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Investigating Normative Influence as a Determinant of Risk Disclosure by Deposit Money Banks in Nigeria

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ABSTRACT: The purpose of the paper is to investigate the relationship between Normative influence and risk disclosure in Nigeria. Considering the 14 deposit money banks listed on the stock exchange, a partial least squares- structural equation model was run to examine the influence of normative influence on the extent of risk disclosure measured through an index based on the information disclosed in their annual reports. Findings from the analysis revealed that normative influence has a significant relationship with the risk disclosure of deposit money banks in Nigeria. The possible explanation for such a situation could be that, when firms employ well-educated people, they understand the need to be transparent in the discharge of their duties including disclosure decisions. Professionalism enables employees to be able to advise management of the need to be transparent in corporate reporting practice. The implication of such a finding in the banking industry is that normative influence is important in determining the level of risk disclosure of Deposit money banks in Nigeria. It is recommended that banks should employ only professional members of the Institute of Chartered Accountants of Nigeria, Association of National Accountants of Nigeria, Chartered Institute of Bankers, for all their administrative positions so that a high level of objectivity would be achieved in the discharge of their duties including risk disclosure. Other, non-professionals could be employed for other lower posts who always take their directives from the administrative officers.

KEYWORDS: Bank, Normative influence, risk disclosure, partial least square
JEL CODE: G30, G32, G38

INTRODUCTION

Deposit money banks are resident depository corporations and quasi-corporations which have some liabilities in the form of deposits payable on demand, transferable by cheque, or otherwise usable for making payments (Organization of Economic Cooperation and Development- OECD, 2014). Despite the important role banks play in the economic development in Nigeria, there is a growing concern amongst regulators about weak disclosure by the banks. Specifically, the banks have been reported to be providing incomplete, inaccurate, and sometimes distorted information to regulatory bodies thereby, depriving investors and other stakeholders of the right information to make informed decisions (Sanusi, 2004).

The financial scandals witnessed in the corporate world in the early part of 2000 are attributable to weak corporate governance (Onyekwelu & Onyeka, 2014; Effah, Asiedu, & Otchere, 2022). In the Nigerian context, corporate scandals have been seen in both financial and non-financial institutions. For example, the case of Cadbury Nigeria where their account was overstated by 13 billion nairas between 2002 and 2005 (Fakunmoju, & Olukayode, 2021); Oceanic bank Nigeria where the Managing Director/Chief Executive Officer- Mrs. Cecilia Ibru was accused of various inappropriate and illegal conducts (BBC News, 2010) and Intercontinental bank, where the Chief Executive Officer was accused by the EFCC of various misconducts in his management of the bank ranging from insider abuse, theft, manipulation of shares to economic crimes running into billions of naira (The Nation, 2012), are among several cases witnessed in the country. Thus, disclosure by corporate bodies is a necessary ingredient for the survival of an entity.

The understanding of the risk associated with the banking industry is very relevant in the Nigerian context where the banking sector has witnessed a lot of corporate scandals leading to the collapse of many banks in the desire of economic growth and development/transformation. Examples of such scandals are seen in the case of the then Intercontinental Bank and Oceanic Bank in 2008. In these cases, the banks were able to deceive investors and the general public through creative accounting and concealing operational, transactional, and financial risk in their annual reports. This further buttresses the need to promote risk disclosure by banks in Nigeria (Sahara Reporters, 2011).

To promote corporate disclosure, the Securities and Exchange Commission (SEC) requires that banks should in addition to the mandatory disclosure requirements of capital markets provide more information on risk (SEC, 2008). However, the main challenge here is that most banks in Nigeria have a reputation of low adherence to such codes (Sanusi, 2010). This position is supported by the World Bank Report on Observation of Standards and Codes (ROSC, 2011, 2004). This scenario if not checked can erode investors' confidence in the banking sector thereby leading to corporate failure. Therefore, there is a need to understand the determinants of risk disclosure in the Nigerian context.

Studies have associated risk disclosure with such factors as firm-specific factors. In the literature, firm-specific characteristics include firm size, age, leverage, profitability, and asset quality (Panfilo, & Krasodomska, 2022; Bhatia & Tuli, 2017; Ziba & Asadi, 2016; Soliman, 2013; Lan, Wang & Zhang, 2013). Others focus on corporate governance elements like ownership structure, board size, board structure, auditor type, and board independence (Kakande, Salim, Chandren, 2017; Ntim & Soobaroyen, 2013). Though these studies have expanded our understanding of factors associated with risk disclosure, they seem to pay much attention to the internal factors based on the prescription of agency theory. This approach does not provide a sufficient understanding of external environmental factors influencing risk disclosure.

The institutional theory provides another theoretical perspective to explain risk disclosure from the perspective of the external environment rather than internal factors, which has been the focus of prior studies. Institutional theory suggests that external environmental factors such as coercive, mimetic, and normative influences, affect organizational outcomes including risk disclosure (Dimaggio & Powell, 1983 & Scott, 2008). The normative influence shows the extent to which professionalism influences organizational practice. Empirically, studies utilizing constructs from institutional factors to explain risk disclosure are scarce. One such study is by Nahar (2015) who documented evidence of a relationship between institutional factors and risk disclosure in Bangladesh. The study used a qualitative approach with no empirical evidence. Furthermore, in the Nigerian context, little is known about such a relationship. Additionally, in the Nigerian business environment, there is a lot of institutional changes such as the adoption of the International Financial Reporting Standards in 2011 and the passage of the Association of National Accountants of Nigeria (ANAN) Act of 1993, in addition to the Institute of Chartered Accountants of Nigeria (ICAN) Act of 1965.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The theoretical framework relating to risk disclosures of recent is dominated by the institutional theory (Dimaggio, 1983). The institutional theory assumes that firms respond to external influences such as complying with coercive, mimetic, and normative mechanisms as these tend to make their practices similar without necessarily making them efficient (DiMaggio & Powell, 1983).

Normative Influences and Risk Disclosure

Normative influences are a set of norms, shared values, behavioural patterns, and rules developed by a professional or an industrial network to define the conditions for their work and establish a cognitive base and legitimation for their occupational autonomy (DiMaggio & Powel, 1983). In doing so members of professional bodies, as well as industrial networks are required to adhere to their ethical code of conduct which aligns with acceptable norms of the practice of the profession. In the accounting profession, integrity and objectivity are regarded as the hallmark of the profession (AICPA, 2012). As such if accountants and external auditors adhere to their professional code of ethics as required by the accountant association, they will be transparent in the discharge of their duties.

Empirical evidence linking normative influences and corporate disclosure has been documented by various scholars. For example, Ball and Craig (2010) examined the capacity of professional bodies in providing an understanding of organizational response to social and environmental issues. They concluded that adherence to professional ethics and norms by accountants has a significant influence on their corporate social responsibility reporting practice. Likewise, Zhou (2012) investigated the role of external auditors in promoting corporate reporting in China. Their result indicates that external auditors play a key role in detecting and reporting corporate fraud. Similarly, Amran and Hannifa (2010) pointed out that normative isomorphism is significant in explaining sustainability reporting by Chinese listed organisations. This is because auditors are professionals with a high sense of integrity, objectivity, and competence. As such they are in a better position to advise and encourage management to be transparent through risk disclosure. This aligns with the assertion that the external auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error (AICPA, 2012).

Nahar, & Azim, (2022) examined executives' perceptions of risk management disclosures and such disclosures' determinants in developing countries. Uses Semi-structured in-depth interviews were conducted with 36 executives directly involved in risk management disclosures, policy-making and monitoring. The result show evidence that corporate risk management disclosures are still at a low level. The reasons for non-disclosure can be related to institutional weaknesses, lack of disciplinary action and political interference. Additionally, central bank autonomy, limited perception of accountability, demand from influential stakeholders, lack of financial literacy, aim to keep annual reports brief, etc. results in the dearth of risk disclosure by the banks.

Herbert, & Agwor, (2021) studied the effect of corporate governance disclosure (CGD) on the financial performance of commercial banks listed on the Nigeria Stock Exchange. Based on the provisions of the Code of Corporate Governance for Public Companies in Nigeria, 2011 and the Code of Corporate Governance for Banks and Discount Houses 2014, the study developed a disclosure checklist and employed content analysis technique to extract corporate governance (CG) from 78 annual reports of 13 Nigerian commercial banks from 2011 to 2016. The study trichotomized CGD into those relating to the board of directors, risk framework, and whistleblowing policy. The results of the hypothesized relationships showed a positive and significant association between

CGD and the banks' financial performance, with a positive effect of CGD on the board of directors and whistleblowing policy. However, the study did not find a significant association between CGD of risk management framework and the banks' financial performance.

In the context of Nigeria, there are two professional accountancy bodies saddled with the responsibility of ensuring that accountants and auditors are trained to discharge their duties with integrity and objectivity. These include the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN). These two bodies provide the normative guidelines to be observed by accountants in the preparation and disclosure of information relating to the entities they work for. Similarly, external auditors in the country are required by law to be members of either ICAN or ANAN. This is to ensure strict compliance with the ethical code of professionalism by external auditors in the discharge of their duties. Scholars opined that firms' conformity to normative guidelines enhances social or economic fitness, acquiescence will be the most probable response to institutional pressures. Therefore, it is anticipated that with professional advice from external auditors and adherence to the professional code of practice by members of ICAN and ANAN, the extent of risk information disclosed by listed firms in Nigeria will increase. From the above, the following hypothesis is formulated in a null form.

Ho: There is no significant relationship between normative influence and Risk disclosure of Deposit Money Banks in Nigeria.

METHODOLOGY

This study employs a survey design that is cross-sectional to examine the relationship between the predictor variable (normative influence) and risk disclosure. The study population comprises all the 14 listed deposit money banks on the Nigerian Stock Exchange as of December 2018 (Table 1). This includes deposit money banks that are listed on the Nigerian Stock Exchange (NSE) and are still actively participating at the time of data collection for this study.

Table 1. Lists of Quoted Deposit Money Banks in Nigeria

S/N	Name of Deposit Money Bank	Office Address	Website
1.	**Access Bank Plc**	999c, Danmole Street, Off Adeola Odeku Street, Victoria Island, Lagos	accessbankplc.com
2.	**Fidelity Bank Plc**	2, Kofo Abayomi Street, Victoria Island, Lagos.	www.fidelitybank.ng
3.	**First City Monument Bank Plc**	PGD's Place, Plot 4, Block 5, BIS Way, off Lekki-Epe Expressway, Lagos.	www.fcmb.com
4.	**Firstbank of Nigeria Limited**	Samuel Asabia House, 35, Marina, Lagos.	www.firstbanknigeria.com
5.	**Guaranty Trust Bank Plc**	635, Akin Adesola Street, Victoria Island, Lagos.	gtbank.com
6.	**Polaris Bank Ltd (Formerly Skye)**	3, Akin Adesola Street, Victoria Island, Lagos.	www.polarisbanklimited.com
7.	**Union Bank of Nigeria Plc**	Stallion Plaza, 36, Marina, Lagos.	www.unionbanking.com
8.	**United Bank of Africa**	UBA House, 57, Marina, Lagos	www.ubagroup.com
9.	**Zenith Bank Plc**	Plot 84, Ajose Adeogun Street, Victoria Island, Lagos	www.zenithbank.com
10.	**Ecobank Nigeria Plc**	21, Ahmadu Bello way, VI, Lagos	www.ecobank.com
11.	**Stanbic IBTC Bank Plc**	IBTC Place, Walter Carrington Crescent, VI, Lagos	www.stanbicibtc.com
12.	**Sterling Bank Plc**	Sterling Towers, 20 Marina, Lagos	www.sterlingbanking.com
13.	**Unity Bank Plc**	Plot 42, Ahmed Onibudo Street, VI, Lagos	www.unitybanking.com
14.	**Wema Bank Plc**	Wema Towers, 54, Marina, Lagos	www.wemabank.com

Source: Nigerian Stock Exchange Factbook 2008/the Stalwart Report com. 2016, page 5.

The data for this study were collected from the primary source. The researcher specifically employed the use of the questionnaire to obtain the data. For the administration of the questionnaire, purposive sampling was employed to be able to get responses from managers, accountants, internal auditors, public relation officers, and marketing officers who are believed to be in the best position to provide relevant information.

VALIDATION OF DATA COLLECTION INSTRUMENTS

The purpose of this is to ensure that the instruments used are capturing what they are supposed to capture. Two tests were used to validate instruments of data collection- validity and reliability tests.

Validity Tests

Validity is the degree to which an instrument captures what it is supposed to capture. For this study, content and construct validity are applied to this study to determine the validity of the research instrument.

For the content validity, the content validity index (CVI) was greater than 0.7 (i.e. CVI>0.7) indicating that the contents of the instrument are valid (Fornell & Lacker, 1981). For the convergent validity index, the average variance extracted is greater than 0.5 (i.e. AVE>0.5) meaning that any two similar constructs correspond with one another. And for the discriminant validity, the inter-construct correlations are less than the square root of the Average Variance Extracted, signifying that dissimilar constructs are easily differentiated (Fornell & Larcker, 1981). Finally, the reliability test conducted on the latent variable showed that the Cronbach Alpha value was greater than 0.7 implying that the questionnaire is a reliable instrument.

DATA PRESENTATION AND ANALYSIS

The statistical tool used for testing the hypotheses is the partial least squares (PLS)- Structural Equation Model (SEM) as it provides accurate out-of-sample forecasts of returns and cash-flow growth (Kelly, Bryan, Pruitt & Seth, 2013). However, the regression model for testing the hypothesis was estimated in equation 1

Rdisclosure = bo+b2NP+ej……………………………………………..1

Where:

Rdisclosure = Risk Disclosure
NP =Normative influence
bo =Constant
b2 is the regression coefficients
ej is the error term

For the operationalisation of the study variable, normative influence is measured by adopting and modifying scales by Molleda (2005) and Guler et al. (2002). Responses were anchored on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The choice of a five-point Likert scale was to provide a mid-point where respondents who want to be neutral will have an opportunity to do so. And from the disclosure literature, risk disclosure is measured using the index approach. The disclosure checklist is made up of seven (7) information items of risk disclosure in areas such as general risk information, accounting policies, financial instruments, derivatives hedging, reserves, segment information, and financial and other risks (Elkelish & Hassan, 2014). The unweighted approach is used to score the items on the disclosure checklist.

Table 2. Computation of Disclosure Index

S/N	Name of Bank	Gen. Risk Info.	Accounting Policies	Financial Instrument	Derivative Hedging	Reserves	Segment Info.	Finan. & Other Risks	Total	Disclo. Index	Leverage	Board Size	Board Indep.
1.	ACCESS BANK	1	1	1	0	1	1	0	5	0.714285714	8.00208	15	0.27
2.	ECO BANK	1	1	1	1	1	1	0	6	0.857142857	14.4592	15	0.4
3.	FBN	1	1	1	1	1	0	1	6	0.857142857	0.03103	12	0.25
4.	FCMB	0	1	0	1	1	0	1	4	0.571428571	0.0129	10	0.2
5.	FIDELITY	0	1	1	1	1	1	0	5	0.714285714	7.51172	12	0.17
6.	GT BANK	1	1	1	0	1	1	0	5	0.714285714	4.29952	14	0.21
7.	STANBIC IBTC	0	1	1	1	1	1	0	5	0.714285714	0.056618	10	0.2

8.	STANDARD CHARTERED	1	1	1	1	1	0	0	5	0.714285714	12.67894	12	0.67
9.	STERLING	0	1	1	0	1	1	0	4	0.571428571	10.07934	12	0.17
10.	UNION BANK	1	1	1	0	1	1	1	6	0.857142857	5.618606	15	0.13
11.	UBA	1	1	1	1	1	0	1	6	0.857142857	8.85004	19	0.21
12.	UNITY	0	1	1	0	1	1	0	4	0.571428571	-1.96836	9	0.11
13.	WEMA	0	1	1	0	1	1	1	5	0.714285714	6.75552	12	0.17
14.	ZENITH	1	1	1	1	1	1	0	6	0.857142857	6.35046	11	0.18

Table 3. Normative Influence Data

	NP1	NP2	NP3	NP4	NP5	NP6
1	4.00	4.00	4.00	3.00	3.00	3.00
2	5.00	5.00	5.00	5.00	3.00	3.00
3	5.00	5.00	5.00	5.00	5.00	5.00
4	5.00	5.00	5.00	5.00	5.00	5.00
5	3.00	5.00	5.00	5.00	3.00	5.00
6	4.00	4.00	4.00	3.00	2.00	3.00
7	1.00	2.00	1.00	2.00	1.00	1.00
8	5.00	5.00	5.00	5.00	4.00	4.00
9	5.00	5.00	5.00	5.00	5.00	5.00
10	5.00	5.00	5.00	5.00	5.00	5.00
11	4.00	5.00	5.00	5.00	3.00	4.00
12	4.00	4.00	4.00	4.00	4.00	4.00
13	5.00	4.00	5.00	4.00	4.00	4.00
14	5.00	5.00	5.00	5.00	5.00	5.00
15	5.00	4.00	5.00	5.00	4.00	4.00
16	5.00	5.00	5.00	4.00	3.00	4.00
17	5.00	5.00	5.00	5.00	3.00	3.00
18	4.00	4.00	4.00	4.00	3.00	3.00
19	5.00	4.00	5.00	5.00	4.00	4.00
20	5.00	5.00	5.00	5.00	4.00	5.00
21	5.00	5.00	5.00	5.00	5.00	4.00
22	5.00	5.00	5.00	5.00	5.00	5.00
23	5.00	5.00	5.00	5.00	5.00	5.00

24	4.00	4.00	4.00	4.00	4.00	4.00
25	5.00	4.00	5.00	5.00	5.00	5.00
26	5.00	4.00	5.00	3.00	1.00	4.00
27	5.00	5.00	5.00	5.00	3.00	3.00
28	5.00	4.00	4.00	4.00	3.00	2.00

To test for normality of the data collected, the Kolmogorov-Smirno and Shapiro-Wilk Tests were conducted considering the small sample size (28), and the computations and results are as follows:

Table 4. Kolmogorov-Smirnov and Shapiro-Wilk Tests

Test of Normality

		Kolmogorov-Smirnov			Shapiro –Wilk		
Var.	Mean	Statistic	df	Sig.	Statistic	df.	Sig.
Normative	2.00	.103	26	.200	.955	26	.300
Disclo.Ind	2.00	.201	26	.078	.926	26	.061

From the results shown in table 4, both tests are significant ($p>0.05$). The data, therefore, meet the assumption of normality.

The descriptive statistics were analysed to check if the statistical mean of the data provides a good fit of the observed data and whether the study variables have relationships (correlation). The computation and the following results were found:

Table 5. Descriptive Statistics for the Study Variables

Variables		**Min**	**Max**	**Mean**	**Std.Dev**
Risk disclosure	1	5	4.1429	0.77033	
Normative influence	1	5	4.3000	0.44376	

The descriptive statistics for the study variables shown in table 5 indicate that the mean scores of the latent variables are around 4.3000 on a 5- point Likert scale, while the standard deviation is around 0.44376. The standard deviation is small relative to the mean, implying that the statistical mean provides a good fit for the observed data. This agrees with the finding of Field (2009).

For the correlation, whose aim is to find out if the independent variable (normative influence) in the study has a relationship with the dependent variable, the Pearson correlation is used and the following were obtained:

Table 6. Correlations of the Study Variable

Variables	Correlation coefficient
Normative influence(1)	.418
Risk Disclosure(1)	$.228^{\#\#}$

$^{\#\#}$Correlation is significant at the 0.01 level (2-tailed)

Table 6 reveals that normative influence and risk disclosure are correlated ($r=0.418$, $p\leq01$). However, to find out if the relationship is significant or not leads us to the tests of the hypothesis in the next section.

Having established that the study variables are correlated with the dependent variable, Structural Equation Modeling (SEM) was then employed to test the significance of such relationships and hypothesis earlier formulated in the study. A structural model was run to test the relationships between the study variables. The results are shown in figure 1 and Table 7:

Figure 1: Result of structural equation model

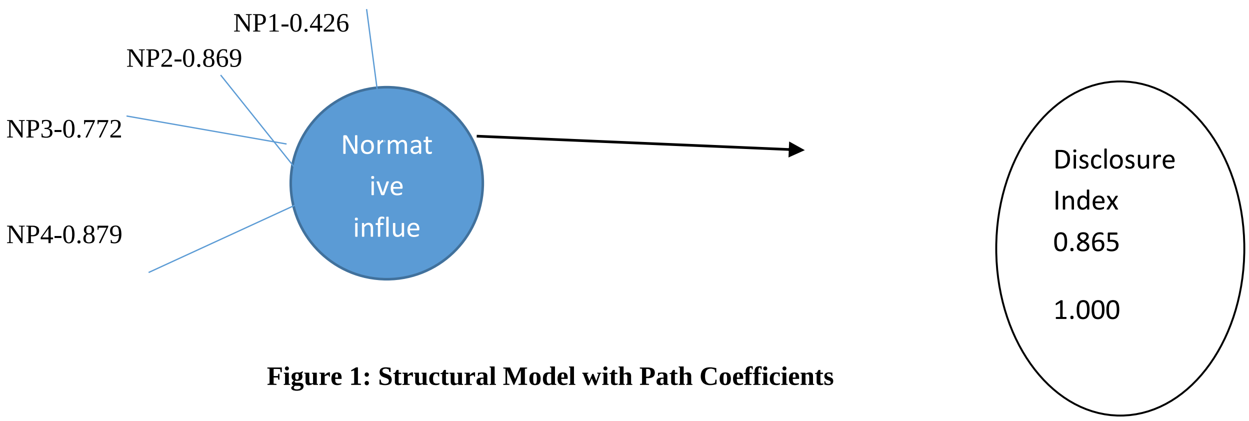

Figure 1: Structural Model with Path Coefficients

Table 7. Results of Direct Paths of the variable

Variable	B	t-value	p-value
Normat infl--------------------------------risk disclosure	0.306	4.230	0.000
R^2 =0.8667, adj.$R^2_{=0.172,\ p=0.000}$			

RESULTS AND DISCUSSION

Ho1: Normative influence has no significant relationship with the risk disclosure of deposit money banks in Nigeria

The decision rule is that if the p-value is less than the level of significance of 0.05, the null hypothesis will be rejected while the alternate hypothesis is accepted. But if the p-value is greater than the level of 0.05, we fail to reject the null hypothesis and reject the alternate. As shown in Figure 1 and Table 7, the standardized regression Beta-value for normative influence on risk disclosure is 0.306, suggesting that this path is statistically significant at α =0.05. This indicated that normative influence has a positive and significant relationship with the risk disclosure of deposit money banks in Nigeria, entailing that if there was an increase in normative influence, then it would positively influence the risk disclosure of deposit money banks. However, given that the p-value of 0.000 is less than the significant level of 0.05 as shown in Table 6, we reject the null hypothesis which states that normative influence has no significant relationship on the risk disclosure of deposit money banks in Nigeria, while the alternate hypothesis is accepted. This means that normative influence has a significant relationship with the risk disclosure of deposit money banks in Nigeria. The likely cause for this decision could be the fact that, when firms employ well-educated people, they understand the need to be transparent in the discharge of their duties including disclosure decisions. The finding is in agreement with Zhou (2012) who documented empirical evidence suggesting that normative mechanisms play a significant role in influencing banks to disclose fraudulent practices in annual reports. Similarly, Ball and Craig (2010) documented that, adherence to professional ethics and industrial norms by banks have a significant influence on their reporting practice. It is also in line with Bebbington et al (2008), Pfarer et al. (2005), and Amran and Hannifa (2010) who pointed out that normative isomorphism is significant in explaining sustainability reporting. This finding lends support to the prescription of an institutional theory that asserts that normative mechanisms such as education, professionalism, and industrial networks influence similarities in organizational behaviour including disclosure practices. The implication of such a finding to the banking sector is that employees' education and professional training are important in fostering disclosure of social, environmental, forward-looking, and risk information to meet the need of every user of the financial statement, and not just the shareholders alone.

CONCLUSION AND RECOMMENDATIONS

This study is undertaken in the Nigerian environment. The research developed an index to measure the quantity of risk disclosure consisting of 7 points: General Risk information, Accounting Policies, Financial Instruments, Derivative hedging, Reserves, Segment information, and Financial & Other risks. The researcher investigated Normative influences as determinants of risk disclosure by Nigerian listed deposit money banks. Results of the statistical analysis revealed that Normative influences are important determinants of risk disclosure in deposit money banks. When firms employ well-educated people, they understand the need to be transparent in the discharge of their duties including disclosure decisions. Professionalism enables employees to be able to advise management of the need to be transparent in corporate reporting practice. By this, it is recommended that banks should employ only professional members of the Institute of Chartered Accountants of Nigeria, Association of National Accountants of Nigeria, Chartered Institute of Bankers, for all their administrative positions so that a high level of objectivity would be achieved in the discharge of their duties including risk disclosure. Other, non-professionals could be employed for other lower posts who always take their directives from the administrative officers.

The study contributes to the accounting literature in general, and specifically to the literature on risk disclosure. It provides empirical evidence from the Nigerian business environment- a developing country, that Normative influence is very fundamental in assessing a bank's risk disclosure level. The findings of our research can be beneficial for the disclosing bank itself, and the supervising bodies. The disclosing bank can use our risk disclosure index criteria to improve the quantity of its disclosure system, as far as risk is concerned. The capital market authority or bodies of accounting standards setting may use the findings of the current study to guide best practice. One limitation of the current study is that; its sample is only 14 Nigerian listed deposit money banks. This is due to the difficulty of obtaining data in an emerging economy. The smaller limited number of banks makes it difficult to draw broad conclusions about all banks or firms, so the researcher cannot generalize the results. Further exploratory research could be undertaken to investigate the views of the stakeholders of financial statements to propose additional dimensions to determine risk disclosure that are not considered in the present study, based on the informational needs of the users. Conducting interviews with users (for example, investors or financial analysts, etc) would be very useful in refining the weighing of the risk disclosure quantity items to reflect user-perceived importance. Finally, it might be of interest to examine to what extent risk disclosure provides valuable information to the stock market. For example, investigating the impact of risk disclosure on the cost of equity capital in Nigeria.

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