Effect of Financial Information on Investors' Confidence of Listed Manufacturing Firms in Nigeria

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Abstract
The study examined the effect of financial information on investors' confidence of listed manufacturing firms in Nigeria. To achieve the objective of this study, ex-post-facto research design was used. Data was analyzed using simple regression analysis. The findings revealed that financial information (interest coverage and dividend coverage) affects investor's confidence. Conclusively, the failure of firms may not be due to non- generation of financial information but ineffectively, inefficiently and inappropriately utilization of the financial information generated in an organization. The study recommends that the use of modern application like information technology application in accounting should be introduced to enhance timely, efficiency and effectiveness of financial information. Also, financial information generated should be readily available for potential investors' decision making. The qualities of financial information which include timeliness, clarity, relevance and accessibility of the information should be a guide in providing financial information. Finally, financial information should be seen as an important tool for decision making process in an organization and more encouragement should be given to staff in the performance of their duties. This will enhance efficiency and effectiveness of the financial information in the manufacturing firms.

Keywords: *Dividend Cover, Financial Information, Interest Cover, Investors, Investors Confidence*

1.0 Introduction

1.1 Background to the study

Financial information is a formal and comprehensive statement which describes the financial activities of a firm, it contains all relevant information presented in an understandable manner for proper and uniform decision making in terms of investment, planning, performance evaluation, and forecasting, expected return by the users. Relevant information is presented in a structured manner and in a form that is easy to understand. Relevant financial information provides adequate information about the financial position, performance and changes in financial position of a firm that is useful to the wide range of users in making both management and investment decisions. Users of financial information include government regulatory agencies, managers, financial institutions, directors, employees, prospective investors and shareholders. The principle role of financial information is to supply the involved parties' information that is useful in making business and economic decisions. Such information assists the competent functioning of capital and other markets by possession in the economy. Many investors take decisions relating to firms performance from the annual financial report. For any business organization to grow it needs to published adequate, reliable, clear and fair financial information

Corporate organizations use financial information to communicate to the stakeholders about their operating performance and financial health at any particular time or period. The process through which companies communicate to the public about their operation is called financial reporting. Financial information is a set of financial data indicating an organizations resources, revenue, debt or expenses. Financial information enables the investors to rely on the firm and make proper decision on investing on the share of the company.

1.2 Statement of the Problem

Investors are faced with the challenges or problems of making decision in terms of determining when to invest, whether to invest or not. Financial information enables an investor to minimize the risk involved in decision making. Investors are not interested in the beautification of the firm or its products rather they are very much interested in the financial performance of the firm, because no investor would invest in a non-going concern firm, and the financial performance can be ascertain through the financial information provided by the firm. Most firms published unhealthy financial information for public consumption not knowing that it affects them negatively. A healthy financial information can be publish or obtain only with the help of financial expert (the Auditors and Accountants). Based on this the study seek to examine the effect of financial information on investors' confidence of manufacturing firms in Nigeria.

2.0 Review of Related Literature

2.1 Conceptual Framework

Financial information is used to forecast, compare, and evaluate firms earning ability and investment decision. The financial information of a firm contains financial statements and the content of financial statement include statement of financial position of a firm, comprehensive income statement of a firm, statement of change in equity (equity statement or statement of retained earnings), cash flow statement and Notes to the Account. Ohison (1999) opined that financial statement is a written report that summarizes the financial position of an organization for a stated period of time. It includes an income statement, statement of financial position etc.

CAMA (1990) states that financial statement consists of the basic statement of accounts used to convey the quantitative information of financial nature about a business shareholders, creditors, employees, lenders etc. Mc Donald et al (1975) opined that financial information which extracted from the statement of accounts assists management enormously in taking the investment, financing and dividend decision. Financial statements aid investors to evaluate the company's profitability and ability to meet its long term financial goals. Financial statement aimed at providing information about the firm's financial performance, position and stability which is useful for wide range of decision making by the investors. It also aid managers to know financial position, changes that have taken place in the company. Atril and Malancy (2015) opined that financial statement is a summary explaining or providing a picture of the financial position/business performance and or activities of a business during a certain period. A good financial information should not be difficult understand. Financial information aids firms interpret results and plan for a more future profit. A financial information is prepared by the accountant who is under the influence of the management of a firm and company's also makes decision based on financial information. And also Auditor should know that an error or fraudulent financial information metaphors into a risk that will affect the company's decision and that of potential investors. Therefore financial statement should be prepared using GAAP, IFRS etc.

Statement of financial position: this is a statement that shows the financial position of the company at a given point in time. It shows the past result of company's transactions and aid to determine the future growth of the company. This statement reports on a company's assets, liabilities, and owners' equity at a given point in time.
Assets – this includes all assets of the company both current and fixed. Current assets are cash, inventory, market security prepaid and current assets provides short term benefits to the company and can be called working capital. Fixed assets – includes property, plants, goodwill, intangible, long term investment and other long term assets.
Liability and Equity – this include account payable. Accrue expenses notes payable short term debts. They are current liability. Total long term debt, deferred income tax and monetary interest plus current liabilities makes up total liability.

Comprehensive Income statement: this is a summary of revenue and expenses of the business during a specified period of time. Expenses include purchases, administrative expenses, selling expenses, depreciation. Information on the operations of the enterprise is provided in it. Patrick, Ralph, Barry and Susan (2002) opine that income statement provides then information of the transaction occurred in a certain period of time called accounting period. Investors' determine whether a company is profitable or not through the information provided in the income statement.
Statement of change in equity (equity statement or statement of retained earnings)
This gives information on the changes in equity of the company during the stated period. It revealed breakdown of retained earnings.

$$\frac{\text{Net income for the year + Balance brought forward for the year}}{\text{Dividends}}$$

Notes to the accounts: - this gives detailed information on policies, rules, guidelines and procedures which company adopted in preparing the financial statement. It is very difficult to present financial statement in an understandable manner without any explanation, as all information cannot be disclosed on the face of statement. Note to the account provides vital information from the management on the financial statement. Charles and Patrick (1983) opined that there are two kinds of information in note to account. * Accounting method company choose to formulate its financial statement * the major financial results mentioned in the financial statements like income statement, balance sheet and statement of cash flow.

Cash flow statement:- this gives information patterning to company's inflows and outflow activities, investing and financing activities. This statement gives information on the overall cash net increase or decrease of the firm. Patrick et al (2002) opined that cash flow statement helps investors and creditors to access the ability of the firm to generate positive future cash flow, ability to meet the debt obligations and to shed light on the cash and non-cash aspect of the investing and financing transactions. Net income depreciation, increase or decrease in marketable securities, account payable, account receivable, inventory, accrued expenses, prepaid etc. falls under operating activities while investing activities includes cash for the purchase or sale of fixed asset.

2.1.1 Tools for investment decision making by investors

Financial ratio is the tool which investors always looked at before investment. Aborode (2005) stated that financial ratio shows the relationship between two or more financial or statistical data in a financial statement or management account. Gavtan (2005) opined that ratio analysis is a process of determining and interpreting the relationship between the items of financial statement to provide a useful understanding of the performance, solvency, and profitability of an enterprise. For ratio to be useful to an investor, he/she needs to compare at least 5 years financial statement of the two different companies in same industry so as to measure the company's financial performance. For this study, interest coverage ratio, return on equity, dividend yield, dividend coverage ratio, etc are considered.

- **Interest coverage ratio (Time interest earned)**: this measure the number of times that a firm can earn the interest it hopes to pay to debt holders or it measures how well a company can meet its interest payment obligations. If a company cannot make enough to make interest payments, it will be force into bankruptcy. If the ratio is high (ie after calculation) it is a well come sign to potential investors but if the number of times (ratio) is very little (lower than 1.5) then, potential investors and creditors will have to watch out, as the future income of that company will be very uncertain. This ratio enable potential investors assess or determine the level of security and risk associated with their investment to the company. Peter olukanma Nojko (2003): fundamental of business and financial management provide formula as

$$\frac{\text{EBIT}}{\text{INTEREST CHARGES}}$$

- **Return on equity:** the ultimate aim of any investment is return. It measures the returns shareholder s will get and overall earnings. It enables potential investors to compare profits of companies in the same industry. It shows how good a company is rewarding its shareholders for their investment.

$$\frac{\text{Net income}}{\text{Shareholders' equity}}$$

- **Dividend yield:** it is dividend per share dividend by the share price. A high figure signals that the company is doing well, and low dividend yield may not always imply a bad investment as may choose to re-invest all their earnings so that shareholders earn good return in the long term. A high dividend yield however could signify a good long-term investment as company's dividend policies are generally fixed in the long run.
- **Dividend coverage ratio:** measures the number of times an organization is capable of paying dividends to investors from the profits earned during an accounting period or it indicates the capability of company paying dividends out of the profits attributable to the investors. Investors, this will enable them to know or ascertain the level of risk associated with the receipts of dividends in their investment. A low dividend cover (ie below 1.5) may suggest that the company may not maintain the current level of dividends when the company's profit margin decline in future and it would also have effect on the valuation of share. Patrick E(2011) provides this formular

$$\frac{\text{Profit after tax less dividend paid on irredeemable (preference share)}}{\text{Dividend paid to ordinary shareholders or dividend payout.}}$$

This entire ratio might be adequate in helping potential investors evaluate the potentialities of those companies which he/she is interested in.

2.2 Theoretical Framework

2.2.1 Signaling theory: - under this theory financial information is seen as a means of disseminating information from the managers to stockholders. Dhar and chhachharia (2008) opined that using signaling theory, managers issue bonus shares and stock splits, especially in undervalued firms, so as to express confidence in a company and lead to an increase in the number of shareholders in the company. Therefore, issuance of bonus share is a signal to the profitability of a company and also attracts investment to shareholders. Mishra (2005) opined that issuing bonus share is a signaling effect because it reflects on the good standing of a company. Through the signaling theory, a company increases its value through the aid of financial statement.

2.2.2 Financial distress theory:- this theory is of four part: deterioration of performance, failure, insolvency and default. Deterioration and failure affects the profitability of the company while insolvency and default are rooted in liquidity. Opler and Titman (1994) opined that financial distress is characterized by a sharp decline in the firm's performance and value. Financial management of small enterprise by Ismail (2009) opines that better financial information means better control and higher chance of success.

2.3 Empirical Review

AUTHOR	COUNTRY	TOPIC	METHOD	RESULT	RECOMMENDATION
Dr. Zayol Patrick I, Agaregh Tavershime,Eneji Batholomew Eji 2017	Nigeria	Effect of financial information on investment by shareholders by bank in Nigeria	Correlation metrics and Regression analysis	There is a positive relation-ship indicating that dividend per share have significant influence on invest-ment decision of banks in Nigeria	Both existing prospective and investors can factor financial information relating to dividend per share while making investment decision in shares of Nigerian banks as dividend per share is positively corrected with investment decision of shareholders.
Adeyemo Kingsley Aderemi, Isiawe David, Adetiloye Kehinde Adekunle, Eriable Sylvester	Nigeria	Financial reports and shareholders decision making in Nigeria: any connected-ness	ANOVA test, Ratio Test (G-test) and significant statistical significance test were used	Stock-holders do possess the requisite significance technical and profess-sional to analyze IFRS financial statement	Stakeholders should in addition to the accounting figures in financial statement, computer ratio, trend and common size analyze in order to secure deeper information.
Adeboya mudahiru Idowu K A,	Nigeria	Accounting information system as an	Regression and Karl Pearson	Accounting information is an	Organization to invest on information technology tools as it improve their

Yusuf Babatunde Balarinwa S.A		aid to Decision making in food and Beverage companies in Nigeria	correlation	indispensible tool in decision making in today's turbulent world.	efficiency, effectiveness and overall performance.
Osuala A.E, E.C. Ugwumba and J I Osuji 2012	Nigeria	Financial statements contents and investment decisions: A study of selected firms	Regression model	Share-holders in Nigeria capital market do not rely much on financial statement as a major determinant factor for investment decision making.	Prepare awareness creation by the appropriate agencies to enhance shareholders understanding of relevance of published accounts to enable them to know the financial states of the companies of their interest before making investment decision, potential shareholders should make proper investigation about the financial state of the company of their interest before making investment decision, companies should avoid mis-stating their financial statement as such actions have negatively affect confidence of the shareholders on financial statements.

The summary of empirical studies revealed that almost all the empirical study on this topic is limited to a component of loan safety ratio (Liquidity and leverage ratios). But other component like interest coverage under Loan Coverage is not considered. This is the gap this study seeks to fill.

3.0 Methodology

In this research, *ex post facto* method of data collection was adopted. This is defined as a "systematic empirical enquiry in which the researcher does not have direct control of independent variables because their manifestations have already occurred. This method measures the impact of events after the events have occurred. The advantage of this method is that it sharpens managerial decisions against the future as it helps in many cases to point to the direction of future events. The study adopted secondary source data. In this secondary source of data, annual reports and accounts of Nigeria breweries Plc was extracted for the period of five (5) years ranging from 2013 to 2017. In testing the hypotheses, simple regression analysis was used. Simple regression analysis shows the degree of relationship between one dependent variable (y) and two independent variables (x). It helps to determine whether to accept or reject the null hypotheses.

4.0 Findings

The regression results show the relationship between financial information and investors' confidence. The coefficient of determination R-square of 0.715 implied that 71.5% of the sample variation in the dependent variable decision making is explained or caused by the explanatory variable (dividend cover) while 28.5% is unexplained. This remaining 28.5% could be caused by other factors or variables not built into the model. The value of R-square is an indication of a relationship between the dependent variable and independent variable (dividend cover).The value of the adjusted R^2 is 0.608. This shows that the regression line which captures 60.8 per cent of the total variation in investors' confidence is caused by variation in the explanatory variable specified in the model with less than 39.1 per cent accounted for the stochastic error term. The F-statistic was also used to test the overall significant of the model. The F-value of 23.119 is an indication that the model is statistically significant at 5 percent level of significant at degree of freedom df1= 1 and df2= 3. The F statistic with 23.119 has probability of 0.025% level of significance. Since the probability of the F statistics is below 5% level of significance, we would reject the null hypothesis, H_0 and therefore conclude that dividend cover has a significant effect on investors' confidence.

The regression result shows the relationship between interest cover and investors' confidence. The coefficient of determination R-square of 0.706 implied that 70.6% of the sample variation in the dependent variable decision making is explained or caused by the explanatory variable (interest coverage) while 29.4% is unexplained. This remaining 29.4% could be caused by other factors or variables not built into the model. The value of R-square is an indication of a relationship between the dependent variable and independent variable (interest cover).The value of the adjusted R^2 is 0.619. This shows that the regression line which captures 61.9 per cent of the total variation in investors' confidence is caused by variation in the explanatory variable specified in the model with less than 38.1 per cent accounted for the stochastic error term. The F-statistic was also used to test the overall significant of the model. The F-value of 3.523 is an indication that the model is statistically significant at 5 percent level of significant at degree of freedom df1= 1 and df2= 3. The F statistic with 3.523 has probability of 0.017% level of significance. Since the probability of the F statistics is below 5% level of significance, we would reject the null hypothesis, H_0 and therefore conclude that interest cover has a significant effect on investors' confidence.

5.0 Conclusion and Recommendations

For the improvement in the application of financial information to be sustained, there is adequate need to understand the difficulty in the application of financial information. If this is applied as at when due failure in business both private and public sectors will be highly minimized. Financial information on decision making process has helped in the proper allocation of resource such as material, money, machinery and man. In conclusion, the failure of firms may not be due to non- generation of financial information but ineffectively, inefficiently and inappropriately utilization of the financial information generated in an organization.

In view of the above the following recommendations were deemed necessary.

1) The investors and other user should be meeting at interval so as to assist the management in the achievement of the organization goals.
2) Use of modern application like information technology application in accounting should be introduced to the staff to enhance timely, efficiency and effectiveness of financial information for decision making.

3) Financial experts (accountants and auditors) should be engaged by firms to ensure the accuracy of the financial information so that the user will not be deceived.
4) The financial information generated should be readily available for potential investors' decision making. The qualities of financial information which include timeliness, clarity, relevance and accessibility of the information should be a guide in providing financial information.
5) Potential investors should critically examine the financial information of the firm of their interest before making decision.
6) Overstating the financial position of a firm has negative effect on the company. So it should be avoided.
7) Finally, financial information should be seen as an important tool for decision making process in an organization and more encouragement should be given to staff in the performance of their duties. This will enhance efficiency and effectiveness of the financial information in the manufacturing firms.

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