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RESEARCH ARTICLE

AN EMPIRICAL ANALYSIS OF DIGITAL FINANCIAL REPORTING PRACTICES AND DISCLOSURE ON QUOTED FINANCIAL SERVICES FIRMS IN AN EMERGING ECONOMY: A CASE STUDY OF NIGERIA.

***Ayodeji B. Owoeye (PhD)**

Royal Agricultural University, School of Business and Entrepreneurship, Stroud Rd, Cirencester GL7 6JS

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**Corresponding Author:*
Ayodeji B. Owoeye (PhD)

ABSTRACT

The study investigated the factors that influence digital financial reporting disclosures in Nigerian publicly traded financial sector organizations. Financial reporting specialists' perspectives on chosen firm-specific features were gathered and published in relation to digital financial reporting procedures in such firms. The study used a sample of 350 professionals chosen at random using the judgmental technique from 49 listed financial services firms on the Nigerian Exchange Group (NGX) formerly known as the Nigerian Stock Exchange as of December 2022. The selected professionals were given the closed-ended questionnaire. The acquired data were examined using regression technique. According to the findings, indebtedness, profitability, farm size and foreign shareholding are significant drivers of digital financial reporting practices in Nigerian financial service firms. Furthermore, the P-value of the coefficients supported these findings. As a result, the study suggests that policymakers in Nigeria should consider the significance of this research, which provides light on the necessity of digital financial disclosures. As a contribution, the study takes a comprehensive look at the factors that influence publicly traded enterprises' attitudes towards digital financial reporting in Nigeria.

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INTRODUCTION

Technology and the internet of things have changed the business world in general, changing areas such as how goods are sold and/or services are rendered, how sales information is collected and recorded, how payments for goods sold or services rendered are made, how investments are made, and how information about profitable investments is obtained. As a result, technological improvements and the internet of things have also had an impact on the financial reporting process. Prior to this technological age, Mustapha and Lasisi (2018) observed, the way of publishing financial reports by public interest institutions was through hard copy printed yearly reports. According to Pham and Do-Thi (2015), information is now a click away from investors and other users of financial reports, unlike prior to the emergence of the internet and other technologies; while the availability of data accumulated from various digital platforms into big data has increased users' appetite for greater knowledge in order to make informed investment decisions. Digital financial reporting, also known as "Internet Financial Reporting," is the use of modern technologies and internet-enabled platforms for the preparation, presentation, and subsequent dissemination of financial reports to internal and external users, in order to ensure that such users can access the financial reports from anywhere in the world and through any internet-enabled device. The potential purpose of digital financial reporting as a new way of transmitting financial information to the investing public is to minimise the problem of information asymmetry to the absolute minimum (Gowthrope, 2016; Hedlin, 2014).

Digital financial reporting makes use of two platforms. The first is the "digital platform," which speeds up the financial reporting process as compared to the manual-driven financial reporting period. Several phases in the financial reporting process have been digitally begun and completed by independent personnel inside the accounting department of bigger organisations. However, for smaller businesses, it is more cost effective to use all-in-one accounting software, which allows one or a few people to operate inside the financial reporting process but with limitations determined by level (Deller, Stubenrath& Weber, 2012). The second is an online platform that allows public-interest firms to make their financial reports real-time and easily available to people. The intern*et al*so speeds up the distribution of year-end yearly financial reports, as opposed to paper versions, which take longer. It has been stated by Hussein and Aboutera (2017) that timely disclosure of financial information aids investment decision making and also attracts potential investors wanting to participate in the firm. The investor's buy/sell/hold dilemma arises in the space between when information is made available and when an investment choice is eventually made. As a result, it is acceptable to say that digital financial reporting standards boost the availability and accessibility of financial information globally, encouraging cross-border investments. Furthermore, Xiao, Yang, and Chow (2004) contended that, with the aid of the internet, reported financial information will become a public good, providing consumers worldwide and unrestricted access. According to Laswad, Fisher, and Oyelere (2016), digital financial reporting enables businesses to provide disaggregated and incremental financial data via their website and other publicly accessible internet sites.

Digital financial reporting increases the degree and volume of disclosure by presenting more financial and non-financial information in a variety of forms and to a larger audience. This is one of the reasons why the notion of digital financial reporting has piqued the interest of so many researchers in recent years. A lot of studies on the drivers of digital financial reporting procedures for publicly traded organisations have been conducted, and a variety of conflicting outcomes have been published in this study field. However, more evidence has come from industrialised nations where digital financial reporting has received widespread attention in theory and practise. Pham & Do Thi (2015) and Deller *et al*. (2012), for example, identified institutional ownership, foreign ownership, business size, profitability, and leverage as major predictors of digital financial reporting for publicly traded enterprises in the United States. Gowthrope (2016) provided evidence for UK firms; Gowthorpe and Amat (2018) provided evidence for Spanish firms; Hedlin (2014) provided evidence for Swedish firms; Fisher Oyelere and Laswad (2015) and Laswad *et al*. (2016) provide evidence for New Zealand firms; Marston (2016) provided evidence for Japanese firms; Xiao *et al*. (2004) provided evidence for Chinese firms; Smith and Peppard (2015) provided evidence for Irish firms; Khadaroo (2018) focused on Malaysian. These studies have shown an increase in interest in digital financial reporting; yet, the mixed data presented by these studies has kept academics on the lookout for new breakthroughs or constraints from various nations throughout the world.

Until recently, all publicly listed enterprises in Nigeria had to rely on the physical distribution of hard copy annual reports as the principal way of conveying financial stewardship to firm owners, other stakeholders, and potential investors. However, technological advancements and the internet of things have altered the approach to this communication strategy for several Nigerian publicly listed companies. These businesses' annual reports, as well as other critical managerial and board actions and interim reports, are now available in real time via their websites and other online platforms, even before the printed reports are made public. However, despite the various benefits associated with digital reporting procedures, only a small number of publicly listed companies have embraced digital financial reporting. Questions about why publicly listed enterprises in Nigeria have failed to capitalise on the opportunities in digital financial reporting and use this chance to reach out to more potential investors remain unresolved empirically. Identification of the underlying reasons (determinants) responsible for the selective adoption of digital financial reporting techniques across specified industries in Nigeria remains a gap in the research. As a result, this paper is ideally positioned to investigate the drivers of digital financial reporting practises in Nigeria. The remainder of this paper is structured as follows: The theoretical perspective was described in part 2, and the literature evaluation and study hypotheses are presented in section 3. The data and study methodology are introduced in Section 4. The results and discussions are presented in Section 5, and the conclusion and implications of the paper are presented in Section 6.

Theoretical Perspectives: A variety of ideas have been developed to help explain the concept of financial reporting and timely disclosure. A number of other theories have been proposed in this regard, ranging from the agency theory, which aims to ensure that financial reporting is geared towards the interests of the owners, to the information asymmetry theory, which focuses on bridging the knowledge gap between preparers and users of financial reports. Emphasis will also be placed on signalling theory for the purposes of the paper. The agency theory is particular about addressing the multiple conflicts in the principal-agent relationship by suggesting two solutions. First, it is claimed that when the principal has knowledge to check agent conduct, the agent is more likely to operate in the principal's interests. The agency theory's second solution focuses on the agency contract, since it is thought that when the contract between the principal and agent is result oriented, the agent is more likely to operate in the principal's best interests. The agency theory's second solution will help to address additional issues such as moral hazard, adverse selection, and varying risk appetite. The suggestion of the agency theory for the purposes of the paper in order to underline the importance of users having timely access to financial information. Digital financial reporting is intended to offer shareholders and other stakeholders with real-time financial reports that can provide credible information for analyzing the corporation's performance in line with investors' buy/sell/hold investment decisions. As a result, as long as there are agency difficulties caused by users' restricted access to information, the necessity for digital financial reporting in Nigeria cannot be overstated. The signalling hypothesis is based on two separate parties' perceptions of the information supplied by one side. While the agent/receiver is cautious not to be misled by what is reported, attempting to ensure that what is reported is true, accurate, and timely in light of current decisions, the principal/sender is interested in persuading the agent to accept what has been reported as true, accurate, and timely. For the purposes of this paper, I suggest digital financial reporting as a means for both parties to fulfil their goals. The sources, procedure, and time of distribution are what make information true, accurate, and timely. Investors are constantly in a quandary when it comes to making financial decisions based on the information at their disposal. If the reported information is timely, investors will have enough time to weigh all possible options available to them in order to make a sound investment decision. This problem can be addressed by adopting digital financial reporting that emphasizes real time reporting, so that users can have access to information about the corporation at any time they are faced with the buy/sell/hold dilemma, rather than having to wait until the end of the fiscal year.

REVIEW OF RELATED LITERATURE

According to Bushman *et al*. (2004), corporations in today's environment improve their disclosure openness using a variety of techniques. Among the different ways of information distribution, the internet is one of the most valuable tools, providing business management with the capacity to daily update their stakeholders on essential corporate information as well as access to possible investors (Healy and Palepu, 2001). According to Robinson and Munter (2004), high-quality corporate financial reporting is critical for displaying a corporation's true financial status and activities. According to them, there are four reasons for poor reporting quality. These include the application of standards by picking those choices that lead to the reporting of findings in a biased or misleading way. Accounting principles used by corporations may contain flaws, as well as practises of assumptions or estimating done using incorrect or unrealistic metrics. When accounting rules are strained in a business or management participate in false financial reporting, the firm is considered to have low quality financial reporting. According to Outa (2014), organizations must demonstrate conformity with high quality accounting standards in order to improve openness in financial reporting. These standards must be imposed as soon as possible in order to improve the relevance, comparability, understandability, and dependability of company financial reporting for investors. To combat the problem of accounting fraud in businesses, regulatory authorities such as the SEC have urged corporations to reveal their information on their corporate websites in reaction to the recognition of the benefits of the internet in information distribution. According to Ajinkya *et al*., (2005), the adoption of diverse techniques in information dissemination by firms for increasing transparency demonstrates that effective corporate governance procedures are encouraged inside the corporations. Firm publication of financial information through the internet was initially voluntary, and most businesses freely release their information on official websites. Ajinkya *et al*., (2005) observed that disclosures made on the corporate websites are unregulated and varies from firm to firm. However, the use of internet proves as a valuable tool for firm information disclosure (Ettredge, *et al*., 2002). According to Ajinkya *et al*., (2005), The research on internet financial reporting provides fresh insights into why corporations choose the internet as a vehicle for information disclosure (Ashbaugh *et al*., 1999; Ettredge *et al*., 2002; and Debreceny *et al*., 2002). Ashbaugh *et al*. (1999) investigated the difference between firms that utilize their official websites to provide information to investors and corporations and those that do not.

The findings indicated that businesses that use corporate websites for information sharing are more lucrative than others.

According to the authors, the primary motivation for utilising the internet as a tool for information disclosure is to keep shareholders up to date on the firm's performance. Ettredge *et al*. (2002) divided IFR disclosure into two groups. The first group examines voluntary disclosures provided by businesses, while the second category considers mandated filings, which include disclosures in the form of Forms 10 Q and 10-k made mandatory for firms by the SEC. Ettredge *et al*., (2002) explored whether corporate distribution of information through the internet as a voluntary disclosure and mandated filing is consistent with the usual technique used for voluntary disclosures in incentive theories or not. The study's findings show that necessary filings are shown on business websites since they have been linked to information asymmetry and the growth of organisations. The voluntary disclosures on company websites are provided by corporate management not only because they are associated with information asymmetry and size, but also because they are associated with earning goodwill and attracting investors for obtaining external money. This concept follows Damodaran's (2006) viewpoint and is consistent with the author's viewpoint. According to Shan Troshani and Richardson (2015), Digital financial reporting, also known as "Internet Financial Reporting," is the use of modern technologies and internet-enabled platforms for the preparation, presentation, and subsequent dissemination of financial reports to internal and external users, with the goal of ensuring that such users can access the financial reports from anywhere in the world and via any internet-enabled device. It is essentially financial reporting in structured and machine learning formats, as opposed to traditional paper-based methodologies or electronic copies of paper reports such as HTML, PDF, or DOCs that are only readable by humans (Liu, 2013). Digital financial reports are frequently accessible by both people and machines, and they may be more intelligent and beneficial in comprehending the present area of work for a professional accountant (i.e. context-aware). This makes digital reporting software packages more adaptable and dynamic in their responsibilities as advisors to professional accountants. They are also useful for giving additional knowledge-driven information that aids in the development and successful assessment of financial reports.

The Advantages of Digital Financial Reporting: The advantages of digital financial reporting will be examined in light of the future of digital financial reporting, in which tech-driven computers will replace mindless and tedious human duties in the financial reporting process. Although AI-machines will not be able to automate all human jobs, they will be able to automate a major portion of them. According to Enachi and Andone (2015), total automation of the financial reporting process is the future of digital financial reporting, and when this fit is realized, we can be certain of various benefits, including the following;

Intelligent Reporting: Because consumers do not have to worry about the volume of data accessible, they can quickly browse through the already ordered and intelligently presented financial information, digital financial reporting provides intelligent reporting with more disclosures. When it comes to the future of digital financial reporting, the rise of Artificial intelligence (AI), machine learning, Chatbots, and natural language tools will significantly alter the game. These technologies will replace manual financial report production, forecasting, and predictive analytics.

Interactive Reporting: Digital financial reporting has enabled an interactive reporting approach in which users and financial report preparers now communicate about what is disclosed. Unlike the static paper-based financial reporting approach, customers will now traverse reported information using digital devices such as mobile phones, tablets, and other digital gadgets.

Financial Reporting in Real Time: Real-time reporting has been promoted by digital financial reporting, and with the much-anticipated introduction of AI technology, all components of the reporting process will be automated and streamlined. Digital financial reporting is a newphenomenon that is currently hampered by issues such as data quality and latency. However, the future holds significant potential for both financial report preparers and consumers who are eager to take advantage of the underlying benefits.

Users' Ability to Access Financial Reports: In contrast to the traditional print technique, the availability of financial reports on the internet and their accessibility via digital devices has increased user access to these reports. We no longer have to wait for the enormous annual reports of publicly traded companies to be printed before we can view them.

Better Investment Decisions: We can all agree that knowledge is power and that it is essential for making sound investing decisions. The volume and timeliness of information available to investors will assist them in making educated investment decisions. In recent years, digital financial reporting has increased both the amount and timeliness of disclosure.

The next section will focus on the empirical perspective.

Empirical Review: A variety of research on digital financial reporting may be found in the literature (DFR). These researches, however, have concentrated on the drivers of digital financial reporting or the interaction between digital financial reporting practises and other firm-specific factors. Oladejo and Yinus (2020) conducted research on electronic accounting methods in Nigeria, focusing on the Nigerian banking industry. The study included both primary and secondary data, with the former acquired via questionnaire and the latter collected from the annual reports of the selected banks across an eight-year period from 2010 to 2017. The study found that variables such as size, cost of ICT deployment, simplicity of use, and perceived advantages are important influences of e-accounting acceptance and implementation in the Nigerian banking sector. Mohamed (2014) also looked on the factors and characteristics of voluntary digital financial reporting disclosures made by publicly traded Arabian and Oman companies. The study's findings indicated that business size is a crucial predictor across the board. Other characteristics, such as industry type and board structure, are key predictors, although they also change between enterprises in different nations. In the same vein, Igbinovia and Ekwueme (2019) conducted a study on e-financial reporting disclosures in Nigerian public sector governance. The studies found that states had a relatively low degree of financial reporting and disclosure utilising internet technologies, which was due to a variety of reasons such as state size, allocation, domestically produced money, and the availability of skills to accomplish these activities. While Ayuba and Oba (2016) discovered that business characteristics such as firm size and industry type are major drivers of web-based financial report disclosures in Nigeria.

Agboola and Salawu (2012) used secondary data from yearly reports to create evidence on the primary elements that impact internet financial reporting (IFR) in a developing nation like Nigeria. According to the findings, there are two key factors impacting IFR in Nigeria: company size and auditor type. The size of the firm and the kind of auditor both have a positive and substantial link with IFR. According to Asogwa and Umorem (2013), around 80% of listed businesses have functioning websites via which this may be executed, whereas approximately 20% either do not have a functional online presence or have websites that are not functional and user-responsive. The study also discovered that size and industry type are positive and important drivers of IFR, whereas profitability, age, and auditor type are irrelevant. Mensah (2020) offered evidence associating chosen parameters to the digital financial reporting index of selected businesses in Ghana in a recent research. The regression estimation method was employed. Profitability and leverage were shown to be major drivers of the digital reporting index, whereas business size and auditor type were found to be insignificant. Hussein and Aboutera (2017) investigated the determinants of digital financial reporting in Egyptian businesses in another location.

The research found that firm size, board experience, and auditor type were all strongly related to the degree of internet financial reporting, although leverage, profitability, and foreign ownership were not. Some writers have proposed that highly profitable organisations are more likely than others to embrace digital financial reporting, however this assumption has been challenged by subsequent studies. Igbinovia and Ekwueme (2019) conducted research on e-financial reporting disclosures in Nigerian public sector governance. The findings found that states had a relatively low degree of financial reporting and disclosure utilising internet technologies, which was due to a variety of reasons such as state size, allocation, domestically produced money, and the availability of skills to accomplish these activities. Musa, Abullahi, and Musa (2017) investigated the nature of the link between business characteristics and digital financial reporting and discovered that size and liquidity are important predictors of digital reporting. Other characteristics, such as auditor type and profitability, were not significant.It has been suggested that large corporations with a global presence and international listings frequently have financial reporting responsibilities to a diverse group of investors. As a result, such organizations are more likely than others to embrace digital financial reporting techniques.

Onaolapo and Odetayo (2012) looked at business characteristics as well as the level of disclosures and reporting. It was also suggested that a younger firm may be at a disadvantage if certain disclosures on IT investment, new product development, and other capital expenditure are made. Furthermore, larger companies may easily pay the cost of digital changes by writing them off as one-time costs, without harming shareholders' profits in the short or long run. Furthermore, Monday and Nancy (2016) explored voluntary disclosure quality in the context of Nigeria, as well as the factors that influence it. Firm size and board expertise were found to be important factors, although profitability and industry type were not.

RESEARCH METHODOLOGY

The structured survey research design is used in this study. It is a systematic arrangement that focuses on a logical issue; it is sometimes portrayed as the programme that drives the. This design enables the collection of unique or critical information required for displaying a large population using persons as Units of study. The research focuses on professional accountants, auditors, and senior executives of financial services organizations listed on the Nigerian stock exchange (NGX) as of December 2022. According to the data collected as of December 2022, the NSE listed 49 financial service organizations. This basically implies that the research population comprises of all accountants, auditors, and senior executives from the available 49 NGX-listed financial service organisations. Given the size of the proposed research population, a sample of 350 chosen professionals from 49 listed financial services organisations was used in the study. This sample was drawn in proportion from all financial services businesses registered on the NGX as of December 2022. The tool used by the researcher for data collection in the study was questionnaires. The closed-ended questionnaire was delivered electronically to the professionals in the sample. The linear regression estimation approach is used to investigate the factors that influence digital financial reporting.

Model Specification

The models of the study are given as follows

$DFR_{it} = \alpha_0 + \beta_1 IBD_{it} + \varepsilon_{\iota}$ (i)
$DFR_{it} = \alpha_0 + \beta_1 PRF_{it} + \varepsilon_{\iota}$ (ii)
$DFR_{it} = \alpha_0 + \beta_1 SZE_{it} + \varepsilon_{\iota}$ (iii)
$DFR_{it} = \alpha_0 + \beta_1 FSH_{it} + \varepsilon_{\iota}$ (iv)

Where:

DFR: Professionals' perceptions on chosen businesses' digital financial reporting procedures.

IDB: Professionals' perceptions of firm indebtedness as a driver of digital financial reporting

PRF: Professionals' perceptions of firm profitability as a driver of digital financial reporting

SZE: Professionals' perceptions of firm size as a driver of digital financial reporting

FSH: Professionals' perceptions of foreign share ownership as a driver of digital financial reporting

α_0=a constant, equals the value of Y when the value of x = O
β=coefficient of the independent variables
ε_{ι}=the error term

RESULTS AND DISCUSSION

Table 4.1. Regression Estimation Result for Model I

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.869	.278		3.147	.000
	IDB	.893	.160	.947	11.282	.004
a. Dependent Variable: DFR						

Source: SPSS Output (2023)

According to the regression results in Table 4.1, the coefficient of regression for IDB is 0.893. This suggests that debt has a favourable influence on the digital financial reporting methods of Nigerian listed financial sector organisations, as viewed by professionals. Holding all other variables equal, an increase in indebtedness results in an increase of around 89% in the level of digital financial reporting disclosure of mentioned financial sector businesses in Nigeria. Furthermore, the p-value of 0.004 indicates that indebtedness has a significant impact on the digital financial reporting disclosure of listed financial service firms in Nigeria at the 5% level of significance, thereby rejecting the null hypothesis that indebtedness has no significant influence on the DRI disclosure of listed firms in Nigeria. According to the regression results in Table 4.2, the coefficient of regression for PRF is 0.800. This suggests that profitability has a beneficial impact on the digital financial reporting methods of Nigeria's publicly traded financial sector organisations, as viewed by experts. The implication is that, if all other factors remain constant, an increase in profitability will result in an increase of around 80% in the Level of digital financial reporting disclosure of listed financial sector businesses in Nigeria.

Table 4.2. Regression Estimation Result for Model II

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.901	.212		3.231	.000
	PRF	.800	.143	.851	16.103	.000
a. Dependent Variable: DFR						

Source: SPSS Output (2023)

Furthermore, the p-value of 0.000 indicates that profitability has a significant impact on the digital financial reporting disclosure of listed financial service firms in Nigeria at the 5% level of significance, thereby rejecting the null hypothesis that profitability has no significant influence on the DRI disclosure of listed firms in Nigeria.

Table 4.3. Regression Estimation Result for Model III. The source should be SPSS Output (2023) NOT 2022

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.941	.243		3.327	.000
	SZE	.861	.057	.887	7.384	.001
a. Dependent Variable: DFR						

Source: SPSS Output (2022)

Table 4.4. Regression Estimation Result for Model IV

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.951	.203		3.145	.000
	FSH	.961	.157	.987	8.384	.001
a. Dependent Variable: DFR						

Source: SPSS Output (2023)

The coefficient of regression for SZE is 0.861 based on the regression result on share in Table 4.3. This suggests that, as judged by financial reporting specialists, business size has a beneficial influence on the digital financial reporting procedures of mentioned financial sector organisations in Nigeria. Holding all other variables equal, an increase in company size results in an approximately 86% rise in the Level of digital financial reporting disclosure of Nigerian listed financial sector businesses. Furthermore, the p-value of 0.010 indicates that Firm Size has a significant impact on the digital financial reporting disclosure of listed financial service firms in Nigeria at the 5% level of significance, thereby rejecting the null hypothesis that Firm Size is not a significant drive of DRI disclosure for listed firms in Nigeria, thereby rejecting the null hypothesis that Firm Size is not a significant drive of DRI disclosure for listed firms in Nigeria.

According to the regression results in Table 4.4, the coefficient of regression for FSH is 0.961. This suggests that ownership has a beneficial impact on the digital financial reporting processes of Nigeria's publicly traded financial service organisations, as judged by the selected financial reporting specialists. Holding all other variables equal, an increase in a firm's foreign ownership results in an estimated 96% rise in the Level of digital financial reporting disclosure of listed financial sector businesses in Nigeria. Furthermore, at the 5% level of significance, the p-value of 0.001 indicates that foreign shareholding has a significant impact on the digital financial reporting disclosure of quoted financial service firms in Nigeria, leading to the rejection of the null hypothesis, which states that foreign shareholding is not a significant determinant of DRI disclosure for listed firms in Nigeria.

CONCLUSION AND RECOMMENDATION

Following the results obtained from the study and in accordance with the literatures reviewed in earlier sections, it is important to conclude for the purpose of the study that the selected firm characteristics such as profitability, size, leverage, and foreign shareholding are positive and significant determinants of DRI disclosures for quoted financial service firms in Nigeria. The policy makers in Nigeria should consider the importance of this research, since it sheds light on the importance digital financial disclosures. They also have to consider introducing new laws that mandate digital financial disclosures, since it has many advantages for the companies and shareholders.This study also recommends policy makers think about issuing a new law that requires companies to start providing standalone digital financial reporting reports, because of the positive implications that has been found on financial performance and market value of firms.

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