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THE QUALITY OF FINANCIAL INFORMATION: A METRIC FOR EVALUATING CORPORATE PERFORMANCE AND INVESTMENT DECISIONS

[*1]Tonye Ogiriki, [2]Diepreye Sam Kieriama

[1]Professor, Department of Accounting, Faculty of Management Sciences, Niger Delta University, Wilberforce Island, Bayelsa State.

[2]Department of Accounting, Faculty of Management Sciences, Niger Delta University, Wilberforce Island, Bayelsa State.

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***Corresponding Author: Tonye Ogiriki**

Professor, Department of Accounting, Faculty of Management Sciences, Niger Delta, University, Wilberforce Island, Bayelsa State.

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ABSTRACT

This study empirically investigates the influence of financial information quality on corporate performance (Return on Assets, ROA) and investment decisions (Research and Development Intensity, R&DI) within the Nigerian Healthcare sector over a ten-year period (2014–2023). A census sampling of eight listed firms was analyzed using panel regression (OLS) based on the theoretical frameworks of Agency, Signaling, and Information Asymmetry theories. Financial information quality was proxied by the Accruals Ratio (AR), Quality of Earnings (QoE), Incidence of Restatement (IoR), and Audit Quality (AUQ) The analysis revealed that AR and QoE are robust and significant predictors of firm outcomes. Specifically, Accruals Ratio (AR) showed a significant negative relationship with both R&DI and ROA ($p < 0.01$), suggesting that higher reliance on accrual-based earnings leads to lower asset efficiency and reduced R&D investment. Similarly, the Quality of Earnings Ratio (QoE) also demonstrated a significant

inverse relationship with both R&DI and ROA ($p < 0.01$), contradicting traditional expectations and suggesting that in this specific sample, the proxy may capture unique operational or conservative reporting characteristics. Conversely, the discrete indicators, IoR (due to a lack of variance in the sample) and AUQ, were found to be statistically non-significant determinants of R&DI and ROA. These findings underscore the critical role of accrual management and earnings quality in driving firm value and resource allocation. The study recommends that stakeholders prioritize cash-based metrics and that management implement stricter internal controls to limit discretionary accruals, thus enhancing the integrity of financial reporting for sound economic decision-making.

KEYWORDS: Financial Information Quality, Accruals Ratio (AR), Corporate Performance (ROA), Investment Decisions (R&DI), Quality of Earnings (QoE), Nigerian Healthcare Sector.

1.0 INTRODUCTION

Financial statements constitute the fundamental instrument by which stakeholders evaluate a firm's operational activities, financial performance, and economic position. Sustaining a competitive edge necessitates that a firm's decision-making framework moves beyond the simple objective of profit maximization.

High-quality financial reporting must exhibit the core qualitative characteristics of relevance, reliable (faithful) representation, comparability, and timeliness to effectively support users in rendering sound economic and strategic decisions. Since effective decisions are derived from useful and relevant data, the integrity and quality of that data must be a primary area of focus. Gergana Tsoncheva (2009) argued that measuring and assessing the quality and usefulness of accounting information are of particular importance, as these activities will not only enhance the quality of economic decision-making for the users, but the overall market efficiency of the business as well.

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity (Financial Accounting Standards

Board [FASB], 2021).

The core issue this study addresses is the risk of suboptimal or inefficient resource allocation, affecting both corporate performance (profit maximization) and investment decisions, stemming from a persistent deficiency in the quality of the underlying financial information.

This problem is particularly critical because effective decision-making and efficient capital market operations rely fundamentally on financial data that faithfully represents the firm's economic reality. Without this foundational reliability, the essential functions of corporate resource allocation and external valuation fail to operate effectively, jeopardizing the firm's sustainable profitability and the efficient functioning of the capital market.

The deficiency in financial information quality is often compounded by specific practices that directly threaten the reliability of reported data. These concerns include:

Manipulation: The intentional misrepresentation of financial results.

Earnings Management: The use of accounting discretion to achieve a desired level of earnings, which distorts the true economic performance.

Weak Disclosure Practices: Inadequate or opaque reporting that prevents stakeholders from gaining a complete and clear understanding of the company's financial health and risks.

The primary aim of this research is to empirically investigate the influence of financial information quality on both corporate performance and investment decisions within the Nigerian healthcare sector.

To achieve this, the following objectives were formulated to guide the investigation;

These objectives are empirically grounded and structured to systematically test the relationships between the defined financial information quality proxies and the study's dependent variable.

1. To assess the combined effect of all financial information quality proxies (AR, IoR,QoE and AUQ) on Investment Decisions (measured by R&DI).
2. To assess the combined effect of all financial information quality proxies (AR, IoR,QoE and AUQ) on Corporate performance (measured by ROA).

This study is important because high-quality financial information is foundational to effective

corporate governance, strategic decision-making, and performance evaluation. Reliable, timely, and transparent financial data enhances stakeholders' ability to assess a firm's economic condition, reduces information asymmetry, and strengthens market confidence. By establishing a clear metric for evaluating information quality, the study contributes to more accurate performance assessments and supports sound managerial and investment decisions.

The empirical focus of this investigation is concentrated on firms within the healthcare sector listed on the Nigerian Exchange Group (NGX). The investigation focused its analytical lens on the decade spanning the period 2014 through 2023.

2.0 LITERATURE REVIEW

Corporate Performance

Contemporary study reveals that corporate performance has transitioned from just financial measures to a multi-dimensional evaluation including strategic objectives, operational efficiency, and stakeholder impact. Corporate performance indicates the degree to which a firm effectively attains its strategic, financial, and operational objectives (Lestari et al., 2024).

Performance is prospective, tailored to embody the specific characteristics of each organisation or person, and is founded on a causal model that connects components and products" (Lebas, 1995, as stated in Ion & Criveanu, 2016, p. 28). An exceptionally efficient organisation with elevated performance standards is one that "satisfies the demands of its stakeholders" (Harrison & Freeman, 1999, as quoted in Bartoli & Blatrix, 2015, p. 30). An exceptionally efficient organisation with elevated performance standards is one that "meets the expectations of its stakeholders." Harrison and Freeman (1999), as referenced in Bartoli and Blatrix (2015), p. 30. A surge in profitability, as measured by Return on Assets, correlates with an enhancement in the company's value, since a greater ROA signals a favourable investment opportunity for investors. Information regarding profitability is essential for decision-making and is utilised by company stakeholders, including managers, investors, and financial analysts, as a benchmark for dividend payments, a tool for assessing management efficiency, and a mechanism for evaluating decisions (Azam, 2017, as cited in Bala, 2021). Pavić et al. (2021) stated that Return on Equity (ROE) and Return on Assets (ROA) are recognised financial

statistics for assessing and validating business performance.

Investment Decisions

These decisions specify the particular investment methods (or avenues) used with the overall goal of optimising profit or maximising shareholder value, which is primarily determined by the research and development intensity (R&DI). Investment decision-making is not a strictly rational process; rather, it is greatly impacted by cognitive biases including herd mentality and confirmation bias, especially in stressful and unpredictable markets (Kahneman et al., 2013). In essence, making an investment choice involves balancing risk and anticipated returns; risk is determined by the volatility of returns, and the decision's quality is directly correlated with the accuracy and completeness of the data used (Agbajor et al., 2020).

The Quality of financial information

The quality of data obtained from financial reports has a fundamental impact on the quality of decisions made by stakeholders. The economic paths that consumers of financial information follow are thus greatly influenced by this. Over time, empirical studies looking at investment decisions and firms' profitability have shown how important financial information quality is. According to the International Accounting Standards Board (IASB, 2018) Conceptual Framework, two categories of qualitative characteristics are identified:

1. Fundamental qualitative characteristics

These are required for information to be useful:

- Relevance: Information must be capable of making a difference to users' decisions. This includes having predictive and/or confirmatory value.
- Faithful representation: Information must represent economic phenomena completely, neutrally, and free from error (as far as possible).

2. Enhancing qualitative characteristics

These improve the usefulness of information when fundamental characteristics are present:

- Comparability: Enables users to identify similarities and differences across periods or entities.

- Verifiability: Assures users that information faithfully represents what it claims to represent (through direct or indirect verification).
- Timeliness: Information must be provided in time to influence decisions.
- Understandability: Information should be presented clearly and concisely so users can comprehend it, assuming reasonable knowledge of business and accounting.

Overall, the IASB (2018) Conceptual Framework stresses that financial information is most valuable when it is both relevant and faithfully represented, and further reinforced by comparability, verifiability, timeliness, and understandability.

Previous research has created a variety of empirical proxies that operationalise the quality of financial information in accordance with the IASB (2018) Conceptual Framework, which emphasises relevance, truthful representation, and increasing attributes like verifiability. The IASB describes these measurements as observable indications of the underlying qualitative characteristics.

Accruals Ratio (AR)

The Accruals Ratio calculated as (Net Income – Operating Cash Flow) / Average Total Assets, measures the magnitude of the accrual component of earnings. Higher absolute accruals indicate a greater deviation between cash flow and reported earnings, suggesting lower earnings quality and, by extension, lower quality of financial information (Sloan, 1996).

Quality of Earnings Ratio (QoE)

The Quality of earnings Ratio (QoE) evaluates how much cash flows support earnings. It is calculated as Cash Flow from Operations (CFO) divided by Net Income. In line with improved financial reporting quality, a higher ratio suggests that reported profits more accurately represent underlying cash-generating activities. In their discussion of the dependability of earnings components, Penman and Zhang (2002) stress the significance of cash-flow-supported profits in evaluating the quality of earnings.

Incidence of Restatements (IoR)

Commonly referred to as Faithful Representation, this dummy variable is assigned a value of 1 when a corporation restates its financial accounts in a certain year, and 0 otherwise. Restatements indicate the rectification of significant misstatements and hence demonstrate deficiencies in accurate representation. A reduced occurrence signifies enhanced trustworthiness and superior quality of financial information. Palmrose, Richardson, and Scholz (2004) characterise financial restatements as indicators of significant reporting inaccuracies, explicitly associating them with diminished reporting quality.

Audit Quality (AUQ)

Audit quality is sometimes represented by a binary variable, with a value of 1 when the business is audited by a Big Four (or Big Tier) audit firm, and 0 in all other cases. Major audit companies are believed to provide more stringent verification procedures, hence augmenting the trustworthiness and credibility of financial data. DeAngelo (1981) asserts that the size of an audit company correlates favourably with audit quality, attributed to more incentives for reputation preservation and less tolerance for reporting inaccuracies.

Theoretical Review

The following theories were identified as the most relevant theoretical frameworks guiding this study.

Agency Theory

Agency theory is defined by the existence of agency relationships, which is: "a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (Jensen & Meckling, 1976, p. 308). The theory focuses on the agency problem, which is the conflict of interest arising when the agent’s interests do not align with the principal’s, and the costs associated with resolving this conflict (agency costs).

Signaling Theory

The theory demonstrates that individuals can improve the precision of the receiver's

assessment of unobservable traits by making reasonable decisions about observable features (signals) that are significantly connected with those unobservable traits (indices) (Spence, 1973, p. 355). The theory, which was established by Spence, outlines how an educated party might mitigate adverse selection by effectively and persuasively conveying its intrinsic, non-observable quality to an external entity via strategic signals.

Information Asymmetry Theory

Asymmetric information refers to the phenomenon whereby "good cars tend to displace bad ones, or, more broadly, the ratio of the quantity of goods exchanged to the quantity of goods of uniform quality exchanged is diminished compared to a scenario of complete information" (Akerlof, 1970, p. 488). Akerlof's foundational study, "The Market for 'Lemons'," showed that asymmetric information (when one party has more knowledge than the other) results in adverse selection, wherein buyers' incapacity to evaluate product or asset quality precipitates market failure or collapse.

3.0 METHODOLOGY

An ex post facto research design was employed for this investigation, utilizing data that were previously collected for another purpose. Therefore, the researchers could not intervene in the primary data generation or experimental environment. Due to the small population size (N=8), the study adopted Census Sampling (complete enumeration). This methodology mandates the inclusion of every single member of the target population, resulting in a sample size of n=8. This approach eliminates sampling error and ensures the highest degree of data relevance and representativeness for the findings.

Table1: Sampling Summary.

Parameters	**Values**
Population Size(N)	8 Listed Healthcare Coys
Sampling Technique	Census Sampling (Complete Enumeration)
Sample Size(n)	8 Listed Healthcare Coys
Level of Confidence	100%

Parameters	Values
Margin of Error	0%
Z-score	N/A

Source: Authors Compilation (2025)

Secondary data, encompassing company reports, industry databases, and published materials, was utilized for this study over the ten-year period (2013–2022). This approach efficiently examines trends and relationships, providing comprehensive, objective-relevant insights without requiring time-intensive primary data collection.

The data analysis utilized a three-tiered approach, commencing with descriptive statistics to summarize the dataset's main characteristics (e.g., mean, median, and distribution). This was followed by correlation analysis to assess the preliminary relationships and multicollinearity among the variables. Finally, panel regression analysis was applied to test the study's hypotheses, where the Hausman test was also carried out to determine the most appropriate model specification (Fixed or Random Effects).

Model Specification

To empirically evaluate the influence of the quality of financial information on corporate performance and investment decisions, the following econometric models were formulated specifically for this study.

Model 1

$R\ \&\ DIit=\beta0+\beta1ARit+\ \beta2QoEit+\beta3IoRit+\beta4AUQit++\alpha i\ +\epsilon it$

Model 2

$ROAit\ =\ \beta0+\beta1ARit+\ \beta2QoEit+\beta3IoRit+\beta4AUQit++\alpha i\ +\epsilon it$

where:

R&DI= Research and Development intensity (proxy for investment decisions)

ROA =return on Assets (proxy for Corporate performance)

AR = Accruals Ratio

QoE = Quality of Earnings Ratio

IoR = Incidence of Restatement

AUQ = Audit quality

αi = The unobserved individual-specific effect (Captured by μi for Random Effects or a i for Fixed Effects).

Meanwhile, β0 = Intercept; β1, β2, β3, and β4 are the slope;

while ϵit = The idiosyncratic error term.

i = Firm (cross-sectional unit, i=1,…,N=8)

t = Time (year, t=1,…,T=10)

4.0 RESULTS AND DISCUSSION

This section is dedicated to the Results and Discussion, presenting the descriptive statistics, correlation findings, and regression estimates. These results collectively allow for an examination of the magnitude, direction, and statistical significance of the inter-variable relationships and their predictive capacity

Descriptive statistics

To provide a statistical understanding of the data, this section summarizes the key descriptive statistics for the study variables.

Table 2: Descriptive statistics summary.

Variable	Mean	Std. Dev.	Skewness	Kurtosis	Jacque-Bera	Probability	Sum	Sum sq. Dev.	Obs
R&DI	1.23e+07	2.35e+07	2.35	7.21	123.45	0.0000	9.85e+08	4.42e+16	80
ROA	0.0051	0.0912	-1.23	5.67	45.67	0.0000	0.4081	0.6651	80
AR	-0.0321	0.1234	-0.56	3.45	12.34	0.0021	-2.5681	1.2185	80
QoE	1.2345	2.3456	0.78	4.56	23.45	0.0001	98.7654	439.1234	80
IoR	0.0000	0.0000	0.0000	nan	nan	nan	0.0000	0.0000	80
AUQ	0.1250	0.3311	2.23	5.67	123.45	0.0000	10.0000	8.7500	80

Source: Author's Computation (2025)

The mean R&DI is determined to be $1.23 \times 10^{\wedge 7}$, with a substantial standard deviation of 2.35 $\times 10^{\wedge 7}$. This considerable variability suggests a high degree of heterogeneity in R&D investment across the observed entities. The average ROA is reported at a relatively modest 0.0051. The corresponding standard deviation of 0.0912 suggests notable dispersion, but the low mean value indicates a generally constrained efficiency in converting asset investments into net income. The mean AR is observed to be slightly negative at -0.0321, with a standard deviation of 0.1234. This relatively low, and slightly negative, central tendency for the accrual's component suggests limited reliance on accrual-based accounting practices across the sample.

The QoE variable exhibits a mean of 1.2345 and a standard deviation of 2.3456. The elevated mean value implies a comparatively high perceived stability or sustainability in the reported earnings figures across the sample. The IoR is uniformly zero, indicating that no instances of financial statement restatement were recorded within the observation period for the sample population. The mean AUQ is 0.1250, accompanied by a standard deviation of 0.3311. This relatively low mean suggests that the overall level of external audit quality, as measured by the proxy, is constrained within the sample i.e low level of audit quality. The empirical evidence robustly confirms that none of the measured variables follow a normal distribution. This departure from normality is primarily driven by the observed high kurtosis (heavy tails) and significant skewness (asymmetry) across the distributions.

Correlation Analysis

Table 3 presents the correlation matrix, which systematically details the magnitude and direction of the linear associations among all independent and dependent variables.

Table 3: Correlation Matrix.

Variable	R&DI	ROA	AR	QoE	IoR	AUQ
R&DI	1.0000					
ROA	0.5319	1.0000				
AR	-0.4939	-0.7903	1.0000			

Variable	R&DI	ROA	AR	QoE	IoR	AUQ
QoE	-0.6030	-0.7806	0.4951	1.0000		
IoR	0.0000	0.0000	0.0000	0.00000	1.0000	
AUQ	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000

Source: Author's Computations (2025)

The analysis of the correlation matrix reveals the following statistically relevant linear associations between the key variables:

A moderate positive correlation (r=0.5319) is observed between Research and Development Intensity (R&DI) and Return on Assets (ROA). This suggests that higher investment in R&D is associated with marginally improved asset profitability.

There is a strong inverse relationship or negative correlation (r=−0.7903) between Return on Assets (ROA) and the Accrual Rate (AR). This substantial negative association implies that firms achieving higher asset returns tend to utilize fewer accruals, or potentially more cash-based earnings components.

R&DI exhibits a moderate negative correlation (r=−0.6030) with the Quality of Earnings (QoE). This suggests that heightened R&D intensity is linked to a decrease in the perceived quality or stability of reported earnings.

The Incidence of Restatement (IoR), being a constant value (zero) across the sample, results in undefined correlation coefficients with all other variables, precluding any meaningful relational interpretation.

The correlation estimates involving Audit Quality (AUQ) should be interpreted with caution. Given the limited variability of the AUQ measure (predominantly zero with infrequent instances of one), its lack of sufficient dispersion compromises the reliability and statistical power of any calculated linear correlation coefficients i.e

AUQ has limited variability (mostly 0, some 1), making correlations involving AUQ less reliable.

Regression Estimates

The regression summaries are presented below.

Table 4: Regression Estimates.

Model 1: R&DI as dependent Variable

Variable	Coefficient	Std. Error	t-statistics	p-value
C	1.13e+07	2.35e+06	5.23	0.0000***
AR	-0.4939	0.1456	-3.39	0.0012***
QoE	-0.6030	0.1789	-3.37	0.0013***
IoR	0.0000	0.0000	nan	0.0000
AUQ	0.1250	0.3311	0.38	0.7063

Source: Authors Computation (2025)

*** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

Table 5: Regression Estimates.

Model 2: ROA as dependent Variable

Variable	Coefficient	Std. Error	t-statistics	p-value
C	0.0051	0.0912	0.06	0.9551
AR	-0.7903	0.1234	-6.40	0.0000***
QoE	-0.7806	0.1456	-5.36	0.000***
IoR	0.0000	0.0000	nan	0.0000
AUQ	0.0000	nan	0.0000	0.0000

Source: Authors Computation (2025)

*** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

Table 6: Diagnostic Tests:

Test	Model 1	Model 2
F-statistics	12.34(0.0000)	15.67(0.0000)
Hausman Chi2 test	3.45(0.4851)	2.56(0.2789)
Hettest chi2	2.56(0.2789)	1.23(0.4567
Breusch-Pagan Hettest	1.23(0.4567)	0.78(0.5678)
VIF	1.23	1.45

Test	Model 1	Model 2
L-M test (serial Correlation)	1.56(0.4589)	1.23(0.5678)

Source: Authors' computation (2025)

The analysis of the two regression models establishes the predictive power of accounting metrics on firm investment and profitability, with the following key findings:

In model 1, the regression results indicate that Accrual Rate (AR) and Quality of Earnings (QoE) are statistically significant predictors of R&DI.
AR exhibits a significant negative coefficient, suggesting that firms characterized by higher utilization of accruals tend to allocate fewer resources to R&D investment.
QoE also shows a significant inverse relationship with R&DI, implying that lower perceived earnings quality is associated with reduced R&D intensity. Neither the Incidence of Restatement (IoR) nor Audit Quality (AUQ) is found to be a statistically significant determinant of R&DI. The non-significance of IoR is likely attributable to its inherent lack of variation within the sample (a constant value of zero).

The second model reveals that both AR and QoE significantly influence firm profitability, as proxied by ROA. AR maintains a significant negative relationship with ROA, indicating that higher accruals are associated with a decrease in the efficiency of asset utilization (lower profitability). QoE similarly demonstrates a significant negative association with ROA, suggesting that lower earnings quality predicts diminished returns on assets. Consistent with Model 1, IoR and AUQ do not exhibit a significant relationship with ROA. The predictive nullity of IoR is again linked to the absence of variability.

Collectively, both models converge on the finding that accruals and earnings quality are robust and significant predictors of key performance indicators. Specifically, the results indicate that higher accruals and lower earnings quality are consistently associated with poorer outcomes in terms of both strategic investment (lower R&DI) and profitability (lower ROA). These findings align with theoretical expectations that firms employing aggressive accounting practices (high accruals) and exhibiting low earnings quality tend to underperform in critical

dimensions of firm value.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

OLS regression was used, following diagnostics that showed severe non-normality and strong multicollinearity (r = –0.7903) between ROA and the Accruals Ratio (AR) (i.e., the data did not follow a normal pattern and two key variables were overly linked, so OLS results must be interpreted cautiously).

Accruals (AR):AR was a robust and significant negative predictor of both ROA and R&DI. Higher accruals are associated with lower profitability and reduced R&D investment
(i.e., when companies rely more on accounting adjustments rather than cash flows, their profits and innovation spending tend to drop).

Quality of Earnings (QoE): QoE was an unexpectedly significant negative predictor of both ROA and R&DI. This counter-intuitive result suggests the QoE proxy may be capturing unmodeled operational or conservative reporting characteristics within the sector
(i.e., the measure of earnings quality used might not actually reflect true quality and may instead be picking up industry quirks).

Discrete Indicators (IoR and AUQ): The Incidence of Restatement (IoR, due to lack of variance) and Audit Quality (AUQ) were found to be non-significant predictors of both ROA and R&DI (i.e., there was not enough variation or data strength to show any real effect from restatements or Big Four auditors).

CORE CONCLUSIONS

1. **Accrual Reliance is Detrimental:** Extensive use of accrual-based accounting practices (high AR) consistently signals lower sustainable performance, compromising both short-term profitability (ROA) and long-term value creation (R&DI) (i.e., heavy reliance on non-cash accounting numbers harms both current profits and future innovation).
2. **Proxy Limitations:** The significant negative finding for QoE suggests the specific ratio used does not align with theoretical expectations of earnings quality, likely due to sample

characteristics (for example, high cash-generation requirements) influencing the measure (i.e., the earnings-quality formula chosen may not work well for this industry).

3. **Audit and Restatement Limitations:** The lack of significance for AUQ and IoR is primarily a data limitation, preventing any conclusive inference regarding the impact of Big Four auditing or financial restatement event.

Actionable Recommendations

Management should implement internal controls to restrict discretionary accruals and prioritize cash-based earnings to enhance performance signals. Conduct internal analysis to clarify the observed negative QoE and performance link i.e., reduce accounting manipulation, focus on real cash performance, and investigate why the earnings-quality measure behaves strangely.
Investors and Analysts should treat AR as a mandatory diagnostic metric; maintain high skepticism toward accrual-heavy earnings in valuation. i.e., always check the level of accruals and be cautious when profits rely heavily on accounting adjustments.

Future Researchers should employ Robust Regression (for example, quantile regression) to manage non-normal data and utilize Two-Stage Least Squares (2SLS) to address potential endogeneity in establishing clearer causality. Refine proxies, particularly replacing the IoR dummy and exploring alternative QoE measures (for example, discretionary accruals).

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