Impact of Earnings Management on Market Performance of Listed Consumer Goods Firms in Nigeria

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Abstract
This study examined the effect of earnings management on market performance of listed consumer goods firms in Nigeria for the period 2016 to 2025. The study adopted a quantitative research design and utilized panel data from 15 purposively selected firms, giving 150 firm-year observations. Data were sourced from annual reports and analyzed using Fixed Effects regression with robust standard errors. Earnings management was proxied by discretionary accruals, while market performance was measured by market capitalization, Tobin's Q, and earnings per share, with firm size as control variable. The findings revealed that discretionary accruals has a negative and significant effect on market capitalization and Tobin's Q. However, discretionary accruals as a proxy of earnings management has a positive and significant effect on earnings per share. The results suggest that while earnings management improves reported accounting earnings, it erodes investor confidence and reduces market-based performance. The study concludes that earnings management practices undermine market value despite boosting short-term earnings. It is therefore recommended that regulatory bodies strengthen corporate governance and audit oversight, and that investors focus on earnings quality rather than reported figures alone.
Keywords: Earnings Management, Discretionary Accruals, Real Earnings Management, Market Capitalization, Tobin's Q, Earnings Per Share, Nigeria
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1.1 Background to the Study

Earnings management has become a central issue in corporate reporting as managers exercise discretion over accounting choices to influence reported results. In emerging economies such as Nigeria, where investor protection mechanisms are still evolving, the practice raises concerns about the reliability of financial information provided to the capital market (Adeyemi & Sanusi, 2025). For listed consumer goods firms, which operate in a highly competitive and price-sensitive environment, financial statements serve as a primary signal to investors, analysts, and other stakeholders. Recent evidence suggests that aggressive pricing and cost controls have improved margins in Nigeria's fast-moving consumer goods sector in 2026, with combined profit after tax rising by 32.9% despite flat revenue growth (BusinessDay, 2026). Against this backdrop, understanding whether discretionary reporting practices distort or enhance market perceptions is critical.

Earnings management is the intentional manipulation of accruals and real activities to meet earnings targets, and it may affect how the market values a firm. The market performance of firms is multidimensional and is commonly captured through market-based measures that reflect investor expectations. This study adopts three dependent variables: market capitalization, which captures the aggregate value placed on a firm's equity; Tobin's Q, which measures the ratio of market value to replacement cost of assets and reflects growth opportunities (Fu et al., 2016 as cited in Yahaya et al., 2023); and earnings per share (EPS), which remains a key metric used by investors to assess profitability on a per-share basis.

Despite the growing profitability reported by listed consumer goods firms in Nigeria, there are concerns that discretionary accounting practices may be distorting the financial signals sent to the capital market. Prior studies show that earnings management has a significant effect on performance proxies such as return on assets and Tobin's Q among Nigerian consumer goods firms (Adeyemi & Sanusi, 2025; Okafor & Nwosu, 2025), yet evidence on its direct impact on broader market performance indicators specifically market capitalization, Tobin's Q, and earnings per share remains limited and inconclusive within the Nigerian context.

Furthermore, firm size has been identified as a factor that influences both the propensity to manage earnings and market valuation (Adeyemi & Sanusi, 2025), but its role as a control in explaining market performance outcomes has not been adequately examined for the consumer goods sector. Given the increasing reliance of investors on market-based metrics to assess firm value in an environment characterized by inflationary pressures and pricing reforms (BusinessDay, 2026), it is important to determine how earnings management influences market capitalization, Tobin's Q, and EPS. Therefore, the objective of this study is to examine the impact of earnings management on the market performance of listed consumer goods firms in Nigeria, with firm size as a control variable.

2.1 Literature Review and Hypotheses Development

2.1.1 Earnings Management and Market Capitalization

Earnings management refers to the use of discretion within Generally Accepted Accounting Principles to alter reported earnings with the objective of misleading stakeholders about the underlying economic performance of the firm (Healy & Wahlen, 1999). Conceptually, managers may engage in accrual-based or real earnings management to meet analysts' forecasts, avoid losses, or influence compensation contracts. From a market perspective, such practices are expected to affect market capitalization because equity value is a function of investors' expectations about future cash flows and risk. When earnings are managed upward, uninformed investors may perceive the firm as more profitable, leading to an upward revaluation of share price and by extension, market capitalization. Conversely, if the market detects opportunistic reporting, it may impose a discount due to increased information asymmetry and agency costs. In the Nigerian consumer goods sector, where financial statements serve as a primary source of information for retail and institutional investors, the reliability of reported earnings becomes critical to valuation (Okafor & Nwosu, 2025).

Empirical evidence on the relationship between earnings management and market-based performance measures in Nigeria has been mixed. Adeyemi and Sanusi (2025) found that earnings per share, a common outcome of earnings management, had a statistically significant and positive effect on firm performance among Nigerian consumer goods firms, suggesting that higher reported earnings translate into better market perceptions. However, Okafor and Nwosu (2025) reported that real earnings management and abnormal cash flows had a negative and significant effect on Tobin's Q for quoted firms in Nigeria between 2012 and 2021, indicating that opportunistic earnings manipulation can erode market value once firm size, leverage, and asset tangibility are controlled. The difference in findings highlights the role of context and measurement: while managed earnings may boost short-term market capitalization through improved EPS signals, sustained manipulation may damage investor confidence and reduce the firm's market value. Given that Nigerian consumer goods firms have recently experienced margin expansion driven by pricing power despite stagnant revenue, the incentive to manage earnings to sustain market expectations is high. This underscores the need to examine how earnings management practices specifically influence market capitalization in the sector. Thus, we frame our first hypothesis:

Ho1: Earnings management has a significant negative effect on market capitalization of consumers goods firms in Nigeria

2.1.2 Earnings Management and Tobin Q

Tobin's Q represents the ratio of a firm's market value to the replacement cost of its assets, and it is widely used as a forward-looking measure of firm performance and growth opportunities (Fu et al., 2016). Conceptually, earnings management can influence Tobin's Q through its effect on investor perception of firm value. When managers use discretionary accruals or real activities to inflate reported earnings, the market may initially interpret the higher earnings as evidence of superior efficiency and future cash flows, resulting in an increase in market value relative to asset base and thus a higher Q. However, if investors perceive earnings management as opportunistic, it increases information asymmetry and agency costs, which can lead to a discount in market valuation (Okafor & Nwosu, 2025).

In the Nigerian consumer goods sector, where firms are under pressure to meet earnings benchmarks amid inflation and pricing adjustments, the incentive to manage earnings is strong, but the consequence for Q depends on whether the market views such actions as signaling or manipulation. Empirical evidence from Nigeria suggests a negative relationship between earnings management and Tobin's Q. Okafor and Nwosu (2025) examined quoted firms in Nigeria from 2012 to 2021 and found that real earnings management and abnormal cash flow from operations had a negative and significant effect on Tobin's Q, even after controlling for firm size, leverage, and asset tangibility. This implies that when managers manipulate real activities such as cutting discretionary expenses or overproducing to meet targets, the market responds by lowering the valuation of the firm relative to its assets. Given recent margin improvements in Nigeria's fast-moving consumer goods firms despite flat revenues, the potential trade-off between short-term earnings targets and long-term market valuation captured by Tobin's Q remains a critical issue for listed consumer goods firms. Building on this, we frame our second hypothesis:

Ho2: There is a significant negative impact of earnings management on Tobin Q of listed consumer goods firms

2.1.3 Earnings Management and Earnings Per Share

Earnings per share is one of the most closely watched accounting metrics because it directly links firm profitability to shareholder wealth. Conceptually, earnings management affects EPS through both accrual manipulation and real earnings management. Managers may accelerate revenue recognition, delay expenses, or cut discretionary costs to ensure EPS meets analyst forecasts and supports share price stability (Dechow, Ge, & Schrand, 2010). In emerging markets like Nigeria, where corporate governance enforcement is still developing, the pressure to report consistent EPS growth is heightened due to limited analyst coverage and high information asymmetry. Thus, EPS becomes both a target and an outcome of managerial discretion. When earnings are managed upward, reported EPS increases in the short run, but the quality of those earnings declines, raising questions about sustainability and future performance.

Empirical studies provide mixed but instructive evidence on this link. Ibrahim and Dikko (2023) examined 15 listed non-financial firms in Nigeria and found that discretionary accruals had a positive and significant effect on EPS, suggesting that managers use accounting discretion to boost per-share earnings. Similarly, Uwuigbe et al. (2022) reported that real earnings management practices among Nigerian manufacturing firms led to improved reported EPS, but at the cost of reduced operating cash flows in subsequent periods. Roychowdhury (2006) showed that firms engaging in real activities manipulation tend to report higher current EPS but experience reversals later. For Nigerian consumer goods firms, which operate in a price-sensitive market and have recently relied on pricing power to protect margins (KPMG, 2025), the incentive to manage EPS is strong. The implication is that while earnings management may inflate EPS in the reporting period, it can compromise earnings quality and long-term market confidence if not supported by real economic performance. Against this backdrop, we hypothesize:

Ho3: Earnings management has a significant negative effect on earnings per share of listed consumer goods firms

2.2 Theoretical Foundation

This study is anchored on Agency Theory as the primary lens and Signaling Theory as the secondary lens. Agency Theory, propounded by Jensen and Meckling (1976), posits that the separation of ownership and control creates a conflict of interest between principals and agents. Managers, as agents, may engage in earnings management to maximize personal utility such as bonuses, job security, or to avoid debt covenant violations, even when such actions do not align with shareholders' long-term wealth maximization. In the context of Nigerian listed consumer goods firms, the pressure to report consistent profitability amid inflationary costs and pricing reforms creates strong incentives for discretionary reporting (KPMG, 2025). Earnings management therefore becomes an agency cost. When investors and analysts detect such behavior, they adjust their valuation of the firm, which is reflected in market-based measures like market capitalization and Tobin's Q.

Signaling Theory complements Agency Theory by explaining how the market interprets the outcome of managerial actions. Spence (1973) and Ross (1977) argue that managers use financial reports to convey private information about firm prospects to external stakeholders. Reported earnings and EPS serve as key signals that investors use to update expectations about future cash flows and risk. If earnings management is perceived as an informative signal of underlying performance, it can lead to higher market capitalization and Tobin's Q in the short run (Dechow, Ge, & Schrand, 2010). However, if the market views managed earnings as opportunistic, the signal loses credibility and results in valuation discounts. Thus, within this dual framework, Agency Theory explains why managers manage earnings, while Signaling Theory explains how the market reacts to those reported figures. Together, they provide a coherent basis for examining how earnings management, with firm size as a control, influences market capitalization, Tobin's Q, and EPS among listed consumer goods firms in Nigeria.

3. Methodology

3.1 Design, Population and Sample

This study adopted a quantitative research design. The quantitative approach is appropriate because it enables the measurement of relationships between variables using numerical data and statistical techniques, and allows for generalization of findings (Creswell & Creswell, 2018). The population of the study comprised all 23 listed consumer goods firms on the Nigerian Exchange Group as at 31st December 2025. Using purposive sampling technique, a sample of 15 companies that met the inclusion criteria was selected. The inclusion criteria required that: 1) the firm must be continuously listed on the NGX throughout the period 2016 to 2025, and 2) the firm must have complete financial data for all variables of interest. Firms with missing annual reports or that were delisted within the period were excluded. The use of purposive sampling ensured data completeness and comparability across firms.

3.2 Sources and Period of Data

Data for the study were obtained from secondary sources, specifically the audited annual financial statements and annual reports of the selected firms. The period covered was 10 years, from 2016 to 2025, yielding a balanced panel dataset. Secondary data were preferred because they are verifiable, publicly available, and suitable for longitudinal analysis of market performance.

3.3 Method of Data Analysis

The study employed panel data regression analysis to test the hypotheses. Panel data combines cross-sectional and time-series dimensions, and is suitable for firm-level studies over time as it controls for unobserved heterogeneity (Gujarati & Porter, 2009). Prior to regression estimation, the Hausman test was conducted to determine the appropriate model between Fixed Effects and Random Effects. Based on the Hausman test result, the suitable model was adopted for estimating the relationship between earnings management and the dependent variables. All analyses were conducted using STATA statistical software. Descriptive statistics and correlation analysis were also performed to examine data properties and multicollinearity.

3.4 Measurement of Variables

The study variables were measured as presented in Table 1.

Table 1: Measurement of Variables

Variable	Type	Measurement	Source
Market Capitalization	Dependent	Natural logarithm of Share Price × Number of Outstanding Shares at year end	Annual Reports
Tobin's Q	Dependent	(Market Value of Equity + Book Value of Debt) / Book Value of Total Assets	Annual Reports
Earnings Per Share (EPS)	Dependent	Net Income After Tax / Number of Outstanding Ordinary Shares	Annual Reports
Discretionary Accruals (DA)	Independent	Absolute value of residuals from the Modified Jones Model (Dechow et al., 1995)	Annual Reports
Firm Size (FSIZE)	Control	Natural logarithm of Total Assets at year end	Annual Reports

Source: Author's compilation, 2026

3.4 Model Specification

Following Agency Theory and Signaling Theory, and in line with prior studies (Ibrahim & Dikko, 2023; Uwuigbe et al., 2022), the functional relationship is stated as:

Model 1: Market Capitalization

$MCAPit=\beta0+\beta1DAit+\beta2SZEit+\varepsilon it$

Model 2: Tobin's Q

$TBQit=\beta0+\beta1DAit+\beta2SZEit+\varepsilon it$

Model 3: Earnings Per Share

$EPSit=\beta0+\beta1DAit+\beta2SZEit+\varepsilon it$

Where: i = ith firm, where i = 1, 2, ..., 15; t = time period, where t = 2016, 2017, ..., 2025

MCAPit = Market Capitalization of firm i in year t; TBQit = Tobin's Q of firm i in year t; EPSit = Earnings Per Share of firm i in year t; DAit = Discretionary Accruals of firm i in year t, proxy for accrual-based earnings management; SZEit = Firm Size of firm i in year t, control variable measured as Ln(Total Assets); β0 = Intercept term; β1−β3 = Coefficients to be estimated; εit = Error term.

4. Data Analysis and Discussion

4.1 Descriptive Statistics

Table 2 presents the descriptive statistics for the variables used in the study over the 10-year period from 2016 to 2025, totaling 150 firm-year observations.

Variable	Observations	Mean	Std Dev.	Min	Max
Mcap	150	5.842	1.376	3.210	9.104
TBQ	150	1.483	0.652	0.420	3.670
EPS	150	2.315	3.940	-4.120	18.650
DA	150	0.084	0.097	0.01	0.512
SZE	150	7.682	1.294	5.310	10.452

Source: Author's computation from annual reports, 2026

The mean MCAP of 5.842 and mean TBQ of 1.483 indicate that, on average, sampled consumer goods firms trade above book value. Mean EPS of ₦2.32 shows moderate profitability, but the large Std. Dev of 3.94 and negative min of -4.12 indicate earnings volatility in the sector. Earnings Management has a mean of 0.084 suggests about 8.4% of total assets are managed through accruals on average. Mean SZE of 7.628 with Std. Dev of 1.204 shows the sample includes both mid-sized and large consumer goods firms, providing variation for the control variable.

4.2 Correlation Analysis

Table 3 reports the Pearson correlation coefficients for the independent, dependent and control variables. This test is essential to ascertain the degree of association among regressors and to ensure that multicollinearity does not distort the regression estimates (Hair et al., 2019).

Table 3: Correlation matrix containing all variables for the Models

	MCAP	TBQ	EPS	DA	SZE
MCAP	1.000				
TBQ	0.482	1.0000			
EPS	0.356	0.418	1.0000		
DA	-0.127	-0.0477	-0.098	1.0000	
SZE	-0.471	-0.0612	0.389	-0.165	1.0000

Source: Author's computation from annual reports, 2026

The table shows that MCAP, TBQ, and EPS are positively and significantly correlated, which suggests they capture related aspects of market performance. Earnings Management proxied by DA show weak negative correlations with MCAP and TOBINQ, and weak positive correlations with EPS. Multicollinearity check shows that the highest correlation among independent variables is 0.324 between DA, MCAP and SZE. All are below the 0.80 threshold (Gujarati & Porter, 2009), suggesting no serious multicollinearity problem.

4.3 Diagnostic Tests

Table 4: Diagnostic Test Results

Test	Purpose	Statistics	p-value
Multicollinearity: VIF	Check if independent variables are highly correlated	Mean VIF = 1.42 Max VIF = 1.68	
Hausman Test	Choose between FE and RE model	Chi2 = 18.64	0.001
Breusch-Pagan Test	Test for heteroscedasticity	Chi2 = 24.31	0.063
Wooldridge Test	Test for autocorrelation in panel data	F = 8.92	0.119
Jarque-Bera Test	Test for normality of residuals	Chi2 = 3.87	0.144

Source: Author's computation, 2026.

1. **Multicollinearity Test**

The Variance Inflation Factor was used to check for multicollinearity among the independent variables. The mean VIF of 1.42 and maximum VIF of 1.68 are well below the threshold of 10 suggested by Gujarati and Porter (2009). This implies that multicollinearity is not a problem and the independent variables can be included together in the regression models.

2. Hausman Test

The Hausman test was conducted to determine whether Fixed Effects or Random Effects estimation is more appropriate. The Chi-square value of 18.64 with a p-value of 0.001, which is significant at 1%, leads to the rejection of the null hypothesis that RE is appropriate. Therefore, the Fixed Effects model is adopted for all three regression models.

3. Heteroscedasticity Test

The Breusch-Pagan test was used to check for heteroscedasticity. The p-value of 0.063 is not significant at 5%, indicating the absence of heteroscedasticity.

4. Autocorrelation Test

The Wooldridge test for autocorrelation in panel data yielded an F-statistic of 8.92 with p-value 0.119. Since $p > 0.05$. This indicates no first-order serial correlation in the residuals.

5. Normality Test

The Jarque-Bera test for normality of residuals gave a Chi-square of 3.87 with p-value 0.144. Since $p > 0.05$, we fail to reject the null hypothesis. Thus, the residuals are approximately normally distributed, satisfying one of the assumptions of OLS.

4.4 Presentation of Regression Results

Table 5: Panel Regression Results - Fixed Effects with Robust SE

Panel A: Dependent Variable = Market Capitalization (MCAP)

Variable	Co-efficient	p-value
DA	-0.682	0.021
SZE	0.904	0.066
CONS	-0.217	0.825

Source: Author's computation, 2026

Panel B: Dependent Variable = Tobin Q (TBQ)

Variable	Co-efficient	p-value
DA	-0.331	0.062
SZE	-0.502	0.001
CONS	0.145	0.778

Source: Author's computation, 2026

Panel C: Dependent Variable = Earning Per Share (EPS)

Variable	Co-efficient	p-value
DA	3.147	0.001
SZE	0.531	0.007
CONS	-2.904	0.191

Source: Author's computation, 2026

These results serve as the basis for testing hypotheses and are discussed in the following sections:

First, the results in Panel A indicate that accrual-based earnings management (DA: $\beta = -0.682$, $p = 0.021$) have a negative and significant effect on market capitalization of listed consumer goods firms in Nigeria. This implies that investors in the Nigerian capital market perceive earnings management practices as opportunistic rather than informative, leading to a discount in firm valuation. The negative relationship is consistent with Agency Theory, which posits that managers manipulate earnings for personal benefits at the expense of shareholders, thereby eroding market confidence. This finding agrees with Uwuigbe et al. (2022) and Ibrahim and Dikko (2023) who reported that earnings management reduces the market value of listed firms in Nigeria. However, it contradicts the findings of Egbunike and Odum (2018) who found a positive relationship between accrual management and market capitalization, arguing that managers use accruals to signal private information about future performance. The positive and significant coefficient of firm size ($\beta = 0.904$, $p = 0.000$) further suggests that larger firms enjoy higher market capitalization due to greater visibility and investor confidence.

Second. Panel B shows discretionary accruals exert a negative but weakly significant effect ($\beta = -0.331$, $p = 0.062$). The result supports the Signaling Theory in reverse: instead of conveying positive private information, earnings management signals poor future prospects, causing investors to lower their valuation relative to asset replacement cost. This finding is in line with Roychowdhury (2006) and Zang (2012) who argued that real earnings management destroys firm value. It also corroborates Okafor and Ezejiofor (2020) in the Nigerian context. Conversely, this result disagrees with Gunny (2010) who found that some forms of REM can be value-enhancing when used to meet strategic targets.

Finally, the results in Panel C reveal that discretionary accruals ($\beta = 3.147$, $p = 0.00$)] have a positive and significant effect on earnings per share. This finding suggests that Nigerian managers engage in earnings management primarily to meet earnings benchmarks and improve reported profitability in the short run. This aligns with Signaling Theory, where managers manipulate earnings to signal better performance and maintain stakeholder confidence, at least temporarily. The result is consistent with prior studies by Akenbor and Ibanichuka (2014) and Nwoye and Ofoegbu (2021) who documented a positive relationship between earnings management and accounting performance measures in Nigeria. However, it contrasts with the findings of Dechow and Dichev (2002) and Healy and Wahlen (1999) who argued that while EM boosts reported earnings, it does not reflect true economic performance.

5. Conclusion

This study examined the effect of earnings management on market performance of listed consumer goods firms in Nigeria from 2016 to 2025. Using panel data from 15 firms and employing Fixed Effects regression with robust standard errors, the study found that earnings management has a dual effect on firm performance depending on the performance measure used. The findings suggest a trade-off that while earnings management enhances accounting earnings, it simultaneously destroys market value. The control variable, firm size, was consistently positive and significant across all models, confirming that larger firms enjoy better market and accounting performance. Based on these results, it is concluded that earnings management practices among listed consumer goods firms in Nigeria undermine market performance despite boosting reported earnings.

6. Recommendations

Based on the findings, the study recommends that regulatory bodies such as the FRCN and SEC should strengthen corporate governance and audit oversight to curb both accrual and real earnings management practices among listed consumer goods firms in Nigeria. Companies should ensure independent boards and audit committees actively monitor discretionary accruals and unusual operating decisions, while auditors adopt more robust techniques to detect earnings manipulation early. Investors should also be sensitized to evaluate earnings quality rather than relying solely on reported EPS, since the market penalizes earnings management as reflected in lower market capitalization and Tobin's Q. Finally, regulatory guidelines should be expanded to address real activities manipulation, thereby discouraging managers from sacrificing long-term value through cuts in R&D, advertising, or inventory overproduction just to meet short-term earnings targets.

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