



## Impact of Financial Information on the Profitability of Business Organizations in Nigeria

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Accepted: March 4th, 2022

Published: March 31st, 2022

### Citations - APA

Chukwuani V. N. (2022). Impact of Financial Information on the Profitability of Business Organizations in Nigeria. *International Journal of Advanced Finance and Accounting*, 3(2), 26-36.

*The study empirically investigated the impact of financial information on the profitability of companies listed on the Nigerian stock exchange in the manufacturing sector with a panel data set spanning the years 2010 to 2020. Earnings per share, debt-equity ratio, and dividend per share as measures of financial information while return on equity and return on assets were used as proxies for a firm's profitability. For, Nigerian manufacturing companies, the findings show a significant positive association between firm size and profitability. Dividend per share, debt-equity ratio, and inflation influence profitability negatively. The empirical findings suggest that financial information impacts the profitability of a firm significantly. As a result, shareholders and investors should critically assess all relevant financial information within their grasp while examining the revenues and risk of their investments in a firm.*



ABSTRACT

**Keywords:** Financial Information; Profitability; Business Organizations; Pooled OLS

## **1. Introduction**

Currently, the necessity for producing quality financial information has received great attention. Providing high-quality financial reporting information is essential, because it assists capital providers and stakeholders in making investments, and promotes resource allocation decisions in enhancing overall market efficiency (IASB, 2010). With the growing need for information and openness among investors, financial information is more than just a final result. The quality of the process is determined by each component, which includes information about the company's transactions, information about the selection and application of accounting principles, and knowledge of the judgments made. All of a company's decisions are based on its financial position. When making decisions, a company should recognize which possibilities it can afford based on financial data. This financial information can be used to estimate how decisions will affect the company's cash flow and assess any potential profit impact. Financial information offered by a company has become a crucial resource for any market participant since it minimizes the number of information asymmetries between management, investors, regulatory agencies, society, and other stakeholders. As a result, when it comes to financial reporting quality, one of the most important elements to consider is how it affects a company's future success, or how the market perceives this greater perceived quality.

Late information can lead to resource misallocation (capital), posing major adverse selection and moral hazard issues for outside shareholders and creditors (Leventis & Weetman, 2004). Even in the case of private enterprises, where there is less separation of ownership and control, the timeliness of information is vital to outside creditors and (less frequently) to external shareholders. It can affect the pace with which debt covenant restrictions are enforced, which causes control to transfer from managers to lenders to limit acts like dividend payouts and additional borrowing, among other things (Ball & Shivakumar, 2005). Using financial data necessitates the use of percentages and time-based percentage change calculations. This allows a company to spot trends and create appraisals that can aid in decision-making. Furthermore, this information might be beneficial when speaking with shareholders or potential lenders about a company's performance. Financial data produced by a company has become a useful resource for any market participant since it bridges the gap in knowledge between management, investors, regulatory agencies, society, and other stakeholders. However, one of the most significant factors to examine when it comes to financial information is how it influences a company's future success, or how the market sees this higher perceived quality.

According to (Lainez & Callao, 2000) financial information serves as a commercial communication tool of international significance. Everyone should be able to understand financial data to fulfil this function. However, different countries have distinct accounting standards, making international financial analysis and interpretation complex. One of the aims of a financial report is to offer information about a company's performance and changes in financial status. Managers, directors, employees, potential investors, financial institutions, government regulatory agencies, the media, vendors, and the general public are among the users. Financial information is written by national standards, corporate governance, and professional ethics, to avoid financial reporting fraud and scandals that could instigate management's and other users' ability to make informed decisions. The financial reports include a balance sheet (also known as a statement of financial position), a profit and loss statement (also known as a statement of comprehensive income), a statement of equity changes (also known as a statement of changes in equity, or the company's equity), and cash flow statements (also known as a statement of cash flows).

The general objective of financial information is to offer reports about an organization's results of operations, financial status, and cash flows. The information is utilized by users of financial statements to make decisions about resource allocation. The income statement provides information to the reader about a company's ability to make a profit. Depending on how spending data is pooled, it also indicates the volume of sales and the nature of the various sorts of expenses. The income statement can also be used to assess trends in the results of firm operations when looked over multiple periods. (Nerantzidis, 2018) In most cases, the financial reporting disclosures of corporations are specified by the competent regulatory body. These disclosures are the most fundamental tools for a company's stakeholder communication. Mandatory disclosures are used to provide information that better explains and meets the needs of the user, whereas voluntary disclosures are used to provide information that better explains and meets the needs of the user.

The success of a business is dependent on its ability to perform. Organizational profitability is a key outcome variable in management and business research, with applications spanning from human resources and marketing to

operations administration, international business, strategy, and information systems. Because the market positively evaluates companies that are more committed to the issuance of good information for shareholders and other stakeholders, to reduce or eliminate information asymmetries between market participants, companies with better financial information have better subsequent performance (Amiram, Bozanic, Cox, Dupont, & Karpoff, 2018). As a result, this study aims to evaluate the effect of financial information on business profitability.

### **Statement of the problem**

Since the dramatic fall of the Enron Corporation, an American corporation, in 2001, and the subsequent dissolution of Arthur Andersen, which was one of the Big five accounting firms at the time. Because of their irregularity in reporting and poorly designed accounting standards, audit and accountancy firms have been viewed as ridiculous organizations all over the world. In fact, according to (Bratton, 2002). Enron's loss was dubbed "the largest audit failure of all time" since WorldCom, another American telecommunications corporation with over US\$107 billion in assets, failed just one year after Enron's demise. Because of the financial scandals and the financial crisis that most countries are experiencing, there has been a renewed focus on improving and enforcing quality financial information practices around the world to reform the global economy. As a result, stock market regulatory bodies such as the Nigerian Stock Exchange (NSE) have directed all companies listed on the exchange to adopt the International Financial Reporting Standards (IFRSs) by December 2011. Despite all of this financial regulation, the majority of publicly-traded companies continue to circumvent it by employing deceptive practices such as ensuring that audited financial documents are transmitted to the central bank.

The study "The Impact of Financial Information on business organizational profitability intends to look into the financial information of business organizations to find out the following:

1. The amount to which standard financial information contributes to or hinders a company's growth.
2. The regularity and conflict which exist in the financial reporting regulations given the multiplicity of regulators.

### **Objectives of the study**

The main objective of this research is to examine the impact of financial information on the profitability of business organizations in Nigeria. To do this, the following specific objectives must be met:

1. The relationship between financial information and business organizational profitability.
2. The influence financial reporting has on business performance.
3. The extent to which financial information meets the needs of investors.

### **Research Question**

Is there a link between financial information and the profitability of a business organization?

### **Significance of the Study**

Financial statements give an overview of a company's financial health at a given period in time, revealing information about its performance, operations, cash flow, and general situation. Financial statements are required for shareholders to make informed decisions about their equity interests, particularly when voting on business concerns. They must assess their stocks using a multitude of measurements rather than just a few to make better selections. Profitability ratios, liquidity ratios, debt ratios, efficiency ratios, and pricing ratios are just a few of the available measures.

The study is important because it will provide additional information to financial information users, allowing them to develop trust in financial reports. It is also vital because it would shed light on some of the statutory provisions put in place by relevant statutory entities to improve the quality of financial reporting in Nigeria's publicly traded corporations. Investors will also benefit from the study because it will give them relevant information to help them make informed investment decisions. It is also significant because it'll act as a source of information and a supplement to existing literature or expertise. The study is particularly significant since it will provide information to management that will assist them in reducing bad financial reporting.

## **2. Literature Review**

### **2.1 Theoretical Framework**

#### **Voluntary Disclosure Theory**

Even when they don't have control, managers want to disclose more information, according to the voluntary Disclosure Theory. This is because, according to organizational theory, agents are responsible for a large percentage of the agency's costs. In this vein, operators strive to lower their agency expenses to boost earnings. Agent expenses occur as a result of information asymmetry, in which the expert has more private information about the company's performance than the essential, according to organization theory (Ensen & Meckling, 1976). The instructive feature of deliberate disclosures for the capital markets is the subject of hypothetical and proper accounting evaluations. The Securities Exchange Commission and the Financial Accounting Standards Board regulate mandatory disclosures, while exposure writing is the term used in accounting to describe purposeful and optional disclosures. On the other side, information management is a term that refers to the process of organizing information. self-destructive According to the hidden premise of the disclosure text, the administrator has superior information to others.

Executives change back and forth between accounting decisions and information disclosure to "display their better information of an organization's performance than financial specialists and to oversee announced performance for contracting, political, or corporate management reasons" (Aguguom, Dada, & Nwaobia, 2019). According to hypothetical research connected to Disclosure, full disclosure of information will take place as a result of financial experts' belief that non-unveiling corporations have the worst conceivable information. Sound exposures and no Disclosure costs are also acceptable in these reviews. In any case, Verrecchia proposes that only enterprises with financial returns larger than expenses should be declared in the context of fixed, positive Disclosure costs. Similarly, disclosing information to competitors has an impact on disclosure strategies. Accounting hypothetical reviews for disclosure are primarily concerned with the types of hazards that may arise.

#### **Asymmetry Theory**

According to the asymmetric information hypothesis, at least one party to a transaction possesses meaningful information while the rest do not. A divergence from perfect information is referred to as asymmetric information. Information imbalances can easily influence the capital market for products and company transactions. It claims that differences in access to information annoy the usual market for the trade of goods and services in some financial transactions. This theory provides a hypothetical explanation of the weight to be revealed on bank executives who are better placed in the corporate structure to better understand the banks and, as a result, discharge the information they have to financial specialists who will use it for basic leadership.

Ball (2009) points out that reviewed financial-related articulations and purposeful exposures are systems for directors to communicate information. Reporting autonomously examined financial data, serves as a "corroborative element," allowing shareholders to evaluate the education and honesty of previous voluntary Disclosures. As a result, regardless of whether or not the information is specifically undeniable, directors can confidently communicate value-relevant information.

#### **Stakeholder's Theory**

According to Fredman, stakeholder theory emphasizes the importance of some individuals or groups to the organization's existence. Although stakeholder theory, according to a previous study by Freeman, refers to any group or individual who can affect or is likely to be affected by the organization's goal being fulfilled, this explanation is considered an organization-oriented explanation. Friedman and Miles agreed with Freeman because his definition of stakeholders' theory was more balanced and covered a broader area than Stanford Research Institute (SRI) (1963), which defined stakeholders' theory as simply those people who would not exist if the organization didn't have their support and ideas

The stakeholder hypothesis asserts that all stakeholders have a right to know how an organization operates. This material could include, among other things, information regarding the organization's environmental impact, community sponsorship, job opportunities, and safety activities.

## **2.2 Empirical Review**

Aigienohuwa & Uniamikogbo (2021) researched on Profitability and Timeliness of Financial Reports in Nigerian Quoted Companies. The primary purpose of this paper is to assess the relationship between profitability and financial report timeliness in Nigerian publicly traded companies. The study employed an ex post facto research design. Using the Taro Yamane method, the sample size was calculated. Data was gathered through a content analysis of selected 145 quoted Nigerian companies' annual reports and accounts from 2010 to 2019. The data were analyzed using Descriptive statistics, correlation, and simple regression. The result revealed that, at a 5% level of significance, there is a substantial association between profitability and financial report timeliness in Nigerian quoted companies.

Gandolph (2022) studied financial reporting and organization performance in Nigeria. The purpose of the research was to see how financial reporting affects organizational performance in Nigeria. The ex-post factor design method was employed for the course of this work. Data were extracted from ten Nigerian manufacturing companies. The study adopted inferential statistics for panel data analysis. The results demonstrated that financial reporting had a substantial impact on the performance of selected manufacturing enterprises in Nigeria.

Saliu & Adetosho (2018) worked on the relevance of financial reporting on the profitability of quoted companies in Nigeria. This research examined the impact of financial reporting on the profitability of Nigerian publicly traded enterprises. Survey research and cross-sectional research were used in this study. Proportionate stratified sampling was used to choose the sample companies. Financial reporting and financial performance, as measured by the quality of financial reporting, return on equity, return on asset, and profit after tax were the variables examined in the study. The primary data was gathered through the distribution of questionnaires, while secondary data was gathered from the sampled companies' online annual financial statements. The Eviews 7 statistical program was used to assess the hypotheses for this study, and the threshold of significance utilized to test the hypothesis was 5%. According to the result, the investigation reveals a positive link between financial reporting quality and profit after tax. It also shows that financial report quality has a considerable impact on return on assets. As a result, the study suggests that there is a strong association between profit after tax (PAT) and financial reporting of publicly traded companies in Nigeria.

Enakirerhi, Ibanichuka, & Ofurum (2020) reviewed a study on Firms' Profitability and Financial Reporting Quality: Pre and Post IFRS Adoption in Nigeria. The research work aimed to analyze the effect of profitability on the earnings quality of enterprises, and the impact IFRS has on the profitability of firms in Nigeria. The study used a quantitative approach of analysis, including multiple regression analysis to determine the impact of ROE and ROA on earnings quality, as well as a t-test of mean difference to determine the difference between pre-and post-IFRS adoption means. Discretionary accrual was quantified using the Jones' approach to assess earnings quality. The results reveal that profitability has a mixed influence on the quality of earnings after the implementation of IFRS, depending on the profitability metric used.

## **3. Methodology**

### **Sample and Data Collection**

The sample consists of manufacturing companies that are publicly traded on Nigerian stock exchanges. Annual financial information for manufacturing enterprises, except for ICT and agricultural firms, from 2010 to 2020 is acquired from audited and reported annual reports and accounts of the sampled firms during the study's time frame. Initially, 50 firms are collected. Following the elimination of firms with missing, insufficient, or extreme data, an imbalanced panel of 36 firms is obtained.

### **Study Variables**

Financial information is employed as the independent variable in this study. Book value of equity per share, debt-equity ratio, and dividends per share are used as financial information measures based on this consideration. Company profitability measures, such as return on assets (ROA) and return on equity (ROE), are utilized as dependent variables in this study as proxies for firm profitability, in line with some previous studies (Dalci, 2018; Ogundajo, et al, 2019). In addition, firm-specific and economy-wide factors such as firm size and yearly inflation rate are utilized as control variables in this study to account for other potential implications on firm profitability.

**Table 1: Study Variables**

| <i>Variables</i> | <i>Measures</i>  |
|------------------|--|
| <i>PER</i>       | Return on Assets (ROA): Net income divided by total assets<br>Return on Equity (ROE): Net income divided by average shareholders' equity |
| <i>EPS</i>       | A firm's profit divided by the outstanding shares of its common stock  |
| <i>DER</i>       | Total debt divided by total assets   |
| <i>DPS</i>       | Total dividends paid out over a period - any special dividends) ÷ (shares outstanding  |
| <i>LTA</i>       | Natural logarithm of total assets  |
| <i>INF</i>       | Consumer price index   |

Notes: PER represents the profitability; EPS represents the Equity Per Share, DER measured by the Debt Equity Ratio; DPS the Dividend Per Share, LTA the Firm Size; and INF the Annual Inflation Rate

**Data Analysis**

The panel data approach is chosen in this study because of its benefits. The panel data technique can account for unobservable heterogeneity, eliminates or minimizes estimation bias and potential data multicollinearity issues, and gives greater information, variability, and efficiency (Hsiao, 2005). Researchers can also adjust for unobservable firm-specific effects using the panel data technique, which gives a stronger evidence base (Baltagi, 2008). As a result, for the panel data methodology employed in this investigation, the following models are proposed:

**OLS Model**

$$PER_{i,t} = \beta_0 + \beta_1 EPS_{i,t} + \beta_2 DER_{i,t} + \beta_3 DSP_{i,t} + \beta_4 LTA_{i,t} + \beta_5 INF_{i,t} + \epsilon_{it} \dots\dots\dots 1$$

Fixed-effects model

$$PER_{i,t} = \beta_0 + \beta_1 EPS_{i,t} + \beta_2 DER_{i,t} + \beta_3 DSP_{i,t} + \beta_4 LTA_{i,t} + \beta_5 INF_{i,t} + \mu_i \dots\dots\dots 2$$

Random-Effect Model

$$PER_{i,t} = \beta_0 + \beta_1 EPS_{i,t} + \beta_2 DER_{i,t} + \beta_3 DSP_{i,t} + \beta_4 LTA_{i,t} + \beta_5 INF_{i,t} + \mu_i + \epsilon_{it} \dots\dots\dots 3$$

Where,

- PER<sub>i,t</sub> Profitability for firm i at the end of year t
- EPS<sub>i,t</sub> Book value of equity per share for firm i at the end of year t
- DER<sub>i,t</sub> Debt equity ratio for firm i at the end of year t
- DSP<sub>i,t</sub> Dividends per share for a firm i at the end of year t
- LTA<sub>i,t</sub> Firm size for firm i at the end of year t
- INF<sub>i,t</sub> Annual inflation rate for firm i at the end of year t
- β<sub>0</sub> Intercept
- μ<sub>i</sub>, ε<sub>it</sub> Error term
- B<sub>0</sub> Coefficient (constant) to be estimated
- B<sub>1</sub>-B<sub>3</sub> Parameters of the independent variables to be estimated
- t Current period

To improve the consistency and efficiency of the outcomes, three alternative panel data methodologies are applied. There may be cross-sectional effects on each because the panel data include observations on the same cross-sectional firms from 2010 to 2020. In terms of dealing with such issues, fixed and random effects are offered. In this case, the pooled OLS methodology is employed first. The Fixed-effects and Random-effects approaches are then used. The F-test is used to choose between Fixed-effects and OLS when the results of OLS, Fixed-effects, and Random-effects have been determined. Furthermore, the Lagrange Multiplier (LM) test of Breusch and Pagan (1980) will be utilized to pick between the Random effects model and the OLS model. The Hausman (1978) test will be used to determine whether the Fixed-effects or Random-effects method is preferable.

At the third stage, diagnostic tests such as serial correlation, cross-sectional dependence, and heteroskedasticity tests were used to see if the residuals of each variable in the model are uncorrelated and to see if there are constant variations among the model's residuals within the time frame. T-tests and F-tests at a 90% confidence level were

used to assess the individual and combined impacts of explanatory factors on dividend payout, while the coefficient of determination was employed to assess the degree to which accounting information impacts profitability.

#### 4. Empirical results

##### Summary Statistics

Table 2 presents the descriptive statistics of the study variables. As Table 2 shows, the mean values for ROE and ROA are 0.886255 and 0.595640, whereas the median values are 0.695449 and 0.692308, respectively. The mean value of EPS is 0.315425 and the DER's mean value is 0.015506. On the other hand, DPS has a mean of 1.966474. The mean of LTA and INF are 8.084615 and 0.114119 respectively.

**Table 2: Descriptive Statistics**

|           | ROE       | ROA       | EPS      | DER       | DPS       | LTA       | INF       |
|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|
| Mean      | 0.886255  | 0.595640  | 0.315425 | 0.015506  | 1.966474  | 8.084615  | 0.114119  |
| Median    | 0.695449  | 0.692308  | 0.179513 | 0.049662  | 1.983279  | 8.100739  | 0.034554  |
| Maximum   | 0.241017  | 2.127105  | 1.741876 | 0.209700  | 2.400883  | 8.582889  | 3.973840  |
| Minimum   | -4.481486 | -0.494850 | 3.30E-05 | -0.198368 | 1.442166  | 7.413892  | -3.387875 |
| Std. Dev. | 1.005059  | 0.484740  | 0.358468 | 0.114657  | 0.269157  | 0.304429  | 1.064910  |
| Skewness  | -2.360963 | 0.242898  | 2.201753 | -0.397340 | -0.400543 | -0.251312 | 0.462740  |
| Kurtosis  | 8.966399  | 4.491279  | 8.400433 | 2.239107  | 2.190373  | 2.662763  | 9.774607  |

Source: Author's Computation, 2022.

##### Correlation Analysis

The Pearson correlation test between the variables is presented in Table 3 below. According to the correlations between the variables, both INF and DPS have a negative association with ROE and ROA. EPS, DER, LTA, and DPS are all inversely correlated with ROE and ROA. All of the correlation coefficients in Table 3 are lower than the 0.8 thresholds, with the highest value of 0.76 suggesting that the variable combinations are satisfactory.

**Table 3: Pearson Correlation Test Result**

|     | EPS      | DER      | DPS       | LTA      | INF       | ROE       | ROA       |
|-----|----------|----------|-----------|----------|-----------|-----------|-----------|
| EPS | 1.000000 | 0.084696 | -0.042711 | 0.096200 | -0.203056 | 0.059418  | 0.762848  |
| DER |          | 1.000000 | 0.388575  | 0.350006 | 0.207989  | 0.705896  | 0.081098  |
| DPS |          |          | 1.000000  | 0.741074 | 0.482565  | -0.231832 | -0.006881 |
| LTA |          |          |           | 1.000000 | 0.662793  | 0.168119  | 0.151823  |
| INF |          |          |           |          | 1.000000  | -0.043275 | -0.127874 |
| ROE |          |          |           |          |           | 1.000000  | 0.012555  |
| ROA |          |          |           |          |           |           | 1.000000  |

Source: Author's Computation, 2022.

##### Results Of OLS, First-Difference, Fixed-Effects, Random-Effects

The OLS, Fixed-effects, and Random-effects results for the impact of financial information on ROA and ROE are depicted in Table 4. Table 4 shows the efficacy and significance of each financial information metric in forecasting profitability. For OLS, fixed-effects, and random effects, the coefficients are supplied with "t" values in parenthesis. As shown in Table 4, the F test and LM test statistics are statistically significant, indicating that the Fixed- and Random-effects approaches yield better results than the OLS method.

**Table 4: Regression Result**

|   | OLS                    | FIXED-EFFECTS           | RANDOM-EFFECT           |
|---|------------------------|-------------------------|-------------------------|
| <i>Panel A: Dependent variable, ROA</i> |                        |                         |                         |
| EPS                                     | -0.067699(0.437854)    | 0.009242(0.208599)      | 0.008661(0.335738)      |
| DER                                     | 0.252483(-1.133049)    | -0.065366(-0.847829)    | -0.061690(-1.206231)    |
| DPS                                     | 0.180511(2.037894)***  | -0.522837(2.739629)***  | 0.403872(3.319541)***   |
| LTA                                     | 0.003295(-2.151617)*** | 0.830040(-2.385650)***  | 0.387340(-4.366754)***  |
| INF                                     | 1.029413(-0.129083)    | -0.006602(-0.230072)    | -0.006596(3.437537)***  |
| F-test                                  | 14.35***               |                         |                         |
| LM (chi2)                               | 224.321***             |                         |                         |
| Hausman (chi2)                          | 6.423412***            |                         |                         |
| F value                                 | 1.264278               | 1.416062                | 3.514647                |
| Adjusted R-squared                      | 0.174040               | 0.543894                | 0.369393                |
| <i>Panel B: Dependent variable, ROE</i> |                        |                         |                         |
| EPS                                     | -0.004681(1.012540)    | -0.006903(0.941612)     | -0.004681(0.962898)     |
| DER                                     | 0.121600(-4.243463)*** | -0.157742(-5.794855)*** | -0.121600(-4.986388)*** |
| DPS                                     | 0.016149(-0.621596)*** | -0.030636(-2.173705)*** | 0.005220(-0.591121)     |
| LTA                                     | -0.081568(0.947032)    | 0.020199(2.829554)***   | 0.016149(4.449625)***   |
| INF                                     | -0.683737(4.805937)*** | -0.111464(4.319125)***  | -0.081568(4.570313)***  |
| F-test                                  | 63.25***               |                         |                         |
| LM (chi2)                               | 334.31***              |                         |                         |
| Hausman (chi2)                          | 4.996851***            |                         |                         |
| F value                                 | 4.737541               | 3.308797                | 5.837211                |
| Adjusted R-squared                      | 0.494996               | 0.757574                | 0.474996                |

*Notes: EPS represents the equity per share; DER the debt-equity ratio; DPS the dividend per share; LTA the firm size; INF represents the annual inflation rate. F-test provides a test of the OLS model against the fixed-effects model; LM test represents the Breusch and Pagan's (1980); Hausman (1978) is the Hausman specification test Numbers in parentheses next to the coefficients are t-values (for OLS, fixed effects and random effects). R squared represents the percentage change in the dependent variables caused by the independent variables.*

The results presented in Table 4 reveal the magnitude and importance of each of the financial information measures in predicting the profitability. As can be seen in Panel A of Table 4; DPS has a positive statistically significant impact on ROE in both the OLS ( $\beta = 0.180511$ ,  $p < 0.05$ ) and random effect method of estimation ( $\beta = 0.403872$ ,  $p < 0.05$ ) while DPS has a negative significant impact on ROE under the fixed effect method ( $\beta = -0.522837$ ,  $p < 0.05$ ). LTA has a positive statistically significant impact on ROE under the three-regression methods; ( $\beta = 0.003295$ ,  $p < 0.05$ ) for OLS, ( $\beta = 0.830040$ ,  $p < 0.05$ ) for Fixed-effect, and ( $\beta = 0.387340$ ,  $p < 0.05$ ) for Random effect. INF has a negative significant impact on ROE only in the random effect regression method ( $\beta = -0.006596$ ,  $p < 0.05$ ).

Panel B in table 4 demonstrates that, among the control variables; the DER ( $\beta = 0.121600$ ,  $p < 0.05$ ) and DPS ( $\beta = 0.016149$ ,  $p < 0.05$ ) has a statistically significant positive impact on ROA under OLS method. , on the other hand, INF ( $\beta = -0.683737$ ,  $p < 0.05$ ) has a negative and significant relationship with ROA in the OLS method. LTA ( $\beta = 0.020199$ ,  $p < 0.05$ ) has statistically significant positive under Fixed-effects. The fixed effect method also shows that DER ( $\beta = -0.157742$ ,  $p < 0.05$ ), DPS ( $\beta = -0.030636$ ,  $p < 0.05$ ) and INF ( $\beta = -0.111464$ ,  $p < 0.05$ ) have negative and significant relationship with profitability. Furthermore, under random-effect method, while DER ( $\beta = -0.121600$ ,  $p < 0.05$ ), and INF ( $\beta = -0.081568$ ,  $p < 0.05$ ) have statistically significant negative impacts on ROA while LTA ( $\beta = 0.016149$ ,  $p < 0.05$ ) has a statistically significant positive influence on ROA.

DPS has a statistically significant negative impact on both measures of profitability under the OLS method, as shown in Panel A and Panel B of Table 4, whereas DPS has a statistically significant negative impact while LTA has a statistically significant positive impact under the Fixed-effects method. Only LTA and INF have a statistically significant influence on both metrics of profitability when using the random effect technique. Apart from these



considerations, all of the models in table 4 have highly significant F values, indicating that all of the models have appropriate and fit measures. However, the Hausman test demonstrates that the Fixed-effects method is superior to the Random-effects method. As a result, the results of the Fixed-effects technique are strongly evaluated in this study. Because the F test is significant in all of the models, it demonstrates that the Fixed-effects technique is better than the OLS. The OLS approach is chosen over the Random-effects method because the LM test is significant.

### **Discussion**

According to the fixed effect results for the control variables, the debt-equity ratio (DER) in panel A implies that high leverage can impair corporate profitability due to increasing interest payments and the risk of default. As a result, the usage of big corporate debt might have an impact on the firm's profitability, resulting in fixed costs that must be carried by the company that is greater than the debt's income. This is consistent with Okoye's (2019) findings, which indicated a substantial negative relationship between ROE and debt-equity ratio. It was also shown that Nigerian manufacturing companies have a high retention rate, which could explain the significant negative relationship between profitability and dividend per share. This means that the corporation becomes less lucrative as the profit allocated to investors as returns rises.

The significant impact of firm size (LTA) on profitability suggests that agency issues between owners and managers are minor in Nigerian manufacturing firms, implying that larger firms are more likely to exert control over management conduct. This research reveals that a company's size has a significant impact on its performance, which is reflected in earnings; large firms can generate more profits than small firms. This is true for large corporations that maximize their assets in order to maximize profits. As a result, investors are more likely to think of large companies as being capable of surviving difficult economic times by employing more effective corporate growth tactics. The fixed-effect model also shows that inflation has a negative and significant impact on the profitability of manufacturing firms. Inflation increases production and operational expenses for Nigerian manufacturing enterprises, which can be damaging to the firm's profitability. This is in line with Adyatmika & Wiksuana's (2018) findings, which claim that high leverage might diminish corporate profitability.

The overall influence of equity per share, debt-equity ratio, dividend per share, company size, and inflation rate on the profitability of manufacturing firms in Nigeria is shown by an adjusted R<sup>2</sup> of 75.76 %. This means that at a 5% level of significance, financial information explains 75.76 percent of the variation in the profitability of Nigerian listed manufacturing firms.

### **Conclusions**

The study investigated how financial information influences the profitability of listed manufacturing firms in Nigeria using earnings per share, debt-equity ratio, and dividend per share as measures of financial information. Return on equity and return on assets were used as the dependent variable. Firm size and inflation were control variables. It was observed that financial information is useful to investors and business owners in forecasting a firm's profitability.

According to the results, among the control variables, firm size influences profitability positively while dividend per share, debt-equity ratio, and inflation influences profitability negatively. However, the earnings per share do not have a statistically significant influence on profitability. The findings show that the debt-equity ratio and dividend per share are likely to cause profitability to decrease significantly because of financial distress and bankruptcy costs. This could also be due to agency problems between managers and shareholders caused by the weak institutional environment in Nigeria.

This current study highlights that financial information impacts firms' profitability significantly have crucial policy implications. First, to reflect the genuine financial status of the firms, managers and owners of corporate organizations must implement more effective internal control systems and improve the quality of financial reports. Furthermore, when making financial decisions to increase productivity and profitability, the managers and owners of the corporate organization must also pay close attention to these measures of financial information. Based on the findings of this study, it is recommended that investors critically assess all relevant financial information within their grasp while examining the revenues and risk of their investments in a firm.

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