# Effect of Financial Reporting Quality on the Performance of Nigerian Capital Market

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## Abstract

*Corporate information presented by an entity has developed to be an essential resource for stakeholders since it curbs information asymmetry amid directors, prospective investors, regulatory organizations, society as well as other stakeholders. This study examined the effect of financial reporting quality on performance of the Nigerian Capital Market. The specific objectives of the study were to determine whether financial reporting quality mechanisms have any effect on financial performance of quoted firms in the market. The study employed descriptive research design. The population of the study comprised all the listed companies operating Nigeria Exchange Group Market. As it is often impossible and generally accepted that the entire population of a study cannot be studied. Thus, the researchers used both purposive and convenient sampling techniques which strategically to reflect the characteristics of the population to select fifteen (15) companies listed in the market which cuts across three key sectors and data extracted from the annual reports of these firms from year 2016 to 2020. A panel data regression was used to analyse the data. Financial reporting quality was proxied with Accrual Quality (AQ) and Earning Quality (EQ) performance was proxied with Market to Book Value (MTBV) of Firm. Size of the Firm (FSize) and Leverage (LR) were equally deployed as control variables. The empirical results indicate that Accrual Quality (AQ) and leverage has insignificant relationship on financial performance while Earning Quality (EQ) and Firm. Size also exerts positive but insignificant effect on Nigeria capital market financial performance. The study recommends that corporate organizations in Nigeria should be directed towards employing greatly skilled capable accountants to prepare corporate financial information so as to boost financial reporting quality as this would give room for a positive effect of financial reporting quality on capital market value*

Keywords: Financial Reporting Quality; Earnings Quality, Accrual Quality and Market to Book Value

## INTRODUCTION

The quality of financial report is very crucial to every management since the only means by which outside shareholders and investors keep themselves informed about the performance of the firm is through the disclosure of these reports (Olumide, Tanko & Nyor 2016). In the present economic situation, the need for financial reporting quality becomes more sensitive as rising market economies and mono economies like Nigeria face uncertainties as they battle the challenges of unparalleled fall in oil prices. Accounting information system plays a vital role in firm's active flow and also in complex economic decision because many economic decisions are based on the information obtained from accounting information system so it is important to assess, maintain and improve the financial reporting quality (Owolabi, Okere & Adeleke, 2020). Today, the drive for preparing quality corporate financial reports has established pronounced consideration globally. Publishing high quality information is significant because it may positively impact key capital providers as well as other stakeholders in investment decision process, credit options as well as decisions promoting total market efficiency (Nwaobia, Kwarbai, Ajibade, 2016). The key indicators of corporate information quality with respect to accounting standards are relevance and reliability, which presents information relevant for decision makers as well as enhancing qualities such as comparability, verifiability, timeliness and understandability (Owolabi, Okere & Adeleke, 2020). Thus, one of the key debates that emerge concerning the quality of financial reporting is its impact on future performance of an entity, that is, how the stock market responds to this increased perceived quality. Recently, corporate reporting quality, earnings management as well as earning quality is a key emerging issue due to scandals like WorldCom, Enron and even in Nigeria like Diamond Bank, Skye Bank, Cadbury, etc.

Several financial as well as accounting scholars have affirmed the benefits as well as function of the quality of financial information (Owolabi *et al* 2020; Nwaobia, Kwarbai, Ajibade, 2016 & Olumide, Tanko & Nyor 2016. They also expressed that poor quality of financial reports may negatively affect

corporate performance as well as economic decisions. This strengthens the critical discuss and analysis of the link amid financial reporting quality and performance of Nigeria capital market. In view of the influence performance may have in restraining financial information preparers and managers of listed companies from manoeuvring the accounting figures which will eventually enhance the quality of reported accounting earnings, there have been inconclusive findings and divergent views in extant literatures as to whether effect on financial reporting quality have any effect on financial performance of the Nigerian Capital Market. Since the dramatic collapse of the Enron Corporation, an American company, in 2001, and the subsequent dissolution of Arthur Andersen, which was then one of the ''Big five'', audit and accountancy firms around the world have been seen as laughable organization, because of their inconsistency in reporting and poorly structured accounting standard. In fact, according to Bratton (2002), Enron failure was seen as the biggest audit failure of all time. WorldCom another American company in telecommunication industry with over US$107 billion in assets, also collapsed just after one year of the Enron misfortune. This financial scandals and the financial crunch facing the economy of most nations have resulted in increased attention to improve and enforce quality financial reporting practices worldwide in order to reform the global economy, which made stock market regulatory body such as the Nigeria Exchange Group to direct all companies that are quoted on the exchange to ensure they adopt the International Financial Reporting Standards by December 2011 while the Central Bank of Nigeria has also directed Nigerian banks to adopt the IFRS by December 2010 (Egedegbe, 2009). But, despite all this financial regulation most quoted organization still evade this regulation through fraudulent mechanisms which involves them ensuring that the audited financial records sent to the central bank of Nigeria are usually profit-oriented since it is the audited account that would be published, and this often shows bogus profit to make them attractive to the capital market after a compromised approval have been obtained from the CBN. However, for the same accounting period, the audited account that would be forwarded to the Nigeria Deposit Insurance Corporation would have a depleted deposit base for the bank to pay an inconsequential 1% insurance premium to NDIC. This problem of this study is to examine why quoted organisations in Nigeria still involve themselves in sharp practices despite the sections and guidance put in place by various regulatory bodies in Nigeria, and the equally examine how these sharp practices can affect the performance of Capital market. Existing studies on financial reporting (Ferdy, Geert, & Suzanne, 2009; Mohammadi, 2014; Hassan, 2013) only consider financial reporting, investment, and qualitative characteristic, none of these studies have considered how quality financial reporting can affect performance of the Nigerian Capital Market. Consequently, the general objective of the study is to provide empirical evidence on the effect of financial reporting quality on performance of the Nigerian Capital Market. The basic hypothesis underlying the study includes

**$Ho_1$:** Accrual quality has no significant impact on performance of listed firms in the Nigerian Capital Market.

**$Ho_2$:** Earnings management has no significant impact on performance of listed firms in the Nigerian Capital Market.

**$Ho_3$:** Firm size has no significant impact on performance of listed firms in the Nigerian Capital Market.

## LITERATURE REVIEW

### Conceptual Review

The conceptual framework of this study clearly examines the various variables that are germane to this study. To provide detailed insight to the issues in question, the conceptual framework will provide explanations to the concept of financial reporting quality, corporate performance and the concept of Nigeria capital market are discussed.

### Financial Reporting Quality

Accounting information system plays a vital role in firm's active flow and also in complex economic decision because many economic decisions are based on the information obtained from accounting information system so it is important to asses, maintain and improve the financial reporting quality. Various benefits of superior information and financial reporting quality have been considered: financial reporting quality decreases liquidity and information risk. It prevents management from using discretionary influence for their personal benefits or motives and guides them in making effective investment choices. Precisely, one of the key benefits of higher financial reporting quality is help in minimization of asymmetric information glitches which arise because of incompatible interest. Firms that report good quality financial information to the several markets agents enables entities to perform in the market with superior advantage as well as upper level of information.

Accounting information system plays a vital role in firm's active flow and also in complex economic decision because many economic decisions are based on the information obtained from accounting information system so it is important to asses, maintain and improve the financial reporting quality. Supporting this opinion, stated that companies with a greater quality of earnings enjoy lesser cost of debt. Reporting quality has been explored in many areas, and numerous authors have mentioned to its benefits, such as its affirmative impact from the financial viewpoint, by helping to minimizing information risk and increasing liquidity. Furthermore, information reported in financial statements is most essential in debt contracting. Financial reporting quality provides financial information about the reporting entity that will be useful to existing and potential investors, lenders and other creditors in making decision about providing resources to the entity (FASB, 2010). Among the way to measure financial reporting quality, the best employed dimensions of this theory in text are: earning quality and quality of accruals. Showing this concept, Dechow et al. (2010) describe three categories of the proxies of earnings quality, based on that "higher earnings quality shows the features of the firm's earnings process that are relevant to a specific decision made by a specific decision-maker". These proxies are: financial reporting quality eternal indicator, characteristic of earnings and earnings response coefficients. These researchers measured earnings quality determinants to be firm financial reporting practices, auditors, governance and controls, capital market incentives, characteristics, institutional factors, and external factors too. Accruals quality is grounded on mapping past cash flows, current and upcoming cash flow processes with accruals (Garrett et al. 2012).

**Firm Size**

Firm's size is measured by taking logarithm of its total assets. It is common exercise to take company's size as determinant variable of financial performance, financial reporting quality and as well as determinant of economic. Larger companies are motivation to show the positive impact on financial performance (Prior et al., 2008; Surroca et al., 2010). Additionally, the company's size has been used widely in numerous research projects on FRQ, but this effect of size is uncertain.

**Leverage**

Leverage of the company is risk or default of debt, and this risk is calculated as ratio debt to equity ratio. Debt variable is also used widely in preceding. It denotes the non-compliance risk or debt (Prior et al., 2008; Mahoney et al., 2008). As with magnitude of company's size, no consensus exists concerning the consequence of leverage level on financial reporting quality. Though, Tu (2012) concluded, debt/leverage ratios are the key determinants of earning management change.

**Corporate Performance**

This is a subjective measure of how well a firm uses assets from its primary mode of business and generates revenues. Financial performance refers to a measure of the results of a firm's policies and operations in monetary terms. Concept of financial performance is a concept that reflects the level to which an organization has attained its desired goals. It demonstrates the organization effectiveness in its

operations over time (Saeidi, Sofian & Siti Zaleha, 2014). The performance of a business firm serves as signal that provides facts which aids the evaluation and assessment of the effectiveness of an organization in the course of its operation and the level of satisfaction the business serves its stakeholders (Antony & Bhattacharyya, 2010).

Corporate financial Performance is a measure of how well a firm uses assets from its primary mode of business and generates revenues. The purpose for which an organization is created can only be achieved if its operational performance is effectual. Business organizations in the quest to sustain financial performance and gain competitive advantage over competitors in the industry require an effective strategic business practice (Umar & Dikko, 2018). One way of managers controlling the financial affairs of an organization is the use of ratios. Ratios are simply relationships between two financial balances or financial calculations which establish our references so that we can understand how well an entity is performing financially. Among the several means of assessing the FP, in present study Market to Book (MTB) is employed as market to book ratio (Seifert et al., 2003). This variable of the study classifies market measures of financial performance in accordance with the previous indication from Hillman and Keim (2001). These authors claim in their research that the accounting activities are less successful in comparison with the market actions because of fact that those actions are not capable to depict the long-term value of firm, focused on previous FP and are also subject to the likelihood of manager's manipulation. FThe performance or value of a firm can be seen as the amount of utility or benefits derived from shares of a firm by the shareholders. Firms with high value from the sales of their shares can be said to be performing well financially.

**Nigerian Capital Market**

According to Osaze (2007), the origin of the Nigerian capital market date back to colonial times when the British Government ruling Nigeria at that time sought funds for running the local administration. Most of these funds derived from agriculture, produce marketing and solid mineral mining. Aside from expanding its revenue base through taxation, the colonial master found it necessary to raise funds from the public sector to cover temporary shortfalls in funds availability. Odife (2000), asserted that the first step in this direction was to secure the necessary funds for the development of infrastructure and long-term capital projects. This led to promulgation of 10 years plan of Local Loan Ordinance of 1946 for the floatation of the first 300,000 pounds 3% Government stock 1956/61 with its management vested on the Accountant General of the Federation. In 1957, the Government and other Securities Act was enacted. This law specified the types of securities in which trust fund may be invested (Osaze, 2007). In addition, the colonial government set up the Professor Barback Committee to examine the ways and means of fostering a shares market in Nigeria. Part of the terms of reference of this committee included the possibility of establishing a capital market in Nigeria (Osaze, 2007). On September 15 1960, the Lagos Stock Exchange was incorporated as a private limited liability company, limited by guarantee under the provision of the Lagos Stock Exchange Act 1960. On June 5, 1961, the Lagos Stock Exchange opened for business with 19 listed securities made up of 3 equities, 6 Federal Government Bonds and 10 industrial loans (Osaze, 2007). The financial system consists of the money and capital market. The institutions that interact within the capital market are: Insurance companies, Pension fund Administrators, Central Bank of Nigeria, Nigeria Exchange Group, Professional bodies, Corporate Affairs commission, Financial Reporting council, Ministry of Finance, Investment and securities Tribunal, market intermediaries, Investors, media, etc.

**Theoretical Review**

**Agency Theory**

Agency theory was propounded by (Jensen & Meckling 1976). The agency philosophy outlines the principal agent association. The principal referred to are shareholders whereas agents denote the managers. These factions have differing goals, thus creating agency costs (Jensen & Meckling 1976). Corporatedisclosures via financial reporting as well as regulation aid to alleviate the agency issues, as

itnecessitates that administration of entities disclose mandatory as well as voluntary reports for the benefit of stockholders as well as other invested parties. By and large, as managers gain first-hand corporate information concerning activities of an entity, they are obligation bound in line with the agency theory to disclose as appropriate information to the owners of the entity. This research therefore adopts the agency theory as the theoretical backing for this research endeavor.Accordingly, agency theory holds that directors may take lead of the information they possess on their control in making accounting as well as reporting decisions to overshoot financial information. They generally do this by acting in what they perceive to be in their own interest(Jensen & Meckling 1976). Reducing agency costs by imposing internal mechanisms of control should therefore encourage managers to behave in the best interest of shareholders instead of in their own interests. However, because controls are imperfect, we would expect some degree of opportunism to remain (Jensen & Meckling 1976). Since managers are widely paid based on firm's performance, it is plausible to expect that active earnings manipulation will occur in order to enhance managerial compensation packages(Jensen & Meckling 1976). This approach is highly focused on bounded rational decision making around incentives, information and self-interest. Thus, it is a viewpoint that suggests that it may be necessary to limit managers' discretion with respect to accounting, since investors, as a consequence of asymmetrically distributed market information, cannot unravel the valuation effect of reported earnings in a timely manner under current reporting standards.

**Empirical Review**

Owolabi, Okere and Adeleke (2020), studied the association amid financial reporting quality and market performance (TOBINQ) of quoted deposit money banks in Nigeria. Using panel methodology in addition to other econometric tests (descriptive statistics test, correlation analysis, and Hausman test), this study discovered a significant relationship amid financial reporting quality (earnings predictability, timeliness) and market performance (TOBINQ) in listed deposit money banks in Nigeria. Also, timeliness (TML) has a negative and insignificant relationship with market performance (TOBINQ) of quoted deposit money banks in Nigeria. Furthermore, earnings predictability has a negative and significant relationship with performance (TOBINQ) of listed deposit money banks in Nigeria. This study recommended that management of deposit money banks ought to guarantee that they implement best practices in the process of financial reporting. Bamidele, Ibrahim and Omole (2018) investigated the effects of financial reporting quality on investment decision making by Deposit Money Banks in reference to Zenith Bank Plc, Nigeria. Data obtained from the audited annual reports of Zenith Bank Plc that covered period of 2009 –2016.The study utilized both Descriptive and Ordinary Least Square Regression method with the aid of using E-view 9 to analyse the data. The findings showed that, there was a significant effect of variables of (Financial Reporting Quality FRQ measures as profit after tax, cash used in/ from investing and cash and cash equivalent) on investment. The result also shows that, Financial Reporting Quality has significantly influenced on investment of Deposit Money Banks with (R2 = 0.98; P <0.05). The study concluded that, higher financial reporting quality increases investment decision by Deposit Money Banks in Nigeria. It was therefore recommended that, DMBs should voluntarily produce quality report as this is shown to create positive market reaction and enhance investments.

Saliu (2018) studied the impact of financial reporting on financial performance of quoted companies in Nigeria. The essence of this research work is to determine the relationship between the quality of financial reporting and profit after tax, return on asset, and return on equity. Data collections were both form primary and secondary sources. The primary data was basically obtained by administration of questionnaire while that of secondary data was from annual reports of sampled/ selected quoted companies. The study adopted the survey research and cross-sectional research design. The sampled companies were obtained by using the stratified sampling technique while the sample size was obtained using the proportional sampling technique, Also, 450 copies of a well-structured questionnaire were also distributed but only 350 were returned and analyzed. The variables considered in the study were financial reporting and financial performance, which were represented by quality of financial reporting, return on

equity, return on asset and profit after tax. Two analytical methods were adopted for statistical analysis of the variables. They are descriptive and inferential statistics. Under descriptive statistics, variables were subjected to frequency and percentages. Data analyses were carried out using SPSS version 20 and E-views 7 statistical software, and the level of significance used to test the hypothesis was 5%. The findings show that there is a significant relationship between quality of financial reporting and profit after tax. It also establishes that quality of financial report has significant effect on return on asset. Based on these findings the study recommends that management of quoted organizations should ensure that they adopt best practices in financial reporting because there is direct relationship between quality of financial reporting and profit after tax, Also, quality of financial reporting has positive impact on return on asset of the quoted companies in Nigeria. The research studies cited above have made good contribution to knowledge in the area. However, none of these studies have focused specifically on the effect of financial reporting quality on performance of the Nigerian Capital Market. Some researchers examine only one sector, mostly manufacturing or deposit money banks as opposed to this study which cover firms from three key sectors (Banking, Industrial, and Health & Pharmaceutical) of the Nigeria Exchange Group market. Furthermore, the cited studies in the empirical review were conducted using different proxies and research methodology. In the empirical review the result obtained by various author also were conflicting. Thus, the present study examines the impact of financial reporting quality of the performance of Nigeria capital market.

## METHODOLOGY

The study captured listed companies in the Nigeria Exchange Group for the period of 5years from 2016 to 2020. The study also employed five variables, which were further broken into dependent, control and independent variables for analysis purpose. The population of the study comprised all the listed companies operating Nigeria Exchange Group Market. As it is often impossible and generally accepted that the entire population of a study cannot be studied. Thus, the researchers used both purposive and convenient sampling techniques which strategically to reflect the characteristics of the population to select fifteen (15) companies listed in the market which cuts across three key sectors (Banking, Industrial, and Health & Pharmaceuticals).

The data used for this study were secondary data derived from the annual financial statements of the selected companies and stock market published information with regards to share price. Panel data regression analytical technique was used to observe all variables for the period. The study utilized the Panel Least Squares (PLS) regression estimation. The reason for the PLS regression is that PLS regression has the additional advantage that it corrects for the omitted variable bias and it allows for the examination for variations among cross-sectional units simultaneously with variations within individual units over time (Baum, 2008).

**Description of Variables**

| Variable Name | Variable Type | Measurement |
|---|---|---|
| Accrual Quality (AQ) | Independent | Total accruals to assets = (Net Income – Operating cash flow) / Beginning total assets |
| Earning Quality (EQ) | Independent | Quality of earnings ratio = Net cash from operating activities / Net income |
| Size of the Firm (FSize) | Independent | Natural logarithm of Sales |
| Leverage (LR) | Control | Total Debt to Total Asset Ratio (DAR) |
| Financial Performance (PF) (Market to Book Value - | Dependent | Market Value divided by Book Value of Firm |

| MTBV) | | |
|---|---|---|

*Source: Author Compilation (2021)*

**Model Specification**

$$FP = \beta o \sum_{t=1}^{n} \beta\, i\, Xit + \varepsilon$$

**Source: Panigrahi, Anita Sharma (2013)**

Where:

**$FP_{it}$**= Market to Book Value (MTBV) of a Firm i at time t; i = 1, 2, 3…, 15 firms respectively.

**β0** = the intercept of equation

**βi** = Coefficient of X it variables

**$X_{it}$**=the different independent variables for Corporate Governance of firm i at time t

**t** = Time from 1, 2…, 5 years

**ϵ** = error term which account for other possible factors that could influence $FP_{it}$ that are not captured in the model.

The econometric models employed in this study were linear Multivariate Models which were develop as thus:

**PFit** = β0 + β1 (AQit) + β2 (EQit) + β3 (FSizeit) + β4 (LRit) + ε

**RESULTS AND DISCUSSION**

**Presentation of Results**

**Table 1: Descriptive Statistics**

```
. summarize MTBV AQ EQ Fsize LR
```

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| MTBV | 75 | 1.087995 | 1.690904 | -2.979792 | 11.63466 |
| AQ | 75 | -.034698 | .0958861 | -.4348785 | .1131745 |
| EQ | 75 | 1.711719 | 5.06042 | -24.5778 | 18.06054 |
| Fsize | 75 | 5.486681 | 1.122352 | 3.252853 | 7.328283 |
| LR | 75 | .6968394 | .2022074 | .3318867 | 1.344503 |

.

**Source: Stata 13 Output**

Descriptive statistics is always used for depicting the characteristics of sample size. From Table 1, MTBV has a mean value of .1.087995 with minimum and maximum values of -2.979792 and 11.63466 respectively. The standard deviation measuring the spread of the distribution stood at 1.690904. The mean value for AQ is -0.34698 which suggest accrual quality of 3%. The results above also showed that the average EQ-earning quality for our sampled companies is about 2% (1.711719). The mean for Fsize stood at 5.486681 and LR at 0.6968394. The common features of all this variable indicated that all the variables are positive, this means that each of the variables display increasing tendency throughout the sampling period except for AQ-accrual quality.

**Table 2: Correlation Matrix**

```
. spearman MTBV AQ EQ Fsize LR, stats(rho) star(0.05)
(obs=75)
```

| | MTBV | AQ | EQ | Fsize | LR |
|---|---|---|---|---|---|
| MTBV | 1.0000 | | | | |
| AQ | -0.1305 | 1.0000 | | | |
| EQ | 0.1096 | -0.4840* | 1.0000 | | |
| Fsize | 0.4024* | 0.0839 | 0.0198 | 1.0000 | |
| LR | -0.3240* | -0.1341 | 0.0792 | -0.2207 | 1.0000 |

**Source: Stata 13 Output**

The Pearson correlation analysis matrix shows the relationship between the explanatory and the explained variables and also the relationship among all pairs of independent variables themselves. It is useful in discerning the degree or extent of the relationship among all independent variables as excessive correlation could lead to multicollinearity, which could consequently lead to misleading findings and conclusions. The correlation matrix does not lend itself to statistical inference but it is relevant in deducing the direction and extent of association between the variables.

Table 2 shows that Market to Book Value (MTBV) is negatively related to Accrual Quality (AQ) and Leverages (LR). Thus, any increase in any of these factors will reduce the performance of selected companies listed on the Nigeria Exchange Group. Accrual Quality (AQ) and Leverages (LR) particularly shows a negative correlation coefficient of -0.1305 and -0.3240, as a result if it is increasing market to book value (performance) will be falling slightly. However, Market to Book Value (MTBV) is positively related to Earning quality (EQ) and firm size (Size). Thus, increase in earning quality and firm size will lead to a small increase in Market to Book Value (MTBV) for the selected listed companies in Nigeria. The relationship with firm size could also indicates that larger companies in this sector will report higher profit that smaller ones after probably enjoying economics of scale. It is equally good to note that from the table 2, the relationships between the variable's correlations the exception of Market to Book Value (MTBV) are weak; thus, the change or impact will be small. According to Kennedy (2003), there is high correlation when the coefficient between the variables is greater than 0.80.

**Table 3: Multi-Collinearity Test**

```
. estat vif
```

| Variable | VIF | 1/VIF |
|---|---|---|
| LR | 1.17 | 0.852110 |
| AQ | 1.14 | 0.875494 |
| Fsize | 1.10 | 0.911569 |
| EQ | 1.06 | 0.940672 |
| Mean VIF | 1.12 | |

**Source: Stata 13 Output**

From Table 3, VIF values for all the independent variables were consistently below the benchmark of 10 which is considered harmful for regression analysis. This is supported by a mean VIF value of 1.06 which is above the benchmark of 1 considered suitable for regression analysis. Also, the TV for all the variables was above 0 and close to 1 which is recommended for regression analysis. The table shows good indicators that multicollinearity is not a problem among independent variables. Panel regression analysis

was chosen to test the hypothesis of the study because the dependent variable is binary which is more appropriate for such type of study.

**Table 4: Hausman Specification Test**

```
. hausman fe re

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |      fe           re          Difference          S.E.
-------------+----------------------------------------------------------------
          AQ |   -.5789364    -4.132643        3.553706        1.770476
          EQ |    .0018749     -.010746        .0126209        .0181957
       Fsize |    .3140005       .11546        .1985405        2.223528
          LR |   -1.150524    -1.698278        .5477543        2.103422
------------------------------------------------------------------------------
                           b = consistent under Ho and Ha; obtained from xtreg
            B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =       13.67
                Prob>chi2 =      0.0084
```

**Source: Stata 13 Output**

**Decision Rule:**

**Ho:** The null hypothesis is that the preferred model is random (greater than 0.05)

**Ha:** The alternative hypothesis is that the preferred model is fixed (less than 0.05)

The result of the Hausman test in table 4 above does not provide sufficient evidence to accept this null hypothesis at 5% level of significance as can be seen that the probability value of the test is less than the critical value of 0.05. Therefore, the study upholds that difference in coefficients is systematic and hence, the fixed effect model is the most appropriate model. With that, the study adopted the result in which it controlled for fixed effect.

**Table 5: Regression estimates for financial reporting quality on financial performance**

```
. xtreg MTBV AQ EQ Fsize LR, fe

Fixed-effects (within) regression               Number of obs      =        75
Group variable: COY                             Number of groups   =        15

R-sq:  within  = 0.0047                         Obs per group: min =         5
       between = 0.0911                                        avg =       5.0
       overall = 0.0355                                        max =         5

                                                F(4,56)            =      0.07
corr(u_i, Xb)  = -0.1523                        Prob > F           =    0.9917

------------------------------------------------------------------------------
        MTBV |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          AQ |  -.5789364   2.793197    -0.21   0.837    -6.174381    5.016509
          EQ |   .0018749   .0428978     0.04   0.965    -.0840597    .0878095
       Fsize |   .3140005   2.232106     0.14   0.889    -4.157444    4.785445
          LR |  -1.150524   2.374133    -0.48   0.630    -5.906484    3.605437
       _cons |   .1436072     12.124     0.01   0.991    -24.14369    24.43091
-------------+----------------------------------------------------------------
     sigma_u |  1.0075225
     sigma_e |  1.5506367
         rho |  .29685016   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:     F(14, 56) =     1.69              Prob > F = 0.0836
```

**Source: Stata 13 Output**

**Discussion of Findings**

In line with the panel nature of the data used in this study, the fixed effect regression model shows $R^2$ within, between and overall, of 0%, 9% and 3% respectively. Within $R^2$ means that independent variables explain 0% variations in the market to book value (financial performance) in this panel from year to year. Between $R^2$ indicates that independent variables explain 9% variations in financial performance of the sample studies from firm (cross-sectional unit) to another firm. While overall $R^2$ shows that independent variables explain 3% variations in the whole panel. The table also shows that the model is not fitted as evidenced by the F test of 0.07 (as indicated by the overall P-value of 0.9917) which is greater than 0.05%. From the Table above, for the fixed effect result, the coefficient of the intercept is positive. This indicates that at any given point of time where these explanatory variables are held constant, the market to book value (financial performance) of the selected companies improves by 0.1436072 (14%). The result presented in the above table revealed that all the explanatory and control variables of the study were found to be statistically insignificant with all the P- value of greater than 5%. The correlation as indicated by corr. (u_i, Xb) of the model -0.1523, and rho of 0.29685016 shows that the model is not fit for policy formulations. The present study therefore accepts the three null hypotheses earlier stated and conclude that accrual quality, earning quality and firm size doesn't have significance relationship on financial performance. The present finding is consistent with the study of Owolabi, Okere and Adeleke (2020). Who found that financial reporting quality proxy by timeliness (TML) has a negative and insignificant relationship with market performance (TOBINQ) of quoted deposit money banks in Nigeria. The result however, contradicts the findings of Bamidele, Ibrahim and Omole (2018); and Saliu 2018 who in their study establishes that quality of financial report has significant effect on return on asset also indicates that, higher reporting quality increases investment decision by Deposit Money Banks in Nigeria respectively.

## CONCLUSION AND RECOMMENDATIONS

This research observed the link amid financial reporting quality and the performance of Nigeria capital market. Although the model was insignificant, it revealed a negative relationship amid financial reporting quality (accrual quality and leverage) and positive but insignificant relationship between financial reporting quality (earning quality and firm size) of Nigeria capital market. This depicts that when corporate reports embody qualities of the ability to predict earnings, it gives investors ample time and information to make informed decisions on whether to sell or keep their shares as well as what value to place on them for market transactions. Based on research outcomes, it is recommended that:

- **i.** Greater focus ought to be invested to the creation of improved quality accounting information in order to boost financial performance as current study indicated an insignificant effect between financial reporting quality and firm's performance.
- **ii.** Corporate organisations in Nigeria are directed towards employing greatly skilled capable accountants to prepare corporate financial information so as to boost financial reporting quality as this would give room for a positive effect of financial reporting quality on capital market value.
- **iii.** Quoted companies should provide opportunity for their staff to regularly attend financial reporting conferences and seminars within and outside the country so that controversies relating to certain reporting standards can be eliminated.

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