Firm Attributes and Risk Disclosure of Listed Deposit Money Banks in Nigeria

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Abstract: This study examines disclosure of risk in financial statement of Nigerian listed Deposit Money Banks with the aim of assessing the impact of firm attributes on risk disclosure. The study is designed to be descriptive and explanatory within positive accounting theory. The study utilised secondary data collected from the annual reports and accounts of listed DMBs for a period of 10 years (2006 - 2015). The data are analysed using descriptive statistics and regression (OLS and GLS) analyses. The study finds company structure (size, tangibility, age) and board structure (size of the board and board composition) have significant impact on risk disclose of sampled banks. Also firm performance (ROA, revenue growth and liquidity) has positive and insignificant impact on risk disclosure. While leverage has positive and insignificant impact on risk disclosure. Hence, banks should be transparent by disclosing information about risk that had impacted or likely to impact their operations. This reduces seeming inadequacy of financial report and provide signal about what is likely to happen in the bank. It also helps regulatory body to take necessary corrective measures in order to forestall unnecessary failure that affects the whole industry and the economy at large. Increase in performance (profitability) should also be accompanied with increase in risk related disclosure as stakeholders may be deceived by good performance albeit presence of threat that may jeopardize their interest in bank. The findings draw the attention of policy makers (such as CBN, NDIC, FRC, SEC) towards regulating risk disclosure thereby bridging seeming inadequacy of financial reports and enhancing the transparency of financial statements.

Key words: Risk disclosure, Firm attributes, Deposit money banks, Nigeria

INTRODUCTION

This study examines disclosure of risk in financial statement of Nigerian listed Deposit Money Banks with the aim of assessing the impact of firm attributes on risk disclosure. The study is designed to be descriptive and explanatory within positive accounting theory. The study utilised secondary data collected from the annual reports and accounts of listed DMBs for a period of 10 years (2006 - 2015). The data are analysed using descriptive statistics and regression (OLS and GLS) analyses. The study finds company structure (size, tangibility, age) and board structure (size of the board and board composition) have significant impact on risk disclose of sampled banks. Also firm performance (ROA, revenue growth and liquidity) has positive and insignificant impact on risk disclosure. While leverage has positive and insignificant impact on risk disclosure. Hence, banks should be transparent by disclosing information about risk that had impacted or likely to impact their operations. This reduces seeming inadequacy of financial report and provide signal about what is likely to happen in the bank. It also helps regulatory body to take necessary corrective measures in order to forestall unnecessary failure that affects the whole industry and the economy at large. Increase in performance (profitability) should also be accompanied with increase in risk related disclosure as stakeholders may be deceived by good performance albeit presence of threat that may jeopardize their interest in bank. The findings draw the attention of policy makers (such as CBN, NDIC, FRC, SEC) towards regulating risk disclosure thereby bridging seeming inadequacy of financial reports and enhancing the transparency of financial statements.

The annual reports and accounts remain the primary medium through which directors of a company communicate the periodic report to shareholders and other stakeholders. Therefore, Financial Report should disclose both financial and non-financial information in
order to provide a true and fair view of a company’s financial position. However, seeming inadequacy of Financial Report, various scandals in high profile companies, corporate collapses and financial crises call for increased transparency and disclosure of risk related information in the Financial Report. This is so because, proper disclosure is necessary to satisfy the information need of stakeholders. One of the issues which stakeholders seek for a clear explanation is the level of risk exposure of the organisation. However, the level of disclosure of risk information in the annual report and account may be determined by many factors, some of which could be referred to as firm attributes.

Firm attributes are firm characteristics or specific features that distinguish one company from the other. Firm attributes are numerous, it could be in terms of the size, profitability, leverage, industry type, geographical location, tangibility, nature of business, corporate governance mechanism and any other feature that distinguishes one company from the other. These features normally influence company decisions and information disclosure as well as risk disclosure in the financial report. The impact of firm attributes on risk disclosure is one of the areas that has generated controversy and debate and receive considerable attention in terms of theorising and research among scholars and policy makers in recent times [1; Mohobbot, 2005; Linsley & Shrives, 2006; [2].

Risk disclosure is particularly important in the banking industry because their exposure to risk is relatively higher compared to other industries. In the banking industry, Deposit Money Banks (DMBs) play a key role in the national economy from micro to macro levels.

It is on this background this study is conducted to determine the level of risk disclosure by the listed DMBs in Nigeria and to determine the impact of firm attributes (structure, performance, board structure and leverage) on risk disclosure of of Nigerian Listed DMBs.

Based on the objectives of the study, four hypotheses are formulated to guide the study:

H_0_1: Bank structure has no significant impact on risk disclosure of listed DMBs in Nigeria.
H_0_2: Performance has no significant impact on risk disclosure of listed DMBs in Nigeria.
H_0_3: Board structure has no significant impact on risk disclosure of listed DMBs in Nigeria.
H_0_4: Leverage has no significant impact on risk disclosure of listed DMBs in Nigeria.

Literature Review

Firm Attributes: The study look at four groups of attributes. These include company structure (size, age and tangibility), performance (ROA, revenue growth and liquidity) board structure (board size, board composition and board diversity) and leverage (ratio of total liabilities to total assets) and their impact on risk disclosure.

Company Structure Attributes: Company structure is represented by size, tangibility and age. Firm Size refers to relative dimension of a company and it is measured by log of total assets as used by [3]. Tangibility is the ratio of total fixed assets to total assets. Age is measured based on the date of a company’s listing in the floor of the Nigerian stock exchange. Company structure attributes are used in various risk disclosure studies [4, 2, 5, 6]. For example, firm size is believed to influence risk disclosure in the sense that the bigger the company, the larger the investors who demand more information and the larger the absolute benefit from availability of the information such as lower relative cost (Muzahem, 2011).

[7] argue that as a company becomes bigger, the number of stakeholders increases and it is expected that the burden of disclosure becomes heavier to fulfil their need. Linsley and Shrives (2006), also state that stakeholders may have an expectation that larger firms should be providing more disclosures or the stakeholders may have varied needs for information and large firms may be responding to their expectations or needs.

However, [1, 8] and [2] find no significant relationship between risk disclosure and company size.

Performance Attributes: Performance is the ability of a business to earn a profit and make progress. Performance is represented by return on assets (ROA), revenue growth and liquidity. ROA assesses the efficiency of management to use assets in generating revenue. Revenue growth is the percentage increase in gross income or gross revenue overtime. Liquidity is the ability of an entity to meet its short term financial obligation as at when due. Liquidity is also another performance indicator especially in banking industry as a bank survives for some time without making profit but certainly it can not survive without liquidity. Performance attributes are used as independent variables in various risk disclosure studies [8, 9, 10]. [11], put it that, companies that are better at risk management have higher levels of relative profitability because efficient risk management systems help in identifying and managing such risks in their early stage which in turn help in avoiding such losses and increasing
companies’ performance and profitability. In addition, it could be assumed that, profitable companies have more resources available to invest in internal control and risk management systems.

However, available evidence seems to suggest that firm performance has no significant impact on risk disclosure [8, 9, 10]. This could mean that companies with high profitability may not bother to communicate risk information and tend to rely on their performance as major derive of their market value.

**Theoretical Framework:** There are many theory available to explain disclosure phenomenon and researchers, to date, tend to select whichever theory that best articulates their hypothesis [16]. Some authors advocate for the use of more than one theory to explain corporate disclosure [16, 9]. However, most of the researches on risk related disclosure used two theoretical approaches to guide their research. These are; economic theory in one hand and social and political theory approaches on the other hand.

Though, agency theory is a better fit under the assumption of conflict of interest between principal and agent, which may cause the directors to delay or conceal useful information [17]. Various risk disclosure researches used more than one theory to direct their study. This study employs a theoretical triangulation. Therefore, agency theory and stakeholder theory are used as theoretical guide of the study.

**MATERIALS AND METHODS**

The study employs descriptive and explanatory research designs within positive accounting theory. The population of the study comprised of all DMBs that operated in Nigeria over the period 2006-2015. Based on two points filter 11 banks are selected. The secondary data are collected from annual reports and accounts of sampled banks. The risk disclosure is determined based on content analysis i.e texts is measured by the number of sentences and matched to risk disclosure categories which is consistent with previous studies such as [4] and Amran et al. 2009. The data generated for the study are analysed using descriptive statistics and multiple regressions (OLS and GLS).

Based on the result of different postestimation tests which include multicollinearity, heteroscedasticity, normality test of the variables and the errors term, hausman specification and Breusch and Pagan Lagrangian multiplier test for random effects. OLS result supersedes and presented and interpreted in the next sub-section.

**RESULT AND DISCUSSION**

This section presents, analyses and interprets the results obtained from the regression models (OLS and GLS estimations) and charts of level of risk disclosure by DMBs.
Figure 1 and 2 present bar chart and line chart of mean value of different types of risk disclosure. The cumulative adjusted $R^2$ is 46% (0.4628), which gives cumulative effect of all independents variables jointly on the dependent variable. This means that 46% of the variation in the risk disclosure is caused by size, revenue growth tangibility, age and return on asset, liquidity, board size, board composition, board diversity and leverage).

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Table 1: Regression results of Model I quantitative risk disclosure (trd)

<table>
<thead>
<tr>
<th>Variables</th>
<th>OLS</th>
<th>GLS</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>t</td>
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<tr>
<td>Siz</td>
<td>135.5795***</td>
<td>3.76</td>
</tr>
<tr>
<td>Tan</td>
<td>-2287.532***</td>
<td>-2.77</td>
</tr>
<tr>
<td>Age</td>
<td>1.577125**</td>
<td>1.91</td>
</tr>
<tr>
<td>Rgw</td>
<td>2.489321</td>
<td>0.15</td>
</tr>
<tr>
<td>Roa</td>
<td>208.4237</td>
<td>0.49</td>
</tr>
<tr>
<td>Liq</td>
<td>50.11263</td>
<td>0.37</td>
</tr>
<tr>
<td>Bos</td>
<td>10.84131**</td>
<td>2.21</td>
</tr>
<tr>
<td>Boc</td>
<td>300.3452***</td>
<td>2.54</td>
</tr>
<tr>
<td>Bdc</td>
<td>38.27727</td>
<td>0.39</td>
</tr>
<tr>
<td>Liv</td>
<td>23.21907</td>
<td>0.10</td>
</tr>
<tr>
<td>Hettst</td>
<td>0.1229</td>
<td></td>
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<tr>
<td>Normality for error term</td>
<td></td>
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<tr>
<td>Hausman</td>
<td></td>
<td></td>
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<tr>
<td>Lagrangian multiplier</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obs</td>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td>R²/overall</td>
<td>0.5121</td>
<td>0.5212</td>
</tr>
<tr>
<td>R² within</td>
<td>0.5384</td>
<td>0.5929</td>
</tr>
<tr>
<td>R² between</td>
<td>0.4983</td>
<td>0.2532</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.4628</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>103.92***</td>
<td></td>
</tr>
<tr>
<td>Rho</td>
<td></td>
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</tbody>
</table>

Source: STATA output 13.0 based on data collected
*Significant at the 10% level, **significant at the 5% level and ***significant at the 1% level

Table 1 shows that the size of the bank has positive and significant impact on the risk disclosure at 1% level of significance. This implies that, bigger banks disclose more risk than the smaller banks. This is also consistent with stakeholder theory postulation that, company is expected to undertake more risk disclosure in order to provide justification and explanation for what is happening in the company to various group of stakeholders.

Tangibility is found to have negative and significant impact on risk disclosure at 1% level of significance. This means that, banks with higher fixed assets disclose less risk information than banks with higher fixed assets.

The result provides evidence that age has positive and significant impact on risk disclosure at 5% level of significance. This is consistent with the finding of [18].

Revenue growth is found to have positive and insignificant impact on risk disclosure. This finding suggests that increase in gross income of the bank is not normally accompanied by increase in risk disclosure or the quality of the disclosure.

Profitability as measured by ROA is found to have positive and insignificant impact on risk disclosure. It implies that, increase in profitability of the bank does not lead to increase in risk disclosure. The finding goes alongside agency theory assumption on conflict of interest and information asymmetry between inside managers and share holders.

Liquidity is also found to have positive and insignificant impact on risk disclosure. This is also consistent with the finding of [18].

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Board size and board composition have positive and significant impact on risk disclosure. This is also in line with agency theory because as board size increases there is tendency of increase in number of non-executive directors, hence reducing information asymmetry between inside managers and outside shareholders.

Board diversity has positive and insignificant impact on risk disclosure. This implies that, the existence of more female directors in the board may not significantly influence the level of risk disclosure of listed deposit money banks.

**Hypotheses Testing:**

H₀ – Bank structure has no significant impact on risk disclosure of listed DMBs in Nigeria.

Bank structure is measured in the three ways thus; size, tangibility and age. Based on the regression result all three variables of the firm structure are found have significant impact on risk disclosure as expected. Hence, the null hypothesis is rejected.
Ho: Bank performance has no significant impact on risk disclosure of listed DMBs in Nigeria.

Firm performance is measured in three ways thus; profitability (ROA), revenue growth and liquidity. Based on the regression result all three performance variables turn out to be against expectation as they have no significant impact on risk disclosure. Hence the null hypothesis can not be rejected.

Ho: Board structure has no significant impact on risk disclosure of listed DMBs in Nigeria.

Board structure is measured in three ways board size, board composition and board diversity. Board size and board composition are found to have significant impact on quantitative risk disclosure as expected. Thus, the null hypothesis is rejected. However, board diversity turns out to be against expectation, as it has no significant impact on quantitative risk disclosure. So in this regard the null hypothesis can not be rejected.

Ho: Leverage has no significant impact on risk disclosure of listed DMBs in Nigeria.

Leverage is measured by the total liabilities to the total assets ratio. It is found to be against expectation as it has no significant impact on risk disclosure. As a result, the null hypothesis can not be rejected.

CONCLUSIONS AND RECOMMENDATIONS

Based on the data collected, results and analyses, the following conclusions are drawn:

Bank structure determines the level and extent of risk disclosure in the financial reports as postulated by promoters of stakeholder theory. The size and age have significant positive impact on risk disclosure. However, tangibility as part of bank structure influences the level of risk disclosure in the opposite direction as the banks with higher tangible fixed asset ratios disclose less risk information than banks with lower ratios. Performance of the bank does not significantly influence the level of risk disclosure. All three performance indicators employed in the study (ROA, revenue growth and liquidity), do not significantly affect risk disclosure in the financial report.

Board structure as measured by board size and board composition has positive and significant impact on risk disclosure. Board’s diversity has no significant impact on risk disclosure.

Leverage has no significant impact on quantitative risk disclosure.

The mean value of operational risk disclosure is lower than that of financial, business and compliance risk disclosures. This may not be the reality of the situation because most of the fraud committed in DMBs by insiders and outsiders which are part of operational risk are rarely disclosed.

Based on conclusions of the study the following recommendations are made:

Bank executives should be conscious of their structure as it is the major determinant of risk disclosure. Thus, as the bank is becoming bigger there is need for an increase in risk related disclosure. Regulators (e.g CBN, SEC), should put mechanism in place to ensure increase in performance (profitability) is accompanied with increase in risk related disclosure as stakeholders may be deceived by good performance albeit the present of threat that may jeopardize their interest in the bank.

The board of DMBs should ensure that increase in leverage is accompanied with the increase in risk disclosure.

The level of operational risk disclosure should be increased as it has the least mean value compared to other types of risk disclosure.

Regulators should put in place policy that ensures that risk reporting is regulated as the world is moving into era of risk based audit, risk management and general corporate governance. The findings of this study suggest increase in risk disclosure in DMBs overtime. Regulators should ensure similar trend is encouraged in other industries in line with international best practices. This is because, international financial reporting is moving towards improved disclosure.

REFERENCES


