DESIGN, POPULATION, SAMPLING TECHNIQUE AND METHOD OF DATA ANALYSIS

The study adopted survey research method. Survey which is useful for descriptive, explanatory and exploratory purposes is best suited for measuring attitudes and orientations in a large population. This method is considered more appropriate for this study because the research is interested in reporting the intention of managers and employees of Nigerian firms as individuals who are the unit of analysis and the variables measured are attitudes and orientations of the unit of analysis. Moreover, the research is interested in collecting original data to permit a description of the employees and managers of the firms listed on the main board of the Nigerian Stock Exchange (NSE) which is somewhat large and may not be observed directly without difficulties.

The population of study covers all staff of firms quoted on the main board of the Nigerian Stock Exchange (NSE) and this is 129,836 based on the researcher's computation from the annual reports and accounts of the companies. The sample was drawn from the firms in the following sectors namely: Agriculture, Conglomerate, Consumer Goods, Construction and Real Estate, Financial Services, Health Care, Information Communication Technology (ICT), Industrial Goods, Natural Resources, Oil and Gas and Services. However, the following sectors were excluded: Construction and Real Estate, ICT, Oil and Gas, and Services. This is to enable generalization of the results of the study. The firms in the four sectors were excluded because in our opinion, setting targets for individual employee or manager in these firms may not be easy because of the nature of their businesses – it is difficult for the products or services they offer to be easily moved from one place to another or can only be marketed pictorially.

As a result of the difficulty in reaching all members of the population of interest or sampling frame, a subset of the population was determined using the formula proposed by Yamane (1967). This formula is chosen because the sampling error of 5% is considered low enough to give assurance of negligible risk of being wrong. Using a population of 129,836 and 5% error or 95% confidence level, we have a sample of approximately 400.

The expectation is that there will be about 30% response rate judging from previous experience and so, 1340 copies of questionnaires were distributed. The questionnaires were distributed to the staff of the selected firms on the basis of the proportion of the number of staff in each firm to the total number of staff in all firms to ensure adequate representation. Six research assistants were engaged to complement the researcher's effort and to ensure adequate coverage of the selected firms.

The data used for the study is mainly primary data. The data were culled from the responses to the administered instruments. The questionnaire consists of two sections: Section 1 contained respondents' biodata while section 2 consist of questions relating to the variables of study which were designed on a seven-point Likert scale: strongly agree, moderately agree, mildly agree, neutral, mildly disagree, moderately disagree and strongly disagree. However in analyzing the data obtained using the questionnaire, strongly agree, moderately agree and mildly agree responses are summed up and grouped under AGREE, mildly disagree, moderately disagree and strongly disagree responses are summed up and grouped under DISAGREE. The neutral responses are categorized as NEUTRAL.

Creation of slack was evaluated by three of the four item measures developed by Onsi (1973) and adopted by Kren (1993); Su and Ni (2013). Budget participation was evaluated by the six item measures developed by Milani (1975). This is similar to the scale of participation measure adopted by Maiga and Jacobs (2008) and Ogiedu and Odia (2013). The research estimated ethical concern by adapting the measures adopted by Steven (2000) and Presslee (2013). Evaluation of organizational commitment took the form adopted by Mowday et al. (1979) which was also used by Nouri and Parker (1998) and Eker (2008; n.d). For budget pressure, the measures adopted by Irvine (1979) which has also been used by Leavins et al. (1997) and Yuen (2007) was employed in this study.

With respect to information asymmetry, this study adapted the measures used by Steven (2000). The researcher adapted the scale measure developed by Onsi (1973) and used by Bradshaw et al. (2007) in estimating size of the organization. Multiple use of budget was estimated using the measures adopted by Bradshaw et al. (2007). The measures enumerated above were adopted because researchers who used them find them to be reliable. To ensure that the result of the measuring instrument is valid and reliable, the study employed Factor analysis using IBM SPSS Statistics 23 to calculate the standardized Cronbach's Alpha in order

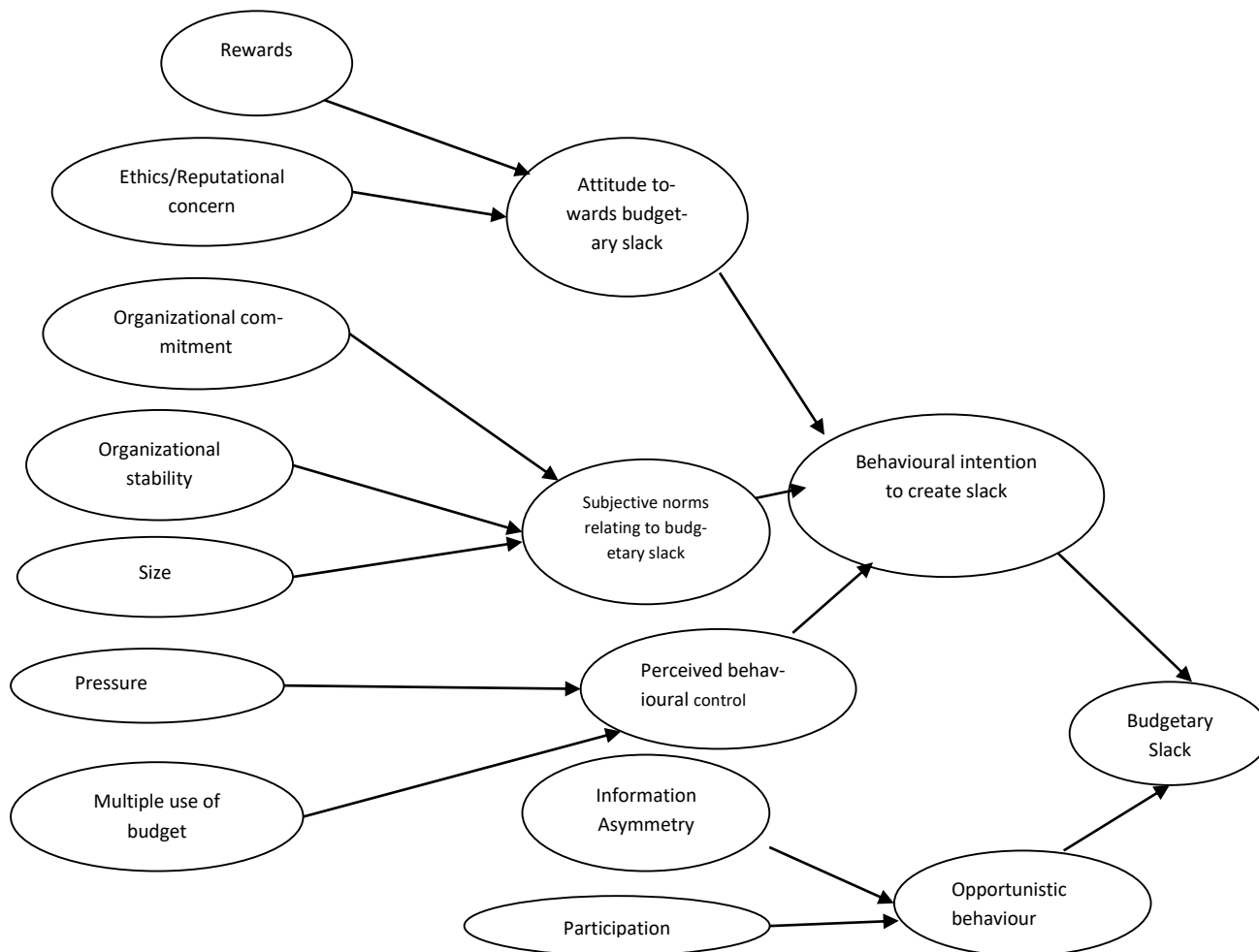
to establish the validity and reliability of the constructs or factors. The Cronbach’s Alpha coefficient stipulates a standard score above 0.70 for test of reliability. This benchmark is the generally agreed lower limit for the unstandardized Cronbach’s alpha. However, in evaluating statistical significance, factor loadings within the range +/- .50 to +/- .70 are considered practically significant, while loadings exceeding +/- 0.70 are indicative of well-defined structure.

The bivariate logit and probit models which can be extended to incorporate *multiple ranked categories* was employed for the data analysis (Gujarati, 2004; Wooldridge, 2013). To test the overall conclusion of the models developed in this research, analysis was undertaken to test the models for the regression. The analysis took the form of residual diagnostic test such as: (i) Normality test (ii) test for Multicollinearity, and (ii) test for heteroscedasticity.

**3.2 MODEL SPECIFICATION AND OPERATIONALISATION OF VARIABLES**

The models specified in this study are hinged on the theories underpinning this work. This is predicated on the fact that most of the variables measured in this study are related to behavioural intentions and orientations. The study adapted the schematic model of the theory of planned behaviour proposed by Munro et al., (2007) and built a part of the model (behavioural intentions) from it. The remaining part is developed from the opportunistic behaviour perspective of the agency theory. The broad theoretical model showing the causal relationships proposed by this study is depicted in figure 2 below:

**FIGURE 2: LINK BETWEEN BEHAVIOURAL INTENTION, OPPORTUNISTIC BEHAVIOR AND BUDGETARY SLACK**



Source: Researcher (2018)

The econometric form of the broad model is derived and operationalized as follows as:

$$BUDSLACK = \delta_0 + \delta_1 ATTID + \delta_2 SUBJNORM + \delta_3 PEBEHCON + \delta_4 OPPORBEH + u \text{ ----- (1)}$$

Where

- ATTID = Attitude towards budgetary slack
- SUBJNORM = Subjective norms relating to budgetary slack
- PEBEHCON = Perceived behavioural control
- OPPORBEH = Opportunistic behaviour

And:

- ATTID = f (REWARDS, ETHICS) -----(2)
- SUBJNORM = f (ORGMEM, ORGSTAB, SIZE) -----(3)
- PEBEHCON = f (PRESSURE, MUBUDG) -----(4)
- OPPORBEH = f (INFASYMM, PARTI) -----(5)

Where

- REWARDS = Reward system
- ETHICS = Ethical/Reputational concern
- ORGMEM = Organisational commitment
- ORGSTAB = Stability of the organization
- SIZE = Size of the organization
- PRESSURE = Pressure arising from prospect of not achieving the goals of budget that is perceived to be tight by managers/employees.
- MUBUDG = multiple use of budgets i.e. using the budget for several purposes like accountability and performance measure

**Model**

The final model for the study is as shown in equation 6:

$$BUDSLACK = \lambda_0 + \lambda_1 REWARDS + \lambda_2 ETHICS + \lambda_3 ORGMEM + \lambda_4 ORGSTAB + \lambda_5 SIZE + \lambda_6 PRESSURE + \lambda_7 MUBUDG + \lambda_8 INFASYMM + \lambda_9 PARTI + u \text{ -----(6)}$$

4. RESULTS AND DISCUSSIONS

4.1 VALIDITY AND RELIABILITY OF MEASUREMENT

From a total of 1,340 questionnaires distributed to the employees of the selected firms, 338 were retrieved/returned translating to a response rate of 25.22%. About 69 (20.41%) of the returned forms were found to be unusable because they were either not properly completed or were completed by those who are neither involved in the budgeting process nor had budget target set for them or their unit/department/branch.

Table 2 presents the result of the factor analysis for the test items measuring the creation of budgetary slack, ethical/reputational concern, organisational commitment, organisational stability, budget pressure and monitoring, multiple use of budget, budget participation and information asymmetry. The test items for all the variables are sufficiently high with  $\lambda$  between 0.458 and 0.961 and eigenvalues between 1.038 and 4.159. These indicate that the items are practically significant. The factor explains between 31 and 92 percent of the variation {communality ( $\lambda^2$ )} in the distribution of items. The Kaiser-Meyer-Olkin (KMO) value of 0.500 and 0.852 shows that the sample size is adequate, while the unstandardized Cronbach-Alpha of 0.32 to 0.87 confirms the reliability of test items or the existence of internal consistency.

TABLE 2: ROTATED FACTOR MATRIX (OBLIMIN)

Variable	$\lambda$	Cronbach's alpha	Eigen value	KMO	% variance extracted	$\chi^2$	$\chi^2$ :p value	$\lambda^2$	Factors
BUDSLACK	0.823	.67(.657)	2.21	0.549	0.55	909.601	0	0.714	F1
REWARDS	0.882	.88(.87)	4.159	0.852	0.59	1032.87	0	0.505	F1
ETHICS	0.796	.39(.32)	2.195	0.63	0.31	271.845	0	0.706	F1
ORCOMM	0.735	.82(.79)	3.111	0.739	0.34	1177.995	0	0.643	F1
ORGTAB	0.68	.43(.42)	1.414	0.518	0.47	40.393	0	0.471	F1
PRESSURE	0.832	.443(.436)	2.1147	0.602	0.27	257.908	0	0.751	F1
MUBUDG	0.823	.53(.51)	1.356	0.5	0.68	36.143	0	0.678	F1
PARTI	0.761	.62(.584)	2.343	0.557	0.39	259.747	0	0.72	F1
INFYASYMM	0.765	.764(.758)	2.37	0.678	0.59	324.683	0	0.593	F1

Source: Researchers' computation (2018) from IBM SPSS Statistics 23

4.2 DIAGNOSTIC TESTS

The diagnostics tests conducted for the regression results in line with the ordinary least square (OLS) regression assumptions are: normality, heteroscedasticity and multicollinearity tests.

TABLE 3: DIAGNOSTIC TEST FOR THE REGRESSION RESULTS

Variable	Normality	Heteroskedasticity	Multicollinearity Centered VIF
C	NA	<b>Breusch-Pagan-Godfrey</b>	NA
BUDSLACK	9.62 (0.008)	F= 1.753 (F12,255); Prob. = 0.056	NA
REWARD	89.40(0.000)	Obs*R <sup>2</sup> = 20.427; Prob.= 0.059	317.68
ETHICS	32.85(0.000)	<b>GLEJSER</b>	133.84
ORCOMM	52.32(0.000)	F = 2.544(F12,255); Prob. = 0.003	1.74
ORGTAB	14.69(0.000)	Obs*R <sup>2</sup> = 28.65; Prob. = 0.004	2.13
LNSIZE	1388.69(0.000)	<b>RAMSEY'S RESET</b>	1.47
BPRESSURE	84.10(0.000)	F = 3.286 (F 12,255); Prob. = 0.07	61.59
MUBUDG	48.98(0.000)	t = 1.813 Prob. = 0.07	327.81
PARTI	28.30(0.000)		1.11
INFYASYMM	21.57(0.000)		1.90

Source: Researchers' computation (2017) from E-view 9.5

The result of the diagnostic test in table 3 shows that all the variables are normally distributed thus: BUDSLACK= 9.62 (0.008); REWARD = 89.40(0.000); ETHICS = 32.85 (0.000); ORCOMM = 52.33(0.000); ORGSATB = 14.69(0.000); LNSIZE = 1388.69(0.000); BRESSURE = 84.10(0.000); MUBUDG = 48.98(0.000); PARTI = 28.30(0.000) and INFYASYMM = 21.57(0.000). The centred variance inflation factors were high for some of the variables, reaching 317.68 and 327.81 for REWARD and MUBUDG respectively. However, not all the VIF values are high, thus giving the impetus for estimating the model specified in equation 6

The chi-square values are similar for both Glejser and Breusch-Pagan-Godfrey techniques suggesting the heavy presence of heteroscedastic disturbances in the cross sections used for the survey. The F-statistic for the Ramsey's RESET suggests that the model has not been wrongly specified.

4.3 DATA PRESENTATION

Table 4 presents the descriptive statistics of responses on the variables of this study derived from appendix C. While the strongly agree, moderately agree and mildly agree responses are summed up and grouped under AGREE, mildly disagree, moderately disagree and strongly disagree responses are summed up and grouped under DISAGREE. The neutral responses are categorized as NEUTRAL.

TABLE 4: DESCRIPTIVE STATISTICS OF RESPONSES

	AGREE (%)	NEUTRAL (%)	DISAGREE (%)	OBS
BUDSLACK	497 (61.59)	90 (11.15)	220 (27.26)	807
PARTI	1270 (78.69)	102 (6.32)	242 (14.99)	1614
ORCOMM	2050 (84.68)	110 (4.54)	261 (10.78)	2421
PRESSURE	1638 (76.11)	188 (8.74)	326 (15.15)	2152
REWARD	1305 (69.3)	176 (9.35)	402 (21.35)	1883
INFASYMM	654 (60.95)	143 (13.33)	276 (25.72)	1073
ETHICS	1113 (83.12)	92 (6.87)	136 (10.16)	1339
MUBUDG	421 (78.25)	30 (5.58)	87 (16.17)	538
ORGTAB	470 (58.24)	117 (14.50)	220 (27.26)	807

Source: Researchers' computation (2017)

From table 4 above, 61.59% of the respondents agree that the three test items measuring budgetary slack contribute to the creation of budgetary slack, 11.15% of the respondents neither agreed nor disagreed, while 27.26% disagree. On the test items measuring participation in the budgeting process, while 78.69% agreed with the suggested items, 14.99% disagreed. With respect to items evaluating organizational commitment, while 4.54% were undecided, 10.78% disagreed and 84.68% agreed. For pressure, reward and information asymmetry, while 76.11%, 69.3% and 60.95% agree, 15.15%, 21.35 and 25.72% disagree respectively.

**4.4 REGRESSION RESULTS, HYPOTHESIS TESTING AND DISCUSSION OF RESULTS**

In order to provide the empirical analysis of the study as well as lay the foundation for testing hypotheses in the study, the model specified section two was estimated and analyzed using the ordered logit and probit econometric technique. For the ordered estimation conducted in this study, the main statistics of interest are the coefficient estimates and their corresponding significance. The diagnostic statistics (such as the McFadden Pseudo R-squared values) provide less useful representation of the models. However, the Lagrangian ratio (LR) statistic, provide some information on the performance of the estimated model. Three approaches are used for the estimation of the censored model. The choice of the best model to interpret is based on the size of the LR value for each of the reports. The one with the least LR value performs better in terms of output.

**TABLE 5: ESTIMATED RESULTS FOR MODEL**

Variable	Probit			Logit			Extreme value		
	Coef.	z-Stat.	Prob.	Coef.	z-Stat.	Prob.	Coef.	z-Stat.	Prob.
REWARD	-1.788	-2.17	0.03	-3.350	-2.40	0.02	-2.014	-2.04	0.04
ETHICS	-2.159	-2.61	0.01	-4.085	-2.88	0.00	-2.327	-2.33	0.02
ORGMEM	-0.424	-4.07	0.00	-0.803	-4.33	0.00	-0.544	-4.68	0.00
ORGSTAB	0.142	1.31	0.19	0.357	1.83	0.07	0.350	2.69	0.01
LNSIZE	-0.511	-3.87	0.00	-1.008	-3.78	0.00	-0.883	-4.97	0.00
MUBUDG	3.094	3.62	0.00	5.689	3.89	0.00	4.489	4.33	0.00
PRESSURE	3.069	3.71	0.00	5.467	3.91	0.00	4.263	4.17	0.00
PARTI	0.518	6.05	0.00	0.920	5.83	0.00	0.637	5.88	0.00
INFASYMM	-0.231	-3.51	0.00	-0.447	-3.85	0.00	-0.275	-3.83	0.00
Pseudo R-squared	0.076			0.079			0.093		
LR statistic	103.1 0.000			107.4 0.000			126.5 0.000		

Source: Researchers' computation (2017) from E-view 9.5 (Student Version)

The regression result for REWARD shows the coefficient is significant (-2.40, p = 0.02) at 5%, and high but negative at (-3.50). Therefore, the null hypothesis (H<sub>01</sub>) that reward has no significant relationship with the creation of slack is rejected. The regression result of ETHICS shows that ethics has a negative (-4.09) impact on budgetary slack and it is significant at 5% (-2.88, with p = 0.00). Consequently, the null hypothesis (H<sub>02</sub>) stating that ethics/reputational concerns have no significant relationship with creation of budgetary slack is rejected.

The regression result reveals that the coefficient of PRESSURE is positive (5.47) and significant (3.91) at 1% (p = 0.00). Thus, the null hypothesis (H<sub>03</sub>) that pressure does not contribute to budgetary slack creation is rejected.

The regression result reveals that the coefficient of ORGMEM has a negative (-0.803) and significant (-4.33 with p = 0.00) effect on budgetary slack creation. Therefore, the null hypothesis (H<sub>04</sub>) of no significant relationship is rejected.

From the regression result, the coefficient of ORGSTAB is positive (0.36) but not significant at 5% (1.83, p = 0.07). Thus, the null hypothesis (H<sub>05</sub>) which states that there is no significant relationship between organizational stability and the creation of budgetary slack is not rejected.

From the regression result, the coefficient of MUBUDG is high and positive at 5.69 and the z-value is 3.89 with p = 0.00, thus, the null hypothesis (H<sub>06</sub>) stating that there is no significant relationship between multiple use of budget and the creation of budgetary slack is rejected.

The regression result reveals that the coefficient of InSIZE (-1.01) is significant at 5% with z-value -3.78 and p = 0.00. In view of this result, the null hypothesis (H<sub>07</sub>) stating that the size of the organisation has no significant relationship with creation of budgetary slack is rejected.

The regression result shows that the coefficient of PARTI is positive (0.92) and significant at 1% (5.83 with p = 0.00), therefore, the null hypothesis (H<sub>08</sub>) which states that budget participation has no significant relationship with the creation of budgetary slack is rejected. The regression result reveals that INFASYMM has a negative (0.45), but significant (-3.85, p = 0.00) relationship with the creation of budgetary slack. Therefore, the null hypothesis (H<sub>09</sub>) of no significant relationship with the creation of budgetary slack is rejected.

In the results shown above, the coefficients of the variables representing attitude towards slack (i.e., rewards and ethics both have negative and significant coefficients. The implication of this result is that when rewards and high ethics are in place in the organization, the attitude of the employees would be rather negative towards the creation of slack and the end result is reduction in the probability or tendency of the employees to create slack in budgets. The result for ethics indicates that high ethics would reduce the probability of an employee create slack in the budget. This result, which is in tandem with the findings of Eker (2008) and Steven (2000) implies that high concern for ethics and reputation discourages employees and subordinate managers from creating slack into the budget.

Surprisingly, reward system in an organization tends to reduce the probability that an employee would create slack in the budget. Interestingly, this study finding is at variance with the conclusions of Steven (2000), Leavins et al. (1997). The plausible reason for this is that most firms in Nigeria may not be engaged in the practice of tying rewards to achievability of budget targets. For example, the researcher is aware that in many organisations in Nigeria, rewards are given to strategic business units and not individual employees/managers. It is also possible that the prospect of earning rewards motivates employees to be truthful and avoid creating slack in the budget.

For the subjective norm indicators, the results from the model indicate that while organizational commitment and the size of the organization have significant negative impacts on the tendency to create slack in budgets, organizational stability has a weak positive impact. Thus, employees in larger firms, from this result, tend to exhibit lesser tendencies to create slack in the budget. Also, more committed staff tends to have less propensity of creating slack into the budgets. However, higher tendency for staff turnover is an indication of higher probability of creating slack in budget for an organization. Hence, an organization that has high staff turnover rate would also have more issues with slack creation in the budgets. Moreover, employees in larger organizations tend to be more probable to create slack in the budget than employees in smaller organizations. This result agrees with the findings of Kochick (2011), Maiga and Jacobs (2007, 2008) and Buckland (1999). Specifically, the coefficient of InSIZE is negative but significant with z-value of 3.78, implying that budgetary slack is less in larger firms. It is therefore concluded that the size of an organisation is not positively related with the creation of budgetary slack in Nigeria. However, this study finding is contrary to the findings of Bradshaw et al. (2007), Reid (1997). The plausible reason for this is that management of large organisations in Nigeria may not see any need to put pressure on employees to meet budget targets. Organizational stability does not have significant impact on creation of slack in budgets. Apparently, the results show that instability in a job is a strong motivation for, and could encourage slack creation, but stability in a job may not encourage slack creation. Interestingly, this result is not in harmony with the findings of Bradshaw et al. (2007), Reid (1997) who reported a significant relationship between organizational stability and creation of budgetary slack.

The perceived behavioural control in an organization is demonstrated by pressure on employees to deliver and the use of budgets for target setting and performance appraisal. From the results in the model, both pressure and use of budget for multiple outcomes tend to have positive and significant impact on creation of slack in budgets. Thus, it shows that organizations that use budgets as a tool for target setting and performance evaluation and are also more likely to mount pressure for performance on employees, would generally experience creation of slack in their budgets. The study finding is in harmony with the findings of Tagwireyi (2012), Yuen (2007), Davis, Dezoort and Kopp (2006). Similarly, the effect of MUBUDG is high and positive implying a significant association between multiple use of budget and budgetary slack. Consequently, the study concludes that using the budget for several purposes encourages manipulation of the budget by subordinate managers and employees. This finding is in complete agreement with the findings of Bradshaw et al. (2007).

Opportunistic behaviour is captured by information asymmetry and subordinate participation in the budget process. The results from the Table show that budget participation has a significant positive impact on tendency to create slack in the budget process. This result is in tandem with the conclusions of Ajibolade and Akinniyi (2013); Maiga and Jacobs (2007) and Leavins, et al. (1997). On the other hand, the coefficient of INFASYMM is negative but significant implying that in Nigeria information asymmetry tends to reduce the probability of creating slack in budgets among employees. Thus, regard for selfish inclinations among the employees has varied implication on the probability of creating slack in the budget process by subordinates. This result is however, not in agreement with the findings of Faria and Silva (2013) and Libby (2003) which report a positive relationship between information asymmetry and budgetary slack. The plausible explanation for the findings of this study is that management of Nigerian firms probably have a way of ascertaining the veracity of information supplied by subordinate managers/employees during the planning period.

## 5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This study set out to examine the determinants of budgetary slack in Nigeria. To ensure that the investigation yield reasonable empirical results, both econometric and statistical tests were performed. Preliminary tests carried out on the research data include factor analysis, test for normality, heteroscedasticity and multicollinearity. Lastly, regression analysis (Ordered Probit and Logit) was undertaken to examine the effect of the regressors on budgetary slack.

The analysis shows that multiple use of budget, pressure, and participation all have positive and significant relationship with the creation of budget slack. On the other hand, reward, ethics, organizational commitment, size and information asymmetry have negative but significant relationship with the creation of budgetary slack. The analyses also show that organizational stability has a positive but insignificant relationship with the creation of budgetary slack.

Based on the findings of this study, the following are the study makes the following recommendations: (i) Subordinate managers and employees who participate in the budgeting process should be closely monitored by management of firms. Management should also maintain close contact with the environment to enable them have a working knowledge of the local operating conditions to reduce information asymmetry and budgetary slack; (ii) When budgeting is used as an accountability measure, firms should avoid placing undue emphasis on it; (iii) Firms should ensure fairness to all during the budgeting process in order to engender trust and greater commitment of employees and managers to the organization; (iv) Management of firms should avoid the temptation of using the budget target for multiple purposes such as performance evaluation and compensation. However, if budget targets must be used for evaluating performance of employees and managers, firms must ensure that the budget targets reflect operating realities and conditions; and (v) Firms should ensure all employees imbibe a culture of strong international best practices by placing high premium on ethics and reputational concerns.

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APPENDIX

APPENDIX C: QUESTIONNAIRE SURVEY RESULTS SUMMARY

	AGREE	NEUTRAL	DISAGREE	TOTAL
<b>BUDSLACK</b>				
Managers in my organisations tend to submit budget which can be easily achieved	171*	23	75	269
Slack in the budget is good so that things can be done that cannot be officially approved	146*	39	84	269
Department managers tend to influence their evaluations by adjusting the figures submitted in the budget.	180*	28	61	269
<b>TOTAL</b>	497	90	220	807
%	61.59	11.15	27.26	
<b>PARTI</b>				
I am involved in setting my unit or branch or departmental budget or targets	237*	26	6	269
My contribution to the budget is very important	247*	11	11	269
My superior initiates frequent budget discussions when the budget is being prepared	237*	11	21	269
My superiors and I frequently discuss budget-related issues initiated by me	189	23	57	269
I have considerable influence over my unit/departmental/branch final budget	120	21	128*	269
My superior clearly explains budget revision to me	240*	10	19	269
<b>TOTAL</b>	1270	102	242	1614
%	78.69	6.32	14.99	
<b>ORCOMM</b>				
I am willing to put in a great deal of effort beyond that normally expected in order to help this organisation be successful	269	0	0	269
I talk up this organization to my friends as a great organization to work for	235	12	22	269
I would accept almost any type of job assignment in order to keep working for this organization	216	4	49	269
I found that my organisation and I share similar values	179	21	69	269
I am proud to tell others that I am part of this organisation	262	2	5	269
This organisation inspires me to achieve the utmost best in terms of job performance	224	12	33	269
I extremely glad I chose this organisation to work for over the others I was considering at the time of joining.	237	14	18	269
For me this is the best of all possible organisations for which to work	165	39	65	269
I really care about the fate of this organization	263	6	0	269
<b>TOTAL</b>	2050	110	261	2421
%	84.67575	4.543577034	10.78066914	
<b>PRESSURE</b>				
When my department has not been performing as budgeted, my superior has visited my department or summoned me to the controlling office	233	10	26	269
My superior has mentioned budgets while talking to me about my efficiency as a unit head/supervisor/manager	223	37	9	269
Personnel from budget office have attempted to direct activities in my department	123	33	113	269
I have gotten extremely upset about budget variances in my department	222	15	32	269
Budget matters have been mentioned in informal conversations with fellow unit heads/supervisors/managers	220	17	32	269
Budget matters have been mentioned in informal conversations with advisory people not concerned with budgeting.	179	46	44	269
When budget conditions are tight, unit heads/supervisors/managers generally still attempt to find ways to make the targets less difficult to achieve	210	26	33	269
Performance review meetings are held with management monthly and quarterly	228	4	37	269
<b>TOTAL</b>	1638	188	326	2152
%	76.11524	8.73605948	15.14869888	
In my organization budget performance is an important factor in career advancement	228	6	35	269
A staff that attains his/her target is sure to get recognition by management	218	6	45	269
A staff that attains his/her target is likely to receive a promotion more quickly	204	18	47	269
In my organization part of the compensation scheme (variable pay) is tied to meeting the target	121	35	113	269
The compensation contract that I worked under would motivate a worker to set their budget at their forecast of output	195	25	49	269
Thinking about the reward I could earn makes me feel happy	193	26	50	269
I like the reward I could earn because I will spend it on things that I want rather than on necessities	146	60	63	269
<b>TOTAL</b>	1305	176	402	1883
%	69.3043	9.346787042	21.34891131	
<b>INFASYMM</b>				
During budget session, my superior could accurately evaluate if I was setting my budget below my production	166	34	69	269
During budget session, I care that my superior thought I was setting budgets that were appropriate given my potential/capabilities	165	55	49	269
In developing my budget each period, I attempted to accurately predict my output for the period	166	31	72	269
Budgeting decisions by management for my area of responsibility are based on accurate information and well informed opinions	157	23	86	266
<b>TOTAL</b>	654	143	276	1073
%	60.95061	13.32712022	25.722274	

<b>ETHICS</b>	<b>AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE</b>	<b>TOTAL</b>
To have set the budget significantly below my potential/capabilities would have been unethical	269	0	0	269
I care about the overall impression members of my organisation have of me	236	14	15	265
It is most probable that the other members of staff earned their rewards by understating their targets rather than by working hard	221	22	26	269
In this organisation, it is unethical for someone to set a target significantly below his or her known performance capability	174	18	77	269
Setting performance target is more of an ethical decision to me than financial decision	213	38	18	269
<b>TOTAL</b>	1113	92	136	1339
%	83.12173	6.870799	10.1568335	
<b>MUBUDG</b>	<b>AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE</b>	<b>TOTAL</b>
In this organization budget is used for both performance evaluation and reward system	200	12	57	269
This organization uses the budget as accountability measure	221	18	30	269
<b>TOTAL</b>	421	30	87	538
%	78.2528	5.5762082	16.171004	
<b>ORGSTAB</b>	<b>AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE</b>	<b>TOTAL</b>
In this organisation staff turnover is low	113	35	121	269
In this organisation I know I have a career	158	56	55	269
In my organization inability to meet set targets can lead to disengagement	199	26	44	269
<b>TOTAL</b>	470	117	220	807
%	58.2404	14.4981413	27.26146221	100.00



# CORPORATE GOVERNANCE CHARACTERISTICS AND VOLUNTARY CORPORATE GOVERNANCE DISCLOSURE BY QUOTED COMPANIES IN NIGERIA

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## ABSTRACT

*This study investigated relationship between corporate governance characteristics and voluntary corporate governance information disclosure. The specific objectives were to determine the relationship between board size, board independence, board gender diversity, managerial ownership and audit committee size and voluntary corporate governance information disclosure by quoted companies in Nigeria. The study is an ex-post facto type of research over a longitudinal period of five years (2012 to 2016). The population of the study is all the one hundred and seventy (170) companies quoted on the on the Nigerian Stock Exchange. Out of the population, one hundred and nineteen (119) companies were randomly selected as the sample. Content analysis of annual reports and accounts of sampled companies were employed. Data were analysed using descriptive and inferential statistics such as Pearson correlation, panel least square regression. The finds that board size and board gender diversity have positive and significant relationship corporate voluntary corporate governance disclosure. On the other hand, the study finds that there is a positive but insignificant relationship between corporate governance disclosure and board independence, audit committee size and industry type. The study also finds that firm size has a negative but significant relationship with voluntary corporate governance disclosure while managerial shareholding was found to have a negative and insignificant relationship. The study recommends that for a greater voluntary corporate governance disclosure, there should be board gender diversity, board independence, optimal board size, and optimal audit committee size.*

## KEYWORDS

corporate governance characteristics, corporate governance voluntary disclosure, board gender diversity, managerial shareholding, firm size, audit committee size, board independence.

## JEL CODES

G30, M10, M14.

## 1. INTRODUCTION

Published annual reports serve as a means of disseminating qualitative and quantitative information to owners and other users within and outside the business environment. According to Bhasin (2010), corporate governance disclosures in the annual reports of organisations are prerequisite for good corporate governance practices. Corporate governance disclosure can be voluntary or mandatory. The mandatory aspects of corporate governance disclosures are those required by laws like chairman's statement, board of directors, audit committee, auditor of the firm financial disclosure, while voluntary disclosure aspect consists of those willingly disclosed by the firm like disclosure of information on board members qualifications, expertise, board political connections, ages of directors, board members experience, duties of board members, and a review of shareholders by type etc. (Abdallah, 2016; Damagum & Chima, 2013). Voluntary disclosure of corporate governance information originated from the fact that annual statements and reports must be capable of meeting the needs of the various stakeholders.

Corporate governance as a fallout of the principal-agent problem has been subjected to considerable scrutiny following the wave of corporate failures ravaging both public and private concerns (Erah & Ikhu-Omoregbe, 2017) Examples of cases where corporate governance practices had failed include Enron, Worldcom, African Petroleum, Cadbury, Maxwell Empire (the media mogul), distressed banks and bankrupt public enterprises in Nigeria. In recent times, the Central Bank of Nigeria identified poor corporate governance practices for the removal of the Chief Executive Officers (CEOs) of five banks in Nigeria, and also as one of the key causes that added to the dilemma of the affected banks and bailout decision taken by the apex bank (Arinze, 2013). Ștefanescu (2013) states that poor corporate governance practices and inadequate disclosures negatively affect public confidence and trust on annual reports.

Studies have been carried out on the relationship between corporate governance and the disclosure of corporate governance in annual reports. However, most studies on the relationship between corporate governance characteristics and corporate governance disclosure were conducted in developed countries like USA, UK, Spain, Holland, Portugal, Australia (Elmans, 2012; Conway, 2012; Khaldoon, 2015; Cunha & Mendes, 2017; etc). Few of these studies were carried out in different perspectives in developing countries like Nigeria (Umoren & Okougbo, 2011; Oki & Maimako, 2015; Akeju & Babatunde, 2017). The findings from these studies have been inconsistent and inconclusive; hence the need to carry out further studies in Nigeria. The main objective of this study is to investigate the relationship between corporate governance characteristics and voluntary corporate governance disclosure. The specific objectives of this study are to determine:

1. the relationship between the size of the board and voluntary corporate governance disclosure;
2. the relationship between board independence and voluntary corporate governance disclosure;
3. the relationship between board gender diversity and voluntary corporate governance disclosure;
4. the relationship between managerial ownership and voluntary corporate governance disclosure;
5. the relationship between audit committee size and voluntary corporate governance disclosure;
6. the relationship between firm size and voluntary corporate governance disclosure by quoted;
7. the relationship between type of industry and voluntary corporate governance disclosure;

## 2. LITERATURE REVIEW

### CORPORATE GOVERNANCE

Corporate governance related mechanisms help constrains the opportunistic behaviors of corporate managers and align their interest to the wealth maximizing interest of investors. World Bank (2002) sees corporate governance as a set of rules that affect what is expected from the exercises of control of resources in a

company. Momoh and Ukpog (2013) viewing from a business perspective, sees corporate governance as a set of systems targeted at making corporate managers accountable to shareholders for the effective and efficient management of the company for the greater good of the company and shareholders. Lemo (2010) similarly defines corporate governance as a group of rules which specify the ways by for managing and controlling companies by directors with the objective of promoting the profit oriented objective of shareholders who do not form part of the management cadre of the organization. This can be achieved through open and effective dissemination of information to shareholders as well as encouraging shareholders to participate in annual general meetings.

In Nigeria, corporate governance principles have been motivated partly by the desires of shareholders to exercise their ownership rights and increase the value of their shares and wealth (Obeten, Ocheni & John, 2014). The need to align with international best practices prompted the Nigerian Securities and Exchange Commission (SEC) and Corporate Affairs Commission (CAC) to in 2001, set up a seventeen (17) man committee led by Mr Peterside Atedo to review extant corporate governance provisions with a view to identifying its weaknesses and means of improving it. In 2003 the committee produced their report which was titled Corporate Governance Code for Public Companies in Nigeria. The general code of corporate governance in Nigeria by SEC came into force in 2011 and is applicable to all publicly registered companies in Nigeria. Apart from the general code, there are also industry specific codes in Nigeria. The Code of Corporate Governance for Banks in Nigeria Post Consolidation was issued by the Central Bank of Nigeria (CBN) in 2006 and it is applicable to all the banks in Nigeria. Similarly, the Code of Corporate Governance for Licensed Pension Operators was issued in 2008 by Nigeria Pension Commission (PENCOM) and it is applicable to all pension fund administrators and custodians in Nigeria. Also the Code of Corporate Governance for the Insurance Industry came into force 2009 and is applicable to all companies in the insurance and reinsurances industry in Nigeria.

#### **CORPORATE GOVERNANCE DISCLOSURE**

Corporate governance disclosure can take different forms. Neogy and Ahmed (2015) note that disclosures in annual report referred to showing of vital information that will facilitate efficient capital market. Disclosure has to do with transferring of relevant, material, and understandable information, in term of qualitative and quantitative information of interest from the private domain to the knowledgeable public domain at regular time. FASB (2001) states that voluntary disclosure is concerned with information outside the financial statements which is not explicitly required to be disclosed by accounting rules or standards.

Corporate disclosures can be broadly classified into two: compulsory disclosure or voluntary disclosure (Hassan, Romilly, Giorgioni, & Power, 2009; Uyar, 2011). Compulsory or mandatory disclosures entail information disclosed in the annual report based on the requirements of regulatory authority in a country. On the other hand, voluntary disclosures consist of discretionally disclosed information outside statutory or regulatory requirements (Barako, 2007). In the UK, Australia and Canada, the governance disclosure activities were basically voluntary in nature (Anand, Milne, & Purda, 2006; Broshko & Li, 2006). In Nigeria, the Securities and Exchange Commission (SEC) and the Companies and Allied Matters Act (CAMA) provide the regulatory framework for corporate and other information disclosure in annual reports by quoted companies.

Broshko and Li (2006) note that although disclosure rule was mandatory for listed firms, yet most firms choose not to disclose their compliance with the best practice guidelines. They stated that to enhance quality of corporate governance disclosure, code to guide good disclosure and insights to listed firms are expected to be stated. Corporate governance disclosure in the annual statements and accounts could give room to insiders and outsiders to have some idea of non-financial information. This study is concerned with voluntary disclosure of corporate governance information by quoted companies in Nigeria.

#### **LITERATURE REVIEW ON VARIABLES**

Before the implementation of corporate governance guidelines, quoted firms management benefit in terms of discretion of using its medium of presentation and the quality or the extent of information on corporate governance disclosed (Bujaki & McConomy, 2002; Labelle, 2002). The relationship that existed between corporate governance characteristics variables (proxied by board size, board independence, board gender diversity, managerial ownership, and audit committee), control variables (firm size and industry type) and governance disclosure are discussed below.

#### **BOARD SIZE AND VOLUNTARY CORPORATE GOVERNANCE DISCLOSURE**

Board size remains a fundamental issue in the corporate governance characteristics disclosed in annual corporate reports of firm. Jensen (2001) states that board with maximum of seven or eight members is said to be a small one and can enhance performance, while a board size with more than seven or eight members is less likely to act effectively. Previous studies collaborated that larger board size results in more governance disclosure in annual reports (Barako, Hancock, & Izan, 2006; Samaha et al., 2012; Nandi & Ghosh, 2012; Hassan, 2013). While some authors provide evidence of a strong positive relationship (Akhtaruddin, Hossain, Hossain, and Yao, 2009; Cormier, Ledoux, Magnan, and Aerts, 2010; Lim, Matolcsy, and Chow 2007), there are also many studies that could not reach a significant association (Cheng & Courtenay, 2006; Donnelly & Mulcahy, 2008). Umoren and Okougbo (2011) examine 50 sampled firms listed on the Nigerian Stock Exchange in relation to corporate governance, company attributes and voluntary disclosures for the year 2008. The study found that board size has positive relationship with disclosures. Some of the researchers indicated that board members strategic decision making is negatively affected by the larger board size and eventually there come negative association between disclosure and board size (Chiang & He, 2010; Parsa, Kouhy, & Tzovas 2007). Ștefănescu (2013) concludes that there is no relation between board size and voluntary governance disclosure in annual report. **Therefore, our hypothesis is as follows:**

**H<sub>01</sub>:** *There is no significant relationship between board size and voluntary corporate governance disclosure.*

#### **BOARD INDEPENDENCE AND CORPORATE GOVERNANCE DISCLOSURE**

Board independence is seen as one of the main characteristics of a good corporate governance. In terms of agency problem situation, presence of non-executive directors helped to monitor and control selfish interest of management (Jensen & Meckling, 1976). Ștefănescu (2013) states that board independence is a means designed to assist and resolve challenges that exist with managers and owners due to separation of ownership from control which is attributed to information asymmetry. Patelli and Prencepi (2007) note that the presence of independent directors will contribute greatly in increasing numbers of voluntary disclosure suggesting that they are keeping to their responsibilities and task of controlling and monitoring the organization.

Extant studies revealed a positive relationship between board independence and level of information disclosed in annual report (Holm & Scholer, 2010; Akhtaruddin & Haron, 2010). While some others claimed that board independence has no relationship with information disclosure (Bokpin & Isshaq, 2009; Al-Shammari & Al-Sultan, 2010). Lim, Matolcsy, and Chow (2007) reveal in Austria that management and non-executive directors have encouragement to voluntarily disclose information in a firm's annual report and as well to give protection to decision. Khodadadi et al. (2010) found that percentage of independent directors has no significant influence on governance disclosure. Samaha, Dahawy, Hussainey and Stapleton (2012) showed that corporate governance disclosure is low in firms with duality and more ownership concentration, while corporate governance disclosure is higher in firms with greater proportion of non-executive directors. It is therefore expected that non-executive or independence board can have influence on the voluntary disclosure of corporate governance information in annual reports. **Thus we hypothesize that:**

**H<sub>02</sub>:** *Board independence has no significant relationship with voluntary corporate governance disclosure.*

#### **BOARD GENDER DIVERSITY AND VOLUNTARY CORPORATE GOVERNANCE DISCLOSURE**

The relationship between board gender diversity as a characteristic of corporate governance and disclosure has been critically examined by prior studies (Krishnan & Parsons, 2008; Shawver, Bancroft & Senneti, 2006) who concluded that male directors enhance firm performance and encourage more disclosure in annual report. Most empirical studies deduced that women in the board have influence on governance disclosures. Prihatiningtias (2012) study in Indonesia revealed that women board directors have positive significant effect on level of disclosure and firm financial performance. Bart and McQueen (2013) study in U.S showed that female member in the board of directors can produce more significant result when compared to males in the board and thus influences governance activities disclosure. Haslam, Ryan, Kulich, Trojanowski, and Aktins (2010) examine association that exists between women board member and level of performance disclosure in UK, and revealed that presence of women on the board influence performance. Bohren and Strom (2006) study on the Oslo Stock Exchange indicated that combination of male and female gender in the board could have negative effect on financial performance and disclosure of non-financial firms. Following from the above, it is expected that board gender diversity has effect on corporate governance disclosure. **Thus, our next hypothesis is:**

**H<sub>03</sub>:** *There is no significant relationship between board gender diversity and voluntary corporate governance disclosure*

**MANAGERIAL OWNERSHIP AND VOLUNTARY CORPORATE GOVERNANCE DISCLOSURE**

Management is charged with the preparation of financial statements and reporting of vital information and exercise high level of accountability for the interest of the owners. In this regard, managements are to disclose information that can aid decision making in the annual report. Jensen and Meckling (1976) posited that the principal-agent problem existing between shareholders and managers arises when managers have little equity shareholding in the company. This according to Jensen and Meckling makes managers to engage in behaviors that do not maximize the value of the company. However, with increase in management ownership of equity shareholding, the interest of managers and shareholders become more aligned. Rouf and Harun (2011) found that the extent of higher management of ownership structure negatively affects corporate voluntary disclosures in Bangladeshi listed companies. Also Vu (2012) found that proportion of equity held by management has a negative relation with voluntary corporate governance disclosure level in Bangladeshi companies. On the other hand Elmans (2012) establishes that no significant association is observed between management shareholding ownership as against voluntary disclosures.

Fan and Wong (2002) show that increase in management interest or ownership will lead to lower voluntary information disclosure in the annual corporate report. In the contrary round, Samaha and Dahawy (2011) indicate that when there is a low managerial shareholding there is a tendency that agency problems will increase because managers have selfish interest and not to enhance or maximize job performance, which can as well affect disclosure of information. Hence it is expected that managerial shareholding can have effect on governance disclosure in corporate annual report. **Thus we hypothesize that:**

*H<sub>04</sub>: There is a significant relationship between Managerial shares ownership and voluntary corporate governance disclosure*

**AUDIT COMMITTEE SIZE AND CORPORATE GOVERNANCE DISCLOSURE**

Audit committee is another important characteristic of corporate governance. Robinson and Owen-Jackson (2009) define audit committee as the chosen members by the board of directors of firm tasked with the responsibility of overseeing the companies accounting and financial reporting quality policies and practices. Aliyu and Ishaq (2015) noted that the audit committee assists the board of directors in term of providing objective advice on activities pertaining risk, control and effectiveness of governance disclosure of the firm. Aliyu and Ishaq, (2015) note that audit committee ensures timeliness and amount of audit work to be carried out in the organisation. O'Sullivan, Percy, and Stewart (2008) reveal a positive relationship between audit committee size and the extent of voluntary governance disclosure. Al-Moataz and Hussainey (2010) found that the presence of audit committee in the firm will facilitate corporate governance disclosure. **Our hypothesis is thus:**

*H<sub>05</sub>: There is no significant relationship between audit committee size and voluntary corporate governance disclosure.*

**CONTROL VARIABLES****FIRM SIZE AND CORPORATE GOVERNANCE DISCLOSURE**

As stated earlier, firm size is used here as a control variable since it is an attribute of the firm and not a corporate governance characteristic. Firm size is seen in different perspectives. It is referred and measured as the total number of employees, total turnover or natural logarithm of total assets of the firm (Konishi & Ali, 2007; Damagum & Chima, 2013). Souissi and Khelif (2012) showed that bigger companies have more encouragement and intention to disclose greater number of information in the annual report. Company size is one of the important determinants of establishing disclosure level as shown in many studies in connection with information disclosures (Abraham & Cox, 2007; Aljifri, 2008; Amran, Bin, & Hassan, 2009).

Some previous studies showed a negative relationship between company size and level of information disclosure in the annual reports of firms (Aljifri, 2008; Kou & Hussain, 2007). While some extant studies (Elzahar & Hussainey, 2012; Oliveira, Rodrigues & Craig 2011; Rajab & Handley-Schachler, 2009) found that there is a positive association with firm size and governance information disclosure. Alsaeed (2006) found that company size has significant influence and positive relationship with governance information disclosure. This leads to the next hypothesis that:

*H<sub>06</sub>: There is a significant relationship between firm size and voluntary corporate governance disclosure.*

**INDUSTRY TYPE AND CORPORATE GOVERNANCE DISCLOSURE**

Industry type is also used here as a control variable. Industry type refers to the group or sector to which the firm belongs. Oghojafora et al (2010) note that governance disclosure and its code in different industry in Nigeria is a reflection of OECD corporate governance principles. Many prior studies investigated the relationship that existed between industry type and level of disclosure (Alsaeed 2006; Barako, Hancock, & Izan, 2006; Muhamad et al. (2009); Wallace, Naser, & Mora, 1994). They signified that circumstances can influence specific industry disclosure practice especially those in manufacturing, oil and gas and those in financial sectors in Nigeria. Eng and Mak (2003) observe that there is no significant association between industry type and governance disclosure. In contrast, Muhamad et al. (2009) indicate that type of industry and quality of governance information disclosure are related. Muhamad, Shahimi, Yahya, and Mahzan (2009). Showed that industry type has association with corporate governance disclosure issues. This leads us to the final hypothesis of the study that:

*H<sub>07</sub>: There is no significant relationship between industry type and voluntary corporate governance disclosure.*

**THEORETICAL REVIEW**

This study is anchored on agency theory. Agency theory was introduced by Jensen and Meckling in 1976 and they were the first to give a detailed description of the theory. The argument behind this theory is that the firm is managed by managers (directors) who act as agents on behalf of the principal who are the owners (Clarke, 2004). The owners entrust managers with power and authority to act on their behalf and interest. At the end, the shareholders or owners expect financial gain from their equity. But because of the difference between ownership and control, there is disagreement or conflict of interest (Aguilera, Filatotchev, Gospel & Jackson, 2008). This is as a result of the notion by shareholders that management (directors) may act for their personal gain and not the owners' interest (Padilla, 2002).

The main difference between management (agent) and corporate governance is that management runs firm's activities, while corporate governance makes sure that these activities are properly managed (Issam, 2013). With efficient and effective corporate governance disclosures, these conflicts of interest can be reduced (Barako et al, 2006; Hassan, Giorgioni, Romilly, & Power 2009). Jensen (2001) posits the that agent and principal problem will continue to increase especially when the corporate governance practices are fragile. Agency theory assists in mitigating and handling management and shareholders by good corporate governance practices for the interest of stakeholders (Dey, 2008). It is expected that corporate governance disclosure in annual reports could promote transparency, accountability and integrity and issues that can reduce management and shareholders problem.

**3. METHODOLOGY****RESEARCH DESIGN**

This a longitudinal study covering a time period of five years that is from 2012 to 2016. Companies quoted on the Nigerian Stock Exchange were used in this study. The population of this research consist of all the companies listed on the Nigerian Stock Exchange as at 31<sup>st</sup> December 2016. One hundred and seventy (170) companies constitute the population of this study as evidenced on the Nigerian Stock Exchange Fact-Book (2016). Out of these, a sample of one hundred and nineteen (119) companies were selected using the Burley's formula propounded and popularized by Yamane (1967) for the determination of sample size in a finite population. The list of firms surveyed is shown in Appendix 1

**Construction of the voluntary corporate governance disclosure index**

The first thing to do is to construct a voluntary corporate governance disclosure index. A self-constructed disclosure index is a widely-used method of constructing a disclosure index. A major part of the construction of the index was the selection of likely items that could be disclosed by quoted companies in Nigeria in their annual reports and which are also relevant to the Nigerian environment.

In selecting the items included in the index, voluntarily disclosed items included in earlier relevant studies were consulted (e.g. Hossain, 2008; Abdallah, 2016).

A total of 20 items of information was identified as relevant to corporate governance disclosure by quoted companies in Nigeria. The checklist of items included in the index are shown in Appendix 2

**Model Specification**

For the purpose of this study, our model is specified as:

$$VCGD = f(BS, BI, BG, MO, ACS, FSIZE, IT)$$

While the explicit model is given as:

$$VCGD = \kappa_0 + \kappa_1 BS + \kappa_2 BI + \kappa_3 BG + \kappa_4 MS + \kappa_5 AC + \kappa_6 FSIZE + \kappa_7 IT + \mu$$

Where:

- CVGD = Voluntary corporate governance disclosure
- BS = Board size
- BI = Board independence
- BG = Board gender diversity
- MS = Managerial shareholding
- AC = Audit committee size
- FS = Firm size
- IT = Industry type
- $\kappa_0$  = Constant or intercept

$\kappa_1, \kappa_2, \kappa_3, \kappa_4, \kappa_5, \kappa_6, \kappa_7$  and  $\kappa_8$  = Coefficients or parameters of the proposed estimates

Our apriori expectations are as follow:  $\kappa_1 > 0, \kappa_2 > 0, \kappa_3 > 0, \kappa_4 > 0$  and  $\kappa_5 > 0$

**Operationalisation of Variables**

The variables of the study are operationalized as shown in table 1:

**TABLE 1: OPERATIONALISATION OF VARIABLES**

SN	Variable type	Variables	Notation	Apriori Sign
1	Dependent variable	Voluntary corporate governance disclosure (VCGD)	Corporate governance disclosure (VCGD) is defined as the number of corporate governance related items that a firm voluntarily reports in their annual report and accounts. Corporate information voluntarily disclosed is 1 otherwise it is 0 (See check list for voluntary corporate governance disclosure)	
2	Independent variable	Board size (BS)	Board Size measured as total member that constituted the board.	+
3	Independent variable	Board independence (BI)	Board Independence is measured as proportion of non-executive director in the board.	+
4	Independent variable	Board Gender Diversity (BG)	Board Gender Diversity measured as dichotomous variable of 1 if a woman is in the board, otherwise, 0.	+
5	Independent variable	Managerial Share Holding (MS)	It is total managerial shareholding divided by total firm's shares.	-
6	Independent variable	Audit Committee Size (ACS)	Audit committee size is measured as the total number of persons that constituted the committee	+
7	Control variable	Industry Type (IT)	Industry type measured as dichotomous variable of 1 if firm is non-financial, otherwise 0.	+
8	Control variable	Firm Size (FSIZE)	Natural logarithm of total assets	+

Source: Author's Compilation, 2018

**4. RESULTS AND ANALYSIS**

This section presents results of descriptive statistics, correlations, other diagnostic tests, regression analysis and test of hypothesis.

**Descriptive Statistics**

**TABLE 2: DESCRIPTIVE STATISTICS**

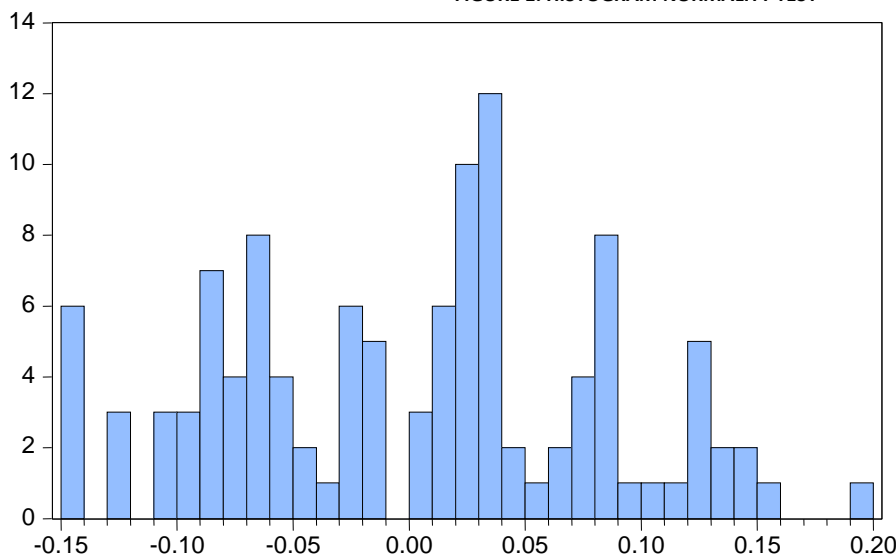
	CGD	BS	BI	BG	MS	AC	INDTY	FSIZE
Mean	0.160696	10.04202	69.37358	0.304348	25.49788	5.017391	0.750000	7.180870
Median	0.180000	9.000000	69.67000	0.000000	26.05000	5.000000	0.000000	7.040000
Maximum	0.800000	20.56000	84.29400	1.000000	30.19000	6.000000	1.000000	9.640000
Minimum	0.000000	5.020000	61.27518	0.000000	13.31000	4.000000	0.000000	6.893761
Std. Dev.	0.093642	6.058239	11.76958	0.460531	2.865084	0.762613	0.490325	1.149994
Skewness	1.779278	7.236039	-1.930604	0.850420	-0.674313	-0.029172	0.408248	-1.676998
Kurtosis	2.71028	2.57285	12.49853	1.723214	3.222902	1.722888	1.166667	14.61109
Jarque-Bera	2.021086	1.193245	25.18765	108.3645	4.476558	39.15793	96.49884	3499.515
Probability	0.5278352	0.672080	0.000000	0.000000	0.082615	0.000000	0.000000	0.000000
Observations	595	595	595	595	595	595	595	595

Source: Authors Computation 2018 (E-Views 8.0)

Table 2 above, shows a mean voluntary corporate governance information disclosure of 0.160696, which signifies that the sampled companies, on the average, discloses about 16% of corporate governance voluntary information disclosure in their annual reports. The result also show a mean board size value of 10.04202 units (10 members), average board independence value of 69.37358 indicating that about 69.4% of the board members were non-executive. The board gender diversity value of 0.304348 shows that 30.4% of the board members were female. The managerial shareholding is 25.49788 which means that about 25.5% of the total shares were shares held by executive directors or management of the sampled firms. The mean value for audit committee of 5.017 units means that the sampled firms have an average of 5 audit committee members. Also from the table industry type has a value of 0.750000 which means that about 75% of the sampled firms were non financials, and firm size of 7.180870 indicated that every sampled firm has an average of over ₦7.18 billion worth of assets.

Normality test

FIGURE 1: HISTOGRAM NORMALITY TEST



Series: Residuals	
Sample 1 119	
Observations 117	
Mean	1.54e-16
Median	0.013154
Maximum	0.190735
Minimum	-0.148797
Std. Dev.	0.080422
Skewness	0.046470
Kurtosis	2.219545
Jarque-Bera	2.934300
Probability	0.230582

Source: Researchers Computation 2018

The normality and other mean statistics of the regression variables are revealed in the histogram normality test in figure 1 above. The result of the histogram normality test revealed a mean Jarque-Bera test of 2.934300 and associated probability value of 0.230582 (about 23% which is higher than 5% significance level). The result of the normality test revealed a standard normal distribution of the data for the purpose of regression. The mean positive kurtosis of 2.219545 revealed an average right caved curve shape of less than 3 suggested bench mark which signifies a leptokurtic kurtosis. The mean positive skewness of 0.046470 means a rightward skewed regression variable as depicted in the histogram normality test in figure 1 above. Hair, Black, Babin, and Anderson (2010) suggested that normal probability plot is one of the most reliable methods for assessing normality and under this method; normality is assumed if the data distribution follows the diagonal line. In line with this suggestion, the normality of this study's data was tested using normal probability plot and histogram and based on regression output as presented in figure 1, normality of the data was fairly assumed.

Correlation

TABLE 3: CORRELATION COEFFICIENTS

	CGD	BS	BI	BG	MS	AC	INDTY	FSIZE
CGD	1.0000							
BS	0.3946	1.0000						
BI	0.1616	-0.4322	1.0000					
BG	0.2609	0.0567	0.1389	1.0000				
MS	-0.0923	0.0185	-0.0033	0.1911	1.0000			
AC	0.0147	-0.0116	0.06315	0.0246	-0.0481	1.0000		
INDTY	0.1085	-0.008483	0.0867	0.4938	0.0415	-0.0186	1.0000	
FSIZE	-0.0656	-0.3086	0.4854	0.3458	0.1072	0.031846	0.252610	1.0000

Source: Researchers Computation 2018

Note: All correlations are significant at the 5% level

Table 3 shows association among variables examined. The correlation coefficient revealed a mixed coefficient of positive and negative values. The correlation coefficients are relatively small and indicative of the absence of the problem of multicollinearity in the regression variables. Meyers, Gamst and Guarino (2006) suggested that there exists multicollinearity problem when correlation between variables is more than .90.

Variance inflator factors

TABLE 4: TEST OF VARIANCE INFLATION FACTOR

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
BS	9.76E-06	16.64297	1.197105
BI	5.84E-07	49.24974	1.113598
BG	0.000288	1.631176	1.073142
MS	7.90E-06	85.05804	1.099123
AC	0.000123	51.15467	1.016660
INDTY	0.000549	7.400386	1.363229
FSIZE	9.24E-05	84.32906	1.371893
C	0.019133	316.3585	NA

Source: Researchers Computation (E-Views 8) 2018

The variance inflation factor in Table 4 above revealed relatively low centered variance inflation factors. The results of the variance inflation factor indicate absence of multicollinearity in the regression variables. The result of the variance inflation factor further strengthened the result of the correlation coefficient in Table 2 which is indicative of the absence of multicollinearity in the regression variables since none of the values exceeded threshold of 10 units as suggested by Hair et al. (2010).

Hausman test for fixed or random effects

TABLE 5: HAUSMAN TEST

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.066985	7	0.6518

The Hausman Test result in Table 4 above is statistically insignificant suggesting that we cannot reject the null hypothesis. Hence, panel random effects least square regression is appropriate and not fixed effects regression.

TABLE 5: PANEL EFFECTS LEAST SQUARE REGRESSION

Dependent Variable: VCGD				
Method: Panel EGLS (Cross-section random effects)				
Date: 06/07/18 Time: 08:47				
Sample: 2012 2016				
Periods included: 5				
Cross-sections included: 117				
Total panel (unbalanced) observations: 575				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BS	0.004866	0.000708	6.871943	0.0000
BI	0.000140	0.000330	0.422953	0.6725
BG	0.047411	0.013936	3.402106	0.0007
MS	-0.001559	0.001188	-1.312382	0.1899
AC	7.64E-05	0.004213	0.018143	0.9855
INDTY	0.007372	0.011537	0.638984	0.5231
FSIZE	-0.201571	0.094733	-2.127780	0.0240
C	0.085116	0.040609	2.169864	0.0036
Effects Specification				
		S.D.	Rho	
Cross-section random		0.056039	0.4422	
Idiosyncratic random		0.062944	0.5578	
Weighted Statistics				
R-squared	0.139025	Mean dependent var	0.072340	
Adjusted R-squared	0.128396	S.D. dependent var	0.067301	
S.E. of regression	0.062844	Sum squared resid	2.239309	
F-statistic	13.07939	Durbin-Watson stat	1.673987	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.211700	Mean dependent var	0.160696	
Sum squared resid	3.967765	Durbin-Watson stat	0.944757	

The result of the random effect model reported an adjusted R-squared value of 0.128396 which signifies that about 12% of the systematic variation in the dependent variable of corporate governance disclosure is accounted for by the explanatory and control variables. The F-statistic of 13.07939 and the associated probability value of 0.000000 showed a significant linear relationship between the dependent and the explanatory variables. The variables of board size, board independence, board gender diversity, audit committee, industry type were positive, apart from managerial shareholding and firm size that showed negative relationship. On the basis of individual significance, board size, board gender diversity and firm size were statistically significant at 5% level. The respective regression results showed that a robust linear relationship exists between the variables; hence outcomes are suitable for decision making.

#### TEST OF HYPOTHESES AND DISCUSSION OF FINDINGS

Hypotheses formulated previously in section 2 are tested in this section. The decision rule is to accept hypothesis formulated, if the calculated probability value is greater than the critical probability value of 5% significance level, otherwise we reject it.

**Test of Hypothesis One:  $H_{01}$ :** Board size has no significant relationship with voluntary corporate governance voluntary disclosure ( $K_1=0$ ).

The result of the regression analysis revealed a coefficient of 0.004866, t-value of 6.871943 and a probability value of  $0.0000 < p < 0.05$ . The result is in tandem with our apriori positive relationship ( $K_1 > 0$ ). Consequently, we reject the null hypothesis of no significant relationship and accept the alternate hypothesis that board size has a significant relationship with voluntary corporate governance information disclosure by quoted companies in Nigeria. The outcome further implied that board size is a strong influencing factor of corporate governance voluntary information disclosure in corporate report. The result is in line with Akhtaruddin, et al., (2009), Cormier, et al., (2010) and Lim et al., (2007) who provided evidence of significant and positive relationship, while some researchers like Goodstein et al., (1994); Chiang & He, (2010), Parsa, et al., (2007) and Ștefănescu (2013) argue against the finding that board size has no significant influence and negatively related with voluntary corporate governance disclosure in annual report.

**Test of Hypothesis Two:  $H_{02}$ :** Board independence has no significant relationship with voluntary corporate governance disclosure ( $K_2=0$ ).

The result of the regression analysis revealed a coefficient of 0.000140, t-value of 0.422953 and a probability value of  $0.6725 > p < 0.05$ . The result is in agreement with our apriori positive relationship ( $K_2 > 0$ ). Following the decision rule, we accept the null hypothesis and reject the alternate hypothesis meaning that board independence has no significant relationship with voluntary corporate governance voluntary disclosure by quoted companies in Nigeria. The result indicates that board independence is a weak influencing factor of governance information disclosure. The finding is consistent with Holm and Scholer (2010), Akhtaruddin and Haron (2010), and Gul and Leung (2004) who revealed that there exist positive relationship between board independence and level of information disclosed in annual report

**Test of Hypothesis Three:  $H_3$ :** Board gender has no significant relationship with voluntary corporate governance disclosure ( $K_3=0$ ).

The result of the regression analysis revealed a coefficient of 0.047411, t-value of 3.402106 and a probability value of  $0.0007 < p < 0.05$ . The result is in line with our apriori positive relationship ( $K_3 > 0$ ). Based on our decision rule, we reject the null hypothesis of no significant relationship and accepted the alternate hypothesis that board gender has a significant relationship with voluntary corporate governance disclosure by quoted companies in Nigeria. The result supports the apriori expectation. It implied that female board member is a strong influencing factor of voluntary corporate governance disclosure. The result buttressed the finding of

Bart and McQueen (2013), and Haslam et al (2010) and Abdullah, Khaled, and Doaa (2016) who revealed that board gender has significant relationship with voluntary disclosure. Bohren and Strom (2006) argue that combination of male and female gender in the board could have negative effect on financial performance and disclosure of non-financial firms. In effect, presence of female in the board is a driving force to corporate governance disclosure.

**Test of Hypothesis Four:  $H_{04}$ :** *Managerial ownership has no significant relationship with voluntary corporate governance disclosure ( $K_4=0$ ).*

The result of the regression analysis revealed a coefficient of -0.001559, t-value of -1.312382 and a probability value of 0.1899 < pv=0.05. The result is in alignment with our apriori negative relationship ( $K_4 < 0$ ). Consequently, we cannot reject the null hypothesis of no significant influence. This implied that managerial shareholding has a negative and insignificant relationship with voluntary corporate governance disclosure by quoted companies in Nigeria. The result is in alignment with our apriori expectation. This implied that managerial ownership is a weak influencing factor of governance voluntary information disclosure. The finding concurs to Rouf and Harun (2011) who showed that the extent of higher management of ownership structure negatively affect corporate voluntary disclosures. Also, Elmans (2012) and Vu (2012) who found that proportion of equity held by management has no significant effect and negatively related with voluntary corporate governance disclosure level. In the other way round, Samaha and Dahawy (2011) indicate that when there is a lesser managerial shareholding there is a tendency that agency problems will increase because managers have selfish interest and not to enhance or maximize job performance, which can as well affect disclosure of information.

**Test of Hypothesis Five:  $H_{05}$ :** *Audit committee size has no significant relationship with voluntary corporate governance disclosure ( $K_5=0$ ).*

The result of the regression analysis revealed a coefficient of 7.64E-05, t-value of 0.018143 and a probability value of 0.9855 > pv=0.05. The result is consistent with our apriori positive relationship ( $K_5 > 0$ ) but not the significance. Following the outcome, we reject the alternate hypothesis of a significant positive relationship and accept the null hypothesis that there is no significant relationship between the size of the audit committee and voluntary corporate governance voluntary disclosure by quoted companies in Nigeria. The result is in line with our apriori expectation because of its positive relationship. The finding is consistent with Rahmat, et al., (2007), and O'Sullivan, et al., (2008) who revealed there exists a positive relationship between audit committee size and the extent of voluntary governance disclosure.

**Test of Hypothesis Six:  $H_{06}$ :** *Industry type has no significant relationship with voluntary corporate governance disclosure ( $K_6=0$ ).*

The result of the regression analysis revealed a positive coefficient of 0.007372, t-value of 0.638984, and a probability value of 0.5231 > pv=0.05. The result is consistent with our apriori positive relationship ( $K_6 > 0$ ) but not the significance. Following the outcome, we reject the alternate hypothesis of a significant positive relationship and accept the null hypothesis that there is no significant relationship between industry type and voluntary corporate governance voluntary disclosure by quoted companies in Nigeria. The result is in line with our apriori expectation because of its positive relationship. The finding is consistent with the findings of Anderson and Daoud (2005) and Bhasin (2013). They are, however inconsistent with the findings of Muhamad et al, (2009) and Cooke (1991).

**Test of Hypothesis Seven:  $H_{07}$ :** *Firm size has no significant relationship with voluntary corporate governance disclosure ( $K_7=0$ ).*

The result of the regression analysis revealed a coefficient of -0.201571, t-value of -2.127780 and a probability value of 0.0240 < pv=0.05. The result is inconsistent with our apriori positive relationship ( $K_7 > 0$ ) but not the significance. Following the outcome, we accept the alternate hypothesis of a significant relationship and reject the null hypothesis that there is no significant relationship between firm size and voluntary corporate governance voluntary on disclosure by quoted companies in Nigeria. The finding is consistent with the findings of Anderson and Daoud (2005) and Bhasin (2013). They are, however inconsistent with the findings of Muhamad et al, (2009) and Cooke (1991).

## 5. CONCLUSION AND RECOMMENDATIONS

The objective of this study is to examine the relationship between corporate governance characteristics and voluntary corporate governance disclosure by quoted companies in Nigeria for the period 2012-2016. The study used secondary data obtained from the annual reports and accounts of 119 companies quoted on the Nigerian Stock Exchange. Panel least square regression technique was used with the aim of explaining and predicting empirically the effect of corporate governance characteristics on voluntary corporate governance disclosure.

The result of the descriptive statistical analysis shows that mean voluntary corporate governance disclosure index is 16% and this is considered low, though it is consistent with results from many other developing countries. The result of the regression analysis shows that there is a positive and significant relationship between board size board, gender diversity, and voluntary corporate governance disclosure. On the other hand, the results show that there is a positive but insignificant relationship between corporate governance disclosure and board independence, audit committee size and industry type. Firm size was found to have a negative but significant relationship with voluntary corporate governance disclosure while managerial shareholding was found to have a negative and insignificant relationship.

Corporate governance has attracted considerable attention over the years. Corporate governance disclosure whether mandatory or voluntary are geared towards ensuring accountability, transparency and credibility in corporate reports of firms for the interest of stakeholders. The level in which firm disclose corporate governance in the annual reports were of several issues. Following the various reviews and outcome of analysis and interpretation, it is concluded that board size, board gender diversity, and firm size significant relationship with voluntary corporate governance information disclosure by quoted firms in Nigeria.

Flowing from the findings of the study, it is recommended that: (i) Board size of quoted companies in Nigeria should not be too large so that it will not create unnecessary bottleneck in term of vital decision making. Also, the size should not be too small for easy influence by management; (ii) There should be gender diversity in the composition of board of directors; (iii) There should be a high proportion of non-executive directors in any board irrespective of the size of the board; (iii) The independent board members should be persons of accountable, integrity and transparent characters capable of monitoring and controlling management and promote disclosure of information in annual reports for the interest of the stakeholders; and (iv) Audit committee size should be based on the size of the firm and it should be a combination of male and female directors.

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## APPENDIX

APPENDIX 1 S/N	LIST OF COMPANIES SURVEYED COMPANY (PLC)
1	7Up Nigeria
2	Wema Bank
3	Sterling Bank
4	Forte Oil (Ap)
5	Greif Nig
6	Union Homes Savings & Loans
7	Premier Paints
8	Cadbury Nig
9	Flour Mills Of Nigeria
10	Nigeria Ropes
11	Guinea Insurance
12	Guinness Nig
13	Learn Africa (Longman)
14	University Press
15	Academy
16	Nigeria Breweries
17	Mobil Nig
18	Total Nigeria
19	MRS(Texaco Chevron)
20	Aiico
21	UTC
22	BETA GLASS
23	UAC
24	ACCESS BANK
25	Consolidated Hallmark
26	Union Bank Of Nig
27	Conoil
28	Cornerstone Insurance
29	Tourist Company Of Nigeria
30	Diamond Bank
31	First City Monumental Bank
32	Fidelity Bank
33	First Aluminium Nig
34	Unic Insurance
35	Tiger Branded (Dangote Flour)
36	Lafarge Cement Wapco Nig
37	Nestle Nig
38	John Holt
39	Lawunion & Rock
40	Scoa Nig
41	Nigerian Enamelware
42	Guaranty Trust Bank
43	Portland Paint Nig
44	Julius Berger
45	Linkage Assurance
46	Livestock Feeds
47	Neimeth Int Pharm
48	Oando
49	Okomu Oil Palm
50	National Salt Company
51	Interlinked Technologies
52	Aluminium Extrusion Indus
53	Roads Construction
54	NCR Nigeria
55	Tripple Gee & Company
56	B.O.C Gases Nig
57	R.T Briscoe Nig
58	Fidson Healthcare
59	Equity Assurance
60	Pharma-Deko
61	May & Baker Nig
62	Redstar Express
63	Zenith Bank
64	International Breweries
65	Evans Medical
66	Thomas Wyatt

67	Dn Tyre & Rubber (Dunlop)
68	Cutix
69	Capital Hotel
70	Pz Cussons
71	Transcorp Nig
73	Vitafoam Nig
74	Trans-Nationwide Express
75	A.G.Leventis Nig
76	Dn Meyer
77	Vono Products
78	Chellarams
79	Presco
80	Champion Breweries
81	Berger Paints Nig
82	Nigerian Northen Flour Mill
83	Studio Press Nig
84	Morison Industries
85	Multiverse
86	Avon Crowncaps & Containers
87	Niger Insurance
88	Standard Alliance Insurance
89	Wapic Insurance
90	Japaul Oil & Maritime Serv
91	United Bank For Africa
92	Skye Bank
93	Aso Savings & Loans
94	Capital Oil
95	Great Nig Insurance
96	Lasasco Assurance
97	Mutual Benefit Assurance
98	Nem Insurance
99	Regency Aliance Ins
100	Sovereign Trust
101	Staco Insurance
102	Unitykapital Assurance
103	Stanbic Ibtc Holding
104	Costain West Africa
105	Arbico
106	Abbey Building Society
107	African Alliance Insurance
108	African Paints Nig
109	Air& Logistic Services
110	Associated Bus Company
111	Chemical & Allied Product
112	Ci Leasing
113	DAAR Commuunications
114	Eternaoil
115	Etranzact Interntional
116	First Bank Holding
117	Interlinked Technologies
118	International Energy Insurance
119	Prestige Assurance

**APPENDIX 2: VOLUNTARY CORPORATE GOVERNANCE DISCLOSURE CHECKLISTS**

1. Board Technical, Risk Management and Compliance Committee
2. Duties of Board Members
3. Disclosure Information on Board Members Qualification and Experience
4. Executive Management Committee
5. Assets and Liabilities Committee
6. Board Credit Committee
7. Anti- Money Laundering
8. Information about Change in Board Members
9. Managers Engagement/Directorship of other Companies
10. Details of Senior Managers and Board of Members Remuneration
11. Property Optimisation Committee
12. Policy on Employee Training
13. Business Development Committee
14. IT Steering Committee
15. Critical Assets Committee (CAC)
16. A Review of Shareholders by Type
17. Age of the Directors
18. Board Political Connections
19. Board Ethnicity
20. Religion of Board Member

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