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# Financial Reporting Quality on Investors' Decisions

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**Abstract:** Financial reporting quality has been said to play an important role in reducing information asymmetry. Thus, firms with high financial reporting quality may enhance more investors' decision. Hence, the basic objective of this study is to determine whether earnings quality influence investors' decision. The sample consisted of 10 manufacturing companies listed on the Nigerian Stock Exchange Market. The study period is 5 years (2010-2014). Data on accrual quality, volume of investment, Size, age and growth rate and earnings per share were drawn from the published annual report and accounts of the sampled companies. Correlation matrix, Vector auto regressive estimation and Pooled OLS model were employed for the analysis. Diagnostic tests for post estimation were also performed on the model. The result of the Ramsey Reset test shows a p-value of 0.2105, implying that model has no omitted variables. Also, Wooldridge test for autocorrelation in panel data indicates no first-order autocorrelation, showing a p-value of 0.3642. We calculated accruals quality based on the modified accrual model proposed by Mac Nichols in 2002. In this paper, the absolute value of residual error represents the financial reporting quality. This threshold is based on the idea that accruals reduce the smoothing initiated by the change in the cash flow and thus increase the earnings awareness. The study finds evidence of a positive association between investors' decision and financial reporting quality.

**Keywords:** Quality; Size; Information; Asymmetry; Financial reporting; Accrual.

## 1. Introduction

Financial and accounting literature provide evidence that the quality of financial information increases volume of investment, (Brown and Hillegeist, 2007; Jaballah *et al.*, 2014). It is evident that investors and analysts seek disclosures of forward-looking information, such as perfomacne projections, and they tend to invest in and provide coverage of companies that have more forthcoming disclosure policies, (Ajinkya *et al.*, 2005; Chang *et al.*, 2008; Mehdi *et al.*, 2012; Tetlock, 2011).

Brown and Hillegeist (2007) equally opined that disclosure increases the trading of both uninformed and informed investors since it diminishes asymmetric information. They find a strong positive correlation between the quality of financial reporting and market reaction.

According to Bolo and Hassani (2007), financial reporting is one of the products of accounting system that provides the necessary information needed to take economic decisions. This means that any element(s) of ensuring the possibility of evaluating the past performance with the intention to effectively assess and predict the possible future profitability should be considered as a prerequisite for achieving a high volume of investment.

The observed limitations of financial reporting have led to enhancing the scope of the generally accepted accounting principles and now the international financial reporting standards. Kariuki and Jagongo (2013) posit that this limitation has paved way for the new reporting standards now released by International Accounting Standards Board (IASB) to reflect the changes in either the reporting environment or business complexities. We can infer from the above assessment that the idea of the recent policies and standards is to reduce information asymmetry by providing more information on the value of the performance, growth and stability of the firms, thereby reducing adverse selection at the issuance of securities (Bushman and Smith, 2001) and or mitigate the attendant moral hazard (Healy P. M. and Palepu, 2001; Santhosh *et al.*, 2013).

Our study is related to so many works, but distinct from, prior studies that examine the effect of Financial Reporting Quality (FRQ) on investment efficiency (Biddle and Hilary, 2006; Biddle *et al.*, 2009). These studies

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examined whether high quality financial reporting improves investment efficiency but did not consider the investors' reaction to quality of financial reports in making their economic and investment decisions. More so, a good number of researchers used the adoption of IFRS as proxy for earnings quality. This, in our view, might not be an appropriate measure for earnings quality for yesterday, today and for the future. Based on our knowledge, there may be limited academic papers which analyzed the relationship of FRQ and investors' decision in the Nigerian context. In this paper, we argue that financial reporting quality can and does impact on the investors' decision. We analyze the effects of financial reporting quality on the decision of investors to invest in companies listed on the Nigeria Stock Exchange (NSE). First, in determining FRQ we use accrual method of measuring earnings quality used by Dechow and Dichev (2002), and modified by McNichols and Stubben (2008) and Kothari *et al.* (2005). Secondly we analyze the quality effect of financial reports on investors' reaction in the Nigerian financial market. Thirdly, we include firm age, size, growth and Earnings per share as control variables and analyze their influence on investors' reaction in the market.

The main contribution of the paper is in filling the gaps in the literature as identified above. The paper is organized into five sections including this introduction. Section 2 discusses review of literature and development of hypothesis on the effects of financial reporting quality and investor decision. Section 3 explains the empirical methodology, including the choice of variables and data issues. Estimation results are presented and discussed in Section 4 and we concluded in Section 5.

## 2. Review of Literature

For accounting information to be useful, its timely communication to users of such information is paramount. This communication is achieved by producing financial report and accounts. The major objective of financial reporting as earlier identified is to provide high-quality accounting information concerning organizations' activities that is useful for making economic decisions (IASB, 2008).

Projection has particular importance in economic decisions. Investors' decisions are based on expectations of reasonable and stable returns on their investments in companies. They need information such as forecasted earnings per share, which information they use in stock pricing, especially in newly-arrived companies that have little record book. It is based on these forecasts that investors may sell their shares or keep them. For Mehdi *et al.* (2012), these predictions are managers' expectations and anticipations of performance of companies that may occur in future and upon these investors base their decision. Therefore, the accuracy of these predictions is the basic factor for investors. In reality, profitability of prediction depends on variation from the fact. Whenever prediction accuracy is higher, this deviation is lower. According to Dechow and Dichev (2002) many factors are involved in the deviation of actual earning from predicted earning based on the accrual estimation. Seyed (2014) opined that one of these factors is the quality of financial reporting which can facilitate the efficient allocation of capital in the economy. One of the most important aspects of this fact is to improve the investment decisions.

According to Nyor (2013), financial reporting quality relates to the accuracy with which reported financials of a firm reflects its operating performance and how useful they are in forecasting future cash flows. The ability to present a good and accurate figure for accrual is termed as financial reporting quality. According to Stergios and Michalis (2012) there are two general perspectives that are widely used in the assessment of financial reporting quality. The first is where the quality of financial reporting is determined on the basis of the usefulness of the financial information to its users; secondly the perspective of financial reporting quality is focused on the notion of shareholder/investor protection. The user needs perspective is mainly concerned with the provision of relevant information to users for making decisions, whereas the shareholder/investor protection perspective aims to ensure that the information provided to users is sufficient for their needs, transparent and competent, (Jonas and Blanchet, 2000).

There are several studies on the quality of financial reporting quality such as Kariuki and Jagongo (2013) where they determined the type of information in the financial reports that is regarded as very useful by the institutional investors in Kenya. It was established that the biggest challenge that faces users of financial reports in Kenya is the technical nature of language of presentation. Nyor (2013) evaluated the opinion of stakeholders on the quality of firms' financial statements in Nigeria and revealed that the quality of financial statement is in the increasing rate. Beest *et al.* (2009) highlighted measurement tools to assess the quality of financial reporting used in prior research with their advantages and disadvantages and they revealed that the advantages outweigh the disadvantages. The accrual model used by Jones (1991) ; Healy P. and Wahlen (1999) ; Dechow and Dichev (2002) examines the level of earnings management as a proxy for earnings quality. The value relevance literature method is employed by Barth *et al.* (2001) ; Choi *et al.* (1997) ; Nichols and Wahlen (2004) to examine the relationship between stock returns and earnings figures in order to measure the relevance and reliability of financial reporting information. Hirst *et al.* (2004) ; Beretta and Bozzolan (2004); Cohen *et al.* (2004) examine specific elements in the annual report in depth, for instance, by conducting an experiment. The use of qualitative characteristics approach by Schipper and Vincent (2003) ; Van der Meulen *et al.* (2007) ; Barth *et al.* (2001) examines the level of decision usefulness of financial reporting information by operationalizing the qualitative characteristics.

### 2.1. Theoretical Development of Hypotheses

Agency theory and capital needs theory provide the platform on which the hypothesis of this paper is developed. The objective of the firm is maximizing shareholders' wealth. This objective is to be achieved by the corporate

firm's management. Although managers are assumed to act not in their own self-interests at the expense of shareholders but rather toward achieving the corporate objective. The separation of the role of managers from the owners resulted in the need for financial reporting. According to Sheikh *et al.* (2012), conflict of interest may arise in firms when managers' personal interests override their obligations to comply with principal-agent contract of maximizing shareholders wealth. Due to the need to present a better result to the owners and potential owners of the firm, managers tend to engage in earnings management and subsequently reduce the overall quality of earnings reported. Also, the constant need for capital via investor's decision is one reason why managers present a better picture of the financial position of the company. According to Core (2001), capital needs theory holds that companies that have growth opportunities in the capital market strive to present qualitative financial reports with adequate disclosures that will enhance their opportunities for external financing. Thus, financial reporting is the appropriate tool to attract more capital from investors.

More so, the goal of investors is to maximize their wealth which means maximizing the present value of the future cash flows. Their economic decision is a proxy of quality financial information. Hence, investors require information that would enable them predict the future cash flow from the investments and the associated risks volatility. (Kariuki and Jagongo, 2013). We therefore align with the position that financial reporting quality plays an important role in reducing information asymmetry by providing more information on the value of the firm (Bushman and Smith, 2001). Thus, firms with high financial reporting quality enhance more investor's decision.

Trading volume is the number of purchase and sale transactions in an interval (a working day). Trading volume or value of share traded might be a good measure to determine investors' reaction based on the quality of report. Hence, trading volume can be used as a tool in the market to realize what may be happening in the market. (Johansson and Wilandh, 2005; Mehdi *et al.*, 2012).

So we consider the hypothesis below:

> **$H_1$**: Financial Reporting Quality has no significant effect on Investors' decisions to invest on shares of companies listed on the Nigerian Stock Exchange Market (NSE)

We draw upon prior research to identify other factors that may be related to the quality of a firm's financial reporting. In our empirical tests, we include these control variables and estimate whether the quality of financial reporting affects investors' decision.

We include some control variables namely: size of the firm, age of the firm, growth of the firm and earnings per share history to moderate the firm characteristics. According to Biddle *et al.* (2009) such variables must be used to control for the economics factors that influence a firm's investment although in this case, investors' decision. Hence, we also examine how the control variables moderate the effect of the investor's decision.

**Age:** Experience goes with technical skill, knowledge and competence and these tend to correlate positively with management quality. There tend to be a relationship between industry-specific managerial experience and innovations in different facets of a firm's activities. It is costly to replicate firm-specific skills, knowledge and relationships acquired and institutionalized over a period of time (Nwaobia *et al.*, 2016). Thus, it is believed that experience associated with age is likely to stabilize a company's growth and performance. This study therefore, argues that age gives an evidence of the stability of an establishment and investors are more likely to take risk in such firms.

Age is taken to be the difference between the year when the firm was established and the year of study, that is, 2016 (Chan-Jane *et al.*, 2015).

**Size:** It is believed that some larger firms have enough resources acquired over the years given them an edge over smaller firms as they can engage in higher risks and effectively manage with a high expectation of result. Khaoula *et al.* (2013) and Rego (2003) observe that larger firms can achieve economies of scale, and access loans within a short period of time. Biddle *et al.* (2009) find evidence that large firms usually have higher sales than small ones. Accordingly, the level of equity and debt are higher in large firms. Such levels provide strong evidence that financial reports are more transparent and have stronger effect in these firms. This leads us to predict a positive relationship between the firm size and the market reaction.

**Growth of the firm:** According to Beyer (2008) an investor wishes to transact with growing firms with growing turnover. Then we can infer that adequate disclosure in growing firms have a higher impact on the market than disclosures by mature firms. Chan-Jane *et al.* (2015).

**Earnings per Share:** In the imperfect market, dividend policy can affect investment decision of a firm (Santhosh *et al.*, 2013). Thus, firms with higher quality of financial reporting have better access to fund and so are less likely to forgo valuable investment projects in order to pay dividend (Healy P. M. and Palepu, 2001). Some studies find evidence consistent to dividend payout history and investor decision and conclude that investors expect consistent returns from investment. Hence, Investors use earnings of the firm to predict future expected return (Daniel *et al.*, 2010). Looking at an individual stock's historical dividend payouts can give investors a good idea of emerging dividend trends and it also provides insight into the company's overall dividend philosophy. No doubt, an entity's dividend philosophy largely depends on the consistency of its earnings.

## 3. Methodology

The ex-post facto research design was adopted in this study. As such, secondary data were extracted from the annual reports and accounts of ten (10) companies for a period of 5 years (2010-2014). Purposive sampling method was used to select the sampled firms from the total population of one hundred and eighty- six (186) firms listed on

the Nigerian Stock Exchange. To achieve the objective of this paper, three variables were identified and discussed in this section. These are: dependent variable which is represented by volume of shares traded Independent variable of Financial Reporting Quality (proxied by) earnings quality; and control variables of Age, growth rate, size and Earnings per share. The measurement procedures of each of these variables are discussed as follows:

### 3.1. Measurement of Variables and Model Specification

### 3.1.1. Financial Reporting Quality (FRQ).

In determining the FRQ we adopted the accrual quality model of Dechow and Dichev (2002) modified by McNichols (2002) and used by Kothari *et al.* (2005) based on the unexplained accruals or residuals of the model, to estimate earnings quality of quoted consumer firms in Nigeria. The residual value, estimates the magnitude of the deviation from the expected level of investment. The deviation is captured by the positive or negative residuals from the expected accrual model and is denoted as the level of high and/or low earnings quality. The model adopted is mathematically presented as follows:

$$\frac{TCA}{TotalAsset_{it}} = \beta_0 + \beta_1 \frac{CFOit-1}{TotalAsset_{it}} + \beta_2 \frac{CFOit}{TotalAsset_{it}} + \beta_3 \frac{CFOit+1}{TotalAsset_{it}} + \beta_4 \frac{\Delta REV}{TotalAsset_{it}} + \beta_5 \frac{PPE}{TotalAsset_{it}}$$

$+ \varepsilon it$

Where $TCA_{it}$ is total current accruals. Total current accruals comprise of annual change in current assets minus annual change in current liabilities minus annual change in cash plus annual change in debt in current liabilities plus annual change in taxes payable. Total $Assets_{it}$ is lagged total assets, $CFO_{it}$ is cash flow from operations. Cash flow from operations comprise of the net income before extraordinary items minus total accruals, $\nabla REV_{it}$ is annual change in revenues, scaled by lagged total assets, assets, $PPE_{it}$ is property, plant, and equipment, $\varepsilon_{it}$ is the error term. In general, large (small) value of residual value corresponds to lower (higher) accrual and lower (higher) earnings quality.

### 3.1.2. The Main Model

The research hypothesis that is presented above is examined using the following regression equation:

$VOST = \beta_0 + \beta_1 FRQ_{it} + \beta_2$ Firm $Age_{it} + + \beta_3 EPS + \beta_4$Growth rate of the $firm_{it} + \varepsilon_{it}$

Where

VOST is volume of share traded i.e yearly volume of share investment of the selected manufacturing firm from the sampled population. FRQ is the financial reporting quality to be determined using the three accrual models. Firm Age is the number of years from the date of incorporation to the end of year covered by the study (i.e. 2014). Size of the firm is the Natural log of total assets and Earnings per share are the earnings for the year divided by the number of ordinary shares over the period of study.

## 4. Analyses, Results and Discussion

In this section, we present the descriptive and empirical analyses.

### 4.1. Descriptive Statistic

Table 1 presents the description statistics of the data. It presents the mean, median, maximum, minimum, Standard deviation, Sum and sum square dev. from all econometric variables used in the model.

**Table-1.** Descriptive Statistics

This table summarizes the descriptive statistics from all variables collected from the annual report of the firms. All variables have been transformed from their natural form. Cash flow followed by (-1) are lagged at period t-1, t+1 for the Period 2010-2014.

| Variables | Mean | Median | Maximum | Minimum | Std. Dev. |
|---|---|---|---|---|---|
| **VST** | 17.06 | 17.76 | 19.10 | 14.50 | 1.40 |
| **VOST** | 13.47 | 13.37 | 16.16 | 12.06 | 1.04 |
| **TCA** | 14.90 | 14.73 | 16.81 | 12.98 | 1.08 |
| **SIZE** | 17.88 | 17.92 | 19.51 | 16.51 | 0.80 |
| **PPE** | 17.23 | 17.14 | 19.18 | 15.74 | 1.00 |
| **FRQ1** | 0.00 | -0.01 | 0.05 | -0.08 | 0.03 |
| **FGR** | 14.17 | 12.31 | 57.31 | 4.38 | 11.35 |
| **FRQ** | 0.00 | 0.01 | 0.08 | -0.05 | 0.03 |
| **EPS** | 769.74 | 305.00 | 2808.00 | 35.15 | 911.72 |
| **∇REV** | 15.90 | 15.41 | 18.59 | 14.11 | 1.17 |
| **CFO2** | 16.34 | 16.31 | 18.30 | 14.24 | 1.16 |
| **CFO1** | 16.23 | 16.49 | 18.15 | 14.87 | 0.92 |
| **CFO** | 15.97 | 15.91 | 17.90 | 13.58 | 1.30 |
| **AGE** | 47.74 | 51.00 | 90.00 | 11.00 | 23.40 |

Table 1 presents the descriptive statistics for the main variables.

The table reports that Volume of share traded and value of share traded of the sampled firms have mean (median) of 17.06 (17.76) and 13.47 (13.37). Size of the firms ranges from 16.51 to 9.51 with a mean (median) of 17.88 (17.91). Financial Reporting Quality has a mean (median) of 0.00 (0.01), Also the absolute value of the residual ranges from (-0.05) to 0.08 indicating a lower earnings smoothing and higher reporting quality. EPS has mean (median) of 769.74 (305). The change in revenue has a mean (median) value of 15.90 (15.41). Previous, current and future cash flow have mean (median) value of 16.23(16.49), 15.97 (15.91), and 16.34 (16.31) respectively. Age of the firm reports a mean (median) of 47.74 (51.91).

## 4.2. Correlation Result

The table below shows the relationship among the econometric variables using their correlation matrix.

**Table-2.**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| **1. AGE** | 1 | | | | | | | | |
| **2. CFO** | 0.193758 | 1 | | | | | | | |
| **3. CFO1** | 0.237119 | 0.56583 | 1 | | | | | | |
| **4. CFO2** | 0.217399 | 0.653554 | 0.644658 | 1 | | | | | |
| **5. EPS** | 0.178484 | 0.244887 | 0.2172 | 0.242896 | 1 | | | | |
| **6. FRQ** | **0.022904** | -0.15699 | -0.25647 | -0.26537 | -0.06125 | 1 | | | |
| **7. FGR** | -0.18793 | 0.005714 | -0.02678 | 0.192053 | 0.121277 | 0.04426 | 1 | | |
| **8. VOST** | -0.48832 | -0.10093 | -0.29289 | -0.11287 | -0.56429 | **0.042166** | 0.118216 | 1 | |
| **9. SIZE** | 0.188411 | 0.727697 | 0.699253 | 0.679366 | 0.257124 | -0.09552 | 0.119489 | -0.1277 | 1 |

**Source:** Data Analysis

Table 2 above shows the relationship between financial reporting quality and investor decision alongside other controlling variables. It is revealed that there exists a positive correlation between FRQ and volume of share traded within the period of our study. Volume of shares traded also correlates positively with firm size, cash flows and growth rate of the firm while the other variables were negatively correlated. It is to be noted here that the correlation matrix in table 2 is a mere descriptive analysis of the relationship among the variables; it does not tell the nature and the direction of such relationship. Therefore, before a meaningful inference could be drawn from the result in table 2, there is the need to discuss the results of the P-VAR model.

The multivariate form of VAR estimate is presented in table 3 below

## 4.3. P-Vector Auto Regression Estimates

**Table-3**. P-Vector Auto regression Estimates

| | LOGVOST | EPS | GROWTHRATE | FRQ | SIZE |
|---|---|---|---|---|---|
| LOGVOST(-1) | 0.527612 | 14.79054 | 5.099175 | 0.001751 | 0.023920 |
| LOGVOST(-2) | 0.031645 | -23.18078 | -6.631006 | -0.006104 | -0.071886 |
| EPS(-1) | -0.000833 | 1.179135 | 0.000720 | 1.49E-05 | -0.000308 |
| EPS(-2) | 0.000668 | -0.162397 | -0.003323 | -1.77E-05 | 0.000261 |
| GROWTHRATE(-1) | 0.009322 | 4.421981 | 0.676353 | 0.000753 | 0.003866 |
| GROWTHRATE(-2) | -0.041765 | 1.618482 | 0.241919 | -0.001422 | 0.011566 |
| FRQ(-1) | 6.458842 | 1175.777 | 151.2053 | -0.058051 | -0.229553 |
| FRQ(-2) | 5.862708 | -1049.942 | -78.50065 | 0.121342 | 0.771562 |
| SIZE(-1) | 0.684511 | -175.9552 | -12.94724 | 0.011270 | 0.710060 |
| SIZE(-2) | -0.772913 | 166.2512 | 12.08398 | -0.013403 | 0.285461 |
| C | 7.990718 | 247.9883 | 36.08817 | 0.103608 | 0.775347 |
| R-squared | 0.611876 | 0.977510 | 0.511524 | 0.282362 | 0.974399 |
| Adj. R-squared | 0.407601 | 0.965674 | 0.254432 | -0.095343 | 0.960924 |
| F-statistic | 2.995345 | 82.58332 | 1.989651 | 0.747573 | 72.31493 |

The result in table 3 shows that there is a dynamic relationship among the variables, although, individual coefficients have no strong economic meanings. A comparison between $R^2$ and Adj. $R^2$ really shows the nature of the relation. The positive impact of financial reporting quality is well pronounced in the table. It shows that there is a casual relationship between FRQ and Volume of shares traded.

### 4.3.1. Diagnostic Tests

Diagnostic tests were carried out on the model to validate the correctness of our model specification. The Hausman test was first estimated to determine whether fixed or random effect is suitable for the model. The probability of this test showed 0.9973 which is higher than the acceptable 5%; thus, the null hypothesis of estimate

random effect was accepted. However, running the Breusch and Pagan Lagrangian Multiplier test for random effects gave a p-value of 0.1524, indicating that the random effect GLS regression is not the best model to be used. Thus, pooled OLS was estimated for this model. But the Breusch-Pagan heteroskedasticity test showed a p-value of 0.000, implying that the null hypothesis of constant variance may not be accepted. Therefore, the model was run using the robust option on Stata.

Table 4 presents the result of OLS regressions examining whether Financial Reporting Quality explains the variation in the investors decision making.

### 4.4. Regression Result

**Table-4.** Regression Result

| VOST = | 3602097 + 184.1794FRQ + 0.3963AGE + 15864.15Growthrat – 627.8931 EPS | | | | |
|---|---|---|---|---|---|
| SE | (795123) | (8498555) | (12132.43) | (15864.15) | (19507607) |
| PV | (0.000)*** | (0.829) | (0.002)*** | (0.601) | (0.002)*** |

$R^2$= 0.2752, Ramsey RESET test = 1.57 (0.2105) F-Stat = 5.92 (0.0006) ***
Serial Correlation = 1.046 (0.3642)
* Coefficient is significant at the 10%
** Coefficient is significant at the 5%
*** Coefficient is significant at the 1%

From the result, the Multiple regression estimate showed that financial reporting quality, age and growth rate have positive effect on investors' decision measured by volume of shares traded (VOST); while EPS has negative effect on investors' decision. This is indicated by their coefficients that are 184. 1794, 0.3963, 15864.15 and -627.8931 respectively.

## 6. Interpretation of Result and Discussions

Taking a closer look at the result above, it shows that quality in the financial reports will bring a positive reaction in the market. Precisely, the size of the independent coefficient, that is, financial reporting quality explains further that one unit increase in the quality of the financials reported will bring about 184.1794 units increase in volume of shares of corporate firms traded in Nigeria. The coefficient is not significant as indicated earlier. The implication of this is that the higher the quality of earnings, the more information asymmetry is reduced, and the higher the investors' decision to invest in the market. The above finding is consistent with Brown and Hillegeist (2007); Jaballah *et al.* (2014); where they posit that disclosure increases the trading of both uninformed and informed investors. Also, Brown and Hillegeist (2007) found a strong positive correlation between the quality of financial reporting and market reaction.

The estimated coefficient of age was found to be 0.3963. Thus, direct relationship with volume of shares traded was established. This is consistent with the a priori expectation. The variable is significant at 0.002. The implication is that a unit increase in the age of a company will result to 0.39633 units increase in volume of shares traded. Hence the findings is in line with Chan-Jane *et al.* (2015) where they posit that age gives an evidence of the stability of an establishment upon which investors may leverage in taking risk in such firms.

Also growth rate proxied by change in revenue over time stood at 15864.15. This implies that a unit increase in growth rate will bring about 15864.15 unit increases in volume of shares traded. This finding is in line with the work of Beyer (2008) that suggested that an investor wishes to transact with growing firms with growing turnover. Then we can state that disclosures in growing firms have a higher impact on the market than those of mature firms (Chan-Jane *et al.*, 2015). Results indicate that there is a negative relationship between EPS and Volume of shares traded. This implies that a unit increase in EPS will bring about 627.8931 decreases in volume of shares traded. This result is not consistent with our a priori expectation.

The overall goodness of the model as shown by the coefficient of determination is 27%. This implies that 27% variation experienced in the volume of shares traded for the period being investigated can be attributed to Financial Reporting Quality and the control variables while the remaining 73% variations in volume of share traded are caused by other factors not included in the model specification. To an extent, this connotes a weak explanatory power of the variables. The F-statistic which measures the joint statistical influence of the explanatory variables on the dependent variable was found to be statistically significant at 5% percent level. The F-stat figure of 5.92 (0.0006) implies that the explanatory variables jointly are important determinants of Nigerian investors' economic decision. Thus, the null hypothesis that Financial Reporting Quality has no significant effect on Investors' decision may not be accepted.

## 7. Conclusion and Recommendations

In this paper we analyzed the effect of FRQ on Investors decisions using a representative sample of Nigerian Manufacturing firms for the period of 2010-2014. The result indicates that higher reporting quality increases investment decision. The overall conclusion of the study therefore is that financial reporting quality enhances investment decision in Nigeria. In addition firm Size, firm's growth rate and firm age exert positive impact on investment decisions. The study therefore recommends that, corporate firms should voluntarily produce quality report as this is shown to create positive market reaction. Growing economies can leverage on this and boost their

performance and this can be done by proper and intentional disclosures of both mandatory and voluntary information.

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