VALUE RELEVANCE OF EARNINGS IN LISTED NIGERIAN INDUSTRIAL GOOD FIRMS: CORRELATE ANALYTICAL IMPETUS

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Abstract
Scholars are demonstrating more passion for research on value relevance of accounting information in recent times. This they do by harnessing fundamental inputs from income statements (epitomized by earnings) and balance sheet (epitomized by book values). With advent of International Financial Reporting Standards (IFRS) and the resultant impact on value relevance of accounting information, these financial correlates portend great significance in explaining the dynamics of share prices. In this regard, this study focuses on listed Nigerian industrial good firms over a seven – year time frame. Secondary data were drawn from daily lists on the website of CashCraft Asset Management Limited, and Annual Reports/Accounts of the firms. In the analysis, descriptive statistics featured the mean, range and standard deviation values; while Ordinary Least Squared (OLS), Fixed Effects (FE) and Random Effects (RE) model treatments facilitated the inferential process, anchoring on 112 (panel data) observations. The results established that earnings per share positively and significantly relate to share price of listed Nigerian industrial good firms at the 0.01 level, with overall explanatory capacity of 59%. Thus, firms with huge earnings are better placed to attract more investments, as investors would not rationally commit their treasured funds into shaky and flaky firms. It is, therefore, recommended that investors/firm operators should strategically maintain earnings stability, cautiously handle earnings management tendencies, and innovatively employ accounting standards for corporate advantage and greater good of stakeholders.
Keywords: Earnings, Share price, Stock market, Value relevance

Introduction
Financial statement information prevails as the product of corporate accounting and external reporting systems. For the reports disclose the financial position and performance of firms, they are expected in accordance with Generally Accepted Accounting Principles (GAAP), expected to have qualitative characteristics that showcase reliable, relevant, comparable, timely and understandable information. The users of financial statements need different information at different times, hence those responsible for reporting strive to prepare and present reliable information to enhance investment decisions. Reliability connotes the quality of information being reasonably free from error and bias, thus faithfully representing the intent. The International Accounting Standard Board (IASB) Framework (2011) contends that accounting information is relevant only if it enables users (owners, managers, or employees) to evaluate past, present or future events for meaningful economic decisions. In this vein, when financial statement has the ability of being reflected in stock values, it possesses value relevance (Francis & Schipper, 1999).

With value relevance accounting information affects stock values as it is summarized in a manner that assists investors in making informed decisions. Valuation study also aims at relating accounting numbers to a measure of firm value in order to assess the characteristics of accounting numbers relative to value of the firm (Barth, 2000). By value relevance, therefore, accounting information is prepared in a way that plays the above roles, essentially aiding investors to make the right investment decisions that ultimately attract higher returns on investment while minimizing risks. This is the proof of informational quality and usefulness of accounting numbers (data) in investment decision-making.

Given that accounting information hinges on the ability to meet decision-making needs of users, the flow of reliable information remains crucial to the financial system. Where it is defective, investors keep liquid cash rather than staking them in stocks. Also, no capital market can function efficiently if relevant and reliable accounting information is lacking. On this account, activities on the floor of the Nigerian Stock Exchange (NSE) in time past witnessed a drop in turnover ratio from 21.86% in 2008 to 13.26% in 2009 and subsequent decline in stock prices (NSE Fact Book, 2011). The Industrial Goods Sector was also adversely affected in that period, 2008-2011 (NSE Fact Book, 2012). To examine these issues, some researchers focused on some segments of the Industrial Goods Sector rather than the sector as a whole. They include investigations which focused on building materials only and those which spotlighted some firms listed on the NSE (Oyerinde, 2010; Abiodun, 2012; Olugbenga & Atanda, 2014). This study, therefore, addresses the entire sector and underscores the reality of value relevance of accounting information, using earnings per share as proxy in relation to stock prices.

Operationally, earnings per share is derived as ratio of earnings after tax but before extra-ordinary items to the latest outstanding ordinary shares in issue (Agundu, 2012; Musa, 2015). It is an income statement element, which reflects activities of firms within one accounting year. The listed firms in the industrial goods sector are grouped under four subsectors namely: building materials, the electrical and electronics products, the packaging/container, and the tool and machinery (NSE Fact book, 2012). They mainly deal on tools, materials, components, machinery, and other products used in construction, manufacturing and other industrial operations.

Literature review

Value relevance has been defined by researchers in various ways. Primarily, Amir, Harris, and Venuti (1993) defined it as the relationship between accounting numbers and security market values. Francis and Schipper (1999) provided four perspectives; the first contending that financial statement information affects stock prices. The second posits that financial information is value relevant if it contains variables required in a valuation model, such that it assists in predicting focal variables. The third showcases value relevance as the statistical association between financial information and prices/returns; while the fourth considers value relevance of accounting information as the ability of accounting numbers to summarize information that affects the value of a firm. Furthermore, the outcomes of other value relevance studies and allied capital market – based researches are quite revealing. In this vein, Pathirawasm (2010) investigated the value relevance of earnings, book value and return on equity in Colombo Stock Exchange (CSE) using sample of 129 companies selected from 6 major sectors and found that earnings, book value and return on equity are value relevant relative to market value of securities. Abiodun (2012) examined value relevance of accounting information in Nigeria using descriptive statistics and logarithmic regression models for the period 1999-2009. With 40 sampled firms drawn from various sectors of the Nigerian economy, they found earnings to be value relevant than book values. This implies that information from income statements reflect more in corporate values of firms in the Nigerian capital market than the information contained in the balance sheet.

Suadiye (2012) examined the impact of International Financial Reporting Standards (IFRS) on value relevance of accounting information in Turkey. Turkish listed firms on the Istanbul Stock Exchange (ISE) were required to adopt IFRS in the preparation and presentation of their financial statements in 2005. Using the equity valuation model as projected by Ohlson (1995), the results indicated that earnings and book value are, jointly and individually, positively and significantly related to stock price under the two reporting regimes (2000-2002 for local standards and 2005-2009 for IFRS). Along that line, Tsalavoutas, Andre and Evans (2009) examined the mandatory adoption of IFRS by Greek listed companies. Initially, the impact of transition, reflecting difference between IFRS and Greek GAAP, was assessed. However, the results indicated that no significant change in the value relevance of accounting information between 2004 and 2005. Alali and Foote (2012) examined the value relevance of accounting information under IFRS in Abu Dhabi Stock Exchange (ADX). Adopting the models developed by Easton and Harris (1991) and Ohlson (1995) with monthly market data from 2000 to 2006, the study found earnings to be positively and significantly related to cumulative returns while earnings per share and book value per share were positively and significantly related to price per share. Anandarajan and Hasan (2010) investigated the value relevance of earnings and allied financial information components for some Middle Eastern and North African (MENA) countries and how differences in levels of mandated disclosures, source of accounting standards, and legal systems moderated the informative capacity of earnings. The results established that mandated disclosures were positively associated with earnings informative capacity; and firms that adopted IFRS had higher value relevance than firms operating under the local standards.

Palea (2014), using a sample of Italian firms to investigate whether IFRS are more value-relevant than domestic GAAP equally found that separate financial statements are value-relevant, regardless of the accounting standard, but imperativeness of model specification in value-relevance studies was highly underscored. Uyar (2013) examined the impact of change of accounting standards on accounting quality. By analytically determining how switching standard reflects in accounting quality, earnings management, timely loss recognition, and allied variables, the results indicated that the switch from domestic accounting standards to International Accounting Standards (IAS), significantly improved quality of accounting in the country while the market became more active thereafter. Vijitha and Nimalathasan (2012) used quantitative approaches to examine the value relevance of accounting information. The analytical variables included Earning per Share (EPS), Net Assets Value per Share (NAVPS), and Return on Equity (ROE) and Price Earnings Ratio (P/ER) to Share Prices (SP) of manufacturing companies in Colombo Stock Exchange (CSE). Utilizing secondary data from financial reports of selected companies of CSE in Sri Lanka, the results indicated that value relevance of accounting information has significant impact on share price.

Investigations towards identifying the difference between Italian accounting principles and IFRS, with emphasis on the major consequences of the conversion to IFRS in accounting outcomes revealed that total impact of such transition was more on net income than equity. However, the analysis of individual adjustments showed greater discrepancy between Italian GAAP and IFRS, particularly in the treatment of intangible assets, income taxes, and business combinations. Hsu, Duha, and Cheng (2012) examined the value relevance of consolidated statements under the ownership based approach of U.S. Accounting Research Bulletin No. 51 (ARB 51) and the control-based approach of International Accounting Standard No. 27 (IAS 27). They found that consolidated financial statements based on a broader definition of control provided more useful accounting information than those based on majority-ownership control. Jermakowicz, Prather-Kinsey and Wulf (2007) examined the challenges, benefits and value relevance of the adoption of IFRS by DAX-30 companies in the German premium stock market. Using regression to measure the value relevance of book value of earnings and equity in explaining market values of DAX-30 companies during the period 1995–2004, they affirmed that adopting IFRS significantly increased the value relevance of earnings relative to market prices.

Similarly, Kadri, Abdul Aziz & Ibrahim (2010) investigated the value relevance of book value and earnings and the relationship between earnings and operating cash flow of two different financial reporting regimes in Malaysia. They established that change in financial reporting regime significantly affects the value relevance of book values mainly. Although book values and earnings were value relevant in the erstwhile period, only book value was value relevance during the IFRS period. Kargin (2013), adopting the model of Ohlson (1995), harnessed two main financial reporting variables, such as book value per share (from balance sheet) and earnings per share (from income statement). This was with a view to ascertaining the value relevance of accounting information in pre- and post-financial periods of IFRS application for Turkish listed firms from 1998 to 2011. The results indicated that value relevance of accounting information improved in the post-IFRS period (2005-2011) in terms of book values rather than in terms of earnings. Against the backdrop of these numerous scholarly investigations, this study addresses the eligibility of earnings per share as proxy of accounting information, to ascertain the value relevance relative to share prices in Nigerian listed industrial good firms.

Methods

This study adopted correlational technique to ascertain the relationship between earnings per share and share price. The study population comprised all the 25 listed industrial good firms in Nigeria, classified into 4 subsectors, as follows:

- Building Materials subsector featuring thirteen (13) firms;
- Electrical and Electronics Products subsector featuring three (3) firms;
- Packaging/Containers subsector featuring six (6) firms; and
- Tools and Machinery subsectors featuring three (3) firms.

Subsequently, through a filtering process, the firms which did not consistently feature in the trading schedule of NSE in the period (2007-2013) were dropped. Nine firms were filtered out, thereby availing 16 (64%) consistently visible firms as sample of the study (Tables 1 and 2).

Table 1: Firms selected for the study

S/N	Firm	Sub Sector	Remarks
1	African Paints (Nigeria) Plc	Building Materials	Sampled
2	Ashaka Cement Plc	Building Materials	Sampled
3	Berger Paints Nigeria Plc	Building Materials	Sampled
4	Chemical & Allied Products Plc	Building Materials	Sampled
5	Cement Company of Northern Nigeria Plc	Building Materials	Sampled
6	Dangote Cement Plc	Building Materials	Sampled
7	DN Meyer Plc	Building Materials	Sampled
8	First Aluminium Nigeria Plc	Building Materials	Sampled
9	IPWA Plc	Building Materials	Sampled
10	Lafarge Cement Plc	Building Materials	Sampled
11	Cutix Plc	Electrical & Electronics	Sampled
12	Avon Crowncaps & Container (Nig) Plc	Packaging /Containers	Sampled
13	Nigerian Bag Manufacturing Company Plc	Packaging /Containers	Sampled
14	Poly Products Nigeria Plc	Packaging /Containers	Sampled
15	Nigerian Wire and Cable Plc	Electrical & Electronics	Sampled
16	Premier Paints Plc	Building Materials	Sampled

Source: NSE Fact book, 2013

Table 2: Firms excluded from the study

S/N	FIRM	SUB SECTOR	REMARKS
1	Paint & Coatings Manufacturers Nig Plc	Building Materials	Eliminated
2	Portland Paints and Products Nig Plc	Building Materials	Eliminated
3	Nigerian Wire Industry Plc	Packaging /Containers	Eliminated
4	Greif Nigeria Plc	Packaging /Containers	Eliminated
5	Nigerian Ropes	Tools and Machinery	Eliminated
6	Abplast Products Plc	Packaging /Containers	Eliminated
7	West African Glass Industry Plc	Packaging /Containers	Eliminated
8	Nigerian Sewing Machine Manufacturing Company Plc	Tools and Machinery	Eliminated
9	Stokvis Nigeria Plc	Tools and Machinery	Eliminated

Secondary data were gathered for the study, with that of share price drawn from daily lists on the website of CashCraft Asset Management Ltd. Data on earnings per share were extracted from Annual Reports and Accounts of the sampled listed industrial good firms as well as the NSE Fact Book 2012/2013, covering the seven-year period. Characteristic of panel data, the analytical inputs had combination of time series with cross-sections to enhance the quality and quantity of data. Thus, 112 observations were adopted, constituting a product of 16 cross sectional units and 7 time series. To ascertain the relationship with share prices, earnings per share featured as proxy for accounting information is earnings per share, as earlier adopted by Oyerinde (2011) and Abdullahi, Lawal and Ibrahim (2012). Also, yearly analytical features of the observations are adopted (rather than shorter intervals) in line with earlier investigations as those of Francis and Schipper (1999), Barth (2000), and (Subekti, 2010).

Regression analysis was used in treating the data collected, which accounted for individual heterogeneity and took into consideration the imperatives of linearity, normality, stability of variance and independence of observations. Other analytical processes included Ordinary Least Square (OLS), Random Effects (RE), and Fixed Effects (FE) models (Granger and Newbold, 1974). Basically, with fixed effects among the panel data, the values of the fixed variable in one study are the same as the values of a fixed variable in another study. Anchoring on the framework of Ohlson (1995), which expressed share price in relation to earnings per share, dividend per share, and book value per share; this study concentrated on earnings per share while an error term was used to capture other relevant variables not included. Scholars who had equally expressed the value of the firm as a linear function of earnings include Penman (1998), Francis & Schipper (1999), and Oyerinde (2011). The analytical model is, therefore, specified as follows:

$$SHPjt = \beta_0 + \beta_1 EPS_{jt} + e_{jt}$$

Where: SHPjt = Share price of firm j at time t

EPSjt = Earnings before extraordinary items per share of firm j at time t

β_0 = Constant or intercept.

β_1 = Coefficients of explanatory variables

ε_{jt} = Error term

j =1, 2, …, N cross-sectional units;

Time t = 1, 2, ...,T periods

The analytical variables are contextualized as specifically defined in Table 3:

Table 3: Variable Measurement

Variable	Measurement	Categorization	Code
Share price	Share prices of the selected firms for three (3) months after accounting year-ends	Dependent Variable	SHP
Earnings per share	Determined as ratio of earnings after tax but before extra-ordinary items to the latest outstanding ordinary shares in issue.	Independent Variable	EPS

Source: Research Data (Analytical variables in context)

Results

The research data are presented in tables, highlighting the descriptive statistical features of frequency distributions, mean and standard deviation. Subsequently, they are treated to Ordinary Least Squared (OLS), Fixed Effects (FE) and Random Effects (RE) models, drawing from the preliminary descriptive statistics, and culminating in the test of hypothesis. Details of the analytical results are contained in Tables 4 to 7.

Table 4: Descriptive Statistics Highlight
Summary of Panel of Aggregate Market Reaction to Earnings and Book Value in Equity Valuation

Variable	Mean	Std. Dev.	Min.	Max.
SHP				
Overall	0.7202	0.6712	-0.3	2.38
Between		0.1863	0.4956	1.1025
Within		0.6485	-0.3823	2.4440
EPS				
Overall	2.245	0.4245	0	3.8
Between		0.0608	2.1369	2.3138
Within		0.4207	0.1081	3.7313

Source: Research Computations facilitated by SPSS

Table 5: Correlation Matrix Highlight

Variables	Statistics	SHP	EPS
SHP	Pearson correlation	1.0000	
	Sig. 2 tail		
	N	112	
EPS	Pearson correlation	0.6664**	1.0000
	Sig. 2 tail	0.000	
	N	112	112

***.Correlation is significant at the 0.01 level (2-tailed).*
Source: Research Computations facilitated by SPSS

Table 6: Regression Results Highlight
Dependent Variable: SHP

Estimator	OLS				FE		RE	
Variable	Coef	Prob	VIF	Tol. Val.	Coef	Prob	Coef	Prob
EPS	.6552** (4.96)	0.000	0.543	1.840	.5842** (4.78)	0.000	.6033** ***(4.92)***	0.000
Constant	-1.2958** (-5.65)	0.000			-1.2569** (-5.99)	0.000	-1.2675** ***(-5.75)***	0.000
R^2	0.5915							
Adj R^2	0.5801							
F-Statistics	52.12**							
Prob. F	0.0000							
Durbin-Watson Stat	1.434							
R^2 within					0.6600		0.6598	
R^2between					0.0290		0.0247	
R^2overall					0.5894		0.5904	
Wald Ch2							192.77**	
Prb.Ch2							0.0000	
Heterocesdasticity Test	chi2(1) 13.89** Prob>chi2 = 0.0002							
No of Observ.	112	112					112	

Note: ** Significant at 0.01 level
Numbers in parentheses are t- values
Z test in Prentices, bold face and italicized
SHP is stated in naira while EPS is in kobo

Source: Research Computations facilitated by SPSS

Table 7: Variable Coefficients Highlight

Variable	Coefficient	Z value	P> Z
EPS	0.6033	4.92	0.000
Overall R^2	0.5904		
Wald chi2(3)	192.77**		
Prob >chi2	0.0000		

Source: Research Computations facilitated by SPSS

The results in Table 4 indicate an overall share price of 72 kobo with standard deviation of 67 kobo, implying that share price deviates from the mean on both sides by 67 kobo. Considering the minimum and maximum values, share prices are normally distributed, thus forestalling spurious conclusions. For EPS, the overall mean value is 2 kobo with standard deviation of 0.4 kobo. This implies low dispersion of earnings per share in the firms studied. The minimum and maximum values between the firms are 2.14 kobo and 2.39 kobo respectively with standard deviation of 0.1 kobo; while the minimum and maximum values within the firms are 0.1 kobo and 3.7 kobo respectively with standard deviation of 0.4 kobo. The statistical results in Table 5 obtained from 2-tailed Pearson Correlation analysis indicate a coefficient of 0.67, which is significant at the 0.01 level. From the results in Table 6, share price is 65% positively related with earnings per share and significant at the 0.01 level. This implies that higher earnings are associated with higher share prices. The regression results further substantiate the relationship between earnings per share, and share prices facilitated by adoption of the OLS, FE and RE models.

Accordingly, earnings per share is highly significant at the 0.01 level in explaining share price. Earnings per share has a beta coefficient of 0.6552 implying that a unit change in earnings per share will result to approximately 66 kobo change in share price. In this context, 1 kobo change in earnings per share leads to 66 kobo change in share price. The Wald test outcomes in Table 7 provide likelihood-ratio test results of the model's adequacy, similar to t-values in OLS model. The p-value of 0.000, being less than 0.01, indicates very high confidence in the ability of the model to explain the dependent variable. The overall R^2 of 0.5904, also indicate 59% proportion of variation in the share prices that is explained by the earnings per share. Essentially:

- Coefficient of the independent variable is positive, and
- The coefficient is significant at 0.01 level.

The independent variable significantly explains the dynamics of share price (the regressand). By these, the research model is fit and the *regressor* is apt. The Z-value for earnings per share is 4.92, equally checks the individual significance of the explanatory variable. Given that any value less than 2 is insignificant, the analytical outcome affirms that earnings per share is significant in explaining the dynamics of share price. This is in line with the submissions of Abiodun (2012) and Oyerinde (2011).

Discussion

Evidence on the preliminary effects of mandatory adoption of IFRS on accounting quality has been further provided, focusing on a relatively broad set of firms from 20 countries that adopted IFRS in 2005. This was relative to a benchmark group of firms from countries that did not adopt IFRS with regards to strength of legal enforcement, industry, size, book-to-market, and accounting performance. They found that the IFRS - compliant firms exhibited significant increase in income smoothing and aggressive reporting of accruals; significant decrease in timeliness of loss recognition; and no significant difference across IFRS and benchmark firms in meeting earnings targets.

The value relevance of earnings and book value of equity was equally examined, relative to price and return models, for Jordanian industrial companies for the period 1992 to 2002; which established that, relative to price model, value relevance of both earnings and book value increased individually, while value relevance of earnings increased and book value became irrelevant in combination. Also, relative to the return model, value relevance of earnings increased while that of book value declined. Overall, earnings were more pronounced in explaining share price and return dynamics than book value. Furthermore, earnings and book value were more value relevant individually in the price model; while in aggregate, they were more value relevant in the return model.

Conclusion

The study examined value relevance of accounting information in Nigerian listed industrial goods firms. To establish the relationship between accounting information and share price, secondary data were used. Proxy for accounting information was earnings per share, the data of which were drawn from the NSE Fact Book as well as annual reports of the listed firms. The data on share prices were gathered from daily share price list provided by Cashcraft Asset Management Ltd. The focal model specification underscored earnings per share as explanatory variable. Combining it with allied variables (book value per share and dividend per share) in line with the framework of Ohlson (1995), the eligible analytical regression treatments involved OLS, FE, and RE models. Eventually, the RE model was dominant because of the insignificant chi2 value which relegated the OLS and FE models. Predicated on the assumption that investors (existing and prospective) rely on accounting information (annual financial statements) for investment decisions, the null hypothesis expressed a functional relationship between earnings per share and share prices of listed industrial good firms. With panel data from 16 sampled firms over a seven-year period (2007-2013), 112 observations were mainstreamed for analysis. These prevailed in the period characterized by rapid growth in Nigerian stock market although coupled with the least contributions from firms operating in the Industrial Goods sector.

The outcomes revealed that the explanatory variable significantly explains the dynamics of share price in the focal firms. The explanatory variable (earnings per share) is positively significant at the 0.01 level, thus substantiating that accounting information has significant impact on share prices of listed industrial good firms. Fundamentally, these firms report huge earnings, which attract more investments than their counter-parts that consistently report poor earnings (Musa, 2015; Agundu & Siyanbola, 2017; Agundu & Wula, 2017). Obviously, investors are not willing to commit their treasured investment funds into fragile firms, for fear of liquidation and subsequent loss of wealth. With the present research evidence that earning per share is significantly relevant in explaining share prices of listed industrial good firms, information contained in their income statements strongly reflects in share prices in the Nigerian stock market. From this standpoint, it is recommended that industrial good firms and allied listed corporate concerns should:

i. Strategically maintain stability and consistency in earnings and be very cautious in handling earnings management tendencies; and
ii. Effectively employ uniform accounting policy in accordance with the relevant accounting standards to ensure quality preparation and dissemination of financial accounting information among various stakeholders.

With utmost attendant increase in market value is expected to boost investors' confidence and further attract/propel huge investments into the Nigerian stock market.

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