



Financial Reporting Quality and Market Performance of Listed Deposit Money Banks (DMB) in Nigeria (2008-2017)

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Authors' contributions

This work was carried out in collaboration among all authors. Author OW designed the study, performed the statistical analysis, wrote the protocol and wrote the first draft of the manuscript. Authors OW and AA managed the analyses of the study. Author OS managed the literature searches. All authors read and approved the final manuscript.

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ABSTRACT

This research studied the association amid financial reporting quality and market performance (TOBINQ) of quoted deposit money banks in Nigeria. Using panel methodology in addition to other econometric tests (descriptive statistics test, correlation analysis, and Hausman test), this study discovered a significant relationship amid financial reporting quality (earnings predictability, timeliness) and market performance (TOBINQ) in listed deposit money banks in Nigeria. Also, timeliness (TML) has a negative and insignificant relationship with market performance (TOBINQ) of quoted deposit money banks in Nigeria. Furthermore, earnings predictability has a negative and significant relationship with performance (TOBINQ) of listed deposit money banks in Nigeria. This study recommended that management of deposit money banks ought to guarantee that they implement best practices in the process of financial reporting.

Keywords: Financial reporting; profitability; TOBINQ; agency theory; performance.

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1. INTRODUCTION

Subject to market environs, business globalization, environmental development as well as the growing request for transparent information amid investors, shareholders, market participants gain advantage via the quality of their corporate reporting and also bank on it for corporate strategy [1,2]. Likewise posit that financial reporting should not be the end goal; but quality is paramount. The quality of corporate reporting is founded on disclosure of corporate dealings, information regarding the selection as well as adopted accounting policies and also complete information of corporate decisions made. Corporate information presented by an entity has developed to be an essential resource for stakeholders since it curbs information asymmetry amid directors, prospective investors, regulatory organizations, society as well as other stakeholders.

Today, the drive for preparing quality corporate financial reports has established pronounced consideration globally. Publishing high quality information is significant because it may positively impact key capital providers as well as other stakeholders in investment decision process, credit options as well as decisions promoting total market efficiency [3]. The key indicators of corporate information quality with respect to accounting standards are relevance and reliability, which presents information relevant for decision makers as well as enhancing qualities such as comparability, verifiability, timeliness and understandability [4].

Thus, one of the key debate that emerge concerning the quality of financial reporting is its impact on future performance of an entity, that is, how the stock market responds to this increased perceived quality. Recently, corporate reporting quality, earnings management as well as earning quality is a key emerging issue due to scandals like WorldCom, Enron and even in Nigeria like Intercontinental Bank, Skye Bank, Cadbury, etc. Several financial as well as accounting scholars have affirmed the benefits as well as function of the quality of financial information [5,6]. They also expressed that poor quality of financial reports may negatively affect corporate performance as well as economic decisions. This strengthens the critical discuss and analysis of the link amid financial reporting quality and corporate performance.

Previous research in this subject matter provide empirical confirmation that quality of financial

reporting is positively linked with corporate performance proxies such as Returns on investment (ROI), growth levels, investment capacity, earning per share [7,8]. Nonetheless, the existing empirics reveal inconsistent outcomes [9]. Additionally, selecting performance proxies is a key dilemma. Notwithstanding, stakeholders posit that traditional measures no longer function satisfactorily. Unlike the traditional financial performance proxies, this research adopts a market based measure (TOBINQ) of performance to inspect the association amid financial reporting quality and market performance of listed DMB's in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Financial reporting quality (FRQ)

Accounting information system plays a vital role in firm's active flow and also in complex economic decision because many economic decisions are based on the information obtained from accounting information system so it is important to asses, maintain and improve the financial reporting quality. Various benefits of superior information and FRQ have been cited: reporting quality or FRQ decreases liquidity and information risk [10]. It prevents management from using discretionary influence for their personal benefits or motives and guides them in making effective investment choices [11]. Precisely, one of the key benefits of higher FRQ is help in minimization of asymmetric information glitches which arise because of incompatible interest [12]. Firms that report good quality financial information to the several markets agents enables entities to perform in the market with superior advantage as well as upper level of information [13].

Accounting information system plays a vital role in firm's active flow and also in complex economic decision because many economic decisions are based on the information obtained from accounting information system so it is important to asses, maintain and improve the financial reporting quality. [14], supporting this opinion, stated that companies with a greater quality of earnings enjoy lesser cost of debt [15,1]. Among the way to measure FRQ, the best employed dimensions of this theory in text are: (i) accounting conservatism; (ii) earning quality and (iii) quality of accruals. Showing this concept,

Table 1. Empirical review of literature

Author	Country	Objective	Methodology	Findings
[25]	Pakistan	This study examines impact of FRQ on Firm's Financial Performance	panel data	positive & significant impact of FRQ on firm's financial performance (FP)
[26]	Jordan	observe the association amid the FRQ and non-financial performance in public quoted companies in Jordan	Questionnaire	The outcomes revealed that the constituents of FRQ are significantly impacting non-financial corporate performance.
[27]	Nigeria	Evaluated the association amid audit committee size and corporate FRQ in Nigeria	Panel data regression	Our results underscore the importance of the corporate governance recommendation as a mean of strengthening the monitoring and oversight role of audit Committee plays in the financial reporting process.
[28]	Nigeria	investigate the association amid accounting information and corporate performance of deposit money banks in Nigeria	Survey research design Pearson Product Moment Correlation (PPMC)	The quality of accounting information in terms of relevance to users contributes significantly to the performance of bank.
[29]	Indonesia	Impact of FRQ On Information Asymmetry as well as Its Impacts On Investment Efficiency	Conceptual review	Association between the quality of financial reporting with the efficiency of investment, this relationship occurs because of the quality of financial reporting will produce quality information.
[30]	Romania	Significance of FRQ on corporate performance in Rome.	Correlation analysis as well as the linear regression analysis.	The outcomes of the empirical findings affirm two division of accounting performance are significantly associated with the share price, reflecting an increased value relevance and usefulness for the investors on the Romanian financial market
[31]	Tehran	explore the association amid FRQ and corporate investment efficiency	Descriptive-correlational research design	FRQ has a significant positive association with Corporate investment efficiency
[32]	Chile	inspects the effect of FRQ on Performance	GMM estimator	positive impact of FRQ on corporate performance.

Author	Country	Objective	Methodology	Findings
[33]	Uganda	The research intended at instituting the association amid the FRQ and financial performance of the public sector in Uganda	Cross-Sectional and descriptive research designs and stratified random sampling Regression	Significant positive association with almost 58% of corporate performance levels accredited to financial information quality
[34]	Iran	FRQ and Investment Efficiency of Iran	panel data regression	Financial reporting quality doesn't have relationship with over-investment but the second hypothesis specifies that a negative association amid FRQ and under-investment.

[16] describe three categories of the proxies of earnings quality, based on that “higher earnings quality shows the features of the firm’s earnings process that are relevant to a specific decision made by a specific decision-maker”.

Reporting quality has been explored in many areas, and numerous authors have mentioned to its benefits, such as its affirmative impact from the financial view point, by helping to minimizing information risk and increasing liquidity [10]. Furthermore, information reported in financial statements is most essential in debt contracting [15].

2.1.2 Performance

Countless scholarships have fashioned proxies which are adapted to measure corporate performance via diverse standpoints for an extensive range of commitments. [17] led an appraisal of measurements of corporate performance in associated studies published in the top management journals covering 2002-2007, and they revealed a scientific discuss relating to which measures are suitable and techniques to combine proxies in order to compare organizational performance. To explore the association amid CG and performance of entities, several proxies of corporate performance have been adopted. As stated by [18], the most recognized variable for corporate performance are Return on Assets (ROA), Tobin's Q, stock return, leverage, Last 2 Years Performance, Industry Performance.

Profitability is a measure of performance and it defines how well a firm has judiciously utilized the available limited resources in all its operations; however, profitability is only a means to an end. [19] see profit as the rallying point of all stakeholders. According to them, performance of the firm guarantees the payment of dividend, interest, wages, and taxes of shareholders, lenders, employees and government respectively. Therefore, good corporate governance increases performance [20,21] and ensures a firm’s commitment to all its stakeholders are met and which invariably increases the firm’s accessibility to funds, reduces financial crises and engenders sustainable economic growth. To this extent, the ultimate objective of a firm has been reasonably argued as not the welfare of the owners.

2.2 Theoretical Review

2.2.1 Agency theory

The agency philosophy outlines the principal-agent association. The principal referred to are shareholders whereas agents denote the managers. These factions have differing goals, thus creating agency costs [22]. Corporate disclosures via financial reporting as well as regulation aid to alleviate the agency issues, as it necessitates that administration of entities disclose mandatory as well as voluntary reports for the benefit of stockholders as well as other invested parties. By and large, as managers gain first-hand corporate information concerning activities of an entity, they are obligation bound in line with the agency theory to disclose as appropriate information to the owners of the entity. This research therefore adopts the agency theory as the theoretical backing for this research endeavor.

Accordingly, agency theory holds that directors may take lead of the information they possess on their control in making accounting as well as reporting decisions to overshoot financial information. They generally do this by acting in what they perceive to be in their own interest [23]. Reducing agency costs by imposing internal mechanisms of control should therefore encourage managers to behave in the best interest of shareholders instead of in their own interests. However, because controls are imperfect, we would expect some degree of opportunism to remain [24].

Since managers are widely paid based on firm’s performance, it is plausible to expect that active earnings manipulation will occur in order to enhance managerial compensation packages [35]. This approach is highly focused on bounded rational decision making around incentives, information and self-interest. Thus, it is a viewpoint that suggests that it may be necessary to limit managers’ discretion with respect to accounting, since investors, as a consequence of asymmetrically distributed market information, cannot unravel the valuation effect of reported earnings in a timely manner under current reporting standards.

3. METHODOLOGY

This research examines the relationship amid FRQ and market performance focusing on quoted DMB’s in Nigeria. The data to be used for

this study is secondary data to be derived from corporate reports of randomly selected ten (10) deposit money banks, covering ten years' period of 2008 and 2017 out of 15 Deposit Money Banks quoted on the Nigerian capital market. [36] express that it is certified to use 10% of a population as sample in research endeavors, as well as generally endorsed to be appropriate to serve for a research work. The selection of the sample is therefore done having in mind that the sample selected is at least 10% of the entire population.

3.1 Model Specifications

Financial reporting quality was measured by Relevance and Timeliness. Relevance is measured as (Earnings book value of equity predictive ability -EPRED) adapting the model of (1).

Market performance = F (relevance, earnings predictability, firm size)

$$TOBINQ_{it} = \alpha + \beta_1 EPRED_{it} + \beta_2 TML_{it} + \beta_3 FSIZE_{it} + \epsilon$$

Where,

TOBINQ= Market Measure of Corporate Performance

EPRED= Earnings Predictability

TML= Timeliness

FSIZE= Firm Size

α = Intercept,

β_1 - β_3 – Regression Coefficients with Unknown Values, and

ϵ - Error Term.

3.2 Measurement of Variables

Taking earlier literature into consideration, the researcher used several measurements of reporting quality [37,38,39] because there is no generally accepted mode of measurement [16].

3.2.1 Dependent variable

Tobinq: This is derived as the ratio between a physical assets market value and its replacement value.

3.2.2 Independent variables

Earnings Predictability (EPRED) this is denoted as net operating income divided by net income.

Timeliness (TML) this is derived from the logarithm between times in days when the auditor signs the audit report and when the financial statement is published.

3.2.3 Control variable

Firm size (FSIZE) this is denoted as the natural logarithm of total asset.

3.3 Method of Analysis

The statistical technique adopted for analyzing the data gathered for the objective of this research is the panel ordinary least square (OLS) regression which considers time-series as well as cross-sectional data. A correlation analysis was done to test for multicollinearity amid variables [36]. To figure out what model (Fixed Effect Model or the Random Effect Model) is proper relating to the panel regression, a Hausman test analysis was carried out.

4. RESULTS AND DISCUSSION

4.1 Correlation Analysis

The correlation test above was carried out to test for multicollinearity between the independent variables (TML & EPRED). Based on the benchmark of 80% as recommended by [36], it can be perceived that there exist no issues of multicollinearity amid the independent variables (TML & EPRED).

Table 2. Result of correlation analysis

	TOBINQ	TML	EPRED	FSIZE
TOBINQ	1.000000	-0.137085	-0.077289	-0.191338
TML	-0.137085	1.000000	0.076028	-0.039893
EPRED	-0.077289	0.076028	1.000000	0.083101
FSIZE	-0.191338	-0.039893	0.083101	1.000000

Source: Authors Computation (2020)

4.2 Hausman Test

Null Hypothesis: Random Effect Model

If the p-value isn't statistically significant, accept the null hypothesis (Random Effect Model).

The Hausman test was carried out to determine which model is appropriate for the panel regression. From the above inquiry, it is disclosed that the P-value (0.2170) > 5% significance level, therefore, the null hypothesis is accepted while the alternative is rejected which is a random effect model.

4.3 Regression Analysis

This research observes the relationship amid financial reporting quality (earnings predictability and timeliness) and performance (TOBINQ) of quoted DMB's in Nigeria. The analysis shows an Adjusted R-Squared of 52% depicting that 52% variations in the dependent (TOBINQ) variable can be determined by changes in the independent variables (Earnings predictability and timeliness). Also, the Durbin Watson (1.070423) reveals the occurrence of low autocorrelation in the data series which is acceptable in time series data. The F-statistics (10.08365) is significant at 1% level which shows the model is fit and statistically significant. This

shows that there exists a significant association amid FRQ (Earnings predictability and timeliness) and financial performance (TOBINQ) of quoted DMB's in Nigeria.

Examining the co-efficient, it can be seen that timeliness (TML) has a negative as well as insignificant association with market performance (TOBINQ) of quoted DMB's in Nigeria. This depicts that for every one unit increase in time frame of preparation and presentation of financial information, there would be about a 0.9% decrease in performance (TOBINQ) of quoted DMB's in Nigeria.

Also, earnings predictability possesses a negative as well as significant association with market performance (TOBINQ) of quoted DMB's in Nigeria. This depicts that for every one unit increase in earnings predictability of financial information, there would be about a 0.04% decrease in market performance (TOBINQ) of quoted deposit money banks in Nigeria. Consequently, firm size (FSIZE) has a negative and significant relationship with market performance (TOBINQ) of quoted deposit money banks in Nigeria. This depicts that for every one unit increase in firm size, there would be about a 15% decrease in market productivity (TOBINQ) of quoted DMB's in Nigeria.

Table 3. Results of 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	4.447826	3	0.2170

Source: Authors Computation (2020)

Table 4. Results of regression analysis

Dependent Variable: TOBINQ				
Total observations: 100				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
TML	-0.0097	0.0118	-0.8263	0.4109
EPRED	-0.0005	0.0002	-2.3452	0.0213
FSIZE	-0.1454	0.0171	-8.4850	0.0000
C	2.9325	0.2102	13.9542	0.0000
R-squared	0.5817	Mean dependent var		4.2934
Adjusted R-squared	0.5240	S.D. dependent var		3.2954
S.E. of regression	0.1499	Sum squared resid		1.9573
F-statistic	10.0836	Durbin-Watson stat		1.0704
Prob(F-statistic)	0.0000			

Source: Authors Computation (2020)

$$TOBINQ_{it} = \alpha + \beta_1 EPRED_{it} + \beta_2 TML_{it} + \beta_3 FSIZE_{it} + \epsilon$$

4.4 Discussion of Research Findings

This research examined the association amid financial reporting quality and market performance of quoted DMB's in Nigeria. From the findings generated from the panel OLS, it was revealed that timeliness of financial reporting has a negative as well as insignificant relation with market performance of quoted DMB's in Nigeria. This depicts that the longer it takes for entities to publish financial reports, the lower their market performance. This is because investors would lack access to corporate information to make investing decisions concerning their holdings. These findings are in tandem with the findings of [34] which indicated a negative association amid quality of financial reporting and under-investment. Nonetheless, accounting standards may be of a high quality yet, the value relevance of corporate accounting information would be low when they are not applied.

Also, earnings predictability has a negative and significant association with market performance of quoted DMB's in Nigeria. This negates the findings of [40,41] who revealed a positive association amid earning quality and market value (TOBINQ). This depicts that when corporate reports embody qualities of the ability to predict earnings, it gives investors ample time to make informed decisions on whether to sell or keep their shares as well as what value to place on them for market transactions. Also, there is little or no room for accounting creativity and manipulation of earnings by corporate entities which would definitely reduce their market value.

5. CONCLUSION AND RECOMMENDATIONS

This research observed the link amid FRQ and market performance of quoted DMB's in Nigeria. Although the model was significant, it revealed a negative relationship amid financial reporting quality (timeliness and earnings predictability) and profitability of listed deposit money banks in Nigeria. This depicts that when corporate reports embody qualities of the ability to predict earnings, it gives investors ample time and information to make informed decisions on whether to sell or keep their shares as well as what value to place on them for market transactions. Based on research outcomes, it is recommended that:

- Greater focus ought to be invested to the creation of improved quality accounting

information in order to boost financial performance as currently there is a negative effect.

- Banks in Nigeria are directed towards employing greatly skilled capable accountants to prepare corporate financial information so as to boost financial reporting quality as this would give room for a positive effect of financial reporting quality on market value.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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APPENDIX

Descriptive Statistics

	TOBINQ	TML	EPRED	FSIZE
Mean	1.159730	1.859082	7.597774	12.04812
Median	1.137219	1.883652	3.745846	12.10805
Maximum	2.547500	2.819544	112.4282	12.74780
Minimum	1.005203	0.301030	-22.86442	11.07960
Std. Dev.	0.169777	0.277921	17.39659	0.397822
Skewness	6.532114	-1.285131	3.519740	-0.336812
Kurtosis	50.42181	12.80997	18.66740	2.240106
Jarque-Bera	10081.26	428.5077	1229.257	4.296701
Probability	0.000000	0.000000	0.000000	0.116676
Sum	115.9730	185.9082	759.7774	1204.812
Sum Sq. Dev.	2.853599	7.646762	29961.49	15.66795
Observations	100	100	100	100

Source: Authors Computation (2020)

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