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## EARNINGS MANAGEMENT AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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### ABSTRACT

*The practice of earnings management has called for increased attention; yet, factors affecting earnings management in Nigeria's public sector remain ambiguous. This study examined earnings management on financial performance of manufacturing firms in Nigeria. The sample consisted of five (5) manufacturing companies listed on the Nigeria Exchange (NGX). Period covered spanned from 2019 to 2023. Data was collected from the annual reports of sample companies and the Nigeria Exchange (NGX) data portal. Test for Equity of Variables, Correlation Test, Hausman Specification Test and Panel Unit Root Result diagnostic were implemented along with Random Effect Panel Data Regression for data analysis. The results of the estimations exposed that biased accounting judgement has significant positive effect on manufacturing firms in Nigeria. The study recommended that manufacturing firms should review their cost allocation practices to ensure that costs are allocated appropriately and reflect the actual consumption of resources by products. This might involve reassessing the allocation of fixed manufacturing overhead costs, as they can significantly affect profitability under absorption costing.*

**KEYWORDS:** *Earnings management, Financial performance, Manufacturing firms, Sustainable, accounting judgement, Accrual, Accounting policy.*

### 1. INTRODUCTION

Manufacturing Firms are businesses entity engaged in the production of goods using labour, machinery, tools, and chemical or biological processing. These firms transform raw materials

or components into finished or semi-finished products that can be sold directly to consumers, other businesses, or used in further production (Yulius, 2017). Manufacturing firms are crucial to economic development, as they create products that drive other sectors, generate employment, and contribute to national and global economic output. A manufacturing firm is primarily involved in the transformation of raw materials or components into finished goods (Bamidele, 2021). These firms may use physical, chemical, or mechanical processes to alter the form or composition of raw materials. This comprehensive understanding of manufacturing firms highlights their diverse types, functions, importance to the economy, challenges, and trends, providing a clear picture of their role in industrial and economic landscapes (Udeh, & Okeke, 2021).

Manufacturing firms often engage in earnings management practices to present more favourable financial statements, which can impact their financial performance both positively and negatively. In the context of Nigerian manufacturing firms, earnings management has been observed as a means to cope with economic volatility, regulatory pressures, and investor expectations (Turakpe, 2020).

Financial performance is the firm's ability to manage and control its resources. It is a measure of how well a firm can use assets from its primary mode of business to generate revenues (Ogbonna, & Umobong, 2019). The level of a firm performance is based on how effectively and efficiently a manager utilizes resources to achieve set objectives in the discharge of their duties. According to Ubesie, Ogbu, and Mbah (2019) Earnings, also called bottom line or net income, is an important item in the financial statements and is regarded as a performance measure for any business. Earning figures are used in many aspects by external and internal users as a signal for performance (Mohammad & Bassam, 2021). Managers therefore tend to manipulate these earnings in order to show a good picture of the organization. This attempt or act is referred to as earnings management.

Earnings management is the act of manipulating the company's earnings (Zhang & Abraham, 2020). Earnings management and financial performance are closely interrelated in the context of Nigerian manufacturing firms. Earnings management, defined as the manipulation of financial records to present a desired image of the company's profitability and stability, can have both positive and negative effects on financial performance perception (Appah & Tebepah, 2023).

Managers of organizations tend to use earnings management to manipulate accounting information presented in the financial statements to show a good picture of the organization,

either to attract or mislead stakeholders (Olaniyi & Abubakar, 2018). Earnings, also called bottom line or net income, is an important item in the financial statements and is regarded as a performance measure for any business. Earning figures are used in many aspects by external and internal users as a signal for performance (Mohammad & Bassam, 2021). Managers therefore tend to manipulate these earnings in order to show a good picture of the organization. This attempt or act is referred to as earnings management. Earnings management is the act of manipulating the company's earnings (Zhang & Abraham, 2020).

### **Statement of the Problem**

Manufacturing firms in Nigeria face economic pressures that make earnings management a tempting strategy to improve their financial appearance to investors, creditors, and regulators. These pressures include fluctuating production costs, currency depreciation, and the high cost of imported materials. Amidst these challenges, firms may engage in earnings management to meet financial covenants, attract investments, and maintain favourable credit ratings. However, while such practices might offer immediate benefits, they can obscure the true financial health of a company, leading to an inflated perception of profitability and stability (Remenaric, Kenfelja and Mijoc (2018).

The issue is further complicated by the fact that sustained earnings management can erode investor confidence, particularly if discrepancies are later uncovered. Weak corporate governance and a lack of rigorous regulatory enforcement in Nigeria contribute to the prevalence of earnings manipulation, raising questions about the reliability of reported financial performance in the manufacturing sector. For instance, weak oversight often leads firms to engage in accrual-based earnings management or operational adjustments that may boost short-term profits at the expense of long-term performance.

The need for transparency and accountability in financial reporting is paramount, as accurate financial performance data enable investors, regulators, and stakeholders to make informed decisions. When manufacturing firms in Nigeria engage in earnings management, they compromise these principles, ultimately affecting resource allocation, long-term competitiveness, and economic growth within the sector. Addressing this problem is essential to ensuring sustainable financial performance, improving the credibility of Nigerian manufacturing firms, and promoting a healthier investment environment (Ajibolade, 2018).

## Research Questions

Arising from the statement of the problem are the following research questions:

1. Does biased accounting judgement has any significant impacts on financial performance of manufacturing firms in Nigeria.
2. what is the effect of altering accounting principles on financial performance of manufacturing firms in Nigeria?
3. what is the effect of accrual earning management on the financial performance of manufacturing firms in Nigeria?
4. what is the effect of real earning management on financial performance of manufacturing firms in Nigeria?

## Objectives of the Study

The overall aim of the study is to investigate the impacts of earnings management on financial performance of manufacturing firm in Nigeria. The specific objectives of the study are to:

1. Determine the effect of biased accounting judgement on financial performance of manufacturing firm in Nigeria.
2. Examine the effect of altering accounting principles on the financial performance of manufacturing firms in Nigeria.
3. Ascertain the effect of accrual earning management on the financial performance of manufacturing firms in Nigeria.
4. Investigate the effect of real earning management on financial performance of manufacturing firms in Nigeria.

## Hypotheses of the Study

The following null research questions are raised for the study:

1. **H<sub>01</sub>**: biased accounting judgement has no significant impact on financial performance of manufacturing firms in Nigeria.
2. **H<sub>02</sub>**: altering accounting principles has no significant impact on financial performance of manufacturing companies in Nigeria.
3. **H<sub>03</sub>**: accrual earning management has no significant impact on the financial performance of manufacturing firms in Nigeria.
4. **H<sub>04</sub>**: real earning management has no significant impact on financial performance of manufacturing firms in Nigeria.

## **Significance of the Study**

The significance and implications of earnings management on the financial performance of manufacturing firms in Nigeria are substantial, especially for practitioners who play critical roles in financial reporting. Understanding these implications helps practitioners, such as financial managers, auditors, regulators, and investors, address the challenges earnings management presents and encourages more transparent and accurate financial reporting within the manufacturing sector. The outcome of the study would be helpful to the following groups;

### **Financial Managers**

Financial managers are often pressured to meet performance targets that may encourage earnings management. However, focusing on sustainable financial practices rather than short-term gains can improve the company's long-term financial health and stakeholder trust. Manipulating earnings may initially seem beneficial but poses risks if discrepancies are uncovered. Managers must weigh these risks carefully, as reputational damage and legal repercussions could harm both the firm and their careers. Understanding these consequences promotes more ethical financial reporting.

### **Corporate Governance and Board Members**

Effective corporate governance is essential to mitigating earnings management. Board members and audit committees need to implement strong internal controls, ethical policies, and an accountability framework that discourages earnings manipulation. This leads to better transparency and reliability in financial statements, which is essential for both internal and external stakeholders. Good governance practices reduce earnings management, leading to greater investor confidence in the firm's financial statements. This confidence can enhance stock valuation and attract long-term investment, contributing to the firm's stability and growth.

### **Auditors**

Auditors play a key role in identifying signs of earnings management through rigorous examination of financial statements and adherence to audit standards. By thoroughly investigating accruals, revenue recognition, and expense deferrals, auditors can discourage aggressive earnings manipulation and promote accurate reporting. The detection and reporting of earnings management practices strengthen an auditor's credibility and help build

trust in the profession. As auditors uphold these standards, they improve the reliability of financial reports and contribute to a healthier financial environment for Nigerian manufacturing firms.

### **Investors and Shareholders**

Earnings management can distort a company's perceived financial health, misleading investors and shareholders. When earnings management is minimized, investors gain a more accurate understanding of financial performance, enabling them to make better-informed decisions. This accuracy is crucial for long-term investment strategies and portfolio management. For shareholders, understanding the extent of earnings management helps them assess potential risks. High levels of earnings manipulation may indicate underlying financial issues, which could affect future returns. Identifying companies with transparent practices can reduce investment risks and enhance portfolio stability.

### **Regulatory Authorities**

Regulatory bodies like the Financial Reporting Council of Nigeria (FRC) have an interest in reducing earnings management to improve the quality of financial reporting. Enhanced regulation helps maintain investor confidence, attracting both local and foreign investments to Nigeria's manufacturing sector. Regulators can address earnings management through policies that set clear financial reporting standards, penalize manipulation, and encourage best practices in financial disclosures. By enforcing these standards, regulatory bodies foster accountability and transparency in the manufacturing industry.

The significance of earnings management in Nigeria's manufacturing sector lies in its impact on transparency, trust, and sustainability. While earnings management can present short-term financial benefits, it often harms credibility, investment potential, and long-term financial health. Practitioners who prioritize accurate reporting and sound governance help build a stronger, more reliable manufacturing industry, encouraging sustainable economic growth and enhanced stakeholder trust.

### **Scope of the Study**

The study focuses on earnings management and financial performance of manufacturing firms in Nigeria. The scope of the study is limited to the overall objectives of the research. The study makes use of secondary data for its analysis. The study investigates the effects of earnings management on manufacturing firms using secondary data of 5 years (2019-2023).

## 2. LITERATURE REVIEW

### Conceptual Review

#### Manufacturing Firms

A Manufacturing Firm is a business entity engaged in the production of goods using labour, machinery, tools, and chemical or biological processing. These firms transform raw materials or components into finished or semi-finished products that can be sold directly to consumers, other businesses, or used in further production (Yulius, 2017). Manufacturing firms are crucial to economic development, as they create products that drive other sectors, generate employment, and contribute to national and global economic output. A manufacturing firm is primarily involved in the transformation of raw materials or components into finished goods (Bamidele, 2021). These firms may use physical, chemical, or mechanical processes to alter the form or composition of raw materials. This comprehensive understanding of manufacturing firms highlights their diverse types, functions, importance to the economy, challenges, and trends, providing a clear picture of their role in industrial and economic landscapes (Udeh, &Okeke, 2021).

Manufacturing firms often engage in earnings management practices to present more favourable financial statements, which can impact their financial performance both positively and negatively. In the context of Nigerian manufacturing firms, earnings management has been observed as a means to cope with economic volatility, regulatory pressures, and investor expectations (Turakpe, 2020). Manufacturing firms face intense pressure to maintain steady performance metrics, especially given the capital-intensive nature of their operations. Fluctuations in input costs, currency volatility, and high operational costs often lead firms to manage earnings to meet profitability targets. Firms with debt obligations or industry-specific performance benchmarks may manage earnings to avoid violating debt covenants or underperforming against competitors (Olaniyi &Abubakar, 2018). Accrual-based earnings management involves altering accruals, such as delaying expense recognition or accelerating revenue recognition, to show higher profitability. Accrual manipulation is often harder to detect and provides flexibility to firms looking to present more favourable performance results. Real earnings management of manufacturing firms adjust operational decisions (e.g., changing production schedules or deferring research and development spending to influence reported earnings (Appah & Tebepah, 2023). For instance, overproduction can spread fixed costs over more units, reducing per-unit costs and increasing gross margins in the short term. Earnings management can temporarily boost performance metrics like Return on Assets

(ROA), Return on Equity (ROE), and Earnings per Share (EPS). However, these gains are often unsustainable, as they don't reflect true operational efficiency or profitability. Real earnings management, such as cutting down on essential expenses like research & development or maintenance, can harm long-term productivity and asset utilization. This type of management often leads to reduced competitiveness and lower future profitability. If stakeholders discover earnings management practices, firms face potential regulatory scrutiny, legal consequences, and a loss of investor confidence. These factors can weaken stock prices, increase the cost of capital, and ultimately erode market valuation.

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Financial accounting reports are produced to show the true and fair state of financial statements of an entity in order to help stakeholders in making appropriate decisions, however, current accounting practices allow a degree of choice of different policies and professional judgments in determining the methods of measurement, basis for recognition, and even the definition of the accounting entity (Beshiru & Prince, 2014). This choice of accounting practice can involve a deliberate non-disclosure of information and manipulation of accounting figures, thereby making the business appear to be more profitable or less profitable and financially stronger than it is supposed to be (Okafor, Ezeagba, & Onyali, 2018). Managers of organizations tend to use earnings management to manipulate accounting information presented in the financial statements to show a good picture of the organization, either to attract or mislead stakeholders (Olaniyi & Abubakar, 2018). Earnings, also called bottom line or net income, is an important item in the financial statements and is regarded as

a performance measure for any business. Earning figures are used in many aspects by external and internal users as a signal for performance (Mohammad & Bassam, 2021). Managers therefore tend to manipulate these earnings in other to show a good picture of the organization. This attempt or act is referred to as earnings management. Earnings management is the act of manipulating the company's earnings (Zhang & Abraham, 2020).

Financial performance is the firm's ability to manage and control its resources. It is a measure of how well a firm can use assets from its primary mode of business to generate revenues (Ogbonna, & Umobong, 2019). The level of a firm performance is based on how effectively and efficiently a manager utilizes resources to achieve set objectives in the discharge of their duties. According to Ubesie, Ogbu, and Mbah (2019) earnings management is used to distort the true performance of firms. One of the managers' incentives to carry out these unethical practices could be to increase financial performance, which can only occur in the short term due to the fact that in the long term the market penalizes those manipulative companies and they enjoy lower corporate performance (Ubesie, Ogbu, & Mbah, 2019).

Over the years, the practice or act of manipulating earnings has led to the failure, collapse and insolvency of some big companies both internationally and locally. The internationally known financial reporting fraud cases of Enron in 2001, Xerox and WorldCom in 2002 were clearly as a result of earnings management (Okafor, Ezeagba, & Onyali, 2018) and In the case of Nigeria, the well-publicized financial Scandals and corporate failures which include big corporations like the African petroleum Plc., Cadbury Nigerian Plc., Lever Brothers Plc. and failed Banks in Nigeria (Nwoye&Ogbodo, 2021).

For manufacturing firms in Nigeria, earnings management presents a double-edged sword. Although it can improve financial performance in the short term, it often damages long-term sustainability, operational efficiency, and market reputation. By focusing on stronger corporate governance, regulatory compliance, and operational enhancements, manufacturing firms can achieve genuine improvements in financial performance and mitigate the need for earnings manipulation.

### **Earnings Management**

Earnings management, according to (Yaari 2021), is a series of management decisions that do not report on management's known real, short-term profit maximization. Healy and Wahlen (2019) define earnings management: "Earnings management occurs when managers used

judgment in financial reporting and in structuring transactions to alter financial reports to either mislead stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting.

Earnings management occurs “when managers use judgment in financial-reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers” (Healy & Wahlen, 2019). Earnings information can be used by the managers to convey superior and useful information which they know about company performance to shareholders and debt holders. If this is the case, then, earnings management may not be harmful to the stockholders and the public. Nevertheless, the financial scandal at WorldCom and Enron changed the outlook of earnings management toward an opportunistic view. With regards to this view, managers manage earnings for their own private benefits rather than for the benefits of the stockholders (Hao, 2020).

Corporate earning is the net income that represents a company’s bottom line which has been recognized as a particularly most significant item in financial statements as they designate or signify the extent to which a company has engaged in value-added activities (Levitt, 2019). Earnings signal the direction of resource allocation in capital markets as the theoretical value of a company’s stock is the present value of its future earnings. Hence, increased earnings represent an increase in company value, while decreased earnings signal a decrease in the value of a company.

According to Schipper (2019), earnings management refers to a purposeful intervention in the external financial reporting process with the intent of obtaining some private gain. Healy and Wahlen (2019) assert that earnings management takes place when management makes decisions regarding financial reporting and transaction structuring to change financial reports in order to either deceive some stakeholders about the company's underlying economic performance or to affect the outcomes of contracts that depend on reported accounting numbers. Earnings management is primarily achieved by managed actions that make it easier to achieve desired earnings levels through accounting choices in Generally Accepted Accounting Principles (GAAP) commonly described as Discretionary Accruals Management (DAM). Earnings management is also achieved by the manipulation of the operating activities of a company (Cash-Based or Real Earnings Management).

Unlike fraud, earnings management encompasses the selection of accounting and estimates that conforms to the generally accepted accounting principles (GAAP). This implies that

companies that practice earnings management would manage their earnings within the limits of accepted accounting procedures (Rahman & Ali, 2016). However, certain monitoring mechanisms can prevent managers from inflating the earnings. The monitoring hypothesis acknowledges the impact of external monitoring (such as monitoring by creditors) on the practice of earnings management. Under constant monitoring, inflated earnings through management are likely to be detected and, therefore, unlikely to affect stock prices (Shih & Yueh, 2022).

Earnings management is measured using accruals basis. In accounting, the term “accrual” refers to a journal entry where a revenue, expense or asset item is recorded in absence of an actual cash transaction. Accrual accounting is “a basis of accounting according to which all the transactions and events are recorded when they occur, without a relation with cash inflow or outflow (Ogbonna, & Umobong, 2019). Therefore, the operations and events are recorded in the accounting records and recognized in the set of financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses” (IPSASB 2016).

The reasons for Earnings management are diverse and range from the intention to satisfy analysts’ expectations to incentives to realize bonuses or to maintain a competitive position within the financial market. Earnings management becomes fraudulent financial reporting when it falls outside the bounds of acceptable accounting practice. Thus, firms will only engage in earnings management when the benefits of this behaviour are higher than the risks and costs involved (Rahman, Moniruzzaman & Sharif, 2023). Ijeoma and Aronu (2023) posited that most managers who practice earnings management look for loopholes in financial reporting standards which they can exploit to adjust the numbers as much as is practicable to achieve their desired aim or satisfy their financial projections.

Furthermore, Matsumoto (2002) stated that firms with high growth prospects have greater incentives to manipulate earnings to avoid unfavourable market reaction to negative earnings news, whereas earnings of loss firms are less value relevant and thus managers are less likely to adjust earnings to meet targets. Reacting to why managers of firms engage in earnings management and become successful in the presence of stern guidelines and procedures; Ali, Butt and Tariq (2021) stated that creative accounting practice is sometimes good and sometimes it brings crisis in the companies by violating the corporate governance principles.

Earnings managements the practice of using accounting techniques, operational decisions, or financial reporting adjustments to influence a company's reported earnings. It is often undertaken to meet internal targets, manage investor expectations, or maintain debt covenant compliance. While some forms of earnings management fall within legal and regulatory frameworks, others may distort financial statements, potentially misleading stakeholders

### **Accruals**

An accrual is a means of recording an expense that was incurred in one accounting period but not paid until a future accounting period. Accruals differ from Accounts Payable transactions in that an invoice is usually not yet received and entered the system before the year end (Ogbonna, & Umobong, 2019).

### **Biased Accounting Judgment**

Biased accounting judgment refers to decisions in financial reporting that are influenced by personal motives, external pressures, or conflicts of interest, rather than by objective principles and standards. This bias in accounting judgment can result in financial statements that present a skewed or inaccurate view of a company's financial health, leading to potential misunderstandings and misinterpretations by stakeholders such as investors, regulators, and the public.

### **Alteration Accounting Principle**

Altering accounting principles refers to the practice of changing the accounting methods or standards used to prepare and present financial statements. These changes can significantly impact the reported financial position, results of operations, and cash flows, as different principles may produce different financial outcomes. In some cases, altering accounting principles is legitimate if done for transparency, accuracy, or alignment with new standards. However, altering principles with the intent to manipulate financial results or mislead stakeholders is a form of earnings management or creative accounting that undermines financial reporting integrity (Ogbonna, & Umobong, 2019).

### **Real Earning Management**

Real Earnings Management (REM) refers to the manipulation of reported earnings through actual business activities, rather than through accounting choices or changes in accounting principles. Unlike traditional earnings management, which involves adjusting accruals or

estimates in financial statements, REM involves altering the timing or structure of real operational decisions, such as sales, production, or expenses, to influence financial outcomes (Ogbonna, & Umobong, 2019).

### **Limitation of Earning Management**

As discussed earlier, earnings management if properly used may result to the upliftment of an organization; and bad earnings management could fall the organization. Thus, earning management means interference with the standards to hide real operating performance. However, some of the techniques used that may influence bad earnings management as pointed out by previous studies are discussed below:

### **Theoretical Review**

#### **Stakeholder Theory**

Stakeholder theory argues that companies have responsibilities to various stakeholders, including shareholders, employees, customers, suppliers, and the broader community. This theory implies that a company should operate transparently to benefit all stakeholders. While earnings management can satisfy certain stakeholders (e.g., meeting shareholder earnings expectations), it might harm others, such as employees or long-term investors. Stakeholder theory provides a framework for understanding the ethical implications of earnings management, which can lead to short-term gains but undermine broader stakeholder trust and long-term performance.

The stakeholder theory argues that a company should be managed in the interest of its entire stakeholder. The interest of the stakeholder include, the interest of the shareholders and other direct and indirect stakeholders such as, suppliers and creditors who have direct interest in the organization and supplies to the company on credit, based on their performance and investors who eventually invest their money in the company based on the audited report of the independent auditors and the host community (Ahmalu et al. 2017).

#### **Agency Theory**

Agency theory, proposed by Jensen and Meckling (1976), suggests that conflicts often arise between a company's managers (agents) and its shareholders (principals), as both parties may have differing goals. Managers might engage in earnings management to meet personal performance goals, secure bonuses, or maintain job security, even if these actions don't align with shareholders' long-term interests. Earnings management can be used to artificially

improve short-term financial performance, meeting investor expectations or analyst forecasts, though this can harm long-term value. Agency theory helps explain the motivations for earnings manipulation as managers prioritize short-term gains over sustainable growth.

### **Signaling Theory**

Signaling theory, developed by Spence (1973), asserts that companies send signals to external stakeholders to convey their quality, especially when information asymmetry exists. Firms with strong performance may have incentives to manage earnings to signal stability and financial health, attracting investors and boosting stock prices. Companies might engage in earnings management to signal strength to investors, creditors, and analysts, especially in competitive markets. For instance, maintaining consistent earnings growth is seen as a positive signal; however, this can sometimes lead to manipulative practices that, while enhancing perceived performance, do not reflect the company's actual financial health.

### **Positive Accounting Theory (PAT)**

Positive Accounting Theory, developed by Watts and Zimmerman (1986), posits that companies select accounting policies that serve their interests. PAT argues that managers make accounting choices to minimize costs or maximize compensation, often choosing practices that influence reported earnings favourably. PAT is directly linked to earnings management, as it suggests managers might alter financial reports to avoid tax liabilities, meet debt covenants, or enhance earnings-based compensation. This practice influences financial performance measures like profitability ratios, potentially misleading stakeholders.

### **Institutional Theory**

Institutional theory suggests that companies conform to norms, regulations, and expectations within their industry or institutional environment. Firms may engage in earnings management to meet industry norms or market expectations, driven by the desire for legitimacy and conformity. In the context of financial performance, institutional theory suggests that firms may manage earnings to maintain a favourable market perception, meet investor expectations, or align with peer performance. However, this pressure can result in practices that inflate performance metrics but may not represent actual profitability or operational health.

## **Resource Dependence Theory**

This theory, proposed by Pfeffer and Salancik (1978), posits that companies are dependent on external resources (e.g., financing, supplier relationships) and therefore make strategic decisions to maintain control over these resources. Earnings management can be used to manipulate financial metrics, making the firm appear more stable and capable of meeting debt obligations, thus maintaining access to capital or favourable terms. Although resource dependence can incentivize earnings management for financial performance improvement, it may lead to resource misallocation and long-term inefficiencies.

## **Empirical Review**

Livinus (2022) the study investigated the relationship between accrual earning and earnings management of listed Consumer Goods Manufacturing firms in Nigeria. This study tested a number of audit quality indicators (auditor's tenure and joint audit) and earnings management proxies that is (earnings restatement and discretionary accruals), using 26 listed consumer-goods manufacturing firms as the study population from 2019-2021. The findings of the study showed that joint audit significantly influences earnings restatement practices, while auditor's tenure does not significantly affect discretionary accruals of listed consumer-goods manufacturing firms in Nigeria. In addition, Joint audit exerts significant impact on discretionary accruals of listed consumer-goods manufacturing firms in Nigeria. The study concludes that this study has produced conclusive evidence that auditor's tenure is not a significant indicator of audit quality in terms of earnings management constraining capacity. This means recent clamour for, or against audit tenure rotation aimed at boosting audit quality in Nigeria is in consequential.

Alu, (2023). investigated the effect of audit quality on management of earnings in Nigerian listed firms by ascertaining the effect of audit quality on discretionary accruals, determining the effect of audit quality on earnings smoothing, as well as establishing the effect of audit quality on earnings per share from 2017-2022. The findings indicate that audit quality significantly affected earnings smoothing.

Ogiedu &Odia (2023), researched on firms engaging in earnings management through accrual adjustments or real activities manipulation may report improved short-term profitability. The used questionnaire to obtain data. The data obtained were analysed with the aid of ordinary least square. The result of the study showed that improvement is often not sustainable in the long run, as managed earnings can erode actual firm value and efficiency

due to operational inefficiencies created by decisions like overproduction or cutbacks in essential expenses Egbunike and Abiahu (2021) on Nigerian firms noted that common earnings management techniques include income smoothing and real activities manipulation, such as overproduction or aggressive sales incentives, which may give a false impression of improved profitability. These techniques can affect investor confidence, as they introduce discrepancies between reported earnings and actual cash flows on Earnings Management Practices and Techniques.

Several studies emphasize the role of corporate governance and financial performance in controlling earnings management.

Uwuigbe, (2021) found that firms with strong governance structures and high-quality audits are less likely to engage in earnings manipulation. In Nigerian manufacturing firms, the presence of independent board members and robust internal audit functions is associated with reduced earnings management practices, resulting in more reliable financial statements and, ultimately, better long-term financial performance.

The relationship between earnings management and market valuation is mixed. Abata (2015), firms that engage in earnings management to report favourable results tend to experience temporary increases in stock prices; however, when earnings management is detected, it often results in negative market reactions, which can diminish shareholder wealth. This finding suggests that, while earnings management may boost short-term financial performance metrics, it can harm market trust and valuations if investors perceive the financial statements as unreliable.

Studies also examine how debt covenants influence earnings management practices in Nigerian manufacturing firms. Research by

Salawu et al. (2021) found that firms close to breaching debt covenants often engage in earnings management to meet these requirements. This behaviour, while maintaining debt compliance in the short term, can strain operational efficiency and divert focus from sustainable growth activities, adversely affecting long-term financial performance.

The literature underscores the long-term risks associated with earnings management. For instance,

Okolie (2024) noted that Nigerian firms using earnings management to meet short-term targets tend to underperform over time compared to firms that report accurate financials. The

practice can lead to a depletion of financial resources, reduction in operational effectiveness, and poor competitive positioning due to the misallocation of resources.

### **Gap in Literature**

Research on earnings management and financial performance of manufacturing firms in Nigeria has

yielded valuable insights, but several gaps remain that can be explored to further understand the nuances of these practices within the Nigerian context. Here are some key gaps in the literature:

Most studies in Nigeria examine earnings management broadly across sectors or focus on publicly traded firms. However, specific dynamics of the manufacturing sector, such as its high operational costs, intense competition, and exposure to exchange rate fluctuations, are not fully addressed. Industry-specific studies could provide a more precise understanding of how unique pressures within manufacturing influence earnings management practices, distinguishing it from practices in other sectors.

Many studies focus primarily on accrual-based earnings management (AEM), with less emphasis on real earnings management techniques, such as altering production schedules, offering discounts, or deferring maintenance expenses. REM is more challenging to detect, as it involves actual business operations rather than accounting choices. Research could examine how REM is used in Nigerian manufacturing firms, exploring its implications on operational efficiency, financial sustainability, and how it affects long-term performance.

Although some studies highlight the role of corporate governance, there is limited exploration of how regulatory changes, such as the adoption of International Financial Reporting Standards (IFRS) or the role of the Financial Reporting Council of Nigeria, impact earnings management practices. The relationship between governance quality, regulatory frameworks, and earnings management in

Nigerian manufacturing firms remains under-researched. Further studies could assess the effectiveness of these regulatory and governance mechanisms, especially in reducing earnings management and improving reporting quality, offering insights on whether these frameworks help curb unethical practices.

The Nigerian economy is marked by currency fluctuations, inflation, and periods of recession, but there is limited investigation into how these factors impact earnings

management in manufacturing firms. These macroeconomic instabilities can create incentives for firms to manage earnings to stabilize perceived financial performance. Research could examine how external economic factors influence the propensity for earnings management in manufacturing firms, providing insights into the role of economic pressures in earnings manipulation.

Most studies assess the short-term effects of earnings management on financial performance, but few explore its impact over extended periods. This short-term focus does not capture the full consequences of earnings management on financial health, growth, and sustainability. Longitudinal studies could investigate the long-term impact of earnings management on profitability, cash flow stability, and firm value in Nigerian manufacturing, helping to clarify whether these practices provide genuine benefits or ultimately harm performance (Matsumoto, 2023).

The literature often overlooks the role of ethical considerations and individual motivations of managers in Nigerian firms. There is limited investigation into how corporate culture, managerial ethics, or personal incentives influence decisions around earnings management. Research could address the ethical dimensions of earnings management in Nigeria, examining how managerial attitudes and corporate culture impact the likelihood of earnings manipulation and influence organizational performance.

The gaps in existing literature present opportunities for a more comprehensive understanding of earnings management practices in Nigerian manufacturing firms. Addressing these areas could provide deeper insights into industry-specific practices, the impact of external economic conditions, and the role of governance in shaping earnings management. By filling these gaps, future research could significantly contribute to strategies that improve transparency, financial health, and sustainable performance in Nigeria's manufacturing sector.

### **3. METHODOLOGY**

This chapter presents the methods that were adopted to gather and analyze the data employed in addressing the research objective. It presents the research design, population of the study, sample size and sampling technique of the study, including the source of data. It showcases the measurement of variables, models specification and the method of data analysis in the study.

## Research Design

Expost facto and correlation research designs were used. This is because it includes data's that are already in existence. Therefore, information was gathered from publicly available financial statements that have been audited by statutory external auditors. A secondary source of data for this analysis was obtained from the financial statements and annual reports sourced from the websites of the twenty-one (21) manufacturing firms as samples from 2019 to 2023.

## Sources of Data Collection

Secondary data was used in the study. Data obtained from published annual reports of the selected manufacturing firms listed in Nigeria Stock Exchange.

## Population of the Study

All twenty-one (21) manufacturing firms listed by the Nigerian Exchange Group as at 31st December 2023, make up the entire population for the study. The convenience sampling method was used to determine the sample size. The criterion used is that; a firm must be listed before the year 2018 and remain in operation during the period of the study (2019 to 2023).

## Sample and Sampling Technique

The census sampling method will be used because the population size is not large (that is, less than 30). Therefore, the sample size will be five (5) listed manufacturing firms in Nigeria as at 31 December 2023. The selected twenty-one (21) manufacturing firms are Dangote Sugar Refinery Plc, BUA Cement Plc, BUA Foods Plc, Nigerian Bottling Company Plc, and Flour Mills of Nigeria.

No	Consumer Goods Manufacturing Firms
1	Dangote Sugar Refinery Plc,
2	BUA Cement Plc,
3	BUA Foods Plc,
4	Nigerian Bottling Company Plc,
5	Flour Mills of Nigeria

**Source:** Nigerian Exchange Group.

## Model Specification

Managers can manipulate earnings upwards or downwards through actual transactions Wang et al. (2020). Thus, managers can accelerate sales by increasing price discounts or credit terms. The additional sales will boost current period earnings. (Row Chowdhury, 2016)

developed the model for calculating real earnings management (REM). This is calculated as follows:

For abnormal production costs:

This functional relationship is proposed to test how earnings management practices affect the financial performance of manufacturing companies. However, in recognition that certain other factors can induce earnings management practices and significantly affect firm performance, as noted by Burgstahler and Chuk (2021), firm size (SIZE) is incorporated into the equation above as moderating variable. Thus, the above functional form in equation 2 is expanded as follows:

**Where;**

**Dependent Variable:** Financial Performance = Return on Asset (ROA)

**Independent Variables:** Earnings Management = Discretionary Accruals (DACC) and Real Earnings Management (REMT) and firm size (SIZE)

Financial Performance = f(Earnings Management).....1

$$ROA = \beta_0 + \beta_1(DACC) + \beta_2(REMT) + \beta_3(SIZE) + \varepsilon$$

ROA = Return on Asset

DACC= Discretionary Accruals

REMT= Real Earnings Management.

SIZE = Firm Size

$\varepsilon$  = error term.

**Table 3.1 Summary of Measurement of Variables.**

Variables	Description	Measurement	Source
<b>Independent variables</b>			
<b>Earnings Management</b>	Accrual based earnings management	$\frac{\text{The book value}}{\text{Market value}}$	Alves, (2021).
<b>Discretionary Accruals (DACC)</b>	The discretionary portion of accruals is the difference between total accruals in the event year and nondiscretionary accruals	$\frac{\text{Total Accruals}}{\text{Total Assets}}$	Saeed, & Saeed, (2018). Talab et al., (2018).
<b>Firms Size</b>	Size of the Board. It often affects the internal control formulation	The aggregate number of directors.	Kanakriyah, (2021).

<b>Dependent Variable</b>			
<b>ReturnonAsset</b>	Return on Assets (ROA) is a metric frequently employed as a principal indication to evaluate the performance of a corporation and subsequently make well-informed financial decisions.	$\frac{\text{Net Income}}{\text{Total Asset}}$	Manurug, (2019)

Source: Researcher's Compilation, (2024)

### **Data Analyses Technique**

The data was analyzed by inferential and descriptive statistics. The data were collected across the 5 Consumer Goods Manufacturing Firms for the period of 2019 to 2023 (5 years). The robustness of the study was ensured with the full statistical description of the variables and the necessary tests conducted as follows:

### **Descriptive Statistics**

The descriptive statistics for both independent variables and dependent were done. The variables were examined on the basis of mean, minimum, maximum and standard deviation.

### **Normality Test**

Normality test done was to prove whether the data sample encompasses some components of outliers. Outlier is a symptom of anomalous data scattering. A probability value of less than 0.05 indicates normally distributed data.

### **Pairwise Correlations Test**

Pairwise correlation test shows whether the variables of interest were related. Where association are detected, it indicates that it worthy to move forward with the study. Thus, the test of correlation was done, and all the independent variables were related to the explained variable. Hence, the study progressed with analysis of data.

### **The Fixed and Random Effect**

Hausman test was conducted in order to select from the results of the two panel regression estimation. The null hypotheses was that the random effect model is preferred to fixed effect model. A value more than 0.05 indicates the non-rejection of the null hypothesis and accept the alternative hypothesis at 5% level of significance.

## Unit Root Test

One important econometric undertaking done was to discover the most applicable form of the trend in the data. Unit root test was used to test the order of integration of the individual variables using Fisher-type unit root test and Augmented Dickey-Fuller test. It indicates whether to difference the data or regressed on deterministic function of time series to make the data stationary. Thus, a higher percentage of the variables were stationary at level  $I(0)$ . Henceforth, time-trend regression is the suitable approach.

## Post Regression Diagnosis Test

Post regression diagnosis tests are critical to validate the reliability and validity of data used. Hence, the following post regression diagnosis tests were done: Test for Multicollinearity, Heteroskedasticity test and Regression Equation Specification Error Test (RESET).

## DATA PRESENTATION AND ANALYSIS

### Preamble

The panel data series collected across the cross-section for the period of 2019 to 2023 were subjected to different statistical and econometric investigation. The analysis in this chapter addressed: earnings management and financial performance of manufacturing firms in Nigeria between 2019 and 2023 (5 years).

### Data Presentation

**Table 1: Descriptive Statistics.**

	ROA	DACC	REMT	BS
Mean	0.161100	8.071080	0.627240	11.76000
Median	0.098000	1.030000	0.495000	11.00000
Maximum	0.493000	50.98000	1.692000	17.00000
Minimum	0.003700	0.001000	0.207000	7.000000
Std. Dev.	0.173342	14.08201	0.419985	3.003886
Skewness	0.945207	1.962335	1.114708	0.358137
Kurtosis	2.278300	5.702708	3.346405	1.798688
Jarque-Bera	4.265123	23.65381	5.302391	2.037707
Probability	0.118533	0.000007	0.070567	0.361009
Sum	4.027500	201.7770	15.68100	294.0000
Sum Sq. Dev.	0.721140	4759.269	4.233303	216.5600
Observations	25	25	25	25

**Source:** Researcher's Computation, 2024

The result shows that on average, return on asset was 0.1611 while that of discretionary accruals is 0.627 and Earnings Management is 0.6272. The minimum coverage is 0.001000

while maximum is 50.98000. The result of the descriptive statistics shows that on average, the five selected quoted manufacturing firms maintained an earnings management. The Jarque-Bera probability shows that the distribution for earning management proxy of absolute discretionary accruals (DACC), firms size (BSIZE), earnings management (REMT), and return on asset (ROA) are normally distributed as their probabilities that were greater than 0.05 level of significance.

**Table 2: Test for Equity of Variables**

<b>Test for Equality of Means Between Series</b>			
Method	df	Value	Probability
Anova F-test	(2, 73)	208.596	0.0000
Welch F-test*	(2, 40.58)	246.162	0.0000

\*Test allows for unequal cell variances

**Source:** Researcher's Computation, 2024

The test of equality of variables show reliability of all variables used in this analysis, this was formalized by P-value of the tested hypothesis bellow;

P-value < 0.05: there equity of variables

P-value > 0.05: there is no equity of variables

Base on the result above, there was significance equality of variables among the variables involved.

### Correlation Test

This section examines the degree of relationship amongst variables. The correlation test was conducted for the variables under consideration, this is to ensure that there is no perfect positive or negative relationship existing among variables employed, and this is to prevent Multicollinearity that can be associated with a regression result.

**Table 3: Correlation Test**

	<b>ROA</b>	<b>DACC</b>	<b>REMT</b>	<b>BS</b>
<b>ROA</b>	1	-0.280	0.143	0.312
<b>DACC</b>		1	-0.125	-0.242
<b>REMT</b>			1	-0.315
<b>BS</b>				1

**Source:** Researcher's Computation, 2024

From table 3, it can be seen that there is no perfect positive or negative correlation associated with the regression result as the highest degree of relationship associated among variables is 0.31, this is between return on asset and business size.

### Hausman Specification Test

In panel data analysis, the Hausmann test is a model specification test that is used to choose between fixed and random effects models. Fixed and random effects regressions were carried out because the datasets used in this study were panel. Next, a Hausmann specification test was employed to select between the regression models with fixed effects and those with random effects. This test evaluated whether the erroneous term and the regressor were related. Consequently, the Hausmann specification test decision rule is given at a significance level of 5%

**H<sub>0</sub>:** For Panel Regression analysis, Random Effect is not suitable.

**H<sub>1</sub>:** For the Panel Regression analysis, fixed effect is the most suitable.

As was previously said, the null hypothesis is rejected if the p-value is greater than 0.05. The null hypothesis states that fixed effects are the most appropriate model for panel regression analysis (i.e., random effects is the preferred model). Similarly, the null hypothesis is accepted if the p-value is less than 0.05. Therefore, panel regression analysis is best suited for fixed effects (i.e., we reject the random effects model).

<b>Table 4: Correlated Random Effects - Hausman Test.</b>			
<b>Test cross-section random effects</b>			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.342875	3	0.5044

**Source:** Researcher's Computation, 2024

From the above result, the chi square probability is 0.5044 which is greater than 5%. This means that we fail to reject the null hypothesis and conclude that the random effect estimation is good and the fixed effect is not, hence we reject the fixed effects model in favour of the random effects model.

**Table 5: Panel Unit Root Result Test.**

Variable	At Level				At First Difference				Desn
	Levin, Lin & Chu t*	Prob.	Im, Pesaran & Shin W-stat	Prob.	Levin, Lin & Chu t*	Prob.	Im, Pesaran & Shin W-stat	Prob.	
ROA	-3.469	0.0003	-1.931	0.0267	-	-	-	-	I(0)
FSIZE	-1.595	0.0553	-0.677	0.2491	-4.43	0.0000	-1.808	0.035	I(1)
DACC	-0.867	0.1929	-0.623	0.2665	-7.60	0.0000	-3.489	0.002	I(1)
REMT	-0.3657	0.0021	0.082	0.4357	-	-	-3.987	0.032	I(1)

**Source:** Researcher's Computation, 2024

From the table above, the Levin, Lin & Chu t\* and Im, Pesaran and Shin W-stat reported Earnings Management (REMT) and Discretionary Accruals(DACC) to be stationary at first difference while Return on Asset (ROA), and firm size (FSIZE) is also stationary at first difference this implies that the variables are stable (stationary) in the short run and long run relationship.

**Table 6: Co-integration Result.**

Kao Residual Cointegration Test		
	t-Statistic	Prob.
ADF	-2.135041	0.0164
Residual variance	0.004079	
HAC variance	0.003967	

**Source:** Researcher's Computation, 2024

The Co-integration of Kao residual test of -2.135041, (p: 0.01640) showed long run relationship between earnings management and financial performance of manufacturing firms from 2019-2023.

## Data Analysis

**Table 6: Random Effect Panel Data Regression.**

Dependent Variable: ROA				
Method: Panel EGLS (Cross-section random effects)				
Date: 12/20/24 Time: 12:08				
Sample: 2019 2023				
Periods included: 5				
Cross-sections included: 5				
Total panel (balanced) observations: 25				
Variable	Coefficient	Std. Error	t-Statistic	Prob.

C	0.304492	0.124499	2.445732	0.0234
BS	0.013810	0.005598	2.466871	0.0223
DACC	0.002842	0.001050	2.707377	0.0271
REMT	0.104464	0.041851	2.496088	0.0250
	Effects Specification			
			S.D.	Rho
Cross-section random			0.225798	0.9488
Idiosyncratic random			0.052433	0.0512
	Weighted Statistics			
R-squared	0.855156	Mean dependent var	0.016640	
Adjusted R-squared	0.848749	S.D. dependent var	0.055933	
S.E. of regression	0.051606	Sum squared resid	0.055927	
F-statistic	2.397938	Durbin-Watson stat	1.751853	
Prob(F-statistic)	0.006740			
	Unweighted Statistics			
R-squared	-0.246171	Mean dependent var	0.161100	
Sum squared resid	0.898664	Durbin-Watson stat	0.109023	

Source: Researcher's Computation, 2024

## DISCUSSION OF FINDING

**H<sub>01</sub>:** biased accounting judgement has no significant impact on financial performance of manufacturing firms in Nigeria was rejected, the null hypothesis (H<sub>01</sub>) at 5% level of significance if the probability of the coefficient of the number of biased accounting judgement in table 7 was statistically significant at 5%, otherwise (p: 0.0223<0.05). The hypothesis is rejected because the probability value of the coefficient of the number of biased accounting judgement in table 7 is less than 5% making the coefficient statistically significant and thus, we reject the null hypothesis and conclude that biased accounting judgement has a significant effect on financial performance through earning management. It should be also

noted that coefficient of the number of biased accounting judgement has a positive and statistically significant impact on the earning management.

**H<sub>02</sub>:** altering accounting principles has no significant impact on financial performance of manufacturing companies in Nigeria has been reject at null hypothesis (H<sub>02</sub>) 5% level of significance if the probability of the coefficient of the altering accounting principle in table 7 is statistically significant at 5%, otherwise, we reject null hypothesis two. The hypothesis is rejected because the probability value of the coefficient of the altering accounting principle in table 7 is less than 5% making the coefficient statistically significant and thus, we reject the null hypothesis and conclude that altering accounting principle has a significant effect on financial performance through earning management. It should be also noted that coefficient of debt-to-equity ratio has a positive and statistically significant impact on the returns on asset.

**H<sub>03</sub>:** accrual earning management has no significant impact on the financial performance of manufacturing firms in Nigeria was rejected. The null hypothesis (H<sub>03</sub>) at 5% level of significance of the coefficient of earnings management in table 7 is statistically significant at 5%, otherwise, we reject the null hypothesis on the base of significance level. The hypothesis is rejected because the probability value of the coefficient ( $p: 0.0271 < 0.05$ ) of earnings management in table 7 is good enough to justify statistically significant and thus, we reject the null hypothesis and conclude that accrual earning management has a significant effect on financial performance of manufacturing firms. It should be also noted that coefficient of accrual earning management has a positive and statistically significant impact on the returns on asset. About 0.002842 (2.842%) of variations in returns on asset is explained by the explanatory variables. Thus, we can conclude that there is a considerable portion of variations in the dependent variable that is explained by the independent variables.

**H<sub>04</sub>:** real earning management has no significant impact on financial performance of manufacturing firms in Nigeria has been reject at null hypothesis (H<sub>04</sub>) 5% level of significance if the probability of the coefficient of the altering accounting principle in table 7 is statistically significant at 5%, otherwise, we reject null hypothesis four. The hypothesis is rejected because the probability value of the coefficient of the real earning management in table 7 is less than 5% making the coefficient statistically significant and thus, we reject the null hypothesis ( $p: 0.0250 < 0.05$ ) and conclude that real earning management has a significant

effect on financial performance through earning management. It should be also noted that coefficient of real earning management has a positive and statistically significant impact on financial performance though returns on asset.

The F-statistics of 2.397938 with p-value of 0.006740 is statistically significant and this shows that there is a considerable harmony between returns on asset of selected quoted manufacturing firms and the explanatory variables put together. This confirms that all the independent variables jointly have significant influence on the dependent variable. The D.W statistic of 1.7518 indicates that there is no serial correlation associated with the regression result.

The result shows that there is a positive and significant impact of number of Discretionary Accruals (DACC) and Real Earnings Management (REMT) and firm size (SIZE) on the financial performance of selected quoted firm when measured with returns on assets.

It can thus be concluded from the study that there is a positive and significant impact of number of real earning management on the financial performance of selected quoted manufacturing firms when measured with returns on assets while there is a negative and statistically significant impact of accrual earning management and current ratio on the financial performance of selected quoted companies when measured with returns on assets.

One way in which audit independence can impact earnings management is by making it more difficult for companies to manipulate their financial statements. If auditors are truly independent, they will be more likely to detect any attempts by the company to manage its earnings through creative accounting practices. This can help to deter companies from engaging in earnings management in the first place. In addition, the mere presence of an independent auditor can act as a deterrent to earnings management. Firms may be less likely to engage in questionable accounting practices if they know that an independent auditor will be reviewing their financial statements and providing an opinion on their accuracy.

## **5. SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **Summary of Findings**

In summary, the findings of this study provide evidence that discretionary accruals have a significant negative effect on stock capitalization, aligning with the broader literature that highlights the detrimental impact of earnings management on firm value. Operating cash flow activities, while positively related to stock capitalization, do not show a significant impact, consistent with other studies indicating limited effects on overall firm value. Earnings smoothing practices, similarly, show a negative but insignificant effect, reinforcing the notion

that such practices are generally not beneficial for stock capitalization. These results contribute to the growing body of evidence on the complexities of earnings management and its varied impacts on different aspects of firm valuation.

## **CONCLUSION**

Manufacturing companies employing real earnings management practices experience improvement in net profit margin but its contribution to the company's financial improvement is not sufficient to support the use of the method. Real earnings management practice contributes to improved earnings per share reported by manufacturing companies in Nigeria. But the contribution of real earnings management to earnings per share is not of sufficient magnitude to engender meaningful improvement in financial performance. Overall, it is concluded that earnings management do not have a meaningful impact on the financial performance of quoted manufacturing companies in Nigeria. It is recommended that manufacturing companies in Nigeria should as much as possible discourage the use of real activities-based earnings management practice as its benefits to the organization tends to be short term and may end up compounding financial difficulties in the future. Finally, it is recommended that manufacturing companies in Nigeria should adopt real activities-based earnings management practices only when it is absolutely necessary for the survival and success of the organization. Thus, it earnings management should be employed only as a last resort to avoid looming financial difficulties that may otherwise threaten the continued existence of the company.

## **Recommendations**

Based on the findings of this study, a few suggestions are made for efficient financial performance of manufacturing companies listed on the Nigeria Exchange Group;

1. In light of the finding, it is advised that the entire cost structure of the manufacturing firms to pinpoint places where costs might be reduced without sacrificing product quality. This could entail renegotiating supplier contracts, implementing cost-saving measures, or exploring alternative sourcing strategies.
2. Manufacturing firms should review their cost allocation practices to ensure that costs are allocated appropriately and reflect the actual consumption of resources by products. This might involve reassessing the allocation of fixed manufacturing overhead costs, as they can significantly affect profitability under absorption costing.

3. Given the significant negative effect of discretionary accruals on financial performance, manufacturing firms in Nigeria should adopt stricter corporate governance and transparent financial reporting practices. Firms should strengthen their corporate governance frameworks, including ensuring the independence of firm size and enhancing oversight of financial reporting processes.
4. Manufacturing firms should implement efficient cash flow management practices to ensure smooth operations and financial stability.
5. Finally, considering the positive relationship between discretionary accruals and earnings management, corporate managers has to reasonably apply earnings management for tax savings, provision of positive information to investors, easier access to required capital, and stability of a company's profits and losses over a sustained period.

### **Limitations of the Study**

The study was limited to the five (5) listed manufacturing firms at the NSE hence the findings are more relevant for adoption by listed manufacturing firms. The findings may not be useful for non-manufacturing firms that possess different operating environments. Non-listed manufacturing firms should apply the findings for policy purposes with caution. The study was also limited to three aspects of earning management including, discretionary accruals, real earnings management and firm size. Other aspects of AC composition such as audit AC nationality, and experience diversity were not within the scope of the study hence the parameter estimates may differ when excluded elements of AC are added to the model. The parameter estimates should thus be applied with caution by firms making decisions. The study also adopted discretionary accruals as the measure of Earning Management as suggested by Guo and Zhang, (2021). Even though widely used in various empirical studies, it may not capture all aspects of earning management. The study was also limited to secondary data that may not capture all aspects of Earning Management especially the qualitative aspects that need a composite of measures both quantitative and qualitative.

### **Suggestions for Further Study**

Several possible future directions for earnings management research can be identified, based on the insights gained from the critical examination on Earnings management literature in the public sector. Several tactics are suggested below to gain further understanding of Earnings management practices in the public sector.

Firstly, earnings management should be regulated by the supervisory authorities by appropriately enforcing framework needed to exert compliance by firms in the preparation and presentation of financial statements.

Secondly, the accounting profession should strengthen its ethical codes so that the individual accountants and auditors will be less willing to connive and engage in the practice of earnings management, this has become imperative in view of the ethical challenges to the accounting profession posed by creative accounting resulting from the vast range for abuse of accounting policy choice, judgement and assumptions about the future and reclassification and presentation of financial numbers in financial statements.

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