Voluntary Disclosure and Financial Performance of Listed Money Deposit Banks in Nigeria

ABSTRACT

The study examine the relationship between the financial performance and the voluntary disclosure of the listed deposit banks in Nigeria. The made use of an ex-facto research design. The population of the study was the of 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 the DMBs. The study made use of a series of statistical tests to analysis its data, such as; a panel OLS regression, a correlation matrix and some descriptive statistics. The variables of the work made us of the firm's financial performance as its independent variables which were proxied by the ROA, ROE, EPS and CR while the voluntary disclosure served as the dependent variable which was proxied by a voluntary disclosure index. The findings should be a positively significant relationship between financial performance and the voluntary disclosure of the deposit money banks of Nigeria. This study recommends DMBs not to underestimate the effect of financial performance on voluntary disclosure and to follow proper procedures when disclosing financial information in public reports. When proper procedures are followed in the production and presentation of these financial reports, they contributed to the report's transparency while also improving its dependability and relevance. Additionally, the study advised that adequate controls be implemented over businesses operating in Nigeria, guaranteed accurate reporting and disclosure of optional items in their financial statements. Finally, this study recommended future research in this field due to the difference between the results of the existing literature.

Keywords: financial performance, Nigeria, Money Deposit Banks, accounting principles

1.0 Introduction

Financial transparency and voluntary disclosure are gaining hold in Nigeria, although slowly, due to the country's devolving economy (Kiprop,2018). Voluntary disclosure entails more than adhering to generally accepted accounting principles (GAAP) and stock exchange regulations (Khavere Kitigin 2021). This information included in the optional disclosure is deemed critical to stakeholders when making certain decisions, but is not required; accordingly, management may present such information at their discretion. To enable stakeholders to make the most accurate and informed decisions possible, they encourage management to incorporate such data in their reports (Khavere Kitigin 2021).

Kiema, Ahmed, and Ndirangu (2015) 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 data disclosure; most organisations comply with mandatory disclosure requirements without adequately disclosing certain aspects that are not mandated but may be material to bank customers. 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 (Khlif, Guidara & Souissi, 2015).

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 data (Boateng, Tawiah & Tackie, 2022). 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.

This research would fill an empirical void by examining the relationship between financial performance and voluntary disclosure and also by utilising the most recent data available. Jiu, Chiu, and Yu (2022)

This study will examine the relationship between financial performance and financial reporting, as well as the major impediments to effective voluntary disclosure practises in Nigerian businesses. Local research has 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. Thus, this research will help to the understanding of the influence of voluntary disclosure on the financial performance of Nigeria's retail cash banks Alia, Abdeljawad, Jallad, and Rashid, 2022).

2.0 Literature Review

2.1 Conceptual Review

Concept of Voluntary Disclosure

Sharma & Rastogi (2021) Simply put, disclosure is the act of exposing information about a specific company's financial, non-financial, quantitative, or other status. Meanwhile, corporate disclosure discloses a company's financial and operational health, authority distribution within the business, and decision-making methods (Okwuosa, 2022). Additionally, while such disclosure is mandated by law, it is sometimes referred to as voluntary/optional disclosure if it is not bound by specific restrictions (Gunnarapong, & Tongkong, 2022). Frequently, it is classified into six distinct categories:

1. Business information: This category comprises details about a business's general operations, such as its origins and owners.
2. Management's analysis of business data: this category includes data relevant to the organization's business analysis that is not required to be disclosed.

3. 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.

4. 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.

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 organisational performance and consumer satisfaction. (2021) (Boshnak).

A good performance measure should be capable of accurately defining the population being measured, the technique of measuring, the data source, and the time period covered by the measurement. & Papa, Rossi, Festa, Chouaibi, Fait (2021), With increasing pressure on a firm's performance to provide adequate returns on investment for shareholders, managers have developed ways for improving corporate financial performance in order to increase shareholder wealth. This is a worldwide occurrence that occurs in the United States of America, the United Kingdom, Australia, Canada, Brazil, and Germany, as well as South Africa. It has pervaded the Kenyan market, where it is used by Standard Chartered, Barclays Bank, Coca-Cola, and Unilever (Alleyne, Haniffa & Hudaib, 2016).

Managers' fundamental economic objective is to maximise 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 (West &Worthington, 2014). 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's market value is interpreted as an increase in the company's wealth (Saha, & Kabra, 2020).

Due to the fact that poor growth prospects detract from a firm's value, an effective performance metric measures the magnitude of growth (Saha, & Kabra, 2020). 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, according to its proponents. As a result, whereas conventional measures are motivated by accounting returns, 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 (Islam, 2020). Thus, this research determined a company's financial success using ROI due to its simplicity, comparability, and importance as a fundamental tool for determining both profitability and performance.

Theoretical Review

The purpose of agency theory is to elucidate the link between a principle and an agent. Jensen and Meckling (1976) describe an agency relationship as one in which the principle picks an agent and delegated 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 a greater grasp of the problem than the principle, or shareholder. This results in a conflict of interest and raises the cost of the agency. As a result, the principal must exercise caution to avoid being abused 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 (Barako, 2007). According to Healy and Palepu (2001), 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 optimising their interests. This is consistent with (Owais, 2021)

Empirical Review

Olaoye, Adebayo, and Okeke (2020) 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 organisations with a positive stock performance are more likely to readily share this information. Saha and Kabra (2018) 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 (2016) 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 (2016) investigated the existence and financial performance of environmental disclosure. The study demonstrates a diametrically opposed association between environmental disclosure rules and commercial performance in Malaysia. Mugo (2014) 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.

3.0 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 centred on quantitative variables and sourced from secondary means 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 (Waleed, 2014). A correlation matrix, panel OLS regression, Hausman test, and various descriptive analyses was carried out on the data,

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 works of Oluwagbemiga (2014), 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

3.1 Measurement of Variables

This section would indicate the various ways to measure the individual variables, The formula below are gotten from the works of Owais, W. O. (2021), they include;

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.

Authors computation (2021)

3.2 Method of Data Analysis

The panel ordinary least square regression was chosen because the study used panel data. Panel data combine both time series and cross-sectional data. Waleed's (2014). A correlation matrix, panel

OLS regression, Hausman test, and various descriptive analyses was carried out on the data, these analyses would present the results which was interpreted in chapter 4 of which the conclusion and recommendations would be drawn from in chapter 5.

4.0 Data Analysis and Interpretation:

4.1: Descriptive Statistics

Table 2: Description 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

Authors Computation (2021)

- Mean indicates the average value of the distribution, The mean measures the average score of the distribution. The values are seen in the table above at their respective cells.
- Median denotes the distribution's minimum value. This value serves as a middle point for the distribution.
- The max column indicates the distribution's maximum values. This is the highest value in the various distribution
- Skewness shows that the FZ, ROE, and ROA values are negative, while the VDI and CR values are positive. This indicates that the FZ, ROE, and ROA values are below the average in the firm's distribution, but the VDI and CR values are above the average.
- The kurtosis is positive, indicating that the distribution fits well.

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

Author’s Computation (2021)

It demonstrates the degree to which the variables are related. According to Wisdom, Lawrence, Akindele, & Muideen, (2018)., 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.

4.4: 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 prob 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.

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 (2021)
From the established decision rule, the regression would adopt a fixed effect.

Panel Regression

The research hypothesis would be tested using the regression analysis, which would test for both the correlation and causation of the variables under study.

Table 5 : 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
	Effects Specification			

The period fixed (dummy variables)

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 (2021)

FZ and ROE are statistically insignificant in explaining a variation in the dependent variable as the Prob value is below 5%, A negative relation can also be seen between FZ and ROE 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 Prob value is below 5% and the T-statistics is above 2, this conclusion is in line with Sanni, O. (2018). The coefficient of determination R squad was reduced to 60% from 63 percent. This indicates that a 60% change in the dependent variable is due to the independent factors changing (ROA, ROE, CR, 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.

5.0 Conclusion and Recommendations

This study concludes that financial performance has a positively significant effect on voluntary disclosure of deposit money banks in Nigeria's voluntary disclosure. 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 its working capital as the current ratio (CR) has been proven to influence the voluntary disclosure of the firms, the asset base of the firm should be properly maintained as it poses a great deal of significance to the firms voluntary disclosure. Finally, this study recommends future research in this field due to the difference between the results of the existing literature.

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