

Corporate Attributes and Internet Financial Reporting by Deposit Money Banks in Nigeria

¹MUSA, Inuwa Fodio, ²Ismaila Olotu ABDULLAHI and
³Hassan MUSA

Abstract:

The advent of the internet has brought succor not just to the way businesses around the world are being conducted but also to the way corporations disseminate information to stakeholders. This study assesses the relationship between corporate attributes and internet financial reporting (IFR) practice by quoted Deposit Money Banks (DMBs) in Nigeria. The study used ex-post facto research design. The population of the study comprises of the 15 banks quoted on the first-tier securities market of the Nigerian Stock Exchange as at the December 2015 and these constitute the sample of the study. Web search engines were used to establish internet presence of each bank and the study used IFR Disclosure as proxy for IFR. Corporate attributes (size, liquidity, auditor type and profitability) were regressed against the IFR disclosure index to examine the extent to which they determine IFR. Results show that the relationship between IFR and bank size, bank liquidity is positive and statistically significant which implies that IFR practice is determined by size and liquidity of DMBs. The study noted that IFR is still a voluntary practice that is yet to be regulated. It therefore recommends that IFR should be encouraged and regulated to improve information disclosure and dissemination to wider stakeholders and users of financial reports.

Keywords: Internet Financial Reporting, Firm Size, Liquidity, Profitability, Auditor Type.

1.1 Introduction

In today's corporate world, concerns about the level and quality of corporate reporting as well as demand for openness and transparency have significantly increased. This can be attributed partly to cases of corporate scandals leading to collapse of most capital markets in the world. OECD (2004) argued that an efficient disclosure regime is a fundamental instrument for protecting investor and

¹ Department of Accounting, Nasarawa State University, Keffi; mfodio2001@yahoo.com

² Department of Accounting, Nasarawa State University, Keffi; ismailaolotu@nsuk.edu.ng;
+2348030645100

³ Department of Accounting, Nasarawa State University, Keffi; musahassan72@gmail.com

enhancing confidence in the capital markets. Studies such as (Diamond & Verrecchia, 1991; Healy, Hutton & Palepu, 1999; Botosan & Marlene, 2002) have demonstrated that disclosure reduces information asymmetry, enhances stock market liquidity and hence reduces the cost of equity capital.

The Internet is changing the way business is conducted. No longer is it a luxury. The Internet is now a necessity and it keeps on expanding, moving faster and embracing every aspect of business (Abdullahi, 2009). The rapidly changing and challenging business environment is forcing firms to develop reporting strategies that assist in creating competitive advantages for themselves (Burrus, 1997). Developing a website to disseminate financial information may be one strategy that firms adopt to provide more relevant and timely information to decision makers. Kaplan (1996) observed that a website may reach a wider audience and present more detailed information than what is possible with traditional printed materials. Using a corporate website to disclose financial and business information has become commonplace for most firms. By placing financial information on a firm's website, users can search, filter, retrieve and download such information at low cost in a timely fashion. In addition, it allows for hyperlinks, search engines and interactivity (Budisusetyo & Luciana, 2008). With the rapid development of internet technologies, communications through the internet have been adopted as an essential tool to provide information characterized with pervasiveness, borderless-ness, real-time, low-cost, and high-interaction (Ashbaugh, Johnstone & Warfield, 1999; Debreceeny, Gray & Rahman, 2002) as well as with integration of text, figures, images, live pictures, and sounds (Debreceeny, Gray & Rahman, 2002). These characteristics, summarized in three words: diversity, timeless, and unlimited access, have transformed the internet into an important reporting medium (Verity, 1994) through which information about firm performance can reach all the potential global investors, in addition to the traditionally interest-vested parties such as creditors, stockholders, and analysts (Ashbaugh, Johnstone & Warfield, 1999).

In view of the spread of internet financial reporting (IFR) by firms all over the globe, some regulators and standards-setting bodies, including stock exchanges, have begun to examine IFR in regards to its disclosure content, format, frequencies, and other attributes in order to consider the necessity of accounting and auditing standards related to IFR (Lai, Lin, Lee & Wu, 2007). On an international scope, some studies have already explored the relationships between company characteristics (e.g., firm size, leverage, liquidity, auditor size and profitability) and a company's willingness to voluntarily provide financial information to the market through the internet.

In Nigeria, statutorily, public liability companies are required to make available their annual reports by filing copies with the relevant regulatory agencies (Securities and Exchange Commission, SEC, and Nigerian Stock Exchange NSE). These are usually in printed copies hence making the information available via

the internet is a voluntary practice. This means that IFR unregulated by the relevant bodies and institutions hence this may lead to variations in the practice of corporate reporting via the internet. The NSE is an emerging capital market and it is argued that disclosure practices with respect to the availability, reliability and comparability of accounting data play a decisive role in the developmental role of a capital market (Saudagaran & Diga, 1997).

Studies on IFR in Nigeria have generally focused on all listed firms in NSE. This study is industry specific. In addition, unlike the other studies on determinants of IFR in Nigeria (eg Agboola & Salawu, 2012; Umoren & Asogwa, 2013) this study used the comprehensive index developed by Cheng, Lawrence and Coy (2000). This paper contributes to the growing body of literature on financial reporting on the internet by investigating the corporate characteristics that explain the extent of disclosure of corporate information on the websites of quoted deposit money banks in Nigeria.

The remaining parts of this paper are organized as follows; Section two covers literature review and hypothesis development, section three is on methodology, section four focused on results and discussion of findings while section five covers conclusion and recommendations.

2.1 Literature Review

Research on the determinants of internet financial reporting is increasing. This could be due to the considerable importance of the Internet as a channel for disseminating financial information in countries with securities markets and for more timely and accessible financial information by investors and other corporate information users. It is important to say that studies on corporate disclosure are hinged on the Agency theory and Signalling theory. This study rest on these theories to assess determinants of internet financial reporting by financial firms quoted on the floor of NSE.

Firm Size

Agency theory implies that large firms exhibit higher agency costs due to the information asymmetry between market participants (Jensen & Meckling, 1976). To reduce these agency costs, larger firms disclose a large flow of corporate information. It is argued that stock market pressure forces large firms to disclose more information on their websites to assist them in increasing their outside capital to enhance their performance. Hence, large corporations are more able to access financial markets through disclosing more information online (Bonson & Escobar, 2002). Large corporations can disclose information on the internet for lower costs as they have the resources to do so. Moreover, large companies always have a larger number of products and their distribution networks are very complex than smaller firms. Thus, information disclosure is required more in large companies (Marston 2003; Aly, Simon & Husseiney, 2010). According to the

political cost hypothesis, large firms attract more financial analysts putting firms under higher pressure because they are more publicly visible (Boubaker, Lakhali, & Nekhili, 2012). Political cost arguments have been put forward in support of both a positive association between firm size and disclosure (Cooke, 1989; Wallace & Naser, 1995; Wallace, Nasser & Mora, 1994), and a negative association (Wallace and Naser, 1995; Wallace, Nasser & Mora, 1994).

Empirical findings suggest a significant relationship between firm size and online disclosure (Oyelere, Laswad & Fisher, 2003; Xiao, Yang & Chow, 2004; Sriram & Lakshmana, 2006; Ezat & El-Masry, 2008; Agboola & Salawu, 2012; Aqel, 2014; Basuony & Mohammed, 2014). Other studies (Aly, Simon & Husseiney, 2010; Hossain, Momin & Leo, 2012; found positive relationship but not statistically significant.

On the basis of results of prior works reviewed above, this study hypothesizes thus:

Ho: There is no significant relationship between bank size and IFR by DMBs in Nigeria.

Profitability

It is suggested that firm profitability can be regarded as an indicator to good management, as management tends to disclose more information when the rate of return is high. Hence, profitable companies have extra financial resources to disseminate financial information voluntarily and have more incentives to disclose to both the stakeholders and public that they are more profitable than their counterparts in the same industry. This can be justified by the agency theory, where managers of the highly profitable companies disseminate more information to achieve personal advantages such as the maintaining their positions and justifying compensations (Singhvi & Desai, 1971; Wallace, Nasser & Mora, 1994; Haniffa & Cooke, 2002). Furthermore, signaling theory suggests that profitable companies have an incentive to disclose more information, to signal the firm's profitability to investors and to raise capital at the lowest price (Oyeler, Laswad & Fisher, 2003; Marston & Polei, 2004). Some studies (Aqel, 2014; Kemala & Verawaty, 2015) found positive relationship between profitability and IFR, others (Xiao, Yang & Chow, 2004; Matundura, 2012; Agboola & Salawu, 2012) found negative relationship. On the other hand, other studies found no significant relationship between profitability and online financial disclosure (Larraín & Giner, 2002; Oyelere, Laswad & Fisher, 2003; Marston & Polei, 2004; Momany & Al-Shorman, 2006; Ezat & El-Masry, 2008; Umoren & Asogwa, 2013; Basuony & Mohamed, 2014).

In view of the above, this study hypothesizes thus:

Ho: There is no significant relationship between profitability and IFR of DMBs in Nigeria.

Auditor Type

It is suggested that international audit firms are more likely to facilitate the diffusion of innovative practices, such as the internet financial reporting (Xiao, Yang & Chow, 2004). Agency theory suggests that auditing helps mitigate agency costs due to the interest conflicts between manager and shareholders. Big auditors are likely to be independent and could constrain managers to maintain more stringent disclosure standards (DeAngelo, 1981). Large international audit firms are likely to demand high-quality disclosure. This could be explained by the signalling theory because managers that hire large auditing firms signal to the market that they are willing to provide quality disclosures (Healy & Palepu, 2001). Consequently, one would expect a higher level of report disclosure among the clients of larger audit firms. The findings of some prior studies reveal a positive relationship between audit type and internet financial disclosure (Xiao, Yang & Chow, 2004; Boubaker, Lakhal, & Nekhili, 2012; Agboola & Salawu, 2012; Umoren & Asogwa, 2013). Though, other studies found no significant relationship between audit type and disclosure (Wallace, Nasser & Mora, 1994; Hossain, Perera, & Rahman, 1995; Abd El Salam, 1999, Aly, Simon & Husseiney, 2010) while Matundura (2011) and Basuony & Mohamed (2014) found a negative relationship although not statistically significant.

This study hypothesizes thus:

Ho: There is no significant relationship between auditor type and IFR of DMBs in Nigeria.

Liquidity

Liquidity indicates the ability of a firm to fulfil its obligations as at when due. The nexus between liquidity and financial reporting has been well documented in the literature. It is argued that companies with low liquidity ratio may provide more information to satisfy the information needs of shareholders and creditors (Wallace, Nasser & Mora, 1994). Cooke (1989) argued that a high level of liquidity will demonstrate the strong financial condition. In any other words, the greater the liquidity, the higher the demand for the company to disclose information, including enhancing the accessibility of financial statement information. Kwakye, Aboagye-Otchere and Bekoe, (2013) found a negative and statistically significant relationship between liquidity and IFR other empirical findings such as Hossain, Momin and Leo (2012), Aqel (2014) Kemala and Verawaty (2015) documented a negative but statistically insignificant relationship between liquidity and IFR.

On the basis of the arguments above, this study hypothesizes thus:

Ho: There is no significant relationship between liquidity and IFR of DMBs in Nigeria.

3.1 Methodology

The population of the study consists of all the 15 banks with internet presence quoted on the floor of the NSE as at 31st December 2015 and this forms the sample size of the study. Websites of banks were used to collect data for this study. Three major search engines were used for this study, www.yahoo.com, www.alltheweb.com and www.google.ng to establish the website of a bank. This study adopts the Internet Disclosure Index used in Budisusetyo and Luciana (2008) which is close to the index developed by Cheng, Lawrence and Coy (2000) based on selected criteria. Each criterion was formulated on a simple yes/no basis encoded as 1 and 0 respectively. In order to calculate the total score for analysis, weights were assigned to each group of criteria which include content, timeliness, technology and user support. Weights were based on Content (40%), timeliness (20%), technology (20%) and user support (20%). Detail of the weighting are contained in appendix II.

Pooled Ordinary Least Square was used to examine the the relationship between IFR and Corporate attributes (Firm size, liquidity, profitability and Auditor type). Below is following model specification:

$$IFR = (\alpha, SIZE, LQ, PRT, AUD) \dots\dots\dots 1$$

From equation 1 above, the following model is developed:

$$IFRI_i = \beta_0 + \beta_1 SIZE_i + \beta_2 LQ_i + \beta_3 PRT_i + \beta_4 AUD_i + \varepsilon_i \dots\dots\dots 2$$

Where IFRI_i = Internet Financial Reporting Index of firm *i*

SIZE_i = Size of firm *i* as measured by Natural Log of Total Assets

LQ_i = Liquidity of firm *i* measured by ratio of Cash & Short term funds to total deposits, PRT_i = Profitability of firm *i* measured by ratio of profit after tax to total assets (ROTA)., Aud_i = Auditor Type of firm *i* measured by dummy variable 1 for audit firm affiliated with the big 4, 0 otherwise., ε_i = Error term.

4.1 Results and Discussion

Data Diagnostics

Multicollinearity Test: A model cannot estimate properly if its predictors are linearly related with one another, this is called multicollinearity. Multicollinearity problem appear when two or more predictors (independent variables) are perfectly linear.

Table 4.1: Multicollinearity Test Results

Variable	Tolerance	VIF
PRT	0.761	1.315
LQ	0.873	1.146
SIZE	0.627	1.595
AUD	0.698	1.434

Source: SPSS Output

From table 4.1 above, the VIF of the variables are consistently smaller than 10. This shows that there is absence of multicollinearity. Gujarati and Porter (2009) suggested that if VIF of a variable is more than 10, that variable is said to be highly collinear. Similarly, the Tolerance values are consistently lesser than 1 thus supporting the fact that there is no multicollinearity between the independent variables.

Heteroscedasticity Test:

Table 4.2: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.332676	Prob. F(4,10)	0.8499
Obs*R-squared	1.761634	Prob. Chi-Square(4)	0.7795
Scaled explained SS	0.559348	Prob. Chi-Square(4)	0.9675

Source: Eviews 7.0 Output

The results in table 4.2 above indicate absence of heteroscedasticity since the probability of having an F-statistic is more than 5%. The Langrange Multiplier (LM) (obs*Rsqquared) tests for cross-sectional dependence also called contemporaneous correlation. Cross-sectional dependence of residuals can lead to biasness of the study. The probability of chi-square (0.7795) is more than 5% hence confirming absence of cross-sectional dependence in the data of the study sample.

Regression Results

Below are the results on the regression analysis conducted to examine determinants of IFR by quoted banks in Nigeria.

Table 4.3: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.593504	0.474438	-1.250963	0.0038
SIZE	0.042372	0.023372	1.812917	0.0399
AUD	0.033778	0.032178	1.049734	0.3185
LIQ	0.056551	0.029909	1.890746	0.0480
PRT	1.167359	0.665608	1.753824	0.1100
R-squared	0.552011	Mean dependent var		0.399333
Adjusted R-squared	0.372816	S.D. dependent var		0.052572
S.E. of regression	0.041634	Akaike info criterion		-3.258581
Sum squared resid	0.017334	Schwarz criterion		-3.022565
Log likelihood	29.43936	Hannan-Quinn criter.		-3.261096
F-statistic	3.080497	Durbin-Watson stat		1.770976
Prob(F-statistic)	0.003784			

Source: Eviews 7.0 Output

Table 3 above shows the regression results examining the relationship between IFR and corporate characteristics (size, liquidity, profitability auditor size) of

sampled banks. The results show an R Squared (coefficient of multiple determination) of 0.552 indicating that about 55.2% percent of the variability in IFR is explained by the size, liquidity, auditor type and profitability of deposit money banks while the remaining 44.8% is explained by other variables not captured in this study. The relationship is strong and statistically significant and the model is fit and appropriate (p-value 0.0038).

From the results, firm size (p-value, 0.0399) has a significant positive relationship with IFR. This implies that larger banks in Nigeria engage in internet financial reporting than smaller banks. This finding is consistent with the findings in Oyelere, Laswad and Fisher (2003), Xiao, Yang and Chow (2004), Sriram and Laksmana, (2006), Ezat and El-Masry, (2008); Agboola and Salawu, (2012), Aqel, (2014) and Basuony, (2014) but inconsistent with Aly, Simon and Husseiney, (2010), Hossain, Momin and Leo, (2012) which found insignificant relationship.

Similarly liquidity (p-value=0.0480) the relationship between liquidity and IFR is positive and statistically significant. This finding did not come as a surprise because liquidity is an important barometer in the banking industry. The finding points to the fact that the more liquid banks engage in IFR than less liquid banks. This supports the argument in Cooke (1989). It is however inconsistent with Kwakye, Aboagye-Otchere and Bekoe, (2013) which found a negative and statistically significant relationship and Hossain, Momin and Leo (2012), Aqel, (2014) Kemala and Verawaty, (2015) which documented insignificant relationship.

The results on table 4.3 also indicate that the relationship between profitability and IFR is positive but not statistically significant (p-value, 0.1100). This finding is consistent with Oyeler, Laswad and Fisher (2003), Marston and Polei (2004), Momany and Al-Shorman (2006), Ezat and El-Masry (2008), Umoren and Asogwa (2013), Basuony and Mohamed (2014). It is however inconsistent with Aqel (2014), Kemala and Verawaty (2015) which found positive relationship as well as Xiao, Yang and Chow, (2004), Matundura, (2012) and Agboola and Salawu, (2012) which found negative relationship. Similarly, the study found a positive but statistically not significant relationship between auditor size and IFR. The p-value is 0.3185 which is more than 5%. An explanation to this kind of finding could be that emphasis is on industry specialization than just affiliation with international audit firm since the banking industry is a specialised industry. This supports the findings in Hossain, Perera, & Rahman, (1995), Abd El Salam, (1999), Aly, Simon and Husseiney, (2010). It however did not support the findings in Xiao, Yang and Chow, (2004), Boubaker, Lakhali, and Nekhili, (2012), Agboola and Salawu, (2012), Umoren and Asogwa, (2013).

5.1 Conclusion

The Internet has been widely used by companies as a channel for disseminating information to customers, suppliers and investors. This study investigated the use of the Internet for disseminating financial reporting by banks listed on the NSE in 2013 and to identify company characteristics influencing banks to use the Internet for this purpose. The factors investigated were: bank size, liquidity, profitability. The results indicate that bank size and liquidity significantly affect internet financial reporting practices by banks. While profitability and auditor type do not have significant effect on IFR by quoted banks in Nigeria. It is however noted that IFR is still voluntary as there is no regulation on the pattern and contents to be disclosed hence it is a matter of choice by banks to disclose. There are also other financial and non financial variables not used in this study (leverage, age, management qualification, management attitudes towards IT and governance mechanisms) which may provide more explanatory powers to the model. On the basis of the findings, the study recommends that banks should take advantage on the internet to promote transparency and reduce information asymmetry and that IFR should be encouraged and regulated to improve information dissemination as well as reliability.

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APPENDICES

APPENDIX I: Websites Of Nigerian Banks Quoted On Stock Exchange as at December, 2012

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| 1. www.accessbankplc.com | 10. www.sterlingbankng.com |
| 2. http://www.ecobank.com/ | 11. www.ubagroup.com |
| 3. www.diamondbank.com | 12. www.unionbankng.com |
| 4. http://www.firstcitygroup.com/ | 13. www.unitybankng.com/ |
| 5. www.fidelitybankplc.com | 14. www.wemabank.com |
| 6. www.firstbanknigeria.com | 15. www.zenithbank.com |
| 7. www.gtbp.com | |
| 8. www.ibtc.com | |
| 9. | |

APPENDIX II: Comprehensive IFR Disclosure Index

Content Index of IFR Disclosure Instruments

Contents	Index Items	Scoring	Multiplier	Max. Score
Balance Sheet	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
P&L	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Cashflow Statement	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Notes to Accounts	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Quarterly Results	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Financial Highlights	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Chairman's Report	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Auditor's Report	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Corporate Information	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Corporate Social Responsibility	Pdf	Yes=1, No=0	1	1
	HTML	Yes=1, No=0	2	2
Past Information (HTML ONLY)				
Annual Report		Yes=1, No=0	1	1
Quarterly Report		Yes=1, No=0	1	1
Graph of Share Price		Yes=1, No=0	2	2
Language: English		Yes=1, No=0	3	3
Address		Yes=1, No=0	1	1
Total Score				40

Timeliness Index of IFR Disclosure Instruments

Item	Scoring	Multiplier	Max. score
Press Release			
Existence	Yes=1, No=0	2	2
No. of Days Since Last Update	On the date of investigation=3 A week or less before date of investigation=2 2weeks or less before date of investigation=1 More than 2 two weeks before date of investigation=0	1	3
Unaudited Latest Qtrly Report			
Existence	Yes=1, No=0	2	2
With Disclaime	Yes=1, No=0	2	2
Stock Quote			
Existence	Yes=1, No=0		
Update Intervals(days)	Updated everyday=3 Updated every week=2 Updated every two weeks=1 Updated more than two weeks=0	1	3
Vision Statement			
Existence	Yes=1, No=0	2	2
Disclaimer	Yes=1, No=0	2	2
Future Profit Chart	Yes=1, No=0	4	4
Total Score			20

Technology Index of IFR Disclosure Instruments

Index Items	Scoring	Multiplier	Max. Score
Download Plug-in on Spot	Yes=1, No=0	3	3
On-line Feedback	Yes=1, No=0	2	2
Presentation Slide	Yes=1, No=0	2	2
Multi-media Technology	Yes=1, No=0	4	4
Analysis Tools	Yes=1, No=0	4	4
XBRL	Yes=1, No=0	5	5
Total Score			20

The User Support Index of IFR Disclosure Instruments

Index Item	Scoring	Multiplier	Max. Score
Help & FAQ	Yes=1, No=0	2	4
Link to Home Page	Yes=1, No=0	3	3
Link to Top	Yes=1, No=0	2	2
Site Map	Yes=1, No=0	2	2
Site Search	Yes=1, No=0	1	2
No. of Clicks to Get Financial Statements	1 click=3 2clicks=2 3clicks=1 More than 3=0	1	3
Consistency of Web Design	Good =2 Fair =1 Poor =0	2	4
Total Score			20