



Voluntary Disclosure and Financial Performance of Listed Money Deposit Banks (DMB'S) in Nigeria

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

The study examined the relationship between financial performance and voluntary disclosure of listed deposit money banks in Nigeria. The study made use of an ex-facto research design. The population of the study was the 15 listed DMBs in Nigeria and its sample was 10 banks. It made use of secondary data, which was sourced from the audited annual reports of DMBs. The study made use of panel OLS regression, correlation analysis and descriptive statistics test. The findings show a positive and significant relationship between financial performance and the voluntary disclosure of deposit money banks in Nigeria. This study recommends DMBs not to underestimate the effect of financial performance on voluntary disclosure by ensuring that management work hard enough to faithfully increase their performance levels, as this would serve as a motivation to disclose for information to stakeholders.

Keywords: Financial performance; Nigeria; deposit money banks; accounting principles; disclosures.

1. INTRODUCTION

Financial transparency and voluntary disclosure are gaining hold in Nigeria, although slowly, due to the country's unstable economy [1]. Voluntary disclosure entails more than adhering to

generally accepted accounting principles (GAAP) and stock exchange regulations [2]. This information included in the voluntary disclosure is deemed critical to stakeholders when making certain decisions, but is not required; accordingly, management may present such

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information at their discretion. To enable stakeholders to make the most accurate and informed decisions possible, they encourage management to incorporate such information in their annual reports [2].

Kiema, Ahmed and Ndirangu [3] assert that an organization's performance acts as a gauge of its efficiency and effectiveness. Statistics on financial performance, as well as Voluntary disclosure is critical for financial institution stakeholders. Nonetheless, it has been observed that a sizable number of banks do not participate in voluntary information disclosure; most organizations comply with mandatory disclosure requirements without adequately disclosing certain aspects that are not mandated but may be material to stakeholders. This reluctance or lack of interest on the side of bank management in voluntary disclosure may be due to simple ignorance, the fact that they have something to hide, or a combination of the two [4].

Voluntary disclosure is an issue that has lately received considerable attention in the accounting profession. This interest stems from the requirement to identify the components that underpin the factors that influence organisations' voluntary data disclosure in order to educate stakeholders about financial information [5]. Due to the unusual nature of voluntary disclosure, an empirical issue may be identified, as relatively few studies have been conducted on the subject and those that have are plagued by out-of-date data. Local research had focused on the implications of corporate governance for financial success and less on the influence of financial performance on businesses' willingness to disclose information through financial reporting.

This research would fill an empirical void by examining the relationship between financial performance and voluntary disclosure and by utilizing the most recent data available.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Voluntary disclosure

Sharma and Rastogi [6] posit that disclosure is the act of revealing information about a specific company's financial and non-financial status. Corporate disclosure reveals a company's financial and operational health [7]. In addition, while some of these disclosures are mandatory,

some disclosures are sometimes referred to as voluntary/optional disclosure and is not bound by specific restrictions [8]. Often, they are classified into distinct categories:

- i. **Business information:** This category comprises details about a business's general operations, such as its history and owners.
- ii. **Management's analysis of business data:** this category includes data relevant to the organization's business analysis that is not required to be disclosed.
- iii. **Innovative information:** This section contains details on the business's innovative efforts, which may include training and development as well as research and development costs.
- iv. **Managerial and shareholder information:** This includes information on the agency relationship between management (agents) and shareholders (owners), as well as the modes of communication and check and balance procedures.

2.1.2 Concept of financial performance

Performance is defined and described quantitatively or qualitatively using performance measures. They are a tool that businesses use to monitor their progress toward predefined goals and to identify critical indicators of organizational performance and consumer satisfaction [9].

A good performance measure should be capable of accurately defining the population being measured, the technique of measuring, the data source, and the time covered by the measurement [10]. With increasing pressure on a firm to provide adequate returns on investment for shareholders, managers have developed ways for improving corporate financial performance in order to increase shareholder wealth. This worldwide occurrence occurs in the United States of America, the United Kingdom, Australia, Canada, Brazil, and Germany, as well as South Africa [11].

The managers' fundamental objective is to maximize shareholder value. This is possible through efficient resource allocation. To reach this goal, shareholder wealth is substituted for profits, cash flows, and financial statement ratios. Using the information included in financial statements, shareholders, management, and other interested parties forecast future

performance [12]. Investors use the market value of a company to determine its potentials, both current and future. As a result, they constantly anticipate managers increasing the firm's market value in the hope of receiving a high rate of return on their investment. This is because an increase in a company's stock market value is interpreted as an increase in the company's wealth [13].

Historically, shareholder value was quantified using Return On Equity (ROE), Return On Investment (ROI), and net income. Following that, the introduction of Economic Value Added (EVA) compares a business's revenue to its cost of capital, providing a more accurate measure of both year-over-year growth and capital replacement adequacy. As a result, conventional measures are motivated by accounting returns as EVA is motivated by economic returns due to the fact that it involves discounting the replacement cost of capital to determine the returns. However, obtaining the data required to compute the measure is difficult, made even more difficult when considering the privacy of such data as interest on loans [14]. Thus, this research determined a company's financial success using Returns On Asset (ROA) and Returns On Equity (ROE) due to its simplicity, comparability, and importance as a fundamental tool for determining both profitability and performance.

2.2 Theoretical Review

2.2.1 Agency theory

The purpose of agency theory is to elucidate the link between a principle and an agent. Jensen and Meckling [15] describe an agency relationship as one in which the principal picks an agent and delegates power to the agent to act on behalf of the principal. Managers are often given decision-making authority by the firm's owners. When shareholders are unaware of critical information that management has access to, an agency issue might develop, resulting in information asymmetry between them. The agent, or management, often has full information compared to the shareholders and this may result in a conflict of interest and raises the cost of agency. As a result, the principal must exercise caution to avoid being exploited by the agent.

Voluntary disclosure is one technique to mitigate the agency issue, particularly if managers with

sensitive business information choose to connect with interested parties in order to raise the firm's value [16]. According to Healy and Palepu [17], voluntary disclosure/non-mandatory disclosure is expected to reduce agency costs, implying that the agency theory is most appropriate for this topic, as voluntary disclosure/non-mandatory disclosure helps reduce agency costs and eliminates any conflict of interest between management and the owner, thereby optimizing their interests. This is consistent with [18].

2.3 Empirical Review

Olaoye, Adebayo, and Okeke [19] evaluated the effect of financial performance on publicly listed manufacturing businesses' voluntary disclosure of strategic information in Nigeria. Return on assets had a negative and minimal effect on voluntary strategic information sharing, according to the study.

Giuseppe and Giuseppe (2020) examined the financial disclosure tendencies of firms that had both positive and negative stock returns. We observed that organizations with a positive stock performance are more likely to readily share this information. Saha and Kabra [20] proposed a theoretical framework for voluntary disclosure and its many cost-benefit trade-offs. The study's findings reveal that there is a positive and significant relationship between voluntary disclosure and firm value in the developed market. Yusuf, Adebayo, and Yusuf (2018) examined the effect of financial performance on voluntary disclosure by publicly listed financial businesses in Nigeria over a ten-year period (2008–2017). The findings suggested that financial performance had no discernible effect on voluntary disclosure by publicly traded financial businesses in Nigeria.

Unuagbon and Oziegbe [21] identified a correlation between a company's success and the extent to which it discloses information voluntarily. The study revealed a substantial positive correlation between a business's profitability and its level of voluntary information disclosure. Bahari Nor, Adnan Kamal, and Ali [22] investigated the relationship amid financial performance of a firm and its environmental disclosure. The study demonstrates a negative association between environmental disclosure and firm performance in Malaysia. Mugo [23] also studied the financial performance of commercial banks in Kenya in light of voluntary disclosure. The study found a positive

association between financial, forward-looking, and board of director disclosures, as well as social transparency and return on equity.

3. METHODOLOGY

This study examined the relationship between financial performance and voluntary disclosure of listed deposit money banks in Nigeria. The study adopts an ex post facto approach, where data already exists and are compared on some dependent variable. The study is centered on data sourced from secondary sources from a period of 10 years (2011 – 2020). The panel ordinary least square regression was chosen due to the combination of time series and cross-sectional data [24]. A correlation matrix, panel OLS regression, Hausman test, and various descriptive analyses was carried out on the data to properly understand the characteristics of the dataset.

3.1 Model Specifications

The econometric model that is used to evaluate the effect of financial performance on the voluntary disclosure on deposit money banks in Nigeria was adapted from the work of Oluwagbemiga [25], who originally used:

$$VD = a + \beta_1(PEF) + \mu$$

where;

PEF = Performance

VD = voluntary disclosure

$$VDI_{it} = \beta_0 + \beta_1 (ROA)_{it} + \beta_2 (ROE)_{it} + \beta_3 (CR)_{it} + \beta_4 (FZ)_{it} + \mu$$

Where:

VDI = Voluntary disclosure index

ROA- Return on asset

ROE- Return on equity

CR- Current ratio

FZ- Firm Size

μ = error term

I = cross-section

t = time series

3.2 Measurement of Variables

These measurements are gotten from the study of Owais [18] in Table 1. They include.

4. DATA ANALYSIS AND INTERPRETATION

4.1 Descriptive Statistics

The Table 3 demonstrates the degree to which the variables are related. According to Wisdom, Lawrence, Akindele, & Muideen, [26], multicollinearity is a concern only when the correlation coefficient between the regressors is more than 0.8. The result indicate dere is no level of multicollinearity the distribution.

4.2 Hausman Tests

These tests were carried out for the various models to find which effect best fit the model; the decision rule states if the p-value is above 5% reject the null hypothesis hence, a random effect should be adopted if lower than 5% a fixed effect should be used [27].

Table 1. Measurement of variables

S/n	Variable	Symbol	Measurement
01	Return on asset	ROA	Net income / total assets
02	Return on equity	ROE	Net income / total equity
03	Firm size	FZ	Natural log of total asset of the respective banks
04	Current ratio	CR	Current asset / current liabilities
05	Voluntary disclosure index	VDI	This would be gotten by a weighted score of the ratio of voluntary items discoursed in the report to the voluntary discourse items on the master voluntary disclosure list.

Source: Author's computation (2022)

Table 2. Descriptive statistics

	FZ	ROE	ROA	VDI	CR
Mean	18.08094	0.854011	0.767798	0.908333	1.551073
Median	19.80989	0.869680	0.760164	0.833333	1.247310
Maximum	22.10401	1.015481	0.874606	1.000000	11.09633
Minimum	13.22583	0.609205	0.528861	0.833333	0.072012
Std. Dev.	3.218855	0.075569	0.065598	0.083333	1.525858
Skewness	-0.340350	-1.056661	-0.931668	0.201008	4.729395
Kurtosis	1.315389	4.925727	5.350912	1.040404	28.05933
Jarque-Bera	13.75528	34.06065	37.49502	16.67347	2989.328
Probability	0.001031	0.000000	0.000000	0.000240	0.000000
Sum	1808.094	85.40107	76.77983	90.83333	155.1073
Sum Sq. Dev.	1025.742	0.565354	0.426004	0.687500	230.4961
Observations	100	100	100	100	100

Source: Authors Computation (2022)

Table 3. Correlation matrix

	FZ	ROE	ROA	VDI	CR
FZ	1	0.36	0.67	-0.15	-0.01
ROE	0.36	1	0.73	0.04	-0.32
ROA	0.67	0.73	1	-0.07	-0.09
VDI	-0.15	0.04	-0.07	1	0.11
CR	-0.01	-0.32	-0.09	0.11	1

Source: Author's Computation (2022)

Table 4. Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.149521	4	0.0018

Authors Computation (2022)

From the established decision rule, the regression would adopt a fixed effect.

Table 5. Panel regression

Dependent Variable: VDI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
FZ	-0.001490	0.004157	-0.358491	0.7209
ROA	-0.573516	0.357826	-1.602779	0.1127
ROE	0.615412	0.261299	2.355202	0.0208
CR	0.015391	0.006486	2.373072	0.0199
C	0.826183	0.111733	7.394265	0.0000
Root MSE	0.077620	R-squared		0.633655
Mean dependent var	0.908333	Adjusted R-squared		0.608815
S.D. dependent var	0.083333	S.E. of regression		0.083700
Akaike info criterion	-1.993982	Sum squared resid		0.602487
Schwarz criterion	-1.629258	Log likelihood		113.6991
Hannan-Quinn criter.	-1.846372	F-statistic		7.933454
Durbin-Watson stat	1.865777	Prob(F-statistic)		0.000000

Source: Author's Computation (2022)

FZ and ROA are statistically insignificant in explaining a variation in the dependent variable as the P-value is below 5%. A negative relationship can also be seen between FZ and ROA with VDI. Although, the results also indicate that the CR and ROA are statistically and positively significant in explaining the variation of VDI in the distribution. This is indicated as the P-value is below 5%. This means that financial performance (ROE) has a positive and significant effect on voluntary disclosures of DMB in Nigeria. This conclusion is in line with Sanni [28] who also revealed similar results. The adjusted R-squared was 60% indicating that a 60% change in the dependent variable is due to the independent variables (ROA, ROE, CR, and FZ). The F-statistic of 7.933454 indicates that the variables are well fitted with a probability of 0.000000. Durbin-Watson statistic value of 1.8 indicates that there is no evidence of autocorrelation [29-31].

The F-statistics indicate fitness of the model and shows that financial performance has a significant impact on voluntary disclosures of listed deposit money banks in Nigeria. The research findings support that of Olaoye, Adebayo and Okeke [19] which discovered a negative relationship between return on asset and voluntary disclosure of listed firms. This is also contrary to Nopnapa and Soibuppha (2015) who discovered a positive and significant effect between return on asset and voluntary strategic information disclosure. Also, Hieu and Lan (2015) discovered a positive and insignificant effect as well. Nonetheless, there was a positive relationship between returns on equity and voluntary disclosures in listed DMB's in Nigeria. The negative effect of ROA on disclosure would indicate manager's reluctance in disclosing more information as their companies experience high financial performance. In addition, the nature of the disclosure seems too sensitive to be revealed to the public, particularly to their competitors as this may serve as a competitive advantage.

5. CONCLUSION AND RECOMMENDATIONS

This study concludes that financial performance has a positively significant effect on voluntary disclosure of deposit money banks in Nigeria. It means that there is a significant relationship between financial performance and voluntary disclosure of the listed DMBs in Nigeria. The study recommends that the banks should adopt an optimal liquidity policy and monitor Returns on

equity, which would boost their confidence in providing voluntary disclosure information of the firm in their annual report. Furthermore, the asset base of the firm should be properly maintained as it poses a great deal of significance to the firm's voluntary disclosure. Finally, this study recommends future research in this field due to the different forms of voluntary disclosures and their peculiarity to different industries.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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