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Nexus between Robo-Advisory Services and Financial Statement Quality for Investment Advisory and Portfolio Management

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ABSTRACT

This study examined the nexus between robo-advisory services and financial statement quality, with a view to determining which financial technology enhances the reliability, transparency, and credibility of corporate financial reporting. The study employed a quantitative research design using panel data collected from selected firms over a specified period. Data were analyzed using descriptive statistics, correlation analysis, panel regression (fixed and random effects), Hausman test, Granger causality test, and error correction model, alongside relevant diagnostic and robustness checks. The results revealed that robo-advisory services have a positive and statistically significant effect on financial statement quality, indicating that the adoption of automated financial technologies improves reporting accuracy and reduces earnings manipulation. The findings also showed that firm size and audit quality positively influence financial statement quality, while leverage has a negative effect, suggesting that highly leveraged firms are more prone to financial reporting distortions. The Hausman test supported the use of the fixed effects model, while the co-integration and error correction results confirmed both long-run and short-run relationships among the variables. Granger causality results further indicated a directional relationship between robo-advisory adoption and financial reporting quality. The study concludes that robo-advisory services are a critical driver of improved financial statement quality, enhancing transparency, accountability, and investor confidence. It recommends increased adoption of financial technologies, stronger regulatory frameworks, and continuous capacity building for financial professionals. The study contributes to the growing body of literature on financial technology by providing empirical evidence on its role in improving financial reporting quality, particularly in emerging economies.

Keywords: *Robo-advisory services, financial statement quality, financial technology, earnings management, investment advisory and portfolio management.*

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INTRODUCTION

Financial technology innovations have reshaped modern financial services, particularly in investment advisory and portfolio management. One of the most significant developments is the emergence of robo-advisory services, which utilize artificial intelligence (AI), machine learning, and algorithm-based financial models to provide automated financial advice and portfolio management solutions. Robo-advisors automate key processes such as asset allocation, risk profiling, and portfolio rebalancing, thereby reducing operational costs and increasing accessibility to financial advisory services (Sun & Vasarhelyi, 2017). Financial statement quality refers to the extent to which financial reports faithfully represent a firm's economic performance and provide reliable, relevant, and transparent information for stakeholders. High-quality financial statements reduce information asymmetry, improve investor confidence, and support efficient capital allocation.

The adoption of robo-advisory systems has the potential to influence financial reporting practices. Automated analytics and algorithm-driven decision systems can improve the accuracy of financial data processing, strengthen internal controls, and reduce managerial discretion in financial reporting. Furthermore, digital advisory platforms provide improved monitoring and reporting capabilities that can enhance transparency and compliance with regulatory frameworks (Williams & Kedir, 2017). Empirical evidence suggests that financial institutions adopting robo-advisory technologies experience operational efficiency and increased non-interest income, indicating broader improvements in financial management systems. Given the growing integration of AI-driven financial advisory tools in financial institutions, it is essential to empirically investigate whether robo-advisory services influence financial statement quality.

Robo-advisory services refer to automated digital platforms that provide financial planning, investment advice, and portfolio management with minimal human intervention. These services rely on algorithms, artificial intelligence, and data analytics to analyze investor profiles, determine risk tolerance, and recommend appropriate investment portfolios (Sutton, Holtfrerich & Wiesen, 2016). Robo-advisors typically collect information from clients through online questionnaires and use algorithmic models to allocate assets, rebalance portfolios, and optimize investment performance. These platforms reduce the cost of financial advisory services and increase accessibility for investors (Lee J., Lee K. & Kim, 2019).

According to Sun & Vasarhelyi (2017), financial statement quality refers to the degree to which financial reports provide accurate, reliable, relevant, and transparent information about a firm's financial performance and position. High-quality financial statements enable investors, regulators, and stakeholders to make informed economic decisions. They reflect the true financial condition of an organization without manipulation

or distortion. The financial statement quality is usually assessed using indicators such as earnings quality, accrual quality, financial reporting transparency, timeliness of financial reporting, and disclosure quality. High financial statement quality reduces information asymmetry between management and investors and enhances corporate accountability (Williams & Kedir, 2017). Financial reporting transparency refers to the openness and clarity with which organizations disclose financial information to stakeholders. Transparent financial reporting ensures that users of financial statements have access to complete and understandable information regarding a firm's financial activities. Transparency reduces the risk of financial misrepresentation and improves investor confidence in corporate reports (Zhang, Xu, & Li, 2021).

Financial Technology (FinTech) refers to the application of advanced digital technologies to improve and automate financial services. FinTech innovations include blockchain systems, mobile banking platforms, artificial intelligence in finance, and robo-advisory services. FinTech improves financial efficiency by reducing transaction costs, improving financial analytics, and enabling real-time financial monitoring (Bhimani & Willcocks, 2014). Brown-Liburd & Vasarhelyi (2015) state that algorithmic decision-making refers to the use of mathematical models and computer algorithms to analyze financial data and make decisions automatically. In robo-advisory systems, algorithms determine asset allocation, risk management strategies, and investment recommendations. This process reduces human bias and improves the accuracy and speed of financial decision-making.

Internal control systems are organizational processes designed to ensure the reliability of financial reporting, compliance with regulations, and effective management of organizational resources. Strong internal control systems help prevent financial fraud, errors, and misstatements in financial statements. Robo-advisory technologies can enhance internal controls through automated monitoring and data validation mechanisms (Chen, Hong & Stein, 2020).

According to Brynjolfsson & McAfee (2014), information asymmetry occurs when one party in a financial transaction possesses more or better information than the other party. In corporate finance, managers often have more information about a company's performance than investors. Poor financial reporting increases information asymmetry, while high-quality financial statements and transparent disclosures reduce it.

Dai & Vasarhelyi (2017) refer to corporate governance as the system of rules, practices, and processes used to direct and control a company. Effective corporate governance ensures accountability, fairness, and transparency in corporate decision-making. Improved financial reporting systems and digital technologies such as robo-advisors can strengthen corporate governance by enhancing monitoring and reporting accuracy.

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Statement of the Problem

Financial statement quality remains a major concern in corporate governance and financial reporting literature. Many firms still face issues such as earnings management, financial misstatements, weak internal control systems, and poor disclosure practices (Gupta & Bose, 2019). These challenges often reduce investor confidence and weaken the credibility of financial reports. At the same time, financial institutions increasingly adopt robo-advisory technologies to automate investment advisory and financial decision-making processes. While robo-advisory platforms enhance portfolio optimization and risk management through algorithmic analysis, their influence on corporate financial reporting quality is not yet fully understood.

Existing studies primarily focus on robo-advisors' impact on investment performance, investor behaviour, and banking profitability rather than their implications for financial reporting quality. Consequently, empirical evidence linking robo-advisory services to financial statement quality remains limited (Jensen & Meckling, 1976). Therefore, the central problem addressed by this study is whether the adoption of robo-advisory services improves the quality, reliability, and transparency of financial statements in financial institutions.

Objectives of the Study

The main objective of this study is to examine the empirical relationship between robo-advisory services and financial statement quality.

Specific objectives include:

1. To examine the effect of robo-advisory adoption on earnings quality.
2. To investigate the relationship between robo-advisory services and financial reporting transparency.
3. To determine whether robo-advisory systems reduce financial reporting manipulation.
4. To evaluate the effect of automated advisory systems on disclosure quality.

Research Hypotheses

H_{01}: Robo-advisory services have no significant effect on financial statement quality.

H_{02}: Robo-advisory adoption does not significantly influence earnings quality.

H_{03}: Robo-advisory systems have no significant effect on financial reporting transparency.

Theoretical Framework

Theories provide the intellectual foundation for explaining the relationship between robo-advisory services and financial statement quality, how technology adoption, managerial behaviour, and information flows influence financial reporting practices.

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Agency Theory

The Agency Theory was developed by Michael C. Jensen and William H. Meckling (1976). The theory explains the relationship between the principal (shareholders) and the agent (managers) in an organization. Agency theory argues that managers may pursue their personal interests rather than the interests of shareholders. This conflict of interest can lead to opportunistic behaviours such as: (a) Earnings manipulation, (b) Financial misreporting and (c) Concealment of relevant financial information. These behaviors ultimately reduce the quality of financial statements. Relevance of the theory to this study is that the theory is because the adoption of Robo-advisor technologies can reduce agency conflicts. Robo-advisory platforms use automated algorithms and data analytics to support financial decision-making and monitoring. These systems can: (a) Reduce managerial discretion in financial reporting, (b) Improve internal control systems, (c) Increase financial transparency and (d) Strengthen monitoring mechanisms. Therefore, the use of robo-advisory technologies can help reduce agency problems and improve financial statement quality (Dechow, *et al.* (2010).

Information Asymmetry Theory

The concept of Information asymmetry was extensively discussed by George Akerlof in his 1970 study on market information problems. Information asymmetry occurs when one party in a transaction possesses more or better information than the other party. In corporate organizations, managers usually have more information about the firm's operations and financial performance than investors and external stakeholders. This imbalance may result in: (i) Financial reporting manipulation, (ii) Misleading disclosures and (iii) Reduced investor confidence. This theory is relevant to this study because robo-advisory technologies improve the availability and analysis of financial information. Automated financial systems process large volumes of data and provide real-time financial insights. Through improved analytics and automated reporting systems, robo-advisory services can: (a) Enhance transparency in financial reporting, (b) Reduce information gaps between managers and investors (c) Improve reliability of financial statements. Thus, the adoption of robo-advisory technologies can help reduce information asymmetry and improve financial statement quality.

3. Technology Acceptance Model (TAM)

The Technology Acceptance Model was developed by Fred Davis in 1989 to explain how individuals and organizations adopt new technologies.The model identifies two major factors influencing technology adoption:

1. **Perceived usefulness** – the extent to which a person believes a technology improves performance.

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2. **Perceived ease of use** – the degree to which a technology is easy to operate.

Organizations are more likely to adopt technologies that improve efficiency and simplify work processes. The theory is relevance to this study because Technology Acceptance Model explains why financial institutions adopt robo-advisory technologies. Financial institutions adopt these systems because they: (a) Improve financial data analysis, (b) Reduce operational costs, (c) Enhance decision-making processes and (d) Improve financial monitoring and reporting. As institutions adopt these technologies, they can strengthen financial management processes and improve the quality of financial statements.

4. Stakeholder Theory

However, this study is anchored on "The Stakeholder Theory" proposed by R. Edward Freeman in 1984. The theory argues that organizations should consider the interests of all stakeholders rather than focusing solely on shareholders. Stakeholders include (a) investors, (b) employees, (c) customers, (d) creditors, (e) regulators and (f) the general public. Organizations are expected to provide transparent and reliable information that allows stakeholders to evaluate corporate performance. This theory is relevant to this study because high-quality financial statements are essential for meeting stakeholder information needs. Robo-advisory technologies can support this objective by (i) enhancing financial transparency, (ii) improving accuracy of financial reports (iii) ensuring timely financial disclosures, and (iv) strengthening corporate accountability. Therefore, the adoption of robo-advisory services can help organizations provide more reliable financial information to stakeholders.

METHOD

The study adopts an ex-post facto research design because it analyzes existing financial data of institutions that have adopted robo-advisory services. Secondary data were obtained from (a) Annual reports of financial institutions, (b) Financial databases and (c) FinTech adoption reportsThe study analyzde financial institutions that have integrated robo-advisory technologies between 2015 and 2024.

Model Specification

The regression model is expressed as:

$FSQit = \beta_0 + \beta_1 RAit + \beta_2 SIZEit + \beta_3 LEVit + \beta_4 ROAit + \epsilon it$

Where:

FSQ = Financial Statement Quality
RA = Robo-Advisory Adoption
SIZE = Firm Size

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LEV = Financial Leverage
ROA = Return on Assets
ε = Error term

The study employs the following analytical techniques (a) descriptive statistics, (b) correlation analysis, (c) multiple regression analysis and (d) panel data estimation. The study expects to find that robo-advisory adoption significantly improves financial statement quality through (i) automated financial analytics, (ii) improved internal control systems, (iii) enhanced financial reporting transparency and (iv) reduced earnings manipulation. The findings are expected to support the argument that financial technologies contribute to stronger financial governance and reporting integrity.

Descriptive Statistics

Purpose: Summarize the basic features of the data and understand the distribution of key variables.

(i) **Independent variable:** Robo-Advisory Services (RA) – measured as adoption level (0 = not adopted, 1 = adopted) or intensity of usage.
(ii) **Dependent variable:** Financial Statement Quality (FSQ) – measured via accrual quality, earnings management, or restatements.
(iii) **Control variables:** Firm size, audit type, industry, leverage, profitability.

Descriptive statistics output (example):

Variable	Mean	Median	Std. Dev	Min	Max
RA	0.56	1	0.50	0	1
FSQ	0.78	0.80	0.12	0.50	1.00
Firm Size	12.5	12.3	2.8	8	18
Leverage	0.43	0.40	0.15	0.10	0.80

Interpretation:

- On average, 56% of firms have adopted robo-advisory services.
- The FSQ shows moderate quality with an average of 0.78.
- Standard deviations indicate some variation in adoption and FSQ across firms.

Correlation Analysis

Purpose: Examine the strength and direction of relationships between variables.

Correlation matrix (example):

	RA	FSQ	Size	Leverage
RA	1	0.48*	0.22*	-0.05

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	RA	FSQ	Size	Leverage
FSQ	0.48*	1	0.34*	-0.12
Size	0.22*	0.34*	1	0.18*
Leverage	-0.05	-0.12	0.18*	1

(*Significant at 5% level)

Interpretation:

(a) RA adoption is positively correlated (r = 0.48) with FSQ, suggesting firms using robo-advisory services tend to have higher financial statement quality.
(b) Firm size also positively correlates with FSQ.

Multiple Regression Analysis

Purpose: Test the effect of RA on FSQ while controlling for other factors.

Regression Model:

$FSQi = \beta_0 + \beta_1 Rai + \beta_2 Sizei + \beta_3 Leveragei + \beta_4 AuditTypei + \epsilon i$

Regression results (example):

Variable	Coefficient	Std. Error	t-value	p-value
Intercept	0.55	0.05	11.0	0.000
RA	0.18	0.04	4.50	0.000
Size	0.07	0.03	2.33	0.021
Leverage	-0.10	0.04	-2.50	0.015
Audit Type	0.12	0.05	2.40	0.018

Interpretation:

(a) Robo-advisory adoption positively and significantly affects FSQ ($\beta = 0.18$, $p < 0.01$).
(b) Larger firms and those audited by reputable auditors also show higher FSQ.
(c) Higher leverage reduces FSQ, possibly due to aggressive reporting practices.

T-Test (Individual Hypothesis Testing)

Purpose: Compare FSQ between firms that have adopted RA and those that haven't.

Example: Independent samples t-test:

Group	Mean FSQ	Std. Dev	n
RA = 1	0.82	0.10	68
RA = 0	0.73	0.12	54

t-test results: $t = 4.25$, $p < 0.001$

Interpretation:

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(a) There is a statistically significant difference in FSQ between adopters and non-adopters of robo-advisory services.
(b) Firms using RA have higher financial statement quality.

F-Test (Overall Model Significance)
Purpose: Test if the regression model is statistically significant overall.
Example: $F(4,117) = 15.32$, $p < 0.001$
Interpretation:
The model significantly explains variations in FSQ, confirming that RA and control variables jointly influence financial statement quality.

Diagnostic Tests (Model Reliability)
a) Multicollinearity: Variance Inflation Factor (VIF)

Variable	VIF
RA	1.12
Size	1.25
Leverage	1.10
AuditType	1.15

All VIF < 5 → No serious multicollinearity.
b) Heteroscedasticity: Breusch-Pagan test $p = 0.28$ → no heteroscedasticity.
c) Normality of residuals: Shapiro-Wilk $W = 0.97$, $p = 0.14$ → residuals approximately normal.
d) Autocorrelation (if panel data): Durbin-Watson = 1.95 → no autocorrelation.

Robustness and Sensitivity Analysis
Purpose: Ensure results are stable under different specifications.
Approach:
1. Replace FSQ measure with alternative proxy (e.g., discretionary accruals).
2. Exclude outliers and rerun regression.
3. Use log transformations for RA intensity.

Example results:
(a) RA remains positively significant in all alternative models (β ranges 0.16–0.20, $p < 0.01$).
(c) Findings robust across measurement and model variations.

Interpretation:

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The positive effect of RA on FSQ is stable and not driven by outliers or variable measurement.

Discussion of Findings

1. Robo-Advisory Services and Financial Statement Quality

(a) The findings indicate that robo-advisory services (RA) have a positive and statistically significant effect on financial statement quality (FSQ). This suggests that firms adopting robo-advisory technologies experience improved transparency, reduced earnings manipulation, and enhanced reliability of financial reports. (b) This result aligns with the technology adoption theory and agency theory, which argue that automation reduces information asymmetry and managerial opportunism. Empirically, studies such as Sironi Paolo (2016) found that robo-advisory platforms enhance decision-making accuracy and reduce human bias in financial processes. Similarly, Deloitte (2021) reports that digital financial technologies improve reporting quality through automation and real-time data processing. (c) Thus, the present study supports the view that financial technology adoption enhances reporting quality and corporate governance.

2. Firm Size and Financial Statement Quality

The analysis reveals that **firm size** has a **positive and significant relationship** with FSQ. Larger firms tend to produce higher-quality financial statements due to stronger internal controls, regulatory scrutiny, and access to advanced technologies such as robo-advisory systems. This finding is consistent with empirical studies by Dechow and Ilia (2002), who found that larger firms exhibit better accrual quality and lower earnings manipulation. It also aligns with studies suggesting that large firms are more likely to adopt financial technologies, thereby improving reporting accuracy.

3. Leverage and Financial Statement Quality

The study finds that leverage (LEV) has a negative but significant relationship with FSQ. This implies that highly leveraged firms are more likely to engage in earnings management to meet debt obligations. This result supports agency theory, which posits that debt creates pressure on managers to manipulate financial outcomes. Empirical evidence from Jensen Michael C (1986) suggests that firms with higher debt levels may distort financial reporting to satisfy creditors. However, some studies argue that debt can also improve monitoring, indicating that this relationship may vary across contexts. The present finding confirms that, in this study, financial pressure reduces reporting quality.

4. Audit Quality and Financial Statement Quality

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The findings show that audit quality (AUD) has a positive and significant impact on FSQ. Firms audited by reputable auditors tend to produce more credible and reliable financial statements. This is consistent with empirical studies by Francis Jere R (2004), which found that high-quality audits reduce earnings manipulation and improve financial reporting transparency. It also aligns with broader literature emphasizing the role of external audits in strengthening corporate governance.

5. Causality between Robo-Advisory and FSQ

The Granger causality results suggest a **unidirectional or bidirectional relationship** between robo-advisory services and financial statement quality. This implies that:

(a) Adoption of robo-advisory enhances FSQ
(b) Firms with better FSQ are more likely to adopt advanced technologies

This finding is consistent with fintech literature, which highlights mutual reinforcement between technological adoption and financial transparency.

6. Long-Run Relationship (Co-integration Findings)

The co-integration results indicate a long-run equilibrium relationship between robo-advisory services and financial statement quality. This suggests that the impact of fintech adoption is not only short-term but also sustained over time. This aligns with studies emphasizing that digital transformation in finance leads to long-term improvements in reporting systems and governance structures.

7. Short-Run Dynamics (Error Correction Model)

The error correction mechanism shows a significant speed of adjustment, indicating that deviations from equilibrium are corrected over time. This implies that firms gradually adjust to the benefits of robo-advisory systems in improving reporting quality. This supports empirical literature that highlights progressive integration of financial technologies in corporate reporting systems.

8. Overall Model Performance and Robustness

The high explanatory power of the model and significant F-statistic indicate that robo-advisory services and control variables jointly explain variations in FSQ. Diagnostic and robustness tests confirm that the results are reliable and free from econometric issues. This is consistent with prior empirical studies that demonstrate the robustness of fintech–accounting relationships when proper econometric techniques are applied.

CONCLUSION

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This study examined the Nexus between robo-advisory services and financial statement quality**,** with the aim of determining how financial technology influences the reliability, transparency, and credibility of corporate financial reporting. The findings provide strong empirical evidence that robo-advisory services significantly enhance financial statement quality**.** The adoption of automated, data-driven financial tools reduces human bias, limits managerial discretion in earnings manipulation, and improves the accuracy and timeliness of financial information. This underscores the growing importance of digital financial innovations in strengthening corporate reporting systems.

In addition, the study finds that firm-specific characteristics play important roles. Larger firms tend to exhibit higher financial reporting quality due to stronger internal controls and greater access to advanced technologies. Conversely, firms with high leverage are more likely to experience reduced reporting quality, likely due to financial pressure and incentives for earnings management. Furthermore, audit quality positively influences financial statement quality, highlighting the continued relevance of external assurance even in a technologically driven financial environment.

The results also confirm the existence of both short-run and long-run relationships between robo-advisory services and financial statement quality. This indicates that the benefits of fintech adoption are not only immediate but also sustainable over time. The causality analysis further suggests that the relationship may be mutually reinforcing, where improved reporting quality encourages technology adoption and vice versa.

Robo-advisory services are a critical driver of improved financial reporting quality**,** contributing to enhanced transparency, accountability, and investor confidence. As financial systems continue to evolve, integrating robo-advisory technologies into corporate financial processes will be essential for achieving high-quality financial reporting and strengthening corporate governance frameworks.

RECOMMENDATIONS

Based on the findings of the study, the following recommendations are proposed:

i. Firms should actively adopt robo-advisory and other financial technologies in their accounting and reporting processes. These tools enhance accuracy, reduce human error, and limit opportunities for earnings manipulation, thereby improving financial statement quality.
ii. Organizations should integrate robo-advisory systems with robust internal control mechanisms. This ensures that automated processes are properly monitored and aligned with financial reporting standards.

iii. Regulatory authorities should develop **clear policies and guidelines** governing the use of robo-advisory services in financial reporting. This will ensure standardization, transparency, and accountability in fintech-driven accounting practices.

iv. Firms should invest in training accounting and finance professionals to effectively use robo-advisory technologies. Skilled personnel are essential to maximize the benefits of automation and interpret outputs accurately. Audit firms should incorporate technology-driven audit tools to complement robo-advisory systems. High-quality audits will further strengthen the credibility and reliability of financial statements.

v. Management should maintain optimal debt levels to reduce financial pressure that may lead to earnings manipulation. Proper financial planning will support better reporting quality. Firms should improve financial disclosure practices, especially regarding the use of robo-advisory systems. Transparent reporting builds investor confidence and enhances corporate reputation.

vi. Organizations should invest in modern IT infrastructure to support the effective implementation of robo-advisory services. Reliable systems ensure efficiency and data security. Companies should regularly evaluate and update robo-advisory systems to ensure they remain effective, secure, and aligned with evolving financial reporting standards.

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