

IMPACT OF REAL EARNINGS MANAGEMENT ON THE FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

This study examined how real earnings management affected the financial performance of listed Deposit Money Banks in Nigeria. The specific objectives of the study are to: examine the influence of real earnings management on the return on asset of listed Deposit Money Banks in Nigeria; investigate the influence of real earnings management on the return on equity of listed Deposit Money Banks in Nigeria; and examine the effect of real earnings management on earnings per share of listed Deposit Money Banks in Nigeria. The study used data obtained from twelve (12) listed Deposit Money Banks on the Nigeria Exchange Group between 2012 and 2021. The study employed panel least square regression technique to analyse the data. The results of the panel regression technique employed in the study revealed that real earnings management has negative and significant impact on return on asset ($t=-2.07$; $p<0.05$). In addition, the results revealed that real earnings management had positive but significant impact on the return on equity ($t=4.37$; $p<0.05$) while the impact of real earnings management on the earnings per share was found to be negative and significant ($t=2.32$; $p<0.05$). The study found evidence which suggested that real earnings management exerts negative impact on the financial performance of Nigerian listed DMBs. In line with the findings, this study recommended that regulatory authorities and other relevant institutions should reassess their supervisory role with the view to lower the practice of real earnings management in order to improve the financial performances of the banks.

Key word: Deposit money bank, Earnings management, Firm age, Financial performance, Firm size

INTRODUCTION

In contemporary business world, the long run growth and survival of firms is hinged on the strategic choices made by the management. A variety of reasons have been recorded in literature for the relatively bad performance

of deposit money banks in Nigeria. Non-performing loans, a poor capital adequacy ratio and corruption in the system. This study examines how the system's corruption helped to hamper Nigerian Deposit Money Banks' growth. Corruption, with poor corporate governance systems and unethical leadership

at the heart, has found a home in the banking sector, like many things in Nigeria. The financial mismanagement or corruption of the executive management of Nigerian banks has impeded their achievement and sustainability (Salaudeen et al., 2018).

One of the corrupt practices that could have made its way into the Nigerian banking system is earnings management and inadequate financial reporting and, thus, Deposit Money Banks in Nigeria often do not disclose their true financial status. To ensure the public's confidence and trust in accounting information, financial reports/statements are expected to be free of major misstatements. Earnings to shareholders and or stakeholders of any organization serve as the faith of the firm upon which the stakeholders depend on to make returns on capital employed (Tolulope et al., 2018) Despite this, a slew of well-publicized accounting scandals in Nigeria have continued to pique the interest of accountants, external auditors, investors, and regulators. Earnings management is a technique that the company's management uses to actively manipulate the company's earnings to achieve the management's pre-established objectivesⁱ. Earning management can be made up of three (3) categories including the grey category, Black category and White category. Under the Black category, the transparency of financial report is reduced by involving tricks while in the White category, the flexibility advantage is used as best accounting action in informing the director about future cash flow private information. For the Grey category, the accounting behaviour is chosen based on either opportunistic or economic efficiency.

The key purpose of financial reporting, on the other hand, is to provide high-quality financial information about economic entities deemed useful for economic decision-making. According to International

Accounting Standards Board (IASB, 2010), the standard of financial reporting is a wider term that applies not only to financial information, but also to disclosures, as well as other non-financial decision-making information contained in the study.

Extreme lapses in financial reporting have led to high-profile scandals that have led not only to the losses of investors, but also to a decline in trust in the financial system. In the United States, the Enron and Worldcom accounting scandals, the defunct Oceanic Bank, Spring Bank, Intercontinental Bank, Afribank, Bank PHB, among others, the detention of several banks by the Economic and Financial Crimes Commission (EFCC) chief executives, and the Cadbury crisis all refer to financial reporting deception and accounting knowledge deficiencies¹. Reports by banks to the Central Bank of Nigeria(CBN) and investors were often unreliable, incomplete and late, depriving the CBN of the right information to track the industry effectively, and depriving investors of the information needed to make informed investment decisionsⁱⁱ. It is therefore important to evaluate the impact of real earnings management on the financial performance of Deposit Money Banks in Nigeria in order to prevent similar future occurrences.

Since there is still disagreement regarding the relationship between real earnings management and firm financial performance, it is crucial to conduct an industry-specific study in order to gather empirical data showing how real earnings management can affect the financial performance of Nigerian listed Deposit Money Banks. Hence, using return on assets (ROA), return equity (ROE), and Earnings Per Share (EPS) as proxies for financial performance, this study explores the impact of real earnings management on the financial performance of Nigerian listed DMBs.

The major objective of the study is to assess the influence of real earnings management on the financial performance of Nigerian listed Deposit Money Banks. In other to achieve this, hypotheses were tested in null form as follows:

H₀₁: real earnings management has no significant impact on the return on asset of listed Deposit Money Banks in Nigeria.

H₀₂: real earnings management has no significant influence on the return on equity

of listed Deposit Money Banks in Nigeria.

H₀₃: real earnings management has no significant effect on the earnings per share of listed Deposit Money Banks in Nigeria.

The remaining sections of this study are: The second section which contains the review of related literature, third section, the methodology, fourth section contains data analysis while the last section is on conclusion and recommendations.

LITERATURE REVIEW AND THEORETICAL FOUNDATION

The term performance measures how efficient the firm is in using its assets and how efficient the operations are managed. In finance, profitability is the ability of the firm to generate earning. It also refers to the ability of a company to make a profit after any costs, overheads and other expenses.

Financial performance measures how well businesses use their capital and resources to generate sales and profit (Waznah, Shafie, & Sanusi, 2015) Since it is a by-product of the triple bottom line performance and affects a firm's survival and potential long-term growth, financial performance is frequently seen as an essential component of a firm's success. The most widely used ratios are turnover ratios (asset turnover ratio, fixed asset turnover ratio, etc.) and profitability ratios (ROCE, ROA, ROE, net profit margin, etc.), which have been extensively used in previous studies, according to Gibson (2013) and Wieczorek-Kosmala, Błach, & Gorzeń-Mitka, (2021).

Measuring Financial Performance

Firstly, by using profit margin i.e. net income divided by sales. Secondly, by using return on equity i.e. net income divided by total equity. Thirdly, by return on assets i.e. net income divided by total assets (Ross & Berger, 2009)

Earnings Management

The idea of earnings management originated from the trade-off between relevance and accuracy in financial reporting. According to a report, highly relevant financial reports are more concerned with the current value of anticipated future cash flows than highly trustworthy financial reports, which only reflect realised cash flows (Daniel, et al., 2018).

Earning management is the process by which financial information is manipulated to provide a firm's financial position and performance. Earnings Management takes advantage of loopholes in accounting policies to falsify books of account either to mislead shareholders on the actual financial performance of an organization or to influence contractual agreements which may rely on the financial numbers. This is known to be an effort to boost managers' compensation and increase shareholder value through income smoothing and creative accounting, respectively (Bhat, 1996). As a result, the goal of "window dressing financial statements" includes the desire to raise managers' pay and maintain job security, prevent the distortion of debt deeds, and reduce or boost the benefits of regulations (Healy & Wahlen, 1999).

There are three approaches on managing earnings, namely, accruals based-earnings management (AEM), real earnings management (REM), among others is Classification-Based Earnings Management (CEM)(Adepimbe et al., 2018). Core expenses, like general and administrative costs, are being moved by CEM to specific accounts in the income statement. Accrual-based earnings management refers to the manipulation of earnings through the application of accounting principles provided by GAAP, whereas REM implies inflating earnings by altering some business transactions and managers engaging in actions that deviate from best practises to report higher earnings (Adepimbe et al., 2018). This has no impact on net income at the bottom line but does raise core earnings because core expenses are moved to the special items part of the income statement, where they won't have an impact on core earnings.

Firm Size

Firm size is defined as the quantity and collection of production capability and potential, a firm possesses or the quantity and diversity of services a firm can make available to its customers (Shaheen & Malik, 2012) In addition, Babalola & Abiola (2013) emphasized that the larger a firm is, the more the influence it has on its shareholders and so large firms tend to enjoy economies of scale and outperform small firms. In this study, firm size is measured as: The natural log of total assets.

Firm age

Firm age calculated as the number of observational years minus the number of listing years. The age of a corporation is the number of years since its foundation. Theoretically, investors are more likely to believe in a well-established company than a newly-founded one. This is due to the perception that a more established company has a higher profit margin than a start-up. With time and experience, businesses will

identify the things they are best at doing. Loderer & Waelchli (2010) assert that performance deteriorates with ageing.

Review of Empirical Literature

Quite a large number of studies have been conducted on the link between earnings management and financial performance covering different sectors and countries.

Alhadab & Al-own (2017) conducted a study with the aim of examining whether earnings management affects banks' current and future performance. Analysis of the link between return on assets (ROA) and return on equity (ROE) and discretionary loan loss provision (ROE). It was discovered that European banks with high levels of earnings management that occur via discretionary loan loss provision experience inferior performance (measured via ROA and ROE in the current and subsequent years) using a sample consisting of 477 bank-year observations that represent 55 European banks over the period from 2001 to 2015.

Ezejiofor et al. (2018) conducted a study to investigate the effect of audit quality on the financial performance of Deposit Money Banks in Nigeria. Data for the study were gathered from annual reports and accounts of listed Nigerian deposit money banks. The study used an ex post facto research design. To test the proposed hypotheses, regression analysis and coefficient correlation were used. Results showed that the financial performance of Nigerian Deposit Money Banks is significantly impacted by the audit quality.

The impact of earnings management on the financial performance of listed Deposit Money Banks in Nigeria was examined by Hauwa et al. (2019), data were extracted from the annual report and accounts of five sampled banks for the period 2011 and 2015. Loan loss provision was used as a proxy for earnings management while return on assets (ROA) was used as a proxy for banks performance. The study employed linear

regression of pooled ordinary least square for data analysis. Findings from the study revealed that earnings management exists in the Nigerian deposit money banks. However, the study could not establish any statistically significant impact of earnings management on ROA.

The relevance of earnings management strategies on the financial performance of listed Deposit Money Banks in Nigeria was carried out by Chijioke and Chidubem (2016). Statistics for the years 2013 and 2017 were taken from the annual reports and accounts of 5 chosen banks. While return on assets (ROA) was utilised as a proxy for bank performance, loan loss provision was employed as a stand-in for earnings management. For data analysis, the study used pooled ordinary least square linear regression. The study's conclusions showed that Nigerian money deposit banks use earnings management. The study was unable to find a statistically significant effect of profits management on ROA, albeit

Theoretical foundation

Many theories have been used in explaining the link between earnings management and financial performance. Based on the reviewed literature, signalling theory is used in this study.

In the 1970s, Arrow and Spencer's contributions led to the creation of this theory (Dainelli et al., 2011). The signals that a company provides to its customers form the basis of this idea. It usually implies that the most prosperous businesses give their customers more and better financial information in order to raise more money. Companies can communicate with various stakeholders about their financial performance, health, and prospects through their financial reports. Stakeholders make decisions about the returns on their investments using the data in the financial reports. Managers may utilise this circumstance to distort the facts in the reports in order to persuade the investors to act in a

desired manner because financial reporting has such a significant impact on the shareholders' investment decisions.

Simply put, lower profitability and performance reports send out negative signals to potential investors, while higher profitability and performance reports send out positive signals that draw in potential investors. Because of this signalling effect that financial reports have on a firm's financial performance, managers may find it necessary to engage in earnings management.

From the reviewed literature, it is clear that quite enormous efforts have been made to understand how audit quality affected the performance of corporate enterprises, how real earnings management influence the financial performance of Nigerian banks. Existing studies linking earnings management with financial performance have reported mixed results which vary according to the context covered in terms of the countries and sectors. In particular, the study within Nigerian context focused on the accrual earnings management while examining the impact of earnings management on the firm performance. This study fills the gap by examining how real earnings (as against accrual used in previous Nigerian studies) impacted on the financial performance of the sampled listed Nigerian Deposit Money Banks.

METHODOLOGY

The research design adopted for this study was the longitudinal panel design being a suitable technique for time order assessment of variables, which in this case measured the effect of independent variables (real earnings management) on a given dependent variable (financial performance) among quoted Nigerian Deposit Money Banks over a period of 10 years from 2012 to 2021. Moreover, the suitability of this choice was based on the fact that panel design allows researchers to establish the time sequence of the variables on

the basis of logical considerations. The study was analysed using both descriptive, correlation and inferential statistical tool of panel regression. While descriptive statistics tools and correlation coefficients were used for preliminary analysis, the panel regression would be used to investigate the extent to which dividend policy influences the shareholder's wealth in its two dimensions. The study in particular achieved all the objectives using panel Ordinary Least Square regression technique.

Model Specification

For the purpose of establishing the influence of the independent variables on the dependent variable, this study specified a model by relying on reviewed theoretical and empirical literature. The reviewed theory and empirical literature suggest that firm performance which can be measured using either of return on assets, net profit margin or Tobin Q is influenced by financial reporting quality and some control variables such as firm characteristics made up of firm age, firm size and financial leverage.

Model Specification for objective one

The model for objective one of the studies is specified in implicit form below as:

$$ROA = f(REM, FA, FS, LEV) \quad (3.1)$$

The specification in (3.1) is expressed in linear panel regression form as:

$$ROA_{it} = \beta_0 + \beta_1 REM_{it} + \beta_2 LEV_{it} + \beta_3 Age_{it} + \beta_4 FS_{it} + \varepsilon_{it} \quad (3.2)$$

Where:

ROA = Return On Asset

REM = Real earnings management

FA = firm's age

FS = firm size

LEV =Financial leverage

Model Specification for Objective Two

The model for objective two of the study is specified below as:

$$ROE = f(REM, FA, FS, LEV) \quad (3.3)$$

The specification in (3.3) is expressed in linear panel regression form as:

$$ROE_{it} = \alpha_0 + \alpha_1 REM_{it} + \alpha_2 LEV_{it} + \alpha_3 Age_{it} + \alpha_4 FS_{it} + \varepsilon_{it} \quad (3.4)$$

Where:

ROE = Return on Equity

Model Specification for Objective Three

The model for objective three of the study is specified below as:

$$EPS = f(REM, FA, FS, LEV) \quad (3.5)$$

The specification in (3.5) is expressed in linear panel regression form as:

$$EPS_{it} = \lambda_0 + \lambda_1 REM_{it} + \lambda_2 LEV_{it} + \lambda_3 Age_{it} + \lambda_4 FS_{it} + \varepsilon_{it} \quad (3.6)$$

Where:

EPS = Earnings per share

that are used in this study. The results of the descriptive statistics are presented in Table 4.1

RESULTS AND DISCUSSION

This section presents the results obtained from descriptive analysis of the variables

Table 4.1: Estimated Summary Statistics of Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	120	.014	.023	-.11	.076
ROE	120	.067	.428	-3.938	.861
EPS	120	1.219	15.662	-127.62	39
REM	120	.014	.013	0	.072
LEV	120	8.663	18.566	-.927	191.21
Age	120	26.167	14.4	6	50
FS	120	28.054	.923	25.628	29.792

Source: Author's Computation, 2023

From the table, the average return on asset of the listed Deposit Money banks sampled for the study stands at 0.014 with a minimum and maximum of -0.11 and 0.076 respectively. The standard deviation of 0.023 that corresponds to the return on assets shows a considerably high variation in the return on assets across the firms and time considered. Also, the results show that the return on equity is 0.067 on average with minimum of -3.933 and maximum of 0.861. The corresponding standard deviation of 0.428 indicates that the return on asset is considerably highly spread among the firms as well as across time. The average earnings per share is 1.219 with minimum and maximum of -127.62 and 39 respectively as well as a standard deviation of 15.66 which indicates a wide spread in

the earnings per share of the sampled listed Deposit Money Banks in Nigeria. In addition, the average real earnings management is estimated to be 0.014 with a minimum size of 0 and maximum of 0.072 while a standard deviation of 0.013 implies that the real earnings management of the sampled banks in Nigeria is moderately spread.

For the control variables, the estimated average firm size is 28.054 with its estimated maximum and minimum of 29.79 and 25.628 respectively. The estimated standard deviation of 0.923 shows that the firm are not so widely varied in size. Also, average age of the sampled firm is 26.17 with standard deviation of 14.4, minimum age of 6 and maximum of 50 years.

Table 4.2: Estimated Matrix of Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) EPS	1.000						
(2) ROA	0.635	1.000					
(3) ROE	0.128	0.444	1.000				
(4) REM	0.028	-0.179	-0.087	1.000			
(5) LEV	0.019	-0.168	-0.764	0.026	1.000		
(6) Age	-0.131	-0.296	-0.042	0.315	-0.037	1.000	
(7) FS	0.250	0.484	0.351	-0.390	-0.157	0.066	1.000

Source: Author's Computation, 2023

The results further show that firm size with an estimated correlation coefficient of

0.250, 0.484 and 0.351 respectively has positive relationship with earnings per

share, return on asset and return on equity of listed Deposit Money Banks in Nigeria. Similarly, the estimated correlation coefficient of -0.131, -0.296 and -0.042 respectively show a weak inverse relationship between firm age and earnings per share, return on assets and return on equity. The estimated correlations coefficient of 0.019 show that financial leverage is positively associated with the earnings per share while the respective correlation coefficient of -0.168 and -0.764 show that leverage has negative relationship with return on assets and return on equity.

In terms of the relationship among the regressors, the results in Table 4.2 reveal that all the regressor have relatively low correlation coefficient. In particular, the highest estimated correlation among the regressors is below the threshold of 0.7 for multicollinearity to exist according to Kennedy (2008). By implication, none of the explanatory variables is highly collinear. As a result, the problem of

multicollinearity is not expected to arise. However, the presence of multicollinearity is further subjected to the variance inflation factor test.

Diagnostic Tests

In order to ascertain that the assumption of no multicollinearity is not violated in the model, the variance inflation factor (VIF) is computed for all the regressors and the results are presented in Table 4.3. The decision rule of the VIF test is that the model is characterized with the problem of multicollinearity if any of the variable has VIF that is up to threshold of 10. The results of the VIF in Table 4.3 indicates that the highest VIF of 1.369 is recorded by the real earnings management followed by firm size with estimated VIF of 1.267, firm age with VIF of 1.165, and financial leverage with VIF of 1.027. Since none of the regressors has VIF that is close to the threshold of 10, the regressors do not exhibit high linear relationship and thus there is no multicollinearity issue in this model.

Table 4.3: Estimated Variance Inflation Factor

	VIF	1/VIF
REM	1.369	.73
FS	1.267	.789
Age	1.165	.858
LEV	1.027	.974
Mean VIF	1.207	.

Source: Author's Computation, 2023

The study also conducted test of autocorrelation using Wooldridge test for autocorrelation in panel data. The test has null hypothesis of no first-order autocorrelation. The results of the Wooldridge test in Table 4.4 for return on assets with an F- value of 39.68 with p value of 0.0001 reveal that the null hypothesis of no autocorrelation is rejected at 1 percent level of significance. Similar results were found in the model for earnings per share where the Wooldridge p value of 0.0027

suggests the rejection of the null hypothesis no serial correlation.

Therefore, the data used for model 1 and 3 are characterized with the problem of serial correlation among the error terms. On the contrary, the estimated Wooldridge p value of 0.478 implies that model 2 is free of serial correlation problem. In addition, the study also tests for the violation of homoskedasticity assumption using Breusch-Pagan/Cook-Weisberg test. This

test is based on the null hypothesis of heteroscedasticity. The result presented in Table 4.5 show that for model 1, the estimated F-Value of 328.07 and p value of 0.0000 indicates the rejection of the null hypothesis of the presence of heteroscedasticity in model 1. Therefore, the model is also characterized with non-

constant variance. Similar results are obtained for the model with EPS and ROE as the proxy for financial performance where presence of heteroscedasticity was found. In order to correct for this, the study obtained the regression results with robust standard error. This method corrects for serial correlation and heteroscedasticity

Table 4.4: Model Regression Diagnostic Test Results

Test	Test Type	Value	P value	Conclusion
ROA				
Autocorrelation	Wooldridge Test	39.68	0.0001	Presence of serial correlation
Heteroskedastic	Breush-Pagan / Cook-Weisberg	48.57	0.0000	Presence of heteroskedasticity
ROE				
Autocorrelation	Wooldridge Test	0.539	0.478	No serial correlation
Heteroskedastic	Breush-Pagan / Cook-Weisberg	493.09	0.0000	Presence of heteroskedasticity
EPS				
Autocorrelation	Wooldridge Test	14.87	0.000	Presence of serial
Heteroskedastic	Breush-Pagan / Cook-Weisberg	328.07	0.0167	Presence of heteroskedasticity

Source: Extracts from STATA Result, 2023.

Analysis of Panel Regression Results

This section presents the results obtained from the panel least square regression with ROA, ROE and EPS as the dependent variables.

The Impact of Real Earnings Management on Return on Assets

Table 4.5: Estimated Linear Panel Regression for Objective One

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
REM	-.291	.135	-2.15	.034	-.558	-.023	**
LEV	.018	.01	1.81	.071	-.002	.038	*
Age	-.001	0	-4.11	0	-.001	0	***
FS	.014	.003	4.25	0	.007	.02	***
Constant	-.356	.09	-3.97	0	-.533	-.178	***
Mean dependent var		0.014	SD dependent var		0.023		
R-squared		0.372	Number of obs		120		
F-test		14.216	Prob > F		0.000		
Akaike crit. (AIC)		-615.956	Bayesian crit. (BIC)		-602.019		

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

Source: Author's Computation, 2023

The results in Table 4.5 primarily examine the impact of real earnings management measured by the absolute value of abnormal production model of Rochowdury, (2006) on return on asset. The results revealed that real earnings management exerts negative and statistically insignificant impact on the return on assets given its estimated coefficient and corresponding p value of -2.91 and 0.034 respectively ($t=-2.15$). By implication, real earnings management reduces the bank's financial performance measured in terms of return on assets. The findings of this study align with the a priori expectation of the study which suggest significant negative link between real earnings management and the performance of the firm in terms of ROA. The findings similarly align with the results in previous empirical literature where significant negative impact of financial reporting quality on firm return on assets was recorded.

For the control variables, the coefficient for Age is -0.001, and its p-value is very close to zero (0.000), indicating high statistical significance. This means that older banks tend to have lower ROA. Older banks may face challenges in maintaining high levels of

profitability, possibly due to increased competition, changing market dynamics, or legacy operational issues. The coefficient for FS is 0.014, with a very low p-value (0.000), suggesting high statistical significance. This indicates that larger banks tend to have higher ROA. Larger banks in Nigeria may benefit from economies of scale, enhanced market presence, and diversified revenue streams, which contribute to their ability to generate higher returns on assets. The coefficient for LEV is 0.018, with a p-value of 0.071. This implies that LEV does not significantly affect ROA in this context at 5 per cent significant level.

The R-squared value is 0.372. This indicates that approximately 37.2% of the variability in ROA can be explained by the independent variables (REM, LEV, Age, and FS) in the model. In other words, the model does a reasonably good job of explaining the variance in ROA. The F-test statistic is 14.216, and the associated p-value is 0.000, indicating that the overall model is statistically significant at a very low significance level. This suggests that at least one of the independent variables in the model has a significant effect on ROA

The Impact of Real Earnings Management on Earnings per share

Table 4.6: Estimated Linear Panel Regression for Objective Two

EPS	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
REM	-299.857	113.875	-2.63	.01	-525.422	-74.422	***
LEV	.052	.056	0.94	.352	-.058	.162	
Age	-.249	.165	-1.51	.134	-.577	.078	
FS	6.27	3.958	1.58	.116	-1.569	14.109	
Constant	-172.942	109.772	-1.58	.118	-390.38	44.496	
Mean dependent var		1.219	SD dependent var			15.662	
R-squared		0.330	Number of obs			120	
F-test		2.129	Prob > F			0.082	
Akaike crit. (AIC)		993.083	Bayesian crit. (BIC)			1007.021	

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

Source: Researcher's Computation, 2023

The results of the panel regression recorded on the impact of real earnings management and the control variables on the earnings per share are presented in Table 4.6. The coefficient for REM is -299.857, and its p-value is 0.01, indicating statistical significance. This suggests that an increase in REM is associated with a decrease in EPS. The negative coefficient suggests that banks engaging in real earnings management practices tend to report significantly lower EPS.

For the control variables, the coefficient for LEV is 0.052, with a p-value of 0.352, indicating that LEV is not statistically significant in explaining changes in EPS. In this context, changes in leverage do not

appear to have a significant impact on EPS for Nigerian Deposit Money Banks. This suggests that leverage may not be a major driver of EPS in the sample. The coefficient for Age is -0.249, but its p-value is 0.134, indicating that Age is not statistically significant in explaining changes in EPS. The age of the banks does not seem to be a significant factor affecting EPS in this analysis. This suggests that the age of the bank may not be a primary determinant of EPS in this context. The coefficient for FS is 6.27, with a p-value of 0.116, indicating that FS is not statistically significant in explaining changes in EPS. Similarly, firm size (FS) does not appear to have a significant impact on EPS in this context, as it is not statistically significant

The Impact of Real Earnings Management on Return on Equity

Table 4.7: Estimated Linear Panel Regression for Objective Three

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
REM	2.439	1.955	1.25	.215	-1.433	6.311	
LEV	-.017	.005	-3.29	.001	-.027	-.007	***
Age	-.003	.001	-3.12	.002	-.005	-.001	***
FS	.126	.031	4.07	0	.065	.187	***
Constant	-3.269	.877	-3.73	0	-5.007	-1.531	***
Mean dependent var		0.067	SD dependent var			0.428	
R-squared		0.649	Number of obs			120	
F-test		11.607	Prob > F			0.000	
Akaike crit. (AIC)		20.037	Bayesian crit. (BIC)			33.974	

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

Source: Researcher's Computation, 2023

The results of the panel regression recorded on the impact of real earnings management and other control variables on the return on equity are presented in Table 4.7. From the results, the estimated coefficient for REM is 2.439, and its p-value is 0.215, indicating that REM is not statistically significant in explaining changes in return on equity (ROE). The lack of statistical significance

suggests that there is no strong relationship between REM and ROE among Nigerian Deposit Money Banks in this analysis. REM does not appear to be a significant driver of ROE.

In respect of the control variables, the coefficient for LEV is -0.017, with a very low p-value (0.000), indicating high

statistical significance. This implies that an increase in leverage is associated with a decrease in ROE. The negative coefficient suggests that higher leverage levels are linked to lower ROE. This is an essential finding as it indicates that excessive borrowing or high debt levels can negatively impact the profitability of banks. The coefficient for Age is -0.003, and its p-value is very low (0.000), indicating high statistical significance. This means that older banks tend to have lower ROE. The coefficient for FS is 0.126, with a p-value of 0, indicating high statistical significance. This suggests that larger banks tend to have higher ROE. Larger banks in Nigeria may benefit from economies of scale, greater market presence, and diversified revenue streams, contributing to their ability to generate higher returns on equity.

Test of Hypotheses

This section discusses the results of the study in relation to the stated hypotheses of the study. This will help to know if there is evidence for the rejection or non-rejection of each of the hypotheses. The study is generally based on the following three hypotheses:

H₀₁: Real earnings management has no significant impact on the return on asset of listed Deposit Money Banks in Nigeria.

H₀₂: Real earnings management has no significant impact on the return on equity of listed Deposit Money Banks in Nigeria.

H₀₃: Real earnings management has no significant impact on the earnings per share of listed Deposit Money Banks in Nigeria.

Test of Hypothesis One

The first null hypothesis of this study states that real earnings management has no significant influence on the return on assets

of listed Deposit Money Banks in Nigeria. The results of the least square panel regression analysis presented in the previous section indicates that real earnings management has negative and significant impact on the return on assets. Its p value of 0.034 ($t=-2.15$; $p<0.05$) indicates that the null first null hypothesis rejected at 5 per cent level. By implication, the study rejected the first null hypothesis that real earnings management has no significant impact on the return on asset of Nigerian listed Deposit Money Banks and conclude that real earnings management has significant negative impact on the return on assets of listed Deposit Money Banks in Nigeria.

Test of Hypothesis Two

The second null hypothesis of this study states that real earnings management has no significant impact on the return on equity of listed Deposit Money Banks in Nigeria. The results of the least square panel regression analysis presented in the previous section indicates that real earnings management has positive but impact on the ROE of the sampled listed DMBs in Nigeria with its estimated p value of 0.215 ($t=1.25$; $p>0.05$) indicates that the null hypothesis could not be rejected at all conventional level. By implication, the study could not reject the second null hypothesis of the study and it is concluded that real earnings management has no significant impact on the return on equity of Deposit Money Banks in Nigeria.

Test of Hypothesis Three

The third null hypothesis of this study states that real earnings management has no significant impact on the earnings per share of Nigerian listed DMBs. The results of the least square panel regression obtained in the earlier section revealed that real earnings management with an estimated p value of

0.01 ($t=2.63$; $p<0.05$) has significant negative impact on earnings per share of the listed sampled DMBs. The implication of the results is that the null hypothesis that real earnings management has no significant impact on earnings per share is rejected at 5 percent level.

4.4 Discussion of Findings

The results presented in the preceding section suggest that real earnings management exerts significant negative influence on the return on asset and earnings per share of listed Nigerian DMBs while its impact on the return on equity was found to be positive but insignificant. The implication of this result is that higher practice of earnings management among listed Nigerian DMBs is associated with lower financial performance in terms of return on asset and earnings per share suggesting that engaging in real earnings management is detrimental to the short run performance of Nigerian listed DMBs.

CONCLUSIONS AND RECOMMENDATIONS

This study examined performance of Nigerian listed DMBs measured by three proxies, which are return on assets, return on equity and earnings per share. The results obtained using feasible generalized panel regression analysis revealed that financial reporting quality does not influence the financial performance of the listed manufacturing firms in Nigeria significantly. However, the results of the panel fixed effect regression suggest that market performance is positively and significantly influenced by the financial reporting quality implying that investors used financial information provided in making their investment decision. Hence, the results of this study suggested that quality financial reporting can help Nigerian listed DMBs to attain high level of market performance in terms of better valuation of the firm stocks.

The policy implications of the findings from this regression analysis on the impact of real earnings management (REM) on the return on assets (ROA) of listed Nigerian Deposit Money Banks. Given that real earnings management (REM) has a statistically significant negative impact on ROA, regulators and policymakers may need to monitor and regulate REM practices among listed Nigerian Deposit Money Banks. These findings suggest that earnings management was done by the management in their personal interest which is a form of opportunistic behaviour suggested in the agency theory of firm. The results obtained here agrees with many other empirical literatures including the study by Alhadab & Al-own (2017) which reported negative impact of REM on ROA and ROE, Amar and Chakroun (2019) who reported that EM recorded negative influence on ROA, ROE and EPS, and Taylor and Xu (2010) who found that REM had significant negative impact on ROA, ROE and EPS.

It was recommended in line with the findings that regulatory authorities and other relevant institutions should re-assess their supervisory role with the view to lower the practice of real earnings management in order to improve the financial performances of the banks. The managers of the firms must enhance their ability to create, implement, and develop capacity to lower their practice of earnings management as a strategic way of improving the financial performance. And lastly, the shareholders and prospective investors should be more concerned with the practice of real earnings management of the banks in making their investment decisions as such would make the management to prioritise quality financial reporting and lower real earnings management.

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