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CONTENTS

Influence of the Social Media on Political Engagement with the Electorate During the 2015 Presidential Election Campaign in Nigeria
B. Nnaane - - - - - - - - - - **1-18**

Customer Relationship Management Effectiveness and Customer Satisfaction: Evidence from Nigerian Mobile Telecom Industry
B. D. Sarkindaji & M. Bala - - - - - - - **19-34**

Determinants of Leasing Decision in Nigerian Quoted Manufacturing Companies
O. Jayeola, J. E. Ekpudu & D. P. Onou - - - - - **35-49**

Travel Choice in the Northeast Geopolitical Region: A Survey of Transport Geography and Road Conditions in A Crisis Environment.
G. S. Purokayo, I. B. Baba-Iya & Y. Gabdo - - - - **50-64**

Emerging Challenges in the Spread of HIV/AIDS in Nigeria
E. I. Emelda - - - - - - - - - **65-75**

Income Replacement Ratios: Modeling the Retirement income Adequacy
A. J. Solomon & I. S. Osaretin - - - - - - **75-99**

Job Design as a Tool for Organisational Efficiency
U. O. Ugbomhe, M.A. Ozimede & J. A. Omoanhanlen -- - - **100-110**

Evaluatuing Employee's Confidence in Contributory Pension Scheme in Nigeria
M. O. Fashagba - - - - - - - - - **111-127**

Effect of Consumer Rights on Performance of Selected Restaurants in Benin City Metropolis, Edo State, Nigeria
U. O. Ugbomhe, A. G. Ekeria, P. O. Pogoson, Osagie, N. G. & U. O. Ugbomhe **128-142**

The Influence of Feasibility Study on Entrepreneurial Success in Selected Small Scale Business Enterprises in Ogun State
O. A. Kehinde - - - - - - - - - **143-151**

Socio-cultural Obstacles to Women's Participation in Socio-political Development of Niger State
D. J. Hussaina - - - - - - - - - **152-167**

Basel III Accord and Regulatory Capital Management Reporting in Nigeria: The Role of "Search", "Experience", and "Credence" Information
O. M. Tijani, L. A. Oke & S. T. Abdulsalam - - - - - **168-183**

Board of Directors, Audit Committee Characteristics and Performance of Nigerian Listed Companies
O. A. Idoko, A. M. Eloyi & L. D. Temitope - - - - - **184-198**

Corporate Governance Attributes on Mandatory IFRS7 Compliance by Banks in Nigeria
A. G. Zango & I. A. Mohammed - - - - - - **199-211**

Microfinance Banks' Loans and Small and Medium Enterprises Performance in Ogun State
E. J. Ehimen, S. M. A. Posu & O. Jayeola- - - - - **212-222**

The Influence of Feasibility Study on Entrepreneurial Success in Selected Small Scale Business Enterprises in Ogun State
A. Obasankehinde - - - - - - - - **223-231**

Impact of Child Labour on Household Income in Abuja Municipal Area Council
S. Magaji & I. Musa- - - - - - - - - **232-244**

Managerial Share Ownership and Capital Structure Decision of Nigerian Listed Non-financial Firms
O. K. Sunday, A. H. Kehinde & O. O. Oyefemi - - - - **245-262**

Schools Efficiency Level and Child Performance: A Comparative Study of Katsina and Niger State Of Nigeria
B. I. Kadandani, A. Baba Alfa & M. Z. Abd Karim - - - **263-273**

Institutional Autonomy, Working Conditions and Academic Staff Productivity in Selected Federal Universities in North-Western Nigeria
A. Sabo & Y. Shaba - - - - - - - - **274-290**

Empirical Review of Financial Management Practices in SMEs
A. O. John- - - - - - - - - - **291-299**

China's Engagement in Africa: An Analytical Literature Review
G. Kafilah 'Lola, H. A. Yusuf, & A. S. Babatunde - - - **300-318**

Public Service Motivation as a Driver of Employees' Eco-initiatives: An Exploratory Investigation Based on Federal Parastatals in Nigeria
K. M. Kura- - - - - - - - - - **319-333**

Does Remittance Reduce Unemployment in Nigeria?
A. A. Fabian, O. A. Marcus- - - - - - - **334-345**

Can Employees Training and Development Produce Greater Productivity in a Multinational Enterprise in Nigeria?
O. M. Sanjo, & S O. Smart- - - - - - - **346-357**

The Constraints of Free Trade in ECOWAS Sub-region: Implication for Sustainable Development and Globalization Challenges
B. I. Kadandani U. A. Usman - - - - - - **358-370**

BASEL III ACCORD AND REGULATORY CAPITAL MANAGEMENT REPORTING IN NIGERIA: THE ROLE OF "SEARCH", "EXPERIENCE", AND "CREDENCE" INFORMATION

[1]Oladipupo Muhrtala Tijani
[2]Lukman Adebayo Oke
[3]Saka Tunde Abdulsalam

[1,2,3]Department of Accounting & Finance, Kwara State University, Malete

Abstract: *Nigerian banks capital management reporting quality has been frequently criticized as being unbalanced, presenting an overly positive view or failing to address material issues. The purpose of this paper is to provide a fresh explanation for poor quality capital measurement reporting and to propose how quality may be addressed. The theoretical framework combines the accountability and institutional isomorphism perspectives using Akerlof's (1970) Market for Lemons theory. Akerlof's approach is extended by differentiating between three types of information in bank capital management reporting using measures adapted from Comyns et al. (2013) namely search, experience and credence. The study concludes that the type of information must be considered when determining measures to improve report quality.*

Keywords: Capital management reporting, Akerlof's market for Lemon's theory, institution theory, accountability theory.

JEL codes: M41

1. INTRODUCTION

Following the Central Bank of Nigeria (herein after, CBN) guidance notes issued in December 10, 2013 all banks and banking groups are expected to implement a parallel run of the provisions of Basel I and II minimum capital maintenance effective from January 2014. By this directive, banks are required to carry out their Internal Capital Adequacy Assessment Process (hereafter, ICAAP) on an annual basis, as at December 31, and forward copies of the report to the CBN for review not later than four months after the year end. For the avoidance of doubt, the deadline for submission of the ICAAP for 2013 financial year is April 30, 2014. Furthermore, banks are required to comply with Basel II Pillar 3 disclosure requirements on a

bi-annual basis. According to the circular, the guidance notes will remain in force during the period of the parallel run until full adoption of Basel in June, 2014 and release of additional notes on other approaches for determining regulatory capital and Basel III rules ("CBN", 2013).

The motivation for CBN endorsement of the provisions of Basel III accord is in line with compliance requirements issued by apex regulatory institutions in other African countries (see, for example Botswana, Ghana, Kenya, Mauritania, Mauritius, Morocco, Namibia, Senegal, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe), with similar reporting deadlines (KPMG, 2012). As the Banking Committee on Banking Supervision (BCBS) seeks promotion of the accord, there have been demonstrations that these standards exceedingly reflect a set of recommendations for banking regulations in the world major economies (representatives from central banks and regulatory authorities of the Group of Ten countries and G-20 major economies) (Hove, 2012). Extant literature and anecdotal evidence suggests that the banking supervision Accord reflects long established influence of Western economies over emerging markets amid significant differences in economic structure, business customs, local tax laws, investment and approval procedures, labour and employment laws, protection policies, economic trends and politics (for example, Hoarau, 2011; Kargin, 2013). Although the Basel Committee does not have the authority to enforce, Nigeria, through the CBN has enforced the recommendations on all banks and banking groups.

The overall consensus of this research is that while Nigerian banks are engaging strategies aimed at compliance as directed, this paper asserts that reporting under Basel II/III represents accountability perspective concerns with the duty that they have to inform stakeholders about minimum regulatory capital management and how it affects corporate performance. The motivation for companies to produce industry specific reports as well as the quality and extent has been examined in the literature (Jeanjean & Stolowy, 2013) using several theoretical perspectives (Hail, Leua, & Wysocki, 2012). This article provides an alternative explanation of the banking supervision accords implementation as well as the basic approaches required by the CBN under individual banking business risks by combining the perspectives of institutional theory and accountability. Institutional theory is environment oriented while accountability is a more normative or idealist perspective. However, as both perspectives provide insights into the quality of reporting the current study links them using Akerlöf's (1970) Market for Lemons theory with an extension adapted from Comyns, Figge, Hahn, and Barkemeyer (2013) sustainability reporting model.

2. THEORETICAL FRAMEWORK

Two dominant perspectives used in the literature to explain the phenomena of reporting convergence are accountability theory and institutional isomorphism theory. In this section we argue that the Market for Lemons Model can serve as bridge between these two

perspectives as it encompasses elements of both. This reasoning leads into an extended Market for Lemons Model for explaining the quality of regulatory capital measurement and banks reporting and the associated market failure where reporting quality is poor.

2.1 Accountability theory

The accountability perspective concerns itself with the duty that the bank has to inform its stakeholders about its activities. Accountability is about what an organization is responsible for and providing information to those who have a right to that information (Gray, Kouhy, & Lavers, 1995; Dey, Owen, Evans, & Zadek, 1997; Gray, 2001, Gray, 2007; Gray,). Accountability places society "at the heart of the argument" (Gray, 2001, p. 11) rather than the organization with the accountability relationship and rights to information determined by society (Parker, 2005). Furthermore, while "full and frank accountability" (Gray, 2007, p. 177) may not be in the interests of the company it should be in the best interests of the shareholders in particular, and the society in general. Taking this line of thought, the purpose of regulatory capital management reporting should be the provision of accurate and credible accounts by Nigerian banks to stakeholders on their risk management strategies and overall financial performance regardless of management-centric interests as far as executive compensation is concerned. From an accountability perspective, it has been argued that the duty to provide unbiased accounts may best be implemented through mandatory reporting (Gray, 2001, 2007). This may suggest the reason behind CBN mandatory approach to Basel accord. The accountability perspective also challenges the business case for bank capital management reporting and it is argued that voluntary reporting does not produce widespread and consistent practices and so mandatory regulation is required (Gray, 2001). Overall, there is inconclusive evidence that banks management may be willing to engage in voluntary qualitative disclosures targeted at reducing the information asymmetry gap and thus represent an effective means of accountability (Swift, 2001).

2.2 Institution theory

As explanation is needed for the phenomena of the mandatory but costly implementation of Basel accord in Nigeria, the paper utilized the perspective of institutional theory in the analysis. Institutional theory can provide explanations about institutional linkage with the environment, social expectations and an institution's internal practices and characteristics (Dillard, Jigsby, & Goodman, 2004, p. 508). Early organizational theory acknowledged the diversity of institutions (e.g. (Mueller, 1967), however, others such as DiMaggio and Powell (1983) have since argued that once institutions emerge as a field, the paradox of them becoming increasingly similar is evident, as external influence continue to exert pressure on the behavioural action of organizations. Institutional theory has two main dimensions: isomorphism and decoupling. Based on institutional isomorphism, DiMaggio and Powell (1983) assert that "Organizational characteristics are modified in the direction of increasing compatibility with environmental characteristics. The number of organizations in any population is a function of environmental carrying capacity and the diversity of organizational forms is isomorphic to the environment diversity".

The theory recognizes the influence exerted on organizations by their environment in which they are bound to exhibit certain characteristics. According to DiMaggio and Powell (1983), organizations do not only compete for human and material resources, they are also drawn by the zeal for political power, institutional legitimacy as well as social and economic fitness. This concept provides a platform for understanding the logic in politics and ceremony demonstrated in modern business (Mir & Rahaman, 2002). The theory identifies three non-empirically explicit mechanisms namely coercive, mimetic, and normative isomorphism through which institutional isomorphism changes arise. They argued although that this phenomenon coalesce in empirical context as they tend to ascend through different conditions and are capable of leading into dissimilar consequences. DiMaggio and Powell (1983) propose that coercive isomorphism upshots from organizations financial dependence on other entities as a result of which they are bound by formal and informal pressures, and cultural expectations in the society in which they exist. They argue that in the absence of feasible alternative sources of financing, organizations are likely to fall under coercive influence of such financier by whom they are mandated to adopt certain practices, needs and conditions. When organizations are compelled by mimetic isomorphism, they tend to benchmark their standards, principles, policies, structures and strategies with similar organizations which they observe are more legitimate or successful. It is a standard response to uncertainty and a dominant force that emboldens imitation when an organization is unsure about the likely success of its strategies.

The line of argument in this context does not coincide with normative mechanisms since they are only results of professional influence arising from powers derived from the State and created by its activities.

Mimetic institutional forces are results of organizations' lack of well-defined structures resulting in them importing institutional rules and practices, and modeling themselves after similar organizations in their field perceived as most successful. According to mimetic institutional force, it can be deduced that countries are likely to fall under the influence of imitating western nations in their economic management pattern. Consequently, they are under the impression that the perceived success achieved by developed economies would only be achieved if their structures are imitated.

There are three crucial consequences of isomorphism associated with environmental institutions of organizations. These include incorporating elements legitimated externally rather that efficiency consideration. Second, the value of structural elements is assessed by external or ceremonial factors; and overdependence on institutions that are externally fixed and capable of reducing turbulence as well as maintain stability. Subsequently, if organizations maintain institutional isomorphism, they would be assured of legitimacy, and access to external financing. DiMaggio and Powell (1983) also contend that in an effort to realize mutual gains, countries agree to bind themselves to international regimes that subsequently places limit on their independence and freedom of action. The institutional

disclosures and abstract presentation. Second, by distinguishing between different types of information content requirement in the Basel accord recommendations, we provide a more fine-grained analysis of the quality of approaches for quantifying the risk weighted assets for credit risk, market risk, and operational risk. This analysis not only takes into account the wide range of diverse aspects covered in the Basel III accord, it also leads into more precise policy implications on the question whether and when there is a need for improved and close regulation to prevent the market for banks risk management reporting from falling. Overall, our argument offers a more comprehensive understanding the conditions under which the market for compliance with Basel III accord is expected to fail and produces low quality disclosures.

3. METHODOLOGY

The study follows through a qualitative approach by extending Akerlof's model to Nigerian banks capital management reporting. Subsequently, the authors proposed an extension to the original model.

3.1 An extended Akerlof model for banks capital management reporting

3.2 Specific characteristics of Basel Accord compliance reporting.

The CBN in pursuant to Section 13 of the Banks and Other Financial Institutions Act, 1991 as amended, issue guidance notes on regulatory capital measurement and management aimed at implementing Basel II/III accord in December 2013 (CBN, 2013). The apex institution following the provisions of the Basel Committee for Banking Supervision (BCBS) released a guide in compliance with international convergence of capital measurement and capital standards. By this provision (Basel Committee on Banking Supervision (BCBS), 2006), banks are mandated to adopt specific approaches for the purpose of determining regulatory capital coverage. Accordingly, the computations are consistent with the requirements of Pillar I of Basel II accord. The regulatory jurisdiction covers all internationally active banking groups while non-internationally active banks may, with the consent of their local regulator, voluntarily comply with the Accord. The accord consists of three mutually exclusive enforcing pillars required to be applied by banks: pillar 1(minimum capital requirement); pillar 2 (supervisory review process); and pillar 3 (market discipline). These are the capital measurement approaches (CBN, 2013).

The aim of the accord is to ensure that banks maintain adequate capital in their balance sheet to cover risk weighted assets to be able to manage exposure tosses resulting from credit, market and operational risks. Subsequently, banks must compute through an Internal Capital Adequacy Assessment Process (ICAAP). A bank will determine the proportion of its capital that must be maintained based on the expression of individual capital components (Tier I and Tier II) charged in its credit risk (banking book), market risk (trading book), and operational risk. Overall, the minimum capital requirement is expressed as the total capital (expressed as Tier I and II or Tier I only), to the aggregate of the three business risk categories. To ensure compliance, banks must regularly (half-year and annually) produce a

arrangements and linkages created amongst international institutions such as the World Bank, International Monetary Fund (IMF), the G7 Finance Ministers and Central Bank Governors, the International Organization of Securities Commissions (IOSCO), Basel Committee on Banking Supervision (BCBS), the United Nations, and the Organization for Economic Cooperation and Development (OECD), and the Nigerian Nation alongside the Financial Reporting Council (FRC), IAS/IFRS implementation committee is a suitable interpretive concern on the application of institutional isomorphism (Mir & Rahaman, 2007).

3.2 *Akerlof's Market for Lemons theory*

The Market for Lemons theory propounded by Arkerlof (1970), provides the explanation of corporate disguise and concealment of financial information through the use of complicated disclosure and abstract presentation. According to Akerlof's theory "lemon" refers to low quality goods or services which are inadvertently chose by buyers since quality cannot be deciphered due to information asymmetry. In the market for lemons, due to a desire to maximize profits sellers, taking advantage of information asymmetry reduce the quality of the products or services offered. Buyers being unable to detect quality pay the same price for high and low quality products and so quality deteriorates until no trade can take place. Akerlof describes how a lemons market occurs where there are specific market characteristics namely: an information asymmetry between buyers and sellers (bank executives and shareholders); a motivation for the seller to cheat the buyer (exploitative executive compensation); a range of product qualities (banks complex reporting strategies/reporting qualities); as well as a lack of regulation (regulatory capture).

This characterization is used to examine Nigerian banks compliance strategies with the banking supervision Accords of the Basel committee, linking the motivational aspects from institutional theory with issues of information asymmetry, range of reporting qualities and lack of regulation as discussed within the accountability literature. Akerlof uses the example of a used car to explain this theory. He describes used cars as being uniform quality in that the car is either good quality or poor quality. This is limiting when applied to Basel accord reporting. Regulatory capital management reporting are not of uniform quality as they contain different types of information which may or may not be verifiable by the report reader. The different types of information are considered using the typology of search, experience (Nelson, 1970; Stigler, 1961) and credence (Darby & Karni, 1973) goods as described in the literature on information economics. This typology is used to extend Akerlof's theory as applied to the regulatory capital reporting requirements of Nigerian banks and a model is presented which predicts the reporting quality over time for each of the various classes of disclosure requirements. In addition to explaining regulatory capital management reporting quality, the model also helps to identify how the classification of information type is important with regard to targeted quality improvement. Through this argument, we make two-fold contribution. First, we develop a conceptual model based on Akerlof's Market for Lemon's theory that brings together two mainstream social accounting theories to explain corporate disguise and concealment of financial information through the use of complicated

report of regulatory capital management, subject to monitoring and inspection by both the CBN and the Nigerian Deposit Insurance Corporation (NDIC).

3.2.1 Capital measurement approaches

Our concern however is the complexities characterized by the Accord, which provides flexibilities for banks manipulation of risk reporting requirements. This feature is often associated with principle-based approach to corporate reporting. Its provisions offers a principle based approach allowing either of internal ratings based (IRB) or standardized approaches in computing capital adequacy ratio (CAR) when measuring banks credit risk; for market risk - internal models or standardized approach; and operational risk – advanced measurement approach (AMA), standardized approach or basic indicator approach (BIA). While banks are permitted to adopt any of these approaches, the CBN mandated the use of standardized approach for credit and market risk while the BIA is required in computing minimum capital for operational risk. Subsequently, the minimum capital coverage is set at 10 per cent for banks risk coverage (CBN, 2013).

Credit risk

The application of the standardized approach to calculating the capital requirement for credit risk is supported by external credit assessment and it entails:

i. The classification of exposures to different classes based on the nature of the counterparty or the technical characteristics of the transaction or the manner in which it is carried out, and
ii. The assignment of diversified risk weights to each portfolio, based on the ratings provided by the External Credit Assessment Institution (ECAI) or the risk weights specified for certain exposure categories under this framework (Central Bank of Nigeria (CBN, 2013).

Market risk

The CBN guidance notes on the calculation of capital requirement for market risk using the standardized approach entails risk generated by operations in markets for financial instruments, foreign exchange and commodities. The capital requirement takes into account both on-balance sheet and off balance sheet positions that are subject to market risk. Position risk is calculated for the bank's supervisory trading books and consists of general risk and specific risks to which the bank is exposed (CBN, 2013).

Operational risk

As noted earlier, the CBN mandated the use of BIA in computing minimum capital coverage for operational risk. However, the apex body stated that the use of standardized approach may be permitted to its approval (CBN, 2013).

The guidance notes issued for credit risk, market risk and operational risk are directly pooled from the BCBS revised framework on International Convergence of Capital measurement and Capital Standards issued in June 2006 with little or no modifications to absorb differences

in in economic structure, business customs, local tax laws, investment and approval procedures, labour and employment laws, protection policies, economic trends and politics amongst others. According to institution theory, mimetic institutional forces are results of organizations' lack of well-defined structures resulting in them importing institutional rules and practices, and modeling themselves after similar organizations in their field perceived as most successful. According to mimetic institutional force, it can be deduced that countries are likely to fall under the influence of imitating western nations in their economic management pattern. Consequently, they are under the impression that the perceived success achieved by developed economies would only be achieved if their structures are imitated (BCBS, 2006, pp. 218).

3.3 Presentation of the model

Considering the three classes of information as described in the previous section two an extended Akerlof model can now be proposed as adapted from Comyns et al. (2013) for sustainable regulatory capital management reporting. We argue that the type of information has an influence on the development of reporting quality expected from the banks over time. In particular, it is critical to develop detail capital management reporting strategies for Nigerian banks now to reduce the volatility of implementation within proposed timelines. The model is depicted in Fig. 1 and will be developed step by step in this section.

3.3.1 Case 1 – search information

According to Comyns et al. (2013), in the case of *search information* there is low level of information asymmetry between the report reader and the bank, as readers are able to determine the quality of information quickly at a reasonable cost prior to granting accountability. As described earlier, report readers can easily and quickly verify information on various capital constituents as well as details on the three classes of business risks and their claims. In addition, disclosures on external and internal credit assessment, off-balance sheet engagements, implementation consideration (e.g. mapping process, multiple assessments, issuer/issues assessment) and so on. It is predicted that for this type of information, poor quality will not be sufficient for stakeholders to grant legitimacy as misreported information will be easily detected. Nigerian banks often disclose random aggregate total risk-weighted assets used in the computation of capital adequacy ratio. This disguise and concealment of financial information are thought processes of earnings management resulting from abstract presentation (see, for example, FBN Holdings, 2013, p. 60; GT Bank Plc., 2013, p. 156; Skye Bank Plc., 2013, p. 148; UBA Plc., 2013, p. 110; and Zenith Bank Plc., 2013, p. 63) of financial information. Thus, by misreporting verifiable information, banks may be jeopardizing their legitimacy and accountability status which may result in reputational losses. We assume that banks will not wish to risk their business interest or reputation by stating information which may latter be verified as untrue. The quality of *search information is expected to be high and even increase over time* driven by stakeholder demands. In this case, the lemons effect does not occur as the problem of information asymmetry is overcome.

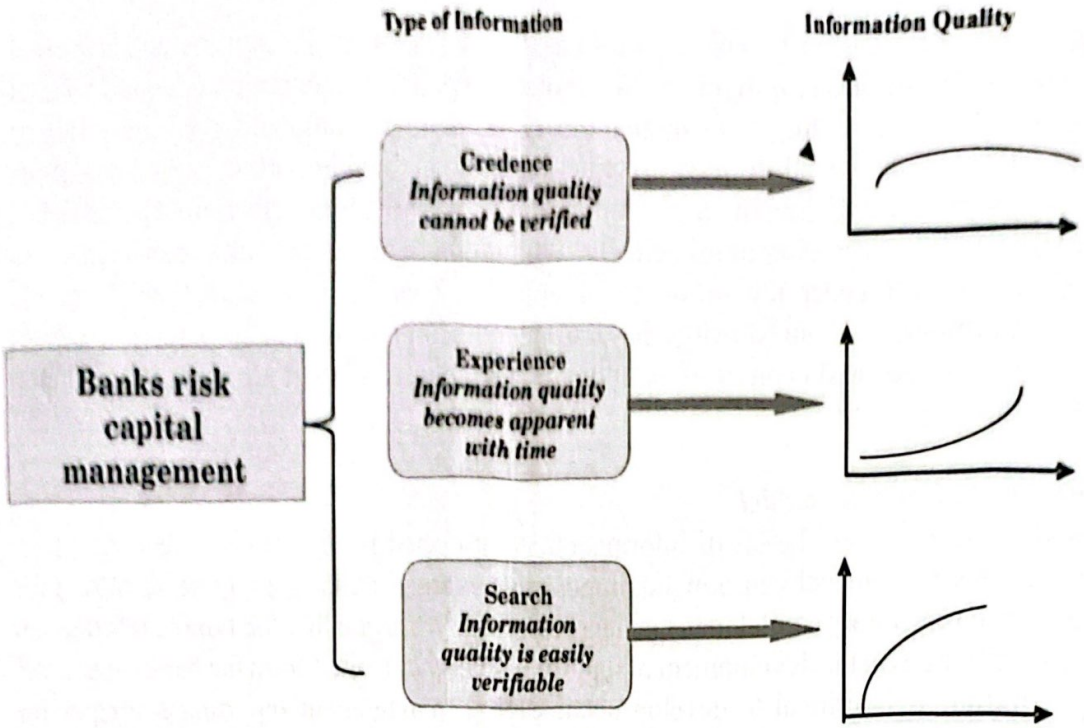


Fig. 1 Extended Akerlof model for banks risk capital management reporting.
Source: Adapted from Comyns et al. (2013)

3.3.2 Case 2 – experience information

In the case of experience information, the information asymmetry between the report reader and the bank is high initially (due to complex reporting and abstract presentation) but as quality becomes apparent to the reporter over time and with experience the level of information asymmetry reduces. In this case, accountability may be initially granted by readers both for poor as well as high quality information cannot be determined. In the short term, banks will be able to gain and maintain legitimacy and trust even with poor quality reporting amid earnings management that decreases shareholders wealth in an industry characterized by dominant shareholdings and weak protection of the minority. However, in line with the theory of experience goods (Nelson, 1970) as stakeholders become more experienced report quality will be detected. While errors, misreporting and earnings management strategies by banks may not have been immediately evidence on a one time reading of a report, this provides some evidence that such activities can be detected by the reader with experience. In this case, poor quality will no longer be sufficient to achieve accountability and banks will become aware that they need to improve the quality of reported information. Information in this case will often be interpretive of bank's creative strategies in the short term but it is expected to improve over time and with reader experience. However, what is unclear is how long the time period for readers to gain such experience may be.

By October 26 2014, 25 of Europe's 130 biggest banks have failed *Stress test*. 13 of them need 10b Euros ($12.5bn) to cushion themselves against future financial crisis.

Subsequently, the banks have engaged in credit supply restrictions and hold out strategies aimed at purging their balance sheets of bad investments that have made them hold back on lending. In an asset quality review based on bank finances at the end of 2013, 12 had already made up their shortfall during the months in which the European Central Bank (ECB) was carrying out its review based on bank finances at the end of 2013. They found money by issuing new shares, or by shedding risky investments or loan businesses that reduced the amount of capital needed to backstop those holdings. The remaining 13 now have two weeks to tell the ECB how they plan to increase their capital buffers and up to nine months to actually carry out the plan. Italy had the banks that needed more capital – 4 out of the 13 (Noonan & Taylor, 2014).

While these banks have taken measures to restrict and purge their lending of bad quality credits and cut off bad investments, same cannot be said of Nigerian banks which continues to seek funds without limits. In Nigeria, banks have recently reported that their capital coverage exceeds the minimum adequacy coverage set by the CBN for Tier I and II capital by more than a 100 per cent (see, First Bank Plc., 2012, p. 60; GT Bank Plc., 2012, p. 156; Skye Bank Plc., 2012, p. 148; UBA Plc., 2012, p. 2012, p. 110; Zenith Bank Plc., 2012, p. 63). Surprisingly, there is ongoing rush for new capital in the industry (Thisday Media, 2014). These institutions have articulated their reasons to the regulator's directive on capital adequacy. For example:

i. Access Bank issued $400 million Eurobond in June 2014 and have obtained another approval for N68 billion through a rights issue in October 2014;
ii. UBA raised N20billion of Tier II capital in Naira denominated asset in Nigeria in October 2014;
iii. Union Bank Plc, about $750 million (N120 billion) in August 2014;
iv. Zenith bank Plc, $500 million five-year senior unsecured Eurobond with a coupon of 6.25 per cent;
v. Sterling Bank currently working on a $120 million private placement and $200 million multi-currency debt issue;
vi. FBN Holdings priced a US$450 million subordinated Tier2 debt issuance in the international markets;
vii. Ecobank Nigeria, $250 million Tier2 capital through a placement;
viii. Skye Bank, a total of $150 million Tier II capital;
ix. FCMB is also currently raising about £300 million of debt.

While their reasons might be substantiated since banking book denominated assets exhibit high volatility, we note that the underlying financial statements information reported by banks on risk capital management is flawed and argue that while the market may behave like Akerlof's Market for Lemons in the short term, with legitimacy being gained regardless of information quality, in the longer term is expected that quality will improve driven by the pressure of research-practice pressure. Perhaps the CBN might have arisen to the reality that

the banks are exploitative in their abuse of prudential regulations, thus in October 24 2014 issued a circular on foreign currency borrowings in foreign credit lines. The prudential guidelines include that the aggregate foreign exchange borrowing of a bank, excluding inter-group and inter-bank borrowing should not exceed 75 per cent of its shareholders funds unimpaired by losses. The 75 per cent limit, according to CBN supersedes the 200 per cent specified in the guides for foreign borrowing for on-lending by Nigerian banks issued in November 26, 2001 (Premium Times Nigeria, 2014).

3.3.3 Case 3 – credence information

In the case of credence information, the information asymmetry between users of financial statements and the company is high. It is not possible for the reader, either due to the requirement for expert knowledge (for example, Basel Accord international capital convergence and capital management), or due to excessive cost to determine the quality of this information (XBRL technology). As the report reader cannot decipher information quality, legitimacy and accountability will be granted irrespective of the quality of information reported. In addition, banks reporting poor quality information will have no impetus to improve the quality of such information since there will be no external stakeholder pressure, as quality cannot be detected anyway. At the same time legitimacy can be gained even with poor quality information. As high quality information will be more costly (Sinclair-Desgagne & Gozlan, 2003), banks will not invest further to improve quality since they can get the benefit of legitimacy and accountability without the additional cost expenditure and executive exploitative compensation can continue to thrive. For this type of information, banks initially reporting high quality information may even reduce the quality as they realize that legitimacy can be gained at a cheaper price. Therefore it is expected that in the short term reporting on credence type information will be of low quality and this is expected to remain at the same level with no improvement over time. In this case the market can continue to operate although inefficiently as the price of legitimacy and accountability can be gained even with poor quality information being reported.

3.3.4 Interaction between search, experience and credence information in banks capital management reports

As we have already established, banks reporting on capital management consist of a combination of all three information types. It is now interesting to consider the interaction between them in reporting. First, it is unknown which type of information is predominant in risk asset reporting and capital coverage and whether the predominant information type varies between reports and reporting banks. While reporting guides such as those provided by the CBN dictate to some extent the issues covered in reports the actual information provided by the banks is at their own discretion. Given that this is the case it is expected that the balance between search, experience and credence information in reports will be variable. Secondly, it is unclear whether the quality of the predominant type of information can be applied to the whole report. For instance should a capital risk management report consist predominantly of experience information, and this information is found to be of high quality, could it be

deducted that both the search and credence information will also be of high quality? In other words can the quality of the predominant information type be used as a proxy for the overall report quality? The answer to such questions could potentially shed more light on the current variability of sustainability reporting quality and provide interesting avenues for future research.

4. DISCUSSION

Research to date has made an insufficient distinction between the different parts of banks reporting when it comes to quality problems. Although research has identified that reporting quality on quantitative information in general seems to be low and that companies report well on indicators regarding intent such as vision and policy (Gunter, Hoppe, Poser, 2007) little explanation has been provided for why banks reporting on capital measurement and risk assets management and disclosure is low and why this is. We contend that this poor reporting on quantitative data is due to difficulties encountered by banks in the collection of such data or as proposed by Dong and Burritt(2010) that industry players need to encourage greater compliance with industry benchmarks to improve reporting of quantitative indicators (for example, Nigerian banks compliance with IFRS).

In this article by applying and extending Akerlof's market for Lemons model as adapted from Comyns et al. (2013) we bring together the different types perspectives of accountability and institutional isomorphism theory to analyse the reasons behind the CBN mandatory adoption of Basel Accord and the reasons for the poor reporting by banks of capital management and measurement. The extended version of the Akerlof model provides the insight that we need to distinguish between different types of information in this context (search, experience and credence information). Depending on the type of information in risk management reporting, it is expected that different parts of bank capital management reporting will have different quality problems and different motivations to eradicate quality problems associated. In general, search information will be of good quality and quality is expected to remain high in the long term. Quality problems are not anticipated with this type of information. Experience information may initially be of poor quality, in the early years of capital adequacy reporting, as banks can make commitments or report data and the reader having no prior knowledge of the bank will grant legitimacy regardless of the quality. However, in the longer term, as readers gain experience and learn to decipher reporting quality, poor quality will no longer be sufficient to gain legitimacy and so it is also expected that the market will ultimately drive quality improvement. In this case, the quality problem occurs in the early years of capital management reporting. The biggest quality problem exists for credence information as readers cannot verify the quality of this information even in the long term. Therefore, it is likely that this aspect of reporting will remain poor with quality going undetected and banks having no impetus to improve.

The overall finding from this analysis is that banks capital management and measurement reports cannot be considered being of uniformly either poor or good quality, but it is more

accurate to consider that they are likely to be of mixed quality. Market mechanisms will be adequate to improve the quality of search and eventually experience information, however more stringent mechanisms will be required to improve reporting quality but that these measures need to focus on the credence information.it is also clear that a blanket policy of regulation or third party assurance capital management report is not necessary to improve reporting quality but that these measures need to focus only on the credence information contained within reports.

5. CONCLUSION AND RECOMMENDATIONS FOR FUTURE RESEARCH

This study contributes to the literature on Basel Accord reporting in that it provides an alternative explanation for capital management measurement and management reporting. Using Akerlof's market for Lemons theory as a lens it links the perspectives of accountability and institutional isomorphism to provide a broader lens through which to examine the capital coverage reporting. This analysis shows that while the characteristics as described by Akerlof are also apparent in banks risk management reporting the banking industry continues to operate and this is because the type of good described is different. Akerlof's theory applies to experience goods of uniform quality. This is however limiting in this case of risk management reporting. Therefore, this paper extends Akerlof's model for banks capital management reporting. The study identifies three types of information need to be taken into consideration when considering measures to improve quality. While *search* and *experience* information will be either high or improve over time, these aspects of reporting can remain voluntary with market forces being insufficient to drive quality. However, with regard to *credence* information more stringent measures such as regulation or assurance need to be applied as the quality of this type of information will remain low with no foreseeable improvement in the absence of such measures.

The insight provided by this study opens up several avenues for future research. Firstly, the theoretical predictions put forward need to be empirically tested.it has been predicted that *search* information will be of high quality, that *experience* information will improve over time and *credence* information is not expected to improve. These theoretical predictions are based primarily on reasoning from the literature on information economics and some anecdotal evidence. Longitudinal empirical studies are required to confirm whether these predictions hold true for the types of information in capital coverage for banks risk assets. Secondly, and as discussed above a further avenue for research is to consider which type of information is predominantly present in banks capital adequacy assessment reports and how this varies between reports and reporting entities. Furthermore it may be useful to determine whether the quality of the predominant information type could be used as a proxy for overall reporting quality. Specific and focused empirical studies would help to address some of these issues and further this avenue of research.

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