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VALUE RELEVANCE OF ACCOUNTING INFORMATION FOR LISTED FINANCIAL SERVICE FIRMS IN NIGERIA

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Abstract  
Over a 5-year period from 2016 to 2020, this paper compares the value relevance of accounting numbers of banks and insurance firms listed on the Nigerian Stock Exchange market. The analysis used data from annual accounts of these companies and the Nigerian Stock Exchange facts sheet to apply Ohlson's (1995) valuation model to test the comparative value validity of accounting numbers of these two sub-sectors in the financial service industry. The findings of the empirical analyses revealed the importance of accounting information's value relevance to listed group financial service firms in Nigeria. Furthermore, the accounting numbers of banks have been found to be more important in terms of information quality than the accounting numbers of insurance firms. As a result, the paper proposes that firms' operations be sustained in order to improve profits, performance, and shareholder wealth.

Keywords: value relevance, consolidated financial statements, accounting information.  
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1. Introduction
This paper provides analytical evidence on the information quality of financial results of Nigerian public financial service firms. This is achieved with an emphasis on financial service providers, with a measure of the sector's total valuation significance followed by a comparison of the relative relevance of banks and insurance companies. Decision on the elements to disclose and recognize in the financial statements need to take into cognizance the relevance of such elements. Information is helpful on the likelihood that it is applicable, dependable, practically identical and reasonable. Information is relevant if it can impact the financial choices of users and is given on schedule to impact those choices.

The ability of financial statements of a firm to increase in usefulness is dependent on the comparability with equivalent figures of the firm for other period(s) in order to ascertain trends in financial outcomes. Information is much more valuable if it is comparable with similar information about other entities in order to evaluate their relative financial strength and worth. It is therefore essential for users to recognize its implication. However, it may be difficult to present comparable, reliable and relevant information in a way that can be understood by all the users. As a result, the usefulness of accounting data is determined by how sensitive changes in market valuation are to changes in accounting figures.

Many scholars have written on Market Based Accounting Research (MBAR) since Ball and Brown's seminal work on the information content of accounting numbers in 1968 (Barth, Beaver & Landsman, 1998; Dechow, 1994; Kwon, 2018). Most of these studies' empirical evidence suggests that accounting information has value relevance, leading to the development of models (Easton, Bell, & Ohlson, 1995; Feltham & Ohlson, 1995; Ohlson, 1995) based on the assumption that earnings and book value are critical in determining value.

Prior research on value relevance in Nigeria and other nations, with the exception of studies on the whole listed firms, have omitted financial service firms. Furthermore, nearly all analyses focused on financial data used numbers from separate financial accounts, including the fact that for firms with group arrangements, the shares of companies are classified for the group. As a result of the mismatch of information, results drawn from such studies may not be entirely accurate for making rational choices. Thus, a study of the valuation relevance of
accounting information for group financial service firms using information from group financial statements and an assessment of banks and other financial service firms listed on the Nigerian stock exchange is necessary to disclose the types of information applicable to shareholders in each sub-sector. This is due to the fact that the strength of the economy’s financial sector has a significant impact on its well-being. The more robust it is, the better off the economy will be as economic downturns are almost often preceded by banking sector weakness. Based on literature reviewed, there are few studies that carried out comparative value relevance of different sectors in Nigeria. Also, several studies excluded financial service firms from their analyses. Furthermore, almost all studies based on numbers from the financial statement are based on company data (even when the study firms have group structures). Thus for any study on the market price of stock or market value, the group information is appropriate for companies with group structure.

The remainder of the paper is organized as follows: the second section is devoted to study of scientific literature and theoretical framework; the third section is dedicated to methodology; the fourth section is on discussion of findings; and the final section is conclusion and recommendations.

2. Literature Review and Theoretical Framework
Comparative value analysis produces a range of findings depending on the nature of the sample (Prihatni et. al., 2018). El-Diftar and Elkalla (2019) looked at value relevance in the Middle East and North Africa (MENA) area, comparing Gulf countries (GCC) and non-GCC companies. They discovered that EPS and BVPS are important determinants of value relevance in companies in both GCC and non-GCC countries. Earnings, book value, and dividend among non-financial and financial firms quoted in Ghana were investigated by Basil, Masri, and Abubakar (2018). They found that book valuation and profits are important for financial firms, but only dividends and earnings are important for non-financial firms.

From the Asian viewpoint, Kwon (2018) contrasted the importance of accounting numbers of different information for manufacturing companies listed on the exchange markets in Korea, Japan and China. From the European perception, Elbakry et. al. (2016) analyzed the differences in the information contents of accounting numbers pre versus post IFRS using three different valuation models and considers higher significance in UK than in Germany. They discovered on the
overall that Japanese data generates the greatest value for all independent variables. Agir (2017) studied the IFRS adoption’s effect on value relevance of banks quoted in Nigeria finding both information contents from both periods significant. Additionally, Ernest and Oscar (2014) compared the information contents of accounting numbers between firms in the banking sector and the petroleum sector, they establish that information from the petroleum sector are more relevant than those from the banking sector. However, this is rather a mismatched comparison.

Furthermore, various studies have demonstrated that the $R^2$ is a measure of the degree of responsiveness of stock prices to accounting data. As a result, accounting data has been shown to be valuable in many reports (Adeyemo et. al., 2017; Agbo et. al., 2020; El-Diftar & Elkalla, 2019; Mbekomize & Popo, 2020). Based on their study of the value prominence of book value, earnings, and dividend for non-financial and financial firms listed in Ghana, Basil et. al. (2018) find no distinction in the degree of explanation of the Ohlson model relative to other two models. In addition, Bhatia and Mulenga (2019) reviewed literatures and summarized results from 90 observational studies conducted in various countries across continents from 1993 to 2016. The majority of these studies concluded that accounting numbers are meaningfully significant, although only a few studies found the contrary.

Several studies used the Ohlson formulation for variable-based analysis, which classically consists of two variables: Earnings and Book Values. However, subsequent studies altered the model to incorporate additional variables such as dividends, cash flow, and liquidity, among others. Earnings per share, liquidity, and bank capital efficiency of Nigerian listed banks were found to be value relevant by Agbo et. al. (2020). However, they discovered that book value was not value relevant. Mbekomize and Popo (2020) found that profits have more effect than dividends and book value on share prices, while operational cash flows are negligible. Adeyemo et. al. (2017) discovered a favourable relationship between book value and earnings and share price; however, book value is less significant. Ahmadi (2017) found the same outcome. In light of the foregoing, this paper investigates the comparative value-relevance of accounting information for Nigerian deposit money banks and other financial service firms.
Literature gap
Centered on the above, this paper investigates the comparative value-relevance of accounting numbers for Nigerian banks and other financial service companies using companies’ financial statements. To accomplish this aim, the analysis makes an attempt to test the following hypotheses:

$H_{01}$: Accounting information has no significant impact on the share prices of listed group financial service companies in Nigeria.

$H_{02}$: In Nigeria, there is no significant gap in the value relevance of listed banks and other financial service companies with a group structure.

Theoretical Framework
Two theories are applicable to this investigation: the decision usefulness theory and signalling theory. Decision usefulness suggests the revelatory capacity of the accounting data. The more exact users can forecast financial and economic occurrences utilizing accounting data, the more valuable this data is to them. This could give the management and standard setters an appropriate device regarding the decision on the best accounting estimations and principles.

Signaling theory advances that organizations with great performance will in general make intentional revelations all the more promptly, as doing so is viewed as a simple method for differentiation from others in the market. Dividend payout is a signal for investors showing the future potential of an organization; improvements in dividends payments have a bearing on the market's reaction of stock valuation. Signaling illuminates the correlation with information asymmetry and business strategy. This theory helps explain the behaviour of administrators who have more access to data than investors. The annual reports of the company include data which are required as indicators in decision-making meditations by shareholders.

Accounting data is more useful to users when it has a greater revelatory ability. Furthermore, it is agreed that the signaling hypothesis will overcome the problem of data inequality and information asymmetry by ensuring that important data is transferred to the financial exchange.
One of the key concerns of standard setters is the utility of accounting statistics. There is broad consensus on how to enhance this usefulness by promoting similarity and, most importantly, dependable consistency of financial results all around the world. Regardless of the market's effectiveness, the degree of resilience of increases in stock value to changes in accounting numbers is dependent on the market's effectiveness.

3. Methodology
Secondary data was hand-picked from the group financial statement for the accounting numbers and the Nigerian Stock Exchange website for the share prices for the first trading day in April each year following the accounting year end. The study covers a 5-year period from 2016 to 2020 based on a total of 25 firms leading to 125 firm-years observations (45 for banks and 80 for others). Firms that are not having group structure were eliminated from the study.

This paper modified Ohlson's (1995) price valuation model, which was consistent with previous research. This is chosen to verify dividend per share and net operating cash flows per share, all of which have an impact on the valuation relevance of accounting statistics. Centered on a pooled data collection, this model is first applied to the study of Nigerian listed financial services companies. And then to the comparative study which was carried out for each sub-sector (banks and other financial service firms). The positivism theory serves as the foundation for this study. The ex-post factor research design was used in this case. In addition, based on the model below, multiple regression techniques of analysis was used.

\[ \text{MPPS}_{it} = \beta_0 + \beta_1 \text{BVPS}_{it} + \beta_2 \text{EPS}_{it} + \beta_3 \text{DPS}_{it} + \beta_4 \text{OCF}_{it} + \epsilon_{it} \]  

(1)

### Table 1: Measurements of the variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPPS</td>
<td>Market price per share measured as the price per share on the stock exchange</td>
</tr>
<tr>
<td>BVPS</td>
<td>Book value of equity per share measured as total shareholders’ equity divided by the number of ordinary shares outstanding</td>
</tr>
<tr>
<td>EPS</td>
<td>Earnings per share measured as Profit After Tax (PAT) divided by the number of ordinary shares outstanding</td>
</tr>
<tr>
<td>DPS</td>
<td>Total dividend divided by weighted average number of ordinary shares outstanding</td>
</tr>
</tbody>
</table>
OCF Operating cash flow measured as net cash flow from operating activities divided by the number of outstanding shares

Source: Researchers compilation, 2022

4. Results and Discussion
The findings of the study and explanation are presented in this section. The aim is to assess the relative value-relevance of accounting data for Nigerian listed group financial service firms. The descriptive statistics are the first category covered in this section. The correlation matrix, post estimation analyses, fixed and random effect test regression results, test of hypotheses, and discussion of observations are then presented and discussed.

Descriptive Statistics
Table 2 shows based on the total of 125 observations that the MPPS has a mean N4.38k with a standard deviation of N6.82k, a maximum of N31.61k and a minimum price of N0.50k. This implies that on the average a listed financial service firm has a unit of its shares valued at N4.38k and the deviation of share prices from the mean is by N6.82k. The minimum prices of shares are generally from the insurance companies; this may be due to lower number of investors in these firms when compared with the investments in the bank. Again, the maximum price indicates the highest price for which any listed financial service firm’s share is traded on the stock market – which probably is from the banking sector in addition to the fact that some firms have been in existence for a while now; gaining goodwill overtime and also some firms were listed earlier than others thereby contributing to their market prices over time. Furthermore, the variability is made clearer by the significance of the skewness and kurtosis normality tests which showed that the market price data are not normally distribute at all levels.
Table 2: Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPPS</td>
<td>125</td>
<td>4.38</td>
<td>6.82</td>
<td>0.50</td>
<td>31.61</td>
</tr>
<tr>
<td>EPS</td>
<td>125</td>
<td>0.92</td>
<td>2.29</td>
<td>-0.303</td>
<td>23.19</td>
</tr>
<tr>
<td>BVPS</td>
<td>125</td>
<td>4.91</td>
<td>5.86</td>
<td>0.003</td>
<td>22.44</td>
</tr>
<tr>
<td>DPS</td>
<td>125</td>
<td>0.25</td>
<td>0.49</td>
<td>0.000</td>
<td>2.00</td>
</tr>
<tr>
<td>OCF</td>
<td>125</td>
<td>0.53</td>
<td>4.51</td>
<td>-14.36</td>
<td>20.122</td>
</tr>
</tbody>
</table>

Source: STATA output

BVPS has an average value of N4.91k, and on the overall a standard deviation of N5.86k, the minimum BVPS is N0.00k and a maximum of N22.44k meaning that the average book value of equity per share of N4.91k for listed financial firm. EPS on the average is 58k with a standard deviation of N1.00k and minimum loss on the overall is 31k per share and a maximum earnings of N4.31k.

For DPS, the mean is N0.25k representing the average dividend payment by a firm of 25 kobo per share yearly. The standard deviation of N4.49k shows the dispersion between firms’ dividend policies for the period of study. Some of the firms made no dividend payments throughout the study period while the maximum paid is N2.00k.

Finally, from Table 2, OCF has a mean of N0.53k, standard deviation of N4.51k, a minimum of N14.36k and maximum of N20.12k. The net operating cash flow per share is a measure of a company’s financial strength; on the average a listed financial firm has 53k. Although, the least a group may have is a shortage of N14.36k and the highest net cash flows from operations per share is N20.12k. This figure may be as a result of high variability in size, age, capital base of firms in the sub-sector under the financial service sector and also the volume of transactions, customer base, branch network, service quality and so on. This variability is evidenced by the deviation of N4.51k.

Correlation Matrix

The correlation matrix for the dependent (MPPS) and independent variables (BVPS, EPS, DPS and OCF) is shown in Table 3. Correlation is a statistical method for determining the relationship or inter-relationships between two sets of graded or ordered results. The table displays that only DPS have positive and strong
correlation with MPPS at 0.88. BVPS and EPS are also positive but not significant at 0.75 and 0.45 while OCF is positively but not strongly correlated with MPPS at about 0.14. The implication of this is that all the independent variables move in the same directions as the dependent variable; as MPPS increase, all the independent variables too increase and vice versa. Also, all the correlations are significant at 5% with the exception of OCF. The interaction of all independent variables is also moderate, as is the relationship between EPS and DPS with BVPS.

Table 3: Correlation Matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>MPPS</th>
<th>BVPS</th>
<th>EPS</th>
<th>DPS</th>
<th>OCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPPS</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BVPS</td>
<td>0.7532*</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>0.487*</td>
<td>0.5177*</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPS</td>
<td>0.8760*</td>
<td>0.7282*</td>
<td>0.5032*</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>OCF</td>
<td>0.1352</td>
<td>0.0950</td>
<td>0.0880</td>
<td>0.0120</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Extracted from STATA 13 output
* Significant at 1% and **Significant at 5%.

Post estimation tests

The tests conducted includes; multicollinearity, heteroscedasticity and normality test of error term. The multicollinearity test is used to determine whether or not there is a relationship between the study's independent variables. To test for multicollinearity in the two regressions, the Variance Inflator Factor (VIF) and Tolerance Values are calculated. The VIF and tolerance values were consistently found to be less than ten and one, respectively. (See Table 5 in the appendix) This is clear from the mean VIFs of 1.75, 1.26, and 1.35 for the combined, bank, and insurance data sets, which are all less than ten, suggesting the absence of multicollinearity.

The chi-square values for the pooled, bank, and insurance data sets are 200.17, 4.95, and 34.70, respectively, according to the heteroscedasticity test results. These values are significant at 5%, suggesting that heteroscedasticity occurs in all three regressions. As a result, the interpretation of Ordinary Least Squares (OLS) is inapplicable since it does not satisfy the assumptions of OLS. To fix this, the robust standard error was calculated, and the error term's normality was checked.
Regression Analysis
Table 4 displays the regression results for the dependent variable (MPPS) and the study's independent variables (EPS, BVPS and OCF). The discussion is followed by an examination of the relationship and effect between the study's independent and dependent variables, as well as a cumulative comparison.

Research Model
\[ \text{MPPS}_{it} = \beta_0 + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \beta_3 DPS_{it} + \beta_4 OCF_{it} + \varepsilon_{it} \]  
(1)

The fixed effect model is therefore stated as follows for pooled data:
\[ \text{MPPS}_{it} = 4.4031 - 0.4967 BVPS_{it} - 0.1811 EPS_{it} + 10.21 DPS_{it} + 0.0326 OCF_{it} + \varepsilon_{it} \]

Table 4
Summary of Fixed Effect Regression Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>P-Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant ((\alpha))</td>
<td>4.4031</td>
<td>0.0000</td>
</tr>
<tr>
<td>BVPS</td>
<td>-0.4967</td>
<td>0.009</td>
</tr>
<tr>
<td>EPS</td>
<td>-0.1811</td>
<td>0.138</td>
</tr>
<tr>
<td>DPS</td>
<td>10.2109</td>
<td>0.000</td>
</tr>
<tr>
<td>OCF</td>
<td>0.0326</td>
<td>0.610</td>
</tr>
<tr>
<td>R²</td>
<td></td>
<td>0.3832</td>
</tr>
<tr>
<td>F-Stat.</td>
<td></td>
<td>14.91</td>
</tr>
<tr>
<td>F-Sig</td>
<td></td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: Extracted from STATA 13 output

According to the results in table 4, R² (within) for the pooled data is 0.38, indicating that the proportion of the overall variance in the dependent variable are jointly described by the independent variables is 0.38. As a result, the information quality of accounting numbers accounts for 38% of the overall differences in MPPS of listed group financial service companies in Nigeria. Furthermore, the F-stat of 14.91, which is significant at 1%, shows that the study's model is well suited and the independent variables are appropriately chosen, grouped, and used.

For the bank data set, the fixed effect model is as follows:
\[ \text{MPPS}_{it} = 5.1242 - 0.7379 BVPS_{it} - 0.0663 EPS_{it} + 10.4956 DPS_{it} + 0.0148 OCF_{it} + \varepsilon_{it} \]
According to the results in table 5, $R^2$ for banks is 0.36, indicating that the independent variables collectively decide a proportion of the overall variance in the dependent variable. As a result, the relevance of accounting information accounts for 36% of the overall differences in MPPS of listed community deposit money banks in Nigeria. Also, the F-stat of 56.49 which is significant 1 percent signifying that the model of the study is well fitted and the independent variables are correctly selected, combined and used. The p-value for the above model of 0.0000 which is significant at 1% provides evidence for rejecting the null hypothesis one which states that the value relevance of accounting information for listed group financial service firms in Nigeria is not significant.

For the insurance firm data set, the fixed effect model is as follows:

$$MPPS_{it} = 5.1242 - 0.7379BVPS_{it} - 0.0663EPS_{it} + 10.4956DPS_{it} + 0.0148OCF_{it} + \varepsilon_{it}$$

**Table 5**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>P-Values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Banks</td>
<td>Insurance</td>
</tr>
<tr>
<td>Constant ($\alpha$)</td>
<td>10.5317</td>
<td>0.6911</td>
</tr>
<tr>
<td>BVPS</td>
<td>-0.5046</td>
<td>-0.0565</td>
</tr>
<tr>
<td>EPS</td>
<td>-0.1841</td>
<td>0.2471</td>
</tr>
<tr>
<td>DPS</td>
<td>10.3541</td>
<td>3.8000</td>
</tr>
<tr>
<td>OCF</td>
<td>0.03503</td>
<td>0.1400</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.3891</td>
<td>0.1264</td>
</tr>
<tr>
<td>F-Stat.</td>
<td>5.09</td>
<td>2.17</td>
</tr>
<tr>
<td>F-Sig</td>
<td>0.0027</td>
<td>0.0832</td>
</tr>
</tbody>
</table>

Source: Extracted from STATA 13 output

From the result in table 5, $R^2$ is 0.13 for the insurance companies which shows the portion of the total variation in the dependent variable determined by the independent variables jointly. Hence, signifying 13 percent of the total variations in MPPS of listed group insurance companies in Nigeria is as a result of the value relevance of accounting information. Also, the F-stat of 2.17 which is significant
10 percent signifying that the model of the study is well fitted and the independent variables are correctly selected, combined and used.

However, the $R^2$ of 0.39 and 0.13 for deposit money banks and insurance companies respectively show that accounting information for DMBs have more information content than that of insurance companies in Nigeria. Since the banks information explain about 26 percent more, the variation in MPPS. This in addition to the p-values of 0.0000 and 0.0832 for banks and insurance companies respectively provides evidence for rejecting the null hypotheses which states that there is no significant difference between the value relevance of listed banks and other financial service firms in Nigeria.

5. Conclusion and Recommendations
The study compared the value relevance of book value per share, earnings per share, dividend per share and operating cash flow per share for listed group financial service firms in Nigeria. The analysis is carried out by implementing three regression models based on modified Ohlson's model. The study revealed that accounting information for listed group financial service firms in Nigeria are relevant. Also, the paper reveals the superiority of the relevance of accounting information of group listed banks over insurance companies in Nigeria while concluding that the information quality of listed group banks is considerably more than that of the insurance companies in Nigeria.

Consequently, the paper suggests that of listed financial service firms ought to reinforce their activities to boost incomes and productivity to improve the value relevance of earnings per share. Similarly, more effort should be made to record book values that are similar to market values, since book values are expected to reflect a fair approximation of accounting statistics based on IFRS.

Furthermore, dividend strategy should be designed in such a way that it favourably impacts the equity of shareholders. Moreover, the management of publicly traded financial services companies should boost their operations in order to improve their operating cash flows from operations. Since cash flows per share measures the amount of cash in sales without taking into account all forms of cash flows, it more accurately reflects the company's long-term core operations.
References


