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EXPLORING INVESTOR'S DECISIONS IN ESTIMATING THE EFFECT OF EARNING PERSISTENCE, FINANCIAL LEVERAGE, FOREIGN OWNERSHIP ON COMPANY REPUTATION AND VALUE IN NIGERIA

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ABSTRACT

This study evaluates the effect of exploring investor's decisions in estimating the effect of earning persistence, financial leverage, foreign ownership on company reputation and value We used multiple regression models on secondary data obtained from the annual and accounts of sampled consumer firms listed in Nigeria Stock Exchange spanning for ten (10) year from 2012-2021. The findings revealed that earnings before interest and tax (EBIT) and market capitalization (MCAP) are positively correlated though not significant at P- value. On the other hand, it can be deduced that the sensitivity of market capitalization to the control variable asset tangibility (at) is statistically positive and insignificant at P-value = 0.502 also but that has a positive and significant effect on financial leverage. It was documented that there exist perfect relationships between asset tangibility, financial leverage and natural logarithm of total assets connoting presence of colinearity. It is easily adjusted using colinearity diagnostics given the non-existence of both lagged values and dummy variables. The implication of the finding revealed that earnings before interest and tax (EBIT) and market capitalization (MCAP) are positive and can be used in predicting the movement of predictors' variables regarding regressand; financial leverage, earnings before interest and tax and foreign ownership of consumer firms in Nigeria. The study hereby recommends that: consumer firms should not rely on debt financing but as well lay hand on the other means of increasing its working capital, thus; internal finance, general reserve etc. Above all, there will be collaborate between the firm and foreign partnership to improve financial performance, they should also focus on increasing wealth of the firm ensuring that the firm's investors have their return on investment as when due.. Finally, firm management should adjust its administrative expense in order to increase profit for the year to encourage prospective investors.

KEY WORDS: *Return on investment, earnings and growth, foreign investors and profitability*.

1.INTRODUCTION

Investors today need to make investment decisions in the capital market based on reality, information, and financial analysis that is suitable with a rational approach to determine the results of their investments. Investors will consider numerous aspects such as financial performance, operational performance, macro and micro conditions, market movements, sentiment and reaction, and many more (Erasputranto&Hermawan, 2015). If investors focus more on using tangible assets to appraise business success, investors currently need to pay attention to intangible assets. Kamasak (2017) states that intangible assets have a greater contribution to the company's market performance than tangible assets. Along with financial liberalization, many countries continue to be open to foreign investors. It is indisputable that the presence of foreign investors can have a positive impact on the indigenous economy. Profit persistence arises when a company is able to improve its performance to create good quality earnings information to the shareholders and investors. With such conditions, investors will be interested in responding to stock movements, which are still spinning in the stock market. Notification of profits made by the company will affect the market reaction; the reaction can be in the form of changes in trading volume or changes in stock prices.

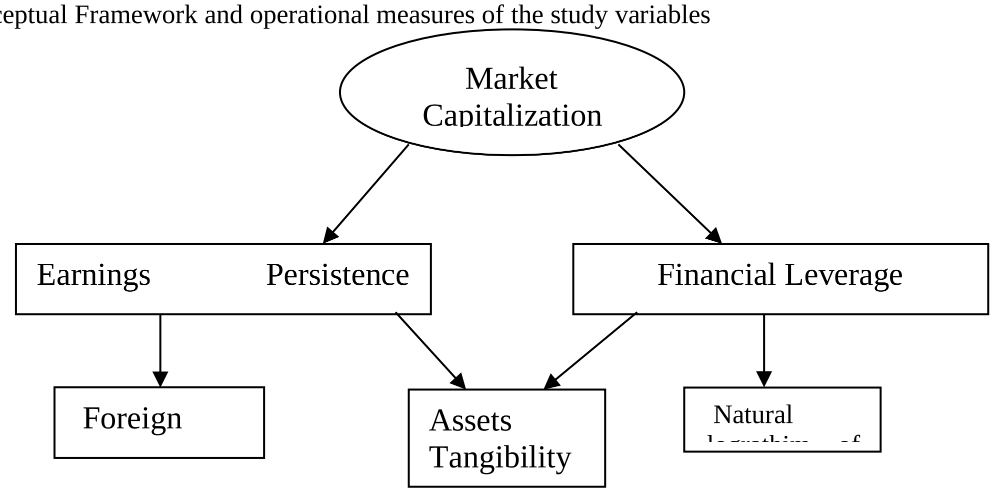
The quality of earnings is related to earnings information reported by the company, which can influence investors' decisions when the information is related to earnings where the profit is the net income mentioned in the income statement and the company's ability in creating these profits as predictors of future earnings. Companies with a good overall reputation have valuable assets (Ponzi *et al*., 2011), important assets that exhibit positive performance (Acharya &Sabri, 2014). This has become a critical resource because it has the potential for value creation and because its intangible nature makes replication by competing companies more difficult (Adams *et al*., 2012).
A company's value is influenced by many factors that determine its effectiveness, as well as the risk to which it is exposed. Such factors include the financing structure, i.e., the degree of liabilities, which is referred to as financial leverage (Artur, 2021) and (Ebe, 2021) The significance and direction of the impact of this leverage on the valuation of companies (or on the returns on their shares) have been the subject of research. Financial leverage is the degree to which a company uses fixed income securities such as debt and preferred equity

The contribution of reputation, the proportion of a company's value that is associated with its reputation, varies by company size and is not surprising given the human nature and tendency to generalize, often higher for large companies. In rough terms, it will be seen that even the most difficult-nosed investors conclude the 'level of success' of the measure of company reputation and value and who may be prepared to submit a number of judgments to the reputation and pre-formed impressions based on company value (Jao, Hamzah, Laba&Mediaty, 2020).The company's value is reflected from the market value of company's shares. Based on the foregoing, this study is ascertaining investor decisions based on the effect of earning persistence, financial leverage, foreign ownership on company reputation and value.

One of the significant roles of management of firms is the formulation of financial policies that are intended to maximize the profitability of the firm, hence the firm's earnings per share for the benefit of investor decision-making when it comes to assessing company value. This study sets out to determine investors decisions based on the effect of earning persistence, financial leverage, foreign ownership on company reputation and value. The value of a firm is often measured based on the size of the firm usually expressed as market capitalization. Oluwatoyin and Gbadebo (2009) assert that performance of a company in terms of turnover, profit for the, dividends and the value of a company in the stock exchange in terms of price index and market capitalization are dependent on one another.

2.0 REVIEW OF RELATED LITERATURE

Conceptual Framework and operational measures of the study variables



Source: Reseachers Conceptualization (2023)

Earnings Persistence

Salehi et al., (2018) examine whether future stock returns will reflect information about current earnings quality. Earnings quality is measured by accruals. Companies with high accruals show low-quality corporate profits, and vice versa. There are at least three possible explanations for why accruals predict stock returns, namely (1) conventional interpretations, high accruals indicate manipulation of earnings by managers, (2) accruals can be the main indicator of changes in the company's prospects, without manipulation by managers, and (3) accruals can also predict returns if the market views accruals as a reflection of past growth. Furthermore Lennox et al. (2016) says that a measure, accrual accounting, is the main indicator of earnings quality. Astami et al. (2017) described the differences in the company's accounting earnings and the underlying cash flow. Large positive accruals indicate that earnings are higher than the cash flow obtained by the company. This difference arises because of accounting conventions, and how much income and costs are recognized (the so-called "revenue recognition" and "matching" principles). Overall good financial performance in the past will be a signal for all parties to believe that the company is of good quality. Perceptions of company quality are often associated with corporate reputation (Szőcs et al. 2016). Companies that have performed well in the past will have a bad reputation today (Shim and Yang, 2016). The impact of the company's financial performance in the past may affect the company's reputation in the future known as the term performance effect (Alwi et al., 2017). Ang and Wight (2009) in Flatt and Kowalczyk (2011) state that to build and maintain a reputation requires consistent and superior performance over competitors.

Companies with good financial performance in the past have encouraged investor confidence in the quality of the company. However, investors are not just looking at how much profit they make. Investors are more focused on profit that reflects their true performance and is likely to repeat in the future (persistently). Investors will look at companies with high profitability that will be able to face difficulties and have good prospects. This will boost investor confidence and increase the value of the company.

Financial Leverage

Leverage is the mixture of debt and equity in the capital structure of firms. Lumby and Jones (2014) described financial leverage as the ratio of the total market value of a company’s debt capital to total market value of its equity. As debt increases, financial leverage increases. A firm can finance its investments by debt and equity, and a firm may also use preference shares. The ratio of the fixed- charge sources of funds, such as debt and preference shares to owners’ equity in the capital structure is referred as financial leverage or gearing (Njeri&Kagiri, 2013).

The most commonly used measures of financial leverage according to Abubakar (2015), are debt ratio, debt-equity ratio and interest coverage. Debt ratio and debt-equity ratio can be expressed either in terms of book values or market values. The market value to financial leverage is theoretically more appropriate because market values reflect the current attitude of investors. But it is difficult to get reliable information on market values in practice. Furthermore, financial leverage measures a firm’s exposure to financial risk. Financing a company's assets with debt or preferred stock relates to fixed debt costs and it also increases a firm’s financial risk. The total leverage of a firm is given by a firm’s use of both fixed operating costs and debt costs. This implies that, a firm’s total risk equals business risk plus financial risk Brealey and Myers (2013). Financial leverage can accelerate EPS under favorable economic conditions but depresses EPS when the goings is not good for the firm. The unfavorable effect of financial leverage on EPS is more severe with more debt in the capital structure when EBIT is negative. Similarly, the firm’s financial leverage can increase shareholders’ return and as well could increase their risk. Yabs (2015), the financial leverage employed by a company is intended to earn more on the fixed charges funds than their costs

Foreign Ownership

Several authors and scholars have made attempts to explain what constitutes ownership structure. Jensen and Meckling (1976), assert that ownership structure is the distribution of equity with regard to votes amongst shareholders, capital and also by the identity of the equity owners. Demsetz and Lehn (1985) documented that ownership structure represents the fraction of shares owned by a firm’s most significant shareholders with most attention given to the fraction owned by the five largest shareholders. However, when looking at ownership structure from managerial perspective, Demsetz and Lehn (1985) see ownership structure as the fraction of shares owned by firm’s management which include shares owned by members of the corporate board, Chief Executive Officer (CEO) and top management. Zhang (2005) defines ownership structure as stock-holders ownership proportion. Shah, Safdar and Mohammad

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(2011) posits that ownership structure as the percentage of shares held by Directors while Wahla, Shah, and Hussain (2012) view ownership structure as the composition of managerial ownership and concentrated ownership. However, Uwalomwa and Olamide (2012) analysis that ownership structure is seen as decisions made by those who own or who would own shares. The scholars deliberated ownership structure as the composition of board ownership, institutional ownership and foreign ownership. This is obvious that authors have viewed ownership structure from different lenses – whether from ownership concentration, managerial, institutional, family, government or foreign ownership. One fact stands out, ownership structure is simply a proportion or a share or a percentage of equity held by an individual, group of individuals, organization or government. However, for the purpose of this study, ownership structure can be seen as the proportion of equity holding own by foreign investors either as individuals or institutions.

Foreign ownership, whether through individual investors or institutions, can boost market performance by offering a high level of financing, and the transference of their experience and knowledge to the market where they are investing (Ndaks, 2021; Gurunlu&Gursoy, 2010). Foreign ownership is measured by the ratio of foreign ownership stake to total shareholding as evidenced by Al Manaseer, Al-Hindawi, Al-Dahiyat and Sartawi (2012) , Chari, Chen and Dominguez (2012) and Uwuigbe and Olusanmi (2012). There is lack of support to this variable in the previous empirical studies but the current study believes that foreign ownership is a factor that helps to align the interrelationship between owners and manager and at the same time mitigates the agency cost between the owners and managers. Foreign investors are of the most fundamental factors that help the separation between owners and shareholders and also assists the company to expand control over managers in the decision making process. It also provides established foreign expertise that gives a clear picture about the foreign investments.

Market Capitalization

Market Capitalization, or Market Cap, is a term used to represent the market value of a company based on its current share price and the total number of its outstanding shares. It is one of the most important characteristics of a company and is useful for prospective investors in understanding the risks of investing in stocks of the company. Market capitalization can be calculated by multiplying the number of outstanding shares of a company by the current price of its shares. Thus, if a company issues one million shares at ₦100 each, its market capitalization is ₦100 million (1 million shares multiplied by ₦100). Market capitalization is important because it allows potential investors to understand the true value of companies and the size of one company in relation to another. It helps investors to predict the future performance of the stock of a company because it reflects what the market is willing to pay for the stock. With the knowledge of the market caps of various companies, investors are able to make better informed decisions about the types of stocks they would want in their portfolios, in accordance with their investment plans. Over a long enough periods of time, large-cap, mid-cap, as well as small-cap stocks have the potential to lead the markets due to being differently affected by changes in the economy. It is for this reason that investors prefer to have a diverse portfolio consisting of a well balanced mix of these three types of stocks.

2.2 Theoretical Framework

Agency Theory

Mihai and Mihai (2013) claim that the theory regulating the relationship between ownership structure and firm's performance is agency theory. One of the earliest and most representative studies on this theory is Jensen and Meckling's (1976) work. The separation of control and corporate governance will lead to a conflict of interest. The manager can use their managerial authority to self-benefit and make non-profit decisions' benefits of shareholders. From the perspective, firms will benefit when the proportion of foreign ownership increases, as foreign investors require higher corporate governance standards and take on the supervisor's active role. According to Aydin et al. (2007), when firms have foreign investors' participation, they can supervise, control, or make business managers' recommendations to manage more effectively and avoid business decisions or plans can decrease the value of business results. Foreign investors can also play a supervisory role in firms' internal governance, especially in emerging markets (Lee, 2008; Ongore, 2011; Farrar, 2021; Thanatawee, 2021). If foreign investors assume an active supervisory role, their performance is expected to increase as foreign ownership increases (Lee, 2008; Thanatawee, 2021). Although according to Jensen and Meckling (1976), foreign investors play an important role in supervising managers and setting high standards of corporate governance, thereby reducing agency costs. However, when foreign ownership becomes concentrated (i.e., the proportion of foreign ownership increases too high), it can negatively affect firm value through the deterrent effect.

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2.3 Empirical Review

Kalbuana, Suryati and Pertiwi (2022) carried out a study on the impact of Company Age, Audit Quality, Leverage and Profitability on Earnings management on Indonesian Stock Exchange-listed Retail and Wholesale Trading Companies for the years 2016-2020. Secondary data was used obtained from 18 companies financial statements of firms in ISE for the analysis and the traditional assumption test of heteroskedasticity multicollinierity, normality test, correlation and determination coefficient test, simultaneous test, and partial test were conducted. Results exhibited that company age had a significant positive impact on earnings management, audit quality had a significant negative impact on earnings management, leverage had no significant impact on earnings management and profitability had a positive impact on earnings management. Similarly, Duong et al (2021) examined the relationship between foreign ownership and listed firms' performance in Vietnam. The study employed an extensive set of panel data comprising 288 non-financial listed Vietnamese firms, over a period from 2015 to 2019 taken for analysis. The results reveal that the higher the foreign ownership ratio, the higher the performance, however, the relationship between foreign ownership and firm's performance is U-shaped. In contrast, when the foreign ownership ratio is becoming too high, it will reduce the firm's performance and firm size, liquidity, financial leverage, capital intensity, and growth opportunities. In addition, they showed that foreign ownership and performance are linked by an inverted U-shaped relationship. A firm's performance increases with greater foreign ownership up to the range of 36.26%, and declines thereafter. The study also found positive effects of firm size and growth opportunities, and an inverse relationship between liquidity, financial leverage and capital intensity, and firm's performance. Indrayati and Rachmat (2021) explored the influence of growth and earnings management on dividend payment policies and company value in as many as 40 banking company's listed on the Indonesian stock exchange in 2015-2019. The study adopted explanatory research with secondary data, based on documentation data, data processing using the Structural Equation Model test. The results showed that asset growth had a negative and insignificant effect on dividends, persistence had no significant negative effect on dividends, investment opportunity set had a significant positive effect on dividends, earning management had a positive and insignificant effect on dividends, asset growth had no significant negative effect on the value company, dividends had a significant positive effect on firm value. Earnings persistence had no significant positive effect on firm value. Investment opportunity set has a positive and insignificant effect on firm value, and earning management had a significant positive effect on firm value.

Ndaks (2021) study was undertaken to examine the relationship between foreign ownership and firm financial performance of quoted conglomerates in Nigeria. The study used panel regression model to analyse the data obtained from the financial statements of the five (5) conglomerates quoted on the Nigerian Stock Exchange (NSE) for a period of 15 years (2006 – 2020) and market data on share prices were obtained from the NSE historical market data portal. Return on Assets (ROA) and Tobin's Q were used as proxies for financial performance measuring performance from both accounting based and market-based perspectives The findings revealed that foreign ownership has significant negative effect on ROA of the quoted conglomerates in Nigeria but insignificant negative relationship when measured with Tobin's Q. The study therefore recommends that Government of Nigeria and its agencies should ensure they put policies in place which will encourage Foreign Direct Investment (FDI) and at the same time check practices of those foreign owned companies to ensure they're not involved in practices that amounts to repatriation of profits abroad while reporting losses to avoid payment of tax; and managers or directors are advised to maintain optimal capital structure so as to maximize firm performance and to avoid embarking on projects that add no value to the organization as a whole. Robert, Hamzah, Abdul and Mediaty (2020) determined an estimated relationship of earning persistence, financial leverage, and foreign ownership on corporate reputation and corporate value on non-financial companies listed in Indonesian Stock Exchange. Data were collected from a five-year observation period, ranging 2014 to 2018. A Non-probability sampling technique was purposively used to determine the data quality. The collected data were analyzed and processed using SEM method. This study provides a qualitative result showing the relationship among the variables. The financial leverage has no significant effect on company value. In addition, financial leverage also was insignificant on company reputation compared to foreign ownership toward company reputation. Earning persistence has significant effect on the company value followed by income variability with equal effect toward corporate reputation.

Abubakar (2020) carried out a study on the effect of financial leverage on the financial performance, using secondary data obtained from the annual reports of 7 quoted Oil and Gas firms in Nigeria, and the Nigerian stock exchange (NSE) spanning 2005- 2016. Descriptive statistics such as mean, median, minimum, maximum, standard deviation, coefficient of variation, skewness and kurtosis were used in data presentation, while random effects panel estimator is

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applied in determining the effect of financial leverage variables as short-term debt ratio (STDR), long-term debt ratio (LTDR) and total-debt equity ratio (TDER) on the financial performance measured by the return on equity (ROE). The regression results from the random effects model (REM), the best panel estimator in this study as revealed by the F-test and the Hausman test for best model selection, indicate that STDR and LTDR have no significant effect on the financial performance, and TDER has a negative significant effect on the financial performance denoted by ROE. The study concludes that higher financial leverage in the capital structure of quoted Oil & Gas firms in Nigeria deteriorates shareholders' wealth measured by ROE.

3. METHODOLOGY

The study employed *ex-post facto* research design. The study was carried out in Nigeria and only quoted consumer goods firms dynamic for the 10 year study period (2012-2021) on the floor of the Nigerian Stock Exchange were used. The study population covered 7 consumer goods firms in Nigeria as at 31ist December, 2021on the floor of the Nigerian Stock Exchange were used. The sample via purposive sampling is made up of only 7, quoted consumer firms. .*Note that panel least squares regression analysis, specifically, Feasible Generalized Least Squares (FGLS) was employed in analyzing the data and testing the hypothetical statements. It became essential as it corrects mutually heteroskedasticity, cross correlation and so on.* Taking into consideration the principal objectives of the study, the model for this study is specified as;

$MCAP_{it} = \beta_0 + \beta_1 EBIT_{it} + \beta_2 LR_{it} + \beta_3 FO_{it} + C_{it} + \varepsilon_{it}$

Where: MCAP = Market capitalization= current share price X Total number of shares outstanding
EBIT= Earnings before tax = Revenue minus expenses excluding tax and interest
LR = Leverage ratio= total debt/ total assets
FO= Foreign ownership= ration of foreign ownership to total shareholding
Natural Logarithm of Total Assets (LnTA)
AT=Asset Tangibility = (Total Assets – Current Assets) / Total Assets. AT is employed as a control variable
β_0 is the constant term or intercept for firm i in the year t. β_1, β_2, and $\beta_3$are linear regression coefficients to be estimated.
$c_{it}$is the non-observable individual effect while ε_{it} is the disturbance or error term for firm i in the year t

4.0 RESULTS

Table 1: Descriptive Statistics

Var.	*Obs.*	*Mean*	*Std. Dev.*	*Std. Err*	*Prob(Skew)*	*Prob(Kurt)*	*Min*	*Max*
MCAP	190	.1328	.6390	.0274	.0000	.0000	-.4497	5.2590
EBIT	190	1.8905	19.9776	1.2113	.0000	.0000	-257.0135	102.4912
LR	190	12.6219	1.3447	.1058	.5313	.0002	10.2201	16.3125
FO	190	-2.0308	10.2810	.6033	.0000	.0000	-81.3124	.8870

Source: Authors' STATA 14.2 Outputs

The above table revealed that the mean is an estimated measure of the accurate population of the study. It turns in to evident as the standard errors of all entered variables are far-away smaller if compare to their individual means. Principally, the standard errors are relatively small and associated to theory that it becomes slighter as a usual sample approaches the true population. Conversely, the standard deviations of the matching variables appeared to be outsized than their individual means not including natural logarithm of total assets. This established its weakness to acute values prevailing in different populations. Except for leverage ratio of, the probabilities of both moments for the remaining predictors are below 0.2%. The range (difference between maximum and minimum values) is rolling for the relevant period. Explicitly, they are approximately generally spread.

Table 2: Correlation Matrix with P-values involving 272 observations

Var.	*roa*	*opl*	*lnta*	*at*
MCAP	1.0000			
	0.0827	1.0000		
EBIT	0.1739			
LR	-0.2719*	-0.0443	1.0000	
	0.0000	0.4669		
FO	-0.2089*	-0.1755*	0.4185*	1.0000
	0.0005	0.0037	0.0000	

Source: Authors' STATA 14.2 Outputs

Table 2 showcased that two of the explanatory variables exerted very strong negative effects on the regressand (market capitalization). However, leverage ratio exhibited statistically positive and insignificant connection to market capitalization. There exist perfect relationships between asset tangibility, leverage ratio and natural logarithm of total assets connoting presence of colinearity. It is easily adjusted using colinearity diagnostics given the non-existence of both lagged values and dummy variables.

Table 3: Panel Data Stationarity Tests

Fisher-type unit-root test for all the Variables based on Augmented Dickey-Fuller tests

Ho: All panels contain unit roots Number of panels (N) = 20

Ha: At least one panel is stationary Average Number of periods (T) = 13.60

Asymptotics: T $\rightarrow$ ∞

Var.	*P*	*Z*	*L**	*Pm*	*Lags*
MCAP (Stat)	115.28	-5.63	-6.50	8.42	1
(Prob)	0.00	0.00	0.00	0.00	
EBIT (Stat)	100..39	-5.12	-4.20	6.76	1
(Prob)	0.00	0.00	0.00	0.00	
LR (Stat)	73.37	-1.83	-1.52	4.08	1
(Prob)	0.00	0.03	0.01	0.00	
FO (Stat)	58.60	-1.30	-3.41	2.26	1
(Prob)	0.00	0.01	0.01	0.00	

Source: Authors' STATA 14.2 Outputs

Key diagnostic tests carried out were included in the append ices. These consisted of variance inflation factor (VIF proved the absence of multi-colinearity) test, heteroskedasticity (proved the reality of non-constant variance) test and Fisher-type unit-root test for all the variables based on Augmented Dickey-Fuller tests showing absence of even a single unit root *(see table 3 probability values above)*.to be precise, equally dependent and explanatory (including control) variables are stationary indicating stableness and regularity of the distribution. Accordingly, fixed effect model or its modification / derivative is best suited panel least squares regression, specifically, *Feasible Generalized Least Squares (FGLS) Regression.*

Table 4: Feasible Generalized Least Squares (FGLS) Regression

MCAP	*Coefficients*	*Std. Err.*	*t*	*P>|t|*	*95% Confidence Interval*	
EBIT	0.0006	0.0012	0.54	0.751	-0.0027	0.0028
LR	-0.2761	0.0252	-5.14	0.000	-0.2351	-0.2740
FO	0.0024	0.0047	0.57	0.402	-0.0052	0.0122
_cons	4.5366	0.5779	7.85	0.000	3.4040	3.4571

Number of observations = 190 Number of groups = 7

R-Squared = Wald Chi2(3) = 42.21 Prob > chi2 = 0.0000

Source: Authors' STATA 14.2 Outputs

The above table shows holistic impact of the independent variables on the dependent is specifically exceedingly significant at P-value = 0.0000. Considering hypothetical statements, the association between earnings before interest and tax (EBIT) and market capitalization (MCAP) is positive though insignificant at P-value = 0.751> 0.05 level of significance and t-statistic = 0.54< |2|. Likewise, the sensitivity of market capitalization to the control variable asset tangibility (at) is statistically positive and insignificant at P-value = 0.502 and t-statistic = 0.67< |2|. Though, foreign ownership utilize awfully strong influence on market capitalization given the P-value = 0.0000 and t-statistic = -5.14 > |2|. The size firm also influences notably on market capitalization of these sampled firms. This is not unexpected because consumer firms contribute significantly on the Nigerian economy. The coefficients of the explanatory variables are enormously small for both leverage ratio and foreign ownership. In order words, 1% increase in both leverage ratio and foreign ownership increases market capitalization by 0.06% and 0.24% correspondingly.

5. CONCLUSION

The empirical results highlighted the restrictions caused on management of listed consumer firms in Nigeria by meddling restricted accesses of Nigeria Stock Exchange and this often affects some of the bank facilities that assist corporate firms alleviating its working capital and accelerate growth. Earnings before interest and tax(earnings persistence) correlated with market capitalization but insignificant at the p-value proofing the empirical result stated above. Similarly, the sensitivity of market capitalization to the control variable asset tangibility (at) is statistically positive and insignificant from the forgoing it was discovered that external influence controls the behaviour / indecisions of the management. Why because the coefficients of the explanatory variables are extremely small for both leverage ratio and foreign ownership.

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