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THE INFLUENCE OF FORCED FINANCIAL REPORTING DISCLOSURES ON BEHAVIOUR OF REPORTING FIRMS- EVIDENCE FROM NIGERIA

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ABSTRACT: *This paper examines the influence of forced financial reporting disclosures on the behavior of reporting firms in the Nigerian banking industry. Market size, asset base and profitability were used as the selection criterion. The sample size represents seventy percent of the population. Forced disclosure metrics used were capital adequacy and liquidity ratios while reporting behavior was measured using income smoothing and loan loss provisioning. A regressed forced disclosure metric was performed on variables of the behavior of the reporting firm. Results suggest correlation between forced disclosure and the behavior of reporting firms. No significant relationship existed between capital adequacy and liquidity ratio with income smoothing. Correlation between capital adequacy ratio and loan loss provisioning behavior was significant suggesting heavy reliance on loan loss provisioning to smooth income in order to meet regulatory requirements.*

KEYWORDS: Banking Industry, Forced Disclosure, Income Smoothing, Liquidity Ratios, Capital Adequacy Ratio and Loan Loss Provisioning.

INTRODUCTION

Accounting scholars, practitioners and regulators have been having debates over measurement and disclosure issues in order to achieve internationally comparable and high quality financial statements. Considerable amount of progress has been achieved in terms of harmonization and convergence of accounting standards although there are still differences among the national reporting practices. Public companies are frequently under scrutiny by various stakeholders in their respective industry. This scrutiny became even more severe after the unexpected collapse of several mega companies in the western world from 2007 to 2010 e.g. Enron Corporation, WorldCom, Tyco Industries, and Fannie Mae as well as the sudden failure of some respected companies in the developing world. These failures to a large extent contributed to the tough stance that stakeholders (especially regulators) are taking to protect the interest of the other vulnerable members of the society from financial abuses by some unscrupulous managers. Presently the regulation of disclosure has become a worldwide practice. This is largely due to the occurrence of the various financial scandals reported by both the electronic and print media. Organizations are required to respond to a host of diverse, external pressures from varied constituencies and stakeholders. Among these are regulators who impose market-based, mandatory information disclosure programs. Beside stakeholder's requirements, there is the need to utilize information disclosed about firms and

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therefore it makes it important to exert pressure to modify or curb undesired behavior by reporting firm. Recent years have seen a significant increase in the use of information disclosure as a regulatory mechanism. Information disclosure has, for example, been used to force firms to reveal details of their toxic assets. Surprisingly, there is little empirical research on the effect of forced disclosure on the behavior of reporting firms, particularly in a developing country setting. Healy and Palepu (2001; 415) note that empirical research on disclosure regulation, in general, is virtually non-existent. Furthermore, the benefit of disclosure regulation, and hence greater transparency, is not theoretically unambiguous (e.g., Coffee, 1984). Crisis in financial institutions has been a common feature of banking systems (Miron (1986)), recent crises have been more frequent and severe. There is significant variation in the distribution of crises across countries; some countries being frequent targets (see Hoggarth and Saporta, 2001). Regulations, including those on disclosure and auditing, also vary considerably across countries (Barth et al., 2004). Moreover, financial institutions are highly regulated business entities, with their financial reports much a product of the regulatory framework in which they operate. Thus, investigating the behavior of firms reporting in the context of enormous variations in national reporting regimes provides a fertile ground to study financial institutions reported behavior to regulated disclosure. Reflecting the broader debate on the economic consequences of regulated disclosure is controversial. Theory provides conflicting predictions about the benefits of greater transparency. The 'Transparency-Stability' view holds that greater disclosure and the consequent transparency facilitates the efficient allocation of resources by improving market discipline via reducing informational asymmetry. Increased transparency permits greater market discipline whereby strong financial institution are rewarded for their risk management and performance and weak financial institution are penalized with higher costs of raising capital and deposits, thereby enabling early detection of weak financial institution before they drag the entire banking system into crisis. On the other hand, the 'Transparency-fragility' view holds that greater disclosure may engender banking-system instability because it may lead to projection of information about problems of specific financial institution as indicator of widespread problems in the banking system, thereby leading to bank-runs or stock market collapse (Calomiris and Mason, 1997; Gilbert and Vaughan, 1998; and Kaufman, 1994). That is, disclosure creates negative externalities. Disclosure of financial problems at a bank level may lead to the bank's failure through a bank run. It may also lead to an overreaction in the financial markets, jeopardizing the ability of the bank to raise capital. This lack of investor confidence could spread to the entire banking system, causing systemic banking failure. In that case, rather than providing market discipline to improve resource allocation, more disclosure and transparency leads to the collapse of the banking system, causing in failure of both strong and weak financial institution alike. It also explores the impact of overall transparency, which reflects the disclosure regulations meant to increase the quality of financial reports as well as the degree of private acquisition of information, and dissemination of information.

Over the last decades, the attention given to disclosure issues, by the financial literature as well as by companies, supervisory authorities and other companies' stakeholders, has strongly increased. Cooke (1989), Botosan (1997) and a number of other literature investigate disclosure practices, its determinants and its consequences, by non-financial companies; other research papers focus on the banking system (i.e. Baumann and Nier 2004; Linsley and Shrives, 2005); Horing and Grundl (2011) start to address this issues looking at the insurance industry. Most of the current studies seem to focus more on European countries; however, there is little or no research that directly addresses the case of developing countries. This is an

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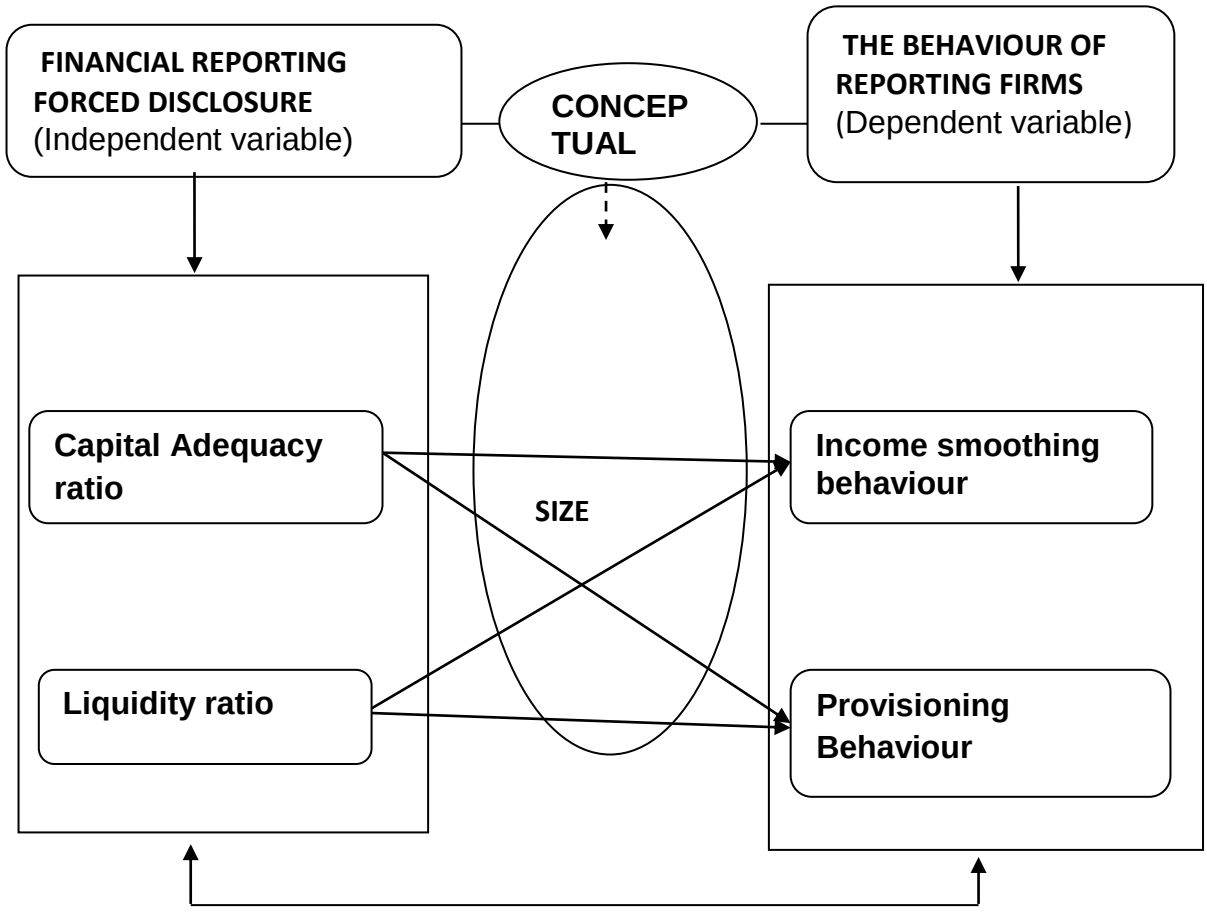
important gap in the literature given the differences that exist between developed and developing countries. This work intends to fill this gap. Secondly, the banking industry is the most regulated industry in Nigeria with myriads of forced financial reporting disclosure requirements. Proper understanding of the influence of forced reporting disclosure on reporting behavior will aid regulators, investors and risk Managers. The objective of the study therefore is to:

1. To examine the influence of forced financial reporting disclosure on the reporting behavior of financial institutions
2. To ascertain whether there is a statistically significant relationship between capital adequacy ratio and income smoothing behavior.
3. To ascertain whether there is statistically significant correlation between Liquidity ratio and income smoothing behavior.
4. To ascertain whether there is a statistically significant correlation between capital adequacy ratio and provisioning behavior.
5. To ascertain whether there is a statistically significant relationship between Liquidity ratio and provisioning behavior.

LITERATURE/THEORETICAL UNDEPINNING

Figure I: Conceptual Framework



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Key concepts or variables as captured in the diagram above are hereby explained in order to set a clear picture of what they (that is, the concepts) entail in connection with the subject matter.

Income Smoothing

According Belkaoui (2006: 37), income smoothing is "Reduction of income fluctuations from year to year by transferring income from the years of high earnings for the periods that is less favorable. Final definitions of income smoothing see it as a phenomenon of manipulation process or time profile of income or earnings to make a profit become less varied, while at the same time does not increase the income reported during that period". The purpose of income smoothing by Foster (1986) are as follows:

1. Improving the company's image in the eyes of outsiders that the company has a low risk.

2. Provide relevant information to make predictions against earnings in the future.

3. Improving the business relationship satisfaction.

4. Improve the perception of external parties on the ability of management.

5. Increase compensation for management.

Provisioning Behaviour:

Loan loss provisions LLPs are expected to reflect anticipated losses by bank managers. However, central bank and securities regulators recognize that the provisions cannot accurately match actual losses and can include a margin for imprecision (see Montgomery, 1998). This margin for imprecision (referred to as the discretionary component of the allowance) has been exploited by banks. The definition of provisioning rules varies across countries. This contrasts with the harmonization of capital requirement at an international level. Nevertheless, in most countries, loan loss provisions (LLP) are made up of specific provisions and general provisions (Cortavaria et al., 2000). Specific provisions are related to identified credit losses and are defined by specific accounting rules. General provisions have to cope with expected losses that depend partially on expansion of total loans but banks do not use rigorous statistical methods to compute them.

Such a provisioning system is said to be backward-looking.

Control Variables

Control variable such as size is also likely to affect bank income smoothing.

Banks are more subject to constant attention by the public authorities, especially when their results are fluctuating.

Excessive increases may be detected as a signal of monopolistic practices. Important decreases may be a token of stress, and thereby encourage the regulatory authorities to intervene. Thus large banks will be motivated to smooth their results more than the small ones. The size of the bank is generally approximated by the Neperian logarithm of the total assets (Lnact). Besides, the results of the earlier empirical work are mixed. In the context of American banks, if Moyer (1990) and Bhat (1996) confirm that large banks appeal more to

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earnings management, Beatty and Harris (1999), however find that the bank size does not affect the manager' accounting practices.

Forced disclosure

One of the tools to communicate information, to investors which managers use, is disclosure. And if mandatory disclosure is a responsibility of regulatory organizations (security exchange authorities, IASB, Financial reporting council of Nigeria), voluntary disclosure is a responsibility of managers. Therefore investors must be aware when mandatory disclosure is not relevant anymore and managers start employing voluntary disclosure "as managers are likely to consider their own interests when exercising managerial discretion" (Akhtaruddin, 2005). Disclosure results in a combination of mandatory and voluntary items that constantly interact with each other. Mandatory disclosure is a company's obligation to disclose minimum amount of information in corporate reports (Owusu-Ansah, 1998; Wallace et al., 1995) whereas voluntary disclosure is a provision of additional information when mandatory disclosure is unable to provide a true picture about a company's value and managers' performance. Mandatory disclosure is governed by regulatory agencies in all countries around the world (Healy et al., 2001; Akhtaruddin, 2005). Regulators force companies to disclose information that companies wish hidden (Darrough, 1993). One of the explanations for disclosure regulation is a concern of regulatory bodies for the welfare of ordinary investors (Watts and Zimmerman, 1986; Taplin et al., 2002). By creating minimum disclosure requirements, regulators reduce the information gap between informed and uniformed investors (Healy et al., 1999) and redistribute wealth among them. Furthermore, the existence of disclosure regulation affects the credibility of the information in capital markets (Al-Htaybat et al., 2006) and ensures companies' compliance to the regulatory requirements

Liquidity Ratio

Liquidity refers to the ability of the business to meet maturing current obligations when they fall due. Hence, liquidity ratios have a lot to do with the size and relationship of current assets to current liabilities. The standard measure of liquidity is obtained from from the current ratio and liquid ratio. The current ratio is the also known as the working capital ratio is the ratio of current assets to current liabilities. It is an indication of the strength of working capital to cover liabilities or the cover provided by current assets upon liabilities. A current ratio that falls below one is an indication of poor liquidity. The liquid ratio sometimes reffered to as acid test ratio relates to the speed which current assets can be easily converted to cash to cover liabilities. It is current assets less stock or inventory. Stock is deducted from current assets as it is not easily turned into liquid assets. The ratio is a measure of the ability of the firm to survive. It provides a measure of the business ability to pay its debts when they fall due in the foreseeable future and also immediately.

Capital Adequacy ratio

This is the ratio of of shareholders funds to total assets and measures the ability of the firm to provide adequate security to pay all liabilities. It serves as a test for long term stability of the business and cushion for creditors. It is calculated as shareholders' funds divided by total assets. Financial institutions in Nigeria are required to maintain a robust and healthy capital adequacy ratio and the standard and minimum requirements are set by Central bank and must be complied with to forestall bank failure. Thus it is mandatory that this ratios must be

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maintained to sustain the health of the bank. The higher the percentage of capital adequacy ratio the better the security for depositors.

METHODOLOGY

Data

The sample was selected from a population of twenty active quoted financial institutions in the Nigerian stock exchange. The institutions were selected based on market size, balance sheet size, profitability and availability of five years financial statement without stoppage of operation hence the samples institutions controlled about seventy percent of the deposit base and market size in Nigeria, The sampled institutions were then subjected to further test to ascertain if they smoother their income before being used for the study . The ratio of profit after tax to lagged total assets was used to represent income smoothing.

Variables

Independent variable:

Forced disclosure

Financial Reporting Forced Disclosure is the act of releasing the array of laws and regulations dictating all the relevant information that must be disclosed in order to provide information for a company's stakeholders that may influence their investment decision; it refers to reveal to knowledge, to free from secrecy or ignorance, or make known (Lanam, 2007). Obviously this concept cannot be observed in financial reports, so this makes the use of proxies unavoidable. Therefore, following previous research reviewed the researcher uses capital adequacy ratio and liquidity ratio to represent financial reporting forced disclosure.

Capital Adequacy Ratio is measured as equity over risk weighted assets (i.e., loan & advances) of firm *i* in year *t*.

Liquidity Ratio is measure as current asset over current Liability of firm *i* in year *t*.

Dependent variable

Income Smoothing

Previous research have proposed various measures of income smoothing in their literature, one of them seems to be particularly interesting. The measure used by Leuz, Nanda and Wysocki (2003), which retains the variability of operating cash flows to assess the smoothing. It consists of comparing the variability of the results (i.e. profit after tax) with the variability of cash flows, therefore, the variability results (of profit after tax) lower than cash flow will lead to smooth results.

$$\mathrm{INS} = \frac{\partial \Delta \mathrm{PAT}/\partial \mathrm{TA}}{\partial \Delta \mathrm{OCF}/\partial \mathrm{TA}}$$

INS: Income smoothing, ∂:Standard deviation, ΔPAT: Change in Profit After Tax of the company, TA: Total Assets of the company, and ΔOCF: Change in Operating Cash Flow of

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the company. he entire variables of the study were measured with the use of interval scale. The scale is generally seen as most appropriate to measure the numerical distance which the object the scale is applied to possess the variable being measured.

Provisioning Behavior is the ratio of loan loss provision to total assets.

MODEL SPECIFICATION

The model is formulated from Y= a + bx + e,

Where y is the dependent variable, x= independent variable, b=is the regression co-efficient on the variable x, a= the intercept term (it is the conditional average of y if x=o), e= residual error term. Thus the model for this research is:

$INS_{it} = a_0 + a_1 CAR_{it} + U_{it}$ …….. (1)

$INS_{it} = \alpha_0 + \alpha_1 LR_{it} + \varepsilon_{it}$ ……(2)

$LLP_{it} = \hat{a}_0 + \boldsymbol{\beta}_1 CAR_{it} + \varepsilon_{it}$ ……. (3)

$LLP_{it} = \hat{a}_1 + \boldsymbol{\beta}_2 LR_{it} + \varepsilon_{it}$ …… (4)

Where INS = Income smoothing of firm *i* at time *t*, CAR = Capital adequacy ratio of firm *i* at time *t*,LRit = Liquidity ratio of firm i at time t, LLP_{it} = Loan loss provision of firm *i* at time *t* while a_0, α_0, $\hat{a}_0$, $\hat{a}_1$, represents the intercept term(conditional average of INS and LLP when CAR and LR=0) a_1, α_1, $\boldsymbol{\beta}_1$, and $\boldsymbol{\beta}_2$ are the regression co-efficient of CAR and LR respectively while U_{it}, and ε_{it} are error terms respectively.

Results/Findings

Hypothesis 1

A key area assessed in this study is the correlation between capital adequacy ratio and income smoothing.

Ho_1. There is no statistically significant relationship between capital adequacy ratio and income smoothing behavior.

The analysis of the above hypothesis is presented in the table below.

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Table 1: Correlation of capital adequacy ratio and income smoothing.

Correlations

		INCOME SMOOTHING BEHAVIOUR	CAPITAL ADEQUACY RATIO
INCOME SMOOTHING BEHAVIOUR	Pearson Correlation	1	-.315
	Sig. (2-tailed)		.605
	N	5	5
CAPITAL ADEQUACY RATIO	Pearson Correlation	-.315	1
	Sig. (2-tailed)	.605	
	N	5	5

Reject Ho_1 if $p < 0.05$ and $p < 0.10$, respectively

Source: SPSS version 20 Output, Computed from table data 2009-2013.

Table 1 summarizes the results.

A Pearson product-moment correlation coefficient was computed to assess the relationship between capital adequacy ratio and income smoothing. There was a very weak negative correlation between the two variables, $r = -0.315$, $n = 5$, $p = 0.605$. Note that r denotes correlation coefficient which indicates the strength of association between the two variables; one the dependent variable (i.e. income smoothing), the other the independent variable (which is, capital adequacy ratio), n represents number of cases included in the analysis and p denotes probability or the level of significance of the result. Overall, there was a statistically insignificant negative correlation between capital adequacy ratio and income smoothing. Increases in capital adequacy ratios were not significantly correlated with decreases in income smoothing. In effect this means that an increase in capital adequacy ratio will bring about a decrease in income smoothing. However, income smoothing does not decrease linearly as capital adequacy increases. Therefore, we accept the null hypothesis and conclude that there is no statistically significant relationship between capital adequacy ratio and income smoothing behavior.

Hypothesis 2

Ho_2. There is no statistically significant correlation between Liquidity ratio and income smoothing behavior.

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Table 2: Correlation of Liquidity ratio and income smoothing.

Correlations

		INCOME SMOOTHING BEHAVIOUR	LIQUIDITY RATIO
INCOME SMOOTHING BEHAVIOUR	Pearson Correlation	1	.055
	Sig. (2-tailed)		.930
	N	5	5
LIQUIDILITY RATIO	Pearson Correlation	.055	1
	Sig. (2-tailed)	.930	
	N	5	5

Reject Ho_1 if $p < 0.05$ and $p < 0.10$, respectively

Source: SPSS version 20 Output, Computed from table data 2009-2013

There was a weak negative correlation between Liquidity ratio and income smoothing, r = -0.055, n = 5, p = 0.930. Overall, there was an insignificant positive correlation between liquidity ratio and income smoothing. However, the correlation between liquidity ratio and income smoothing is not statistically significant.

Hypothesis 3

Ho_3. There is no statistically significant relationship between capital adequacy ratio and provisioning behavior.

Table1 3: Correlation of capital adequacy ratio and provisioning behaviour.

Correlations

		LOAN LOSS PROVISION	CAPITAL ADEQUACY RATIO
LOAN LOSS PROVISION	Pearson Correlation	1	.879*
	Sig. (2-tailed)		.049
	N	5	5
CAPITAL ADEQUACY RATIO	Pearson Correlation	.879*	1
	Sig. (2-tailed)	.049	
	N	5	5

*. Correlation is significant at the 0.05 level (2-tailed).
Reject Ho_1 if $p < 0.05$ and $p < 0.10$, respectively.

Source: SPSS version 20 Output, Computed from table data 2009-2013

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There was a strong correlation between capital adequacy ratio and loan loss provision, r = 0.879, n = 5, p = 0.049. The p value of 0.049 is less than the 0.05 level of significance chosen for the analysis and there was a 87.9% correlation coefficient which indicates a strong positive linear association between capital adequacy ratio and loan loss provision. Overall, there was a significant positive correlation between capital adequacy ratio and loan loss provision. Therefore, we reject the null hypothesis and conclude that there is statistically significant relationship between capital adequacy ratio and loan loss provision.

Hypothesis 4

Ho_4. There is no statistically significant relationship between Liquidity ratio and provisioning behavior.

Table4: Correlation of Liquidity ratio and provisioning behavior.

		LOAN LOSS PROVISION	LIQUIDITY RATIO
LOAN LOSS PROVISION	Pearson Correlation	1	-.058
	Sig. (2-tailed)		.926
	N	5	5
LIQUIDILITY RATIO	Pearson Correlation	-.058	1
	Sig. (2-tailed)	.926	
	N	5	5

Reject Ho_1 if $p < 0.05$ and $p < 0.10$, respectively.

Source: SPSS version 20 Output, Computed from table data 2009-2013

There was a very weak negative correlation between liquidity ratio and loan loss provision, r = -0.058, n = 5, p = 0.926. The p value of 0.926 as shown in the table 18, is far above the 0.05 level of significance chosen for the analysis and there was a -5.8% correlation coefficient which indicates a very negative linear association between liquidity ratio and loan loss provision. Overall, there was a significant positive correlation between liquidity ratio and loan loss provision. Therefore, we reject the null hypothesis and conclude that there is statistically significant relationship between liquidity ratio and loan loss provision.

DISCUSSION

Four hypotheses and the key findings of their empirical tests are summarized below. The overall results are inconclusive because the third hypothesis showed a significant correlation between capital adequacy ratio and loan loss provisioning behavior of financial institutions suggesting that financial reporting forced disclosure has some statistically significant relationship with the behavior of the reporting financial institution in Nigeria. The investigation showed that:

1. Capital adequacy ratio does not have statistically significant relationship with income smoothing behavior of the financial institution.

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2. Liquidity ratio does not have statistically significant correlation with income smoothing behavior.

3. Capital adequacy ratio has statistically significant correlation with provisioning behavior.

4. Liquidity ratio does not have statistically significant relationship with provisioning behavior.

The results of this analysis are reported in Table 1-4.

Empirically, the results about the influence of the level of bank capitalization on income smoothing are mixed. While Ramesh and Revsine (2001) and Shrieves and Dahl (2003) find that highly capitalized financial institutions do not use loan loss provisions to smooth their income, Kanagaretnam et al. (2004), on the other hand, find that highly capitalized financial institution use loan loss provisions to smooth their income. This study aligns itself with the findings of Ramesh and Revsine (2001) that there is no statistically significant relationship between capital adequacy ratios with income smoothing, This lack of significant relationship between capital adequacy and income smoothing may be masked by the use of loan loss provisions. Fengju, Fard, Maher, & Akhteghan (2013) findings confirmed the presence of income smoothing and relationships between financial leverage and profitability in listed companies of Stock Exchange in Iran. Khajavi et al. (2011) examined the performance of traditional and new indicators of liquidity to forecasting companies' income smoothing. The results of their research indicated that there is significant relationship between traditional liquidity indexes and size of companies with income smoothing, however, the result of this study is in contrast with their findings, and may be influenced by the attitude of regulators and mode of regulation in Nigeria.

In conclusion, the results of the study conflicts with the theoretical models and empirical explanations of income smoothing based solely on the incentives that the managers might have in hiding their current level of profits. The positive correlation between capital adequacy ratio and loan loss provisioning probably means that bank managers do not seem to obtain private benefits at the expense of shareholders from income smoothing,

Implications to research and Practice

The results of this study will go a long way to support the legitimacy theory that suggests that organizations seek legitimacy in order to ensure commitment and support for the organization from its stakeholders, both external and internal. The findings will stir more debate and research interest in the relationship between legitimacy theory and reporting behavior of firms. In practice the result will provide a resource for individuals, organizations and policy makers attempting to explain or understand what makes it possible for particular entities to regularly disclose mandatory information in their annual financial report even when the perceived reality might not be necessary to make such disclosure pleasant for the reporting firm.

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CONCLUSION

A firm is considered valuable and less risky by its stakeholders when the firm smoothes its income. The financial institutions included in this study were examined for income smoothing behaviour following Leuz, et al. (2003) method. The assessment showed that there was income smoothing in all the financial institutions used in this study. However, the goal of this research was to examine the influence of forced financial reporting disclosure on the income smoothing and provisioning behavior of reporting firms by analyzing the data obtained from the financial institutions. The research results suggest that there is a statistically significant positive relationship between one key indicators of reporting firms' behavior (i.e. loan loss provisioning behavior) with equally core variable of forced disclosure (capital adequacy ratio). This study empirically tested the characteristics of forced disclosure and the behavior of the reporting firms using randomly selected financial institutions reporting under Nigeria GAAP and later under IFRS during 2009 to 2013. Specifically, this study investigated whether there is statistically significant relationship between the following: (1) capital adequacy ratio and income smoothing behavior, (2) liquidity ratio and income smoothing behavior (3) capital adequacy ratio and loan loss provisioning behavior, and (4) liquidity ratio and loan loss provisioning behavior. Following prior research, the researcher used forced disclosure with capital adequacy ratio and liquidity ratio metrics. Note that these metrics are also considered as performance metrics in some other studies. This study also measured the behavior of reporting firms with income smoothing and loan loss provision. The study concluded that there is no statistically significant relationship between capital adequacy ratio and income smoothing behavior. The findings on the correlation between capital adequacy ratio and loan loss provisions underpin the argument that loan loss provisions are used to manipulate earnings by management in order to meet regulatory requirement. This study's results based on the metrics used in the empirical analysis do not clearly indicate whether forced disclosure has a significant effect on the behavior of the reporting firm. However, what is clear is the fact that the institutions smooth their income, whether the smoothing is natural (i.e. unintentional) or artificial is not the focus of this study. The study also clearly showed that there is no statistically significant relationship between capital adequacy ratio, liquidity ratio and income smoothing. Fascinatingly enough, the results from this analysis support the argument that loan loss provision is a tool which management uses to meet capital adequacy requirement or earnings expectation of stakeholders generally.

This study offer some evidence of the information provided by financial reporting and could be a first indication that forced disclosure might not have the expected result. Although, further research needs to be done overtime and in other sectors in order to corroborate the results of this study using more and more representative data.

In summary, it is possible that result of the analysis was affected by the introduction of international financial reporting standards (IFRS) in Nigeria and the structure of the industry which is heavily regulated with myriads of disclosure requirements

Future Research

The study looked at the influence of forced financial reporting on the behavior of reporting firms using only one industry which is heavily regulated. Future research could examine the effects of forced financial reporting on reporting behavior of firms across different industrial structure with the intent of ascertaining the role of industrial structure on firms reporting

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behavior.. Perhaps the result obtained from this study is influenced by the extent of regulation. There is also the need for future research to examine the extent which regulation influences reporting behavior of firms. The direction of influence exerted by forced financial disclosure between heavily regulated and subtle regulation on the reporting behavior of firms can also be researched on.

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