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- Analysis of Organisational Factors Influencing Effective Integrated Reporting in Global Oil and Gas Companies
- Deficiencies in Service Delivery by Local Government Authorities in Tanzania: Are the Real Root Causes Addressed?
- Determinants of Tax Compliance Costs for SMEs in Tanzania
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**Deficiencies in Service Delivery by Local
Government Authorities in Tanzania: Are
the Real Root Causes Addressed?**

Emmanuel Sadiki

Deficiencies in Service Delivery by Local Government Authorities in Tanzania: Are the Real Root Causes Addressed?

Abstract: The efficient and effective utilisation of available resources in Local Government Authorities (LGAs) has been a topic of high interest worldwide, including Tanzania. While the public depends on LGAs to deliver most essential social services (such as water, education, sewerage and infrastructure), the Controller and Auditor General (CAG) audit reports, government publications, as well as various other studies undertaken, suggest that LGAs are failing to attain their expectations. This study comes out to spark debate on whether much effort and emphasis is placed on symptoms rather than addressing the real root cause of the problem. This study focuses on LGAs in Tanzania, the case of the Kigoma Ujiji Municipal Council (KUMC) where a detailed documentary review and CAG's audit reports on recurring issues for the previous ten (10) financial years (2008/2009 – 2017/2018) was conducted. This study concludes that LGAs have not adequately addressed issues raised by CAG at their root causes. Hence, the same issues have been recurring from one financial year to another. Following the revealed consistent recurrence of these issues and related audit findings in KUMC, the study recommends that those in respective positions of authority should think of an alternative approach so as to gain a better understanding of the actual root causes as highlighted in this study.

Keywords: Service delivery, deficiency, KUMC, CAG, LGA

1. Introduction

There has been growing interest in establishment of Local Government Authorities (LGAs) through decentralisation among governments in developing countries. Significant reforms described as or having elements of decentralisation have taken place or are going on (Conyers, 2006). In a global perspective, local governments are believed to be a creation of western and traditional cultures. However, the modern local government system evolved in response to the pressure generated by urbanisation and industrialisation to enable effective participation and involvement of local people in their affairs (Lange, 2008; Sikander, 2015). Several governments worldwide have embarked on decentralisation, although there are feelings doubting whether real devolution of authority from Central to Local Government level has transpired (Kessy & McCourt, 2010).

As far as Tanzania is concerned, it has a long history of Local Government, going back to the pre-colonial days (Eckert, 1999). After independence in 1961, Chiefdoms were abolished and a comprehensive and inclusive system of Local Government was introduced aimed at increasing efficiency and democracy at the local level (Baker, et al., 2002). The government has been taking deliberate steps and measures to improve the effectiveness and efficiency of LGAs, culminating in current government infrastructure based on the principle of Decentralisation by Devolution (D-by-D) (Ngware, 2005; Mgonja & Tundui, 2012). This can be seen as a reaction to previous structures based on Centralised-Deconcentration (Mollel & Tollenaar, 2013). The reform decentralised five areas that have previously been administered by the Central Government, namely health, education, agriculture, water, and infrastructure (Baker, et al., 2002).

There are some challenges faced by LGAs in their attempt to deliver renowned services to the general public. In response to public concern over deteriorating socio-economic conditions at local level in Tanzania, several laws, regulations and policies have been amended or developed (Mgonja and Tundui, 2012) in order to bring the government closer to the people by ensuring availability of government services at convenient targeting towards achievement of LGAs' goals (Chukwuemeka, 2014). Inability of LGAs to provide fundamental and basic social services particularly in Africa has resulted in involvement of other actors such as

Non-Governmental Organisations (NGOs), Community-Based Organisations (CBOs) as well as the Private Sector in the process of implementing development policies and programmes (Baker, et al., 2002; Boex & Muga, 2009; Tukahirwa, et al., 2010).

The objective of this study is to review LGA's deficiencies in service delivery to the public (Tukahirwa, et al., 2010), particularly to the issues that have been recurring from time to time without being addressed. The fact that the same problems are reported frequently suggests that the root causes of the problems have not been addressed properly (Haqu, 2012; Mzenzi & Gaspar, 2015). This study largely reviewed various reports issued by the Controller and Auditor General (CAG) of Tanzania as the way to determine problems that continued to resurface from time to time (CAG, 2019). Although the result of this study cannot be generalised, the clear message intended to be delivered is that the local governments in Tanzania are placing too much emphasis on symptoms rather than on the actual root causes of the deficiencies being reported by auditors (Mzenzi & Gaspar, 2015). This study furthermore intends to contribute some insights, experiences and guidelines to the LGAs, policymakers, and auditors who are experiencing such recurrence of the same issues from one financial year to another.

This paper is organised in eight sections as follows: While Section 1 constitutes an introduction which spells out the objective of the study followed by Section 2 which narrates the literature reviewed on performance of LGAs, deficiencies and suggested solutions. Section 3 presents the methodology employed by this study and Section 4 presents the findings of this study clearly explaining issues and challenges experienced by LGAs in Tanzania. Section 5 comprises the discussion based on findings, Section 6 presents the conclusions of the study and lastly Section 7 carries recommendations of the alternative strategies that could be employed to address these recurring deficiencies in LGAs.

2. Prior Literature Review

Scholars (Chukwuemeka, et al., 2014; Janousek & Blair, 2017) have developed models that demonstrate the existence of LGAs or that serve as explanatory frameworks for the purpose and philosophy of the institution of local government. The models of local government include; (i) The democratic Participatory Model,

(ii) The Efficient Service Model, and (iii) The Development Model.

These models putting together with different perspectives, attempt to underscore the imperatives or need for the establishment or existence of local governments. The models are, in some cases, discussed as schools of thought that have ventured into theoretical area of what functional responsibilities of local governments are supposed to perform. It follows that these models are referred to as; (i) Democratic Participatory School, (ii) Efficient Service School, and (iii) Development School.

The central focus to the Democratic Participatory School of Thought is the whole concept and practice of democracy. This school maintains that the existence of LGAs ought to ensure democracy by creating an enabling environment to the citizens for opportunities to participate in political and socialisation affairs (Baker, et al., 2002). The LGAs must ensure that proper practice of democracy is maximized when people at the grassroots are empowered to elect their own representatives and being able to hold them accountable. Indeed to a greater extent, the proximity of the citizens to the elected representatives as it obtains in local government makes it easier for the former to call for the later to account for their stewardship.

As to The efficient Service School the main focus is that LGAs systems should ensure efficient provision of social services such as (i) law and orders, (ii) local roads, (iii) primary education, and (iv) sanitation, among others. In essence, the argument by this school of thought is that local government ought to provide service more efficiently than central government due to its closeness to the locality area (Baker, et al., 2002).

The Development School of Thought advocates that LGAs, particularly in the developing world, are effective agents for the economic growth and therefore the improvement of the social being of the society (Boex & Muga, 2009). Indeed, LGAs provide a reliable forum for the local people at even grassroots to get a better share in the national wealth. In essence, the development functions of LGAs include nation building, social, economic and manpower resource development.

LGAs are vested with the duty and responsibility of ensuring timely, appropriate and adequate delivery of services to the public for the purposes of economic growth and in general the improvement of the welfare of the society (Sikander,

2015). The well organised and managed LGAs may be a bridge and a catalyst to accelerate activities around them both in public and private sectors.

It has been noted that there is diversity of interests and therefore expectations of various stakeholders that LGAs serve (Tukahirwa, et al., 2010; Hooks, et al., 2012; Kisumbe, et al., 2014). It could be a nightmare for LGAs to meet what is expected of them without effectiveness and efficiency in goods and service delivery. As far as efficiency and effectiveness in LGA operations are concerned, the focus ought to be on optimal utilisation of available and allocated resources relative to outputs achieved (Lane, 2010; Perpina & De Witte, 2017). This means that LGAs have to make provision of goods and services to their stakeholders in a way that matches or fits properly with what stakeholders expect to be offered given the existing economic environment and budget that has been approved by respective authorities (MacAdam, et al., 2011; Hooks, et al., 2012).

Experience shows that LGAs worldwide have undergone several reforms and the measures taken as results of complaints on cost effectiveness, efficiency, accountability, better performance management and, ultimately, service delivery. Several countries in Africa are not exceptional of the circumstance as they have had undertaken several LGA reforms. Tanzania has also implemented such reforms in LGAs.

Nonetheless, those reform efforts have yet to bear the intended fruits as progress is taking place slowly and oftentimes hindered by political interference and irresponsible LGA employees (Nyman, 2005; Lange, 2008; Issa, 2010). The end results have been non-compliance with the laws and regulations and in general declining in LGA service delivery. There are general concerns on whether or not these reforms have intended positive impacts on the model and approach used by LGAs in goods and service delivery.

In Tanzania LGAs have been a focal point where a lot of complaints have been made about poor and inadequate delivery of goods and service to the public (Boex & Muga, 2009). Several newspapers and social media in Tanzania have been shouting and reporting on mismanagement and inadequate delivery of goods and services particularly for LGAs (Jamii Forum, 2017; The Citizen, 2018a,

Mwananchi, 2016; Mwananchi, 2019b). Members of Parliament and Councillors are raising their voices against dissatisfaction on the performance of LGAs, this being an indicator of inadequacy in solving problems and addressing challenges of their local people (Mwananchi, 2018; Mwananchi, 2019a; The East African, 2018; The Citizen, 2018b; The Citizen, 2019; Jamii Forum, 2019, The Citizen, 2019). Lack of accountability, inadequacy and/ or incompetency of LGAs employees; non-compliance with laws and regulations related to public procurement, among others are areas that cause the recurring of audit queries from time to time. Essentially, this situation is worsened by the fact that oftentimes LGAs in Tanzania have suffered from appointment of senior officials who are not competent enough to cope or fit in respective positions. Lack of accountability among some of civil servants also contributes to such poor and inadequate performance of LGAs in Tanzania (Anthony, 2015, Goddard, et al., 2015).

In line with these, various reforms to improve service delivery to beneficiaries had been instituted (Baker, at al., 2002; Issa, 2010). These reforms as well are instruments used to address deficiencies and therefore bring some changes to what have been deemed as insufficient performance of LGAs in Tanzania. The overall objective of the Local Government Reform Program (LGRP) was to built the capacity of LGAs through decentralisation by enabling them more responsibilities, to deliver services in an efficient and effective manner, control over own revenue or resources and, more importantly, ensuring poverty reduction (Mgonja & Tundui, 2012; Kisumbe, et al., 2014; Mgonja & Poncian, 2019).

In general, evidences suggest that the process of LGAs reforms in Tanzania has contributed positively towards improvements of local government capacity on areas of financial management (Baker, at al. 2002; Fjeldstad, et al., 2010, Fjeldstad, et al., 2017). On the contrary, there have been concerns that most of strategies in place as the means to reform LGAs in Tanzania have been unfruitful as the society continues to complain about either inadequacy of services or lack of them altogether (Boex & Muga, 2009; Kisumbe, et al., 2014). There have been some challenges in implementation of these reforms and therefore have had insignificant impact on the performance of LGAs. For instance, there is negative impact on fiscal autonomy of LGAs due to inadequate collections of revenue from own sources, hence relying largely on Central government transfers. This dependence, therefore,

deprived LGA autonomy in determining local budget priorities (Chukwuemeka, 2014; Mgonja & Poncian, 2019). Although policy statements strongly advocate decentralisation in LGAs, in reality, Central Government preferences dominate the decision making process at the local level (Tukahirwa, et al., 2010). Persisting capacity deficits, increased financial dependence on the Central Government, and political interference hinder the achievements intended for LGAs reforms (Kessy & McCourt, 2010). The issue is obvious and that's why there is a feeling and questioning of whether the root causes are properly addressed or not.

The LGAs are an important component to promote the democratization process, improved service delivery, enhance economic growth, poverty reduction and ensuring high standard of living (Ngware, 2005; Badia, et al., 2014; Sikander, 2015). It follows, therefore, that LGAs need to address different challenges ranging from simple to more complicated issues in relation to service delivery to the public. Different studies have been conducted on challenges facing LGAs and how to deal with them in Tanzania and around the world. Nonetheless, these studies attempt to focus on what happens and therefore simply poor and inadequate performance of LGAs in Tanzania rather than on underlying root causes (Duniam & Eversole, 2013; Mzenzi & Gaspar, 2015; Mgonja & Poncian, 2019). The challenge here arises on whether or not these studies focus sufficiently on the root cause issues or otherwise. This is the gap which this current study attempts to fill.

3. Research Methodology

The research methodology of this study consisted of literature and documents review. Literature review was conducted in order to get explanation of deficiencies in service delivery for LGAs and thus uncover the root causes for failure to achieve the intended target as per various CAG's audit reports. Thereafter, a review of key documents (CAG's annual audit reports, special audit reports and other reports featuring KUMC) was conducted in order to address the specific objectives of this study. Therefore, this is a case study research methodology.

Purposely the study has selected KUMC as the unit of the study. The reason behind this selection was due to the fact that it had suffered with Qualified (Unclean) Audit Opinion for a quite long period of time compared to other LGAs in Tanzania. Taking

the period of ten (10) years of the most recently audited financial statements (2008/2009 through 2017/2018), KUMC managed to be awarded Unqualified (Clean) Audit Opinion for only two financial years (2009/2009 and 2013/2014). The rest of financial years, which is equivalent to 80 per cent, KUMC kept on receiving Qualified (Unclean) Audit Opinion. To put the picture clearly, as from the current CAG report, KUMC has been awarded Qualified (Unclean) Audit Opinion for four consecutive financial years (2014/2015 to 2017/2018). May be the next audit will be different only if concrete efforts are made to rescue the situation. Information from CAG reports and other sources were reviewed and key recurring findings were extrapolated.

The study collected CAG's reports for a ten (10)-year period, counting from the financial year 2008/2009 through 2017/2018. Other reports reviewed include Special Audit Reports undertaken, among others.

The analysis was made by firstly identifying issues that were recurring often during the period of the study coverage. Findings were measured as against each of these issues and all of them were given the same weight. Five (5) issues were identified and each issue four (4) sub-issues were again identified making a total of twenty (20) recurring findings for analysis. Then the number of financial years the issue recurred is indicated by a tick (✓) and was accumulated per each issue (that is, the number of financial years of findings within an issue recurred was added with other recurring findings within the same issue and the average was taken). Recurring percentages were based on the number of years a finding has recurred over the period as a percentage of the total number of years all findings have recurred. In case the financial year is left blank without a tick, this does not imply that in absolute terms that findings have been resolved properly or indicate that the problem is still present. It is merely an indication that this study could not present any direct discussion on the findings and probably found other issues more important in that particular report.

Furthermore, secondary data were collected through documentary review of relevant and reliable official documents including government publications, local and international journal articles, relevant textbooks, and full-text online academic databases. Specific emphasis was placed on literature pertaining LGAs spheres in

particular KUMC. The following Section depicts the findings of the study based on the just narrated methodology employed.

4. Results and Discussion

Results Based on CAG’s Annual Reports

Following a detailed review and analysis of several CAG reports, five (5) issues were identified and four (4) key recurring findings were selected from each issue. The findings addressing each issue are summarized in Table 1 (see Appendix 1 for more details).

Table 1: Summary of Findings on Issues Raised by CAG Reports

<i>S.N</i>	<i>Issues</i>	<i>Average Number of Years Findings Recurred</i>	<i>Recurring Percentage</i>	<i>Ranking</i>
1.	Audit of Financial Statements	8.75	24.5	1 st
2.	Evaluation of Internal Control System	7.50	21.0	2 nd
3.	Procurement and Contract Management	7.25	20.2	3 rd
4.	Expenditure Management	6.75	18.9	4 th
5.	Revenue Management	5.50	15.4	5 th

Source: Compiled by Researcher, 2019

Table 1 shows that issues related to “Audit of Financial Statements” are ranking first-most in recurring for all ten (10) years comprising this study. Most of the sub-issues under this category are also ranking high suggesting major deficiencies in areas of receivables/prepayments, misstatements of financial statements, outstanding payables and types of Audit Opinion issued to KUMC. The study can deduce that accountability has not likely been addressed in a serious manner and that’s why CAG calls for close monitoring (CAG, 2018). Both Management of KUMC and oversight organs missed commitment in affairs related to management of resources as evidenced by CAG report: “despite the interventions made by Kigoma Regional Secretariat and actions taken by the Council Management including staff re-allocation and suspension, the Council’s ability to manage public resources continues to worsen” CAG 2018:11.

Moreover, it demonstrates that Qualified (Unclean) Audit Opinion re-appeared for eight (8) financial years in the period of ten (10) financial years is a negative measure and indicator used to assess on whether public funds are executed properly according to the laid down laws, regulations and pronounced international standards in an adequate and effective manner. In short, this is an overall weakness indicating poor financial management of public resources by KUMC. Note that as long as issues raised by CAG reports are not addressed by respective LGAs at the root causes of poor management of public funds, Qualified (Unclean) Audit Opinion will continue to recur.

Table 1 also indicates that the second in ranking issue that recurred highly for this study was “Weak Internal Control System”. The sub-issue of Inadequate Performance of Audit Committee was leading as it resurfaced for nine (9) out of ten (10) financial years under the study. It was followed by two sub-issues, that is, Ineffectiveness of Internal Audit Unit and Weakness in Risk Management. Both of them recurred for eight (8) financial years. These results may indirectly imply deficiencies in good governance, weak or absence of internal control system, and a general lack of capacity or competence within the Internal Audit Unit. Weaknesses noted in Internal Control System under this second category can also be linked directly with the first-highly ranked issue of “Audit of Financial Statements” especially for Qualified (Unclean) Audit Opinion which has been dominating for the entire period under review.

The issue that recurred third-most often was “Deficiencies in Procurement and Contract Management”. Compliance with Laws and Regulations on procurement seemed to be a constant problem to KUMC as recurred in all ten (10) financial years comprising of this study. The same case applies for “Inadequate Performance of PMU as it surfaced for all ten (10) financial years. There was also deficiencies resulted into “Uncompetitive Procurement without Proper Justification” that recurred for seven (7) financial years. Poor performance in relation to Procurement and Contract Management obviously has been accelerated by the weak internal control system (second-most ranked) and directly influenced the type of Audit Opinion issued to KUMC. For these issues to recur every in financial year report, it implies that absence or very minor actions are taken against when laws and regulations were contravened, resulting in a constant recurrence of non-compliance audit findings.

Deficiencies in “Expenditure Management” features as the issue with the fourth-most recurring findings. A finding of special mention with greatest number of recurrences in this category is “Inadequately Supported Payments” followed by “Unvouched Expenditure” and “Material Deviations from Approved Budget”. These weaknesses in general suggest lack of accountability of KUMC officials and to some extent signifies lack of ethics and integrity with environment that may be conducive for misappropriation and misuse of public funds. Mismanagement of expenditure issue is highly linked with “Ineffective Internal Control System” and “Poor Procurement Management and therefore giving birth to items narrated on the first-most recurring issue, specifically Qualified (Unclean) Audit Opinion. The number of financial years (8 out of 10 years) in which this sub-issue recurred obviously sends message that the root causes of the problem has not been properly addressed.

The last (fifth-most) issue of this study that had the fewest recurring findings was “Revenue Management”. Nonetheless, this does not mean that this issue was not a challenge to KUMC as previous four issues. The highest ranked item under this category is “Inadequate Own Source Revenue” that recurred in nine (9) out of ten (10) financial years of this study. Based on the fact that the findings in this issue resurfaced in that extent it implies that no strategies were put in place to address this issue properly. KUMC continued to highly rely on Central Government subventions for a number of years rather than boosting its Own Source Revenue.

5. Results Based on Documentary and Various Reports Review

A throughout review of all relevant documents and reports that have something to share as to the deficiencies in service delivery in LGAs with focus to KUMC. Issues that featured as findings of this objective include: (i) The problem of who is accountable; (ii) Inadequate human resource capacity; (iii) Shortage of skills; and (iv) Unethical culture in handling public resources.

The Problem of Who is Accountable for Senior LGAs’s Officials

Review of relevant official reports and documents revealed the lack of clear line of responsibility for performance and accountability accelerates deficiencies in service delivery for some of LGAs in Tanzania. The fact that appointment of senior official

positions is made by the Central Government and transfer to another place can be made without consultation makes it difficult for LGAs to impinge any disciplinary action for a person like this who has the status of Presidential Appointment. That being the case, these senior officials seem to be more responsible and accountable to Central Government than LGAs (Mdee & Thorley, 2016). There was a genuine experience of suspension of top KUMC officials for poor audit reports, whereby the Executive Director was ordered to immediately vacate the office by His Excellency President Dr. John Pombe Joseph Magufuli (The Citizen, 2018).

Inadequate Human Resource Capacity

Kigoma Ujiji Municipal Council depends mainly on human capital to achieve its objectives, particularly service delivery to the public. However, review of various reports shows it suffered a lot from inadequate human resource capacity, and this has been identified by CAG audit reports from time to time and impliedly has negative impact upon service delivery to local people at Kigoma Ujiji. Table 2 depicts trend of increasing gap of shortage of staff at Kigoma Ujiji Municipal Council.

Table 2: Shortage of Staff for Kigoma Ujiji Municipal Council

Financial Year	Requirements	Available	Shortage	%age of Staff Shortage
2015/2016	2,044	1,687	357	17
2016/2017	3,028	1,940	1,088	36
2017/2018	3,037	1,871	1,166	38

Source: Adopted from CAG Audit Reports

Table 2 shows an increase in the shortage of staff at KUMC from one financial year to another. The readings show the shortage was 17 per cent during the financial year 2015/2016 and the increased significantly to 36 per cent in the financial year 2016/2017. Yet another increase in shortage of staff was reported during the financial year of 2017/2018 which reached 38 per cent. In a situation like this of shortage of members of staff to make provision of service, one could not expect effectiveness and efficiency in the performance of KUMC.

Moreover, the study observed the challenge facing KUMC of some key personnel

who were merely acting in various positions (CAG, 2019). It should be fairly obvious that these vacancies, especially key positions and the excessive time taken to fill them, would affect the performance of service delivery to the public in KUMC in a negative way. Table 3 depicts a summary of what transpired.

Table 3: Staff Acting at Various Positions at Kigoma Ujiji Municipal Council

Financial Year	Number of Acting Position
2016/2017	3
2017/2018	8

Source: Adopted from CAG Audit Reports

The number of staff acting in key positions was 3 during the financial year 2016/2017 and this number had risen to 8 by the end of the financial year 2017/2018 (CAG, 2018; CAG, 2019). Usually in a normal situation of the office, the one who is just acting experiences some lack of confidence and therefore finds it difficult to make some decisions accordingly. Inevitably, this has a negative impact on service delivery by the KUMC.

Unethical Organisation Culture

Lack of ethics in KUMC for both financial and performance areas has been identified as yet another factor contributing towards diminishing in service provision to the public. There was inadequate accountability in public funds management and compliance with laws and regulations. This situation necessitated interventions made by Kigoma Regional Secretariat and actions taken by the Council management, including requesting for special audits for the financial years 2014/2015, 2015/2016, 2016/2017, staff reallocations and suspension of some members of staff (CAG, 2018).

Root Cause Analysis of Issue Affecting Service Delivery

This study has come to establish that there are some root causes that hinder KUMC from delivering service to people in a more effective and efficient manner. Unless these roots are uprooted, the performance will continue to deteriorate. Documentary review and review of various reliable reports revealed that these

root causes include, among others: (i) Lack of autonomy for LGAs; (ii) Lack of competent and skilled personnel; (iii) Lack of effective performance management system; (iv) Weak internal controls system; and (v) Political interference.

Lack of Autonomy for LGAs

The LGAs are lacking autonomy to operate independently. The good intention of D-by-D aimed at creating more autonomous LGAs by devolving political, administrative and financial decision-making powers and duties to local government levels has not worked as properly as intended (Tidemand & Msami, 2010). This is the major root cause for failure of LGAs to provide adequate and reliable services to the public.

There are three main bottlenecks in the application of D-by-D worth to be mentioned. First, what is termed as reluctance by the Central Government to devolve autonomy to LGAs for human resource management. This complicated mixture of local staff management and centralised transfers and postings has created dual allegiances whereby LGAs staff are caught between satisfying Central Government and local government (Tidemand & Msami, 2010). Second, financial autonomy as most of financial matters of LGAs are controlled by Central Government (especially Ministry of Finance and Planning) and come with strict guidelines for expenditure, allowing little to no autonomy for LGAs. Third, the practice by Central Government and sector ministries to govern by directives. This study is of the opinion that these kinds of root causes need to be addressed properly for proper service delivery by LGAs.

Lack of Competent and Skilled Personnel

Limited capacity at lower levels of governments at the grassroots (lower local government) - ward, mtaa and village of who majority of leaders are with primary and/or secondary education with no further training in relation to type of work assigned makes it difficult for LGAs to operate efficiently and effectively. Even at the level of Municipal Management the challenge of sufficient qualified personnel to collect, process and manage data/information using modern digital or electronic processing equipment hinders operations of LGAs. In the absence of reliable and consistent data, quantitative analysis focusing as a guide for decision-making is

questionable (Fjeldstad, et al., 2010).

Lack of Effective Performance Management System

Failure to achieve objectives by some of LGAs can be attributed to ineffective or the absence of performance management and monitoring processes. This is despite the fact that government has put in place a performance management system.

Weak Internal Controls System

A lot of public funds have been misappropriated, misused or sent to areas that were not intended by KUMC (CAG, 2018).The review of documents and reports shows an inadequate number of internal auditors and the way the Audit Committee operates attracts a lot of doubts as to its effectiveness oversight organ. The CAG (2017) cries for KUMC's misuse of retention money, loss of project funds, and embezzlement of cash, among others. This is yet another root cause referred to as Weak Internal Control System for such failure to execute its services to the public.

Political and Management Interference

As for the KUMC being comprised of multiparty members of the Council, it is crucial that prevailing political and administrative tensions are resolved in order to create conducive environment for smooth provision of the services to the citizens. The relationship between politics and administration ought to ensure that partisan concerns do not compromise the management and administration, which constitute the backbone of service delivery to local people. In some cases this relationship gets to the extent that councillors exert pressure on officials to act in the interest of particular political party or ideology. This is another root cause that needs to be addressed for the betterment of LGAs provision of adequate and reliable services to their local people and the public in general (Idasa, 2010).

6. Discussion of the Results

Discussion Based on Analysis of CAG's Reports

The findings of this study as extrapolated from various reports show the deficiencies in KUMC as these findings tend to resurface consistently each financial year. In general, the findings related to the issues resurfaced, on average 7.15 years in

the ten-year period covered in this study. This suggests that issues raised by CAG reports have the likelihood of being implemented or resolved by approximately 30 per cent only. The recurrence audit findings indicate that as far as KUMC is concerned no concrete efforts are taken to resolve these issues properly. In other words the analysis of these reports suggests that the actual root causes for the problems and challenges facing KUMC are yet to be addressed adequately.

From time to time, reports issued by CAG have consistently been writing on inadequacy of staff, lack of accountability, weak internal controls, and inadequate performance of Audit Committee, poor human resource practices, inadequate procurement practices, among others. Continuing recurrence of the issues is proof that the root causes are inadequately addressed.

Furthermore, the consistent recurrence of these audit findings may indicate that LGAs need to reconsider their problem resolution processes to gain a better understanding of actual root causes of the challenges faced. The study is made to believe that KUMC concentrates on symptoms of the issues rather than investment of more resources in order to understand and deal properly with the root causes.

Although the results of this study cannot be generalised due to limited number of sample, yet it shades some lights to operations of other LGAs in Tanzania since the environment in which they operate bears some similarities.

Discussion Based on Documentary and Reports Review

Experience suggests that LGAs are reluctant to incorporate root cause identification techniques to identify and thereafter correct deficiencies observed or found in the systems or processes. Normally these authorities tend to seek for temporary quick-fix solutions or alternatives ignoring the overall impact to LGAs.

Note that for this case it is difficult to differentiate between root causes and symptoms of the problem. As result LGAs end in treating symptoms rather than root causes getting temporary relief/satisfaction but in real sense is a failure to uproot the problem. Nonetheless it is worth to understand that root causes identification assist in revealing root causes of problems. It is simply a facilitation mechanism of whereby appropriate actions for effectiveness must be taken accordingly by LGAs.

The consistent recurrence of these issues and related audit findings in KUMC calls for those in their positions to re-think on alternative approaches so as to gain a better understanding of the actual root causes of highly ranked issues as per CAG's report. This study recommends root cause analysis techniques to be explored as an alternative method to address this situation. Experience suggests the technique can provide valuable means of addressing problems facing KUMC and by effective policy and regulations. All in all, root causes analysis needs to be in place in a more scientific approach.

The philosophy behind Root Cause Identification explains that each problem is an opportunity as it describes about why and how it occurred. Root cause is the fundamental breakdown or failure of a process which, when resolved, prevents a recurrence of the problem. In fact a true problem must be clearly understood prior to any action taken.

Root Cause Identification is a method that is employed to address a problem or non-conformance, in order to get to the root cause of the problem. It is used to make correction or elimination of the cause, and prevent the problem from recurring.

7. Conclusions and Recommendations

Inadequate service delivery and governance remains an overwhelming challenge in most of LGAs in Tanzania, including KUMC. This study focused on LGAs deficiencies in service delivery as reflected in the reports issued by CAG for various years together with in-depth documentary and reports review. The study impliedly raises its concern or doubt on whether the root causes of these issues are properly addressed or otherwise. The KUMC was selected as a case study for reasons clearly stated earlier.

Key findings concur with the literature review (Raphael, 2017, Kusumbe, et al., 2014, Pallangyo & Rees, 2010) as KUMC features with consistent recurrence of these findings including the lack of accountability and non-compliance with laws and regulations. Of major concern are the institutional constraints related to appropriate competences and staff, dysfunctional state of the audit committee, lack of accountability of municipal officials, failure to comply with procurement

laws and regulations, unethical behaviour of members of staff, just to mention few of them (Boex & Muga, 2009, Kisumbe, et al., 2014, Goddard & Mzenzi, 2015). These are factors that have been affecting the function of Kigoma Ujiji Municipal Council tremendously. The study confidently reports that the root causes of problems and challenges that led to those deficiencies (including Qualified Audit Opinion) were not addressed properly.

Documentary and official reports review indicate the presence of feeling of LGAs that they have been denied power and authority to determine not only their own priorities in human resources but also on revenue and expenditure. These findings are consistent with other studies as per literature review (Baker, et al., 2002, Nyman, 2005, Lange, 2008, Issa, 2010, Idasa, 2010, Kessy & McCourt, 2010, Fjeldstad, et al., 2010, Mgonja & Poncian, 2019). It implies that LGAs are in many cases not consulted before policy measures that will have substantial impact on them are made by the Central Government. The Local Government Reform Programme and by the so-called D-by-D has to ensure that to some extent brought positive changes with respect to local autonomy.

Consistent with the findings and conclusions, the study recommends that: LGAs in Tanzania should employ the root cause analysis technique in order to identify, not only what and how an event occurred, but also why it happened. Only when investigation is able to determine why an event or failure occurred, will LGAs (KUMC for this case) be able to specify workable corrective measures that will prevent future events of the type observed. Indeed understanding why an event occurred is the key to develop effective solution to the problem.

In order to hold LGAs accountable, reforms need to be in place so that the root cause of deficiencies in service delivery could be uprooted. Among others are; (i) Fiscal Decentralisation – ensure LGAs receive adequate funding through levying taxes at local level, and through grants and transfers from Central Government and being granted discretion to pass budgets reflecting their own priorities. In other words; LGAs ought to have full autonomy in issues related to revenue and expenditure rather than being directed by the Central Government. (ii) Administrative Decentralization – by allowing LGAs to have powers to hire, fire, pay and oversee their own personnel affairs. This will make employees of the respectively LGAs

accountable to local councils rather than the Central Government. (iii) Political Devolution – to devolve power to local government, and create holistic, effective local government systems – councils, committees, and the like that could take over previously centralised roles and responsibilities.

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Appendix

Table 1: Summary for the 20 Outcomes Over 10-Year Period

A: Audit of Financial Statements		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total Years Recur	Recur %age
1.	Qualified (Unclean) Audit Opinion	Y	-	Y	Y	-	Y	Y	Y	Y	Y	8	5.6
2.	Misstatements in the submitted Financial Statements	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	9	6.3
3.	Long Outstanding Receivables and Prepayments	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	10	7.0
4.	Long Outstanding Payables	-	Y	-	Y	Y	Y	Y	Y	Y	Y	8	5.6
												35	24.5
B: Evaluation of Internal Control System													
5.	Ineffectiveness of Internal Audit Unit	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	8	5.6
6.	Inadequate Performance of Audit Committee	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	9	6.3
7.	Weaknesses in Risk Management	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	8	5.6
8.	Inadequate IT General Controls	-	Y	-	Y	Y	Y	Y	-	-	Y	5	3.5
												30	21.0
C: Procurement and Contract Management													
9.	Overall Compliance with Laws and Regulations	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	10	7.0
10.	Inadequate Performance of PMU	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	10	7.0
11.	Uncompetitive Procurement without Proper Justification	-	Y	-	Y	-	Y	Y	Y	Y	Y	7	4.9
12.	Procurement without Tender Board Approval	-	-	Y	-	-	-	Y	-	-	-	2	1.3
												29	20.2

		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total Years Recur	Recur in %age
D:	Expenditure Management												
	13. Material Deviations from Approved Budget	Y	-	-	Y	Y	Y	-	Y	Y	Y	7	4.9
	14. Inadequate Supported Payments	Y	Y	-	-	Y	Y	Y	Y	Y	Y	8	5.6
	15. Unvouched Expenditure	Y	Y	Y	-	Y	-	Y	Y	-	Y	7	4.9
	16. Inadequate Management of Imprests	-	-	Y	Y	Y	-	-	Y	Y	Y	5	3.5
												27	18.9
E:	Revenue Management												
	17. Missing Revenue Receipt Books	Y	Y	Y	Y	Y	Y	-	-	-	-	6	4.2
	18. Revenue not Banked	-	-	-	-	-	-	Y	Y	Y	-	3	2.1
	19. Under Collection of Own Source Revenue	-	-	-	-	-	Y	-	Y	Y	Y	4	2.8
	20. Inadequate Own Source Revenue Internal Control	Y	Y	Y	Y	Y	Y	Y	Y	Y	-	9	6.3
												22	15.4

Determinants of Tax Compliance Costs for SMEs in Tanzania

Baltazari Marwa and Deogratius Mahangila

Determinants of Tax Compliance Costs for SMEs in Tanzania

Abstract: Few studies have been carried out in Tanzania to investigate factors affecting tax compliance costs of local enterprises. Moreover, there appear to be contrasting views on the extent of effect of factors such as legal form, sector, education and tax knowledge on SMEs tax compliance costs. This study aimed at making further exploration on these factors in the Tanzanian environment. Data from 150 SMEs operating in the Dar es Salaam region were subjected to ANOVA and Multiple linear regression analysis. On the Independent variables- business sector, business size, tax knowledge, legal form, the age of SMEs and level of education of SMEs owners/managers were regressed on tax compliance costs- dependent variable. The findings indicate that although the legal form, age, tax knowledge and the level of education of the owner/managers are significant determinants of tax compliance costs, turnover is the greatest determinant. The results also indicated regressively of compliance costs, confirming previous research findings within and outside Tanzania. The study recommends the reforms of the tax administration system of Tanzania in such ways that minimise tax compliance costs and address the regressive nature of compliance costs faced by SMEs. The study goes on to suggest further research on the e-determinants of tax compliance costs.

Keywords: Taxation, Tax Compliance Costs, SMEs

INTRODUCTION

Tax compliance costs have drawn the attention of many researchers, policy makers and the public at large. Tax compliance costs refer to all costs borne by the taxpayer in the process of complying with requirements laid down by tax authorities (Evans, Hasseldine, Lignier, Smulders, Vailancourt, & Hansford, 2014). Recent academic studies on tax compliance costs in the developing world include the works by Eragbe and Modugu (2014), whose study measured the tax compliance costs of SMEs in Nigeria; Smulders, Franzsen, Stigligh, and Fletcher (2016) investigated the drivers of internal tax compliance costs for entities in South Africa; Mahangila (2017) investigated the impact of tax compliance costs on tax compliance behaviour in Tanzania; and Makara and Pope (2013) estimated the compliance costs of VAT in Botswana. Also, Marcus et al. (2013) investigated the interrelation between income taxes and compliance costs; and Evans and Lignier (2012) studied the increase in tax compliance costs in Australia among small businesses.

Within the broad spectrum of taxpayers, the Small and Medium Enterprises (SME) segment has received a particularly special focus by many scholars, especially in the developing world. Perhaps the academic interest in this segment emanates from, firstly, the fact that SMEs in the developing world have a potentially important role to play towards fostering rapid growth of economy, as well as development and stability (Eragbhe & Modugu, 2014). Secondly, early empirical discourse about tax compliance costs seemed to show that tax compliance costs for SMEs are proportionately high compared to large corporate entities (Coolidge, 2012; Sapiei, Abdullah & Sulaiman, 2014; Schoonjans, Van Cauwenberge, Reekmans & Simoens, 2011). Apart from presenting an impediment to the growth and survival of SMEs, high tax compliance costs also have an undesirable impact on tax compliance behaviour of the taxpayers as it causes the taxpayers to become more inclined to evade tax (Mahangila, 2017) or negatively affect compliance with tax and laws (Sanga, 2013). Persistence of non-tax compliance behaviour by taxpayers is detrimental to any country in general.

Specific to Tanzania, studies on tax compliance for business entities have focused on factors that influence compliance or non-compliance with tax laws (e.g. Mussa, 2010; Mtandika, 2015; Kibuta, 2011etc.). Few studies explored in depth

the subject of tax compliance costs and their determinants, for example: Tax compliance costs for excise duty (Shekidele, 2001) and impact on tax compliance costs on tax compliance behaviour (Mahangila, 2017). Recognising the importance of tax compliance behaviours to the government, scholars outside Tanzania e.g. Smulders, Franzsen, Stiglitz, and Fletcher (2016) investigated the determinants of tax compliance costs in South Africa and Eragbe and Modugu (2014) investigated tax compliance costs of SMEs in Nigeria. Okpeyoba, Musahb and Gakpetor (2019), among others, investigated the difference in the level of compliance between small and medium taxpayers and strategies to improve tax compliance in Ghana. Gathering from previous studies on tax compliance behaviour of taxpayers, there is still a little discourse on the determinants of tax compliance costs borne by the SMEs and specifically the extent of tax compliance costs on SMEs in Tanzania. Previous studies undertaken in Tanzania did not investigate on the determinants of tax compliance, but estimated the tax compliance costs (Shekidele, 2001), while Mahangila (2017) experimented its impact. Findings of studies from other countries e.g. South Africa, Nigeria, or Ghana may not be applicable in Tanzania due to the different economic environment. This study aims at contributing towards filling this gap.

The objective of this study is therefore to investigate the determinants of tax compliance costs among Small and Medium Enterprises (SMEs) operating in Dar es Salaam, Tanzania. Six hypotheses on the relationship of SMEs' business sector, business size, tax knowledge, legal form, the age of SMEs and level of education of SMEs owners/managers (independent variables) on tax compliance costs (dependent variable) borne by SMEs are tested namely:

H1: There is significant relationship between the sector in which the SME belongs and the level of the SME's tax compliance costs.

H2: There is significant negative relationship between the size (as measured by turnover) of an SME and the SME's level of tax compliance costs.

H3: There is a positive significant relationship between the tax or accounting knowledge of the SME owner/manager and the SME's tax compliance costs.

H4: There is a significant relationship between Legal form of an SME entity and the

SME's tax compliance costs.

H5: There is a significant negative relationship between the SME's age (longevity) and the SME's tax compliance costs.

H6: There is a significant negative relationship between the education level of the SME owner/manager and the SME's tax compliance costs.

Theoretical and empirical literature review

Theoretical Literature Review

Tax Compliance Cost: Tax compliance costs have been defined differently in various literature implying that there is no universally agreed definition (Evans, Hasseldine, Lignier, & Tran-Nam, 2013). However, the most common definition is the one offered by Sandford (1995) which defines tax compliance costs as the costs borne by taxpayers in fulfilling the legal obligations imposed upon them by tax legislations and the revenue authorities. They constitute expenses besides the actual tax liability and any intrinsic distortion costs. The tax compliance costs will not exist if the tax law was not in place. They constitute the expenses of collating, submitting and accounting for taxes on the goods and services of the business as well as business income. Also they include expenses incurred on obtaining requisite knowledge and skills about taxation which enables above work to be accomplished.

According to Sandford (1995), compliance costs can be segregated into three broad components: a) Internal tax compliance costs; b) External tax compliance costs; c) Psychological costs. The internal tax compliance costs category includes time costs of employing an internal member of staff such as tax manager, a qualified accountant, accounting clerks and computer programmers to take care of the company's tax issues. The external compliance costs category encompass funds paid to tax consultants from outside a company and any related (incidental) costs incurred in respect of the tax work. The incidental tax compliance costs generally include sundry expenditure in respect of undertaking tax work such as the costs of postage, transport and printing and/or stationeries. Psychological costs refer to the negative psychic experiences that taxpayers encounter in complying with tax

laws and regulations.

This study adopts the compliance costs definition by Sandford (1995) excluding the psychological costs because of measurement difficulty involved. Therefore, the compliance costs include all costs (internal and external), apart from the actual tax obligation, born by taxpayers in the process of ensuring that they fulfil all the provisions of the relevant taxation laws and the requirements imposed upon them by the relevant tax authorities in the process of becoming and remaining tax compliant.

SMEs: The acronym SME has been used to refer to Small and Medium Enterprises. In other instances, another similar term MSMEs is used. This is a short form for Micro, Small and Medium Enterprises (MSMEs). There is no universally accepted measure to categorise SMEs as various state jurisdictions use different measures of size based on their level of economic progress. In Ghana the informality of SMEs is used (Okpeyoa, Musahb and Gakpetor, 2019). Nevertheless, the most frequently quoted measures are total number of employees, total capital invested and sales turnover. In Tanzania, the categorisation of SMEs is according to Tanzania’s SME policy (Ministry of Industry and Trade, 2002) as shown in Table 1.

Table 1: Categorisation of SMEs by Employees and Capital Investment

<i>Category</i>	<i>Employees</i>	<i>Capital Investment (Million TZS)</i>
Micro	1 to 4	5
Small	5 to 49	5 to 200
Medium	50 to 99	200 to 800
Large	100 and above	Above 800

The economic theory of tax compliance: The economic theory of tax compliance was first propounded by Allingham and Sandmo (1972) who viewed taxpayers as “Utility Maximizers” when making tax compliance decisions. In this construct, tax compliance is regarded a problem of choice under conditions of uncertainty, in which the taxpayer, driven by desire to maximise his utility, is confronted by a choice between a safe asset – in this case, tax compliance, and a risky asset – in this case, tax evasion. The model postulates that an increase in likelihood of detection and penalty rates promotes higher levels of tax compliance. However, the model

was not without criticism, since it could not explain the effective levels of tax evasion. Were the taxpayers to exhibit behaviour as the standard model predicts, with the supposition of rational economic behaviour, degree of tax evasion would have been much higher than what the effective numbers show, since levels of tax law enforcement across the world are not sufficient enough to validate the high levels of tax compliance (Coricelli, Joffily, Montmarquette, & Villeval, 2003).

Das-Gupta (2004) extended the Allingham-Sandmo model by introducing, in the model, the tax compliance costs. From the extended model, it is argued that compliance to the tax laws and regulations declines as the magnitudes of tax compliance costs and marginal tax compliance costs increases. Also, in presence of compliance costs, the lowest punishment necessary to deter non-compliance is greater than in the absence of compliance costs since there are now more economic benefits that could accrue from non-compliant behavior.

Procedural Fairness: Procedural justice is referred to as fairness in the process of making decisions which eventually leads to equitable outcomes. Procedural justice is desired because it leads to fair distribution of resources (Thibaut & Walker, 1975). In terms of tax laws and compliance thereto, fairness can refer to easiness for taxpayers to comply with tax laws (Mahangila, 2017). Complex tax laws usually necessitate the use of hired tax experts to help with tax compliance activities such as tax returns preparations, hence leading to an increase in tax compliance costs. This argument is sustained by evidence from previous studies. For example, Shaw et al (2008) found out that tax compliance costs tend to be low in jurisdictions where tax laws are uncomplicated, for instance, where the tax has one rate or few rates and where it has few borderlines and reliefs. Similarly, Schoonjans, Van Cauwenberge, Reekams, & Simoens (2011) argue that complex tax laws require sophisticated accounting records which may necessitate hiring of bookkeepers hence adding more compliance costs.

Distributive Justice Theory: Distributive justice theory derives from Equity theory as propounded by Adams (1965). Equity theory postulates that in exchange arrangements, individuals compare the proportion of their contributions and compensation with other individuals' contribution/compensation ratio. Within the perspective of tax compliance, distributive justice occurs when there's a fair

exchange of resources between government and taxpayers or fair sharing of tax burden and the government-provide goods among taxpayers (Wenzel, 2003; Kircher, 2007). Accordingly, distributive justice is sub-divided into fiscal exchange, vertical and horizontal justice. Fiscal justice occurs when government provides goods and services to taxpayers in return for their taxes (Wenzel, 2003; Kircher, 2007). Vertical justice refers to differential treatment among taxpayers with different ability to pay and finally, horizontal justice requires similar treatment of taxpayers with equivalent purchasing power (Adams, 1965; Kinsey and Grasmick, 1993).

Empirical Studies and Development of Hypotheses

Previous empirical studies have identified factors such as business sector (e.g. Stomatopoulos, Hadjidema, & Elefthriou, 2016), complexity of tax laws and legal form (e.g. Stomatopoulos, Hadjidema, & Elefthriou, 2016), business age (e.g. Eichfelder & Schorn, 2008), level of education of owner/employee (e.g. Smulders, Franzsen, Stigligh, & Fletcher, 2016), accounting knowledge (e.g. Saad, 2010; Blaufus, Eichfelder, & Hundsdoerfer, 2011), accounting software used, outsourcing of tax services (Blaufus, Eichfelder, & Hundsdoerfer, 2011), the use of small businesses tax reductions etc., as determinants of tax compliance costs (e.g. Pope, 1995). A detailed discourse about the impact and extent thereof regarding the aforementioned factors on tax compliance costs follows.

Business Sector

Entities operating certain economic sectors could be required to disclose financial records that may require robust record keeping and familiarisation of complex areas of the tax legislation (Stomatopoulos, Hadjidema, & Elefthriou, 2016). For instance, traders in retail business are obligated to disclose a precise data about year-end stock estimate. This requirement would in itself impose significant amount of income tax compliance costs. Contrast this with an entity that solely deals with service provision, which can avoid that kind of requirement and hence related costs. Therefore, it's not illogical to make a tentative assumption that entities operating in different economic sectors could experience different levels of compliance costs. Stomatopoulos, Hadjidema, & Elefthriou (2016) reported that

there's statistically significant correlation between an entity's sector and income tax compliance costs. This result is similar to conclusion reached by Smulders, Franzsen, Stigligh, & Fletcher (2016) who found out that time spent internally on specific taxes such as Capital Gains Tax (CGT) and customs duty were statistically significant for the entities belonging to the construction and manufacturing sectors. In contrast to above studies, Reekmans and Simoens (2010) reported that the sector in which a small and medium enterprise (SME) operates is not a significant determinant of internal tax compliance costs. The reason for this inconsistency is not clear but perhaps it was due to the fact that the studies focused on different types of taxes. Due to this inconsistency in the international literature and the fact that no study has indicated the significance of business sector in compliance costs in Tanzania. This study maintains a hypothesis that:

H1: There is significant relationship between the sector in which the SME belongs and the level of the SME's tax compliance costs.

Business Size

A business entity with large or diverse operations can be expected to have complicated transactions and hence tax affairs. For example, an entity that has branches in more than one tax jurisdictions will have to grapple with tax rules and regulations that are applicable in those different tax jurisdictions. This complex web of tax affairs is bound to generate more tax compliance costs than a firm of smaller size which operates in a single market. A study that was done by Slemrod and Blumenthal (1996) in the USA suggests that as the size of the business enterprise increases so do tax compliance costs even though the compliance costs increase in less proportional terms. Various other scholars such as Coolidge, Ilic, & Kisunko, 2009; Hanefah, Ariff, & Kasipillai, (2002); Slemrod & Venkatesh, (2002); Lignier, (2006) and Charon, Chow, & Halbesma, (2008) also reported that as the size of the business enterprise increases, the related tax compliance costs also increase. A study carried out in South Africa by Smulders, Franzsen, Stigligh, & Fletcher, (2016) reported that "turnover" as the measure of business size, had significant influence on internal time spent on compliance work. They also reported a relatively high compliance costs burden for the SMEs in terms of internal income tax and Pay As You Earn (PAYE) tax compliance activities.

Specific to Tanzania, Shekidele (2001) who focused on excise duty also reported that the size of the firm has predominant influence on the level of compliance costs. Shekidele's study being one of the few research works on compliance costs in Tanzania it is hypothesised that:

H2: There is significant negative relationship between the size (as measured by turnover) of SME and the SME's level of tax compliance costs.

Level of Education

Slemrod & Sorum (1984) and Vailancourt & Clemens (2008) established evidence of positive correlation between education and compliance costs. These results are supported by separate research work done by Blaufus, Eichfelder, & Hundsdoerfer, (2011) who, using survey data gathered between 2008 and 2009 in German, reported a positive correlation between a University Degree and compliance costs as measured by monetised time effort. Similarly, Smulders, Franzsen, Stigligh, & Fletcher (2016) reported that the more well-educated the taxpayer, the more time they tend to spend on income tax compliance activities. The explanation for this finding, as offered by Blaufus, Eichfelder, & Hundsdoerfer, (2011), is that taxpayers who are well educated tend to be more interested in compliance work and tax planning. This positive correlation between tax compliance and education level is attributed to improved tax fairness perceptions when taxpayers are better educated and with a capacity to deal with complex tax laws (Dubin, Graetz, & Wilde, 1990 and Saad, 2010).

However, a study carried out by Mahangila (2017) in Tanzania reported that compliance rates for taxpayers were similar irrespective of their level of education. This inconsistency between the international literature and Tanzania literature calls for further investigation on the significance of education level on tax compliance costs. Yet it is expected that:

H3: There is a positive significant relationship between the tax or accounting knowledge of the SME owner/manager and the SME's tax compliance costs.

Legal Form

Some international literature suggests that the legal form on an entity does have

significant bearing on the level of compliance costs. For example, Smulders, Franzsen, Stigligh, & Fletcher (2016) reported that Sole Proprietorship entities managers spend more hours on internal tax compliance activities than Companies and Public Corporations in as far as Income Tax and VAT are concerned. An earlier study by Blaufus, Eichfelder, & Hundsdorfer (2011) also reached similar conclusion. The explanation provided by Blaufus, Eichfelder, & Hundsdorfer, (2011) was that while Corporations & limited liability companies tend to outsource their tax compliance activities, the Sole Proprietors perform these tasks themselves.

In contrast to above position, Stomatopoulos, Hadjidema, & Elefthriou (2016) reported that limited liability corporations in Greece experience relatively lower compliance costs than public limited liability companies. The explanation for the finding is that public corporations face higher probability of tax audits than limited companies. And due to this higher probability, they invest heavily in tax compliance procedures to ensure that they fully comply with legal requirements.

It In any case, the legal form, does appear to be a significant determinant of tax compliance costs.

H4: There is a significant relationship between Legal form of an SME entity and the SME's tax compliance costs.

Business Age

Smulders, Franzsen, Stigligh, & Fletcher (2016) reported that the age of business was a significant determinant of internal tax (CGT and Sales Tax) compliance costs. The probable explanation for this is the lack of experience or knowledge in respect of these two taxes on the part of the younger businesses. Therefore, age can be considered a proxy of tax competency on the assumption that over the years an entity acquires requisite knowledge and skills that can be used to minimise compliance costs. Similarly, Stomatopoulos, Hadjidema, & Elefthriou (2016) reported a negative correlation between an entity's age and tax compliance costs. The explanation for this finding provided by the researchers was that over a number of years of existence an entity develops knowledge of tax legislations and hence become more effective in dealing with their tax issues.

In contrast to above findings, Eichfelder & Schorn (2008) reported that newly established businesses experience lower tax compliance costs than costs incurred by relatively older business enterprises. These findings are attributed to relatively lower amount of tax complexity experienced by newly established businesses compared to that of relatively older business enterprises.

In Tanzania, the existing literature on compliance costs do not cover on the effect of business age on the magnitude of compliance costs. In this study, it is expected:

H5: There is a significant negative relationship between an SME's age (longevity) and the SME's tax compliance costs.

Tax Knowledge

The impact of tax/accounting knowledge on compliance costs seem to produce some mixed results. According to Blaufus, Eichfelder, & Hundsdorfer (2011) Tax knowledge appear to exert a positive influence on income tax compliance costs especially for monetary expense. The reason for this being that taxpayers who have some knowledge of accounting/tax may be cognizant of possible deductions or concessions and tax-related issues affecting their businesses and therefore they may be more enthusiastic at incurring some expenses for paying experts who can lend tax advice which will help their business enterprise. In this regard, it is expected that:

H6: There is a significant negative relationship between the education level of the SME owner/manager and the SME's tax compliance costs.

The interrelationship between variables under the study, that is, the independent variables and dependent variable is presented in the Figure 1.

Figure 1: Conceptual framework on determinants of tax compliance costs

RESEARCH METHODOLOGY

A cross sectional survey research design was adopted in this study. A cross-sectional survey enables the researcher obtain the data at one point in time. This survey method was employed because it is useful in studying respondents' characteristics, behaviours, opinions, attitudes or perceptions. In this study, taxpayers' attitudes and perception (Alm and Torgler, 2011) were sought.

Target Population and Sampling: Target population in this study was all the small and medium enterprises operating in the Dar es Salaam region. Total population size is unknown because of unavailability of data, and the study employed convenience sampling method. However, the SMEs were selected in a manner that allowed representation of SMEs in the population. In this way, the sample obtained was closer to a random sample. A total of 150 SME entrepreneurs operating within the Dar es Salaam region were involved in the study.

Data Collection Methods

To test the four hypotheses earlier posed, primary data was collected using questionnaires in 2017. The questionnaires were self-administered by the respondents. Distribution of questionnaires was done in two ways to increase the number of responses. First, 120 questionnaires were personally distributed by the researcher and secondly, an online questionnaire (email sent) was sent to 30 SMEs whose contacts' were earlier obtained by the researcher while providing auditing services as a certified auditor.

The response rate was 69.33%. From 150 questionnaires which were distributed a total of 104 usable questionnaires were obtained. Goodwin (2010) suggests that return rates of 85 percent or higher are considered excellent, while anything below 60 percent might have a severe impact on the representativeness of the sample. Since the response rate is above 60%, the sample represented the population of SMEs in Dar es Salaam.

Measurement of Variables

Tax Compliance costs borne by SMEs were measured in terms of three categories namely: external costs, internal costs and incidental costs (Dependent variable).

three main categories. First, external costs; these costs constitute cash payments to outside consultants such as tax experts, tax lawyers, auditors etc. Secondly, Internal costs; these are measured in terms of time that is spent in dealing with tax affairs of an entity by the taxpayers themselves, employed staff, or other individuals who help with tax affairs but do not get monetary compensation. Thirdly, incidental costs; these are non-labor expenses incurred when handling the tax affairs of an entity. They include expenses such as transport, printing, or computer use etc.

Incidental costs are usually either negligible or impractical to measure reliably and hence researchers disregard these in the compliance costs research works (Sandford, Godwin, & Hardwick, 1989). The measurement of external compliance costs can be seen as a simple exercise of measuring cash expenses paid by the taxpayers to external consultants. For practical purposes, this may present some difficulties, particularly when Small and Medium Enterprises are concerned because for the SMEs, tax advice is usually offered by the same expert who offers other accounting or audit services. If this is the case, then a problem arises as to how you can differentiate between the accounting/auditing costs and tax advice costs.

Monetary compliance costs: These were measured by establishing the actual annual cash outlay, in Tanzanian Shillings (TZS) terms, by the entities for tax compliance activities such as tax returns preparation & filling. The cash outlay would be by way of paying for outsourcing services or cash spent internally for compliance work.

Time compliance costs: Measurement of compliance time was based on time (in hours) spent per annum on various tax related activities of the respondents. Valuation methods of the time spent were determined by who performs the compliance activity which was then benchmarked against market average hourly rates for similar calibre of personnel.

Data Analysis

Multiple regression analysis was performed to test the influence of coded factors-business sector, size, tax knowledge, legal form of SME, age and level of education of owner of SME (independent variables) on the tax compliance costs (dependent)

variable listed in the six hypotheses:

H1: There is significant relationship between the sector in which the SME belongs and the level of SME's tax compliance costs.

H2: There is significant negative relationship between the size (as measured by turnover) of SME and the SME's level of tax compliance costs.

H3: There is a positive significant relationship between the tax knowledge of the SME owner/manager and the SME's tax compliance costs.

H4: There is a significant relationship between Legal form of an SME entity and the SME's tax compliance costs.

H5: There is a significant negative relationship between an SME's age (longevity) and the SME's tax compliance costs.

H6: There is a significant negative relationship between the education level of the SME owner/manager and the SME's tax compliance costs.

Analysis of Variance (ANOVA) method to test the significance of each independent variable on the dependent variable was conducted using..... Software. The ANOVA method was employed because we have multiple independent variables. ANOVA is a powerful tool to analyse the differences of two or more means of independent variables when there is a single dependent variable (Verboon & Van Dijke, 2011; Mitchel & Janina, 2013). . Since ANOVA assumes normal distribution and homogeneity of data, Shapiro-Wilk test and Levene test were performed to check whether the sample was obtained from a normally distributed population hence the normality and homogeneity of data respectively. However, data was not normally distributed, because the Shapiro Wilk test indicated $p < .001$. Also, an assumption of a homogeneous data was not met as Levene's test was $p < .001$. In order to overcome distribution problem, the data was rank transformed before the ANOVA test was performed.

RESULTS AND DISCUSSION

Descriptive statistics for hypotheses H1, H2,H4, &H6

Business sector

In terms of sector in which the SME respondent belongs it's found that 36% were in retail/wholesale, 10.5% in transport, 10.5% in Manufacturing, 5.7% in Agriculture, 5.7% in hotel & restaurant, 7.6% in business services and 9.5% in financial services.

Legal form of the business

In terms of legal form, Sole proprietors constituted 47.6% while limited liability companies and Partnerships constituted 20% and 32.4% respectively.

Business turnover

In terms of turnover, it was found that 19% of respondents had a turnover of below Tanzanian Shillings (TZS) 50 million, 19% had a turnover of between TZS 100 to 200 million, 10.5% had a turnover of between TZS 200 and 500 Million, and 8% had a turnover of above TZS 500 million.

Education of respondents

In terms of Education of the Owner/Managers, 19.1% had primary education, 47.6% had secondary or high school education and 33.4% had Diploma or higher degree education.

Model Estimation

Model Summary

The Multiple Linear Regression (MLR) model summary (Table 2) indicates that the multiple correlation of the six independent variables, explain 74.7% of tax compliance costs ($R^2=0.747$). The variance inflation factor (VIF) indicate that the independent variables were moderately correlated ($VIF=3.952$) based on the interpretation VIF value=1 predictors not correlated, VIF value=4-5 predictors moderately correlated and $VIF \geq 10$, predictors are highly correlated (George & Mallery, 2006).

Table 2: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	VIF
.864 ^a	.747	.731	.60760	3.952
a. Predictors: (Constant), Tax Knowledge, Legal Form, Longevity, Sector, Education, Turnover				

Analysis of Variance (ANOVA)

ANOVA results (Table4) indicate that the model is statistically significant (F (6, 98) =48.117, p=0.000), that is the Beta coefficients are different from zero.

Table 3: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	106.583	6	17.764	48.117	.000 ^b
Residual	36.179	98	.369		
Total	142.762	104			
a. Dependent Variable: Total_Compliance_Costs					
b. Predictors: (Constant), Tax Knowledge, Form, Longevity, Sector, Education, Turnover					

Test of hypotheses

The results of the regression model are as presented in Table 4.

Table 4: Parameter Estimates for the multiple regression model

Parameter	B	Std. Error	t	Sig.
Intercept	9.181	0.110	83.220	0.001*
[Form=1] –Sole Proprietorship	-0.425	0.107	-4.093	0.001*
[Form=2] –Partnership	-0.225	0.074	-3.061	0.002*
[Form=3] –Limited liability companies	0 ^a			
[Education=1]-Primary	-0.094	0.071	-1.317	0.038*
[Education=2]-Secondary	-0.174	0.079	-2.203	0.028*
[Education=3]-High School	0.026	0.265	0.100	0.020*
[Education=4]-Diploma or Degree	0.015	0.118	0.123	0.302
[Education=5]-Masters or PHD	0 ^a			
[Sector=1]-Agriculture	-0.152	0.111	1.633	0.103
[Sector=2]-Hotel & Restaurant	-0.041	0.129	-1.373	0.170
[Sector=3]-Wholesale & Retail	-0.213	0.111	-0.321	0.749
[Sector=4]-Financial Services/Insurance	-0.051	0.119	-1.931	0.054
[Sector=5]-Manufacturing	0.019	0.131	-0.363	0.717
[Sector=6]-Transport	-0.037	0.122	0.148	0.882
[Sector=7]-Business Services/Consultancy	-0.203	0.113	-0.435	0.180
[Sector=8]-Real Estate	-0.041	0.128	-0.235	0.171
[Sector=9]-Construction	0.012	0.085	-0.335	0.170
[Sector=10]-Other	0 ^a			
[Turnover=1]-Below TZS 50 million	0.280	0.113	3.902	0.001*
[Turnover=2]-TZS 51-100 million	0.221	0.104	3.912	0.001*
[Turnover=3]-TZS 101-200 million	-0.070	0.084	-0.826	0.409
[Turnover=4]-TZS 201-500 million	0.281	0.079	3.544	0.001*
[Turnover=5]-TZS 501-800 million	0.424	0.095	4.338	0.001*
[Turnover=6]-Above TZS 800 million	0 ^a			
[Longevity=1]-Less than 5 years	-0.277	0.066	-4.194	0.001*
[Longevity=2]-6 to 10 Years	-0.225	0.074	-3.061	0.002*
[Longevity=3]-11 to 20 Years	-0.270	0.064	-0.826	0.418
[Longevity=6]-Above 20 Years	0 ^a			
[Tax_Knowledge=1.00]-No working Knowledge	-0.211	0.084	-2.826	0.008*
[Tax_Knowledge=2.00]-Some Working Knowledge	-0.281	0.079	-3.544	0.001*
[Tax_Knowledge=3.00]-Good Working Knowledge	0 ^a			

*Significant at 5% level

Business sector coded as: 1)Agriculture, 2) Hotel & Restaurant, 3) Wholesale &

Retail, 4) Financial Services/Insurance, 5) Manufacturing, 6) Transport, 7) Business Services/Consultancy, 8) Real Estate, 9) Construction and 10) other –SME not belonging to sectors coded 1-9 relationship with tax compliance costs results are provided in Table 4.

Test of hypothesis H1: There is significant relationship between the business sector in which the SME belongs and the level of the SME's tax compliance costs. Test of this hypothesis indicate insignificant results ($p > 0.05$ at $p = 0.05$ level of significance). The hypothesis is therefore not confirmed. This means the business sector does not significantly influence tax compliance costs (See Table 4).

Business size in terms of Turnover coded as: 1) < TZS 50M, 2) TZS 51 M – TZS 100M, 3) TZS 101M – TZS 200M, 4) TZS 201M – TZS 500M, 4) TZS 501M – TZS 800M and 6) > TZS 800M relationship on tax compliance costs show results in Table 4.

Test of hypothesis H2: There is significant negative relationship between the size (as measured by turnover) of SME and the SME's tax compliance costs. All other turnover interval except TZS 101-200 million ($\beta = -0.070$, $p = 0.409$), showed positive relationship with significant results $p < 0.05$). This implies that the hypothesis is not confirmed (See Table 4) that there is a negative relationship between the turnover of SMEs and the tax compliance costs.

Tax Knowledge of owner/ manager of SME coded as: 1) No Working Knowledge – i.e. SME owners who had no knowledge at all even in simple tasks such as filling tax returns 2) Some Working Knowledge and 3) Good Working Knowledge relationship with tax cost compliance show results presented in Table 4.

Test of hypothesis H3: There is a positive significant relationship between the tax knowledge of the SME owner/manager and the SME's tax compliance costs. Beta coefficients on tax knowledge are negative but significant e.g. No working tax knowledge ($\beta = -0.211$, $p = 0.008$) and some working knowledge ($\beta = -0.281$, $p = 0.001$). This means inadequate tax knowledge by the SME's owner/manager negatively affects the tax compliance costs.

Legal Forms coded as: 1) Sole Proprietorship, 2) Partnership and 3) Limited liabilities Companies showed relationship with tax compliance costs result shown in Table 4.

Test of hypothesis H4: There is a significant relationship between Legal form of an SME entity and the SME's tax compliance costs. Negative and significant beta coefficients for sole proprietorship ($\beta=-0.423$, $p=0.001$) and partnership are obtained ($\beta=-0.225$, $p=0.002$). For limited liability companies $\beta=0$ (See Table 4). The hypothesis is therefore partially confirmed.

Business Age/Longevity coded as : 1) <5 Years, 2) 6 – 10 Years, 3) 11 – 20 Years and 4) > 20 years relationship with tax compliance costs is presented in Table4.

Test of hypothesis H5: There is a significant negative relationship between an SME's age (longevity) and the SME's tax compliance costs. Beta coefficients in Table4 indicate a significant negative relationship for ages <5 years ($\beta =-0.277$, $p=0.001$) and 6-10 years ($\beta=-0.225$, $p=0.002$) while for the age 11 to 20 years ($\beta=-0.270$, $p=0.418$) show an insignificant negative coefficients and SMEs of >20 years show zero beta. Therefore the hypothesis is partially confirmed that the age of SMEs has a negative relationship with tax compliance costs.

The education level of the SME Manager/Owner coded as: 1) Primary school, 2) Secondary school, 3) High school, 4) Diploma or Degree and 5) Masters or PhD relationship with tax compliance costs' is shown in Table4.

Test of hypothesis H6: There is a significant negative relationship between the education level of the SME owner/manager and the SME's tax compliance costs.

The results in Table4 show significant negative relationship for SME owners with primary education ($\beta=-0.094$, $p=0.038$); secondary education ($\beta=-0.174$, $p=0.028$) while for SME owners with High school education ($\beta=0.026$, $p=0.020$) and Diploma/ Degree education ($\beta=0.015$, $p=0.302$) show positive relationship. However, beta coefficient for SME owners with Masters or PhD degrees show a zero beta. The hypothesis is partially confirmed, that education level of SME owner is negatively related to tax compliance costs.

Discussion of the Results

Hypothesis H1: Relationship of Business' Sector on Tax Compliance Costs

Test of hypothesis H1: Test of this hypothesis indicated insignificant results ($p>0.05$)

at $p=0.05$ level of significance). The hypothesis was not confirmed meaning that the business sector does not significantly influence tax compliance costs (Table4).

These results differ from those reported by Stomatopoulos, Hadjidema, & Elefthriou, (2016) and Smulders, Franzsen, Stigligh, & Fletcher (2016) but similar to the results reported by Reekmans & Simoens (2010). The contradictory results call for more studies on this aspect especially by isolating the sector effect on compliance costs per tax type.

Hypothesis H2: Effect of Business' Turnover (Size) on Tax Compliance Costs

Test of hypothesis H2: The hypothesis was not confirmed. There was a positive relationship between the turnover of SMEs and the tax compliance costs. All other turnover interval except TZS 101-200 million ($\beta = -0.070$, $p=0.409$), showed positive relationship with significant results $p<0.05$).

The findings of this study indicate that firm size, measured by turnover, plays an important role in compliance costs. Businesses that had a turnover of TZS 500 million or higher appeared to have higher ($\beta = 0.424$) tax compliance costs than business with turnover below TZS 500 million ($\beta = 0.07$). The findings indicate the regressive pattern of compliance costs as businesses with turnover of TZS 500 million or below had Beta of 0.281 whereas entities with turnover above TZS 500 million had a Beta of 0.242, with businesses with turnover of above TZS 800 million kept as a reference category. These findings are inconsistent from those reported earlier (Charon, Chow, & Halbesma, 2008; Lignier2006; Slemrod & Blumenthal,1996) who indicate that as the size of business enterprise increases, so do the tax compliance costs.

The increase of tax compliance costs can lead to tax evasion by managers of SMEs as the costs will tend to lower the profitability. On the other hand, SMEs may declare bankruptcy. These acts may be detrimental to government revenue collection.

Hypothesis H3: Effect of Tax Knowledge on Tax Compliance Costs

Test of hypothesis H3: The hypothesis was not confirmed. This means inadequate tax knowledge by SMEs owner/manager negatively affects (reduces) the tax compliance costs. Beta coefficients on tax knowledge are negative but significant

e.g. No working tax knowledge ($\beta = -0.211$, $p = 0.008$) and some working knowledge ($\beta = -0.281$, $p = 0.001$). These findings differ from those reported by Blaufus, Eichfelder and Hundsdoerfer (2011) who argue that SME owners/Managers with some tax/accounting knowledge are more inclined to notice more of tax-related issues involved in their operations and hence require more expert advice which reduce their costs, while the SME Owner/managers who has less knowledge may not be cognizant of existence of tax issues. Another plausible explanation could be that the SME's owner/managers with tax knowledge to some extent plan for tax compliance costs. This is contrary to what was expected in hypothesis H3 that those with lower tax knowledge would experience more tax compliance costs.

The concerned tax authority in Tanzania should continuously educate and facilitate the easiness of use of tax variables to taxpayers and specifically the SMEs on what ought to be done.

Hypothesis H4: Effect of Legal Form of the Business on Tax Compliance Costs

Test of hypothesis H4: The hypothesis was partially confirmed. Negative and significant beta coefficients for sole proprietorship ($\beta = -0.423$, $p = 0.001$) and partnership are obtained ($\beta = -0.225$, $p = 0.002$). For limited liability companies $\beta = 0$ (See Table4).

The findings show that the legal form of a business is a significant determinant of tax compliance costs that are experienced by businesses. Compliance costs are the lowest for sole-proprietorships (Beta = -0.423) compared to limited liability companies. These findings are similar to those reported earlier by Smulders, Stiglingh, Franzsen, and Fletcher (2017). Possible explanation is that limited liability companies spend more on outsourced tax services because of more rigorous reporting requirements imposed on them by the Tanzania's companies Act, 2002 and Income Tax Act, 2004. However, these results ought to be interpreted with caution since most respondents who were limited liability companies also reported relatively larger turnover compared to sole proprietorships or partnerships.

Further research is required to control for company size and legal form which might be confounding factors.

Hypothesis H5: Effect of Age of the Business (Longevity) on Tax Compliance Costs

Test of hypothesis H5: The hypothesis was partially confirmed that the age of SMEs has a negative relationship with tax compliance costs. Beta coefficients in Table 4 indicate a significant negative relationship for ages <5 years ($\beta = -0.277$, $p = 0.001$) and 6-10 years ($\beta = -0.225$, $p = 0.002$) while for the age 11 to 20 years ($\beta = -0.270$, $p = 0.418$) show an insignificant negative coefficients and SMEs of >20 years show zero beta. These findings could be attributed to the likelihood that small businesses do not require the technical advice of external service providers such as Tax Lawyers, Tax Consultants etc., in their nascent years owing to the fact that their activities are not very much complicated. It could also be attributed to the fact that these SMEs do not have adequate financial muscle to pay for the technical advice of external business consultants.

Contrasting these results to previous studies, Smulders, Franzsen, Stiglitz and Fletcher (2016) show that the age of business was a significant determinant of internal tax compliance costs. Similarly, Stomatopoulos, Hadjidema, and Elefthriou (2016) reported a negative correlation between an entity's age and tax compliance costs.

However these findings differ from those reported by Eichfelder and Schorn (2008) that newly-established businesses experience lower tax compliance costs than costs incurred by relatively older business enterprises. These findings are attributed to relatively lower amount of tax complexity experienced by newly-established businesses compared to that of relatively older business enterprises. Specific to Tanzania, these findings call for further studies covering a larger sample size than 150 SMEs across the country.

Hypothesis H6: Effect of Education on Tax Compliance Costs

Test of hypothesis H6: The hypothesis was partially confirmed, that education level of SME owner is negatively related to tax compliance costs. Beta coefficient for SME owners with Masters or PhD degrees show a zero beta that is no relationship existed between SME owners/managers' with Masters or PhD degrees on tax compliance costs.

Significant negative relationship for SME owners with primary education ($\beta=-0.094$, $p=0.038$); secondary education ($\beta=-0.174$, $p=0.028$) while for SME owners with High school education ($\beta=0.026$, $p=0.020$) and Diploma/Degree education ($\beta=0.015$, $p=0.302$) show positive relationship (See Table4). The findings indicate that respondents who had lowest education level (Primary Education) incurred lower tax compliance costs compared to those who had tertiary education (Master or PhD). These results are consistent with findings reported by Blaufus, Eichfelder and Hundsdorfer (2011) in Germany. Similarly, Smulders, Franzsen, Stigligh and Fletcher (2016) reported that the more well educated the taxpayer, the more time they tend to spend on income tax compliance activities. However, these findings differ from those reported by Mahangila (2017) in Tanzania who indicate that compliance rates for taxpayers do not differ irrespective of level of education of business owners/managers. This difference calls for further investigation on the significance of education level on tax compliance costs of SMEs in Tanzania.

CONCLUSION AND RECOMMENDATIONS

The objective of this study was to investigate the determinants of tax compliance costs for Small and Medium Enterprises (SMEs) operating in Dar es Salaam, Tanzania. Six hypotheses namely: The relationship of SME business sector, business size, tax knowledge, legal form, the age of SMEs and level of education of SMEs owners/managers (independent variables) on tax compliance costs (dependent variable) borne by SMEs were tested.

The findings indicated that:

Hypothesis H1: Relationship of Business' Sector on Tax Compliance Costs:

The hypothesis was not confirmed meaning that the business sector does not significantly influence tax compliance costs. The results were insignificant ($p>0.05$) (See Table4). The results differed from those reported by Stomatopoulos, Hadjidema, & Elefthriou, (2016) and Smulders, Franzsen, Stigligh, & Fletcher (2016) but similar to the results reported by Reekmans & Simoens (2010).

For SMEs in Dar es Salaam, the type of business sector do not determine the tax compliance costs.

Hypothesis H2: Effect of Business' Turnover (Size) on Tax Compliance Costs:

The hypothesis was not confirmed. There was a positive relationship between the turnover of SMEs and the tax compliance costs. All other turnover interval except TZS 101-200 million ($\beta = -0.070$, $p=0.409$), showed positive relationship with significant results $p < 0.05$). Businesses that had a turnover of TZS 500 million or higher showed a higher ($\beta = 0.424$) tax compliance costs than business with turnover below TZS 500 million ($\beta = 0.07$). The findings are in agreement to those reported earlier (Charon, Chow, & Halbesma, 2008; Lignier 2006; Slemrod & Blumenthal, 1996) that tax compliance costs increase as the size of business enterprise increases.

As the turnover of SMEs in Dar es Salaam increases so do the tax compliance costs.

Hypothesis H3: Effect of Tax Knowledge on Tax Compliance Costs: The hypothesis

was not confirmed. This means inadequate tax knowledge by SMEs owner/manager negatively affects (reduces) the tax compliance costs. Beta coefficients on tax knowledge were negative but significant e.g. No working tax knowledge ($\beta = -0.211$, $p=0.008$) and some working knowledge ($\beta = -0.281$, $p=0.001$).

This implies that there is a need to impart tax knowledge to SMEs owners/managers in Dar es Salaam.

Hypothesis H4: Effect of Legal Form of the Business on Tax Compliance Costs: The

hypothesis was partially confirmed. Negative and significant beta coefficients for sole proprietorship ($\beta = -0.423$, $p=0.001$) and partnership were obtained ($\beta = -0.225$, $p=0.002$). For limited liability companies $\beta = 0$ (See Table 4).

The findings show that the legal form of a business is a significant determinant of tax compliance costs experienced by SMEs in Dar es Salaam. Compliance costs were lowest for sole-proprietorships compared to limited liability companies.

Hypothesis H5: Effect of Age of the Business (Longevity) on Tax Compliance

Costs: The hypothesis was partially confirmed that the age of SMEs has a negative relationship with tax compliance costs. Beta coefficients in Table 4 indicate a significant negative relationship for SMEs aging <5 years ($\beta = -0.277$, $p=0.001$) and 6-10 years ($\beta = -0.225$, $p=0.002$) while for the age 11 to 20 years ($\beta = -0.270$, $p=0.418$)

show an insignificant negative coefficients and SMEs of >20 years show zero beta.

Hypothesis H6: Effect of Education on Tax Compliance Costs: The hypothesis was partially confirmed, that education level of SME owner is negatively related to tax compliance costs. Beta coefficient for SME owners with Masters or PhD degrees showed a zero beta that is no relationship existed between SME owners/managers' with Masters or PhD degrees on tax compliance costs. Significant negative relationship existed for SME owners with primary education ($\beta=-0.094$, $p=0.038$); secondary education ($\beta=-0.174$, $p=0.028$) while for SME owners with High school education ($\beta=0.026$, $p=0.020$) and Diploma/Degree education ($\beta=0.015$, $p=0.302$) showed positive relationship (See Table4). The findings indicate that respondents who had lowest education level (Primary Education) incurred lower tax compliance costs compared to those who had tertiary education (Master or PhD).

Recommendations

The increase of tax compliance costs can lead to tax evasion by managers of SMEs as the costs will tend to lower the profitability. On the other hand SMEs may declare bankruptcy. These acts may be detrimental to government revenue collection.

. It is therefore recommended to the concerned tax authority in Tanzania to continuously educate and facilitate the easiness of use of tax variables to taxpayers and specifically the SMEs in Dar es Salaam and the nation at large on what ought to be done. Further, reforms of the tax administration system of Tanzania to minimise tax compliance costs and address the regressive nature of compliance costs faced by SMEs should be undertaken.

Further research

The study used ten categories of business sector operators. Contradictory results from previous studies were obtained. This calls for more studies on the effect of the type of business sector of SMEs by isolating the sector effect and tax type (e.g. PAYE, Excise Duty, VAT etc.) as there appear to be a varying impact of each type on tax compliance costs. Further, control for company size and legal form which could be confounding factors is required.

A large sample covering SMEs in all regions can be undertaken since the sample

size of 150 SMEs in Dar es Salaam was used for this survey. SMEs in Dar es Salaam may be different from those in other regions of Tanzania.

The study has shown that education level of owner /managers- Master's degree or PhD was insignificant on tax compliance costs of SMEs in Tanzania. More research on the influence of education level on tax compliance cost should be undertaken.

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**Determinants of Voluntary Internet Financial
Reporting by Local Financial Institutions: The
Case of Commercial Banks in Tanzania**

Shalua Magandi, and Deogratius Mahangila

Determinants of Voluntary Internet Financial Reporting by Local Financial Institutions: The Case of Commercial Banks in Tanzania

Abstract: Internet Financial Reporting (IFR) is a fast-growing phenomenon. Many companies worldwide publish their corporate financial information on the internet. The internet may also improve the availability of financial information within the firms themselves. For example, many of the processes that occur in distant places can be automated and fed into a firm-wide information system. Many studies have been conducted on this issue with inconsistent findings. However, according to our knowledge, no previous study has been conducted to analyse the determinants of internet financial reporting by local financial institutions in Tanzania. Specifically, the study aimed at investigating the relationship between company size, leverage, profitability, liquidity, and age; and level of internet financial reporting disclosure by commercial banks in Tanzania. Secondary data was obtained from annual reports and accounts of 28 commercial banks. The results show that there is positive significant relationship between size, profitability and liquidity of the company to internet financial reporting (IFR). But with leverage the results found a negative significant association. This study has made some contributions to the analysis of the determinants of voluntary internet financial reporting by local financial institutions in Tanzania. Thus, this study has contributed to a thoroughly researched issue from the perspective of developing economies, particularly Tanzania.

Key words: Determinants, Internet Financial Reporting, Local Financial Institutions

INTRODUCTION

The main focal point of the study is to scrutinise the determinants of voluntary internet financial reporting by local financial institutions in Tanzania by focusing on commercial banks. This topic has invited significant investigations due to the significant role played by internet financial reporting disclosure by providing important means of communications (Jones and Xiao, 2004). That is to say, the internet provides limited form of corporate voluntary disclosure that assists various organisation to provide information to users globally (Abdelsalam and Steet, 2007). The potential role of the internet as a new means of disseminating information to the general public can meet and satisfy stakeholders' demands for greater speed and volume of information at a time when it is recognised that businesses must find better and more effective ways of communicating (Ayodeji and Mary, 2012). The use of the internet assists information to be disseminated worldwide and therefore facilitates improved availability of financial information in particular and so encouraging relevant decision relating to investment to be done properly. However, it is not clear whether Tanzanian firms are exploiting this resource to the full. Therefore, there is a need to examine the role played by the internet in communicating financial information in Tanzania in order to see how that role may be enhanced. One of the major problems confronting companies in Tanzania is the increase in cost associated with printing of hardcopies of annual reports. Specifically, the study aimed at investigating the relationship between company size, leverage, profitability, liquidity, and age; and level of internet financial reporting disclosure by commercial banks in Tanzania.

THEORITICAL AND EMPIRICAL LITERATURE REVIEW

Theoretical Framework

Legitimacy theory

The legitimacy theory can help to explain why firms use internet financial reporting. According to Suchman (1995), "legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Those external perceptions about companies could be ways by which the management of

corporate disclosure policies. Then the companies could have a strategic legitimacy and choice and change their legitimacy status and consequently the external perceptions (Aerts and Cormier, 2009). In general, the legitimacy theory is applied to clarify social and environmental reports disclosure. However, the legitimacy theory can be utilised in corporate reports, suggested by Woodward (1996) as one possible legitimacy/responsibility reporting framework to communicate with the shareholders and clarify the importance of this relationship.

The internet and the websites companies can be considered as a structure of financial reporting disclosure and a resource of promotion of communicating the information to investors or to other stakeholders as a result of presence of legitimacy in this type of disclosure and already there exist some investigations. Álvarez et al. (2008) studied the voluntary and compulsory information disclosed online in Spain, particularly the industry concentration effect and concluded that concentrated industries would rather disclose voluntary information to “obtain legitimacy and avoid external interferences”.

Agency theory

Agency theory, on the other hand, was developed by Jensen and Meckling (1976) to enlighten the relationship between managers and owners. Owners face moral problem due to conflicts of interest between the ‘principal’ (owners) and ‘agents’ (managers). This conflict of interest results in ‘agency problem’ whose resolution incurs agency costs (Al-Shammari, 2005) Agency costs can be minimised by increasing the levels of corporate disclosure. It is further stated that agents have incentives to increase disclosure to persuade shareholders that they are acting optimally because they know that shareholders seek to limit the abnormal behavior of managers through bonding and monitoring activities. On the contrary, managers because of their selfish interest may fail to make proper disclosure of the information as a result conflicts of interest arise between managers and owners.

Signaling theory

Signaling theory recommends that companies make use of financial statement as a warning sign tool to communicate their expectations and intentions. Craven and Marston (1999), narrated that the corporation may disclose more information

when its profitability is above industry average in order to indicate to the shareholders the firms performance in terms of financial position and survival at large. According to Craven and Marston (1999), firms accept the same level of disclosure as other firms within the same industry in order to be perceived positively by stakeholders as a result they will believe that managers are not hiding bad news. Corporate internet disclosure is a signal of high quality and can be used to keep pace with other firms in the same industry. It signals that the firm is current and can adopt new technological changes in the industry rather than old fashioned and traditional.

Internet Financial Reporting

Computer technology and the internet transform the flow of information, the corporate disclosure financial data to the different users. Then, it is possible to disseminate information to the shareholders and various relevant decisions are being made (Mohamed and Ehab 2014). There is more incremental disclosure in the internet financial reporting than in the traditional ones (Trabelsi et al., 2004). Therefore, internet corporate reporting and traditional ways of reporting are not identical distribution channels of disclosure (Lymer, 1999).

The dissemination of accounting information on internet differs with the traditional financial reporting. Williams and Ho Wern Pei (1999) summarise advantages of internet reporting to include: information availability 24 hours a day in multiple languages; ability to establish one-to-one relationship with stakeholder; more speed and interactive communication; flexibility to move site to another location; lower cost of information dissemination: and small firms can have international contacts, graphic and audio interaction. They go ahead to conclude that “the companies can now address international needs and make available potential motivation for greater coordination of accounting disclosure practices” (Williams and Ho Wern Pei 1999: 394). Almost all companies present financial information in their websites and use the technologies in their benefit with webcast or e-mail alerts to reach the investors. The internet was used as a resourceful and low-cost distribution financial corporate information, but could make possible innovation in reporting practices, using for example dynamic graphics, dynamic updates, downloads or hyperlinks. The new chances to disclosure in the internet financial

report have a cost implication and there is a possibility of having a change of the information costs. Then it's necessary to evaluate de user information demands and de nonlinear consequences of the capital market (Wagenhofer, 2003).

One of the characteristics of web corporate is the link "investor relation" or "information for investors". This link gives entrance to accounting reports, stock information, earnings announcement, webcasts and other information which shareholders are interested with. The internet is a mechanism of communication of corporate financial reporting, but the investor relations dialogue remains asymmetrical in this additional medium, and does not have radical changes of its nature (Gowthorpe, 2004).

Empirical Studies of Determinants of Internet Financial Reporting

The contents and determinants of corporate report, still not connected to the internet, have been broadly studied; see for example, Raffournier (1995), Meek et al. (2005), Chow and Wong- Boren (1987), and Botosan (1997). The earlier studies identified a range of determinants of internet financial reporting in aspects such as - firm size, profitability, leverage, liquidity, age of the firm, Industry type, firms' auditors' size e.tc. Oyelere et al. (2003) investigated studies in different countries and came up with a conclusion that a good number of well-known determinants of financial reporting are: "corporate size, size of firm's auditors (e.g., Big 8/6/5 vs. non-Big 8/6/5), listing status, profitability, leverage, and industry". But there are additional determinants with major influence like: foreign parent, country, ownership structure and liquidity,

Leverage

A firm's capital structure determines its leverage state. As companies rely more on debt in the capital structure, it will result into higher leverage and being highly obliged to satisfy the needs of their long-term creditors for timely dissemination of the required information. As such, they may make available more timely information by means of the Internet as one of the possibility to satisfy those needs. Firms can trim down agency costs of debt by ensuring that corporate disclosure level is highly enhanced. Firms with a high degree of leverage level can be expected to disclose additional information to reduce agency costs by comforting debt holders

that their interests are well sheltered. Voluntary disclosures of financial and non-financial information reduce the conflicts of interests between debt holders and shareholders. As debt increases, further initiatives such as Internet financial reporting help mitigate the problems of high debt and ensure the informational needs of debt holders. In discussing the agency theory, Jensen and Meckling (1976) also argue that highly leveraged firms invite high monitoring costs. As such, management may take on a variety of structure of voluntary disclosure together with the IFR to trim down such high monitoring costs. The findings of Xiao et al. (2004) are in support of this argument. On the other hand, some studies demonstrate a negative relationship between disclosure and leverage (Eng and Mak, 2003; Debreceeny et al., 2002).

Firm Size

The size of the firm has been argued to have a positive relationship with the internet financial reporting (Chow and Wong-Boren, 1998; Hossain, Lin and Adams, 1994). Specifically, studies on voluntary IFR studies such as Ashbaugh et al. (1999) and Debreceeny et al. (2002) have also preferred firm size as one significant aspect to clarify the IFR practices. The agency theory recommends that large firms display higher agency costs due to the information asymmetry among market participants (Jensen and Meckling, 1976). To reduce agency costs, larger firms disclose a large flow of corporate information on the internet for they are more visible and therefore may be more likely to disclose comprehensive information.

However, various reasons have been presented to explain the expected positive relationship of voluntary disclosure practices and firm size. Ashbaugh et al. (1999) noted that the economies of scale propose that larger firms are more likely to present financial reports at websites. Apart from that, the political-cost hypothesis forecasts that larger companies have a stronger motivation to increase their corporate reputation and public image as they are more publicly observable. In addition, larger firms are motivated to commence more voluntary disclosure practices together with the IFR in order to keep up well-built demand for their securities (Hossain, Lin and Adams, 1994). All the above theoretical arguments provide support for higher voluntary disclosures by large firms.

Profitability

Firm disclosure of financial and non-financial information on the internet aims at raising the value of the firm and ensuring that the risk of being undervalued by the market is reduced. It is highly suggested for firms with greater profitability to disclose vividly more information to signal their strength and opportunities. Theoretically, investors normally when they see the absence of voluntary disclosure, it is an indication to them that some information has been hidden by managers and this is “bad news” about a firm (McKinnon and Dalimunthe, 1993).

In respect of web disclosure, Pirchegger and Wagenhofer (1999) discovered that the correlation between internet reporting and firm profitability was supported for Australian companies. This result is not in line with those found by Ashbaugh et al. (1999) and Ettredge et al. (2002) on US samples, by Xiao et al. (2004) for the Chinese companies and by Oyelere et al (2003) in New Zealand. However, prior empirical evidence on the relationship between firm performance and financial information, disclosure practices was mixed. Based on the above discussions, companies with greater profitability are more likely to adopt IFR than less profitable companies.

Liquidity

There is a positive relationship between the internet financial reporting and the liquidity ratio of companies. According to Abd El Salam (1999), companies with high liquidity ratio will disclose more information in order to differentiate themselves from other companies with low liquidity ratio. Oyelere et al. (2003) established that liquidity is one of the principal determinants of internet financial reporting among New Zealand companies and found a positive relationship between company liquidity and voluntary use of internet reporting. However, agency theory recommends that companies with a low liquidity ratio may make available more information to satisfy the information requirements of shareholders and creditors. Craswell and Taylor (1992) pointed out that while debt holders may bargain with companies for release of additional information, shareholders of listed companies depend on public disclosure. It is established that companies with lower liquidity ratio present additional information in the annual report. For the purpose of this study, highly liquid firms are more likely to disclose more information on their

websites than less liquid firms.

Age

Literature discloses that the firm's listing age definitely influences the degree of its IFR. Operating history (company age) has been observed to influence the information disclosure level in prospectuses. According to Owusu-Ansah (1998), a low age company may undergo a greater competitive drawback if it discloses certain items such as information on research and development expenditure, capital expenditure and new products. Aged companies may be motivated to disclose such information, as the same is less likely to damage their competitive position. Accordingly, aged companies are more likely to have established reporting systems on the internet which means that full disclosure is less costly for them compared to the newly formed companies.

RESEARCH METHODOLOGY

Source of Data and Sample

This study uses a quantitative approach because it puts emphasis on quantification in the collection and analysis of data. The researcher is likely to employ a deductive approach to look at the relationship between theory and research, and the focus is to test the theory or develop hypotheses. He/she may use large samples and data that is greatly specific and accurate. Thus, the results from a representative sample can be generalised to the population.

The availability of financial data from various audited published financial statements yielded unbiased results using statistical descriptions and making inferences based on statistical relationships. Similarly, a quantitative approach was relevant for this study because it employed statistics, which is a comparative methodological discipline that used mathematical ideas for descriptive data analysis, point inference, and hypothesis testing (Creswell, 2008). The researcher collected financial data from selected samples, conducted analysis of the numerical data using statistics, in an unbiased and objective manner. The adoption of quantitative research design is a central research objective.

The data for this study was collected from secondary data. The data comprised all selected firms. However, the study used different bank-level and macro level data to investigate and analyse the relationship among large, medium and small banks' performance. The sources of data included Bank of Tanzania, Selected Commercial Banks, Journals and surveys relevant to the study. The Bank of Tanzania report (2016) revealed that 51 commercial banks have been registered. The sample covered 28 commercial banks which comprised different types of banks as shown in appendices below. The websites of the sampled banks were browsed for collecting data relating to financial reporting on the internet. Since the data of the study was extracted directly from audited accounts, it was reasonable to assume that they were free of noise from data collection.

The list of Banks selected for the sample for the study period (2011 – 2015) with their appropriate categories was as follows: (a) Large Banks comprised of - (1) Barclays Bank, (2) Citibank, (3) CRDB Bank (4) Exim Bank (5) NBC Ltd (6) NMB Bank (7) Std Chartered Bank and (8) Stanbic Bank; (b) Medium Banks included- (1)ACB Bank (2) Azania Bank (3) ABC Bank (4) Bano of Baroda (5) BOA Bank (6) CBA Bank (7) I&M Bank (8) Diamond (9) Trust Bank, (10) Habib African Bank (11) International Commercial Bank (12) KCB Bank (13) The Peoples Bank of Zanzibar and (14) NIC Ban; and (c) The small Banks category comprised of- (1) DCB Bank (2) Kagera Farmers Cooperative Bank (3) Kilimanjaro Cooperative Bank (4) Mbinga Community Bank (5) Mufindi Community Bank (6) Mwanga Community Bank and (7) Uchumi Community Bank. The final dataset included 28 banks with 140 observations which were pooled together. The sample covered all types of banking sector in Tanzania according to BOT. The distribution of firms is illustrated in Table 2.

Table 2. Overall Structure of Dataset (Observations)

Year	Large	Medium	Small	Total
2011	08	13	07	28
2012	08	13	07	28
2013	08	13	07	28
2014	08	13	07	28
2015	08	13	07	28
Total	40	65	35	140

Data Analysis Methods and Model Specification

Two different analytical methods were employed in the study. The methods were - descriptive statistics and inferential statistics. Descriptive statistics such as table, percentage and content analysis were used while the Ordinary Least Square technique was also employed for model analysis.

Model Specification

This study is based on secondary data and this section was built on an empirical framework using the determinants mentioned under the measurement of variables in order to recognise the determinants of the internet financial reporting of Tanzanian commercial banks in the sample. The Model was used to analyse firms with secondary data as follows:

$$Y_i = \beta X_i + \gamma_i + \lambda_i + U_i \quad (1)$$

With $i = 1 \dots N$

Where:

Y_i = Internet Financial Reporting Index i in year t

X_i = vector of explanatory variables

β = vector of constants

γ_i = firm effect assumed constant for firm i over t . (individual (firm) specific effect)

λ_i = time effect assumed constant for firm i over t . (time specific effects) are common to all firms and can change overtime.

u_i = error term (the time-varying disturbance term is serially uncorrelated with mean zero and variance.

The above functional equation is extended by including the independent variables and Internet Financial Reporting as dependent variable as follows.

$$IFRDI_{it} = \alpha_0 + \beta_1 (\log A_{it}) + \beta_2 (ROA_{it}) + \beta_3 (LEV_{it}) + \beta_4 (AGE_{it}) + \beta_5 (LQD_{it}) + \mu_{it} \quad (2)$$

Where:

IFRDI_{it} = Internet Financial Reporting Disclosure Index

LEV_{it} = Leverage

LogA_{it} = Firm size

ROA_{it} = Profitability

LQD_{it} = Liquidity

AGE_{it} = Age of the firm

μ_{it} = Error term at time t

Data Variables Selected for the Study

In this study, five types of data variables were used as independent variables that influenced voluntary IFR. Similarly, literature identified the drivers that influenced the voluntary IFR of the firms. Some studies examine only firm's internal (specific) factors and others examine both firm's internal and external determinants. However, based on previous studies, this study examined only firm's-specific variables as the same are controllable by the firm's management. The data for independent variables and dependent variable selected for the study is explained in detail below.

Measurement of Variables

Dependent variable

The dependent variable is disclosure index. A disclosure checklist is compiled on the basis of existing literature by Xiao et al. (2004), Debreceeny et al. (2002) and Pirchegger and Wagenhofer (1999). Therefore, if a firm discloses an item of information which is included in the index on its internet site, it receives a score of 1 and if the firm does not disclose an item, a score of 0 is allocated. However, the disclosure index that was used in this study based on that employed by Marston and Polei (2004), which in turn based on the frameworks of web-based disclosure suggested by Deller et al., (1999); Pirchegger and Wagenhofer (1999); Debreceeny

et al., (2001) and Xiao et al., (2004).

The disclosure index for each firm was calculated by dividing the actual scores awarded by the maximum possible scores appropriate for the firm. Total score of financial content and format information are used for internet financial reporting and disclosure. Therefore, the disclosure index for each firm is calculated as follows:

$$IFRDI = \frac{\sum X}{n}$$

Where

n is the number of relative items applicable to firm j

X is 1 if the item is disclosed; 0 otherwise

However, in calculating the index score for a specific firm, the actual disclosure scores for a firm divided by the maximum score possible for that firm, that is

$$IFRDI = \frac{\text{Total Score of the Individual Firm}}{\text{Maximum Possible Score Obtainable by Firm}} \times 100 \quad (3)$$

According to the above models the dependent variable in this study is internet financial and sustainability reporting. Similarly, a number of models were developed to evaluate quality of corporate websites. The criterion that was used to construct an Internet Financial Reporting Index is to evaluate the company websites. The study developed an index to measure the content of information of reporting statements in the company websites. In order to evaluate company websites a checklist was developed to address each relevant issue. However, to add weight to the content over the content of information of financial reporting statements in the company websites enhancements, the index criteria was divided into five components of financial reporting information including the statement of financial position, income statement, cash flow, shareholder information and social responsibility disclosures. Therefore, if a firm discloses those components of financial reporting information on its internet site, it receives a score of 1 and if the firm does not disclose those items, a score of 0 is allocated. The Content Index of Internet Disclosure Instruments is illustrated in Table 3.

Table 3: The Content of Index of Internet Disclosure Instruments

Index Items	Score	
	<i>Disclosure</i>	<i>Non-Disclosure</i>
1. Component of Financial Information		
1.1 Statement of Financial Position	<i>1</i>	<i>0</i>
1.2 Statement of Financial Performance	<i>1</i>	<i>0</i>
1.3 Statement of Cash Flows	<i>1</i>	<i>0</i>
1.4 Statement of Movement in Equity	<i>1</i>	<i>0</i>
1.5 Notes to the Financial Statement	<i>1</i>	<i>0</i>
1.6 Financial Highlight/Year-in-Review	<i>1</i>	<i>0</i>
1.7 Chairman’s Report	<i>1</i>	<i>0</i>
1.8 Auditors’ Report	<i>1</i>	<i>0</i>
1.9 Social Responsibility	<i>1</i>	<i>0</i>
2.0. Financial Highlight/Year-in- Review	<i>1</i>	<i>0</i>

Source: Author (2016)

Independent variables:

Size of the firm: In the literature the total assets have been employed to represent the firm size and expressed by natural logarithm of total asset (log A).

Return on Assets (ROA) = Net profit/total assets, which shows the capacity of a firm to acquire earnings at a reasonable cost and invest them in profitable investments (Ahmed, 2009). This ratio indicated how much net income was generated per TZS of assets. The higher the ROA the more the profitable the firms are.

Liquidity: indicates the ability of the firm to meet its financial obligations in a timely and effective manner. Samad (2004) states that “liquidity is the life and blood of a firm”. For the purpose of this study, total current assets to total current liabilities was used to measure the liquidity of a firm

Leverage: is the amount of debt used to finance a firm’s assets. Companies with high levels of leverage have more financial costs, and the suppliers of capital (debt holders) concern to the interest that is disclosed in the financials. Similarly, it has been suggested that employing debts to finance public activities provides an incentive for political managers to reduce the cost of debt. This may be achieved through the voluntary disclosure of information that facilitates monitoring by creditors. For the purpose of this study, total debt to total assets was used to measure the leverage of a firm.

Age: Although, age (AGE) had positive relationship with IFR in all models, the impacts are not significant. The insignificance of AGE indicates that traditional experience with investor relations does not necessarily induce firms to engage in more advanced means of financial reporting such as IFR. For the purpose of this study, number of years passed since foundation was used to measure age.

Table 4 provides a summary of the descriptions of the variables that were used as explanatory variables. The study expected that Size of the firm, Return on Assets, Liquidity, Leverage, and Age have positive effect on the voluntary use of Internet financial reporting.

Table 4: Description and Expected Sign of the Variables

Variables	Symbol	Descriptions	Expected Sign
Firm size	log A	natural logarithm of TA	+
Profitability	ROA	PBT/Total Assets	+
Leverage	LEV	Total Debt/Total Assets	+
Firm Age	AGE	Year of Incorporation	+
Liquidity	LD	CA/CL	+

Types of Banks with Websites and Non-Websites

Table 5 presents the distribution of websites and non-website of selected sample of commercial banks. All selected 28 commercial banks have websites which constitute about (100%). The results show that large banks which comprised of 8 banks all have websites, medium banks which comprised of 13 banks all have websites and small banks the total of 8 banks all have websites. This study shows an improvement in the number of corporate website existence especially in large banks (100%), medium banks (100%) and small banks (100%).

Table 5: Distribution of Website Among Selected Sample Banks

Type of Bank	Total	Website		No Website	
Large Banks	8	8	100%	-	-
Medium Banks	13	13	100%	-	-
Small Banks	7	7	100%	-	-

RESULTS AND DISCUSSION

Results of Descriptive Statistics

Table 6 contains the summary results of descriptive statistic of the dependent and the independents variables which show the mean value for each variable as well as minimum and maximum values and standard deviation. The variable size, leverage, profitability, liquidity and age are absolute continuous variables, (independent variables). The characteristic of IFR assists between 2 and 12, being 14 the maximum value possible and the mean are 7.83, (dependent variable).

The average bank size is 5.31, minimum value is 3.81 and maximum value is 6.43. The average return on assets ratio, leverage ratio and liquidity are 6.55%, 12.8% and 61.71% with standard deviation of 5.74%, 6.22% and 25.27% respectively. Liquidity ratio which is one of the important ratios for the banks amounts to 61.7% on average, while it varies between 54.00% and 68.8%. The average liquidity ratio is three times the regulatory minimum limit of 20.0%. High liquidity in the sector attributed to the structure of the asset portfolios,

Table 6– Results of Descriptive Statistics

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Dev.</i>
<u>Dependent Variable</u>					
IFR	140	2	14	7.83	1.685
<u>Independent variables</u>					
Log. A	140	3.81	6.43	5.31	0.54
ROA	140	4.2	8.4	6.55	5.74
LEV	140	4	49	12.82	6.22
LD	140	54	68.8	61.71	25.27
AGE	140	10	24	13.4	6.34

Results of Correlations between Independent Variables

Table 7 presents the summary results of the correlation analysis for the study in order to determine the level of association among the variables. As it can be observed in the Table, there is a fairly low data correlation among the independent variables. As per statistics in the Table most of the variables are weakly correlated with coefficients of correlation less than 0.40. Bryman & Cramer (2001), view

that multi collinearity is when correlation exceeds 0.80 whereas 0.7 is a standard point indicating multi collinearity. Hence due to these low correlation coefficients the results show that there is no multi collinearity problem for the independent variables.

Table 7: Results of Correlations Between Independent Variables

	Log A	ROA	LEV	AGE	LQD
Log A	1.0000				
ROA	-0.4565*	1.0000			
LEV	0.3387*	-0.1400	1.0000		
AGE	0.3423*	0.2467*	0.0600	1.0000	
LQD	-0.2468*	0.4594*	0.0200	0.2259*	1.0000

Results of Multicollinearity (VIF)

Table 8 presents the summary results of Variance Inflation Factor of Variables (VIF). As a rule of thumb, if VIF of a variable exceeds 10, then there is indication of the existence of Multi-collinearity (Gujarati, 2007). As can be observed from the Table that presents the VIF of the variables, none of them is above 10. It therefore indicates the absence of Multicollinearity problem in the analysis.

Table 8: Results of Multi Co-linearity (VIF)

<i>Variables</i>	<i>VIF</i>	<i>1/VIF</i>
Size (Log. A)	1.58	0.6344
ROA	1.52	0.6591
Lev	1.19	0.8433
AGE	1.18	0.8454
LQD	1.34	0.7463
Mean VIF	1.4	

Results of Regression Model

The study analysis ran a least squares regression model to obtain the determinants of voluntary internet financial reporting. The results of explanatory factors, namely, size, return on asset, leverage, age and liquidity are given in Table 9. A positive coefficient implies a voluntary internet financial reporting increase

whereas a negative coefficient means an association with the voluntary internet financial reporting decline. The result of the regression is significant at 95% level of significance. The Chi-Square test is 17.8 with five degree of freedom associated with P-value (0.000) obtained shows that the model is a good fit for the data. The recorded 'F' statistics and adjusted 'R2' values indicate that the regression model has sufficient explanatory power to explain the projected relationships.

Table 9: Results of Regression Model

Variables	Coefficient	SE	t	P>t
Size	1.084	0.534	2.81	0.016
ROA	0.077	0.393	2.996	0.012
Leverage	-0.51	0.192	2.658	0.017
AGE	1.703	0.799	18.132	0.638
Liquidity	0.467	0.121	3.863	0.001
Cons	0.689	0.06	11.444	0
No. of observations		24		
F(6, 17)		8.638		
Prob. > F		0		
R-squared		0.753		

The first objective of this study is to investigate the relationship between size of the firm and level of internet financial reporting disclosure by commercial banks in Tanzania. The null hypothesis developed in this objective is there is no a significant association between company size and level of internet financial reporting disclosure. The results show that the null hypothesis is rejected at 5% level of significance. Since the p-value calculated is less than 0.05 that is 0.016 see the table above, thus the alternative (research) hypothesis is accepted. Therefore, the size of the companies has positive and significant association to the IFR disclosure. Consistent to other studies, the largest companies have additional disclosure in IFR (Craven and Marston, 1999; Pirchegger and Wagenhofer, 1999; Debreceny et al., 2002).

The second objective of the study is to investigate the relationship between return on assets (ROA) and level of internet financial reporting disclosure. The null

hypothesis developed was, there is no significant association between company profitability and level of internet financial reporting disclosure by commercial banks in Tanzania. The results show that the null hypothesis is rejected at 5% level of significance, since the p-value calculated is less than 0.05 that is 0.012 see the table above, thus the alternative (research) hypothesis is accepted. Therefore to predict the profitability, as measured by return on assets, has a positive correlation to IFR disclosure. The findings show no significant result to support this hypothesis. Consistent to Xiao et al. (2004), they used the same measure of (ROA) for the profitability, the result is significant to the voluntaries internet-based disclosure because p- value is less than 0.05 that is 0.012.

The third objective of the study is to investigate the relationship between leverage and level of IFR disclosure. The null hypothesis developed was, “There is no significant association between company leverage and level of IFR disclosure”. The results show that the null hypothesis is rejected at 5% level of significance, since the p-value calculated is less than 0.05 that is 0.017, thus the alternative (research) hypothesis is accepted– Therefore the leverage has a negative and significant association to the IFR disclosure. It indicates that higher levels of leverage result into lower IFR disclosure, possibly that commercial banks in Tanzania increase interest for debt holders. The result is similar to Cormier et al. (2009) leverage has negative and significant to the websites disclosure corporate.

The fourth objective of the study is to investigate the relationship between liquidity and level of IFR disclosure. The null hypothesis developed was, “There is no significant association between company liquidity and level of IFR disclosure”. The results show that the null hypothesis is rejected at 5% level of significance since the p-value calculated is less than 0.05 that is 0.001, thus the alternative (research) hypothesis is accepted– Therefore, the liquidity of the company has a positive and significant association to the IFR disclosure. This indicates that higher levels of liquidity to the company result into increase to IFR disclosure.

The fifth objective of the study is to investigate the relationship between age and level of IFR disclosure. The null hypothesis developed was, “There is no significant association between company age and level of IFR disclosure”. The results show that, age (AGE) had positive relationship with internet financial reporting

disclosure; however, the impacts are not significant. The insignificance of AGE indicates that traditional experience with investor relations does not necessarily encourage firms to engage in more advanced means of financial reporting such as IFR. The results of this study are in line with the results of Brennan and Hourigan (2000) and Debreceeny et al. (2002), who found that age is insignificant to IFR.

CONCLUSION, CONTRIBUTIONS AND LIMITATIONS

The study aimed at investigating the relationship between company size, leverage, profitability, liquidity, and age; and level of IFR disclosure by commercial banks in Tanzania. The multivariate analyses shows positive significance related to size of the company, profitability and liquidity. It is concluded that large size, high profitability and high liquidity firms disclose more information on the internet than the small, unprofitable and less liquid ones. These results support the earlier findings. But with leverage the study results indicate significant negative association. The study makes a significant contribution to the limited literature on the determinants of voluntary IFR by local financial institutions in Tanzania. However, it should be noted that this study, like any other empirical study, had some limitations. First, the dataset was limited to only 28 Tanzanian banks due to the difficulties in obtaining data for other banks. Second, a longer timeframe if applied to this study would have better revealed any noticeable trends; this would have disclosed a more comprehensive analysis of the relative determinants of voluntary IFR. Despite the existence of the limitations, the findings are to be interpreted with the understanding of the context of the study.

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**Analysis of Organisational Factors Influencing
Effective Integrated Reporting in Global Oil
and Gas Companies**

Maneno Daudi and Henry Chalu

Analysis of Organisational Factors Influencing Effective Integrated Reporting in Global Oil and Gas Companies

Abstract: *This study analysed factors influencing effective integrated reporting, the case being global oil and gas companies. The focus was to examine the effects of company visibility, board diversity and regulatory framework as mediated by the company category. Institutional theory and International Integrated Reporting Council framework (IIRC) were used. The sampling of 50 global oil and gas companies was selected randomly from The Platts Top 250 Global Energy Company Ranking. A checklist was then created for content analysis and data analysed using descriptive and inferential statistics. For inferential statistics, hierarchical regression was used. The study revealed that company visibility and regulatory framework have significant influence on effective integrated reporting while board diversity did not and company category showed no mediating effect. The conclusion confirmed that internal factors for effective integrated reporting are company visibility and regulatory framework. The study therefore recommends countries should enhance regulatory frameworks to promote wider adoption and harmonisation.*

Keywords: *integrated reporting, company visibility, regulatory frameworks, oil and gas, six capital model, institutional theory.*

INTRODUCTION

Integrated reporting is the current frontier of corporate reporting (Busco et al., 2013). There is a growing trend for businesses that are now producing integrated reports across the world. The International Integrated Reporting Council (IIRC) has been taking this agenda forward. Their expectation is that, its framework will dominate the mode of reporting, particularly for large corporates (Wild and Staden, 2013). This therefore brings the necessity of understanding the concept and practice to be critical (Wild and Staden, 2013). South Africa is one example of countries which have incorporated the integrated reporting principles in their regulatory frameworks (i.e. the King III framework) in 1 March, 2010.

Putting the concept into perspective therefore, integrated reporting is a process of communicating via the annual integrated report the company's value creation over time (Busco et al., 2013). It can also be defined as a concise communication about how an organisation's strategy, performance, governance and prospects in the context of environment external to itself lead to value creation overtime (IIRC, 2013). The integrated reporting idea started long time but currently, is the global agenda driven by the IIRC (Busco et al., 2013). The primary aim of the integrated reporting is to provide a report targeting all stakeholders that are relevant to the company (IIRC, 2013). The report would therefore cover interests of shareholders, debt holders, employees, customers, government and the like. The report is aimed at capturing all the capitals the company uses in creating value which include financial capital, manufactured capital, social and relationship capital, natural capital and intellectual capital (IIRC, 2013). The key aim is to enhance accountability and stewardship to all stakeholders in the context of the six capitals mentioned (Busco et al., 2013). Integrated reporting has four major advantages as per Eccles and Krzus (2010) and Magnaghi and Aprile (2014). Firstly, the report promotes greater clarity about relationships and commitment between the financial and non-financial indicators, helps to boost decision making processes through integrated thinking, encourage effective commitment with all stakeholders of the business and lastly reduced business reputational risks. The framework comes with three key aspects including concepts, contents and principles.

The integrated reporting concepts lie on the capitals used by the company, the

business model and the value creation (Busco et al., 2013). The capital is regarded as a store of value while the business model is a means of processing the inputs (i.e. capitals) and providing output in terms of value to the company. The ability of the company to create value over time depends on the connectivity of the capitals the company is utilizing, not only the financial or manufactured one as the traditional approach treat, but the business model and the interaction with internal and external environment. It is this combination of integrated dynamics which builds the case for promoting integrated reporting as it enhances integrated thinking and therefore improves organisational operational efficiencies via enhanced decision-making platforms and on the other end, fosters better stakeholder engagements because of its holistic transparency nature.

The IIRC framework provides content elements which have been built around the environmental factors that affect the company. There are eight elements as per the model. These include organisational overview and external environment, governance, business model, risk and opportunities, strategy and risk allocations, performance, outlook and basis of presentation (IIRC, 2013). An organisation preparing the integrated reporting is ought to ensure these contents are well reflected. Since companies have different business models and environmental circumstances, the IIRC framework aimed on promoting flexibility in reporting and therefore built on principle bases rather than hard rules. There are six principles that govern the integrated reporting. These are strategic focus and future orientation; connectivity of information; stakeholder responsiveness; materiality and conciseness; reliability and completeness; consistency; and comparability (IIRC, 2013).

Integrated reporting literature development has been driven by various factors. Some of these include recurring global financial crises, increased awareness of impacts of climatic change and limitations of the available natural resources, the growing understanding of the importance of human capital in the value creation, growing of human rights and the growing importance of good corporate governance and risk management to prevent disasters (Eccles and Serafeim, 2011). Apart from these forces, benefits cannot also be underestimated. Integrated reporting incorporates the interests of all stakeholders that are being affected by the company actions. This helps enhancing accountability and stewardship to

all stakeholders and therefore legitimizes organisational existence (Busco et al., 2013). The report also promotes integrated thinking and thus improves decision making and operational efficiency in the back of economic, environmental and social challenges (Di Donato, Bordogna, and Busco, 2013).

Albeit these pressures towards integrated reporting though, the trend across the world to catch up is still very slow (Eccles and Serafeim, 2011). One of the reasons these authors found out is that, investors appear to be indifferent on the subject matter which, in turn dis-incentivizes reporters. This investors' view and reporters' response however still confirms the existence of more emphasis on investors' interests over other stakeholders and thus underpins the knowledge gap on the importance of other stakeholders. On those who have adopted the integrated reporting, Dzinkowski (2015) says there is significant level of inconsistencies on what needs to be reported. He argues that, the length of most of the reports were falling within an average of 93 pages but ranging from 8 pages to 404 pages. According to him, majority of the companies failed to report material items despite the explicitly disclosing materiality levels. Dzinkowski, believes that this could be due to lack of harmonisation between standard setters. Eccles and Serafeim (2011) fills that, to speed up the integrated reporting practices, voluntary disclosures should be given chance and compliance will then be pushed by stakeholders' pressures. The available frameworks such IIRC responds by promoting voluntary disclosures (Busco et al., 2013), yet the speed and quality of moving towards effective integrated corporate reporting is not forthcoming. Mucciarone et al (2012) concluded that the size of the company in terms of revenue helps institutions to decide to what extent they should include GRI framework items in the annual statements.

The corporate size view was supported by Marquis and Toffel (2012) when looking, among other things, the impact of corporate visibility on disclosures. They defined visibility in two ways, generic visibility which was measured by company size in terms of the level of sales. This is consistent with the view of Mucciarone et al (2012). Secondly, they defined domain specific visibility as the way from which the company exhibit visibility in specific aspects such as society, regulations and environment. Marquis and Toffel (2012) asserted that, domain specific visibility tends to mitigate selective disclosures of non-financial information as compared to generic one which appears to be effective under civil society scrutiny. This

perspective was not reflected by Wild and Staden (2013) study which concluded that, environmentally and socially exposed companies did not significantly disclose the non-financial items in their annual reports compared to other industries like financial service industries.

The IIRC framework foundation has predominantly based on principles rather than codified laws to allow different companies to report based on their business models and circumstances (Busco et al., 2013). This gives a perception of voluntariness. Although principles provide a wider scope to the organisation to deal with their concerns, they normally lack preciseness as to how they should be put into practice and therefore complicate compliance (Henriques and Richardson, 2013). The downside of principles and voluntary disclosures could be a reason why Eccles and Serafeim (2011) believe that, mandated regulatory frameworks could enhance integrated reporting. This is beneficial to both companies and societies and thus it is suggested that a combination of market and regulatory forces play an important role on speeding up the effective integrated reporting. The effect of regulations in predicting disclosure of non-financial information appeared to have different impacts depending on the locality of the companies in a study of Ioannou and Serafeim (2014). South Africa and China responded positively with imposed regulations compared to Denmark and Malaysia. The authors could not firmly confirm why different companies responded differently.

The role of the board in promoting the effective integrated reporting was underscored by many researchers such as that of Eccles and Serafeim (2011). Frias-Aceituno et al (2013) also highlighted the importance of board diversity on corporate disclosures. Handajan et al (2014) looked at the board diversity in terms of board size, independency, tenure and gender in predicting increased corporate social disclosures. They found size and age to have a positive impact compared to that of tenure and gender with independency failing to show any significance. Mustafa Durak (2013) found out that including foreign members have significant influence in reporting behavior. According to them, foreign directors may bring new perspectives on the table and change the view on how corporates perceive transparency. A study conducted by Haniffa and Cooke (2005) however, confirmed differently. They found out that native directors can influence effective corporate disclosures compared to foreigners partly due to culture and closeness of businesses

to the government in Malaysia. This finding may signify that difference in cultural background could have different impacts in the board composition behavior as far as corporate disclosure level is concerned.

Borrowing the perspective of Marquis and Toffel(2012) raises an expectation of high disclosures in the oil and gas sector because of high exposure on social, political and environmental issues. The sector provides high expectations to the communities about the fate of their natural resources as translated into economic benefits that affects their day to day lives. Companies and communities may also face high environmental disasters that could redefine what the future holds for them. One good example is oil spill in the Gulf of Mexico (BP, 2010). The sum of these dominant feature exhibits oil and gas sector a high domain specific visibility which may push the companies to disclose some aspects of non-financial information in the annual reports (Marquis and Toffel, 2012). The high levels of investments required in the sector, particularly in the upstream and midstream activities, subject the companies to a high generic visibility as well in terms of size (Marquis and Toffel, 2012).

Despite these prospects of visibility features which are dominant in the sector, some scholars such as Healy et al (2011) discount the level of transparency disseminated by the oil and gas sector particularly in the host countries perspective. They highlighted other impeding factors which include corruption (political risk), fear of revealing information to competitors (competitive risk) and past nationalisations practices (expropriation risk). The nature and extent of corruption in the oil and gas sector, particularly among emerging markets is also confirmed by E&Y (2014) publication. These authors argue that, natural resources in the more established countries are increasingly becoming scarce and therefore move to emerging markets where controls are relatively in a developing mode and there is heavy reliance on third parties to handle on the ground activities. Healy et al (2011) findings imply that, there could be significant differences between reasons for increasing transparency between the developed markets and those of the emerging markets due to differences on profile of challenges between the two.

Numerous researchers have therefore been endeavoring to look for the factors that can influence effective integrated reporting in the bid to help parties mitigate

reporting challenges and realize the promised benefits of the new reporting regime. Despite all these efforts, the pace of effective integrated reporting across the world has continued to be low with very few companies integrating their non-financial and financial reports and a great level of inconsistencies and lack of comparability among those reports already being integrated continues to be a problem (Eccles & Serafeim, 2011; Dzinkowski, 2015). Some researchers like Dzinkowski (2015) claim the problem is magnified by the lack of good alignment between standard setters and reporting frameworks. Others have tried to establish other factors but gaps in the findings continued to be noted in the efforts done so far. Other studies provide conflicting results among researchers. For example, Mucciarone et al (2012) found company size to have a positive influence on choices for disclosures. Marquis and Toffel (2012) support this view but Isa (2012) rejects. On the other hand, Wild and Staden (2013) found no influence for environmentally exposed companies. Durak (2013) argued that foreign directors may influence corporate reporting behaviours, but Haniffa and Cooke (2005) view native directors in Malaysia to be more influential. Similarly, Ioannou and Serafeim (2014) observed businesses which were treated with new regulatory environment before and after and confirmed different responses. China and South African businesses responded positively while Malaysian and Denmark businesses did not.

As such, this study acknowledges the continued existence of gaps in the area and aims at examining deeper the factors influencing integrated reporting particularly in the global oil and gas companies. The study hypothesized that, "Effective integrated reporting, which is represented by effective disclosure of six capitals, content elements and guiding principles from IIRC framework is influenced by company visibility, board diversity and regulatory framework and may be mediated by company category (i.e. upstream, midstream, downstream or the manner the organisation integrates the three in their operations)". As such, this study specifically assessed the extent to which company visibility, board diversity and regulatory frameworks influence effective integrated reporting of the global oil and gas companies. In addition, the study assessed the mediating effect of company category in the relationship between predictor variables and effective integrated reporting of the global oil and gas companies.

This study is significant in two ways. In terms of theoretical contribution, the

study brings in an aggregation of elements perspective in examining the effects of independent variables. On the board diversity for example, the study examines the combined impact of a having a balance of presence of non-executive members and that of foreign members in the board structure. This adds to a view that, theoretically, one could try to understand the combined impact of elements that make up one predictor variable to obtain the effects of different dynamics that may face that predictor variable. Most studies such as of Handajan et al (2014) have been testing each element such as board size, gender and independence separately which could sometimes fail to bring a realistic picture of what is happening in the ground if more than one element happens systematically and concurrently. The study has also taken an institutional approach in explaining the impact of institutional isomorphism on the corporate reporting practices. It introduces mediating factor (i.e. company category) to the variables in predicting the effective integrated reporting which has never been tested before to understand whether it has a significant influence on the factors that predict dependent variable. The study also employed a practical tool (i.e. IIRC framework) into academic to test effective integrated reporting among companies. The tool has recently been introduced into practice and there is no evidence of its wide use so far in the academic arena.

In terms of practical contribution, the study expects to contribute to a body of knowledge that would be useful to different stakeholders. The study of significance of regulatory framework in the effective integrated reporting may help reporting regulators relook their frameworks to improve corporate reporting in their respective jurisdictions. Many regulators across the world are considering the use of regulations in boosting the practice. The society also is getting more sophisticated on their needs from the businesses. The study findings will help the companies to understand better these needs and realize the importance of increasing levels of transparency. The concept of integrated reporting is also still new to many practitioners at large and this study aims at adding that knowledge base.

PRIOR LITERATURES AND STUDY HYPOTHESES

Overview of Institutional Theory

The study used Institutional theory to establish variables to be tested. The theory introduces three isomorphic pressures from which an organisation chooses practices. The first one is coercive isomorphism which suggests that institutions follow a particular practice out of irresistible force acting upon it. Imposition of regulatory requirements or the mere size of the institution is some of the best examples of this type of force. The second isomorphic pressure is mimetic isomorphism which is mainly applied to an institution on uncertain environment and push to copy role models as a best solution. If a board is well diversified for example, can bring in different experiences in the table and adoption of the best practice could be mainly a subject of mimetic pressure. Lastly, the institutional theory introduces the normative isomorphism which emanates from the professionalism on the back of types of educations the institutions staff go through and the professional networks they belong to.

Theoretical framework of the study

The theoretical framework of this study is based on the IIRC framework and institutional theory. The IIRC Framework introduced six capitals concept in the year 2010 which is at the core of this study. The IIRC integrated reporting framework deducted the concept from the work of The Sigma Project (2003) and Forum for the Future (2009) on multiple capitals which included financial capital, manufactured capital, social capital, natural capital and human capital. Although the Sigma Project (2003) and Forum for the Future (2009) came up with the same types of capitals, their conceptual views on capitals relationships varied (Coulson et al., 2015). The IIRC therefore adopted and added intellectual capital to form a total of six to the model in the framework. They also modified the word “social capital” (the Sigma Project, 2003: p 4) to “social and relationships capital” (IIRC, 2013: p 3).

The term multiple capitals was given legitimacy by the Sigma Project (2003) when they argued that, the utilisation of five capitals model provided an edge in overcoming weaknesses related with triple bottom line concept. The Six Capital model is new in the literature and few studies have used it in practical terms. Wild

and Staden (2013) used the IIRC six capitals in their empirical study testing content and structure of corporate reports of early adopters of IIRC framework. The IIRC (2013) Six Capitals model holds that, organisations depend on the multiple forms of capitals whether owned by the organisation or not in their bid to survive. This dependence comes from the value creation effect which is generated by the capitals interactions because of organisation activities. Each capital is considered as a storage facility where value is kept (IIRC, 2013). The model mentions six forms of capital including - financial capital; manufactured capital; intellectual capital; human capital; social and relationship capital; and natural capital.

In terms of contents of each form of capital, financial capital includes sources of funds such as debt and equity while application of funds such as purchase of equipment and machinery brings a new form of capital called manufactured capital. Intellectual capital mainly focuses on the firm's future creation of value as opposed to historical information and would mainly include things like research and development (R&D) (IIRC, 2013). The last three types of forms of capital, in a combined form, makes what is termed as sustainability forms of capital. The first one is human capital which would include staff and managers capabilities, skills and knowledge. The second one is social and relationship capital which underpins the internal and external relationships of the company such as relationships among staff members, customers, shareholders and society (IIRC, 2013). Forum for Future (2009) defines social capital as any value added to the economic and activities outputs of a business by human partnerships, human relations and co-operation. The last one is natural capital which includes all forms of natural resources (energy and matter) and processes needed by businesses to produce their products and services (Forum for Future, 2009).

The most frequently reported capitals in the annual reports of the organisations are financial capital and manufactured capital in what is commonly known as Financial Statement Report. Up to recently, any item that should be recognized in the financial statements should meet the definition of financial statements element. Intellectual capital such as patents and goodwill has been reported in the face of financial statements to some extent but relatively uncommon to many firms probably due to some restricted regimes which surround their recognitions (IIRC, 2013). The most uncommon capitals to be reported are sustainability forms

of capital. Inclusion in the annual report helps to highlight important interactions between capitals and their value creation effects (IIRC, 2013). The use of capitals, have significant effects in their future availability, quality and affordability (IIRC, 2013). This nature calls for a critical and careful consideration on how these capitals are being used to ensure proper benefits are realized by the interested groups (IIRC, 2013). The concept of integrated reporting lies on the reporting of capitals a business is using, business model and articulation of overall business value creation (Busco et al., 2013).

In case of institutional theory, firms are argued to operate in an environment which is consistent with societal norms, values and assumptions about what constitute acceptable behaviour (Oliver, 1991). The theory posits that once business models are institutionalized, they become diffused, which then lead their organisational structures to increasingly become more alike (Beckert, 2010). This is a new sociological perspective of institutionalism. It is the most popular theory in recent times, mostly addressing institutional development issues (DiMaggio and Powell, 1983). The theoretical perspective development of the new institutionalism was linked with the study of organisations although has now evolved to include analysis of institutional change and socio-political change (Beckert, 2010).

The key aim of the new sociological institutionalism has been on institutional homogenisation as opposed to institutional divergence. It states, “The traditional emphasis of institutional approaches to organisation studies has been on the explanation of organisational similarity based on institutional conditions” (Beckert, 2010: p 150). This is an emphasis that has been supported by DiMaggio and Powell (1983). The DiMaggio and Powell’s work therefore concentrated on processes of institutional homogenisation through the isomorphism concept. They introduced three isomorphic pressures which form a basis of why organisations choose practices. The first isomorphic pressure is coercive isomorphism which is a pressure exerted to the firm either formally or informally by either an institution from which the firm is dependent or cultural form in which the firm is operating (DiMaggio and Powell, 1983). The pressure can take different forms including either persuasion to act in a certain way, force which leads a firm to choose a path with no other options or invitation to act in a certain manner. The second isomorphic pressure as per DiMaggio and Powell (1983) is mimetic isomorphism which refers to a pressure

exerted to an organisation because of prevalent uncertainty. They contend that, as organisational goals become ambiguous, or when the applied technology gets difficult to be understood by the members of organisation or the environment whether the organisation operates becomes uncertain, firms have a tendency of looking for a role model and mimic their practices.

The third isomorphic pressure is normative isomorphism which is essentially coming from the professionalization (DiMaggio and Powell, 1983). They further contend that, there are two aspects of professionalization that forms a basis for normative isomorphism. According to them, the first one is a formal education obtained from the universities which shapes an individual to possess certain norms that could be like others who passed the same route and second is the growth of professional networks that shapes staff and managers in approaching challenges as reflected by the network's styles. The Institutional theory has been used widely to explain the sociological behaviours of businesses and other organisations and in different countries. One good example is the study conducted in UK of Ashworth et al (2005). The authors confirmed that institutional theory can predict organisational change in the public sector. The theory was also tested by Mucciarone et al (2012) when studying GRI disclosures in the annual statement. They also confirmed the theory to be a significant predictor of disclosure.

Empirical Reviews and Study Hypotheses

Company Visibility and Integrated Reporting

Although integrated frameworks have been tailored to fit companies of all sizes, the company visibility as represented by company sizes could significantly influence the organisation's level of disclosures (Bartocci and Picciaia, 2013). Integrated reporting practices may require a considerable change of resources which provides a lever for the large companies (PWC, 2012). The company decision on the extent of disclosures depends on the company's visibility in the space where they operate. Mucciarone et al (2012) agrees with this assertion in their study in Australia which looked on the factors affecting GRI disclosures in the annual statements. It examined the reporting practices of 50 major government states. The study used 15 public sector items of GRI framework to identify key areas for disclosures and measured

against what states have reported. The study applied institutional tenets in testing predictors of disclosures of social and environmental issues. The 15 elements of GRI were predicted by the relevant jurisdiction applicable in the state, political party and size of a state. The study used univariate analysis, descriptive statistics and multiple regressions analysis to analyses the data. The conclusion was that, most of the GRI items were disclosed at a higher level with mimetic, coercive and normative pressures showing an influence on the transparency levels, particularly on the size of the state, jurisdictions applied and politics in the sense of which party stays in power during the compliance time.

While the findings of Mucciarone et al(2012) reflected a positive influence of company size to the choices on information disclosures, a study carried out by Isa (2014) using a sample size of 6 companies and multiple linear regression analysis showed a negative influence of the company size to the level of disclosures. The study found that, the higher the size of the organisation, the lower the level of information disclosed to the stakeholders. Looking into same independent variables of size which may correspond to coercive pressure (DiMaggio and Powell, 1983) and profit on the influence to disclosures, Li et al (2011) differed with Isa (2014) on the aspect of size. Using a sample size of 100 initially and 66 later and regression analysis, they found out that size has a positive impact on the disclosure of the non-financial information. This view is consistent with Mucciarone et al (2013).

Yao et al (2011) studied on the determinants of social responsibility disclosure of 800 Chinese listed firms using content analysis approach from annual reports backed by a legitimacy theory. The study found that organisational size, exposure to media; institutional shareholding, share ownership and organisations working in the environmentally sensitive operations have significant positive influence on the amount of disclosures of company's corporate social responsibility information. The study however found a negative relationship between firm's age and disclosure of information. The study's results are consistent with many other studies conducted previously. Marquis and Toffel (2012) of the Harvard Business School gave a second look to those companies disclosing their environmental impact in their reports. They argue that some organisations disclose selectively to reflect what they termed as "benign impacts" to merely greenwash themselves. The study mainly concentrated on the effects of company visibility and public

scrutiny on the environmental disclosures. The authors differentiated two types of visibility, one being generic visibility. This is measured by looking on company size focusing on the level of sales.

The second one is a domain specific visibility which is measured by environmental impact cost. They clarified domain specific visibility as a way an organisation is visible in a specific aspect, i.e. environment, society, government and the like. The organisations which are likely to impact the environment for example, are likely to face environment as a domain specific visibility. They contended that, those firms which are generic visible are prone to selectively disclose their environmental practices compared to those who are domain specific visible because of being less exposed to the institutional pressure than the later. The authors however concluded further that, as the generic visibility increases, the difference between generic and domain specific narrow down to zero because, those stakeholders who increase their interests in the organisation start concentrating on some specific domains of the company. Durak (2013) conducted a study on company specific and macro level factors on the disclosures of information under integrated form. The study was conducted in Turkey and used the Institutional Theory. The study confirmed that, the company's choices to produce integrated reports include the size, profitability and strong governance structure of the company. On top of that, they also found out that, a society with strong values that supersede individual ones and high demand for information and strong enforcement mechanisms tends to have a positive influence on the production of integrated reports.

Under this study, corporate visibility is represented by company size. The study deviated from many studies such as those of Li et al (2011), Yao et al (2011), and Mucciarone et al (2012) that used sales or revenue as a measure of size. Sales may not be a good measure as most of upstream companies do not generate revenue during the exploration stage and may conflict with the dependent variable metrics. This variable measures the coercive pressure to the company in the sense that, the size of the company's investment in the sector automatically increases the company visibility and therefore feels pressured to increase the amount of disclosures to the stakeholders (DiMaggio & Powell, 1983). Marquis and Toffel (2012) supported the visibility idea and argued that, company size could be a source of generic visibility although they argued this type of visibility is not be able to promote mitigation

for selective disclosures by itself unless there is civil society scrutiny in place. The Oil and gas sector is open to various environmental and societal challenges and therefore are more likely to be exposed to this kind of scrutiny. As such the following hypothesis was developed:

H1: There is a significant relationship between the company visibility and effective integrated reporting.

Board Diversity and Integrated Reporting

Eccles and Serafeim (2011) appreciate the importance of the role of the board in the effective integration of the annual reports believing that, it is the board best interest to spearhead that route as that is critical in fulfilling the fiduciary responsibility to stakeholders. Some authors have linked the factors that lead to effective integrated reporting to the presence of board diversity in the organisations. A study done by Durak (2013) looked into factors affecting company's preferences on integrated reporting. The study found out that board diversity of which one aspect in the inclusion of members from different countries have an impact in the integrated reporting. Frias-Aceituno et al (2013) in their study in the role of the board in the dissemination of integrated corporate social reporting also found out the makeup of the board has a significant impact in the choices for effective integrated reporting.

Handajan et al (2014) used multiple regression analysis to conduct a test of listed public firms. Their study looked into the effects of board diversity using proxies of board size, independence, tenure and gender on the corporate social disclosures. Their findings revealed that, board size and age have a significant positive impact on the social disclosures while gender and tenure had a negative impact. However, board independence did not reflect significant influence on the disclosures. Although the study did not look on multiple nationalities within the board, it concluded that the board diversity helps to reduce narrow perspective in the board. Furthermore, the study concluded that board diversity helps the organisation to perform well sophisticated practices due to the presence of varied experiences within the board itself and which encourages new ideas to flow in. While studying the impacts of culture on governance and social reporting, Haniffa and Cooke (2005) realized

the possibility of feminine culture and closeness to the governance in Malaysia, to influence native directors to increase disclosures for non-financial information compared to foreign directors. The study used legitimacy theory and data analysis was conducted through both t-tests to check whether or not there is a significant difference in two periods of reporting and multiple regression analysis to test the relationships of variables.

Robust of forms a part of corporate governance of the organisation. The board diversity has great impact in terms of a composition of members who come from different nationalities and who are not part of the organisations executive team to bring new perspectives in the organisations. Durak {2013} confirmed from his study that board diversity has a role to play in the integrated reporting. Frias-Aceituno et al {2013} stressed that formation of the board is essential. Handajan et al {2014} agree that board size and age have a positive impact and gender and tenure reflected negative. However, Handajan et al {2014} also confirmed board independence to have no significant influence. As such, this study believes that board dynamics in terms of composition has a role on disclosure behaviours and the below hypothesis was constructed.

H2 There is a significant relationship between board diversity and effective integrated reporting.

Regulatory Framework and Integrated Reporting

Regulatory framework where a company operates can have a significant influence on the company's decision to adopt effective integrated reporting. Solstice Sustainability Works Inc {2005} argues that, the voluntary nature of the current integrated reporting practices are likely to foster biased view of shareholders interest and put the sustainability aspects in the back seat during the competition of scarce resources in terms of management time and reporting contents. Eccles and Serafeim{2011} believe that the mandatory integrated reporting through strict regularity regimes would be critical in pushing the wider effective integrated reporting and the benefits of which is likely to accrue to both firms and societies.

Several countries are persisting towards enforcing the integrated reporting via

enhanced regulations notably in Canada (MD&A), UK (ORF), France and SA (Solstice Sustainability Works Inc., 2005). The author provides a sceptical view on the effectiveness of regulations towards wider adoption. His view comes from the fact that, regulations pertain mostly to listed companies and therefore unlisted companies may still be left out. He also believes that discussion of sustainability aspects may apply only to some companies but not all. He claims some sustainability contents are not subject of audit in other jurisdictions which may lead to variations in disclosure contents. However, the author did not disclose the sustainability aspect he was referring to. Solstice Sustainability Works Inc suggests realignment of various elements other than regulations in order for the regulations to make sense.

Baron (2014) on the OECD background paper for 30th Round Table on Sustainable Development believes that mandating non-financial reporting is pivotal. He emphasizes his point by arguing that, the mandating of financial statements reporting and the introduction of accounting standards could have probably been the single critical important aspect that drove capital markets successful. Frias-Aceituno et al (2013) studied the impact of legal systems in the integrated reporting. They analysed the 750 international companies for a period between 2008 and 2010 using logit methodology. The study indicated that companies situated in countries where they use largely civil laws such as German, Spain and Italy and where the compliance to laws and order is high are more likely to produce integrated reports than those countries situated in the common law countries.

Frias-Aceituno et al (2013) views could be supported by a report of ACCA (2012) which/ reported an increased level of integrated reporting, particularly on the levels of social, ethical and environmental reporting in South Africa in the years 2010/11 compared to 2009 because of King III codes introduction which mandated all listed companies to adopt these reporting as part of the conditions for being listed. South Africa firstly introduced the code to the Johannesburg Stock Exchange (JSE) in 2010. The codes have put the sustainability reporting requirements as part of their operational requirements. When asked what could promote a widespread integrated reporting, most of interview respondents in an exploratory study of Stubbs and Higgins (2012) emphasized on guidelines, standards and regulations as being the corner stone.

Ioanou and Serafeim (2014) studied on mandated reporting of sustainability aspects in the corporate disclosures. China, South Africa, Denmark and Malaysia were the case studies. They noted a positive response in South Africa and China but no response in Denmark and Malaysia. The study however did not provide a firm conclusion of a lack of predictability of regulation to increased information disclosures in China and Malaysia but rather purported that, they could have responded in a different way. Their study treated the firms in the four countries before and after regulations to test the impact of regulations to increased disclosures. The findings also concluded that, the regulations which required integration of the sustainability reporting to annual report (i.e. integrated reporting) had higher impact in the increased disclosures even when those countries had higher sustainability disclosures before regulations. The country responded well under this aspect was South Africa.

Regulatory view is also supported by the case of Enel Group who embarked in integrated reporting because of devotion to Mandatory ESG directives (Mio and Fasan, 2013) and The Case of Vodacom Group whereby the company followed the compulsory directives of the King Report for all listed companies in South Africa (Grana & Mari, 2013). Regulatory framework view is also supported by Di Donato et al (2013) on the Case of Eni. The company started producing integrated reporting in the year 2010 mainly due to the development of the regulatory frameworks locally and internationally (Di Donato et al 2013).

Legal framework shapes how companies behave in different aspects including transparency and reporting. Different scholars such as Frias-Aceituno et al (2013) and Di Donato et al (2013) believe that legal environment can inhibit corporates freedom on disclosure choices through institutional pressures. Frias-Aceituno et al (2013) consider that companies which are in areas where civil laws are applicable are more likely to produce integrated reporting than those who come from common law regime. Regulatory frameworks could have a great role in terms of promoting wider effective integrated annual reports. As such the following hypothesis was provided:

H3 There is significant relationship between legal framework and effective integrated reporting.

Company Category and Integrated Reporting

The oil and gas sector is divided into three main categories upstream, midstream and downstream. There is a situation where some companies work in more than one category. When this happens, they are called integrated companies. Companies working in different categories may face different challenges. Upstream is likely to face environmental challenges most while downstream could face challenges with customers and society as they are close to the communities. This study posits that, different challenges may mediate predictor variables in influencing companies' behaviours on the transparency and disclosures issues influencing integrated reporting.

H4: The company category has mediating effect between independent variables (i.e. company visibility, board diversity and regulatory framework) and effective integrated reporting

RESEARCH METHODOLOGY

This study adopted a quantitative cross-sectional approach {Sounders et al., 2009}. The quantitative design shares its philosophical orientation with the positivist paradigm {Hope and Waterman, 2003}. In addition, this study was based on the content analysis approach similar to Yao et al {2011}. As such a checklist was used to assess the elements of both the independent and depended variables. To achieve that a sampling frame of 2014 Top 250 oil and gas companies as per Platts McGraw Hill Financial {2014} which comprises all categories of companies {i.e. upstream, midstream and downstream} generated. From this sampling frame, the study used a simple random to select a sample size of 50 companies.

In case of data collection, the study adopted the approach of Mucciarone et al {2012}. It used secondary data obtained in annual reports of 2014. The choice of 2014 data was based on two factors, first is global financial crisis and second huge drop of oil prices. In case of global financial crisis, it was considered that it will have impact on oil and gas sector as argued by Watts {2009}. As such it was considered that after five years then it is possible that the sector will start to stabilize. This is consistent with the argument provided by Ross {2003} that even investors in oil and gas sector look for five years to see whether they can invest or not. On the issue of drop in oil price, this is based on the Deloitte {2014} report

and this was seen as a consequence of the financial crisis which reduced demand for petroleum. It is the perspective of this study that during this period, there was a global recession which has effect on integrated reporting consistent with Krzus (2011) argument that global recession required a complete revamp of the reporting model and having new regulatory requirements. Since the companies were listed, the information was obtained from the website of the companies. The choice of this method was based from the fact that, all the independent variables could be sourced from the annual report of the companies.

To achieve data quality, reliability and validity tests were performed. In case of reliability, Cronbach Alpha was used to ensure the results are within acceptable range of 0.7 to 0.8 (Nunnally, 1978). ANOVA tests were conducted to confirm significance of the model and correlation coefficient analysis to check whether there were any relationships between variables or not. For validity study mainly looked on content validity. Content and construct validity refers to the degree to which the elements of an instrument are representative of the construct of interest (Delgado-Rico et al., 2012). The study took the most recently published data (i.e. 2014) to determine the measures of company visibility (i.e., number of employees and number of countries that a company operates and board diversity (i.e. the most recent published board make up data). For the case of regulatory framework, the study vetted each company's regulatory environment against a list showing recent regulatory environment with regards to non-financial reporting disclosures shown in the work of Baron (2014). The dependent variable based on all the IIRC 20 elements of the framework that made up an effective integrated reporting. Also, correlation analysis was done to confirm construct validity as per Westen and Rosenthal (2003).

For data analysis, the study used a Hierarchical Multiple Linear Regression (HML) tool to analyse the collected data as suggested by Huta (2014). This model is a normal type of linear regression where by the observations fall into hierarchical or nested levels. It is a type of multilevel model. The main reason for using this model was because the study had more than one independent variables aiming at predicting a single dependent variable which is consistent with the underlying assumptions of the linear regression model and introduces one control variable, company category. The regression model used appears as per below:

$$Elj = \beta_0 + \beta_1 \ln CV_j + \beta_2 BD_j + \beta_3 RF_j + \beta_4 BC_j + \epsilon$$

Operational definition of variables

Dependent Variable

Effective Integrated Reporting (Elj) = The dependent variable, effective integrated reporting for each company *j*, was measured by considering the twenty items from the three key elements of the IIRC framework; six capitals, eight content elements and six guiding principles (IIRC, 2013). Zero was assigned if the item in each element was not reported, 1 if reported but no details provided and 2 if was reported with enough details. The total score was then summed up for each of the framework elements and computed the percentage compliance out of the total possible score of each of the three elements. The percentage obtained in each of the IIRC elements was then multiplied by an index of 100 to get index score. The sum of the three indexes, i.e. reported capitals, guiding principles and content element was then summed up to obtain the total effective integrated score for each company.

Independent Variables

Company Visibility (lnCV j) = Company visibility for each company *j* was measured using the sum of natural logarithm of number of countries for which the company had footprints in terms of operations and number of employees as at the year 2014. The higher the natural logarithm number, the higher the company visibility and vice versa. Natural logarithm was applied to reduce number of outliers as companies' differences in terms of number of employees and number of countries where they operate differs widely.

Board Diversity (BD j) = Board Diversity for each company *j* was obtained based on the sum of the weighted average of the ratio of the total number of foreign national members in the board to the total members and the ratio of non-executive directors to the total members. The resultant weighted average ratio was then multiplied by the index of 100 to obtain index score for each of the 50 companies.

Regulatory Framework (RF j) = Regulatory framework environment where company *j* operates was based on whether there is a regulatory regime that

mandates integrated reporting in the country where a particular company's head office operates. If integrated reporting is mandated, then it was considered there were high mandated disclosures and a score of 3 was given. If the Environmental, Social and Governance (ESG) were mandated without strict rules on integration, then this was regarded as moderate mandated disclosures and the score of 2 was given. If there were no directives either on integrated reporting or ESG reporting, then the disclosures was considered voluntary and a score of 1 was assigned. A list of countries and descriptions for the set of directives was obtained from Baron (2014).

RESULTS AND DISCUSSION

Profiles of Companies studied

The study examined 50 global oil and gas companies from different parts of the world (see Appendix 1). Out of these, 6 companies were from USA; 5 from India; 4 companies each from Australia, China and Russia; 3 Companies each from Italy, Japan and the UK; 2 companies each from Canada, Netherland, Saudi Arabia, Spain and South Africa and one company each from Finland, Hungary, Kazakhstan, Norway, Philippines, South Korea, Taiwan and United Arab Emirates (UAE). Four of the companies were operating purely on upstream activities, eleven operated downstream activities while majority of them were integrated, meaning that they combined any of the three categories (upstream, midstream and downstream). The lowest number of employees from the company was 179 of Petro SA of South Africa and the highest was 534,652 of PetroChina Company Ltd of China. The mean number of staff was 45,958 with standard deviation of 96,387. This reflects a very wide sample in terms of head count. However, the largest organisation in terms of worldwide footprints is Chevron operating across 180 countries. On overall basis, the biggest company in terms of visibility from the sample was Chemical Corp followed by PetroChina and the lowest visible was PetroSA of South Africa.

Most of the companies' boards were diverse with maximum foreign members of 8 and 21 that of local counter parts. Average boards had two foreign national members and nine local ones. Canada, Australia and Netherlands demonstrated high appetite of including foreign members in their board structures. Non-executive

members were majority of many boards with an average of seven members per each board and four members for the executives. Most of the Asian countries such as China, Japan and India tend to have more executive members in the board than other countries and in some instances form majority of the overall board make up. South African appeared to be the only country in the sample with strict regulations via King III. 27 companies appeared to have some mandatory requirements to disclose non-financial information without strict requirement to produce integrated reports. 21 companies operated under voluntary environment in terms of disclosure of non-financial information. Among the reports collected, only three referred IIRC as a basis for preparation while eight referred to GRI directives, one referred to triple bottom line framework and 38 remained silent. Only four companies from Hungary, Italy and South Africa used the term “integrated” in either the title or description of the report.

Compliance with IIRC Elements

Effective integrated reporting is made of 20 key elements as represented in Table 1. Considering how the companies responded in complying to the elements, this study found out that, financial capital, manufacture capital and performance were the most reported items among all the 20 elements which is in line with the finding of a background paper of IIRC (2013). All countries appeared to cover this reporting requirement mainly because; they were just deductions for the traditional reporting formats which covered company financial statements and expiations of company performance. Secondly, they represent key traditional concerns of Debt and equity shareholders.

Materiality and conciseness principle was the least complied with 58% of the companies under study failed to cover in their reports and only 20% covered explicitly and provided detailed explanations. Most of the companies that complied well also disclosed either IIRC or GRI as a basis for annual report preparations and appeared to be under strict regulatory environment. On the other hand, the majority of those who did not report also stayed silent on their basis of preparation and were operating between moderate regulations and voluntary environments. Other items which did not attract attention of most reporters include business model with 25 companies failing to cover, Intellectual Capital with 23 companies

failing to report and 14 failed to reflect connectivity of information so reported. Consistency and comparability was averagely considered by many of the companies studied.

Table 1: Compliance with IIRC Elements

IIRC Elements	Not Reported		Reported without Details		Reported with Details	
	F	%	F	%	F	%
1 Financial Capital	0	0.00	0	0.00	50	100.00
2 Manufactured/111Capital	0	0.00	0	0.00	50	100.00
3 Social and Relationship Capital	9	18.00	4	8.00	37	74.00
4 Human Capital	2	4.00	11	22.00	37	74.00
5 Natural Capital	6	12.00	11	22.00	33	66.00
6 Intellectual capital	23	46.00	11	22.00	16	32.00
7 Strategic Focus and Future orientation	8	16.00	7	14.00	35	70.00
8 Connectivity of information	14	28.00	20	40.00	16	32.00
9 Stakeholder Responsiveness	5	10.00	10	20.00	35	70.00
10 Materiality and Conciseness	29	58.00	11	22.00	10	20.00
11 Reliability and Completeness	2	4.00	29	58.00	19	38.00
12 Consistency and Comparability	0	0.00	47	94.00	3	6.00
13 Organisational Overview	2	4.00	5	10.00	43	86.00
14 Organisational Overview and External Environment	6	12.00	13	26.00	31	62.00
15 Governance	6	12.00	3	6.00	41	82.00
16 Business Model	25	50.00	16	32.00	9	18.00
17 Risk and Opportunities	11	22.00	4	8.00	35	70.00
18 Strategy and Risk Allocations	8	16.00	9	18.00	33	66.00
19 Performance	0	0.00	0	0.00	50	100.00
20 Outlook and Basis of Presentation	5	10.00	40	80.00	5	10.00
Maximum	29	58	47	94	50	100
Minimum	0	0	0	0	3	6
Average	8	16.1	13	25.1	29	58.8

Descriptive Statistics, Reliability and Validity Tests

Reliability test was conducted to check internal consistent associated with a scale generated by 7 items that were used to test effective integrated reporting. Reliability test was conducted by assessing the Cronbach’s Alpha. Result of Cronbach’s Alpha

was 0.721 which is well between 0.7 and 0.8 as suggested by Nunnally (1978) to be acceptable. Correlations analysis was conducted to test construct validity. The results for correlation analysis (see Table 3) show that regulatory framework and company visibility have a positive correlation with effective integrated reporting with 0.454 and 0.414 respectively. Board diversity appeared to have no correlation with the dependent variable with company category showing weak negative correlation. The test reflects no significant correlation between independent variables themselves and therefore confirms ability of each independent variable to predict dependent variable independently.

Table 2: Correlation

	Company visibility	Board diversity	Regulatory framework	Company category	Effective integrated reporting
Company visibility		-0.010	0.134	-0.198	0.414***
Board diversity			-0.084	-0.176	0.081
Regulatory framework				-0.169	0.454***
Company category					-0.151
Effective integrated reporting					

***p<0.01

Regression Results

For regression analysis, a model summary, ANOVA and regression coefficients were generated as presented in Table 4. The regression analysis which is hierarchical, was initially run with predictor variables and dependent variable only (i.e. Model 1) and thereafter included the control variable to get the second controlled results (i.e. Model 2). The model summary (Model 1 and Model 2) as represented in Table 4 reflects adjusted R square value of 0.305 and 0.290 respectively. This means, the models can explain 30.5% and 29.0% respectively of the changes in effective integrated reporting. The changes between the two models are not significant enough. The variables used in the model appear to be independent of one another with Durbin Watson approximating to 2. ANOVA analysis as per Table 4 reflects both resultant models rejects null hypothesis at 1% significant levels with F = 8.164, P-value = 0.000 and F= 5.994, P value = 0.001 for model 1 and 2 respectively. This confirms the model to be significant enough to predict the effectiveness of

integrated reporting.

The results also present testing of the four hypotheses (i.e. H1, H2, H3 and H4). In case of the company visibility, the study tested hypothesis (H1) which stated that, there is a significant relationship between company visibility and effective integrated reporting. The results which are presented in Table 4 indicate in Model 1 ($\beta_1 = 0.405$, t-value = 2.994 and p-value = 0.004) there is significant relationship at 1% significant level. Also, in Model 2 ($\beta_1 = 0.407$, t-value = 2.929 and p-value = 0.005), company visibility has significant relationship with integrated reporting at 1% significant level. For the board diversity, this study tested the hypothesis (H2) which stated that, there is a significant relationship between board diversity and effective integrated reporting. The results as presented in Table 4 shows that, in case of model 1 ($\beta_2 = 0.128$, t-value = 0.998 and P-value = 0.323), the relationship is not significant at 5% significant level. Similarly, model 2 which takes into consideration of the mediating effect of company category ($\beta_2 = 0.130$, t-value = 0.987 and P-value = 0.329), shows the relationship is not significant at 5% significant level.

On regulatory framework, the study tested the hypothesis (H3) which stated that, there is a significant relationship between regulatory framework and effective integrated reporting. The results as presented in Table 4 illustrate that, in case of model 1 ($\beta_1 = 14.640$, t-value = 3.448 and P-value = 0.001), there is a significant relationship at 1% significant level. Similarly, model 2 which takes into consideration the mediating effect of company category ($\beta_3 = 14.708$, t-value = 3.379 and P-value = 0.002), shows there is a significant relationship at 1% significant level. In the case of mediating effects of company category, the study tested the hypothesis (H4) which stated that, the company category has mediating effect between independent variables (i.e. company visibility, board diversity and regulatory framework) and effective integrated reporting. The results as presented in Table 4.7 show that, model 2 ($\beta_4 = 0.113$, t-value = 0.095 and P-value = 0.925) does not reflect a significant relationship at 5% significant level.

The final regression models will then look as per below:

$$\text{Model 1: } E_{ij} = 15.560 + 0.405 \ln CV_j + 14.640 RF_j + \epsilon$$

$$\text{Model 2: } E_{ij} = 14.752 + 0.407 \ln CV_j + 14.708 RF_j + \epsilon$$

Table 3: Regression results

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					
					R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	0.589	0.347	0.305	16.657	0.347	8.164	3	46	0.000	
2	0.590	0.348	0.290	16.840	0.000	0.009	1	45	0.925	2.124

ANOVA ^c						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	6795.978	3	2265.326	8.164	.000 ^a
	Residual	12763.474	46	277.467		
	Total	19559.452	49			
2	Regression	6798.550	4	1699.637	5.994	.001 ^b
	Residual	12760.903	45	283.576		
	Total	19559.452	49			

Coefficients	
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Model	Unstandardized Coefficients			Standardized Coefficients			Correlations			Collinearity Statistics		
	B	Std. Error		Beta	T	Sig.	Zero-order	Partial	Part	Tolerance	VIF	
1 (Constant)	15.560	12.310			1.264	.213						
Board Diversity	.128	.128	.119	.998	.323	.081	.146	.119	.993	1.007		
Regulatory Framework	14.640	4.246	.416	3.448	.001	.454	.453	.411	.975	1.025		
Company Visibility	.405	.135	.360	2.994	.004	.414	.404	.357	.982	1.018		
2 (Constant)	14.752	15.063		.979	.333							
Board Diversity	.130	.132	.122	.987	.329	.081	.146	.119	.954	1.048		
Regulatory Framework	14.708	4.352	.418	3.379	.002	.454	.450	.407	.949	1.054		
Company Visibility	.407	.139	.362	2.929	.005	.414	.400	.353	.949	1.053		
Company Category	.113	1.182	.012	.095	.925	-.151	.014	.011	.904	1.106		

a. Predictors: (Constant), Regulatory Framework, Board Diversity, Company Visibility

b. Predictors: (Constant), Regulatory Framework, Board Diversity, Company Visibility, Company Category

c. Dependent Variable: Effective Integrated Reporting

Source: Field Data

Discussion of Results

In case of company visibility, the findings of this study confirm existence of company visibility to have significant influence on the effectiveness of integrated reporting. The results confirm hypothesis one (H1) and appears to be in line with many studies such as those of Yao et al(2011), Li et al(2011) and Mucciarone et al (2012). However, the level of correlation between company visibility and effective integrated reporting was not strong enough although significant enough to explain changes. This could be a result of generic nature of the variable as suggested by Marquis and Toffel (2012) who asserted that, generic visibility can have a large impact on influencing effective disclosures when there is a presence of civil society scrutiny. This is opposed to domain specific visibility which Marquis and Foffel (2012) said can mitigate selective disclosures that may likely affect their specific circumstances such as environment and social.

On the other hand, board diversity failed to reflect a significant influence on effectiveness of integrated reporting and therefore findings do no support the second hypothesis (H2). These results are not consistent with the studies done byDurak (2013), Frias-Aceituno et al (2013) and Handajan et al (2014). There could be several reasons for these inconsistencies. Some studies such as that of Haniffa and Cooke (2005) mentioned the possibility of cultural influence within the board structure to have a strong influence on how the board decides in terms of transparency. Their study concluded that a feminine culture and closeness to the government in Malaysia could have a possible favourable influence in favour of local directors as compared to their counter parts foreign nationals. The possibility of cultural effect is confirmed by Aman et al(2011) who found out that, Japan apart from heaving a corporate governance that may inhibit disclosures through including mostly inside board members, are actually doing very well in terms of adopting integrated reporting. The other possibility is that, most of the companies observed had already been subjected to regulations and therefore the make-up of the board becomes irrelevant as coercive force to comply is beyond the boards' structure.

In case of regulatory framework, the results provided relatively better positive correlations compared to other variables confirming the third hypothesis above.

This result coincides with those of ACCA (2012), Mio and Fasan (2013) and Di Donato et al (2013). The strength of its relationship with the effective integrated reporting is also consistent with the assertion of significance of cohesive institutional isomorphism (DiMaggio and Powell, 1983). Evidence from cross tabulation between countries and regulatory framework reflect only one country; South Africa, had a clear mandated integrated reporting in their regimes. Most of them had directives in terms of general disclosures requirements without mentioning where those disclosures should be done. These companies however, performed well in terms of including these mandated elements in the annual report as one document. This implies that, the voluntary disclosures nature of the IIRC framework has provided most companies under study which are subjected with some regulatory directives on disclosures for non-financial statements the best environment for such compliance. Despite of significance of regulatory environment in determining the effectiveness of integrated reporting, some countries appeared to perform well without evidence of regulatory push. Japan and Russia are good examples. For example, Amana et al (2011) assert that, Japan has advanced significantly in terms of integrated reporting due to corporate groupings (Keiretsu) and cross shareholding culture in the country. They argue that, the country has the oldest corporates in terms of years of operations than any other company in the world because of this culture. Even before the evolution of the sustainability reporting, Japan had the culture of corporate social responsibilities.

The study was not able to provide evidence of significant influence of company categories in terms of upstream, midstream, downstream or integrated companies on mediating the independent variables to influence the effectiveness of integrated reporting. This could be because, most of the companies were integrated companies representing both features of company category to their value chain and hence expose all companies to the same domain specific visibility hence subjecting all companies to the same directions of institutional pressure. This also could be true for example in the case of regulatory framework, once most of the companies in a particular country have been subjected to a particular set of directives such as those of ESG disclosures for the European Union, the regime could then affect both categories as long as both are within the same sector.

CONCLUSION

The aim of this study was to examine the factors that influence effective integrated reporting in the global oil and gas companies. Fifty companies were studied as per Table 5.1 in the appendix section. The study had four objectives. The first objective was to assess the extent to which company visibility influences effective integrated reporting of the global oil and gas companies. The second objective was to establish the extent to which board diversity influences effective integrated reporting of the global oil and gas companies. The third objective was to evaluate the extent to which regulatory frameworks influences effective integrated reporting of the global oil and gas companies.

The last objective was to assess the mediating effect of company category on the relationship between predictor variables and effective integrated reporting of the global oil and gas companies. The study used six capital model and institutional theory. The research design was quantitative cross-sectional and data were collected through secondary sources from copies of annual reports published in 2014 and found in the internet. Both predictor variables and dependent variables were prepared and assigned appropriate scores. The study results from a hierarchical multiple linear regression approach confirmed that company visibility and regulatory framework have significant influences on the effective integrated reporting. Board diversity did not show significant influence on the effective integrated reporting and company category did not show evidence of significant mediating influence on the relationship between predictor variables and the effective integrated reporting.

Despite the significance of this study, it had its own limitations. First, this study mainly focused on the global oil and gas companies and considered different organisations in the areas of upstream, midstream and downstream parts of the sector. Future studies need to be conducted in the local companies, particularly in the emerging markets to understand better what factors could lead to effective integrated reporting. Second, the study used integrated reporting frameworks developed by IIRC in 2013. There is a possibility of a presence of other frameworks, hence future studies may be conducted to identify and compare various integrated reporting frameworks. Third, this study used secondary data (published annual

reports downloaded from official websites of companies of 2014). However, there could be other mechanisms for integrated reporting, which further studies may be conducted for example using data from various years and conduct panel data analysis to investigate the effect for long period. Lastly, it was found that most companies have tried to capture the required elements of the IIRC framework although the actual contents and quality have been widely differing between companies. Further studies need to explore the possibility and implications of having harmonized standards that may guide the flow and value of the integrated reporting among companies.

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Appendix: List of Companies Studied

	Company Name	Country
1	Eni SPA	Italy
2	Exxon Mobil Corporation	USA
3	BP Plc	United Kingdom
4	OAO Novatek	Russia
5	JSC KazMunaiGas Exploration Production	Kazakhstan
6	Caltex Australia Ltd	Australia
7	Petron Corp	Phillipines
8	Centrica plc	United Kingdom
9	Spectra Energy Corp	USA
10	OMV Aktiengesellschaft	Australia
11	Concho Resources Inc	USA
12	Chevron	USA
13	Bharat Petroleum Corp Ltd	India
14	Snam S.p.A.	Italy
15	PetroChina Company Ltd	China
16	Oil India Ltd	India
17	TransCanada Corp	Canada
18	Inpex Corp	Japan
19	OJSC Rosneft Oil Co	Russia
20	Royal Dutch Shell plc	Netherlands
21	Statoil ASA	Norway
22	Formosa Petrochemical Corp	Taiwan
23	JSOC Bashneft	Russia
24	CenterPoint Energy, Inc	USA
25	National Fuel Gas Company	USA
26	Indian Oil Corp Ltd	India
27	Rabigh Refining & Petrochemical Co	Saudi Arabia
28	Origin Energy	Australia
29	Santos Ltd	Australia
30	Tullow Oil plc	United Kingdom

31	S-Oil Corporation	South Korea
32	Gas Natural SDG SA	Spain
33	Neste Oil Corp	Finland
34	Enel SPA	Italy
35	Idemitsu Kosan Co Ltd	Japan
36	Royal Vopak NV	Netherlands
37	China Petroleum & Chemical Corp	China
38	The Hong Kong & China Gas Co Ltd	China
39	Repsol, SA	Spain
40	Abu Dhabi National Energy Co PJSC	UAE
41	OJSC Surgutneftegas	Russia
42	Reliance Industries Ltd	India
43	CNOOC Ltd	China
44	Suncor Energy Inc	Canada
45	Cosmo Oil Co. Ltd	Japan
46	MOL Hungarian Oil & Gas Co	Hungary
47	Saudi International Petrochemical Company	Saudi Arabia
48	PetroSA	South Africa
49	Sasol Ltd	South Africa
50	Oil & Natural Gas Corp Ltd	India

Source: Field Data (2015)



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