Effect of Information Relevance on Market Share price of Quoted Companies in the Nigerian Stock Exchange: Basic Material Sector

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Abstract
The study examined the effect of accounting information on market share price of quoted companies in Nigeria stock exchange: Basic material sector. The specific objectives are to ascertain the effect of earnings per share, dividends per share and return on assets on market share price of basic material sector listed on the floor of Nigeria Stock Exchange from 2010-2017. Secondary data were sourced from the publications of audited financial statement on the Nigeria Stock Exchange. Inferential statistics of the hypotheses were carried out with the aid of E-view statistical software using regression analysis. Findings of this study shows that Return on assets has a positive and statistical effect on market share price of 5% significance level. Earnings per share also have some relationship with market share price but dividends per share do not have a direct relationship with market share price. In all because of the strong effect of Return on Asset on Market Share Price, there was a positive relationship between the dependent and independent variables.

It is therefore recommended among others that since accounting information has significant effect on the market price, there should be better accounting information disclosure and improved quality financial reporting by basic material firms in Nigeria.

***Keywords**: Accounting Information, share price, investment decision*

INTRODUCTION

Accounting is regarded as the language of business used by firms in communicating their financial positions to their users through the publication of annual financial statements. These financial statements, according to the Generally Accepted Accounting Principles (GAAP), have certain qualitative characteristics that should be met in order for it to succeed in its purpose. The primary objective of every investor trading on the stock market is to make a fortune rather than a misfortune. The importance of accounting information can be judged by the ability of financial information contained in the financial statements to explain stock market measures (Vishnami and Krisha, 2008 cited in Paul and Juliana, 2015).Therefore, reliable accounting information has been considered to be an essential pre-requisite for stock market growth as investors require adequate information about the stock market to take informed investment decision (Oyerinde, 2006).

The International Accounting Standard Board (IASB) framework (2011) shows that accounting information is only relevant when users are able to evaluate past, present and future events in taking economic decision. The relevance of the study has to do with the summarization of accounting information which affects values in such a way that the investors can come up with an informed decision that have to do with the organization.
For this purpose, accounting information most certainly encompass two qualitative features: relevance reliability to be acceptable and useful to investors (Adaramola and Oyerinde, 2014). To this end accounting information obtained from the financial statements will be ineffective if either or none of these two features exist.
Accounting information reduces information asymmetric, which lead to adverse selection in transaction activities in the stock market (Kyle 1985) cited in Nicholas, George, Eleftheriou and sorros (2011) as well as to enhance liquidity. Accounting information is a unified structure within an entity, such as a business firm, that employs physical resources and other components to transform economic data into accounting information with the aim of satisfying the information needs of variety of users (Dey 2007).

Statement of the problem

It is believed that accounting information plays an important role in reflecting the market share price. Accordingly, this study aims to find out to what extent this importance in deciding market share price of the Basic material companies is listed on the Nigerian Stock Exchange. Knowledge, unlike money does not reside in a book, a databank or software program (Chloe 1996). According to Chloe, knowledge is embodied in a person, taught and learned by a person, used or misused by a person. Accounting information such as inventory turnover ratio, liquid ratio, return on asset, dividend per share, earnings per share among others is an unbiased tool for effective administration.
The problem however, lies in the quality and validity of the information, that is, if it is timely, adequate and clear. The sole aim of using accounting information (such as earnings per share, dividend per share and return on asset among others) is to reduce the risk, failures and uncertainties with regards to market share price and also stay ahead of competitors. It is generally acknowledged that most unqualified accountants generate inaccurate information and so result in failure of organizations to achieve stated or desired goals. These problems largely contribute to the failure of the use of accounting information in business or monitor and monitor share price with the resultant accurate decisions are made to the detriment of the organization. Based on the foregoing therefore, it becomes pertinent that this study investigates the relevance of accounting information in determining the stock price of basic materials companies quoted in the Nigerian stock exchange.

Objectives of the study

The main objective of the study is to determine the relevance of accounting information on market share price of quoted companies in Nigeria Basic Material sector. The specific objectives on the identified problems are to:

a. Evaluate the effects of earnings per share (EPS) on market share prices (MSP) of firms quoted in Basic Material sector.

b. Determine the effect of return on asset per share (ROA) on the market share price (MSP) of firms quoted in the Basic Material Sector.

c. Assess the effects of dividend per share (DPS) on Market Share Prices (MSP) quoted in the Nigerian Basic Material Sector

Significance of the study

The Basic Material Sector in Nigeria is regarded as the bedrock of economic and technological advancement, yet, little is known about the ability of accounting information to explain charges to the security of prices in firms quoted to this sector. Some little evidence was gotten from the US Western Europe countries whose markets are more sophisticated compared to most developing countries.

The significance of the study cannot be overemphasized. This study aims at empirical evidence on the relationship between market share prices (MSP) and accounting information under the Nigerian condition. The evidence will enlighten individuals and corporate investors on their investment decisions as well as aid planning of their investment.

Research hypotheses

In order to validate data analysis, the following null hypotheses were tested:

Ho_1: Market share prices (MSP) in quoted companies, Basic Material Sector are not significantly affected by their earnings per share (EPS).

Ho_2: Market share prices (MSP) of quoted companies, Basic Material Sector are not significantly affected by their return on assets (ROA).

Ho_3: Market share prices (MSP) are not significantly affected by their dividend per share (DPS).

Scope/limitation of the study

This research work is restricted to examining the effect of accounting information relevance on market share price of quoted companies in Nigeria: Basic Materials Sector. Just like any other research work in Nigeria, the major limitation to this research is finance. Inadequate finance did not permit the researcher to extensively carry out the research process in all ramifications.

Definition of terms

Market Share Price (MSP)

The market price per share of stock usually termed simply ``Share price” is the naira amount that investors pay for one share of the company’s stock.

Dividend per Share (DPS)

This is defined as gross dividend divided by number of ordinary shares. It is the sum of declared dividends issued by a company for every ordinary share outstanding.

Earnings per Share (EPS)

This is the portion of a company’s profit allocated to each outstanding share of common stock.

Return on Assets (ROA)

This shows the after tax earnings of assets. It is an indicator of how profitable a company is.

REWIEW OF RELATED EMPIRICAL LITERATURE

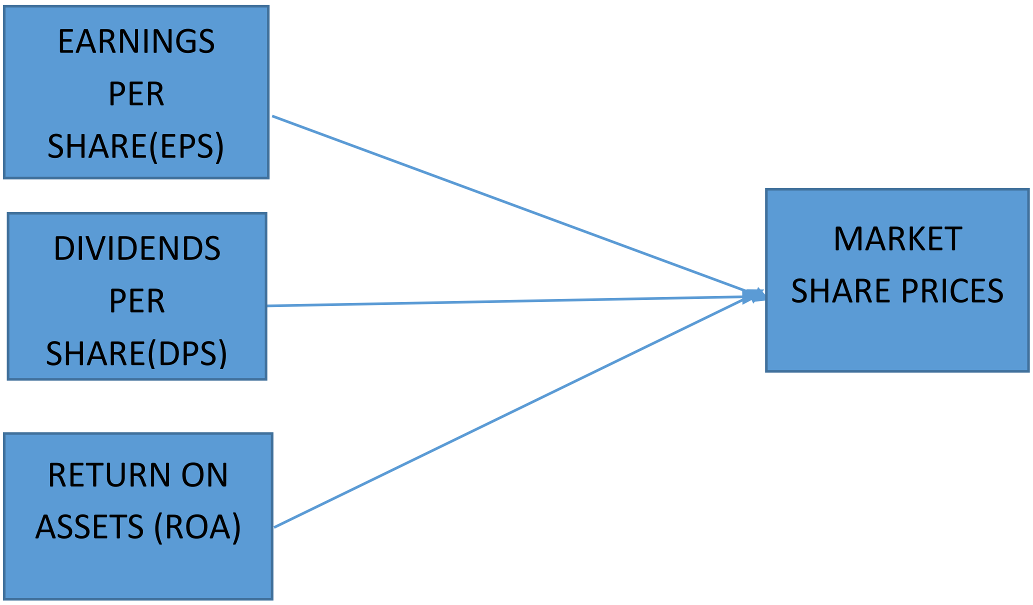
Relevance value of accounting information has been an area of great concern by researchers over the years. This review is not separated according to each of the independent variables because most of the studies reviewed joint impact of two or more of the accounting information. Balland Brown (1968) claim that accounting information is useful to investors in estimating values and risks of security returns. Their result show that earnings are value relevant.

In a similar study Chen, Young and Zhuang, (2013) examined the externality of the compulsory adoption of IFRS firm’s investment efficiency in 17 European countries, their findings were that the spillover effect of a firm's Return on Asset (ROA) difference versus its foreign counterparts but not domestic's counterparts, on the firm's investment efficiency increases after IFRS adoption.

Oyerinde (2011) did a two-years study to investigate the value relevance of accounting data in the Nigerian Stock Market partly with a view to determining whether accounting information has the ability to capture data that has affect share prices of listed firms in the NSE. The study used secondary and primary data to investigate the value relevance of accounting numbers. Data was obtained from Exchange Fact Book, annual financial reports of quoted companies in the NSE. The study showed that there is a significant relationship between accounting information (earnings, book value and dividends per share) and the share price of listed firms in the NSE.

All the studies alighted earlier were all conducted abroad, therefore there is the need to conduct a more recent study that reflects present situation in Nigeria.

Figure 2.1- Conceptual frame work of model of study



Conceptualized by the researcher

Theoretical frame work

The theoretical framework for this research is the Efficient Market Hypothesis (EMH). The Efficient Market Hypothesis is an investment theory primarily derived from concepts attributed to Eugene Fama's research as detailed in his 1970 book "Efficient Capital Markets". He states that it is virtually impossible to consistently "bet the market" to make investments returns that outperform the overall market averages as reflected by major stock and exes.

Efficient market can be defined as a market where there are large number of rational, profit maximizers actively competing, with each trying to predict future market values of individual securities and where important current information is almost freely available to participants. (Fama, 1970) identified three distinct variations of this theory- the weak, semi-strong and strong forms which three different assumed levels of market efficiency.

Weak form

The weak form of EMH assumes that the prices of securities reflect all available public market information but may not reflect new information that is not yet publicly available. It additionally assumes that past information regarding price, volume and returns is independent of future price. It follows from this point that every movement in the share price in response to new information cannot be predicted from the last movement or price, and the development of the price assumes the feature of the random walk.

Semi-strong form

The semi-strong form of the theory dismisses the usefulness of both technical and fundamental analysis. It incorporates the weak form assumptions and expands on this by assuming that prices adjust quickly to any new public information that becomes available thereby rendering fundamental analysis incapable of having any predictive power about future price movements.

Strong form

The strong form of EMH holds that prices always reflect the entirety of both public and private information. This includes all publicly available information, both historical and new, or current, as well as insider information. So, according to the strong form of the Efficient Market Hypothesis (EMH), not even insider knowledge can give investors a predictive edge that will enable them to consistently generate returns that outperform the overall market average.

If a market is semi-strong efficient, the current market price is the best available unbiased predictor of a fair price, having regard to all publically available information about the risk and return of an investment. The study of any public information (and not just past prices) cannot yield consistent excess returns. This means investors cannot consistently get high returns that are justified by the risks involved.

If a market is strong-form efficient, the current market price is the best available unbiased predictor of a fair price, having regard to all relevant information, whether the information is in the public domain or not. This implies that excess returns cannot consistently be achieved even by trading on inside information. This does prompt the interesting observation that somebody must be the first to trade on the inside information and hence make an excess return. Unfortunately, it is well-high impressible to test it in practice with any degree of academic rigor.

Ball and Brown (1968) were the first to test the value relevance of accounting information. Capital market research then, was centered on the importance of accounting information to individual users. The assumption to use Efficient Market Hypothesis was maintained by Ball and Brown. Due to the weak nature of the Nigerian Capital Market, the semi-strong form of EMH valuation model developed by Ohlson (1995) was adopted.

METHODOLOGY

This chapter is set out to explain the methods adopted in carrying out the study. These include research design, population of the study, sample, sampling techniques, methods of data collection, data analysis technique and model specification.

Research design

It is very necessary for every research work to have a clear method that will respond to the intensions of undergoing the research. On the basis of this study, a regressing analysis research design was adopted to describe the relationship between the dependent and independent variables of the study.

3.3 Population and sampling of the study

The population of the study constitutes ten quoted Basic Materials Firms on the Nigerian Stock Exchange (NSE).In view of time being a limitation of the study, one company among the ten were used as a sample of study. The researcher used B.O.C Gases Nigeria PLC (BOCGAS) as the case study.

3.4 Sources and methods of data collection

The researcher employed the use of secondary source of data. Data of both the dependent and independent variables were collected from the audited financial statements of BOC Gases Nigeria PLC in the Nigeria Stock Exchange bulletin. The dependent variable (Market Share Price) and the independent variables (Earnings Per Share, Dividends Per Share and Return On Assets) figures were obtained from the period of six years, from December 31 2010- December 31 2017.

3.5 Data Analysis Technique

In this study, regressing analysis model was used to analyze the data collected.

3.6 Model Specification

The model by Ohlson (1995) is adopted to examine the value of relevance or degree of association between the dependent and independent variables.

The equations are as follows

$MSP_{it} = B_0 + B_1 EPS_{it} + \mathcal{E}_{it}$ ……….. (1)

$MSP_{it} = B_0 + B_2 DPS_{it} + \mathcal{E}_{it}$ ……….. (2)

$MSP_{it} = B_0 + B_3 ROA_{it} + \mathcal{E}_{it}$………… (3)

Where

MSP_{it} = Market Share price for firm i at the end of year t.

EPS_{it} = Earnings per share for firm i at the end of year t.

DPS_{it} = Dividends per share for firm i at the end of year t.

ROA_{it} = Return on assets for firm i at the end of year t.

$\mathcal{E}$ =Error term

i = Individual firm

t = Time dimension

B_0 = Constant or intercept

B_{1-3} =Explanatory variable

Table 1

Year	MSP	EPS	DPS	ROA
2010	9.20	0.89	0.30	0.304
2011	6.85	0.80	0.36	0.148
2012	6.25	0.73	———	0.115
2013	6.33	0.63	0.20	0.091
2014	5.48	0.55	0.10	0.066
2015	3.79	0.29	0.10	0.038
2016	3.52	0.18	0.05	0.021
2017	4.58	0.56	0.05	0.055

Source: Nigerian Stock Exchange bulletin (2010-2017)

Data presentation and results

This section presented the regression results of the dependent (market share price) and independent variables of the study (Earnings per share, dividends per share and return on assets). Each of the independent variables were analyzed with the dependent variable using the

(SPSS) regression coefficient model 20. The results obtained are presented and discussed below.

Table 2: Model summary

Model	R	R square	Adjusted R square	Std. error of estimate	Durbin-Watson
1	.983	.967	.942	.44464	.1.682

a. Predictors: (Constant), ROA, DPS, EPS
b. Dependent variable: MSP

Table 3

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.	95.0% confidence interval for B	
	B	Std. error	Beta			Lower Bound	Upper Bound
Constant	2.580	.495		5.210	.006	1.205	3.955
EPS	3.025	1.266	.398	2.389	.075	-.490	6.540
1 DPS	.945	1.763	.066	.536	.620	-3.950	5.839
ROA	12.071	3.763	.579	3.208	.033	1.624	22.518

a. Dependent variable: MSP
Windows SPSS version 20

As revealed from table 3 above, the impact of EPS (Earnings per share) of 0.075 is positive and significant to market share price. But they are closely related. Therefore, the null hypothesis is rejected.

Again, as revealed from the table, DPS (Dividend per share) of 0.620 is negative and not significant. The results of the coefficient is higher than 0.05 (the degree of error or significance level). It shows there was no significant relationship between the market share price and dividends per share. Therefore, the null hypothesis is accepted.

Lastly ROA (Return on assets) of 0.33 is positively related and affected by market share price and highly significant. This signifies that the higher the firm's asset, the higher the share price. Therefore, the null hypothesis is rejected. The alternative hypothesis will be used.

In all, there is a significant relationship between dependent and independent variables. On the while the coefficient of determination as revealed by R- square (R^2) 0f 0.967indicates that the variables have a positive relationship. The adjusted R- square of 0.942 show that dependent variable (MSP) is strongly affected by the independent variables; other factors being held constant.

From the result above, return on asset (ROA), Earnings per share (EPS), are stimulants to market share price.

The essence of the regression analysis is to give credibility to the claims of the hypothesis either to refuse or to accept. The null hypothesis holds that there is no significant relationship between market share prices, which is the dependent variable and the independent variables (EPS, DPS and ROA). From the result, it is seen that earnings per share (EPS) and return on asset (ROA) are positively related to market share price and are statistically significant. This implies that accounting information system has immensely contributed positively to market share price of quoted companies in Nigeria stock exchange. From all indicators and the test, the null hypothesis could not stand the test of empirical findings, thus it is rejected.

Conclusion

Based on the empirical findings, the following conclusions can be established.

a. Since there is a strong evidence that market share prices are influenced by return on assets at 5% level of significance, the research concludes that accounting variables such as ROA has significant influence on market share price of quoted firms of NSE, the basic material companies using B.O.C gases as a case study.

b. Dividend per share does not play an important role from the finding. Therefore, it is not seen as a motivating factor to attract investors in the basic material companies.

c. It is also evident from this research that earnings per share of quoted basic material firms though closely related does not have strong relationship with market share price.

d. By and large, the overall conclusion of the study is that accounting information of listed companies in the Nigeria stock exchange have significant effect on share price.

Recommendation

In line with the above conclusions of the study, it is deemed necessary to proffer some recommendations.

1. The management of quoted companies in the basic material sector in Nigeria should maintain stability and consistency in their earnings. This is by employing uniform accounting policy in accordance with relevant standards.

2. Since earnings per share also have some significance on market share price, there should be better accounting information disclosure and improved quality financial reporting by basic material firms in Nigeria.

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