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QUANTITATIVE ACCOUNTING INFORMATION AND FINANCIAL PERFORMANCE: THE POLICY IMPLICATION OF NIGERIAN INSURANCE FIRMS

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ABSTRACT

The resounding reporting issues among corporate entities on earnings management and income smoothing with its information asymmetry phenomenon had prefigured cases of huge financial scandals which had reduced market confidence in some annual financial reports. Such circumstances engulfed entities like Worldcom, Enron, Cadbury Plc et cetera. The Nigerian insurance industry that primarily accepts the transfer of other business risks and uncertainty is not exceptional in the experience, jostled by this background; the study aimed to examine the effect of quantitative accounting information on the financial performance of Nigerian insurance firms. Ex-post facto design was employed to allow the analysis of past economic events to explain the behaviour of the variables. Secondary data were obtained from the websites of the selected listed insurance firms on Nigeria Stock Exchange from 2005 – 2019. A panel OLS regression with a specified model was done to ascertain the comparative outcome of pool and fixed effect in the behaviour of the variables. The findings indicated that the disclosure of items of both income statements and statement of financial position stimulated a positive and significant effect on the return on assets of the Nigerian insurance firms. It was therefore concluded and recommended that despite the objectives of earnings management and income smoothing among management alternates, the reliable quantitative accounting information should be disclosed to the users of information because it would propel the predetermined financial performance by sustaining investment and policy customers to the firms.

Keyword: *Quantitative, insurance, financial performance, accounting information.*

INTRODUCTION

The business atmosphere in Nigeria has been fraught with emerging dynamic business environments due to global warming, climate change signals, natural disasters, technological advancement trend, market preference, associated risks and uncertainties. This fierce turbulence had continually influenced the trend of business performance among corporate entities and increased the scope of insurance business portfolio. Consequent on it, Akanbi and Adewoye (2021) asserted that currently, the objective of business organizations has shifted from the usual profit making ideology to gaining competitive advantage, sustainability, surviving turbulent business environment, customer satisfaction and achieving effective decision making. Apart from the traditional resort to insurance policy for enormous business risks transfer, core managerial competences and organizational resources are carefully harnessed to respond to the dynamic business arena to create value for stakeholders. Among the organizational resources is Accounting Information System (AIS). The core functional features of an accounting information system is centred on computerizing business and accounting processes to integrate relevant data to provide real-time information for decision making. It automates accounting structures, procedures, software, application with computer-based devices and machines to capture data from all subsystems of the organization to respond to information need of the business stakes for improved performance, especially the financial performance. Meiryani, Mohamad and Dianka (2020) opined that a company creates value for shareholders measured with financial performance indicators when shareholders returns exceeds the shareholders cost. In other words, a company creates value in a year when it outperforms cost inputs. Such corporate value created is simply crafted by certain drivers which reliably audited accounting information that holds the confidence of the market and public is part. The product of accounting information system is therefore the accounting information. According to Kankriyah (2016), accounting information is very important to all companies, facilities and organizations as their activities and goals are achieved with high degree of control due to available accounting information. Onaolapo and Odetayo (2012) posited that accounting information are characterized by qualitative and quantitative elements. The quantitative aspect of the information attracts compulsory attention of stakeholders whose informed decision depends on its reports. Its relevance at decision point is premised on the fact that most practice of earnings management, income smoothing and all forms of permissible adjustments in financial statements are revolved around quantitative accounting information. Despite the observed significance of quantitative accounting information, limited empirical studies considered it among research variables. This became a necessary gap in knowledge which the study filled. Therefore, the aim of the study was to ascertain the effect of quantitative accounting information on the financial performance of insurance firms in Nigeria.

Specific objectives are to:

1. Ascertain the effect of income statement items disclosure on return on asset of Nigerian insurance firms.
2. Assess the effect of financial position items disclosure on return on assets of Nigerian insurance firms.

Hypotheses

$H0_1$: income statement items disclosure has no effect on return on assets of the Nigerian insurance firms.

$H0_2$: financial position items disclosure does not affect the return on assets of the Nigerian insurance firms.

LITERATURE REVIEW

THEORETICAL FRAMEWORK:

STAKEHOLDER THEORY: Stakeholders were portrayed as those groups without whose support the organization would cease to exist. Fontaine, Haarman and Schmid (2006) posited that stakeholder theory suggests that the purpose of a business is to create as much value as possible for stakeholders. In order to succeed and be sustainable overtime, business executives must keep the interest of customers, suppliers, employees, communities and shareholders aligned to go in the same direction. Harrison, Freeman and Sa de Abreu (2015) explained that the theory is practical because it spurs all firms to manage stakeholders efficiently. It is efficient because stakeholders that are treated well tend to reciprocate with positive attitudes and behaviours towards the organization, such as sharing valuable information, buying more products or services, providing tax breaks or other incentives, providing better financial terms, buying more stock, or working hard and remaining loyal to the organization, even during difficult times. Similarly, Ackermann and Eden (2010) aptly put that the stakeholder theory refutes the concept of stockholder by recognizing the vast group of interest in the company and requiring the business executives to integrate and manage these interests, relationships and trade-offs in aligned direction to create as much value as possible for stakeholders and manage the distribution of the value efficiently. This theory is used to anchor the discussion on accounting information disclosure.

AGENCY THEORY: The agency theory was developed by Jensen and Meckling in 1976. The theory is based on the idea that when a company is first established, its owners are usually also its managers. Meanwhile, as the company grows in capacity, the owners (i.e. principal) appoint managers (i.e. agents) to run the company. According to Institute of Chartered Accountants of Nigeria (2014), the agency theory creates a relationship between owners of company and managers of company in which owners expect managers to run the company in the best interest of the owners. Many companies borrow a significant proportion of their long-term capital as debt capital such bank loan, lease finance, and bond issue. Considering the structure of capital, the agency theory portrays a conflict of interest between the company's owners, managers and major debt holders. Soetan, Asein and Ajibade (2018) asserted that conflicts are usually attributed to differences in interest and objectives. The shareholders want increase in their return and wealth as demonstrated in dividend and share value. Conversely, Oyewo (2013) stated that the managers may not own shares in the company but focus interest in remuneration and employment benefits, except their contractual agreements are on share based payments and share bonuses. The debt holders also have interest in sound financial management by the company's manager, so that the company will be able to pay its debt obligation in full and on time. The nature of conflict of interest between the parties of agency relationship is portrayed in diverse impression, such as risk aversion, earnings retention, moral hazard, effort level and so on. Some conflicts like moral hazard which entails managers taking ineffective decision on behalf of the company owners results in agency cost. Oko (2018) pointed that the agency relationship between owner and manager also produces a natural conflict of interest because of information asymmetry. Information asymmetry implied that the manager has more information than is reported in stewardship. Rankin, Stanton, McGowan, Ferlauto and Tilling (2012) added that information asymmetry results from managers having an advantage over investors and other interested parties as they have more information about the current and future prospects of the entity and

can choose when and how to disseminate it. Besides, it tries to focus on challenges that bother on balancing and harmonizing the interest of the principal and agent in their quest for gains while confronting the issues of stewardship information asymmetry. This theory was selected to hinge the independent variable because of the importance of reliable disclosures on financial performance.

CONCEPTUAL FRAMEWORK

Insurance Business: Risk is a common index among routine business activities and daily human endeavours. An insurance firm undertakes the business of assuming the insured risk. It is a non-bank financial service institution that provides both financial and non-financial services. According to Iyodo, Samuel and Inyada (2018), insurance business provides financial support and reduces uncertainties in other businesses by offering coverage against the risk of losses through ensuring indemnity from premium. The insurance firms facilitate spreading of risk from the insured to the insurer. The notion on insurance introduced the position of Weisbart (2018) who recounted that it is an evolving business in Nigerian economy that deals in certain needs to drive the economic affairs. It engaged in contract to restore policyholders in the event of loss, educates clients on risk mitigating strategies, helps to stabilize the economic units in times of financial crisis, plays the role of social agent to promote the common good of society and preserve social order and offers financial credits as well as reinsurances services. Hussien and Alam (2019) put that insurance industry basically three broad area functions as: Non-life insurance, life insurance and re-insurance which pave way for claim settlement.

Insurance Claims Settlement is a prevalent measure employed in insurance dealings with policyholders is claim settlement to restore the affected client of the value lost in financial magnitude to the occurrence of risk. Akpan, Nnamseh, Etuk, Edema and Ekanem (2020) opined that insurance firms help in stabilizing the economy by proving risk management mechanisms to different sectors of the economy for individual, business organizations and the government who transfer different types of risks to the insurance companies for effective and efficient management. Tyokoso, U-ungwa and Ojonimi (2017) affirmed that the corporate activities of the insurance business spread around engaging in contractual relation with other entities and individuals that seek to transfer risks which eventually results in claim settlement. The insured clients who experience a loss for specified peril makes a claim against the insurer. These contractual obligations of the insurance firms are expected to be met as at when due by efficient management of resources and the financial performance of the insurance business.

Quantitative Accounting Information: Accounting has been described as language of business overtime. The traditional notion which some users of accounting information had about accounting was limited to provision of information on business performance with emphasis on profit or loss. However, contemporary accounting scope of concern is broadened by vast purview of business new frontiers and organizational information needs. The described function permeates through an accounting information system. Patel (2015) affirmed that accounting information system is the information sub-system of an organization that accumulates information from the entities various subsystems and communicate it to the organization need points. The main role of the accounting information system is to assign quantitative value to the past, present and future business events through financial statements for users need. The information exhibit both qualitative and quantitative characteristics. Sutriani, Animah and Jumaidi (2019) explained that the quantitative characteristic encompasses the financial figures in the statements that form basis of ratio analysis for all

interests. The qualitative aspect includes fundamental and enhancing characteristics that portray consistency, relevance, comparability, understandability and timeliness in the use of information for economic decisions. In corroboration, Farida, Mulyani, Akbar and Setyaningsih (2021) added that a specific expectation of users of accounting information which transcend compliance to reporting standards focuses on quality information that reduces the risk of imperfect information and the challenges of information asymmetry.

Financial Performance is a concept employed in the sciences of management with specific emphasis on the finance-oriented disciplines to measure how well the business assets had been managed to generate returns over a given period of interest. Verma (2021) aptly described financial performance as the process of measuring the results of a firm's policies and operations in monetary terms. According to Maka and Suresh (2018), the financial performance of any firms gives an indication of how efficiently management utilizes the resources of business to actualize results and meet budgetary expectations. It also establishes liquidity and solvency of the firm in a given period. Dhiab (2021) submitted that in evaluating the overall financial health of any entities, financial statements of the firms serve as veritable materials for the exercise. The statements which include: Statement of financial position, Statement of income, Statement of change in Equity, Cash flow statement etc. disclose financial performance indices as: Revenue, Gross profit, Profit after tax, Net assets, Current liabilities, Dividend, Earning per share et cetera. Dabo, Andow and James (2018) explained the financial indicators provide information to stakeholders for informed economic decision, such as shareholders, employee, creditors, supplier, government agency, management, financial analysts etc. In this study context profit after tax and return on assets were used as performance measures. **Return on Assets** is a key indicator of the financial health of an entity. Nico and Wiwick (2019) pointed that it is an indicator of how efficient the management had utilized the available assets of business to generate revenue and extended to net profit after tax. It is usually classified among financial ratios as a profitability ratio because it expresses the relationship between the business assets and the business profit for a specified period to ascertain the level of efficient management of assets.

Empirical Review

Ganyam and Ivungu (2019) examined the effect of accounting information system on financial performance among firms in Nigeria. A survey design was employed. Data were obtained and analyzed. The findings indicated that there exists an insignificant positive relationship between accounting information and financial performance of the studied firms. Again, Borhan and Bader (2018) investigated the impact of accounting information system on the profitability of Jordanian Banks. A survey design was adopted. Primary data were obtained with the aid of copies of questionnaire and multiple regressions were employed for analysis. The result showed that there is significant impact of accounting information system on profitability of the Jordanian banks. Khalid and Kot (2021) assessed the impact of accounting information system on the performance Management in Thailand Banking sector. The study employed purposive sampling to content analyze the financial statements of six major commercial banks in Thailand from 2011-2019. Correlation and multiple regressions were applied for analysis. The study found that accounting information system has a positive and significant effect on performance management. Similarly, Patel (2015) evaluated the effects of accounting information system on organizational profitability. The study reviewed literature and employed descriptive method. The result reveals a relationship between accounting information system and profitability.

Ahmad and Al-Shbiel (2019) assessed the effect of accounting information system on organizational performance in Jordanian industrial SMEs. The study employed regression analysis with the aid of statistical package for social sciences. The empirical findings from a survey of 350 employees of SMEs firms showed relationship between accounting information system and organizational performance. Also, Akanbi and Adewoye (2018) evaluated the effect of adoption of accounting information system on financial performance of commercial banks in Nigeria. The survey design was employed to collect primary data and content analyses of secondary data were extracted from banks financial statements for simple regression techniques. The findings indicated that adoption of accounting information system has a positive significant with all the performance indicators such as: Return on capital employed, return on total assets, Net operating profit and gross profit margin. It was recommended that Nigeria should support the adoption of accounting information system among commercial banks.

METHODOLOGY

A panel data design was employed to capture and analyze the data which is characterized by a time lag or series dimension of a cross-sectional dimensional study. The panel data design was considered appropriate for the study because it controls the heterogeneous conditions in the unit of analysis to avert the risk of obtaining bias results. Secondary data were obtained by content analysis from the financial statements of a cross-section of some listed insurance companies in the study for a period of 2005-2019. Multiple regressions were adopted on e-view application with comparative analysis of pooled and fixed regression effect.

Model Specification

The Panel data specific model was expressed as follows:

$ROA_{it} = \lambda_0 + \lambda_1 ISID_{it} + \lambda_2 SFPIDit + \mu_t$……. equ.1

Where: ROAit = Return on Assets

ISID = Income statement items disclosure

SFPID = Statement of financial position item disclosure

λ.0 = Constant

λ.1-2 = Coefficient of the independent variables

μ.t = Error term.

i. = Entities

t. = Time series.

A Priori Expectation:

In this study, return on assets (ROA) is employed as proxy to measure the dependent variable which is financial performance and it is expected to relate positively with income statement and financial position item disclosure in the model.

RESULTS AND DISCUSSION

Table.1: Estimation and Analysis of Model

Table 1 presents the pooled regression and fixed effects estimation results for empirical model. The Model specifies market value added (MVA) to depend on environmental compliance cost (ECC), employee training cost (ETC) and community development cost (CDC). Table 2shows the goodness of fit statistics and model diagnostic tests. Table 3presents the Likelihood ratio test for model selection.

Table 1: Estimation Results for the model; p-value in ( )

A	B	C
Variable	**Pooled Regression**	**Fixed Effects**
Constant	23.459 (0.0000)	19.125 (0.0000)
LISID	-0.6376 (0.0446)	-0.3474 (0.1525)
LFPID	0.0084 (0.0006)	0.0240 (0.0298)

Source: E-views output

HYPOTHESIS TESTING: **Decision Rule:** Reject H_{01} if the p-valueis less than 0.05. If not, H_{01} would not be rejected.

H_{01}:Income Statement items disclosure has no significant effect on Return on Assets in Nigerian insurance firms.

The empirical model, which specifies return on assets to depend on income statement items disclosure and statement of financial position item disclosure, the best performing panel data method is the pooled regression method. Therefore, the information in column B of Table 1 would be used to test the above hypothesis at 5% level of significance.

As we can see, the p-value associated with LISID (log of income statement items disclosure) is 0.0446, which is lower than 0.05. This implies that the statistical test is significant at 5% level. Therefore, we reject $H_{01}$and conclude that income statement item disclosure has a significant effect on Return on Assets in quoted Nigerian insurance industry.

H_{02}: Financial position statement items disclosure has no significant effect on Nigerian insurance firms.

From the empirical model, which specifies Return on Assets to depend on Income statement and Statement of Financial position item disclosure, the best performing panel data method is the pooled regression method. Therefore, the information in column B of Table 1 would be used to test the above hypothesis at 5% level of significance.

As shown above, the p-value associated with LFPID (log of financial position items disclosure) is 0.0006, which is much higher than 0.05. This implies that the statistical test is significant at all conventional levels. Therefore, we reject $H_{02}$and conclude that has no significant effect on Return on Assets in the quoted insurance Nigerian industry.

Table 2: Goodness of fit statistics and model diagnostic tests; p-value in ( )

Panel B: Goodness of Fit Statistics		
R^2	0.9049	0.9200
$\bar{R}^2$	0.8642	0.8667
F-statistic	22.226 (0.0005)	17.258 (0.0019)
Breusch-Pagan LM	2.0000 (0.1573)	2.0000 (0.1573)
JB statistic	0.5247 (0.7692)	0.9067 (0.6354)

Source: E-views Output

Table 3: Likelihood Ratio Test

Test	**Test statistic**	***p*-value**
Cross-section Chi-square	1.8959	0.0085

Source: E-views output

From Panel A of Table 1, the results for the alternative methods are largely similar, especially in terms of the sign of the coefficients. The coefficient on LISID is positive for both the pooled regression (beta = 0.6376) and the fixed effects (beta = 0.3474) methods, indicating that Income statement item disclosure and Return on Assets move in same direction. The higher the disclosure of income statement items, the higher the Return on Assets for quoted insurance companies in Nigeria. However, while the effect on return on asset with disclosure of income statement items is statistically significant at 5% level for the pooled regression model (p-value = 0.0446), it is statistically insignificant at all conventional levels for the fixed effects model (p-value = 0.1525). However, while the effect of environmental compliance cost appears to be economically significant for both methods, its beta size is high for the pooled regression method compared to the fixed effects method. For the pooled regression method, a 1% increase in environmental compliance cost would lead to approximately 0.64% reduction in market value added, holding other factors constant. On the other hand, for the fixed effects method, a 1% increase in environmental compliance cost would lead to approximately 0.35% reduction in market value added, holding other factors constant. Thus, the pooled regression method appears to perform better than the fixed effects method in terms of the relationship between environmental compliance cost and market value added.

Also, LFPID is associated with a positive coefficient for both the pooled regression (beta = 0.0084) and the fixed effects (beta = 0.0240) methods, indicating that the disclosure of financial position items moves in the same direction with Return on Assets. The more Statement of Financial position items disclosure, the higher the return on assets for insurance companies in Nigeria. However, the associated probability of the estimated beta is quite substantial for both the pooled regression (p-value = 0.9206) and fixed effects (p-value = 0.8298) methods, indicating that the effect on return on assets of statement of financial position disclosure is statistically insignificant at all conventional levels. Also, the small size of the betas for both methods suggests that the effect of Statement of financial position items disclosure is economically insignificant. For the pooled regression method, a 1% increase in

Statement of financial position item disclosure would lead to less than 0.01% increase in return on assets, holding other factors constant. On the other hand, for the fixed effects method, a 1% increase in Statement of financial position item disclosure would lead to approximately 0.02% increase in return on assets, holding other factors constant. Thus, the fixed effects method marginally outperforms the pooled regression method in terms of the relationship between Statement of financial position item disclosure and return on assets.

From Table 2, we can see that both the pooled regression model ($\bar{R}^2 = 0.8642$) and the fixed effects model ($\bar{R}^2 = 0.8667$) are highly explained, with each explaining more than 86% of the observed variation in return on assets. Also, the F-statistic is also large, with a very low probability for the model, showing that our regression results are highly significant. Further, the Breusch-Pagan LM statistic and the Jarque-Bera statistic both are associated with a high probability for both the pooled regression and the fixed effects methods, indicating that the model diagnostic tests are insignificant. Thus, the null hypotheses of no cross-section dependence and normal distribution both are not rejected for both models, implying that the two models are correctly specified. This implies that the pooled regression method and the fixed effects method both equally perform very well in estimating the effects of income statement items disclosure and statement of financial position items disclosure on return on assets in the Nigerian insurance industry. However, the question of whether firm specific practices are significant explanatory factors for return on assets is not yet answered.

From Table 3, the associated probability of the cross-section Chi-square statistic is quite high at high at 0.0085, indicating that the Likelihood ratio test is significant. This leads us to reject the null hypothesis of no unobserved firm-specific effects in our empirical model. Therefore, the fixed effect regression model performs better than the pooled effects model in the context of the relationship between quantitative accounting information disclosure and financial performance in the insurance industry in Nigeria.

SUMMARY, CONCLUSION AND POLICY RECOMMENDATION

The statistical evidence of the first hypothetical test suggested that accounting information disclosure of income statement stimulates a positive and significant effect on return on asset of the insurance firms in Nigeria. The direction of the finding is in tandem with the viewpoint of Akanbi and Adewoye (2018) who evaluated the effect of adoption of accounting information system on financial performance of commercial banks in Nigeria. It is also in consonance with the result of Khalid and Kot (2021) that assessed the impact of accounting information system on the performance Management in Thailand Banking sector. However, it is not exactly in agreement with the position ofGanyam and Ivungu (2019) that examined the effect of accounting information system on financial performance among firms in Nigeria. Similarly, the other hypothetical test revealed empirical evidence to justify that the disclosure of financial position item propelled positively significant effect on return on assets of insurance firms in Nigeria. The finding corroborates with the result of Ahmad and Al-Shbiel (2019) that assessed the effect of accounting information system on organizational performance in Jordanian industrial SMEs. It also agreed with the standpoint of Borhan and Bader (2018) who investigated the impact of accounting information system on the profitability of Jordanian Banks. Obviously, the directions of the results are in line with the a priori expectation and it justified the theoretical background in agency theory, that the stewardship of the manager promotes symmetry information dissemination; otherwise information asymmetry will instigate conflict of interest. It was concluded therefore that the Nigerian insurance business typically accept the transfer of business risks and uncertainties from other entities. Such responsibility in its entirety underlies the obligation to indemnify

any policyholder in the event of legitimate loss from the achieved business financial performance. Resultantly, stakeholders of the firms rely on the accounting information to make investment and economic decision to remain contractual or investment relationship with the firm, therefore the reporting policy implemented overtime would promote market confidence in the accounting information. It is therefore recommended that quantitative accounting information disclosure policy should be promoted in the insurance industry in general and the firm in specific despite the earning management and income smoothing objective because it stimulate positively significant effect on return on assets among Nigerian insurance firms. Such will trigger the performance that would generate sufficient resources for indemnity obligation.

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