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## VALUE RELEVANCE AND FIRM SPECIFIC ATTRIBUTES: EMPIRICAL EVIDENCE FROM LISTED NON-FINANCIAL FIRMS IN NIGERIA

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### **Abstract**

*This study empirically investigated the value relevance of firm characteristics of non-financial companies in Nigeria using a ten (10) year time frame (2012 to 2021). To achieve this objective, the researchers employed one notable valuation model; Ohlson 1995 Valuation Model with dividend payout ratio as the financial information which was included in the model. Further, the study employed ex-post facto and descriptive research design on a data set sourced from annual financial reports of listed non-financial firms in Nigeria. To this end, the study hypothesized that dividend payout ratio (which is the financial information) has no significant relevant value among listed non-finance companies in Nigeria. Least square Dummy Variable regression analysis technique was employed to obtain estimates and the outcomes were discussed after validating the coefficients which were obtained from the regression analysis. Results obtained from the descriptive statistics showed that on average listed non-financial firms in Nigeria pay about one hundred and thirty-seven naira (137.14) as dividend during the period under consideration. Specifically, the result indicates that the stock market investors reactions towards dividend payout is positive which further strengthen the notion that investors perceive the information on dividend payout as value enhancing rather than value decreasing. This study contributed to the emerging field of value relevance especially in an underdeveloped market such as Nigeria by presenting empirical evidence relating to the relevant value of firm characteristics with practical financial implications that will be most useful to investors.*

**Keywords:** Value Relevance, Dividend Payout Ratio, Earnings per share

## 1.0 Introduction

The availability of information to decision makers facilitates strategic decisions. Such information, which may be firm-specific (attributes), is obtained from financial reports generated by the accounting system. Accounting information is relevant because it aids in analyzing the firm's current performance and value, as well as predicting future financial performance (Menike, Prabath, 2014). Clearly, the value relevance literature is concerned with investigating the relationship between a specific financial information and firm performance in order to provide an assessment of its use or proposed use in financial analysis. Thus, relevance is concerned with information's ability to influence management decisions. Information in this context is understood to mean changes in expectations in outcomes of events such that financial information is value relevant if it leads to a change in the management's assessment of the probability distribution of future returns (Ali, & Jadoon, 2022). Barth, Beaver, & Landsman, (2001) note that a sufficiently large change must occur to induce a change in decision maker's behaviour.

Value relevance studies attempt to determine which factors influence stock prices. In general, stock price movements occur on a daily basis, with some companies appreciating multiple times per day and others appreciating only once. However, such non-linear movement reveals that demand and supply are the most important factors influencing stock prices. Although this theory supports general economic equilibrium in the market, no comprehensive model exists to define price movements and changes in demand and supply. However, many factors, such as the company's fundamentals, the economic situation, non-financial variables, and investor sentiments, must be considered (Malgharni et al. 2010; Akbar, Shah, & Stark, 2011; Amir and Lev, 1996; Nieh and Lee, 2001; Kahneman et al. 1991) have been adduced in the research to account for changes in demand and supply. Particularly, this study considers one relevant value factor (Dividend) from the literature studied. This factor has been studied but still lacks a comprehensive model of value determination.

Specifically, several studies on how market prices correlate with financial information have been conducted in Nigeria. Prior related studies, however, have not examined the effect of firm-specific attributes (particularly dividend pay-out) on such a relationship, which becomes a key justification for this study. Prior research has demonstrated the value relevance of book value and earnings for Nigerian listed firms (e.g., Chukwu, Damieibi, and Okoye, 2019; Ebirien, Chukwu, and Abiahu, 2019), but the role of dividends in determining stock prices remains an empirical issue. Furthermore, Herbert, Isegba, Ohalede, and Anyahara (2014) found that managers in Nigeria are primarily motivated to pay dividends by two sets of motivations. The "clientele effect" and "signaling" are examples of these. They maintained that dividend policies affect share value and are not determined by residuals, as Miller and Modigliani suggested (1961). Furthermore, related studies on the value relevance of financial information frequently focus on a single sector of the Nigerian economy (Chukwu, 2017; Chukwu, Ohaka, & Nwanyanwu, 2017; Ebirien, Chukwu, & Abiahu, 2019; Chukwu, Damieibi, & Okoye 2019), whereas this study considers data drawn from 75 non-financial listed firms across 9 sectors of the Nigerian economy. This study contributes to the existing literature by examining the value relevance of accounting information and particularly dividend pay-out for firms listed on the Nigerian Exchange Group (NGX) which serve as an example of a less developed market. The findings of this study will provide further empirical evidence on the value relevance of firm characteristics for non-financial firms in Nigeria.

## **2.0 Review of Related Literature**

### **2.1 Value Relevance**

Financial reporting is concerned with providing useful information to users of financial statements in order to help them make informed decisions. Accounting standards setters around the world believe that in order for information to be useful to users, it must have two key qualitative characteristics: relevance and reliability (Mbekomize & Popo, 2020). It is worth noting that the attribute of reliability has been replaced by the characteristic of faithful representation in recent conceptual frameworks of financial reporting, particularly those of the Financial Accounting Standards Board (2010) and the International Accounting Standards Board (2018). The attribute of relevance refers to information that has the potential to influence user decisions. Furthermore, information with the potential to influence decisions must have predictive value (the ability to predict future outcomes) and/or confirmatory value (the ability to provide feedback on previous evaluations) (Financial Accounting Standards Board, 2010; International Accounting Standards Board, 2018). According to Alexander, Britton, and Jorissen (2007), for information to be relevant, it must resonate with why the user needed that information in the first place. According to Chang, Chen, and Chang (2008) and Abiodun (2012), value relevance is defined as the statistical relationship between accounting information disclosed in financial statements and market prices or share returns. This statistical relationship between share price and accounting information can explain the extent of volume of share or share price change following the release of financial information. However, in this study, value relevance of accounting information is seen as the usefulness of financial accounting information, given the investors' decision to invest or to maintain their investment in shares of companies arising from the relationship between the financial statements and share prices.

### **2.2 Earnings per Share**

When it comes to determining the value relevance of accounting information, earnings is a fundamental and prominent accounting variable. This is because it outperforms cash flow. However, if the earnings figures are perceived to be inadequate, the market will look at both cash flow and net book value (Abiodun, (2012). Earnings per share is a metric that can be used to assess a company's ability to generate profits and is required to be disclosed by publicly traded companies Valix & Peralta (2009). On the face of their income statements, public companies are encouraged to present their earnings per share (Menaje, 2012). In contrast to previous practices, the Financial Accounting Standard Board (FASB) now requires the disclosure of earnings per share. This new practice of earnings per share disclosure is motivated by the need to conform earnings per share calculation to the international standard and to assist investors in better accessing the effect of potential dilution than that achieved under the primary earnings per share calculation (Livant & Segal, 2000). According to Agrawal (2011), a firm's earnings are the most influential of the variables that can influence the movement of a share price in the capital market, so listed companies disclose their earnings every quarter. According to Wyatt (2008), among fully diluted earnings per share, primary earnings per share, and basic earnings per share, basic earnings per share explains the least variability in stock price. O'hara et al. (2000) opine that the consistent increase in the earnings per share has positive strong correlation with the share price.

### **2.3 Book Value Per Share**

The market value to book value ratio (MBV) evaluates the firm's market value from the perspective of an investor in relation to the book value of a share. The market-to-book ratio has been one of the primary sources of inspiration for the costly external financing theory in interpreting capital structure decisions (Olanrewaju & Tabitha, 2017). This variable was chosen because the main goal of this study is to determine the effect of financial performance on capital structure choice of firms listed on the NSE. The book value of a company is an important aspect that provides information on a company's value. Book values play important roles in company valuation analysis (Ohlson, 2001). The work of Aras and Yilmaz (2008) also reveals that the market to book multiple plays an important role in forecasting stock returns for 12 countries using cross-sectional data from 1997 to 2003. The research proposes a model for predicting the impact of price to book value in stock price prediction.

Market to book value ratio is a valuation ratio used by investment advisors, fund managers, and investors to compare a company's market value (market capitalization) to its book value (shareholders' equity), according to Marangu and Jagongo (2014). The market to book value ratio, expressed as a multiple (how many times a company's share is trading per share compared to the company's book value per share), indicates how much shareholders are willing to pay for a company's stock.

### **2.4 Share Price**

Earnings are an important variable affecting the market value of equity share. Company producing and selling goods and services useful to citizens in a society and earning revenue covering its cost of production add and build up its reserve (Retained earning reserve). Once a successful company starts building up reserves it will also look out for expansion in its scale of operations and thus increase its earnings the more. Once a company starts earning attractive sum, the equity share will have more and more demand which will result in increase in market value of the equity (Hendricks, 1976 in Tharmila & Nimalathan, 2013).

Earnings per share (EPS) and book value per share (BVPS) have been identified as the two most important accounting measures that have a significant positive association with a firm's market value, as proxied by share prices, according to a large portion of the literature (e.g., Oyerinde, 2009; Alfaraih and Alanezi, 2011; Khanagha, Mohammad, Hassan & Sori, 2011, Aruwa, 2016). According to Aruwa (2016), earnings per share (EPS) information is the most important factor for investors when determining share price.

Profit is the goal of any company, and it is frequently used as a basis for measuring company performance. Profitable companies, according to investors, can improve the welfare of their shareholders. Earnings per share are the amount of profit based on the outstanding shares of the company. According to Kashmir (2012), earnings per share are the ratio used to measure the success of management in achieving profit for shareholders.

The success of management in managing capital can be seen in its ability to generate profit. Because the profits earned enable the management to improve the well-being of the stakeholders. Changes in the fundamental factors identified as financial performance and macroeconomic variables Kehinde (2012), as well as market noise, which cannot be captured as a fundamental factor, amplify the movement in the share price of listed firms.

## **2.5 Theoretical Framework**

### **2.5.1 Agency Hypothesis**

This study is anchored on the agency hypothesis which shed light in the agency problem that occurs between the shareholders and the management. Prior empirical evidence suggests that there is a particular reason for the undervaluation of the profit available for dividend as compared with the remaining shareholders' equity. According to Miller and Modigliani (1961), a dividend policy is irrelevant to corporate valuation. However, previous research suggests that a dividend policy can have an impact on firm value through the signaling effect or the agency problem. Jensen (1986) advocates that the management should be monitored to prevent wasteful investment and to ensure that profit is adequately distributed among shareholders. This implies that the agency problem occurs in a company with insufficient dividend pay-out. Further, DeAngelo et al. (2006) show that, in the United States, a highly significant relationship exists between the decision to pay dividends and the ratio of earned equity to total equity. Therefore, the assumption is that as profit available for dividend increases, more dividend is pay-out is expected, but then firms with a low dividend pay-out will face a comparatively higher agency cost than the one with a high dividend pay-out. Therefore, compared to other companies, the profit available for dividend in the case of a company with a low dividend pay-out is expected to be more under-valuated in the market.

## **2.6 Empirical Literature**

Srivastava and Muharam (2022) conducted a study comparing the "value relevance of accounting information during the International Financial Reporting System (IFRS) convergence period" in India and Indonesia. Ohlson's Price Model was used in the study, which included 3325 and 815 firm year observations from India and Indonesia, respectively. The findings indicate that the value relevance of book values and earnings improved during the two countries' IFRS implementation periods. Oden (2022) conducted research on the International Financial Reporting System adoption and the value relevance of accounting information of Nigerian listed insurance companies. Secondary data from 20 publicly traded insurance companies was used over a six-year period (2009-2014). The hypothesis was tested using Ordinary Least Square regression analysis, which revealed that while adopting International Financial Reporting System reduced the relevance value of accounting information, earnings per share, dividend per share, and book value per share decreased in the post-International Financial Reporting System period. Olawele and Hassan (2021) investigated the International Financial Reporting System adoption and value relevance of financial information of Nigerian listed deposit money banks from 2008 to 2015. Correlational and ex-post facto research designs were used, and data was analyzed using the Generalized Least Square regression analysis technique. The regression analysis results show that financial information is valuable in both pre and post-International Financial Reporting System adoption periods.

Sun, Sari, and Havidz (2021) investigated "the impact of International Financial Reporting System adoption on the value relevance of accounting information using Indonesian data". Panel data from twenty-two Indonesian banks was used over a six-year period (2010-2015). The Ohlson's Price Model was used, and the results showed that value relevance on earnings increased after the International Financial Reporting System was implemented. Hand and Landsman (2005) examined the information content of dividends to test the differing predictions that emerge from Ohlson's (1995) model. The findings show that dividends have information content in the United States, and that this content is greatest when earnings are

transitory. Omokhudu and Ibadin (2015) investigated the "value relevance of accounting information using Nigerian data. Regression analysis which was employed in hypothesis testing revealed that earnings, cash flow, and dividends are statistically significantly associated with firm values while book values are not statistically significant.

### 3.0 Methodology

In investigating whether firm characteristics is relevant for measuring corporate value in listed non-financial firms in Nigeria, this study adopted the Ohlson valuation model (1995), which states that for a listed firm, market value is determined by its annual earnings, book value of equity and any other information that increases the value of the firm (Echobu, Ekundayo & Abu, 2022). Since other information can also positively affect value, the Ohlson model is modified to financial information, represented as dividend payout. The dividend payout which is a financial information to be tested is taken while profitability is included as a control variable. The financial information of the firms was collated from the sampled firms' annual reports. In this study, ex post facto and descriptive research design on a panel data set of listed 75 non-financial firms was adopted. In the final analysis, least square dummy variable regression analysis technique was employed to obtain coefficient estimates.

### 3.1 Model Specification

#### Ohlson (1995) Valuation Model

In accordance with Ohlson (1995) this study model begins by explaining price  $P_{it}$  of stock  $i$  at time  $t$  as a function of book value per share  $BVPS_{it}$ , abnormal earnings per share  $AEPS_{it}$  and other information  $v_{it}$ : However, in empirical studies, due to data restrictions and the lack of a proper model for calculating normal earnings, earnings per share ( $EPS_{it}$ ) is commonly used as a proxy for  $AEPS_{it}$  (Goncharov et al., 2006; Gu, 2007). Therefore,

$$P_{it} = BVPS_{it} + \alpha_1 AEPS_{it} + \alpha_2 v_{it} \quad (1)$$

Introducing the financial information (dividend pay-out) the model is re-written as:

$$SP_{it} = \alpha_1 BVPS_{it} + \alpha_2 EPS_{it} + \alpha_3 DIVP_{it} + \alpha_4 RETA_{it} + \mu_{it} \dots \dots \dots (2)$$

Where:

- SP = Stock Price
- BVPS = Book Value per share
- EPS = Earnings Per Share
- DIVP = Dividend Pay-out
- RETA = Return on total Asset
- $i$  = cross sections (sample companies)
- $t$  = time effect (2012 to 2021)
- $\mu_{it}$  = Stochastic error Term

### 4.0 Empirical Results and Discussion

The study examines the value relevance of firm specific attributes in Nigeria by drawing samples from non-finance firms listed on the floor of the Nigerian Exchange Group (NGX) for the period 2012-2021. In this study, profitability (measured as return on asset) and dividend pay-out are the firm specific attributes under study. Specifically, to achieve the objective of the study, least square regression analysis was conducted to check the estimates for possible inconsistencies with basic assumptions of the ordinary least square regression analysis. The diagnostics include test for multicollinearity as well as test for

heteroscedasticity. The variables under consideration were described first in terms of the mean, standard deviation, minimum, and maximum values.

### Descriptive Analysis

Table 1 displays the descriptive statistics for the variables of interest.

VARIABLES	MEAN	SD	MIN	MAX	NO OBS
SHPR	<b>34.58</b>	<b>147.30</b>	<b>0.20</b>	<b>1556.50</b>	<b>760</b>
EAPS	<b>1.56</b>	<b>6.07</b>	<b>-20.23</b>	<b>57.63</b>	<b>760</b>
BVPS	<b>10.83</b>	<b>16.74</b>	<b>-8.06</b>	<b>122.58</b>	<b>760</b>
RETA	<b>1.28</b>	<b>17.03</b>	<b>-179.92</b>	<b>176.27</b>	<b>751</b>
DIVP	<b>137.40</b>	<b>2726.95</b>	<b>-935.63</b>	<b>74636.63</b>	<b>751</b>

**Table 1 Descriptive Statistics**

Table 1 shows that the mean share price is 34.58 with a standard deviation of 147.30, implying that a unit price of shares is 147.30 on average. During the period under consideration, earnings per share (EAPS) averaged 1.56 with a standard deviation of 6.07. During the period under review, book value per share (BVPS) revealed a mean value of 10.38 with a standard deviation of 16.74, while return on asset revealed a mean value of 1.28 with a standard deviation of 17.03. The variable of dividend pay-out in the table has a mean value of 137.40 with a standard deviation of 2726.95 for the time period under consideration.

### Correlation Analysis

In examining the association among the variables of interest, Spearman Rank Correlation analysis is conducted, and the results are presented in the table below.

**Table 2 Correlation Analysis**

	SHPR	EAPS	BVPS	RETA	DIVP
SHPR	<b>1.0000</b>				
EAPS	<b>0.6501</b>	<b>1.0000</b>			
BVPS	<b>0.7469</b>	<b>0.6413</b>	<b>1.0000</b>		
RETA	<b>0.4244</b>	<b>0.8056</b>	<b>0.3452</b>	<b>1.00</b>	
DIVP	<b>0.4211</b>	<b>0.6114</b>	<b>0.3720</b>	<b>0.5367</b>	<b>1.0000</b>

The correlation analysis results for this study are shown in table 2. The results show that all of the independent variables are positively related to the dependent variable of share price. Earnings per share (0.6501), book value per share (7469), profitability (0.4244), and dividend payout (0.4211) all have a positive relationship with the dependent variable of share price. However, all of the associations are weak (less than 0.80), so there is no reason to suspect the presence of multicollinearity in the model. Furthermore, regression analysis is required to test the study's hypotheses because correlation analysis does not capture cause-effect relationships.

### Regression Analysis

Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, the study used a regression analysis. The pooled OLS results together with the least square dummy variable (LSDV) regression analysis results are presented and discussed below.

**Table 3 Regression Result**

Variables	(Pooled OLS)	(LSDV Regression)
CONS.	<b>11.643</b> {0.001} **	<b>1.707</b> {0.880}
EAPS	<b>22.558</b> {0.000} ***	<b>9.113</b> {0.000} ***
BVPS	<b>-1.050</b> {0.000} ***	<b>-1.133</b> {0.000} ***
RETA	<b>-1.009</b> {0.000} ***	<b>-0.439</b> {0.000} ***
DIVP	<b>0.004</b> {0.000} ***	<b>0.003</b> {0.000} ***
F-Stat	<b>443.03 (0.0000)</b>	<b>153.93 (0.0000)</b>
R- Squared	<b>0.7037</b>	<b>0.9477</b>
VIF Test	<b>1.31</b>	
Hetero Test		<b>Probability Value = 0.00000</b> <b>Chi<sup>2</sup> Value = 6060.57</b>

**Note:** () bracket {} are coefficients and p-values respectively

(2) \*\*, \*\*\*, implies statistical significance at 5% and 1% levels respectively

Considering the results provided in table 3, Variance Inflation Factor (VIF) analysis technique is employed to determine the absence of multicollinearity. A mean VIF value of 10 and above suggests the presence of multicollinearity (Gujarati's 2004). However, the result implies that the mean VIF (1.31) is within the benchmark of 10 as recommended by Gujarati's (2004) therefore, no room to suspect multicollinearity in the model under study. Testing for homoscedasticity, the result reveals a 1% statistically significant P-value of 0.0000 with Chi<sup>2</sup> value of 6060.57 indicating that the assumption of homoscedasticity has been violated consequently, the ordinary least square regression estimates cannot be relied upon for policy recommendation which makes room for the Least Square Dummy Variable regression analysis employed to obtain the study coefficients. Clearly, the least square dummy variable regression analysis shows an R-square value of 0.9477 indicating that about 95% of the systematic variation in share price is jointly explained by the independent variables during the period under study. However, the unexplained changes in share price are attributed to the exclusion of other independent variables that are not within the scope of this study but may have been captured in the error term. Further, the F-statistics value of 153.93 associated with P-value of 0.0000 indicates that the model is statistically significant at 1% level hence the Least Square Dummy Variable regression analysis is valid and can be employed for statistical inference.

### Discussions of Findings

The least square dummy variable regression results indicate that dividend pay-out information is valuable in Nigeria. This is shown as (Coef. = 0.003; P -value = 0.000), indicating that dividend pay-out is relevant information because it increases the value of the share price. As a result, this study contends that dividend payout policy in Nigeria is important to investors because it helps to boost investor confidence through share price increases. Although dividend distribution is not required for a company, as demonstrated by this study, it may signal to shareholders the company's "health" or future prospects. Higher dividend payments indicate to a shareholder or potential investor that a company will grow in the future, which can lead to an increase in share price. As a result of the findings, the study contends that greater dividend allocation will improve a company's performance in the eyes of an investor, thereby increasing a company's share price. Notably, this result is consistent with the belief that positive signals received by investors regarding the company's ability to

generate high profit make the company more appealing for investment as long as this profit is paid as dividend (Abor & Amidu, 2006; Rehman, 2012). However, it is worth noting that this result supports the view that companies that pay dividends are already mature, as newer companies that are still growing tend to reinvest profits rather than pay dividends.

The results of the least squares dummy variable regression model also show that profitability in terms of return on asset is value relevant among Nigerian listed non-financial firms during the study period. This is represented as (Coef. = -0.439; P -value = 0.000). The result indicates that profitability generates relevant value because it has a significant impact on share price. However, based on the findings of this study, it is noted that increased profitability will reduce shareholder confidence, as reflected in the share price, particularly if the company decides to plough back profit rather than pay it out as dividend. This is consistent with the Pecking Order theory, which states that profitability leads to less debt use, which leads to a drop in share prices. The finding is in line with those of Guna and Sampurno, (2018) but negates the signalling theory which suggests that the profits obtained by the company will be a signal from management to show the prospects of a company to investors (Yanti & Darmayanti, 2019). Particularly, it is expected that that higher profits generated by a company will increase the creditor's confidence to provide loans and will also increase investor confidence to invest capital.

### **Conclusion**

In this study, the value relevance of accounting information and its relationship with firm-specific attributes were tested. The analyzed data set were drawn from the financial statements of ten different sectors of the Nigerian Exchange Group. The data covered a period of ten years 2012 to 2021 and the results of the Least Square Dummy Variable regression analysis show that financial information in the form of dividend payout for non-financial listed firms in Nigeria is value relevant thereby affecting the way equity investors value accounting numbers. As a result, it is recommended that managers of listed non-financial firms in Nigeria consider paying dividends to shareholders; as such a policy will go a long way toward increasing firm value through stock price appreciation.

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