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Effect of managerial share ownership on financial reporting quality of deposit money banks in Nigeria

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Abstract
Corporate governance mechanism was introduced to curtail financial manipulation and falsified financial reporting to enrich the financial reporting quality. The effectiveness of the board in its oversight function is dependent on several board attributes. This study examines the effect of the managerial share ownership on financial reporting quality of listed deposit money banks in Nigeria. Secondary method of data collection was employed to extract from the annual reports and accounts of Access Diamond Bank Nigeria Plc during the period 2015 to 2019. Descriptive statistics, Pearson correlation technique and OLS regression were utilized to analyze the study data. The study revealed that managerial share ownership has negative insignificant influence on financial reporting quality of Access Diamond Bank Nigeria Plc. The study therefore recommends that, since managerial share ownership does not play a significant role in corporate management promoting financial reporting quality, the appointment of persons in to management positions should be based on personal attributes of integrity and capability.

Keywords: Financial reporting, deposit money banks, Nigeria

Introduction

Banks and other financial intermediaries are the heart of the world's recent financial crises. The deterioration of their asset portfolios, coupled with fraudulent acts of presenting fictitious financial statements and lack of adherence to corporate governance principles largely due to distorted credit management, were some of the main structural sources of the crises. This draws the attention of the public and investors to see the board of directors as the major actor responsible for the failure of corporations, both in developed and developing nations.

Investors and other stakeholders rely on published financial information for various economic decisions. However, Klein, (2002) [57] cited in Tuta (2015) [90] posit that corporate managers often involve in fraudulent financial reporting at the detriment of users that rely heavily on such reports. In addition, Sloan (2011) asserts that financial information is the first source of independent and true communication about the performance of the company. Thus, to enable investors and other users make non-misleading decisions, the financial reporting process should be of high quality. The board of directors is considered a high level corporate governance mechanism in ensuring the quality of financial reporting. However, the effectiveness of the Board in ensuring Financial Reporting Quality (FRQ) has been shown to be influenced by its characteristics. This has led to significant research on Corporate Governance (CG) and Financial Reporting Quality that has essentially focused on the influence of board characteristics such as size, independence, managerial share ownership, power separation, e.t.c. In Nigeria, notable studies include those by Ahunwa (2002), Sanda, Mikailu and Garba (2005) [80], Okike (2007) [70], Lai and Bello (2012) [59], imeokparia (2013) [46], Samaila (2014) [79], and Dabor and Dabor (2015) [21].

A review of previous based on the 2003 CG code show that many consider board characteristics of power separation, board independence, managerial share ownership and board size (Kantudu and Samaila, 2015) [54] with little attention on board characteristics of gender diversity and board members financial expertise.

Similarly, most of the studies consider FRQ from the quantitative dimension, (Hassan 2011, Alzoubi 2012, and Dador and Dabor 2015) [38, 7, 21], ignoring the qualitative dimension.

This study considers the qualitative dimension following the IASB (2008) [45] framework. The qualitative characteristics have more direct relation on decision value and measure precisely decision variables of financial reports.

Additionally, the existing empirical works on board characteristics and Financial Reporting Quality shows mixed results. For instance, while Sanda, Mikailu and Garba (2005) [80], found no evidence in support of the proposition that board characteristics has influence on FRQ of banks, Salaudeen Ibikunle and Chima (2015) [75] and Kantudu and Samaila (2015) [54], documented significant influence. These conflicts results require further investigation.

The corporate governance framework in Nigeria issued in 2003 was not without shortcoming and criticisms. The 2006 revised version/code could be argued to strengthen the board of companies thus influence on FRQ.

This study therefore examined the effect of managerial share ownership on financial reporting quality of Access Diamond Bank Nigeria Plc.

Literature Review

Financial Reporting Quality

Financial reporting refers to the communication of published financial statement and related information by business enterprises to third parties such as customers, government and the general public (Beest, Braam & Boelens, 2009) [12].

It is the process through which a company informs interested parties, both internal and external about its financial affairs during the course of an accounting period. Financial reporting is conducted using prescribed accounting standard, statutory and professional guidelines. The product of financial reporting is financial information disclosed in financial statements. Financial reports is used in assessing the economic performance and position of a business in the quest to monitor management action and assist users in making economic decision (Hassan 2013) [40].

There is a lack of consensus as to what constitute financial reporting quality. According to the Financial Accounting Standard Board, financial reporting quality is the accuracy with which information about the firm is presented in financial reports. This view seems to emphasis accuracy which is about financial reporting process been free from errors and conducted correctly.

However, financial reporting quality is much more than accuracy. It involves level of adherence to prescribed rules in accounting standard, statutes and ethical standards. Kodadady (2012) posit FRQ to relate to firms selection of accounting methods and policies from among available alternatives. Where the policies and methods are rationally selected, then financial reporting will be of high quality. According to Jones and Blanchet (2000), financial reporting quality connotes full and transparent disclosure of information that does not mislead users.

This implies that financial reporting quality include disclosure of information both financial and non-financial, which is useful for economic decision making by users of the information.

From the foregoing, FRQ could be said to exist where the financial reporting process is characterized with accuracy, transparency, compliance with prescribed rules and adequate disclosure of information required by users for their decision making.

Measurement of Financial Reporting Quality

Financial reporting quality has been measured in the literature using two approaches. These approaches include the quantitative approach and the qualitative approach.

Quantitative Approach to Financial Reporting Quality Measurement

The quantitative approach of FRQ measurement is a measure that relies essentially on data extracted from financial statement in an objective manner devoid of subjectivity (Samaila, 2014) [79].

Quantitatively, financial reporting quality has been measured in the literature using the accrual model and value relevance models. The accrual model is used to measure the extent of earnings management. This model assumes that managers use discretionary accruals they can exert some control to manage earnings (Beast Braam & Boelens, 2009) [12]. Earnings management is the deliberate altering of financial information to either mislead investors on the underlying economic status of a firm or to gain some contractual benefit that depend largely on accounting numbers (Samaila, 2012) [77]. Hearly and Wahlen (1999) state that firms may manage their earnings with a view to influence stock market perceptions, increase their compensation, reduce the likelihood of violation of lending agreement and to avoid regulatory intervention.

Earning management is assumed to negatively influence the quality of financial reporting by reducing its decision usefulness (Samaila, 2012) [77]. The major advantage associated with the use of discretionary accruals to measure FRQ is that it relies on the information in the annual report, therefore is a more accurate and verifiable approach. Healy and Wahlen (1999) asserts that the main shortcoming of the accrual approach rest in the problem of distinguishing between discretionary and non-discretionary accruals. More so, it is only an indirect proxy of earnings quality, excluding non – financial information.

The value relevance approach measures financial reporting quality by focusing on the association between accounting figures and stock market reactions (Choi, Collins & Johnson 1997) [19].

The market value of the firm is being represented by its share price while accounting figures represent firm value based on accounting procedures. The method can also be used to examine earnings persistence, predictive ability and variability as element of FRQ (Beast, Braam & Boelens, 2009) [12].

Like the accrual model, the value relevance model result is objective and verifiable. However, the main problem of value relevance model is that it focuses on earnings quality which is an indirect measure of financial reporting quality. The model also provides no insight in to the tradeoffs between relevance and reliability.

In summary, accrual and value relevance models rely on information disclosed in financial report to assess financial reporting quality.

In other words, these models use only financial information elements in the financial report to assess financial reporting quality. By excluding the non-financial information which may play a significant role in users decision making, the quantitative approach (accrual and value relevance) are criticized as not been comprehensive enough (Samaila, 2012) [77].

Qualitative Approach to Financial Reporting Quality Measurement

The criticism of the quantitative (accrual) approach to the measurement of FRQ and the quest for the IASB and FASB to ensure high quality financial information disclosure, led to the accounting standard setting bodies to embark on a joint research in 2002. In 2008, an exposure draft was released known as "An Improved Conceptual Framework for Financial Reporting". The exposure draft outlines the qualitative characteristics which financial reporting information should possess to include relevance, understandability, comparability, faithful representation and timeliness. These characteristics were further divided in to two namely, fundamental and enhancing qualitative characteristics (Beest *et al*, 2009) [12]. The fundamental qualitative characteristics are the most important and determine the content of financial reporting information and consist of relevance and faithful representation. The enhancing qualitative characteristics which comprises of understandability, comparability and timeliness improve decision usefulness of financial reporting information. The enhancing qualitative characteristics take their root from the fundamental qualitative characteristics. In other words, they do not determine financial reporting quality on their own (Kantudu & Samaila, 2015) [54].

The attempt to operationalize the qualitative measurement of FRQ was championed by Beest, Braam and Boelens (2009) [12]. A discussion of each of the qualitative characteristics of FRQ and measurement now follows.

The qualitative characteristic of relevance is about the ability of financial reporting information to make a difference in the decision process of users of the information (IASB, 2008) [45]. In this sense, financial reporting. Information can be seen to be relevant when it improves the decision quality of the decision makers. Indeed, financial information that is not decision value adding is not relevant to the decision maker. Beest, Braam and Boelens (2009) [12] qualitatively measure relevance with recourse to four items. The first item measures the extent to which annual report provides forward looking statement. The forward looking statements usually describe management expectations for future years of the company for capital providers and other users of the annual report.

The second item measures the extent to which the annual reports disclosures information in terms of business opportunities and risk. Provide insight in to possible future scenario for the company. The third item measures company's use of fair value accounting in reporting as against historical method. The fourth item uses information on the annual report that provides feedback to the users of the report on previous transactions or events that will help users to confirm or change their expectations.

Faithful representation is a characteristic of the financial reporting information been correct, accurate and non-misleading. The IASB (2008) [45] describes this characteristic as having to do with the financial reports been complete, neutral and free from error. Beest, Braam and Boelens (2009) [12] posit that it is difficult to measure faithful representation directly by only assessing the annual report, since information about actual economic phenomenon is necessary to assure faithful representation. Faithful representation is measured using five items referring to neutrality, completeness, freedom from material error, verifiability and CG information (Sloan 2001) [85]. Neutrality is about the financial reporting information been devoid of bias that accrues some predetermined benefit (Samaila, 2012) [77]. According to Beest, Braam and Boelens (2009) [12], neutrality refers to the intent that the preparer should strive for an objective presentation of event rather than focusing solely on the positive events that occur without mentioning negative events. Completeness means explaining clearly the assumption and estimates used in preparing financial reporting. Verifiability entails disclosing information relating to the choice of accounting principles clearly. CG statement entails extensively disclosing information on CG issues in the annual reports.

The qualitative characteristics of understandability entails the ability of users to comprehend information contain in financial reports (IASB, 2008) [45]. Samaila (2012) [77] opined that understandability will increase when information is classified, characterized and presented clearly and concisely.

Though, the literature indicates that understandability of financial reporting information is a function of user's literacy in accounting, it is also argued that users with little or no accounting background can appreciate financial information if graphs and other means are used to present the information. Another identified means of enhancing understandability of financial reporting is the extensive use of notes to the accounts. Jonas Blanchet (2000) [51] and IASB (2008) [45] both pointed out that tabular and graphical presentation of financial reporting may improve understandability by clarifying relationship and ensuring consciousness. The use of less technical jargons or where used the inclusion of a glossary which outlines the meaning of terms enhances users understanding. Beest, Braam and Boelens (2009) [12] operationalized understandability with recourse to five items namely; how well organized the information is the information in the annual report, notes explaining more insight in to earnings figures, including tabular and graphical presentation, avoiding jargons and inclusion of glossary in the financial reporting..

Timeliness as a qualitative characteristic of FR information means users been availed with information for their decision making purposes before it loses its capacity to influence decision (IASB, 2008) [45].

Timeliness refers to the time it takes to publish financial information to users of the information by the reporting entity. Samaila (2014) [79] state that accounting information should be produced on time for it to effectively contributes to user's decision making process. Beest, Braam and Boelens (2009) [12] estimates timeliness as the natural logarithm of number of days between the accounting year end and the date the auditor's report is signed. Based on the natural log of the number of days, each firm will receive a score of 1-5.

This shows that all the quantitative approaches of estimating FRQ have shortcomings. The qualitative approach is associated with the problems of subjectivity in measurement.

Thus, previous studies had estimated FRQ quantitatively. Kao and Chen (2004) [55], Abdulrahman and Ali (2006) [3], Yu (2008) [99], used earnings management as a proxy in measuring financial reporting quality. Abdullahi (2006) [1], used earnings management, (accrual quality) and readability, used the level of voluntary disclosure as a proxy for financial reporting quality whereas Samaila (2012) [77] used accrual (earnings management) and qualitative (relevance, faithful representation, understandability, comparability and timeliness) as proxies of financial reporting quality.

Managerial Share Ownership and Financial Reporting Quality

Management share ownership relates to managerial equity shareholding of a firm. According to Samaila (2014) [79], the agency theory holds that managerial equity shareholding encourages managers to act in a way that maximizes the value of the firm. In placing and pursuing their interest above that of shareholders, managers may manipulate accounting rules such that FRQ is undermined. Warfield, Wild and Wild (1995) [94] asserts that the interest of both shareholders and managers start to converge as the management hold a proportion of the firm's equity ownership. Studies on the relationship between managerial share ownership and financial reporting quality reveal inconsistent results. Spirollari (2012) [86], found a significant positive relationship between managerial share ownership and firm value among United State firms. This implies that managerial share ownership is an incentives mechanism to increase the credibility of financial reports. Also, Samaila (2011) [78], found a significant impact of managerial ownership on financial reporting quality of listed Nigerian oil marketing firms. A similar result was documented by Hassan (2011) [38] in the Nigerian banking industry. These studies suggest that large ownership of shares by the directors improves the quality of financial information disclosed in the financial statements. On the other hand, Dalton, Certo and Roengpitya (2003) [25] failed to establish any relationship between management share ownership and earnings management as a measure of FRQ.

Methodology

Ex-post facto research design was employed for the study. Justification for ex-post facto research design is because the study examined the effect of managerial share ownership on financial reporting quality which is past event. Data were extracted from the annual reports and accounts of Access Diamond Bank Nigeria Pic. The data gathered were analyzed using multiple regression, correlation and descriptive statistical techniques. Two control variables were introduced for the purpose of this study are firm age and firm size.

Result and Discussion

The descriptive statistical analysis of the data generated on the dependent, independent and control variables for the study. The descriptive measures adopted are minimum, maximum, mean and standard deviation.

The mean indicates the central tendency of the data, the standard deviation indicates the dispersion around the mean, and the minimum is the least value in the data and the maximum highest value in the data. Table1 presents the descriptive statistics.

Table 1: Descriptive Statistics of the Dependent, Independent and Control Variables

Variable	Minimum	Maximum	Mean	Standard Deviation
FRQ	3.71	7.92	4.53	0.450
MSO	0.01	0.47	0.23	0.071
FS	5.22	21.43	5.20	1.391
FA	3.12	96.77	42.67	12.81

Source: Researcher computation from Annual Reports and Accounts.

The descriptive statistics of the variables as indicated in Table 1 shows the results for the minimum, maximum, mean and standard deviation scores of the variables. The minimum value of financial reporting quality is 3.71 indicating the least financial reporting in this study over the period has about 59.4% quality.

The maximum is 7.92 which indicate that the highest FRQ achieved by banks is 97.8%. The mean financial reporting quality (FRQ) score for the sampled bank shows an average reporting quality of about 4.53.

This shows that there is high quality of financial reporting in the industry of about 75%. The standard deviation of 0.450 shows that the FRQ in the bank is not significantly wide apart from the mean of 4.53. The descriptive statistics with respect to the independent variable revealed that the average proportion of managerial share ownership in the sampled bank is 0.23 signifying that management owns about 23% of bank shares which is moderate. The minimum value of managerial share ownership is 0.01 and maximum is 0.47. The standard deviation of 0.071 indicates a low variation of managerial share ownership in Access Diamond Nigeria Plc during the study period.

The descriptive statistics with respect to the control variables shows the mean value of firm age approximately is 43 years (42.67). The youngest bank has 21 years (21.43) since establishment and the oldest has 97 years (96.77). The standard deviation of 12.81 shows there is significant variation in the age of the banks.

The mean firm size is 5.2 shows that the bank had not less than N5.20 billion in total assets.

Table 2: Summary of pooled OLS Regression and Random effect Result Pooled OLS regression Random effect regression

Variables	Coefficient	Std Error	T	p>/t/	Coefficient	Std Error	Z	p>/z/
CONSTANT	6.443848	0.277603	6.12	0.000	3.349879	0.497123	6.74	0.000*
MSO	0.0063007	0.388276	0.13	0.987	-0.12293	0.412073	-0.30	0.883
FS	0.0529453	0.027964	1.05	0.072**	0.0661432	0.035585	1.86	0.066*
FA	0.0167849	0.003578	4.21	0.000 *	0.0253772	0.005327	4.76	0.000*
R^2					0.2396			
Adj, R^2					0.1979			
F Value					5.33			
Sig.					0.0003			

**,* regression is significant at 10% and 5% significant level.

Source: Generated by the Researcher from the annual Reports and Accounts of Sampled Bank.

From the table 2 above, regression results shows R^2 of 0.2396 which implies that about 23.96% of total variation in financial reporting quality (FRQ) of banks in Nigeria is accounted for by managerial share ownership and the control variables of firm age and firm size. This is instructive that the model is good and the explanatory variables are properly selected, combined and used since substantial value of the financial reporting quality (FRQ) is accounted for by the independent variable.

Managerial Share Ownership (MSO) has a coefficient of -0.12293 meaning it is negatively associated with financial reporting quality. This implies that when shareholding of management increase in the sampled bank, other independent variables remaining constant, and the quality of financial reporting will decrease by the same magnitude. This result is in contrast with the notion that when managers hold large proportion of shares in a company, there is less manipulations of the financial reporting process therefore high FRQ. The p value of 0.883 exceeds the chosen level of significance hence it can be concluded that managerial share ownership has negative but insignificant effect on FRQ of Access Diamond Bank Nigeria Plc.

The result with respect to the control variables shows that both Firm Size (FS) and Firm Age (FA) have positive and significant influence on FRQ of other deposit money banks in Nigeria. Even though, at different levels of significance. Specifically, FS coefficient of 0.0661432 is indicative that a percent increase in the variable, other independent variables remaining constant, will lead to about 6.6% increase in the FRQ. The p value of 0.063 is significant at the 10% level of significance. These findings that FS positively and significantly corroborates the position in the literature that larger firms report accounting information that is more accurate and reliable than the smaller firms. Generally, larger firms are reported as having strong internal control system and governance mechanisms, can hire the services of large audit firms and care about their built reputation which contributes to discourage fraudulent financial reporting practices hence high financial reporting quality.

The FA coefficient of 0.0253772 means that an increase in firm age by one percent, other independent variables held constant, will lead to about 2.5% increase in financial reporting quality. The p value of 0.000 is significant at the 5% level of significance. Invariably, FA is shown to have positive and significant influence on FRQ. This further establish the argument that older firms due to their built reputation, in an attempt to maintain it, tend to provide quality financial reports to retain the confidence and patronize (market share) of their users.

Conclusion and Recommendation

The banking industry in precise occupies a strategic position in the economy of every nation especially developing economy like Nigeria. Therefore financial reporting of banking industry is needed to be of high quality than any other industry in order to serve its relevance and usefulness in the nation's economy. However, this study discovered that managerial share ownership has negative and insignificant effect on financial reporting quality of deposit money banks in Nigeria. Consequently, managerial share ownership does not directly play a role in corporate management promoting financial reporting quality rather indirectly. Therefore the study recommends appointment of personnel in to managerial positions should be based on personal attributes especially integrity and knowledge. These personal attributes could be crucial in the effective and efficient discharge of responsibilities, hence improved financial reporting quality.

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