

# The Impact of Book Value of Equity and Abnormal Earnings on Investment Decisions in Nigerian Banks

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## ABSTRACT

The explore the impact of book value of equity and abnormal earnings on investment decision of Nigerian banks. Secondary data was extracted from the financial statement of the banks from 2015 to 2024. The data of the study was analysed using regression analysis. The study explanatory variables are book value per share and abnormal earnings, the study considered firm size and firm financial leverage as the control variables. The empirical results revealed that book value per share has a strong, positive and significant effect on firm value, indicating that investors place substantial emphasis on the net asset position of banks when making investment decisions. The findings of the study indicate abnormal earnings indicate a positive insignificant relationship. The study concludes that financial statements are decision-useful for investment appraisal in Nigeria, but investors rely more heavily on balance sheet indicators particularly book value than on earnings measures. The study suggests that investors place greater emphasis on book value per share when assessing bank stocks, encourages bank managers to improve transparency regarding equity positions, and urges regulators to reinforce disclosure standards to enhance the relevance and reliability of disclosed information.

**Keywords:** Book Value of Equity, Abnormal Earnings, Firm Performance and Investment Decision

## INTRODUCTION

Firms' financial statement enables stakeholders to make informed investment decisions. Accurate and timely financial reporting not only reflects operational efficiency and risk management practices but also enhances investor confidence, supports regulatory compliance, and guides strategic planning and decision making (Marota 2024). However, investment decisions are often made under conditions of uncertainty, market inefficiencies, and limited access to reliable data (Singh et al., 2022). Consequently, investment decisions may rely on speculation, brand perception, or incomplete information rather than on sound financial analysis. The usefulness of these reports lies in their ability to reduce information asymmetry between managers and external stakeholders, thereby enabling users to assess the financial statement and prospects of a company (Vaildya, 2021).

Investment decision making is central to financial markets and corporate governance, as it determines how resources are allocated to generate returns and support economic growth. In theory, investors make decisions based on comprehensive information about companies' financial health, market conditions, and prospects (De-Oliveira et al 2024). Financial statements comprising the balance sheet, income statement, cash flow statement, statement of changes in equity, and accompanying notes are intended to provide this information in a structured and transparent manner Adaramola and Oyerinde (2014).

In practice, however, investment decisions are often made under conditions of uncertainty, market inefficiencies, and limited access to reliable data Etim et al (2022). In Nigeria, many investors, particularly in the informal and

retail segments, face challenges in interpreting financial statements due to inadequate financial literacy or limited analytical skills. Consequently, investment decisions may rely on speculation, brand perception, or incomplete information rather than on sound financial analysis. Another critical concern is whether financial statements truly reflect the company's performance. Issues such as non-compliance with accounting standards, lack of transparency, and weak corporate governance can undermine the reliability of reported information Nwinkonzor and Odoemelam (2024). These factors can result in poor investment outcomes, underperformance of investor portfolios, and avoidable financial losses.

### **Statement of the Problem**

Investment decisions are often made in environments characterized by uncertainty, market inefficiencies, and limited access to reliable financial information. Although financial statements are intended to provide a comprehensive overview of a company's financial health, there remains a gap between the availability of these reports and their effective utilization by investors. Many potential investors, especially in the informal and retail segments of the Nigerian economy, either do not have adequate financial literacy or lack the analytical tools required to interpret financial statements meaningfully. As a result, investment decisions are sometimes based on speculation or brand perception rather than on informed financial analysis. Another problem is whether the financial statements represent a true and fair view of the performance of the company, given concerns about compliance with accounting standards, transparency, and corporate governance. These problems have led to poor investment outcomes, underperformance of investor portfolios, and in some cases, avoidable financial losses. These challenges underscore the need to examine how useful financial statements are in guiding investment decisions and assessing company performance in the Nigerian context. The objectives of the study examined the relationship between book value of equity and abnormal earnings on firm value.

## **LITERATURE REVIEW**

### **Firm Value**

Firm value represents the market's overall assessment of a company's economic worth and is often measured using indicators such as market capitalization or the market value of equity (Damodaran, 2012). Information contained in financial statements, especially earnings figures and book value plays a significant role in shaping this valuation (Barth et al., 2001). When firms provide clear and transparent financial disclosures, investor confidence tends to increase, which can positively influence the firm's market valuation (Uwuigbe, Olugbenga, & Uwuigbe, 2012).

### **Financial Statements**

The major components of financial statements consist of the statement of financial position (balance sheet), income statement (profit or loss statement), statement of cash flows, statement of changes in equity, and accompanying notes to the accounts (International Accounting Standards Board, 2018). Each element performs a distinct function. For instance, the income statement reports a firm's revenues, expenses, and net earnings for a specific period, while the balance sheet outlines the organization's assets, liabilities, and shareholders' equity at a given point in time. The cash flow statement provides information about cash inflows and outflows, reflecting the firm's liquidity position, whereas the statement of changes in equity records movements in retained earnings, dividends, and reserves. Additionally, the notes to the accounts contain detailed disclosures that improve clarity and transparency in financial reporting (Alexander & Britton, 2017).

### **Book Value of Equity**

Book Value per Share represents the net equity attributable to each ordinary share, calculated by dividing total equity by the number of outstanding shares. Book value of equity (sometimes summarized as book value per share, BVPS) is central in equity valuation research. It represents shareholders' net claim on the firm's assets (assets less liabilities), and when scaled by shares, gives a share measure of this claim (Ugbe and Babet 2019). In volatile markets such as Nigeria, BVPS often provides a more reliable measure of firm worth than earnings alone (Ezeagba, 2014).

## Abnormal Earnings

Abnormal earnings refer to the component of net income that surpasses the expected return on equity derived from a firm's book value. This concept forms a key element of the Ohlson valuation framework, which establishes a relationship between accounting information and firm value (Ohlson, 1995). Abnormal earnings help clarify variations in market valuation among companies that possess comparable book values. In the Nigerian context, the examination of abnormal earnings offers valuable insight into how firms generate value beyond their recorded equity base (Oyerinde, 2009).

## Theoretical Framework

### Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), describes the relationship between shareholders (principals) and managers (agents). Conflicts may occur when managers act in their own interests instead of prioritizing the maximization of shareholder wealth, leading to information asymmetry between both parties. Financial reporting plays an important role in minimizing this imbalance by providing clear and reliable information about a company's performance. In the Nigerian context, where corporate governance structures are still developing, transparent disclosure of indicators such as earnings per share (EPS), book value per share (BVPS), and other accounting metrics enables investors to better oversee managerial actions and make well-informed investment decisions (Uwuigbe et al., 2012). Agency Theory therefore underpins this study by emphasizing that dependable financial statements are vital for reducing information asymmetry and agency-related conflicts within Nigerian firms. By examining whether accounting figures influence investor decisions, the study assesses the extent to which financial reporting functions as a governance tool in the Nigerian capital market.

### Empirical Review

Obizue and Eme (2025) examined the effect of asset investment on the financial performance of Nigerian deposit money banks (DMBs) from 2012 to 2022. Using time-series data from annual reports, return on assets (ROA) measured financial performance, while cash and cash equivalents, tangible assets, and intangible assets represented asset investments. Linear regression analysis showed a positive and significant relationship between asset investments and ROA, indicating that effective investment decisions enhance banks' financial health. The study concluded that well-managed asset allocation is a strong predictor of profitability and financial stability, recommending that banks optimize their investment mix and comply with Central Bank of Nigeria guidelines to ensure prudence, efficiency, and sustained financial performance.

Omobolanle Ajibola et al. (2024) studied segment reporting (2015-2022) for Nigerian multinationals and found segment disclosures had an insignificant effect on market valuation implying that, for many Nigerian investors, core aggregate metrics (earnings, book value, dividends) remain the primary decision inputs.

Etim et al (2022) investigated service sector firms and concluded EPS significantly influenced share prices while BVPS and cash flows showed positive but sometimes insignificant relationships indicating sectoral differences in which financial metrics investors prioritize.

Abdu Abubakar et al. (2022) compared value relevance for firms audited by Big Four and non-Big Four auditors (2014-2019). The study found EPS and BVPS to be value relevant for both groups, with audit quality influencing the strength of the association suggesting audit credibility affects how investors use financial statements.

Vaidya (2021) examined the role of accounting information in share investment decision-making using survey data collected from investors at brokers' offices during NEPSE trading hours. The findings revealed that investors use accounting information to improve their investment knowledge, assess company performance trends, and make informed share investment decisions. The study further showed that investors attach high importance to items such as share capital, net profit after tax, and cash flow from investing activities, as well as financial indicators such as earnings per share and dividend per share. The study concluded that listed companies should regularly disclose important financial indicators because such disclosure improves corporate credibility and supports investors' decision-making.

Osazevaru (2020) used panel data covering many quoted firms and found EPS, DPS and operating cash flows were significantly associated with share prices, whereas BVPS was less consistently significant indicating investors may place higher weight on earnings and cash flows than on book value in certain periods and contexts. manufacturing firms (2006-2022) and found that EPS has a consistent positive relationship with share price whereas BVPS was negative/insignificant in some specifications evidence that investors may weigh earnings more than book value in contemporary periods. Ochie (2024) investigated industrial goods firms (2013-2023) and, in a notable finding, reported that measured profitability and liquidity sometimes did not significantly predict investment decisions, this suggests investors sometimes rely on non-accounting information or that market inefficiencies/behavioural factors may weaken the accounting market link.

Likewise, Okafor, Ofoegbu and Okoye (2017) investigated IFRS adoption and value relevance in Nigeria and reported that IFRS increased the decision usefulness of accounting numbers earnings and book value became more informative for investors after mandatory IFRS adoption

Moreso, Jeroh (2016) studied Value Relevance of Financial Accounting Information and Equity Valuation of Quoted Firms in Nigeria using a large sample of quoted firms and tests across pre- and post-crisis periods and found that accounting numbers (earnings and book value) remain significantly associated with market value. The study also notes sectoral differences and effects from IFRS implementation.

Moreover, Uwuigbe, Olugbenga and Uwuigbe (2016) studied value relevance of accounting information in the Nigerian banking sector. Using panel data for listed banks, the authors found EPS, BVPS and DPS significantly affect share prices reinforcing the view that investors use earnings, book value and distributions to assess performance and guide investment choices.

Moreso, Siyanbola, Adedeji and Adedeji (2015) examined the price models and the value relevance of accounting information of listed deposit money banks in Nigeria. Using a sample of listed banks (2005-2012), they estimated price models and reported EPS and DPS (dividend per share) as particularly value relevant for banking sector investors indicating investors in regulated, payout-oriented firms use dividends and earnings signals when making decisions.

Omokhudu and Ibadin (2015) applied price models to Nigerian listed firms and found that both EPS and BVPS significantly influence share price, results support the hypothesis that financial statements are decision-useful for investors in the Nigerian market.

Likewise, Uthman (2014) study the investigated analysts' and investors' perception of financial statements following IFRS adoption using survey and regression methods, the study concluded IFRS adoption improved the perceived reliability and usefulness of EPS and BVPS, increasing investor reliance on reported accounting numbers. In the same Nigerian Economy,

## RESEARCH METHODOLOGY

The study adopted a quantitative research design. The descriptive aspect enables the study to examine the usefulness of financial statements in assessing corporate performance, while the explanatory aspect helps to establish the extent to which financial statements guide investment decisions. This design is appropriate because it deals with quantitative analysis which provide robust conclusions. The population of this study comprises all deposit money banks listed on the Nigerian Exchange Group (NGX) as of 2024. This population is appropriate since listed banks are required by regulation to publish audited financial statements annually in compliance with the Companies and Allied Matters Act (CAMA, 2020) and International Financial Reporting Standards (IFRS). These statements provide the essential financial information used to evaluate company performance and guide investment decisions. Published annual financial statements of the selected listed companies on the Nigerian Exchange Group (NGX), which provide detailed information on earnings, book values, and other financial indicators. Nigerian Exchange Group (NGX) Factbook, central Bank of Nigeria (CBN) Statistical Bulletins, financial statement.

Data was extracted manually from the published financial statements of sampled firms and cross-verified with data obtained from NGX and CBN databases. T

**Model Specification**

the study specifies an econometric model that links investment decisions to key accounting variables.

The functional form of the model is expressed as:

$$INV=f(BVPS,ABN,FSZ,LEV)$$

$$INV_{it}=\beta_0+\beta_1BVPS_{it}+\beta_2ABN_{it}+\beta_3FSZ_{it}+\beta_4LEV_{it}+\mu$$

Where:

INV = Investment Decision (dependent variable)

BVPS = Book Value per Share

ABN = Abnormal Earnings

FSZ = Firm Size

LEV = Leverage

$\beta_0$ = Constant term

$\beta_1$ – $\beta_5$ = Coefficients of the explanatory variables showing their effect on investment decision

$\mu$  = Random error term

**Data Presentation, Analysis and Interpretation**

The chapter covers descriptive statistics, correlation analysis, and the regression results estimated using Driscoll-Kraay standard errors to address issues of heteroskedasticity and cross-sectional dependence. The findings are discussed in line with the study objectives and hypotheses.

**Descriptive Analysis**

This section provides a descriptive analysis of the variables used in the study. Firm value (INV), book value per share (BVS), abnormal earnings (AES), firm size (FS), and leverage (LEV).

Table 2 Descriptive Statistics

Variable	OBS	Mean	Min	Max	Skewness	Kurtosis
INV	100	13.447	0	69.65	1.51292	5.13392
BVS	100	0.08826	-0.0005	7.236	9.84108	97.9019
AES	100	3.3465	0.05	32.46	3.13373	13.8524
FS	100	9.23804	7.94139	10.8803	-0.2023	2.43579
LEV	100	0.71026	0.0025	1.01125	-1.4037	3.09519

**Source: Research 2025**

The descriptive statistics reveal the central tendencies and dispersion of the variables used in the study. Firm value (INV) has a mean of 13.45, ranging from 0 to 69.65, and is moderately skewed to the right, indicating that a few firms have significantly higher values. Book Value of Equity (BVS) has a very low mean (0.088), very high skewness (9.84), and extremely high kurtosis (97.90), indicating strong outliers and non-normal distribution. Abnormal Earnings (AES) also shows similar non-normal characteristics with high skewness and kurtosis. Firm Size (FS) is approximately normally distributed with low skewness and kurtosis near 3, while leverage (LEV) is left-skewed, meaning more firms have higher leverage ratios. These distributional characteristics confirm the need for robust estimation techniques such as the Driscoll–Kraay model used later in the analysis.

**Correlation Analysis**

The table presents the correlation coefficients for firm value (INV), book value per share (BVS), abnormal earnings (AES), firm size (FS), and leverage (LEV). The analysis helps to identify potential multicollinearity issues and provides preliminary insights into how the variables relate before the regression estimation.

Table Correlation Analysis

	INV	BVS	AES	FS	LEV
V	1				
BVS	0.0139	1			
AES	0.3789	-0.0236	1		
FS	0.0577	0.262	0.547	1	
LEV	-0.2353	-0.1927	0.1897	0.6917	1

**Source: Research 2025**

The correlation table show that Abnormal Earnings (AES) has a moderately positive correlation with firm value (INV), with coefficient 0.3789 respectively, suggesting that profitability measures tend to move in the same direction as firm value. Book Value of Equity (BVS) has a very weak correlation with firm value, implying a limited linear relationship. Firm size (FS) shows a positive association (0.0577), while leverage (LEV) has a negative correlation (-0.2353), indicating that more leveraged firms tend to have slightly lower firm values.

**Regression Analysis**

The regression analysis was conducted to examine the effect of financial statement indicators Book Value per Share (BVS), and Abnormal Earnings (AES) on firm value (INV), while controlling for Firm Size (FS) and Leverage (LEV). The analysis employed the Driscoll Kraay standard error estimator, which provides robust corrections for heteroskedasticity, autocorrelation, and potential cross-sectional dependence among the sampled firms.

Table 4 Regression with Driscoll-Kraay standard errors

INV	Coef.	Drisc/Kraay Std. Err.	t	P>t
BVS	-6.1008	1.31347	-4.64	0.001

AES	-26.393	10.9643	-2.41	0.039
FS	6.2688	2.10011	2.98	0.015
LEV	-19.805	5.07959	-3.9	0.004
CONS	-31.406	19.2413	-1.63	0.137
R-squared	0.2661			
Prob > F	0.0000			
BPLM Test for random effects	1.0000			
Hausman Specification Test	0.4305			
Groupwise Heteroskedasticity (Modified Wald)	0.0000			
Pesaran's test of cross-sectional independence	0.8006			

**Source: Research 2025**

Based on the result from Table 4, the Breusch–Pagan Lagrangian Multiplier Test for Random Effects p-value = 1.0000 indicates that random effects are not appropriate. Pooling is preferable over random effects. Furthermore, Hausman Specification Test p-value = 0.4305 suggests no significant difference between fixed and random effects, meaning random effects would normally be preferred. But since the LM test rejected random effects, the model falls back to Fixed Effects. Groupwise Heteroskedasticity Test p-value = 0.0000 Heteroskedasticity is present. This justifies the use of Driscoll–Kraay standard errors, which correct for heteroskedasticity. Pesaran’s Test of Cross-sectional Dependence p-value = 0.8006 indicates no cross-sectional dependence. However, Driscoll Kraay is robust to both dependence and autocorrelation, so using it is still acceptable. Therefore, based on the combination of the diagnostic tests: LM test rejects random effects which means random effects not suitable Hausman suggests no difference between fixed or random both okay FE is chosen because RE is invalidated by LM test Driscoll Kraay is used to correct heteroskedasticity Thus, the Fixed Effects model with Driscoll Kraay standard errors is the most appropriate model for interpretation.

The regression results indicate that Book Value of Equity (BVS) shows a negative and significant relationship with firm value ( $\beta = -6.10$ ;  $p = 0.001$ ). This suggests that firms with higher book values tend to experience lower market valuation, possibly reflecting market skepticism toward asset-based measures compared to earnings-based metrics. Abnormal Earnings (AES) also displays a negative and significant relationship with firm value ( $\beta = -26.39$ ;  $p = 0.039$ ). This suggests that investors may perceive abnormal earnings as unsustainable or manipulative, resulting in lower firm valuation. Firm size (FS) has a positive and significant influence on firm value ( $\beta = 6.27$ ;  $p = 0.015$ ), supporting the theory that larger firms enjoy economies of scale and market confidence. Leverage (LEV) has a negative and significant effect on firm value ( $\beta = -19.81$ ;  $p = 0.004$ ), indicating that higher debt levels erode firm value.

The R-squared value of 0.2661 shows that the model explains approximately 26.6% of the variations in firm value, which is acceptable for financial panel data. The model is statistically significant overall (Prob > F = 0.0000).

**Hypotheses Testing**

**H<sub>01</sub>: There is no significant relationship between the book value of equity and firm value.**

The first hypothesis examined whether the book value of equity significantly influences firm value. The regression results shows that book value of equity (BVS) has a negative and statistically significant coefficient

( $\beta = -6.1008$ ,  $p = 0.001$ ). Since the p-value is below the 5% significance level, the study rejects the null hypothesis. This finding implies that book value of equity plays an important role in determining firm value within the Nigerian context.

### **H<sub>02</sub>: There is no significant relationship between abnormal earnings performance and firm value.**

The second hypothesis tested the relationship between abnormal earnings performance (AES) and firm value. The regression analysis reveals a negative and statistically significant relationship between abnormal earnings and firm value ( $\beta = -26.393$ ,  $p = 0.039$ ). With a p-value below the 5% threshold, the study rejects the null hypothesis. The negative coefficient indicates that increases in abnormal earnings are associated with declines in firm value, suggesting that investors may view abnormal earnings as unsustainable, or possibly a signal of earnings manipulation.

## **CONCLUSION**

The research concludes that financial statements play a significant role in guiding investment decisions in Nigeria, particularly through earnings-related information. The negative effect of book value of equity (BVS) on firm value suggests that investors place less emphasis on asset-based measures, possibly due to outdated valuations or concerns about the reliability of assets reported by firms. Similarly, the negative relationship between abnormal earnings and firm value indicates that investors may discount earnings that deviate substantially from expected patterns, as such deviations can signal potential manipulation. The study also concludes that larger firms tend to attract higher market valuations due to greater stability and investor confidence, while excessive leverage reduces firm value by increasing financial risk. The study affirms that financial statements remain decision-useful in the Nigerian financial market, but their relevance depends on the quality of earnings and the credibility of reporting practices.

## **RECOMMENDATIONS**

Based on the findings, the study makes the following key recommendations:

- i. Companies must ensure that their reported earnings reflect true economic performance, free from manipulation or earnings management practices that could mislead investors. Regulatory bodies should strengthen oversight of asset valuation practices: The negative effect of book value suggests potential issues in how assets are valued and reported. Regulators such as the Financial Reporting Council (FRC) and the Central Bank of Nigeria (CBN) should enforce stricter compliance with IFRS to enhance the credibility of book value information.
- ii. Companies should manage leverage levels to maintain investor confidence. Since high leverage significantly reduces firm value, companies especially banks should adopt prudent capital structures, balancing debt and equity to reduce financial risk and improve market valuation.
- iii. Financial literacy programs should be expanded for retail investors. Government agencies, stockbrokers, and financial institutions should develop training programs that help investors understand financial statements, improving their ability to make informed investment decisions based on reliable financial indicators.

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