



EARNINGS MANAGEMENT PRACTICES AND CORPORATE VALUE OF LISTED PHARMACEUTICAL COMPANIES IN NIGERIA

SUNNY-JOE, YOUNG ACHESEOMIE

DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF PORT HARCOURT, CHOBA, PORT HARCOURT, NIGERIA

Email for Correspondence: young.sunnyjoe@uniport.edu.ng

Abstract

This study investigated the relationship between earnings management practices and the corporate valuation of listed pharmaceutical companies in Nigeria. The ex post facto research design was adopted as the appropriate research design. Data was collected from a sample of six relevant companies for a period of thirteen years - from 2010 to 2022. Data was extracted from the audited annual reports of the selected companies. Earnings management practices was measured using discretionary accruals management (DAC), and real activities management (REC) while corporate valuation was measured using company specific market capitalization (MCP), and book value (BKV). Additionally, firm size, measured by the log of total assets was included in the modelling to account for the effects of moderating variables. In addition to several diagnostic tests, the panel least square (PLS) estimation method was used for data analysis. The findings revealed that discretionary accruals management had a consistently negative but statistically insignificant relationship with both measures of corporate value - suggestive of its limited impact on corporate valuation in the sector. In contrast, real activities management reported significant relationships with all firm value measures. It positively influenced market capitalization indicating short-term boosts to market-based valuation metrics. However, it had a significant negative effect on book value, reflecting the depletion of resources and erosion of intrinsic asset value associated with operational manipulations. Based on the findings, the study recommended that companies adopt balanced earnings management practices, and also reduce excessive reliance on real activities management. It is further recommended that regulators should strengthen oversight mechanisms to reduce earnings manipulation and ensure compliance with financial reporting standards.

Introduction

One of the primary objectives of Earnings Management is to influence investors' perceptions of a company's financial performance, and in the process potentially impacting its stock market price and valuation (César, Antonio, & Newton, 2016; Burgstahler, & Chuk, 2011). Organisation may seek to signal strength and stability, through the presentation of financial results that meet or exceed analysts' expectations. In addition, this also instrumental in attracting investors and enhancing shareholder value (Chakroun, & Amar, 2019; Cheong, Boon, Ong, Hong, 2015). However, the manipulation of earnings can also distort the true financial health of a company,

leading to misallocation of financial resources and increased risk for organisations' investors and other stakeholders (Cheong, et al., 2015; Burgstahler, & Chuk, 2011).

Earnings management involves the strategic manipulation of financial statements by firms to achieve specific financial objectives that often deviate from the underlying economic reality of the business. While some forms of earnings management may be legal and within accounting standards, others can be unethical or fraudulent as it has the potential to undermine the transparency and reliability of financial reporting. Bergstresser, and Philippon (2006) described earnings management as involving the use of accounting methods and techniques to generate financial statements that is meant to present an overly positive/negative view of a business organisation's activities and financial position.

In the context of corporate value, earnings management plays an important role in shaping investors' perceptions and market dynamics (Leung, 2016). For example, investors rely on financial statements as a key source of financial information for assessing the value and future prospects of an organisation (Leung, 2016; Putu, Sutrisno & Endang, 2019). This therefore implies that the accuracy and integrity of financial reporting are of paramount importance in determining corporate value and in shaping and promoting the confidence of investors and other stakeholders in the organisations.

Earnings Management practices can have both short-term and long-term implications for firm value (Putu, et al., 2019; Sunardi, 2018). In the short term for example, business organisations may engage in earnings smoothing activities or income-increasing activities in order to meet earnings targets or avoid earnings volatility and in the process stabilize the company's stock price as well as enhancing market perception (Leung, 2016). However, these actions may have the effect of artificially inflating the organisation's value, and leading to mispricing and misallocation of resources in the market (Sunardi, 2018; Putu, et al., 2019). Such activities if detected by market participants such as investors and financial analysts, advisers and consultants may result in loss of confidence in the individual company or the entire market (Afrizal, Gamayuni, & Syaipudin, 2021; Yulius, 2017).

In the long term, the consequences of earnings management can be more severe, as investors and stakeholders become aware of the discrepancies between reported earnings and actual earnings and underlying economic performance (Afrizal, et al., 2021). Such revelations can erode investor trust, trigger regulatory scrutiny, and ultimately lead to a decline in firm market value (Abdullahi, Norfadzilah, Umar, & Ademola, 2020). Additionally, Afrizal, et al. (2021) noted that earnings management practices that sacrifice long-term sustainability for short-term gains may undermine the intrinsic value of the firm, hindering its ability to generate sustainable returns over time (Gamayuni, & Syaipudin, 2021). For example, a loss of trust/confidence in the company may cause investors to avoid the company.

Even more dire is the possibility that funds providers such as banks may become reluctant to do business with the company in the future (Afrizal, et al., 2021). This could potentially result in financial distress if measures are not taken to restore trust in the company (Abdullahi, et al., 2020). While the case of Earnings Management and manipulation in Nigeria has been more visible in banking and financial services sector as a result of tougher regulatory environment, the

practice still under-reported in many other corporate organisations and sectors in the country. This research will investigate the nexus between earnings management and the corporate value of listed Pharmaceutical companies in Nigeria.

Statement of the Problem

Efforts to manage market perceptions can influence stock prices, market valuation, and investor sentiment and thus shaping the company's competitive position and access to capital (Afrizal, et al., 2021). However as noted earlier, these earnings management activities can also have dire consequences for business organisations (Farouk, & Muhammad, 2018; Okubokeme, & Gbalam, 2022). This could range from loss of confidence and trust and adverse effect on firm value as investors divest from the firm (Amarjit, et al., 2013). In spite of the difficulties in detecting earnings management, researchers continue to take interest in the phenomenon considering its far-reaching consequences not only on the concerned company but also the wider market.

In Nigeria for example, there has been extensive empirical research relating to earnings management. A large chunk of these researchers focused on earnings management and financial performance (Okafor, & Ezeagba, 2018; Olaniyi, & Abubakar, 2018; Olotu, et al., 2019; Saidu, Ocheni, & Muktar, 2017) and relationship between Earnings Management and Corporate Governance characteristics (Okpe, 2013; Omoye, & Eriki, 2014; Uwuigbe, Daramola, & Oyeniya, 2014); financial reporting quality (Ozili, & Outa, 2019; Osamor, Abata, & Elluh, 2020; Oraby, 2017; Rabi, Awaisu, & Khalid, 2017). Similarly, there has been research interest in how Earnings Management affect Firm Value in Nigeria (Olaoye, & Akinleye, 2020; Putu, et al., 2019).

While a lot of research efforts on earnings management and financial performance have explored the phenomenon in relation to specific industries and sectors such as manufacturing, industrial good, and financial services (Ozili, & Outa, 2019; Onipe, Umar, & Ahmed, 2015; Saidu, Ocheni, & Muktar, 2017; Okubokeme, & Gbalam, 2022; Nwaobia, Kwarbai, & Fregene, 2019). However, this is not the case with the relationship between earnings management and corporate value in Nigeria. A review of extant literature indicates much of the research interest relating to earnings management and corporate valuation in Nigeria have been focused mostly in the manufacturing sector with little or no evidence for the pharmaceutical industry. This research effort is intended to fill this identified gap in literature by conducting an investigation into how earnings management affect the corporate valuation of Pharmaceutical companies in Nigeria.

Aim and Objectives

The major aim of this research is to investigate the effect of earnings management activities on the corporate valuation of listed companies in the pharmaceutical industry in Nigeria. The specific objectives are to:

- (i) Determine whether discretionary accruals management affect the stock market value of pharmaceutical industry in Nigeria
- (ii) Determine whether discretionary accruals management practice affect the book value of pharmaceutical industry in Nigeria
- (iii) Determine whether real activity management practice affect the stock market value of pharmaceutical industry in Nigeria

- (iv) Determine whether real activity management practice affect the book value of pharmaceutical industry in Nigeria

Theoretical Framework - Agency Theory

Agency theory provides insights on various mechanisms through which conflicts of interest between principals and agents manifest within corporate organizations. Information asymmetry, where agents possess more information than principals, often leads to adverse selection and moral hazard problems (Dutta, & Zhang 2002). Principals aim to mitigate these issues by designing incentive structures, such as performance-based compensation and stock options, to align agents' interests with their own (Watts, & Zimmerman, 1986). Monitoring mechanisms, including audits, oversight committees, and managerial reporting, serve to mitigate opportunistic behaviour and ensure accountability. Moreover, governance mechanisms, such as board composition and shareholder activism, play a crucial role in overseeing managerial decisions and safeguarding shareholder interests.

Agency theory has important implications for Corporate Governance, guiding the design of governance structures and practices aimed at minimizing agency costs and enhancing shareholder value (Peters, & Bagshaw, 2014; Nyberg, et al., 2010). Effective governance mechanisms, such as independent boards, executive compensation committees, and shareholder rights provisions, are essential for aligning managerial behaviour with shareholder interests. Moreover, regulatory frameworks, such as the Sarbanes-Oxley Act in the United States and similar legislation globally, are informed by agency theory principles, aiming to enhance transparency, accountability, and integrity in Corporate Governance practices (Nyberg, et al., 2010).

One of the primary mechanisms of agency theory involves aligning the interests of managers with those of shareholders through appropriate incentive structures. By tying managerial compensation to long-term performance metrics and shareholder value creation, organizations can discourage managers from engaging in short-term earnings management practices. Performance-based bonuses, stock options, and equity grants can incentivize managers to prioritize sustainable growth and value creation over short-term Earnings Manipulation (Pham, Oh, & Pech, 2015; Nyberg, et al., 2010). Agency theory also underscores the importance of effective monitoring mechanisms to oversee managerial actions and detect potential instances of earnings management. Independent audits, internal controls, and oversight committees play crucial roles in monitoring financial reporting practices and ensuring compliance with accounting standards.

Earnings Management Motives and Corporate Valuation

Earnings management significantly influences corporate valuation by shaping investor perceptions and financial market stability. In Nigeria, where financial markets are developing, companies often engage in earnings management for various reasons, including debt covenant compliance, executive compensation, income smoothing, regulatory adherence, and avoiding financial distress. While these practices may offer short-term benefits, they pose risks to long-term valuation and investor trust. A major motive for earnings management is meeting debt covenant requirements, where firms manipulate earnings to avoid defaulting on loan agreements (Rahman, Moniruzzaman, & Sharif, 2013; Suda & Shuto, 2006). In Nigeria firms may inflate

financial performance to maintain lender confidence (Makarem & Roberts, 2020). While this can preserve credit ratings, it distorts true financial health, misleading investors and reducing corporate valuation in the long run (Obigbemi et al., 2016).

Similarly, executive compensation structures tied to financial metrics incentivize managers to manipulate earnings to maximize bonuses and stock options (Rahman et al., 2013). While this may temporarily boost market value, excessive manipulation can undermine transparency and erodes shareholder confidence, leading to long-term devaluation (Perols & Lougee, 2011). Companies also engage in income smoothing to present stable earnings, which can enhance investor confidence in volatile industries (Kliestik et al., 2021). Firms may use this approach to attract investment by reducing perceived risk. However, income smoothing can mask financial instability, leading to mispricing of securities and weakening investor trust when true performance is revealed. Similarly, regulatory compliance motivates earnings management, as firms manipulate financial reports to meet reporting standards and avoid regulatory penalties (Libby, Rennekamp, & Seybert, 2015). While this can enhance credibility, excessive manipulation can distort financial statements, leading to market distrust and valuation declines (Hsieh, Bedard, & Johnstone, 2014).

Meeting analysts' expectations is another driver of earnings management, as firms align financial reports with market forecasts to maintain investor confidence (Kross, Ro, & Suk, 2011). While this can lead to short-term valuation gains, persistent manipulation creates unrealistic expectations, increasing the risk of stock price volatility when actual performance diverges (Rahman et al., 2013). Additionally, firms facing financial distress may manipulate earnings to project stability, delaying recognition of losses to attract investors (Ghazali, Shafie, & Sanusi, 2015). While this may temporarily support valuation, it can worsen financial instability when underlying issues resurface (Kliestik et al., 2021).

Empirical Evidence

Enakirerhi & Ighosewe (2024) investigated the association between revenue growth and earnings management practices among Nigerian firms before and after IFRS adoption. Analyzing 87 non-financial firms over a 19-year span (2003–2020), the study used the panel regression and t-tests to examine discretionary accruals. The results indicated there was a shift in earnings management strategies post-IFRS, with an increase in income-decreasing practices despite expectations of improved transparency. The findings also suggested that adopting global standards alone is insufficient to deter earnings manipulation.

Ubesie, Nwankwo, and Ogbogu (2020) conducted an examination into the impact of Earnings Management on the financial performance of consumer goods firms operating in Nigeria. Employing an ex-post facto research design, their study utilized simple regression analysis to analyse pooled data obtained from three carefully selected consumer goods enterprises. The findings from the research revealed that earnings management, contrary to prevailing assumptions did not yield a statistically significant impact on the financial performance of consumer goods firms within the Nigerian context.

Olaoye and Adeniyi (2020) investigated the effect of accounting manipulations on the performance of selected listed industrial firms in Southwest Nigeria. The study utilized a descriptive design to collect primary data through surveys from 150 respondents across 21 listed firms. Analytical methods included descriptive statistics and OLS regression to explore relationships. Findings indicated that accounting manipulations significantly influenced firm performance. Regulations and accounting principles also played a significant role in curbing or enabling such practices. The study concluded that manipulations negatively affected corporate performance. They thus recommended a robust regulatory environment and policies and stringent penalties for violators to deter manipulative practices.

Nwaobia, Kwarbai, and Fregene (2019) investigated the effects of Earnings Management on the survival of manufacturing entities in Nigeria. A purposive sample of thirty (30) companies with complete data spanning from 2005 to 2016 was selected from the sixty six (66) listed manufacturing companies. Secondary data drawn from published financial statements of the sample companies were utilized, and analysis was conducted using descriptive and inferential (OLS regression) statistics. The research findings revealed that Earnings Management significantly influenced corporate survival. However, the individual effects of Earnings Management and Corporate Governance proxies on corporate survival were found to be mixed, suggesting a contextual relationship between these factors and the survival prospects of manufacturing entities in Nigeria.

Olotu, Salawu, Adegbe, and Akinwunmi (2019) examined the relationship between Earnings Management and the performance of quoted manufacturing companies in Nigeria. A purposive sample of fifty six companies that remained continuously listed and traded on the Nigeria Stock Exchange throughout the study period and possessed reliable data was selected. Utilizing descriptive and inferential statistics, including correlation and multiple regression analysis, the study findings indicated that, among the three performance measures utilized in the study, only inventory turnover was jointly influenced by Accruals-Based Earnings Management (AEM) and Real Earnings Management (REM). The study concluded that Earnings Management does not demonstrate evidence of enhancing the performance of companies in the Nigerian manufacturing sector.

Agugoom, Dada, and Nwaobia (2019) examined the value relevance of earnings persistence and its impact on firm performance, along with the implications of analysts' accurate forecastability in Nigeria. Utilizing descriptive and panel data regression statistics, the study analysed the effect of earnings persistence on firm performance. The findings revealed a negative and non-significant effect of earnings persistence on firm performance, specifically Tobin's Q. However, Leverage (LEV) exhibited a positive relationship, while Firm Size (FRMSIZE) showed a negative relationship with Tobin's Q. A weak growth trend was observed between Earnings Persistence (EPERS) and Tobin's Q. Consequently, the study recommended that analysts should closely monitor the consistent occurrence of earnings when assessing reported financial statements, as predictions derived from them could be potentially misleading.

Akintoye, Adegbe, Nwaobia, and Kwarbai (2019) investigated the effect of earnings quality on the growth of manufacturing firms in Nigeria during the period from 1996 to 2006. The research

utilized the ex-post facto design ordinary least square method of analyses. The findings revealed that earnings quality significantly influenced Turnover Growth (TUG). However, earnings quality proxies reported mixed effects, as Earnings Predictability (EPRE) had a significant negative effect, while Value Relevance (VALR) and Accounting Conservatism (CONS) exhibited significant positive effects. Accrual Quality (AQUA), on the other hand, had an insignificant negative effect on turnover growth of firms. The study concluded that earnings quality plays a crucial role in determining the growth trajectory of firms.

Methodology

The ex-post facto design is considered appropriate for this study because it is concerned with the analysis of data on past event to explain the behavioural impact, relationship, effect or differences between variables (Kim, & Singhal, 2003). The target population of interest comprise of all listed Pharmaceutical companies in Nigeria. The choice of this population is informed by the fact that there has been minimal research interest in evaluating how earning management affect the corporate valuation of companies in the industry.

Where the target population is very small like in this case, it may be feasible to conduct a census rather taking a sample. This involves studying the entire population rather than selecting a sample subset (Kim, & Singhal, 2003). This approach provides a comprehensive and accurate representation of the population characteristics. This will ensure that the conclusions of the research can be reliably generalized to all companies in the industry. Based on information on the website of the Nigeria Exchange Group (NGX), there are seven listed pharmaceutical companies in Nigeria. However, one of these companies (Mecure PLC) is a recent listing (2023) and as such is not eligible for the research. The sample for this study comprise of all six companies in the sector with adequate dataset.

Consistent with the suggestions of the research design, the data for this study are entirely secondary in nature. This is to be obtained through the process of content analysis on historical economic events and business transactions reported in the audited annual reports and accounts as well as other publications of the relevant companies. The period of interest spans thirteen years from 2010 - 2022. In addition to relying on published audited annual reports and accounts as the primary sources of data, the research will also collect complementary data (where necessary) from the individual websites of the concerned companies as well as the Nigeria Exchange Group (NGX) website.

The study will employ proxies in literature to measure the criterion variable (Corporate Value) as Market Capitalization (MCP) and Book Value (BKV). Similarly, the explanatory variable (Earnings Management) which is discussed with its dimensions as: Discretionary Accruals Management (DAC), and Real Activities Management (REC). It is also important to note that calculation of Earnings Management will be based on the Modified Jones Model. This model is deemed most suitable as it does not only address the lapses in the earlier Jones Model, its measurement parameters are present in the audited annual reports of listed companies in Nigeria.

The data will be analysed with the aid of descriptive statistic panel least square (PLS) regression method. Other diagnostic tests are conducted to establish validity. These include, test for

stationary, heteroskedasticity and breusch and pagan LM test for random effects. It is posited that corporate value - proxied with market capitalization (MCP), and book value (BKV) are functionally dependent on earnings management which was measured using discretionary accruals management (DAC), and real activities management (REC). Additionally, Firm Size (FZE) is included in the model as a moderating variable. This is represented as a functional equation:

$$\text{Corporate Value} = f(\text{Earnings Management, Firm Size}) \dots 1$$

The above functional form is expanded as follows:

$$\text{MCP} = f(\text{DAC, REC, FZE}) \dots 2$$

$$\text{BKV} = f(\text{DAC, REC, FZE}) \dots 3$$

The following statistical models are used

$$\text{MCP} = \beta_0 + \beta_1 \text{DAC} + \beta_2 \text{REC} + \beta_3 \text{FZE} + \epsilon_i \dots 4$$

$$\text{BKV} = \beta_0 + \beta_1 \text{DAC} + \beta_2 \text{REC} + \beta_3 \text{FZE} + \epsilon_i \dots 5$$

Data and Results

Table 1 reports the descriptive statistics for the dataset used in this study. The table shows that the mean Market capitalization (MCP) is ₦6.62 billion, with a standard deviation of ₦11.6 billion, indicating significant variation in firm sizes. The median market capitalization is ₦2.36 billion, reflecting the concentration of firms around smaller capitalization values compared to the few large capitalization companies that drive the high mean value. The maximum market capitalization is ₦65.1 billion, representing the largest firm in the dataset, while the smallest firm has an market capitalization of ₦201 million.

Table 1: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Obs.
MCP	6620000000	2360000000	65100000000	2.01E+08	11600000000	78
BKV	3410334	1774828	16980217	26738	3714310	78
FZE	7401524	4545128	31121864	1487556	6903637	78
DAC	10.04918	0.640256	621.6634	-63.1077	73.18334	78
REC	1.34374	1.124411	9.439237	-1.07616	1.9737	78

Additionally, Book value (BKV) had a mean of ₦3.41 million, a standard deviation of ₦3.71 million, and a median value of ₦1.77 million. This suggests that most firms in the sample have relatively small book values. The maximum Book value (BKV) is ₦16.98 million, while the minimum is ₦26,738, reflecting significant variation in asset sizes across the six companies that were sampled. For firm size (FZE), calculated as the natural log of total assets, the mean is 7.4015 with a standard deviation of 6.9036, indicating relatively consistent asset sizes across the sample.

Discretionary accruals (DAC), which represent earnings management, exhibit a mean of 10.049, but the extreme values range from -63.11 to 621.66, which suggests that some companies engage in highly aggressive earnings management. Real earnings management (REC) had a mean of 1.34, with moderate variability, reflected in a standard deviation of 1.97. Finally, observations indicated 78 firm years which is explained by the fact that there were six companies with data available for a period of 13 years from 2010 to 2022.

Table 2 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	18.45778	4	0.001

Table 2 presents the results of the Hausman test for market capitalization (MCP), discretionary accruals (DAC), real earnings management (REC), and firm size (FZE). The test reported a Chi-Square statistic of 18.458 with a p-value of 0.001, indicating statistical significance. This result rejects the null hypothesis that favours the random effects model and suggests that the fixed effects model is more suitable and would provide more reliable results.

Table 3 Panel Least Square (PLS) Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.90121	1.30524	8.351879	0.0000
DAC	-0.00043	0.000375	-1.15249	0.2532
REC	0.051691	0.022488	2.298672	0.0246
FZE	-0.22235	0.198621	-1.11945	0.2669

R-squared: 0.8757; F-stat: 53.2154; Prob. (F-stat): 0.000; Durbin-Watson stat: 0.8005

Table 3 reports the regression results analyzing the impact of Discretionary accruals (DAC), Real earnings management (REC), and Firm size (FZE) on Market capitalization (MCP). Based on the preceding Hausman test, the fixed effects model was selected as the most appropriate estimation technique. From the results, the relationship between Discretionary accruals (DAC) and Market capitalization (MCP) is negative, with a coefficient of -0.00043. This suggests that a unit increase in Discretionary accruals (DAC) is associated with a 0.043% decrease in Market capitalization (MCP). This indicates that higher levels of earnings manipulation through discretionary accruals adversely affect firm value. However, the relationship is not statistically significant, as evidenced by a t-statistic probability value of 0.2532, which exceeds the 0.05 critical threshold. This result

implies that discretionary accruals have a minimal and statistically insignificant impact on market capitalization.

Real earnings management (REC) shows a positive and statistically significant relationship with Market capitalization (MCP). This is indicated by the regression coefficient of 0.0517 and a t-statistic probability of 0.0246, which is below the 0.05 threshold. This finding implies that a unit increase in Real earnings management (REC) is predicted to lead to a 5.17% increase in market capitalization and further suggests that firms engaging in real activities management may boost short-term market value, although potentially at the cost of long-term sustainability. The overall model indicates a strong explanatory power with an R-squared value of 0.8757. Thus, 87.57% of the variability in market capitalization can be explained by the combined effects of discretionary accruals Management (DAC), real activities management (REC), and firm size (FZE). The F-statistic of 53.2154 and its associated p-value of 0.000 confirm the overall statistical significance of the regression model.

Table 4 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.82066	4	0.0079

The Hausman test result in Table 4 for book value (BKV) in relation to discretionary accruals (DAC), real earnings management (REC), and firm size (FZE). The test reported a Chi-Square statistic of 13.8207 with a p-value of 0.0079. This is statistically significant at the 5% level. This result rejects the null hypothesis in favour of the fixed effects model.

Table 5 Panel Least Square (PLS) Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.78841	1.40378	4.8358	0.0000
DAC	-0.0000466	0.0004	-0.1157	0.9082
REC	-0.09400	0.02419	-3.8871	0.0002
FZE	-0.0567	0.21362	-0.2654	0.7915

R-squared: 0.7489; F-stat: 22.5310; Prob.(F-stat): 0; Durbin-Watson stat; 1.6345

Table 5 shows that the relationship between discretionary accruals (DAC) and book value (BKV) was negative, with a regression coefficient of -0.0000466. This suggests that a unit increase in discretionary accruals (DAC) is associated with a negligible 0.0047% decrease in book value

(BKV). However, this relationship is not statistically significant, as evidenced by the t-statistic probability value of 0.9082, which exceeds the 0.05 significance threshold. This is an indication that discretionary accruals have an insignificant effect on the book value of the firms in this sample.

Furthermore, real activities earnings management (REC) reported a significant negative relationship with book value (BKV), as indicated by a coefficient of -0.0940 and a t-statistic probability of 0.0002. This is below the 0.05 threshold. This result implies that a unit increase in real earnings management (REC) was predicted to lead to a 9.40% decrease in book value (BKV). The finding suggests that the use of real activities management practices may erode firm book value by diverting resources or distorting operational efficiency. The overall model indicates a moderate explanatory power, with R-squared value of 0.7489 which indicates that approximately 74.89% of the variability in book value is explained by DAC, REC, and FZE. The F-statistic of 22.5310 and its associated p-value of 0.000 confirm the overall statistical significance of the regression model.

Discussion of Findings

Findings from the data analysis revealed that discretionary accruals (DAC) which is often associated with earnings manipulation showed a consistent negative but statistically insignificant relationship with the measures of corporate value, *visa viz*; market capitalization and book value. This indicates that its limited impact within the pharmaceutical sector in Nigeria. First, a negative relationship was reported between discretionary accruals and market capitalization with a coefficient of -0.00043 which implies a minimal effect size. This suggests that while increased earnings manipulation through discretionary accruals leads to a slight decrease in market capitalization, the relationship was statistically insignificant ($p = 0.2532$) thus, buttressing that discretionary accrual has minimal impact on firm value via market capitalization. This finding further implies that investors in the sector do not appear to heavily rely on or react to the effects of discretionary accruals when making investment decisions that determines firm value. This is particularly so in markets where investors focus on long-term performance indicators. In the Nigerian context, the lack of significant impact may stem from weaker market efficiency or limited access to detailed financial analysis by investors (Olaoye and Akinleye, 2020).

Similarly, the relationship between discretionary accruals and book value also showed a negative coefficient (-0.0000466) and a statistically insignificant result ($p = 0.9082$). This finding also indicates that discretionary accruals have very negligible impact on the net asset value of firms in the sample. This weak association suggests that book value (BKV) as a less market-sensitive measure is less prone to manipulation through accrual-based earnings management (Dang, Nguyen, & Tran 2020). The negative but insignificant relationship between discretionary accruals and corporate value measures in this study suggests that earnings management practices using discretionary accruals may not significantly influence the intrinsic valuation of firms in the pharmaceutical sector.

The results further showed a significant positive relationship between real activities management (REC) and market capitalization (MCP). The reported regression coefficient gave a value of

0.0246. This suggests that a unit increase in real activities management (REC) is associated with a 5.17% increase in Market capitalization (MCP) and thus indicating that firms engaging in real earnings management may enhance their market value in the short term. This consequently results in positive investor sentiment and improved market valuation. On the negative side, this short-term benefit may come at the cost of long-term sustainability as operational inefficiencies introduced by such practices could erode future profitability (Nwaobia, et al., 2019). In contrast, the reported relationship between real activities management and book value was significantly negative. The associated coefficient of regression value of -0.0940 and a probability value of 0.0002 indicated that a unit increase in real activities management leads to a 9.40% decline in book value further suggesting that real activities manipulation does adversely affects a firm's net asset value (Umoren, et al., 2018).

The results further shows that there was a significant positive relationship between real activities management (REC) and Enterprise value (EVL). The reported coefficient of regression gave a value of 0.0517 and a probability value of 0.0244. This suggested that a unit increase in real activities management is associated with a 5.17% rise in enterprise value which is similar to its impact on market capitalization. This finding implies that real earnings management can enhance the broader valuation of a firm, particularly when operational activities lead to improved revenue figures or market perceptions. The significant positive relationship of real activities management on market capitalization suggests that analysts and investors in the sector may favour short-term performance improvements even where they arise from operational distortions. However, the negative relationship with book value is an indication of the potential harm caused by real activities management to a firm's intrinsic asset value. The depletion of resources and erosion of cash flows associated with these practices can compromise the stability and financial health of the firm.

Conclusion and Recommendations

From the findings, the negative and non-significant relationship between market capitalization and discretionary accruals management implies that discretionary accrual adjustments made to influence reported earnings do not substantially affect the perceived market value of pharmaceutical companies. Additionally, a negative but statistically insignificant relationship observed between discretionary accruals management suggests that accrual-based earnings manipulation does not meaningfully impact the net asset value of firms in the industry. The implication is that book value, being a more stable measure of firm value is relatively not affected by short-term discretionary management activities. Furthermore, the positive and significant relationship reported between real activities management and market capitalization indication that operational earnings manipulation, such as offering aggressive discounts, can enhance short-term market valuation. The implication is that investors may react favourably to the immediate financial results achieved through real activities management without fully considering the long-term implications of such practices. However, the significantly negative relationship between real activities management and book value was suggests that real activities manipulation erodes a firm's net asset value. This can occur due to resource depletion, overproduction, or excessive inventory holdings associated with such practices. The findings also implies that while real

activities management might boost short-term profitability, it will likely undermine the company's financial stability and intrinsic value in the long-term.

Considering that discretionary accruals negatively impacts market capitalization; it is important that investors exercise caution in their evaluation of firms that rely on discretionary accruals management. Companies are encouraged to adopt transparent accounting practices to minimize accrual-based manipulations as this can erode investor trust. Furthermore, companies should recognize the fact that discretionary accruals management has a high probability of having a negative effect on book value. Thus, they should focus on accurate financial reporting that reflect the true net asset value. The significant positive relationship between real activities management and market capitalization is an indication that companies can boost their market value in the short run through operational adjustments. However, it is important that firms should balance this with more sustainable long-term strategies to avoid undermining future profitability. The introduction of sector-specific guidelines by regulators to monitor real earnings management practices will also help to ensure that firms comply with regulatory requirements. However, real activities management negatively affected book value significantly which is an indication of its long-term risks potential. To this end, companies should limit overproduction, aggressive discounting, and other manipulative practices that erode intrinsic value. Finally, it is important that companies implement stricter oversight of accounting practices from regulators to prevent misrepresentation of assets and liabilities. It is further advised that investors continually evaluate the quality of earnings and scrutinize financial statements for signs of discretionary accruals manipulation in order to ensure informed investment decisions. Additionally, regulators should enhance monitoring mechanisms to ensure that accrual adjustments always aligns with applicable accounting standards and do not mislead stakeholders regarding a company's financial performance.

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