

Earnings Quality and Market Values of Listed Companies in Nigeria

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ABSTRACT: *Globally, earnings quality plays a vital role in investment and managerial decisions in the capital market. This study investigated the impact of earnings quality on market values of listed quoted companies in Nigeria for the period 2009 to 2019. Secondary data was extracted from the financial statements of all the 173 quoted companies that make up the population of the study while the sample size used for the study is 51. Earnings quality as an independent variable of the study was proxy by Accruals Quality, Earnings Persistence, Earnings Predictability and Earnings Smoothness, while Market Share Price was used to represent market value as dependent variable of this study. This study adopted generalized least square robust fixed effect multiple regression technique in analyzing the data. The findings of the study show that Accrual quality and Earnings Smoothness has significant negative impact on the market value of listed quoted firms in Nigeria, while Earnings Persistence and Earnings Predictability has significant positive impact on the market share price of listed quoted firms in Nigeria. The study recommended that financial statement users, market analysts and investors should consider cash flow statement more when considering the predictability of firm's earnings quality. This is because most of the required information to predict future cash flows is found in cash flow statement and comparative statement of operating cash flows and this will help them to make a more logical decision.*

KEYWORDS: accruals quality, earnings persistence, earnings predictability, earnings smoothness, market share price

INTRODUCTION

The concept of earnings quality has received considerable attention due to the global financial crisis and scandals that devastated nations' economies which resulted to panic and tension in the minds of users of financial statements (investors, capital market participants and financial analysts) as to the quality of reported earnings and its relationship with share price and returns. Liu, Nissim, and Thomas (2002) in their study opined that earnings perform the best and investors rely on reported earnings being a key measure of performance more than other performance measures and as such, used for decision making.

In the opinion of Dechow and Schrand (2004), Zhai and Wang (2016), the concern of investors and other market participants all over the world is related to how reported earnings reflect real economic performance of firms. Therefore, uncertainties inherent to the capital market necessitate the investors to seek appropriate information aimed at reducing the risk of moral hazard and

adverse selection associated with resource allocation efficiency and portfolio diversification. Also, quality accounting information disclosure was to afford external stakeholders with valuable information regarding the intrinsic value of firms.

It is in this similar vein that Kormendi and Lipe (1987); Easton and Harris (1991); Lipe, Bryant, and widener (1998); Liu and Thomas, (2000); stated that investors consider reported earnings to be a useful tool in estimating future returns and share prices, thus the need to understand the nexus between quality of reported earnings and share prices. Therefore, understanding the relationship between earnings quality and share price is important to the extent that good earnings quality leads to high market value which builds confidence in the minds of existing and potential investors as well as other stakeholders (Ekoja, 2004).

Penman and Zhang (2002), Francis, Lafond, Olsson and Schipper (2004) and Dechow, Ge and Schrand (2010) identified eight proxies of earnings quality which they categorized into accounting-based and market-based earnings quality proxies. The accounting based earnings quality proxies are accruals quality, earnings persistence, Earnings predictability and earnings smoothness which focus on accounting data while market-based proxies are earnings variability, value relevance, timeliness of earnings and earnings conservatism which combines both accounting and market data. In an attempt to evaluate earnings quality, this study focus on the use of accounting-based proxies, (earning predictability, accrual qualities, earning persistence and earning smoothness). However, the choice of any earnings quality proxy is largely influenced by the research question, environmental factor, availability of data and the estimation models

Earnings quality via quality of accounting information is needed in this regard to assist financial report analysts and the entire stakeholders (e.g., investors, creditors, employees, governments, suppliers and other capital market participants) to make useful decisions, informed and unbiased judgments, thereby developing the efficiency of capital market (Ewert & Wagenhofer, 2012). In Nigeria, listed quoted companies are the second largest employer after government. These sector also provides a major component of the country's Gross Domestic Product (GDP). Due to the importance of listed quoted companies to the nation's economy, the federal government of Nigeria has over the years put in place different polices that will enable the companies strengthen its operations and widen its scope of activities in order to improve its financial performance, maximize the wealth of its shareholders and largely impact positively on the economy.

This study is aimed at examining the impact of earnings quality and market values of quoted companies in Nigerian. The study is sectionalized into five parts, the first of which is concluded with this paragraph as the introduction. The second section focused on a review of previously conducted studies which revealed the gap as well as the need for this study. The third section analyzed the model and method for achieving the objective of the study. The fourth section presented and discussed the results and findings of the study while the fifth section concluded and recommended based on the findings of the study.

REVIEW OF RELATED LITERATURE AND HYPOTHESES DEVELOPMENT

Earnings Quality and Market share price

Francis, LaFond, Olsson, and Schipper (2004) examined the relationship between the cost of equity capital and seven earnings quality attributes: accruals quality, persistence, predictability, smoothness, value relevance, timeliness and conservatism using 1,977 US firm for a period of 22 years from 1975-2001. The study employed the use of theoretical models which showed a significant positive association between earnings and cost of equity. They tested for and discovered that firms with the smallest value of each attribute considered individually generally experienced a larger cost of equity than the firms with larger values.

Francis et al. (2005) re-examines 2004 study applying one earnings quality proxy (accruals quality). The later study employs 91,230 US firm year for a period of 1970-2001. In this study, price earnings ratio was used as an inverse measure in other to accommodate the investors' *ex-ante* and *ex-post* as assessment of the cost of equity capital and as a proxy of cost of owners share price respectively. The study finds that lower accruals quality is related to higher cost of share capital and larger equity betas.

Core, Guay, and Verdi (2008) find flaws in Francis et al (2004:2005); findings, claiming Francis *et al.* (2005) studies do not provide enough claim that accruals quality is a valued risk. Core et al. (2008) used 93,093 US firm year for 32 years. The study measures accruals quality using a modified model used by Francis et al. (2005), however introduced beta, firm size and book value to control the model in their new model. The study finds that as accruals quality does not predict future realized returns, instead it has a significant positive risk premium.

Likewise, Kim and Qi (2010) not satisfied with the findings of (Francis et al., 2004; Core et al., 2008) re-examined the relationship between earnings quality and the cost of equity capital basing the study on accruals quality, stock returns, and macroeconomic condition. The study examines whether and how earnings quality, measured as accruals quality (AQ), affects the cost of equity share capital using 81, 340 US firm year for a period of 36 years. The study finds that the AQ risk factor is significantly priced, after controlling for low-priced stocks. The result is robust in tests using individual stocks, various portfolio information, and different beta estimation. The result further shows that accruals quality and its pricing effect systematically vary with business cycles and macroeconomic variables, that accruals quality and its pricing effect are related to fundamental risk. Also, the study finds that risk premium of accruals quality and the dispersion of accruals quality between firms with poorest and best earnings quality are significantly and negatively related to future economic activity.

More so, McInnis (2010) in furtherance to Kim and Qi (2010) study, investigate the relationship between earnings quality and the cost of share capital. The study employs 682,435 US firm-month observations for a period of 31 years. The study once again introduced earnings smoothness measured by standard deviation of earnings divided by the standard deviation of cash flows from

operations. The study finds a significant relationship between earnings smoothness and average stock return of the firm.

In another instance, the study of Perotti and Wagenhofer (2014) examine how commonly used earnings quality measures fulfil a key objective of financial reporting that is improving decision usefulness for investors. The study examines persistence, predictability, two measures of smoothness, abnormal accruals, accruals quality, and earnings response coefficient and value relevance, using US non-financial firms for a period of 1988-2007. The study finds that all earnings quality measures except for smoothness are negatively associated with absolute excess returns. The findings in this study, suggest that the use of accruals quality as a measure, seems superior to other earnings quality measures, since it captures overall measures of earnings quality.

As established in a more recent study of Oluoch and Gichaiya (2015) on earnings persistence, the study examines earnings quality of public banks in Kenya, evidence from persistence of earnings. The study covers 12 year period 2001-2012 of 12 commercial bank listed in Nairobi Securities Exchange. The study finds that quality of earnings in the Kenyan banking sector is high as evidenced by the moderately to high earnings persistence coefficients. It also finds that earnings quality though high, is varied among the different bank sizes. This implies that small banks have less reliable earnings data than large banks and that the quality of earnings is lowest among the small banks in Kenya. It can also be deduced from the study that small banks are relatively risky as evidenced by the volatility of earnings persistence in the study and the corresponding coefficient of variation.

In a joint study on accruals quality: Impact of accruals quality and market risk premium on stock return excess using Fama-French three factor model was investigated by Shalaei and Hashemi (2017) who evaluated the effect of accruals quality and market risk premium on stock return excess. In other to carry out this study, a sample of 88 companies listed in Tehran stock exchange over a period of 2005-2013 was studied. The study finds that between accruals quality factors and stock risk premium, there is a negative significant relation. Furthermore, the result indicates that among size agent and stock risk premium also between book value to market value ratio factors and stock risk premium there is a negative significant link.

Hence, this study in contributing to literature shall explore accounting based earnings quality properties (accrual qualities, earning persistence, earning predictability and earnings smoothness) to measure its impact on market value and examine investor's reaction to earning from the Nigerian capital market. Firstly, regardless of importance of earnings quality (Walker, 2013), there are still debate in the literature on the level of inconsistencies, meaning and measure of earnings quality which this study seeks to investigate. Secondly, there are inadequate evidence in the literature that examines the impact of earnings quality on analyst's information environment (Eliwa, 2015). Thirdly, beyond the association of earnings quality with market values, there are few studies that have investigated the relationship between accrual quality and other accounting-based earnings quality proxies (earnings persistence and earnings predictability) with share price ((Perotti & Wagenhofer (2014); Eliwa (2015))), with particular reference to the Nigerian capital market

environment. As observed from the review of previous studies, it is evident that there still exists considerable level of inconsistency in the measures of earnings quality on analyst's information with inadequate literatures addressing the relationship between accruals quality in relation to accounting based earnings quality proxies particularly in the Nigerian capital market. Thus, this study is considered pertinent and relevant. The following are hereby hypothesized:

- H1: Accrual quality has no significant impact on the market value of quoted companies in Nigeria.*
- H2: Earnings persistence does not significantly impact on the market value of quoted companies in Nigeria.*
- H3: Earnings predictability has no significant impact on the market value of quoted companies in Nigeria.*
- H4: Earning smoothening does not impact significantly on the market value of quoted companies in Nigeria.*

METHODOLOGY

The study is an ex-post facto and correlational design, the study investigates the impact of earnings quality on market value. An Ex-post facto was considered appropriate as it examines the past event relationship between the dependent and independent variables without interference from the researcher, it tests hypotheses about case-effect relationship. Secondary data was extracted from the annual audited reports and financial statements of the sampled firms.

Population and Sample Size of the Study

The population of this study consists of all the quoted companies in the Nigerian Stock Exchange. According to Nigerian Stock Exchange (NSE) as at December 2019, a total of 173 companies were listed. The companies in the first tier segment are classified into eleven (11) sectors ranging from Agriculture/Agro/Allied companies, conglomerates, consumer goods, health care among others.

Table 3.1: Sectoral Distribution of Quoted Companies in the Nigerian Stock Exchange (December, 2019)

S/n	Sectors of the Economy	Number
1	Agriculture	5
2	Conglomerates	6
3	Construction/Real Estate	8
4	Consumer Goods	22
5	Financial Services	57
6	Healthcare	11
7	Information Communication Technology	7
8	Industrial Goods	18
9	Natural Resources	3
10	Oil and Gas	12
11	Services	24
	Total	173

Source: NSE Fact Sheet (2019)

The study used 29.6% of the total 173 quoted companies in Nigeria Stock Exchange as at 31st December, 2019. The sampling size was arrived at 0.296, which is (51/173). Yomeree and Agbanifo (1999) proposed that 10% sample of a population could represent a study and can be used to generalize, but for robustness of a research work, this study used 29.6% of the total quoted companies in the Nigerian Stock Exchange. Filters were used to the adjusted sample size in line with Cassey and Anderson (1999) who used the adopted criteria in sample size selection.

Therefore, companies which came short of such criteria were delisted from the sample size of the study. This resulted to a total sample size of 51 quoted companies across the all the industrial sectors in the Nigerian capital market over a period of 11 years.

The starting model is the pooled regression model where it is assumed that any heterogeneity across the firms has been averaged out. The pooled estimation models are given as:

$$MSP_{i,t} = \beta_0 + \beta_1 AQ_{i,t} + \beta_2 EPERS_{i,t} + \beta_3 EPRED_{i,t} + \beta_4 ESMOTH + \varepsilon_{i,t}$$

Where

MSP = Market Share Price

AQ = Accruals Quality

EPERS = Earnings Persistence

EPRED = Earnings Predictability

ESMOTH = Earnings Smoothness

Dependent Variable

The market share price (MSP) used in this study is the stock exchange market share price per share at the end of the financial year of each of the selected companies as used by (Abubakar, 2011; Ou & Sepe, 2002).

Independent Variables

This study adopted the identified variables to measure earnings quality as earnings-related characteristics based on financial statement data using accounting-based earnings attributes (Accruals Quality, Earnings Persistence, Earnings Predictability and Earnings Smoothness)

Accruals Quality

Jones model and modified Jones model assess firm's earnings management, though it seems difficult to measure the normal and abnormal components of accruals accurately and precisely. For this reason, the study of Dechow and Dichev (2002) developed another method (DD Model) to measure accrual quality based on whether indeed a firm's accrual relate to its cash holding in the past, current or future. The more closely the firms past, current and future cash relate to its accruals, the higher /lower its accruals quality is. This study calculated accrual quality based on DD model, modified by Francis *et al.* (2005) as the measure of accruals.

The regression residual means unrealized cash flow, which is absolute to the companies' expected accruals. As expected, the standard deviation of residuals of all observation residuals is to measure

the companies' accruals quality. The study calculates accrual quality by using these variables during the past 11 years for each of the 51 quoted companies in Nigeria.

$$CA_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t-1} + \beta_3 CFO_{i,t+1} + \beta_4 \Delta REV_{i,t} + PPE_{i,t} + \varepsilon_{i,t}[[$$

Where: $TCA_{i,t} = (\Delta CA_{i,t} \Delta Cash_{i,t}) - (\Delta CL_{i,t} - \Delta STDBET_{i,t})$

TCA	=	Total Current Accrual.
ΔCA	=	Changes in Current Assets
$\Delta Cash$	=	Changes in Cash and Cash equivalent
ΔCL	=	Changes in Current Liability
$\Delta STDBET$	=	Changes in Short Term Debt
CFO	=	Cash Flow Operation
ΔREV	=	Changes in Revenue.
PPE	=	Property, Plant and Equipment
β_0	=	Beta coefficient

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics are used to enable the researcher to summarize and organize data in an effective manner to enhance understanding of the data. The descriptive statistic table in Table 4.1 where the mean, minimum, maximum, standard deviation, skewness and kurtosis of the data for the variables used in the study are described.

Table 4.1: Descriptive Statistics

Variables	Obs	Minimum	Maximum	Mean	Std. Dev	Skewness	Kurtosis
MSP	561	0.3666	145.60	32.852	34.777	1.1847	3.5897
AC	561	0.000	9.36	0.9905	1.1471	3.9917	23.996
EPERS	561	-131.78	256.96	3.1539	22.8588	9.2486	108.83
EPRED	561	-0.0027	0.0838	0.0066	0.0097	3.4352	21.837
ESMOTH	561	-37.747	204.49	0.9630	12.670	14.3424	226.11

Source: Extracted from STATA output 11.2

Table 4.1 reports the descriptive statistics for the dependent and independent variables respectively (MSP=Market Share Price, AC= Accruals Quality, EPERS = Earnings Persistence, EPRED = Earnings Predictability and ESMOTH = Earnings Smoothness). The market value indices measured by MSP show mean values of 32.852 with a standard deviation of 34.777. This indicates that on average the quoted companies in Nigeria Stock Exchange during the period yielded positive result, and the deviation from both sides of the mean is 34.777. This suggests that the dispersion of the data from the mean is not too wide because the standard deviation is slightly higher than the mean value.

Accruals Quality (AC). The absolute value of accruals quality of the listed quoted companies in Nigeria has a minimum value of 0 (zero) and a maximum of 9.36, EPERS has a mean value of 3.1539 and standard deviation of 22.858. Also, EPRED has a mean value of 0.0066 and a standard deviation of 0.0097, while ESMOTH revealed a mean value of 0.9630 and a standard deviation

value of 12.670. this implies that the independent variables collectively revealed a varying magnitude of absolute values with corresponding values of standard deviation with a mixture of little and wide dispersion. It can however be deduced that the small dispersion indicated by standard deviation means that there appears to be normal data distribution while the wide dispersion may suggest a wide variation for data distribution among the independent variables of the study. It is hereby concluded that some of the data are normally distributed while some of the data are having a wide variation and dispersion between the mean values and the standard deviation values.

This may have effect on the results, as most of the parametric tools of analysis including regression which assumed that the data is normally distributed. But we are going to rely on the arguments put forward by Guas (1929) and Shoa (2003) that the abnormality of data should not affect the inferential statistic of regression. Therefore, having analyzed the descriptive statistics and normality of the data, the correlation matrix is presented and discussed in the following section.

Correlation Results

The correlation matrix is used to determine the degree of association between independent variables and dependent variable. It is also used to identify whether there is relationship among the independent variables themselves and to be able to detect if multicollinearity problem exists. The summary of the Pearson correlation Coefficients of the variables of the study are presented in Table 4.3 as follows;

Table 4.2 Correlation Matrix of the Dependent and Independent Variables

VARIABLES	MSP	AC	EPERS	EPRED	ESMOTH
MSP	1				
AC	-0.069	1			
EPERS	0.1953*	0.0415	1		
EPRED	0.3453*	-0.0172	-0.0096	1	
ESMOTH	-0.0017	-0.0192	-0.0074	0.5356*	1

Source: STATA Output (Appendix A)

From the table 4.2, the relationship between accrual quality and market share price of listed quoted firms in Nigeria is negative and moderate while earnings persistence revealed a positively moderate relationship with market share price. Also, earnings predictability revealed a positive and moderate relationship with market share price whereas earnings smoothening revealed a negative and weak relationship with market share price. The relationship established between all the independent variables and the dependent variable revealed a negative, positive, moderate and weak relationship.

The independent variables were found to establish a mixture of moderate, strong, weak, positive and negative relationship. Earnings persistence revealed a weak but positive relationship with accruals quality, earnings predictability revealed a negative and weak relationship with accruals and earnings persistence respectively, while earnings smoothening revealed a negative and weak relationship with accruals quality and earnings persistence but positive and moderate relationship

with earnings predictability. The absence of too weak, too strong relationship indicate that multicollinearity may not pose a problem for collectively studying these variables in the same model. This assertion is however confirmed with the help of the Variance Inflation Factor (VIF) which verifies the presence or absence of multi-collinearity.

Following the analysis of the association between firm earnings management variables (AC, EPERS, EPRED and ESMOTH) and the Market value (MSP) of the listed quoted firms in Nigeria, the study in the following section presents and discusses the regression results of the model of the study from which the hypotheses of the study are tested and the relevant inferences drawn about the relationship between earnings management variables and the market value of listed quoted firms in Nigeria.

Diagnostic Test

In this section, the study presents and discusses the various diagnostic test conducted in order to ensure the validity and reliability of the statistical inferences derivable from the regression model. These tests include; multicollinearity test, Breusch- pagan/Cook-Weisberg test of heteroskedasticity, Hausman specification test for random and fixed-effect regression with robust standard error test to absorb the unobserved effects of heterogeneity in the fixed effect regression model.

Table 4.3: Robustness Test Results

Variables	VIF	Tolerance Values
ESMOTH	1.40	0.713068
EPRED	1.40	0.713068
AC	1.00	0.997787
EPERS	1.00	0.998117
Mean VIF		1.20
Hetttest Chi2		10.57
Hetttest Sig		0.0012
Hausman Chi2		53.16
Hauman Sig		0.0000

SOURCE: STATA OUTPUT (Appendix A)

The classical assumption of OLS regression model assumed that the error terms are normally distributed and independent (that is the error terms are uncorrelated); the explanatory variables are not perfectly correlated (absence of multicollinearity); the variance of the error terms is constant (Homoskedastic). When these assumptions have not been met, the estimators are biased and cannot be used in arriving at any conclusion. However, the results from Table 4.3 proved the absence of perfect multicollinearity among the independent variables, because the smallest tolerance value (TV) is 0.713068, corresponding with the highest variance inflation factor (VIF) of 1.40. The Table indicates that all the VIF were consistently less than 10 and tolerance values were also consistently less than 1.0 but greater than 0.01. The rule of thumb for the Tolerance Value is that any value of 1.0 and above implies the presence of perfect multicollinearity in the estimators, while for the Variance Inflation Factor a value of 10 and above is also an indication of perfect multicollinearity.

In addition, evidence from Breusch Pagan/Cook-Weisberg coefficient of 10.57 with the probability of the Chi Square is statistically significant at 1% (p-value > chi2 of 0.0012) confirms the presence of the effects of heteroskedasticity, that is, there is no constant variance in the residuals (indicating that the data are not homoscedastic). This is expected as some of the variables are not normally distributed and contain unit root (non-stationary). However, the presence of heteroscedasticity indicates that the variation of the error term is not constant which would affect the best linear unbiased estimators (BLUE) of the study (Gujarati, 2004). This suggests that the original OLS regression will not suit the study. This prompted us to conduct Generalize Least Square regression (GLS) in order to correct the hettest problem of the study; therefore, fixed and random effect regression was run (see Appendix).

However, in view of the presence of heteroskedasticity in our results, the study used robust fixed effect (heteroskedasticity standard error corrected model). Therefore, the hypotheses of the study are tested in the following section using robust fixed effect model after the Hausman specification test suggested that the fixed effect regression model fit the study well.

Furthermore, the choice for which result will best fit the study between fixed and random effect models, is achieved by conducting Hausman specification test for fixed and random effect to select the most appropriate model (Gujarati, 2004). It tests whether the unique errors (stochastic disturbance) are correlated with the independent variables. Fixed effects is the alternative hypothesis which states that the entity's error term is correlated with regressor; while random effects is the null hypothesis which states that the entity's error term is not correlated with the regressor. But hausman specification test selected fixed effect (within) regression as the appropriate estimator of parameters on the bases that fixed effect correlated with the variables as the hausman test is statistically significant for the model. This can be confirmed from the chi-square value of 53.16 and a probability value of 0.0000. Therefore, hausman test indicated that the fixed effect (within) regression is the preferred model that should be used.

The fixed effect result was further subjected to robust fixed effect standard error adjusted model for final interpretation of the study.

Discussion of Regression Results

This section presents the regression result of the dependent variable (MSP) and all the independent variables of the study (AC, EPERS, EPRED and ESMOTH). It follows with analysis of the relationship between dependent variable and each independent variable individually and cumulatively. Hence, the summary of the regression result obtained from the model of the study; $MSP = \alpha_0 + \beta_1 AC_{it} + \beta_2 EPERS_{it} + \beta_3 EPRED_{it} + \beta_4 ESMOTH_{it} + e_{it}$ is presented below;

Table 4.4: *Regression Results of the Model*

Robust Fixed effect - Standard error adjusted regression			
Variables	Coefficients	t-values	p-values
AC	-3.2328	-3.00	0.004
EPERS	0.2924	7.24	0.000
EPRED	908.72	6.43	0.000
ESMOTH	-0.2980	-4.10	0.000
Constant	29.361	19.79	0.000
R ² Within	0.1488		
R ² Between	0.3778		
R ² Overall	0.1886		
F-Stat	21.55		
Prob> F	0.0000		

SOURCE: STATA OUTPUT (Appendix A)

The results from Table 4.4 indicate that the overall coefficient of multiple determination (R^2 0.1886) implied that the earnings management variables (accruals quality, earnings persistence, earnings predictability and earnings smoothness) explained 18.86% of the total variation in the dependent variable (market value) of the listed quoted companies in Nigeria. This signifies that 18.86% of total variation in market share price of the listed quoted firms in Nigerian is caused by the collective effort of all the selected proxies of firm earnings management proxies. The Table also shows that the model is fit as evidenced by the F- stat of 21.55 which is significant at 1% level of significance (P-value 0.0000). This implies 99% confidence level that, the probability that the relationship among the variables occurred by chance is just 1%.

Accrual Quality and Market Share Price

The regression result stated in Table 4.3 shows that accrual quality has negative, strong and significant relationship with market share price as indicated with the beta coefficient, t-value and p-value of -3.232, -3.00 and -0.004 respectively. This implies that for every additional one percent increase in the level of accrual quality of earnings management, the market share price of the sampled firms will decrease by N3.238. This is surprising and did not meet the study's expectation, considering the fact that in the real world, the more the level of accruals quality of earnings the more the market value of the firm. Based on prior studies like Francis et al., (2004); and Dechow et al., (2010), we expect a positive coefficient on the earnings quality indicating that investors attach higher risk assessments to stocks with less favorable (i.e. larger) values of each earnings quality proxy and therefore a higher market share price for the firm. The findings of this variable hereby provide us with the basis of rejecting the null hypothesis stated in section one which state that accruals quality does not have significant impact on the market value of quoted companies in Nigeria. This is due to the empirical fact that accruals quality is established to exert significant impact on market value of quoted companies in Nigeria. Basically, this finding is in line with those of Shalaei and Hashemi (2017), Kim and Qi (2010) and Core, Guay and Verdi (2008). However, the result of the study contradicts those of Francis et al., (2004); and Dechow et al., (2010).

Earnings Persistence and Market Share Price

The regression result also revealed that earnings persistence (EPERS) has a t value of 7.24, beta coefficient value of 0.2924 and is significant at 1% level of significance (p-value of 0.000). This signifies that earnings persistence has a statistical positive effect on market share price of listed quoted firms in Nigeria. This implies that for every one percent increase in earnings persistence, the market share price of the sampled firms also increases by 29%. This is not surprising and meets the study's expectation, considering the fact that the market value of listed quoted firms in Nigeria increases with more stable and persistence earnings management. This implies that earnings are more persistent under less conservative earnings management choices than under more conservative earnings management choices. By making more conservative accounting choices, a company faces mismatching between current-period revenues and future period expenses so that earnings have more temporary components and become less persistent. This therefore provide us with the basis of rejecting the null hypothesis of this variable which stated that earnings persistence does not have significant impact on the market share of quoted companies in Nigeria. The result supports the finding of Francis, LaFond, Olsson, and Schipper (2004); Dechow and Schrand, (2004); Oluoch and Gichaiya (2015). However, it is contrary to the findings of Oei, Ramsay and Mather, (2008).

Earnings Predictability and Market Share Price

In addition, the result of earning predictability (EPRED) in determining the strength or weakness of the market share price of the sampled firm reveals a t-value of 6.43 and a beta value of 908.72 with a p-value of 0.000. This indicates that EPRED has a strong and significant positive effect on the market share price of listed quoted firms in Nigeria. This implies that for every one percent (1%) increase in the predictability of earnings, the market share price of the listed quoted firms in Nigeria will increase by N908. This result indicates that the more predictable the earning of quoted firms, the more the market share price increases. Signifying that the market seems to be able to predict firm earnings growth. This is not surprising and meets the study expectation because it is in consistent with the hypothesis that state that as the earnings becomes more predictable the contemporaneous earnings-returns relation increases and ultimately becomes positive. If investors expect higher cash flows then stock prices should increase; and, the empirical evidence suggests that 'good' news about future cash flows result in a positive price reaction. Consequently, the findings of this variable provides us with the basis of rejecting the null hypothesis of this variable which stated that earnings predictability has no significant impact on the market share price of quoted companies in Nigeria. his supports the findings of Sadka (2007); Kothari, Lewellen, and Warner (2006); Lettau and Ludvigson, (2001); and Cochrane (2001); Lettau and Van Nieuwerburgh, (2006). However, it contradicts the findings of Brown, Griffin, Hagerman, and Zmijewski, 1987) and Chen (1991).

Earnings Smoothness and Market Share Price

Lastly, the regression results further reveal that earnings smoothness (EMOTH) has negative and strong significant impact on market share price of listed quoted firms in Nigeria at 1% significance level. This can be confirmed from table 4.3 by the statistical t-value of -4.10 with probability value of 0.000 and a beta coefficient value of -0.2980. This shows that an increase in the earnings

smoothness (EMOTH) by 1%, will be a significantly decrease the market share price of the listed quoted firms in Nigeria by at least 30%. Theoretically, quoted companies that practice income smoothing are in attempts to create stability for their share-market value: Companies that are interested in satisfying their financial needs of selling shares will engage in earnings smoothing, because they know that income fluctuation leading to fluctuation in share prices will discourage investors to buy shares (Norani, 2002). This is surprising and does not meet the study's expectation, considering the fact that in the real world; the more a firm engages in income smoothing the more the market value of the firm increases. This study negative finding might have been possible if investors are of the opinion that the earnings smoothing was carried out without following the GAAP guidelines. This therefore provide us with the basis of rejecting the null hypothesis which stated that earnings smoothening has no significant impact on the market share of quoted companies in Nigeria. The result supports the finding of Perotti and Wagenhofer (2014) and McInnis (2010) However, this contradicts the findings of Bao, & Bao, (2004); and Hejazi, Ansari, Sarikhani, & Ebrahimi (2014).

CONCLUSION

In line with the tests conducted on the data collected and the findings of this research, the study concludes that:

- i. Accrual quality (AC) has significant negative impact on the market value of listed quoted companies in Nigeria at 99% confidence level; indicating that the more the level of accruals quality of earnings the less the market value of the firm. Therefore, it is concluded that the lower the accrual quality, the higher the market value of the listed quoted companies in Nigeria.
- ii. Earnings Persistence (EPERS) has a significant positive impact on the market share price of listed quoted firms in Nigeria at 99% confidence level of significance. This implies that earnings are more persistent under less conservative earnings management choices than under more conservative earnings management choices. Hence, it is concluded that the higher the earnings persistence, the higher the market value of the listed quoted companies in Nigeria.
- iii. Earnings Predictability (EPRED) has a strong positively significant impact on the market share price of listed quoted companies in Nigeria at 1% level of significance. This result implies that the more predictable the earning of the sample quoted firms, the more the market share price increases. Signifying that the market seems to be able to predict firm earnings growth. Thus, it is concluded that the more the earnings predictability, the more the market share price of the listed quoted companies in Nigeria.
- iv. Lastly, Earnings Smoothness (ESMOTH) has a significant statistical negative impact on the market value of listed quoted firms in Nigeria. Indicating that the more a firm engages in income smoothing the less the market value of the firm increases. This study's negative finding might have been possible if investors are of the opinion that the earnings smoothing was carried out without following the GAAP guidelines. It is therefore concluded that the more a firm involves in earnings smoothness, the lower will be its market value.

Hence, the study concluded that firm earnings quality has significant impact on market value of Nigerian quoted companies during the period 2007-2017. Therefore, in striving to maintain market value on a high level indicates keeping accrual quality and earnings smoothness low, while ensuring that earnings persistence and earnings predictability are kept high.

Recommendations

Following the findings and conclusions from this study, the study makes the following recommendations:

- i. The Security and Exchange Commission (SEC) and Nigerian Stock Exchange (NSE) should continually subject the earnings of listed quoted companies in Nigeria to stress quality test to insulate the investing public from possible rip-off.
- ii. For the listed quoted companies in Nigeria to improve on their market value, the managers should reduce mismatching between revenues and expenses under less conservative earnings management than under more conservative earnings management by limiting their choice of accounting treatment alternatives to provision of IFRS in order to improve financial information quality that will reduce information asymmetry and consequently lead to share price improvement, because such mismatching is likely to reduce market value (Share price).
- iii. Management should expressively make declaration upon the quality of the reported earnings in their annual financial report
- iv. Financial statement users, market analysts and investors should consider firms earning quality properties and its earning management practices as these properties and practices provide valuable information that are useful to capital market participants in the valuation process.
- v. Lastly, the results should be adopted by Nigerian standard setters as it provides evidence that investors are less concerned about managerial opportunism when principles-based accounting standards are used to calculate earnings.

Limitations of the study

Like many other research, this study is also associated with some limitations. These limitations include the following:

- i. This study is limited to the listed quoted firms in Nigeria therefore, reiterating the findings of this study to other geographical locations with varying institutional structures will provide us with better global insights into the relation between earnings quality and the market value.
- ii. Another limitation of this study is that it did not address reverse causality concerns, as firms with a lower market share price may have more resources to improve earnings quality.
- iii. The study could only cover a period of 11 years i.e. (2009-2019) due to time and availability of resources within its disposal.

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