

CONTENT OF FINANCIAL REPORTS AND MARKET REACTION OF QUOTED FINANCIAL FIRMS IN NIGERIA



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ABSTRACT

The inconsistent and inadequate financial reporting can erode investor confidence. Investors rely on financial reports to make informed decisions, and when these reports are perceived as unreliable, it can lead to decreased trust and increased market volatility. Based on this, the study, investigate the content of financial reports and market reaction of quoted financial firms in Nigeria, covering, 2012 to 2023. The population consists all the 45 quoted financial firms in Nigeria as at 31st December, 2023 while filtering criteria was used to arrive at a sample size of thirty-two (32) financial firms in Nigeria. The hypotheses were tested using the random effect regression model after conducting some diagnostics tests. The result showed that return on equity (ROE) has a significant positive effect on market share prices (MSP) of quoted financial firms in Nigeria. However, the results further showed that dividend yield (DY) and profit retention ratio (PRR) have insignificant positive effects on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. The study recommended among others, that quoted financial firms in Nigeria should aim for a balanced approach between profit retention and dividend distribution. While retaining profits for reinvestment promotes long-term growth, providing regular dividends ensures that shareholders receive immediate returns. Firms should carefully assess their financial situation and future growth opportunities to determine the optimal retention ratio. The study also recommended that the quoted financial firms should consider maintaining or increasing dividend payouts to enhance their dividend yield, as this has been shown to positively influence market share prices. This can help attract and retain investors, boosting the firm's market valuation.

Keywords: Content of Financial Reports; Dividend Yield, Market Reaction, Profit Retention Ratio Return on Equity

INTRODUCTION

Globally, the adoption of International Financial Reporting Standards (IFRS) aims to enhance the quality and comparability of financial statements. Research indicates that IFRS adoption improves transparency and reduces information asymmetry, which positively influences market reactions. Barth *et al.* (2008) asserted that firms adopting IFRS experienced increased market liquidity and reduced cost of capital. High-quality financial reports are crucial for maintaining investor confidence. Investors rely on transparent and comprehensive financial reports to make informed decisions, and firms that meet these expectations are rewarded with positive market reactions. Leuz and Verrecchia (2000) highlighted that increased disclosure quality reduces information asymmetry and leads to higher share prices.

Economic instability and political factors in some African countries can impact the reliability of financial reports. These factors can lead to reduced investor confidence and more volatile market reactions. Uadiale and Fagbemi (2011) highlighted the impact of economic conditions on the quality of financial reporting in Nigeria, emphasizing the need for stable economic policies to enhance reporting quality. In Africa, the content of financial reports influences investor perception and market behavior. High-quality financial reports can attract both local and international investors, leading to positive market reactions.

The content of financial reports impacts market reactions, with perspectives varying across global, African, and Nigerian contexts. High-quality financial reporting enhances transparency, reduces information asymmetry, and builds investor confidence, leading to positive market reactions. In Nigeria, the adoption of IFRS and effective regulatory oversight play crucial roles in improving financial reporting standards and stabilizing market behavior. Understanding these dynamics is essential for policymakers, regulators, and financial firms to enhance the quality of financial reporting and achieve more efficient market outcomes.

A dividend policy is a vehicle used by managers/insiders to transmit private information to the market. This information is usually about the financial health of the firm. Jensen (1986) asserts that dividends are used to take away excess cash from managers and put it in the hands of shareholders, a move that to a large extent is aimed at resolving the agency problem. Dividend plays a

signalling mechanism for investors to evaluate the prospects of the firm thereby, reducing the problem of information asymmetry. Tariq *et al.* (2014) view dividend policy as annual compensation for a company's assets taken from after-tax earnings and given to shareholders. These payments are dictated by the type of dividend policy adopted by a financial firm in Nigeria.

Dividend yield and market price of shares is a critical area of interest for investors, analysts, and researchers, particularly in emerging markets like Nigeria. Dividend yield, defined as the annual dividend payment divided by the market price of a share, provides investors with an indication of the income generated by their investments relative to the share price. Nigerian investors often favor dividend-paying stocks due to the perceived stability and regular income they provide, especially in a market characterized by volatility and economic uncertainties (Adelegan, 2003). This preference can create a positive correlation between dividend yield and share prices. For instance, firms that consistently pay high dividends may see their stock prices supported by demand from income-seeking investors.

According to Hasan and Ali (2020), dividends not only provide income for shareholders but also serve as signals for stakeholder decision-making. When a financial firm declares an increase in dividends, investors may perceive this as a positive signal about the firm's financial health and future prospects. This can increase demand for the firm's stock and potentially lead to higher returns for investors. As a result, potential investors are likely to pay closer attention to the best investment options that offer the potential for future earnings. Miller and Rock (1985) hinted that the unforeseen changes in dividends and the information related to current and future cash can be identified through the signalling effect. An increase in dividend payment is seen as a positive indicator whereas a decrease in dividend payment is a negative indicator of the future earning prospects of the company, thus leading to an increase or decrease in share prices of the firm (Sattar *et al.*, 2017). Adediran and Alade (2013) asserted that dividend policy serves as a mechanism for control of managerial opportunism and that the pattern of corporate dividend policies not only varies over time but also across countries, especially between developed, developing and emerging capital markets.

Profit retention means that the company is reinvesting more money back into expanding its business. By investing in business growth, the financial firm in Nigeria will likely be able to generate higher levels of capital gains for investors in the future. Therefore, these types of firms tend to attract investors who are more interested in potential profits from a rise in share price, and less interested in dividend income. A high-growth financial firm may choose to invest all of its free cash flow into the business rather than return money to shareholders. Seeking to take advantage of bright prospects and gain an edge over the competition, a corporation will deploy all available resources to grow (Hassan *et al.*, 2019). Investors recognize this reality and often reward such firms with a high stock price, despite the lack of dividends.

A higher profit retention ratio indicates that a financial firm is reinvesting more of its profits into the business. This reinvestment can lead to expansion, innovation, and overall growth. Investors often perceive these growth prospects positively, which can drive up the market price of shares. Investors tend to have more confidence in firms that demonstrate a capacity for growth through reinvestment. In the Nigerian financial sector, firms that retain a substantial portion of their profits might be viewed as having robust long-term strategies, which can enhance investor confidence and boost share prices. Ozuomba *et al.* (2016) highlighted that the investors often perceive retained earnings as a signal of future growth potential, which positively influences share prices.

Return on Equity (ROE) is a financial performance metric that measures a company's ability to generate profits from its shareholders' equity. It is calculated by dividing net income by shareholders' equity. In the context of quoted financial firms in Nigeria, ROE is a crucial indicator that can significantly influence the market price of shares. ROE is a direct measure of a firm's profitability relative to shareholders' equity. Higher ROE values indicate that a firm is more effective in converting the equity investments into profits. In the Nigerian financial market, firms with higher ROE are often perceived as financially healthy and efficient, which can lead to higher demand for their shares and consequently higher market prices. A high and consistently growing ROE sends a positive signal to investors about the firm's future prospects and management effectiveness. For Nigerian financial firms, demonstrating strong ROE can attract both local and international investors, boosting share prices. Ogege and Boloupremo (2014) emphasized that higher ROE values attract investors, thereby driving up share prices. Similarly, Ogbuji and Okoro (2015) confirmed that financial firms with higher ROE tend to have higher market valuations, reflecting investor preference for profitable and efficient firms.

The motivation for studying the content of financial reports and market reactions in Nigerian financial firms is multifaceted, encompassing transparency, regulatory compliance, market efficiency, economic development, and corporate governance. By understanding these motivations, stakeholders can enhance financial reporting practices, leading to more informed investment decisions, improved market stability, and overall economic growth.

Financial reports of Nigerian financial firms often lack sufficient detail, particularly regarding risk management practices, corporate governance, and forward-looking information. This inadequacy can prevent investors from fully understanding the

firm's financial health and future prospects. According to Uadiale (2012), inadequate disclosure is an issue in Nigeria, leading to information asymmetry and reduced investor confidence. Corruption can undermine the integrity of financial reporting and may lead to the manipulation of financial statements to present a favorable but inaccurate picture of a firm's financial health. Ogege and Boloupremo (2014) noted that corruption impact financial reporting practices in Nigeria, leading to distrust among investors and erratic market reactions.

Management may manipulate financial reports to achieve short-term objectives such as meeting earnings targets or securing bonuses. This manipulation can involve earnings management, fraudulent financial reporting, or other deceptive practices. When such manipulations are eventually uncovered, they can lead to severe negative market reactions, as seen in high-profile cases like the Cadbury Nigeria scandal. Inconsistent and inadequate financial reporting can erode investor confidence. Investors rely on financial reports to make informed decisions, and when these reports are perceived as unreliable, it can lead to decreased trust and increased market volatility. This loss of trust can result in lower stock prices and higher risk premiums for affected firms.

Inadequate financial reporting leads to information asymmetry, where investors do not have equal access to all relevant information. This asymmetry can cause mispricing of securities, as the market may not accurately reflect the true value of a firm's stock. Mispricing can lead to either overvaluation or undervaluation, impacting investment decisions and market stability. Emeni and Ogbulu (2015) highlights the prevalence of information asymmetry in the Nigerian stock market. This asymmetry can stem from poor disclosure practices and limited transparency. High levels of information asymmetry can lead to mispricing of stocks following dividend announcements. Investors with less information may not react appropriately to dividend changes, leading to volatility and potential misinterpretation of the firm's financial health.

Market perception of retained earnings can vary widely. While retained earnings are essential for reinvestment and growth, they can also signal that the firm is not confident in generating sufficient returns to justify dividend payments. Okafor and Mgbame (2011) asserted that Nigerian investors often view high retention ratios skeptically, associating them with a lack of immediate returns. This skepticism can lead to a lower market valuation of shares. If investors perceive high retained earnings negatively, the market price of shares may decline. This reaction is particularly pronounced in markets where investors prefer immediate returns over long-term growth, as is often the case in Nigeria. ROE not only reflects profitability but also the risk associated with a firm's operations. High ROE achieved through excessive leverage might increase perceived risk, potentially impacting share prices negatively if investors believe the firm is over-leveraged.

This financial sector is chosen because some firms like Intercontinental bank Plc, Oceanic bank Plc, Afri bank Plc among others were paying dividends regularly even though the firms were making losses from their operations, this is to deceive the general public that they are doing well until the Central Bank of Nigeria 2009 audit report shows that these banks were operating at losses and eventually led to the crash of their market share prices.

For example, the studies done by Agustina et al. (2024), Budhathoki and Khadka (2024), Dahmash et al. (2023), Hayyin and Asep (2024) are included among the researches done in other countries of the world; only a few like Ahmed et al. (2024) conducted in Nigeria on dividend yield, profit retention ratio, return on equity, and market share prices in recent times in this regard. The empirical works reviewed have shown that most of the studies, for example, Agustina et al. (2024), Ajao and Robinson (2022), Budhathoki and Khadka (2024), and Samuel et al. (2022), carried out in recent times regarding dividend yield, profit retention ratio, return on equity, and market share prices in Nigeria and other countries of the world, were not current in the data used for the analysis to reflect the current economic realities, as all the data were within 2020 and below, except the work of Hayyin and Asep (2024), whose data covered up to 2022. These identified gaps in literature call for further study in this area, which necessitated this study: The content of financial reports and market reaction of quoted financial firms in Nigeria, to update the data up to 2023, use appropriate panel regression technique, cover only the periods of IFRS implementation in Nigeria.

The main objective of this study is to examine the content of financial reports and market reaction of quoted financial firms in Nigeria. The study specifically intends to: (i) determine the effect of dividend yield on market price of shares of quoted financial firms in Nigeria; (ii) evaluate the effect of profit retention ratio on market price of shares of quoted financial firms in Nigeria; and (iii) assess the effect of return on equity on market price of shares of quoted financial firms in Nigeria. Based on the above specific objectives, the following hypotheses are presented below: Ho₁: Dividend yield has no significant effect on market price of shares of quoted financial firms in Nigeria; Ho₂: Profit retention ratio has no significant effect on market price of shares of quoted financial firms in Nigeria; and Ho₃: Return on equity has no significant effect on market price of shares of quoted financial firms in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Framework

The conceptual framework for this comprises three proxies (Dividend Yield, Profit Retention Ratio and Returned on Equity) representing proxies of the independent variable and a proxy (Market Share Prices) as a dependent variable.

Independent Variable



Content of Financial Reports



Dividend Yield
(DY)

Profit Retention
Ratio (PRR)

Returned on Equity
(ROE)

Dependent Variable



Market Reaction



Market Share
Prices (MSP)

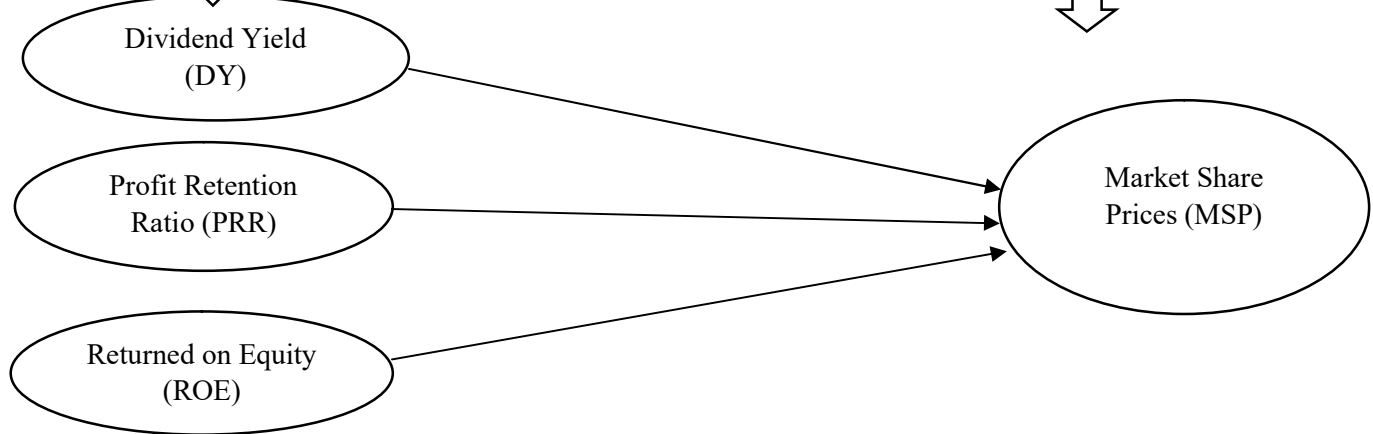


Figure 1 shows the Conceptual Framework

Source: Researcher's Conceptual Framework (2024)

Contents of Financial Reports

Financial reporting refers to the structured presentation of a firm's financial position and performance through financial statements such as the statement of financial position, profit or loss, cash flow, and changes in equity (Penman, 2001). Its primary objective is to provide useful information for economic decision-making, particularly in assessing future cash flows (Beaver, 1989; Hendriksen & Breda, 1992). According to the IASB (2010), financial reports present information on assets, liabilities, equity, income, and expenses to support a wide range of users. They also serve to reduce information asymmetry between managers and investors, thereby enhancing transparency and accountability (Watts & Zimmerman, 1986). In this study, financial reporting includes key statements such as profit or loss, financial position, cash flow, changes in equity, and accounting policies.

Dividend Yield

Dividend yield is commonly defined as the ratio of annual dividends per share to the current market price of a stock, indicating the cash return investors earn from dividends relative to share price (Brealey et al., 2011; Fabozzi & Peterson, 2003; Damodaran, 2002). It serves as an important measure for income-oriented investors by reflecting the level of cash income generated from holding a stock (Bodie et al., 2011). Similarly, Ross et al. (2008) describe it as a ratio that captures dividends relative to market value per share, highlighting its role in evaluating investment returns from dividends. Overall, dividend yield provides insight into the income potential of a stock, and this study defines it as the proportion of cash dividends paid relative to market price.

Profit Retention Ratio

Retained earnings refer to the portion of a firm's net income that is not distributed as dividends but reinvested in the business for growth and operational needs (Brealey et al., 2011; Ross et al., 2008; Brigham & Ehrhardt, 2013). They represent the cumulative earnings kept within the firm over time and serve as an important source of internal financing (Samuelson & Nordhaus, 2010; Berk & DeMarzo, 2017; Gitman & Zutter, 2015). Overall, retained earnings reflect a company's capacity to fund its activities and expansion internally, and this study defines them as earnings reinvested in the business rather than paid to shareholders.

Return on Equity

Return on equity (ROE) is defined as the ratio of net income to shareholders' equity, measuring how efficiently a firm generates profit from shareholders' investments (Penman, 2007; Damodaran, 2002; Ross et al., 2008). It serves as a key indicator of financial performance by showing how well a company utilizes its equity base to produce earnings (Brigham & Houston, 2012; Gitman & Zutter, 2015; Brealey et al., 2011). Overall, ROE reflects a firm's profitability from the shareholders' perspective, and this study defines it as net income relative to common equity.

Market Share Prices

The market price of a share is the price at which it is currently traded on the stock market, determined by the interaction of supply and demand and reflecting investors' expectations about future performance (Fama, 1970; Sharpe, 1964; Brealey et al., 2011). It incorporates available information, risk, and growth prospects, although it may deviate from intrinsic value due to investor sentiment and market conditions (Damodaran, 2002; Malkiel, 2003). Overall, the market price represents the collective valuation of investors at a given time, and this study defines it as the current trading price of a share in the stock market.

Theory underpinning the study

This study is underpinned by the signalling theory because the theory emphasized that the appropriate disclosure of content of financial reports serves as a great signal to its users as they react in making a more effective decision by the shareholders of companies. It also holds that financial information is one of the means through which the passage of information is successfully made to users (especially managers to stockholders).

Empirical Review

Dividend Yield and Market Price of Shares

Budhathoki and Khadka (2024) examined the effects of dividend yield, retention ratio, and dividend payout ratio on share prices of Nepalese microfinance institutions and found mixed results: dividend yield had a negative effect, retention ratio was positive and significant, while dividend payout ratio showed both negative and insignificant effects depending on the model. Ajao and Robinson (2022) reported that dividend policy variables significantly influence stock price volatility in Sub-Saharan Africa in the long run, while Samuel et al. (2022) found a joint significant relationship between dividend policy variables and share prices in Nigeria. Similarly, Muthondu and Tobias (2021) observed that dividend payout ratio negatively affects stock price volatility, while dividend yield is insignificant. Overall, these studies suggest that dividend policy influences share prices and volatility, though results vary across contexts.

Evidence from Nigeria further shows inconsistent findings. Alajekwu and Ezeabasili (2020) and Udoka and Vincent (2020) found that dividend payout ratio positively affects stock price volatility, while dividend yield has a negative but insignificant effect. Despite the use of robust analytical techniques, most studies rely on outdated data or are conducted outside Nigeria, limiting generalizability. This highlights the need for more recent, country-specific studies to better capture current economic conditions and provide more reliable conclusions.

Profit Retention Ratio and Market Price of Shares

Ahmed et al. (2024) examined the moderating role of inflation on the relationship between earnings retention ratio and share price of Nigerian deposit money banks (2012–2021) and found a positive significant effect of retention on share price, while inflation showed a positive but insignificant effect and weakened the relationship when moderated. Similarly, Danjuma et al. (2021) reported that dividend payout and retention ratios positively and significantly influence share prices, although firm age does not moderate this relationship. In contrast, Ogunseye and Eniola (2020) found that dividend per share and retained earnings have negative but insignificant effects on share price, while return on equity shows a positive but insignificant relationship. Dahmash et al. (2023), using Jordanian data, found dividends positively affect firm value, whereas retention has a negative effect, highlighting the trade-off between dividend distribution and retained earnings.

Further evidence shows mixed results across contexts. Waseem and Muhammad (2020) found dividend payout ratio positively and significantly influences share prices, while dividend per share and retention ratio are insignificant. Ohiaeri et al. (2018) reported a joint significant relationship between dividend variables and share prices in Nigeria. Despite the use of robust methods, many studies are either conducted outside Nigeria or rely on outdated data, limiting generalizability. This underscores the need for more recent, Nigeria-specific studies to provide clearer and more consistent evidence.

Return on Equity and Market Share Prices

Hayyin and Asep (2024) examined the impact of financial performance and economic value added (EVA) on stock returns of telecommunication firms in Indonesia (2017–2022) and found that ROA, ROE, and PER significantly influenced stock returns before COVID-19 but not after, while DER, NPM, and EPS remained consistently significant. EVA became significant only after the pandemic, although overall financial performance and stock returns did not significantly differ across the two periods. Similarly, Agustina et al. (2024) found that price-to-book value and debt-to-equity ratio positively influence stock prices, while

return on equity shows no effect and the mediating role of leverage is insignificant. Choiriyah et al. (2021) further revealed that ROE and EPS significantly affect stock prices, whereas ROA, NPM, and OPM are insignificant.

Consistent with these findings, Claudi and Menik (2021) reported that EPS has a positive significant effect on stock prices, while ROA, ROE, and NPM are insignificant. Likewise, Dewa and Anak (2021) found that ROA and NPM positively influence stock returns, whereas ROE is insignificant. Overall, these studies highlight mixed results regarding the influence of financial performance indicators on stock prices and returns. However, most were conducted outside Nigeria, limiting generalizability and emphasizing the need for more recent, Nigeria-specific empirical evidence.

METHODOLOGY

This study adopts an ex post facto research design due to the nature of the objectives, variables, and panel data structure (time series and cross-sectional). The design is suitable for examining relationships between the proxies of the independent variables and the dependent variable using historical data. The population comprises forty-five (45) quoted financial firms on the Nigerian Exchange Group (NGX) as at 31st December 2023, covering a twelve-year period from 2012 to 2023. From this population, a sample of thirty-two (32) firms was selected, given the sector's large market capitalization and relevance to the study. A filtering technique was used for sample selection, requiring that firms be listed on the NGX at least one year before the 2012 IFRS implementation and remain actively traded throughout the study period. The study relies on secondary panel data obtained from audited annual reports, NGX factbooks, and company websites. Data extracted span 2012–2023 and were analyzed using a random effects regression model with the aid of STATA 15 to examine the relationship between financial reporting and market reactions in Nigerian financial firms.

Model Specification

The dependent variable is market reaction proxy by market share prices (MSP) while the independent variable is content of financial reports proxies by Dividend Yield (EY), Profit Retention Ratio (PRR) and Return on Equity (ROE). Specifically, the functional linear equation as adapted from Samuel *et al.* (2022) is mathematically expressed as follows:

$$MSP = f(DY + PRR + ROE)$$

Econometrically, the above function is rewritten into a model as follows:

$$MSP_{it} = \beta_0 + \beta_1 DY_{it} + \beta_2 PRR_{it} + \beta_3 ROE_{it} + \mu_{it} \dots\dots\dots \text{Model 1}$$

Where:

MSP = an indicator representing market share prices (dependent Variable);

β_0 = Intercept term (a constant);

β_1 = Coefficient of dividend yield;

β_2 = Coefficient of profit retention ratio; and

β_3 = Coefficient of return on equity;

DY = a predictor variable (dividend yield);

PRR = a predictor variable (profit retention ratio);

ROE = a predictor variable (return on equity);

μ = Stochastic error term;

i = Firms

t = periods; and

f = Functional relationship.

A-priori Expectations: $\beta_1, \beta_2, \beta_3 > 0$

Operationalisation of Variables and Justifications

Table 1 below explains the variables under study

Variable	Acronym	Type of variable	Measurement	Justification
Market Share Prices	MSP	Dependent	Average annual market share prices.	Ahmed et al. (2024), Agustina <i>et al.</i> (2024) and Budhathoki and Khadka (2024).
Dividend Yield	DY	Independent	Annual dividend per share divided by market price per share multiplier by 100.	Budhathoki and Khadka (2024) and Samuel <i>et al.</i> (2022).
Profit Retention Ratio	PRR	Independent	Net income minus dividend payout, divided by net income and multiply by 100 (1 – dividend payout).	Ahmed et al. (2024), Budhathoki and Khadka (2024) and Dahmash <i>et al.</i> (2023).

Return on Equity ROE Independent Net income divided by Agustina *et al.* (2024), Hayyin and Asep
shareholders equity multiply by (2024) and Choiriyah *et al.* (2021).
100.

Source: Researcher's compilation (2024)

DATA PRESENTATION AND ANALYSIS

The data of thirty-two (32) financial firms regarding their market share prices, dividend yield and return on equity were used. The data were analysed with the aid of Stata 15 software using Descriptive Statistics, Shapiro Wilk Normality, Pearson Correlation, Variance Inflation Factor, Heteroscedasticity, Breusch-Pagan Lagrangian Multiplier and Random Effect Regression Model.

Descriptive Statistics

Table 2 summarises the descriptive statistics of the entire data set.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min.	Max.
MSP	384	6.604	19.108	0.20	103.81
DY	384	0.243	0.202	0.012	0.915
PRR	384	0.795	0.259	0.020	1
ROE	384	1.363	2.843	-7.86	9.91

Source: Researcher's Computation using STATA 15 software

Table 2 shows that the market share prices (MSP) has a minimum value of 0.20, a maximum value of 103.81 and a mean value of 6.604 within the period studied. The Table also reveals that MSP has a standard deviation of 19.108 that is more than the mean, which implies that it is highly skewed to the right for the period under review. Table 2 further shows that dividend yield (DY) has a minimum value of 0.012, a maximum value of 0.915 and a mean value of 0.243 within the period studied. The table also revealed that DY has a standard deviation of 0.202 that is less than the mean, which implies that it is skewed to the left for the period under review.

Table 2 shows that the profit retention ratio (PRR) has a minimum value of 0.020, a maximum value of 1 and a mean value of 0.795 within the period studied. The Table also revealed that PRR has a standard deviation of 0.259 which is less than the mean, which implies that it is skewed to the left for the period under review. Table 2 also shows that return on equity (ROE) has a minimum value of -7.86, a maximum value of 9.91 and a mean value of 1.363 within the period studied. The table also revealed that ROE has a standard deviation of 2.843 that is more than the mean, which implies that it is highly skewed to the right for the period under review.

Shapiro Wilk Normality Test

Table 3 and figure 2 below presents the results of the normality test conducted with the use of Shapiro-Wilk test and normal distribution curve. The decision rule is if P-Value > 0.05, the residual is normally distributed but if P-Value is equal to or < 0.05, the residual is not normally distributed.

Variable	OBS	W	V	Z	Prob>Z
Residual	3.84	0.970	7.808	4.881	0.000

Source: Researcher's Computation using STATA 15 software

Figure 2: Normal Distribution Curve

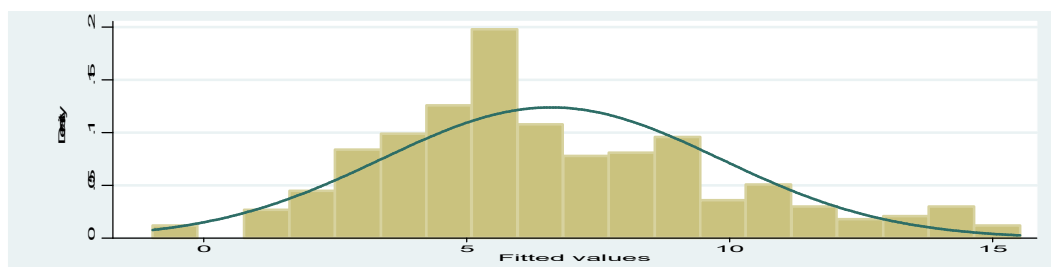


Table 3 above presented the residual and the z value of 4.881 and the corresponding probability of value of 0.00 that is less than 0.05 which signifies that the residual is not normally distributed around the mean. This result is further collaborated by the normal distribution curve presented in figure 2 above. This implies that one of the basic assumptions of linear regression technique which allows only normally distributed residual have been violated. This is corrected using robust regression technique.

Pearson Correlation

Table 4 below is the Pearson correlation matrix for the data set to show the extent of associations between the variables. The decision rule is that if a pair or more of the independent variables is equal to or above 0.85, there is a presence of multicollinearity in the model but if the independent variables is less than 0.85, there is no presence of multicollinearity in the model.

Table 4: Pearson Correlation

Variable	MSP	DY	PRR	ROE
MSP	1			
DY	-0.1035	1		
PRR	-0.1496	0.1935	1	
ROE	0.0089	0.2049	-0.0587	1

Source: Researcher's Computation using STATA 15 software

The correlation matrix determines the degree of relationships between the proxies of an independent variable and the dependent variable. It is also used to show whether there is an association among the proxies of independent variable themselves, to detect if a multicollinearity problem exists in the model. The result from table 4 shows that there exist 10% negative and weak relationships between dividend yield (DY) and market share prices (MSP) of quoted financial firms in Nigeria, from the correlation coefficient of -0.1035. Also, the table shows approximately 15% negative and weak association between profit retention ratio (PRR) and market share prices (MSP) of quoted financial firms in Nigeria, from a correlation coefficient of -0.1496. The table further indicates .8% positive and weak relationships between return on equity (ROE) and market share prices (MSP) of quoted financial firms in Nigeria, from a correlation coefficient of 0.0089. Finally, the relationships between proxies of independent variable themselves suggest being mild as all coefficients are below the threshold of 0.80 as suggested by (Gujarati, 2003).

Variance Inflator Factor (VIF) Results

Table 5: Variance Inflator Factor (VIF)

Variable	VIF	1/VIF
DY	1.08	0.924948
ROE	1.04	0.957629
PRR	1.04	0.962167
Mean VIF	1.05	

Source: Researcher's Computation using STATA 15 software

In a bid to further test the absence of multicollinearity problem among the exogenous variables, colinearity diagnostics test were observed. The decision rule is that if the values of VIF and 1/VIF are up to 10 and 1 and above, there is a presence of multicollinearity in the model but if the values of VIF and 1/VIF are less than 10 and 1 respectively, there is no presence of multicollinearity in the model. The results of Variance Inflation Factors (VIF) and the Inverse Variance Inflation Factors (1/VIF) values portray no multicollinearity problem in the data as their values are less than 10 and 1 respectively (Gujarati, 2003) as

presented in table 5. This points to the fact that the variables are well selected and fit in the same regression model because the multicollinearity problem is absent in the model, which is one of the requirements for regression analysis.

Heteroscedasticity test

Table 6: Heteroscedasticity Test

Type of test	Chi2	P-Value
Heteroscedasticity Test	72.77	0.000

Source: Researcher's Computation Using STATA 15 software

To establish that the data for this study were robust for the model, a heteroscedasticity test was carried out. The decision rule is that if the P-value ≤ 0.05 , there is a problem of heteroscedasticity but if the P-value > 0.05 , there is no problem of heteroscedasticity. The study revealed that data are heteroscedastic which means the basic linear regression model would not be reliable. This can be confirmed from the heteroskedasticity result in table 6 which revealed the chi2 value of 72.27 with a p-value of 0.00. As it does not satisfy the classical linear regression assumption of homoskedasticity (constant error variance). This is corrected using robust regression technique.

Breusch-Pagan Lagrangian Multiplier Test

Table 7 below presents the result of the Breusch-Pagan Lagrangian Multiplier test conducted.

Variable	Chibar2	P-Value
SP	2022.15	0.00

The decision rule of Breusch-Pagan Lagrangian Multiplier Test is that if the P-value is equal to and less than 0.05, the random effect model is appropriate if otherwise, the pooled ordinary least square regression is appropriate. Table 7 shows that the calculated Breusch-Pagan Lagrangian Multiplier test with chibar2 value of (2022.15) and the corresponding probability of (0.00) is more than the critical value for all the models ($p = 0.00$), thus the null hypothesis is rejected. The significance of the chi-square of the Lagrangian Multiplier test signifies that the variance of the random effect model is not zero (0). Hence, Random Effect Regression Model (REM) is more suitable than Constant Variance Model.

Hausman Specification Test

The data for this study is panel and panel data can lead to an error that is clustered and possibly correlated over time. This is because each financial firm may have its entity-specific characteristic that can determine its information (i. e. unobserved heterogeneity). And this may bias the outcome variable or even the explanatory variables. As such there is need to control for that. The decision rule of Hausman specification test is that if the prob. Chi2 is equal to and less than 0.05, the fixed effect model is appropriate if otherwise, the random effect model is more appropriate. The Hausman test shows that the random effect model is more appropriate. This can be confirmed from the Chi2 value of 0.28 with a p-value of 0.9635 in table 8 which is not significant at all levels of significance as suggested by (Hoechle, 2007).

Table 8 below presents the result of the Hausman specification test conducted.

Chi2	0.28
Prob. Chi2	0.9635

Source: Researcher's Computation using STATA 15 software

Content of Financial Reports and Market Reaction of Quoted Financial Firms in Nigeria Using Random Effect Model (REM)

Table 9 below is the random effect regression model conducted for the estimation of this model.

Table 8: Robust Random Effect Regression Model

Variable	Coefficients	z-value	Prob.
Cons.	5.510	1.57	0.116
DY	0.290	0.46	0.648
PRR	0.044	1.33	0.184
ROE	1.213	3.07	0.022
R-sq overall	0.5230		

Wald-chi	111.87
Prob. >chi2	0.0078

Source: Researcher's Computation using STATA 15 software

Table 9 above shows that 52% variation of market share prices (SP) is predicted by the combined effect of dividend yield (DY), profit retention ratio (PRR) and return on equity (ROE) with (Overall R-sq of 0.5230). This indicates that the independent variables are properly combined and used. The Wald chi value of 111.87 with a P-value of 0.007 signified that the model is fit for the study.

Test of Hypotheses

To examine the content of financial reports and market reaction of quoted financial firms in Nigeria, the formulated hypotheses were tested using a random effect regression model.

Ho₁: Dividend yield has no significant effect on market price of shares of quoted financial firms in Nigeria.

Table 9 equally shows that the z-value of 0.46 and the corresponding p-value of 0.648 shows that dividend yield (DY) has an insignificant positive effect on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. Based on this, the null hypothesis one which says that dividend yield has no significant effect on market price of shares of quoted financial firms in Nigeria is accepted.

Ho₂: Profit retention ratio has no significant effect on market price of shares of quoted financial firms in Nigeria.

Table 9 further reveals that the z-value of 1.33 and the corresponding p-value of 0.184 shows that profit retention ratio (PRR) has an insignificant positive effect on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. Based on this, the null hypothesis two which says that Profit retention ratio has no significant effect on market price of shares of quoted financial firms in Nigeria is accepted.

Ho₃: Return on equity has no significant effect on market price of shares of quoted financial firms in Nigeria.

Table 9 shows that the z-value of 3.07 and the corresponding p-value of 0.022 shows that return on equity (ROE) has a significant positive effect on market share prices (SP) of quoted financial firms in Nigeria for the period under review. Based on this, the null hypothesis three which says that return on equity has no significant effect on market price of shares of quoted financial firms in Nigeria is rejected.

Discussion of Findings

Dividend Yield and Market Share Prices

The study revealed dividend yield (DY) has an insignificant positive effect on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. This implies that an increase in dividend yield will increase the market share prices (MSP) of quoted financial firms in Nigeria by 0.290. The finding is in line with the a priori expectation of the researcher because dividend yield increases the market share prices of quoted financial firms in Nigeria. The finding is also in line with the signalling theory because the theory emphasized that the appropriate disclosure of content of financial reports serves as a great signal to its users as they react in making a more effective decision by the shareholders of companies. It also holds that financial information is one of the means through which the passage of information is successfully made to users (especially managers to stockholders). This implies that the disclosure of content of financial reports guide equity investors in their investment decision making which reflect in the market prices of shares in the capital market. The dividend yield has an insignificant positive effect on market share prices of quoted financial firms in Nigeria for the period under review. This finding is in line with the finding of Alajekwu and Ezeabasili (2020), Muthondu and Tobias (2021) and Udoka and Vincent (2020). However, the finding disagrees with the findings of Ajao and Robinson (2022), Budhathoki and Khadka (2024) and Samuel *et al.* (2022).

Profit Retention Ratio and Market Share Prices

The study also revealed that profit retention ratio (PRR) has an insignificant positive effect on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. This implies that an increase in profit retention ratio will increase the market share prices (MSP) of I quoted financial firms in Nigeria by 0.044. The finding is not in line with the a-priori expectation of the researcher because an increase in profit retention ratio reduces the market share prices of quoted financial firms in Nigeria. The finding is also in line with the signalling theory because the theory emphasized that the appropriate disclosure of content of financial reports serves as a great signal to its users as they react in making a more effective decision by the shareholders of companies. It also holds that financial information is one of the means through which the passage of information is successfully

made to users (especially managers to stockholders). This implies that the disclosure of content of financial reports guide equity investors in their investment decision making which reflect in the market prices of shares in the capital market. The profit retention ratio has an insignificant positive effect on market share prices of quoted financial firms in Nigeria for the period under review. This study is in line with the finding of Ogunseye and Eniola (2020). However, the study disagrees with the findings of Ahmed et al. (2024), Budhathoki and Khadka (2024) and Dahmash *et al.* (2023).

Return on Equity and Market Share Prices

The study further revealed that return on equity (ROE) has a significant positive effect on market share prices (MSP) of quoted financial firms in Nigeria for the period under review. This implies that an increase in return on equity increases the market share prices (MSP) of quoted financial firms in Nigeria, by 1.213. The finding is in line with the a-priori expectation of the researcher because return on equity (ROE) positively increases the market share prices of quoted financial firms in Nigeria. The finding is also in line with the signalling theory because the theory emphasized that the appropriate disclosure of content of financial reports serves as a great signal to its users as they react in making a more effective decision by the shareholders of companies. It also holds that financial information is one of the means through which the passage of information is successfully made to users (especially managers to stockholders). This implies that the disclosure of content of financial reports guide equity investors in their investment decision making which reflect in the market prices of shares in the capital market. The return on equity (ROE) has a significant positive effect on market share prices of quoted financial firms in Nigeria for the period under review. This finding is in consonance with the findings of Choiriyah *et al.* (2021) and Hayyin and Asep (2024). However, the finding does not support the findings of Agustina *et al.* (2024), Claudi and Menik (2021) and Dewa and Anak (2021).

CONCLUSION AND RECOMMENDATIONS

Dividend yield positively affects the market share prices of quoted financial firms in Nigeria. An increase in dividend yield leads to a corresponding rise in market share prices, indicating that higher dividend payouts are valued by investors. This suggests that well-communicated financial information serves as a strong indicator of a firm's performance, enabling investors to make informed decisions. As a result, higher dividend yields, coupled with transparent financial disclosures, enhance investor confidence and drive up the market share prices of quoted financial firms.

Investors view a higher profit retention ratio as a sign that the firm is reinvesting in growth opportunities, enhancing its long-term value and financial stability. The positive relationship between profit retention and market share prices suggests that retained earnings are critical for firms aiming to finance future projects, expand operations, and improve overall competitiveness in the market. This also reflects investor confidence in the firm's strategic direction, as they may interpret high retention ratios as a commitment to sustained growth and profitability.

Return on equity, which measures a firm's ability to generate profit from shareholders' equity, is a key indicator of financial performance and operational efficiency. A higher ROE signals to investors that the firm is effectively utilizing its equity base to generate earnings, thus enhancing investor confidence and demand for its shares, leading to an increase in market share prices. The positive effect of ROE on market share prices suggests that shareholders and potential investors view strong returns on equity as an indicator of a firm's profitability, stability, and growth prospects. Maintaining a high return on equity is critical for firms seeking to boost their market share prices and maximize shareholder value in Nigeria's financial sector.

Based on the above conclusion, the following recommendations are proffered:

- (i) Quoted financial firms should consider maintaining or increasing dividend payouts to enhance their dividend yield, as this has been shown to positively influence market share prices. This can help attract and retain investors, boosting the firm's market valuation.
- (ii) Quoted financial firms in Nigeria should aim for a balanced approach between profit retention and dividend distribution. While retaining profits for reinvestment promotes long-term growth, providing regular dividends ensures that shareholders receive immediate returns. Firms should carefully assess their financial situation and future growth opportunities to determine the optimal retention ratio.
- (iii) Quoted financial firms in Nigeria should enhance their operational efficiency to improve their return on equity (ROE). This can be achieved by optimizing cost structures, improving asset management, and ensuring better utilization of shareholder equity. By increasing profitability through efficient operations, firms can enhance their ROE, which in turn will positively affect their market share prices.

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