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ANALYSIS OF EARNINGS MANAGEMENT AND STOCK PRICE PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT
The study investigates the impact of earnings management on stock price performance among manufacturing firms in Nigeria. The study adopted the ex-post facto research design, and data was obtained from the annual report of five (5) selected consumer goods firms listed in the Nigerian Exchange Group (NGX) with data spanning from 2020-2023. To proxy earnings management, the study utilized discretionary accruals, operating cash flow activities, and earnings before interest and tax (EBIT) on stock capitalization. The study used the Hausman test and fixed effect models to analyze the data. The findings reveal that discretionary accruals have a significant negative effect on stock capitalization, indicating that higher levels of earnings management are associated with lower stock capitalization. Operating cash flow activities show a positive but insignificant effect on stock capitalization, suggesting that while healthier cash flow from operations is generally beneficial, its impact on stock capitalization is not strong enough to be statistically significant. Earnings smoothing practices (EBIT) have a negative but insignificant effect on stock capitalization, indicating that efforts to smooth earnings do not significantly influence stock capitalization. These results highlight the complexities of earnings management and its varied impacts on stock price performance. Recommendations include strengthening corporate governance and audit practices, improving cash flow management, and avoiding earnings manipulation in favor of sustainable financial performance.
KEYWORDS: *Earnings Smoothing, Earnings management, operating cashfow, stock capitalization*

1.0 INTRODUTION

1.1 Background of the Study

Stock price performance is a critical indicator of a firm's market value and investor confidence, reflecting the collective judgment of investors about the firm's future prospects based on its financial health and strategic positioning. Stock price performance can be influenced by numerous factors, including macroeconomic conditions, industry trends, and firm-specific characteristics. For manufacturing firms, which often face substantial operational and financial complexities, maintaining a robust stock price performance is vital for attracting and retaining investors (Adebayo, 2023). Accurate and transparent financial reporting is paramount in this context as it enhances investor trust and market stability.

The intentional manipulation of financial statements by firm management to present a desired picture of financial success and health is known as earnings management. Many accounting techniques, like modifying accruals or adjusting the timing of revenue and expenditure recognition, may be used to achieve this (Healy & Wahlen, 1999). While some degree of earnings management might be deemed appropriate in accordance with accounting norms, too aggressive or dishonest manipulation can mask a business's actual financial situation, which could lead to poor investment choices and heightened market volatility (Jones, 2021). In the manufacturing sector, where firms are often capital-intensive and operationally complex, the temptation to manage earnings can be particularly strong as managers strive to meet financial targets and performance benchmarks (Kang & Kim, 2022).

The effect of earnings management on stock price performance has been a subject of considerable academic inquiry. Studies have shown that while earnings management might temporarily boost stock prices by meeting or exceeding market expectations, it often leads to long-term negative consequences as the true financial health of

the company eventually comes to light. For instance, Adegoke and Ogundipe (2022) found that firms engaging in aggressive earnings management practices in Nigeria experienced a significant decline in stock price performance in subsequent periods. This decline is often attributed to the eventual detection of earnings manipulations, which undermines investor confidence and leads to stock price corrections.

In the Nigerian manufacturing sector, the relationship between earnings management and stock price performance is particularly pertinent due to the sector's critical role in the economy and its exposure to both domestic and international market forces. Manufacturing firms in Nigeria often face intense scrutiny from investors, regulators, and stakeholders, making the integrity of their financial statements crucial. As noted by Ojo et al. (2023), the manufacturing sector in Nigeria has been plagued by instances of financial misreporting, which have had detrimental effects on stock prices and overall market stability. This underscores the need for stringent regulatory oversight and robust corporate governance practices to mitigate the adverse effects of earnings management.

Given the potential for earnings management to influence stock price performance significantly, it is essential for stakeholders, including regulators, investors, and corporate managers, to understand the dynamics at play. Effective corporate governance, enhanced transparency, and rigorous auditing practices are vital in curbing the prevalence of earnings management and ensuring that stock prices accurately reflect the underlying financial health of manufacturing firms (Eze & Chukwu, 2023). As the Nigerian market continues to evolve, maintaining the integrity of financial reporting will be crucial for fostering a stable and attractive investment environment. Thus, this study will investigate the effect of earnings management on stock price performance of manufacturing firms in Nigeria.

1.2 Statement of the Problem

Earnings management practices have been a subject of extensive research within the context of Nigerian manufacturing firms. Prior studies have explored various dimensions of earnings management and its implications on different aspects of firm performance. Nwaobia et al. (2019) discovered that the survival of manufacturing enterprises in Nigeria is influenced differently by earnings management and corporate governance proxies. Mordi and Ebiaghan (2022) looked at the effects of business size and institutional ownership on earnings management in addition to highlighting the major influences of leverage, liquidity, and company expansion on profit quality. In their investigation of the link between accrual-based and real-based earnings management and firm value, Olatunji and Juwon (2020) discovered that accrual-based earnings management had a positive correlation with firm value, whereas real-based earnings management had a negative impact. Salome et al. (2021) assessed actual activities-based earnings management in connection to financial performance and found a positive but non-significant association between net profit margin and earnings per share. With a noteworthy moderating influence of the audit committee on this connection, Ajibola et al. (2024) expanded the investigation to the oil and gas industry and demonstrated considerable negative effects of earnings management on company value. Despite these studies, there remains a gap in understanding the specific impact of various earnings management practices, including accrual-based management, operating cash flow activities, and earnings smoothing, on stock price performance in Nigerian manufacturing firms.

1.3 Aim and Objectives of the Study

The aim of this study is to analyze the impact of earnings management on the stock price performance of manufacturing firms in Nigeria. The specific objectives are:

1. To examine the effect of accrual-based earnings management and stock capitalization of manufacturing firms in Nigeria.
2. To investigate the effect of operating cash flow activities on the stock capitalization performance of manufacturing firms in Nigeria.
3. To analyze the extent to which earnings smoothing practices (reported earnings) affect the stock price capitalization of manufacturing firms in Nigeria.

1.4 Research Questions

1. How does accrual-based earnings management affect the stock capitalization of manufacturing firms in Nigeria?
2. What is the impact of operating cash flow activities on the stock capitalization of manufacturing firms in Nigeria?
3. To what extent do earnings smoothing practices influence the stock capitalization of manufacturing firms in Nigeria?

1.5 Research Hypotheses

1. $H_0$1: There is no significant effect of accrual-based earnings management and the stock capitalization of manufacturing firms in Nigeria.
2. $H_0$2: Operating cash flow activities do not significantly impact the stock capitalization of manufacturing firms in Nigeria.
3. $H_0$3: Earnings smoothing practices (reported earnings) do not have a significant effect on the stock price performance of manufacturing firms in Nigeria.

2.0 LITERATURE REVIEW

2.1 Earnings Management

Earnings management is defined as the deliberate manipulation of financial statements by company management to achieve specific financial reporting objectives, such as meeting internal targets or market expectations (Healy & Wahlen, 1999). This practice can involve altering accounting policies, making selective use of accounting estimates, or timing certain business transactions to influence reported earnings. Earnings management is often pursued to portray a favorable financial position and performance to investors, analysts, and other stakeholders, thereby impacting the firm's stock price and perceived value (Dechow et al., 2012).

Recent studies highlight the prevalence and implications of earnings management in various markets, including emerging economies. For instance, research in Nigeria's manufacturing sector indicates that firms frequently engage in accrual-based and real activities manipulation to smooth earnings and avoid reporting losses (Okolie & Agbaje, 2022). The consequences of such practices are significant, as they can lead to misinformed investment decisions, reduced market efficiency, and potential regulatory scrutiny. Furthermore, with the evolving regulatory landscape and increasing emphasis on corporate governance, there is growing attention towards understanding and curbing earnings management to enhance financial transparency and investor confidence (Ibrahim et al., 2021; Adegbie et al., 2023).

2.1.2 Proxies of Earnings Management

1. Accrual-Based Earnings Management (Discretionary Accruals)

Accounting accruals are modified to adjust reported profits while real cash flows stay the same in accrual-based earnings management. Often used as a stand-in for this kind of earnings management, discretionary accruals are the part of accruals within managerial control. By differentiating between normal and aberrant accruals, the Modified Jones Model is often used to estimate discretionary accruals (Kothari, Leone, & Wasley, 2005). According to recent studies, businesses in developing nations like Nigeria often manipulate discretionary accruals in the run-up to significant occasions like legislative changes or profit releases (Osemene et al., 2023). This manipulation may cause stock mispricing and a decline in investor confidence by distorting the genuine financial performance of the companies.

2. Operating Cash Flow Activities

Operating cash flow activities used as a proxy for earnings management involve manipulating real activities to meet earnings goals. According to Zhang (2012), managers may adopt strategies including increasing sales, overproducing in order to reduce the cost of items sold, or cutting down on discretionary spending. Compared to accrual-based manipulation, this kind of profits management is often harder to spot since it involves actual operational choices as opposed to just accounting modifications. In the Nigerian context, research has shown that firms engage in such manipulations to smooth earnings and maintain a stable financial appearance, particularly during economic uncertainty or regulatory scrutiny (Enofe, Mgbame, & Otuya, 2017). Manipulating operating cash flow activities can have serious long-term effects, potentially harming a firm's operational efficiency and financial health.

3. Earnings Smoothing Practices (Reported Earnings)

Earnings smoothing refers to the deliberate effort by management to reduce fluctuations in reported earnings over time. This practice aims to present a more stable and predictable earnings stream, which is often perceived favorably by investors and analysts (Barth, Landsman, & Lang, 2008). Earnings smoothing can be achieved through both accrual-based and real activities manipulation. In Nigeria, studies have indicated that firms often smooth earnings to avoid reporting losses or to meet analysts' forecasts, impacting their stock prices and market valuation (Uwuigbe et al., 2019). While earnings smoothing can create an appearance of stability, it can also obscure the true volatility and risks associated with a firm's operations, leading to misinformed investment decisions and reduced market efficiency.

2.1.3 Stock Price Performance

Stock price performance is the amount that a company's price variations over a certain time period due to a variety of variables, including market sentiment, corporate earnings, economic indicators, and geopolitical events. According to recent research, corporate governance and earnings releases have an enormous effect on stock values and investor perceptions (Chen et al., 2023). In addition, additional factors have been brought in by the development of algorithmic trading and financial technology, with high-frequency trading having a significant impact on short-term price fluctuations (Jones & Smith, 2023). Macroeconomic variables such as interest rates and inflation continue to play a pivotal role, with higher interest rates often leading to lower stock valuations as future earnings are discounted more heavily (Davis & Henderson, 2024). Behavioral finance theories also highlight the influence of investor psychology and market sentiment, where overreactions and herd behavior can lead to significant deviations from intrinsic values (Brown & Taylor, 2023). In sum, stock price performance is a complex interplay of fundamental, technical, and psychological factors that collectively determine the market value of equities.

2.2 Theoretical Framework

1. Efficient Market Hypothesis (EMH)

According to the Efficient Market Hypothesis (EMH), financial markets determine stock prices based on all available information, therefore investors cannot reliably increase their profits by choosing stocks or timing the market (Fama, 1970). According to the Efficient Market Hypothesis (EMH), stock prices accurately represent all available information, including past prices, fundamental data, and news releases. This prevents investors from using this knowledge to their advantage (Malkiel, 2003). According to the idea, stock prices vary randomly, making it hard to predict future price changes using historical trends or patterns. As a result, the Efficient Market Hypothesis (EMH) suggests that it is pointless to endeavour to continuously beat the market.

2. Behavioral Finance Theory

Behavioral finance theory challenges the assumptions of rationality and efficiency in traditional financial theories by incorporating psychological factors into the analysis of investor behavior and market dynamics (Barberis & Thaler, 2003). This theory suggests that investors are not always rational and may exhibit biases and cognitive errors that influence their decision-making processes. For instance, behavioral finance identifies phenomena such as overconfidence, loss aversion, and herd behavior, which can lead to systematic deviations from rational decision-making and affect stock prices (Shleifer, 2000). Behavioral finance theory helps explain why stock prices may deviate from their fundamental values, as investors' emotions and cognitive biases can create inefficiencies in the market. By considering the psychological aspects of investor behavior, behavioral finance provides valuable insights into understanding stock price performance beyond the predictions of traditional finance theories.

2.3 Empirical Review

The impact of corporate governance and earnings management on the survival of Nigerian manufacturing businesses was investigated by Nwaobia et al. (2019). As of December 31, 2016, 66 manufacturing businesses listed on the Nigerian Stock Exchange were the subject of the research. Thirty companies with comprehensive data sets were specifically chosen for examination from this group. The research made use of secondary data that was taken from these firms' financial records and covered a 12-year period from 2005 to 2016. The researchers used pertinent diagnostic tests in addition to descriptive and inferential statistics, such as Ordinary Least Squares (OLS) regression, to analyse the data. The results showed that corporate governance proxies and earnings management, as assessed by discretionary accruals, have a substantial impact on a company's ability to survive. Upon independent analysis, there were some discrepancies in the impact of corporate governance proxies and earnings management on business survival.

Mordi and Ebiaghan (2022) investigated how Nigerian publicly traded company earnings management was affected by institutional ownership and company size between 2000 and 2021. A sample of twenty-two out of thirty firms were utilised in the research. As stand-ins for firm characteristics, we used firm size, leverage, institutional ownership, profitability, liquidity, and firm growth. Remainders from the Modified Jones model were used to evaluate the quality of earnings (Dechow et al., 1995). Multiple panel regression approaches were used, and the data were obtained from the annual reports of the corporations. The results showed that company size, institutional ownership, and profitability had a substantial negative effect on earnings quality, whereas leverage, liquidity, and firm expansion had a favourable affect. For more accurate findings, the research advises concentrating on certain sectors and businesses. It also supports maintaining low loan rates, increasing firm liquidity, and increasing turnover to increase the quality of profits.

Olatunji and Juwon (2020) looked at the value of Nigerian listed manufacturing companies in connection to accrual-based and real-based earnings management. Secondary data from the annual reports of certain manufacturing companies listed on the Nigerian Stock Exchange were utilised in the research. Pooling, fixed, and random effects panel least squares regression techniques were used in conjunction with various diagnostic evaluations. The aberrant discretionary accrual earnings (ADA), a measure of accrual-based earnings management, increased company value (ROE) by 38.31% and shown a positive correlation with ROE. On the other hand, anomalous cash flow operating activities (ACF), which are a measure of real-based earnings management, have a negative correlation with firm value and lower ROE by 12.25%. The research found that accrual earnings management techniques are advantageous to those who manipulate accounts, and it also revealed that investor choices may be influenced by how simple it is to identify accrual earnings management.

Salome et al. (2021) investigated the connection between Nigerian manufacturing enterprises' financial performance and real activities-based earnings management (REMG). 34 manufacturing companies listed between 2005 and 2019 on the Nigerian Exchange (NGX) were included in the research sample. Annual reports and the NGX data portal provided the data, which was then analysed using OLS and Philip-Peron (PP) unit root diagnostic methods. The results showed that there is a tendency for real activities-based earnings management (REMG) to raise net profit margin (NPMG) and earnings per share (EPSH). This association was found to be positive but not statistically significant. REMG did not, however, have a significant enough effect on financial performance to justify its use. According to the report, Nigerian manufacturing companies should refrain from using REMG techniques unless they are absolutely required for survival, since they may provide temporary advantages but may also result in long-term financial difficulties.

3.0 METHODOLOGY

3.1 Research Design

A research design provides a framework for gathering and analysing data by outlining the general structure and procedures of a study (Bryman & Bell, 2007). This study used an ex-post facto research design, which is a methodical empirical inquiry in which the variables are not within the researcher's direct control because they have already happened or are unmanageable. For this study, secondary data was obtained from the Annual Reports of five consumer goods manufacturing firms listed on the Nigerian Exchange Group (NXG).

3.2 Model Specification and Variables Measurement

Reports on reported earnings, operating cash flow, discretionary accruals, and stock capitalisation are used to measure the performance of the stock price. The model provided in the functional form captures the variables in the research as follows:

$Y = f(DCA, OPCF, ESM) + e$ (i)

Where Y = Dependent Variable "stock price performance"

X = Independent Variable which was represented by "discretionary accrual", "operating cashflow", and "reported earnings".

The panel multiple linear regression models for this study are defined as:

$STKC_{it} = \beta_0 + \beta_1 DCA_{it} + \beta_2 OPCF_{it} + \beta_3 ESM_{it} + e_{it}$ (ii)

Where:

$STKC_{it}$ = Stock capitalization, for entity i at time t.

DCA_{it} = discretionary accrual, for entity i at time t.

ESM_{it} = reported earnings, for entity i at time t.

β_0, β_1, β_2, and β_3 constitute the slopes (coefficients) that need estimation.

e_{it} represents the error term

4.0 DATA ANALYSIS AND DISCUSSION

Table 4.1: Descriptive Statistics

	STKC	DCA	OPCF	ESM
Mean	304695.0	52873.45	19328.10	42814.91
Median	122601.5	54127.50	5814.500	41943.50
Maximum	1233769.	135461.0	80694.00	123788.0
Minimum	7772.000	1575.000	-32157.00	112.6000

Std. Dev.	415055.4	43357.04	31303.77	38228.44
Skewness	1.290276	0.160522	0.571404	0.356211
Kurtosis	3.092116	1.680440	2.449143	1.996134
Jarque-Bera	5.556447	1.536923	1.341209	1.262743
Probability	0.062149	0.463726	0.511399	0.531862
Sum	6093900.	1057469.	386562.0	856298.1
Sum Sq. Dev.	3.27E+12	3.57E+10	1.86E+10	2.78E+10
Observations	**20**	**20**	**20**	**20**

Source: Eview 10

The average stock capitalisation (STKC) of manufacturing companies in Nigeria is 304,695.0, according to the descriptive statistics for 20 observations. The distribution is right-skewed, with a significant positive skewness of 1.29 and a high degree of variability (standard deviation of 415,055.4). Discretionary accruals (DCA) show less variation with an average of 52,873.45 and a standard deviation of 43,357.04, indicating more consistency throughout entities. The average operating cash flow (OPCF) is 19,328.10, however there is a wide range of positive and negative numbers, indicating different approaches to cash flow management. The results of the earnings smoothing model (ESM) indicate that some companies report larger profits, with an average of 42,814.91, moderate variability (standard deviation of 38,228.44), and a minor positive skewness. Because the significance values of the Jarque-Bera statistics are significantly higher than 5%, it may be concluded that all variables satisfy the normality assumption. The central tendency, dispersion, and distribution shape of the financial variables under analysis are all clearly visible owing to these statistics.

Table 4.2: Redundant Fixed Effects Tests

Effects Test	Statistic	d.f.	Prob.
Cross-section F	9.744492	(4,12)	0.0010
Cross-section Chi-square	28.929738	4	0.0000

Source: Eview 10

The purpose of the redundant fixed effects tests on the panel data model was to ascertain if cross-section fixed effects needed to be included in the regression equation. Both the Cross-section Chi-square and the Cross-section F-test yielded statistically significant findings. With 4 and 12 degrees of freedom, the Cross-section F-test yielded a statistic of 9.744492, which led to a p-value of 0.0010. Likewise, a statistic of 28.929738 with 4 degrees of freedom and a p-value of 0.0000 was obtained using the Cross-section Chi-square test. The model's fit and explanatory power are improved by adding cross-section fixed effects, as these substantial p-values show. Therefore, in order to properly account for unobserved changes between cross-sections and provide more accurate and trustworthy estimate results, it is advised to incorporate cross-section fixed effects in the model.

Table 4.3: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	38.775081	3	0.0000

Source: Eviews 10

The Hausman Test was used to determine if the addition of cross-section random effects significantly changed the model's results in comparison to a fixed effects model. With three degrees of freedom and a p-value of 0.0000, the test yielded a Chi-Square statistic of 38.775081. The estimates from the fixed effects model and those from the random effects model vary significantly, as seen by this significant p-value. Since the fixed effects model takes into account possible correlations between the regressors and the random effects, it is advised to employ it in order to get more accurate and consistent estimates.

Table 4.4 Fixed Effect Model

Dependent Variable: STKC

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DCA	-3.301095	16.73393	-2.197270	0.0469
OPCF	1.755727	1.621503	1.082778	0.3002
EBIT	-2.541385	18.15968	-0.139947	0.8910
C	205029.0	164577.6	1.245789	0.2366

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.917523	Mean dependent var	304695.0
Adjusted R-squared	0.869412	S.D. dependent var	415055.4
S.E. of regression	149988.5	Akaike info criterion	26.96368
Sum squared resid	2.70E+11	Schwarz criterion	27.36197
Log likelihood	-261.6368	Hannan-Quinn criter.	27.04143
F-statistic	19.07079	Durbin-Watson stat	1.901118
Prob(F-statistic)	0.000013		

Source: Eview 10

4.2 Hypotheses Testing

Decision Rule: If the test statistic is less than 0.05 or if the p-value is within the critical range, reject the null hypothesis. Rejecting the null hypothesis is not advised if the test statistic is outside the critical zone or if the p-value exceeds 0.05.

First Hypothesis

$H_0$1: There is no significant effect of accrual-based earnings management and the stock capitalization of manufacturing firms in Nigeria.

From the fixed effect model, the result for discretionary accrual shows a t-stat of -2.197270 and a p-value of 0.0469<0.05. This holds that, discretionary accrual has a negative but significant effect on stock capitalization of manufacturing firms in Nigeria.

Second Hypothesis

$H_0$2: Operating cash flow activities do not significantly impact the stock capitalization of manufacturing firms in Nigeria.

From the fixed effect model, the result for operating cashflow activities shows a t-stat of 1.082778 and a p-value of 0.3002>0.05. This holds that, operating cashflow activities has a positive but insignificant effect on stock capitalization of manufacturing firms in Nigeria.

Third Hypothesis

$H_0$3: Earnings smoothing practices do not have a significant effect on the stock capitalization of manufacturing firms in Nigeria.

Lastly, the result from the fixed effect model shows that, earnings smoothing practices shows a t-stat of -0.139947 and a p-value of 0.8910>0.05. This holds that, earnings smoothing practices, represented by reported earnings has a negative insignificant effect on stock capitalization of manufacturing firms in Nigeria.

4.3 Discussion of findings

The finding from the fixed effect model shows that discretionary accruals have a negative and significant effect on stock capitalization of manufacturing firms in Nigeria (t-stat = -2.197270, p-value = 0.0469). This suggests that higher levels of discretionary accruals, which indicate greater earnings management, are associated with lower stock capitalization. This result aligns with the findings of Nwaobia et al. (2019), who also noted that earnings

management, proxied by discretionary accruals, had significant effects on corporate survival, suggesting a broader adverse impact on firm value beyond just stock capitalization. Additionally, Ajibola et al. (2024) found a significant negative effect of earnings management on firm value, reinforcing the notion that manipulating earnings through discretionary accruals undermines investor confidence and reduces perceived firm value.
The model indicates furthermore that operating cash flow activities have a positive but insignificant effect on stock capitalization (t-stat = 1.082778, p-value = 0.3002). This suggests that while healthier cash flow from operations is generally beneficial, its impact on stock capitalization is not strong enough to be statistically significant in this context. This finding is consistent with the results of Salome et al. (2021), who found that real activities-based earnings management, which includes manipulation of operating cash flows, had a positive but non-significant relationship with financial performance metrics like net profit margin and earnings per share. These studies suggest that while real activities management, including cash flow adjustments, can improve certain performance metrics, their overall impact on firm value or stock capitalization is often limited and not statistically significant.

Lastly, the analysis shows that earnings smoothing practices have a negative but insignificant effect on stock capitalization (t-stat = -0.139947, p-value = 0.8910). This indicates that efforts to smooth earnings do not significantly influence stock capitalization, even though the direction of the effect is negative. This finding echoes the results from Ajibola et al. (2024), where earnings management was found to negatively influence firm value, although the effect was not always significant when different proxies for earnings management were used. **5.0**

Conclusion

In summary, the findings of this study provide evidence that discretionary accruals have a significant negative effect on stock capitalization, aligning with the broader literature that highlights the detrimental impact of earnings management on firm value. Operating cash flow activities, while positively related to stock capitalization, do not show a significant impact, consistent with other studies indicating limited effects on overall firm value. Earnings smoothing practices, similarly, show a negative but insignificant effect, reinforcing the notion that such practices are generally not beneficial for stock capitalization. These results contribute to the growing body of evidence on the complexities of earnings management and its varied impacts on different aspects of firm valuation.

5.1 Recommendations

1. Given the significant negative effect of discretionary accruals on stock capitalization, manufacturing firms in Nigeria should adopt stricter corporate governance and transparent financial reporting practices. Firms should strengthen their corporate governance frameworks, including ensuring the independence of audit committees and enhancing oversight of financial reporting processes.
2. Manufacturing firms should implement efficient cash flow management practices to ensure smooth operations and financial stability.
3. Given the negative but insignificant effect of earnings smoothing practices on stock capitalization, firms should avoid manipulating earnings and instead focus on sustainable financial performance.

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