



Implications of Earnings Management on the Firm Value of Listed Non-Financial Firms in Nigeria

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Abstract

This study examined the implications of earnings management on the value of sampled Nigerian non-financial firms. While earnings management was measured through accrual earnings management (ACEM) and real earnings management (REM) from production, the firm value was measured with Tobin Q. Data used were generated from a sample of sixty-nine (69) non-financial firms in Nigeria. In line with the outcomes of specification tests, fixed effect panel regression was employed in testing the hypotheses. The results of the panel regression technique indicate that while accrual earnings management recorded insignificant negative influence on Tobin Q ($t=-0.75$; $p>0.05$), real earnings management was found to exert significant negative influence on Tobin Q ($t=-2.56$; $p<0.05$). The study thus concludes that earnings management through real activities is detrimental to the market value of Nigerian listed non-financial firms. Hence, the recommendation that emanates from this study is that EM practice among Nigeria non-financial firms should be discouraged as it discourages investors and thus hinders the firm value and long run growth of the firm by extension.

Keywords: Accrual; Earnings Management; Firm Value; Tobin Q, Market Value

1. Introduction

Market value remains a key driving force behind the corporate entity's long run growth and survival as it reflects the investor's perception towards the firm. Market value of a corporate firm describes specific conditions which the firm intends to achieve reflecting the public trust in all activities carried out by the entity. The enterprise market value is usually reflected in the investors reactions to its as indicated by the movement in the stock prices (Darmawan et al.,

2019). The worth of a company has become a crucial criterion for investors when deciding whether to invest or not in the search of a higher return on their investment. A typical enterprise principal objective is the attainment of increase in market value which is directly related to the increase in owner or stockholders' welfare (Oudat et al., 2021). This explains the reason why firm value is central to the growth and survival of a firm and why the issue of firm value has continued to attract attention in corporate finance and accounting literature. Given its role on the firms going concern, identifying factors that influence the market value of the firm becomes imperative.

Literature show that one of the potential factors that can influence the market value of an enterprise is earnings management (EM) (Remenaric et al., 2018). EM is a common technique in corporate business that has the potential to alter firm value over time. Earnings to shareholders and/or stakeholders of any organization act as the firm's faith in which the stakeholders rely to make returns on their invested capital (Tolulope et al., 2018). As a result, it has become one of the most important accounting items on financial statements. Earnings are explained as a vital component in the decision-making process of dividend policy as posited by Abata and Migiyo (2016). It acts as a guide for making investment decisions and as a valuable tool for evaluating a company's success.

The inconsistent financing statement information which compromises of the reality due to earnings management can harm shareholders as the decision making by shareholders will not align with the firm performance (Nwaobia et al., 2019). Financial reporting prepared using accounting principles is the basis upon which the management of firm communicates with outside stakeholders. Stakeholders of the enterprise rely principally on this information disclosed by the management in making crucial decisions such as those associated with resource allocation (Susanto, 2017). Hence, quality of organization's decision is shaped largely by the quality of communicated information through the financial report and in turn determines the firm's future direction and destiny.

These accounting rules, which serve as the foundation for a company's management's financial statement preparation, give the management a significant level of flexibility and discretion. A company's management might use this discretion either opportunistically or efficiently. The quality of financial information and, by extension, the quality of the enterprise would improve



if the discretion and flexibility were efficiently employed (Subramanyam, 1996). If the discretion however tilts towards opportunistic tendency, the value of the firm could be degraded (Susanto, 2017). Hence, earnings discretion or management may affect firm value either positively or negatively depending on the type of EM engaged in by the management.

Extant research (Demski & Frimor, 1999) has shown that financial reporting interventions can decrease the reported data informational content and lowering the firm's worth (Wilson, 2015). Several studies, for example, have found a slew of negative consequences for companies that use real earnings management. According to Cohen and Zarowin (2010), firms using REM have worse long-term value and performance. Furthermore, Wilson (2015) found that REM lowers the informative content of earnings, while Jiao (2020) found that any advantage for surpassing earnings benchmarks evaporates for firms that utilize real earnings management on a regular basis. The favorable impact of REM has however been documented elsewhere. According to Gunny (2010), there is a higher ROA for enterprise using REM in beating the zero earnings and earnings growth criteria.

Equally, studies show that management of earnings through accrual can affect the value of the company. Remenaric, et al. (2018) stated that while EM may benefit a company's operations in the short run, it is likely to lead to insolvency, and even bankruptcy through lower stock prices in the long run. Additionally, EM prevalence can be used as evidence against a legal system and environment that are open to misuse by dishonest people (Salome et al., 2021). As a result, Umoren et al. (2018) stated that manipulative behavior on the part of managers will have a significant impact on accounting performance measures.

While there have been several empirical research linking EM with firm value, Nigerian context have not been adequately researched. The exception is the study of Olatunji et al. (2018) who examined how firm value is affected the REM and ACEM. However, the study focused on the manufacturing sector while the present study captures the non-financial firms in Nigeria. Equally, the study by Olatunji measured firm value using return on equity which is a measure of financial performance while this study used Tobin Q as a proxy for firm value.

2.0 Literature Review

Hepworth (1953) was the first to investigate earnings management as profits smoothening. The term "earnings management" was changed for the first time by McNichols (2000), as referenced in Abbas & Ayub, (2019) to "earnings smoothening," so the goal of earnings

management was to create a summary of firm performance that enforced and reflected the planned results. Schipper (1989) introduced the idea of earnings management as deliberate interference in the financial reporting process with the goal of achieving a particular level of earnings. According to the management's plans and ambitions, earnings may therefore be boosted, decreased, or smoothed out (Abbas & Ayub, 2019). Earning management, according to Musa and Luka (2014), can be attributed to the flexibility of choice afforded by accounting rules. Earnings Management is critical for a company's financial statement preparation, and it has been used by insiders in providing or manipulating accounting data for outsiders to ensure that their interests and positions are protected, (Lin, Riccardi, & Wang, 2012; Umobong & Akani 2015, Sanyaolu & Job-Olatunji, 2017).

Accrual-Based Earnings Management

The term accrual denotes the difference between operating cash flow activities and net income. There is tendency for accruals to reverse over time, which means that any predetermined EM strategy may be completely unsuccessful when seen over a long period of time (Dharan, 2003). As a result, executives that use accrual EM may be unable to rely solely on accruals to portray strong earnings (Olotu, et al., 2019).

The accrual method of earnings management is used by executives while generating financial statements. It involves managers' discretion in the choosing of accounting standards to a higher level (Kothari, Mizik & Roychowdhury, 2012). Accrual-based earnings management could be recognized in some ways through rigorous accounting analysis because accrual choices are normally controlled by general accepted accounting principles such as the US GAAP or the International Financial Reporting Standards (Kothari et al., 2012). Many scholars have paid close attention to accrual-based earnings management (DeAngelo, 1986; Healy, 1985; Jones & Sharma, 2001; Kothari, Leone & Wegsley 2005).



Real Earnings Management

Schipper (1989) was the first to establish the notion of real earnings management (REM) (Olotu, et al 2019). He defined actual earnings management as a method of manipulating reported results by timing financing or investment choices. Real earnings management entailed real-world company actions with a direct impact on operating cash flows. Ewert and Wagenhofer (2005) defined real earnings management as changes in the structure of real business activities with the goal of changing earnings. According to Sun and Lan (2014), real earnings management has a detrimental impact on company value. Investors are hesitant to speculate on the company since it is difficult to distinguish earnings management from real activities. Because it has a negative impact on future cash flows, real earnings management can lower a company's value (Roychowdhury, 2006). Earnings management is a term used in accounting to describe the act of manipulating the financial reporting process for personal gain (Salome et al., 2021). Because managers participate in earnings management in order to increase their wealth, accrual earnings management is the easiest to anticipate. Earnings reported in financial statements may not adequately reflect a company's basic status, resulting in low earnings quality (Ching et al., 2015). Changes in the reported earnings in the financial statements can erode investors' confidence since they view the earnings shown in the financial statements to be substantial and helpful in predicting future returns. As a result, a lack of investor trust in the reported earnings can have a negative impact on the company's market valuation because investors are the primary source of capital support for the economy. **2.1**

Theoretical Framework

The study is anchored on the efficiency theory of earnings management and opportunistic theory of earnings management in line with the submission of Habib et al. (2021). The efficiency view originates from the signaling theory and suggests that managers engage in earnings management using real and accrual methods to signal future economic growth in firm

and reduces information asymmetry. Specifically, managers within the framework of signaling theory use earnings management to assure investors that their performance will not deteriorate in the following period. This view suggests that earnings management can be used in attracting investors and increase firm value. However, because it is costly, managers consider if the negative consequence outweigh the positive influence before using it (Zhao et al., 2012). Studies have found evidence supporting this view (Al-Shattarat et al., 2018; Gunny, 2010).

For the opportunistic perspective, which is based on the tenets of agency theory (Jensen & Mecklings, 1976), management departs from true business position to misinform users of financial information with the purpose of achieving private benefit for themselves. Such practice of earnings management results in information asymmetry making it difficult for the shareholders to monitor whether the management act to maximize firm value. Hence, earnings management may lead to reduction in the value of the firm according to this perspective.

Several other studies have investigated the link among corporate firm gender diversity, earning management and market value in different parts of the world including Nigeria using diverse techniques. The outcomes of the studies however revealed inconsistencies in the relationship among the three variables.

Also, concerning accrual earnings management and firm value, studies have produced mixed results with regards to the link between accrual earnings management and firm value. Almari et al. (2021) indicated that earnings management does pose significant effect on the value of Jordan selected companies. Susanto (2017) reported in a study of 162 non-financial companies listed on the Indonesia Stock Exchange for the period ranging from 2012 to 2015 that accrual earnings management does not affect the value of the sampled firms. Arrar et al. (2018) could not found significant link between accrual earnings management and share price of sampled Jordanian firms.



Darmwan et al. (2019) revealed from a study of Indonesian firms between 2013 and 2017 that accrual earnings management lowers the value of the sampled firms. Afrizal, et al., (2021) found in a study of selected firms' that accrual earnings management methods had a favorable impact on company value, when moderated by the corporate governance. Hence, the first hypothesis of this study is that:

H₀1: Accrual earnings management has no significant impact on the value of Nigerian listed non-financial firms

Considering real earnings management and market value, substantial number of studies have made efforts at examining the link between real earnings management and firm value. Susanto (2017) established in a study of 162 Indonesian non-financial companies between 2012 and 2015 analyzed using the multiple regression approach that real profits management lowers firm value. Wilson (2021) looked into whether real earnings management (REM) has an impact on the value-relevance of cash flows from operations (CFO). Higher degrees of real earnings management were linked to lower CFO value-relevance, according to the findings. Tulcanaza-Prieto and Lee (2022) reported in a study of Korean Market that real earnings management lowers firm value in the absence of corporate governance mechanisms. Simamora et al. (2022) equally reported in a study of Indonesian firms that real earnings management lowers the firm value. Hence, the second hypothesis of this study is given as:

H₀2: Real earnings management has no significant impact on the value of Nigerian listed non-financial firms

3.0 Methodology

The study employed longitudinal research design. The population of the study is made up of all firms listed non-financial firms between 2012 and 2021. This study utilized purposive sampling technique to select 69 listed non-financial firms. The data collected are from secondary sources from annual report of listed non-financial firms. Based on the outcomes of Chow F-test which suggests rejection of no firm effect hypothesis and Hausman test whose null hypothesis is rejected, the studies hypotheses were tested using robust fixed effect panel

regression to control for violation of heteroscedasticity and serial correlation assumptions in achieving the objectives.

Table 1: Sampled Listed Non- financial Firms

S/N	Industries	Population	Number of Eliminated	Sample Size
1.	Agriculture	5	2	3
2.	Consumer Goods	20	4	16
3.	Construction /Real Estate	8	6	2
4.	Conglomerate	5	0	5
5.	Healthcare	8	2	6
6.	ICT	9	5	4
7.	Industrial Goods	13	3	10
8.	Oil and Gas	9	3	6
9.	Natural Resources	4	0	4
10.	Services	25	12	13
	Grand Total	106	107	69

Source: Author's compilation (2023)

3.2 Model Specification

The model here is guided by related studies (Abata & Migiro, 2016; Nasiri & Ramakrishnan, 2020). Accordingly, the model for objective one and two are respectively given as:

$$TQ_{it} = \delta_0 + \delta_1 ACEM_{it} + \delta_2 LEV_{it} + \delta_3 FS_{it} + \delta_4 FAG_{it} + \mu_{it} \quad (3.1)$$

$$TQ_{it} = \lambda_0 + \lambda_1 REMD_{it} + \lambda_2 LEV_{it} + \lambda_3 FS_{it} + \lambda_5 FAG_{it} + \mu_{it} \quad (3.2)$$

Where:

δ_0 and λ_0 are constant terms in (3.1) and (3.2) while δ_1 to δ_4 and λ_1 to λ_5 are estimated coefficients of the independent variables respectively in equations (3.1) and (3.2).

TQ = Tobins q

ACEM = Accrual EM

REMD= Real EM



LEV = Leverage

FIS= Firm siz

ROA = Return on assts

FAG =Firm age

MAO = Managerial ownership

μ = Error terms

3.6 Measurement of Variables

Dependent Variable

The dependent variable of this study is the market value which is represented by Tobin q. This is measured as sum of the market value of equity and the market value of debt as ratio of the replacement cost of all assets.

Independent Variables

The principal independent variable of this study is earnings management which comprises of two forms including accrual EM and real EM.

Accrual Earnings Management

In order to measure the dependent variable of the study represented by earning management, the study used the discretionary accrual to be obtained following the modified Jones (1991) accrual of Deschow *et al.* (1995) given as:

$$\frac{TA_{it}}{A_{t-1}} = \delta_1 \left[\frac{1}{A_{t-1}} \right] + \delta_2 \left[\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{t-1}} \right] + \delta_3 \left[\frac{PPE_{it}}{A_{t-1}} \right] +$$

μ_{it} (3.3)Where:

TA_{it} = The total accrual

A_{t-1} = The first lag of total assets

ΔREV_{it} = Revenue in contemporaneous less the corresponding previous year value

ΔREC_{it} = The difference between contemporaneous account receivables and previous year account receivables for firm i

PPE_{it} = Property plant and equipment of firm I at time t.

μ_{it} = The residual of the model

$\delta_1, \delta_2,$ and δ_3 = The parameters of the model

The total accrual is obtained as:

$$TA_{it} = NI_{it} - CFO_{it} \quad (3.4)$$

Where:

NI_{it} = Net income

CFO_{it} = Net cash flow from operation

The REM is based on the submission of Gunny (2005), Zang (2006) and Roychowdhury (2006) which is conceptualized in terms of the discretionary expenses, abnormal costs of production of and the cash flow from operating activities. Abnormal cost of production measure is adopted in this study in measuring the degree of REM and the following model is used:

$$Prod_{it} / TA_{it-1} = \alpha_0 + \alpha \left(\frac{1}{TA_{it-1}} \right) \alpha_0 + \beta_1 \left(\frac{S_{it}}{TA_{it-1}} \right) + \beta_2 \left(\frac{\Delta S_{it}}{TA_{it-1}} \right) + \beta_3 \left(\frac{\Delta S_{it-1}}{TA_{it-1}} \right) + \varepsilon_{it} \quad (3.5)$$

Where:

$Prod_{it}$ = production costs,

TA_{it-1} = total assets in previous period

S_{it} = sales revenue

ΔS_{it} = change sales

ΔS_{it-1} = lagged of the change in sales

Control Variables

Following previous literature on EM and firm market value (Abata & Migoro, 2016; Nasiri & Ramakrishnan, 2020; Susanto, 2017; Syamsudin, et al., 2017), this study introduces three control variables which are the firm size, firm age, financial leverage, managerial ownership and firm performance. The summary description of how the variables are measured are contained in the table below.

4. Results and Discussions

This section presents the results obtained from descriptive analysis of the variables that are used in this study. These include the mean and the correlation analysis of the variables for preliminary analysis.

Table 4.1: Descriptive Statistics of Variables

Variabl	Obsv	Avrg	Std. Devt.	Minm	Maxm
TOBQ	690	1.565	1.397	.124	11.299
ACEM	690	.08	.093	0	.826
REMD	690	.029	.04	0	.419
FS	690	7.055	.82	5.093	9.241
FA	690	25.957	13.419	1	55
LEVT	690	1.586	1.972	-3.057	20.902

Source: Author's Computation, 2023

The results of the summary statistics are presented in Table 4.1 reveal that the average Tobin Q of Nigeria listed non-financial firms over the period of the study is found to be 1.565 with a standard deviation of 1.397 implying moderate variation in the Tobin Q of Nigerian listed non-financial firms. In addition, the average accrual earnings management is 0.08 with standard deviation of 0.093 while real earnings management over the sampled period averages 0.029 with standard deviation of 0.04. Equally, the average financial leverage of the sampled non-financial firms is 1.59 with a standard deviation of 1.97. The estimated average size of the sampled firms for the study is 7.055 with a corresponding standard deviation of 0.82 which suggests no wide variation in the size of the listed non-financial firms. The estimated average

age of the sampled consumer goods firms is 25.96 years with standard deviation, minimum and maximum of 13.42, 1 and 55 years respectively.

Correlation Analysis

The estimated correlation coefficients among the variables are shown in Table 4.2. From the correlation matrix in Table 4.2, it is revealed that firm value represented by Tobin Q is positively associated with accrual earning management with estimated correlation coefficient of 0.103 while real earnings management with correlation coefficient of -0.001 is negatively associated with Tobin Q.

Matrix of correlations

Variables	(TOBQ)	(ACEM)	(REMD)	(FS)	(FA)	(LEVT)
(1) TOBQ	1.000					
(2) ACEM	0.103	1.000				
(3) REMD	-0.001	0.298	1.000			
(4) FS	0.056	-0.007	-0.142	1.000		
(5) FA	0.068	0.031	-0.116	0.105	1.000	
(6) LEVT	-0.004	-0.018	-0.075	0.101	0.034	1.000

Source: Author's Computation, 2023

Equally, the estimated correlation coefficient of 0.056 and -0.007 indicate that size of the firm is positively related with the accrual earnings management while its relationship with real earnings management is negative. Also, age of the firm is positively related with accrual earnings management and real earnings management with respect correlation coefficient of 0.068 and 0.031. The respective correlation coefficient of -0.004 and -0.018 equally indicate that financial leverage is negatively associated with accrual earnings management and real earnings management. The regressors are found to exhibit low correlation among themselves as the highest correlation coefficient among them is 0.142 between firm size and real earnings management. Since this is less than the 0.7 threshold proposed in Kennedy (2008) for the occurrence of multicollinearity problem, multicollinearity problem is not likely to occur in the study.

Diagnostic Results

The results of the diagnostic test for multicollinearity using Variance Inflation Factors (VIF), serial correlation using Wooldridge test and the Breusch-Pagan test for heteroscedasticity which is used to check if the classical linear regression assumption of homoscedasticity is not violated are presented.

Multicollinearity

The results of the VIF in Table 4.3 indicates that the highest VIF in model 1 is 1.021 while the highest VIF in model 2 is 1.037b. Since none of the regressors has VIF that is close to the threshold of 10, the regressors do not exhibit high linear relationship and thus there is no multicollinearity issue in this model.

Table 4.3: Estimated Variance Inflation Factors

Model	Mean VIF	Maximum VIF	Remarks
1	1.012	1.021	No multicollinearity
2	1.027	1.037	No multicollinearity

Source: Author’s Computation, 2023

Test for Heteroscedasticity

The results of the Breusch-Pagan test for heteroscedasticity presented in Table 4.4 revealed an estimated Chi square of 20.93 with p value of 0.000 for model 1 suggesting that the null hypotheses of no heteroscedasticity is rejected. For Model 2, an estimated Chi square of 17.32 with p value of 0.000 implies that the null hypotheses of no heteroscedasticity is rejected. Hence, data used for objectives 1 and 2 are characterized with heteroscedasticity.

Table 4.4: Summarized Breusch-Pagan Diagnostic Test for Heteroscedasticity Results

Model	Chi2	P Value	Remarks
1	20.93	0.000	Presence of Heteroscedasticity at 5%
2	17.32	0.000	Presence of Heteroscedasticity at 5%

Source: Author’s Computation, 2023

Test for Serial Correlation

The results of the Wooldridge test for autocorrelation are equally presented in Table 4.5. For model 1, and estimated F value of 150.97 with p value of 0.000 imply that the null hypothesis of no serial correlation is rejected. Similarly, the estimated F value and associated p value of 148.125 and 0.000 respectively indicates the presence of serial correlation in model 2. The study corrected for the violation of the serial correlation and heteroscedasticity assumptions by obtaining the results with robust standard error.

Table 4.5: Summarized Wooldridge Diagnostic Test for Serial Correlation Results

Model	Statistics	P Value	Remarks
1	150.974	0.000	Presence of first order serial correlation at 5%
2	148.125	0.000	Presence of first order serial correlation at 5%

Source: Author's Computation, 2023

Analysis of Panel Regression Results

This section presents the results obtained from the panel regression analysis in respect of the three objectives of the study.

Accrual Earnings Management and Firm Value

The results of the linear panel regression obtained for objective one are presented in Table 4.6. The results of specification tests conducted and presented at the lower part of Table 4.6 suggests that pooled OLS is inappropriate for objective 1 since Chow test recorded a p value of 0.000. Also, it is found that random effect panel regression performs better than fixed effect as shown by the Hausman p value of 0.000. Thus, fixed effect panel regression is employed in achieving the second objective of the study.

From the results, the estimated coefficient accrual earnings management recorded negative but not significant influence on the Tobin Q (t stat= -0.75; $p > 0.05$). The implication is that the market does not respond to accrual earnings management practice in Nigerian non-financial firms. With regards to the control variables, it was found that firm size recorded negative influence which is significant (t stat= -4.73; $p < 0.05$) suggesting that larger firms attracted lower market valuation. Equally, the influence of firm age on accrual earnings management was equally found to be negative and significant (t stat= -4.07; $p < 0.05$) suggesting that firms attract lower market valuation as they grow older firms. In addition, financial leverage is found to exert positive influence on Tobin Q (t stat= 3.58; $p < 0.05$) implying that firm with larger leverage have higher tendency to attract greater market value.

Table 4.6: Estimated Fixed Effect Panel Regression Results for Objective One

TOBQ	Coeft.	Std.Err.	t-val	p-val	[95% Confd	Interv]	Sign
ACEM	-.315	.419	-0.75	.453	-1.137	.508	
FS	-.615	.13	-4.73	0	-.871	-.36	***
FA	-.044	.011	-4.07	0	-.065	-.023	***
LEV	.001	0	3.58	0	0	.002	***
Constant	7.076	.879	8.05	0	5.35	8.802	***
Mean dep varbl		1.565	Std Dev dep var		1.397		
R-squard		0.397	Numb of obsv		690		
F-tst		16.512	Prob > F		0.000		
Akaike crit. (AIC)		1596.993	Bayesian crit. (BIC)		1619.669		
Chow F		20.55	Hausman Chi2		43.69		
Chow P Val		0.000	Hausman P val		0.000		

*** $p < .01$, ** $p < .05$, * $p < .1$

Researcher’s Computation, 2023

Real Earnings Management and Firm Value

The results obtained in respect of second objective are presented in Table 4.7. The results of Chow test with p value of 0.000 indicates that pooled OLS is not appropriate in achieving this objective while the Hausman p value of 0.000 implies that fixed effect performs better than random effect. Hence, fixed effect panel regression is employed in achieving objective two. From the results, earnings management recorded negative and significant influence on the Tobin Q (t stat= -2.56; $p < 0.05$). The results imply that firm value is sensitive to the changes in the real earnings management among Nigerian listed non-financial firms. In respect of the control variables, it was found that firm size recorded negative influence which is significant (t stat= -4.75; $p < 0.05$) suggesting that larger firms are characterized with lower market valuation. Equally, the influence of firm age on firm value is found to be negative and significant (t stat= -3.85; $p < 0.05$) suggesting that older firms recorded lower market valuation. In addition, financial leverage is found to exert positive influence on firm value (t stat= 3.41; $p < 0.05$) implying that firm with larger leverage have higher level of market valuation.

Table 4.7: Estimated Fixed Effect Panel Regression Results for Objective Two

TOBQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
REMD	-2.392	.934	-2.56	.011	-4.227	-.557	**
FS	-.614	.129	-4.75	0	-.869	-.36	***
FA	-.042	.011	-3.85	0	-.063	-.02	***
LEV1	.001	0	3.41	.001	0	.001	***
Constant	7.051	.873	8.08	0	5.336	8.765	***
Mean dependent var		1.565	Std Dev dep var		1.397		
R-sqrd		0.306	Numb of obsv		690		
F-test		18.168	Prob > F		0.000		
Akaike crit. (AIC)		1590.335	Baysian crit. (BIC)		1613.011		
Chow F		21.14	Hausman Chi2		40.40		
Chow P val		0.000	Hausman P val		0.000		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Researcher's Computation, 2023

5.0 Discussion of Results

The findings in this study indicate that accrual earnings management impact on the firm value is negative but not significant suggesting that the value of Nigerian non-financial firms is not sensitive to changes in earnings management practice among Nigerian listed non-financial firms. This results imply that investors do not show significant concern on the practice of accrual earnings management suggesting that they don't consider it in the valuation of firms in the Nigerian non-financial sector. The finding is in contrast to the submission in related literature which reported that accrual earnings management impacted on the value of the firm such as Almari et al. (2021) in a study of Jordanian firms, and Darmwan et al. (2019) in a study of Indonesian firms. However, similar results were recorded by Susanto (2017) and Arrar et al. (2018) who reported that accrual earnings management does not impact on the value of corporate entities in Indonesia and Jordan respectively.

In addition, the results of the analysis carried out indicate that real earnings management recorded significant negative influence on the Tobin Q implying that real earnings management lowers the value of Nigerian non-financial firms. These results may be linked to the fact that real earnings management negatively affect the future cash flow which make investors uninterested in the stock of the company and thus lower firm value according Habib et al. (2021). The findings here agree with the submission of previous studies which reported that real earnings management lowers the value of corporate entities



in Indonesia (Simamora et al., 2022; Susanto, 2017) and in a study of Korean market (Tulcanaza-Prieto & Lee, 2022).

6.0 Conclusion and Recommendations

An attempt was made to examine the nexus between firm value and earnings management in the Nigerian context using fixed panel regression frameworks on the data collected from 69 non-financial firms in Nigeria between 2012 and 2021. The results obtained suggests that while accrual earnings management failed to record significant influence on the Tobin Q which proxies firm value, the management of earnings through real activities impacted on the Tobin Q which measures the firm value in the study. The study thus concluded that the influence of earnings management on the market valuation of Nigerian non-financial firms depends on the forms of real earnings management as only management of earnings through real activities was found to have impacted on the value attached to the firms in the market. It is thus recommended that Nigerian non-financial firms and the relevant stakeholders in the industry should mitigate the incidence of real earnings management in order to improve the market value of their firms.

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