

Earnings Management and Shareholders' Wealth of Manufacturing Firms in Nigeria

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ABSTRACT

This study examined the effect of earnings management on shareholders' wealth of manufacturing firms in Nigeria, with specific focus on Nestlé Nigeria Plc. Earnings management remains a critical issue in financial reporting because managerial discretion over accounting choices and operational decisions may influence reported earnings and investors' assessment of firm value. The study was motivated by concerns regarding the quality of financial reporting and the possible implications of earnings manipulation on shareholders' returns. Earnings management was considered the independent variable, while shareholders' wealth was the dependent variable. The study measured shareholders' wealth using Earnings Per Share (EPS), while earnings management was examined through accrual earnings management and real earnings management. The study adopted an ex-post facto research design and utilised secondary data obtained from the annual reports and audited financial statements of Nestlé Nigeria Plc covering the period 2016–2025. Data were analysed using descriptive statistics and ordinary least squares regression analysis. The findings revealed that earnings management has a positive and statistically significant effect on shareholders' wealth, with a coefficient of 23.22235 and a probability value of 0.0020, indicating that changes in earnings management practices significantly influence earnings per share. The regression model further showed a high explanatory power, with an R-squared value of 0.937840. The study concludes that managerial reporting practices significantly influence shareholders' wealth and recommends the promotion of transparent financial reporting practices and effective corporate governance mechanisms to enhance investor confidence and sustainable value creation.

Keywords: Earnings Management, Shareholders' Wealth, Accrual Earnings Management, Real Earnings Management, Financial Reporting.

INTRODUCTION

Background to the Study

The reliability and quality of financial information remain fundamental to effective decision-making by investors, regulators, and other stakeholders. Financial statements provide important information regarding the financial position and performance of an organisation; however, the usefulness of such information depends largely on its accuracy, transparency, and freedom from material misstatement. Consequently, effective financial reporting systems and strong auditing mechanisms are necessary to enhance confidence in corporate financial information (Majid et al., 2021).

The separation between ownership and management in modern corporations creates a situation where managers often possess more information about the organisation than shareholders. This difference in access to information may result in information asymmetry and create opportunities for managers to make decisions that may not always align with shareholders' interests. Agency theory explains that conflicts may arise between principals (shareholders) and agents (managers) because managers may pursue personal objectives rather than focusing solely on wealth maximisation for shareholders (Jensen & Meckling, 1976).

One major consequence of the agency relationship is the possibility of earnings management. Earnings management occurs when managers use their discretion over accounting procedures, estimates, and operational decisions to influence reported earnings in order to achieve specific objectives. Such practices may occur through accounting-based adjustments or through changes in actual business activities that affect reported financial outcomes (Soyemi et al., 2020).

Although accounting standards provide managers with some level of professional judgement to ensure accurate financial reporting, excessive use of this discretion may result in financial statements that do not fully represent the true economic condition of a firm. Managers who manipulate reported earnings may create a misleading impression of corporate performance, thereby affecting the decisions of investors and other stakeholders (Susanto et al., 2021).

Shareholders' wealth represents the value generated for owners of a company through returns received from their investment. Maximising shareholders' wealth remains one of the primary objectives of corporate finance because investors commit financial resources to firms with the expectation of receiving favourable returns. Measures such as share price appreciation, dividend payments, and earnings per share are commonly used to evaluate the wealth created for shareholders (Amahalu et al., 2018).

The connection between earnings management and shareholders' wealth is important because reported earnings serve as one of the major indicators used by investors when assessing company performance and investment opportunities. Earnings per share (EPS), which reflects the portion of earnings attributable to each ordinary shareholder, is particularly relevant because investors often rely on it as an indicator of profitability and financial performance (Jasman & Kasran, 2017).

Earnings management may influence shareholders' wealth by affecting the reliability of financial information available to investors. When managers manipulate reported earnings, they may create an inaccurate perception of a firm's financial strength and future prospects. While some forms of earnings management may be used to communicate private information about expected future performance, excessive and opportunistic manipulation can reduce transparency, weaken investor confidence, and negatively affect firm value (Cudia & Dela Cruz, 2018).

Statement of the Problem

Although there is an increasing body of literature on earnings management in Nigeria, most empirical studies have concentrated on its relationship with organisational financial performance, audit quality, corporate governance, and earnings quality. Recent Nigerian studies, including Nwachukwu et al. (2025), Bamigboye et al. (2026), Bala et al. (2026), and Ahmodu et al. (2026), have demonstrated that managerial decisions relating to financial reporting significantly influence the reliability of accounting information and corporate reporting outcomes. However, existing evidence has largely focused on broad measures of firm performance, with limited attention given to how earnings management practices affect the wealth generated for shareholders.

Specifically, insufficient empirical evidence exists regarding the relationship between earnings management and shareholders' wealth measured through earnings per share (EPS), particularly within the Nigerian manufacturing sector. This represents an important research gap because shareholders and potential investors often rely on EPS as a key indicator for evaluating corporate profitability, investment returns, and the value created by management decisions. Although previous studies have examined earnings management practices among Nigerian firms, limited evidence exists on whether managerial earnings management behaviour significantly affects the returns received by shareholders.

Furthermore, several previous Nigerian studies, such as Bala et al. (2026) and Ahmodu et al. (2026), have examined earnings management using accounting-based measures or general financial performance indicators. While these studies have contributed significantly to understanding the determinants and

consequences of earnings management, they provide limited insight into the direct implications of earnings management practices for shareholders' wealth across specific firm contexts.

Therefore, this study contributes to the existing literature by examining the effect of earnings management on shareholders' wealth using evidence from Nestlé Nigeria Plc, one of Nigeria's leading manufacturing companies listed on the Nigerian Exchange Group. Unlike previous studies that focused mainly on general performance outcomes, this study specifically evaluates shareholders' wealth using earnings per share (EPS), thereby providing additional evidence on how managerial reporting practices influence shareholder returns within the Nigerian manufacturing environment.

Research Question

The study seeks to answer the following research question:

To what extent does earnings management influence shareholders' wealth in selected manufacturing firms in Nigeria?

Objective of the Study

The specific objective relevant to this study is:

To examine the influence of earnings management on shareholders' wealth in selected manufacturing firms in Nigeria.

Research Hypothesis

The hypothesis for the study is stated in its null form:

H₀₁: Earnings management has no significant influence on shareholders' wealth in selected manufacturing firms in Nigeria.

Significance of the Study

This study is significant because financial information reported by firms serves as an important basis for evaluating corporate performance and making investment decisions. Since shareholders commit financial resources to companies with the expectation of receiving favourable returns, the credibility and reliability of reported earnings remain essential in determining investment value and assessing the wealth created by firms.

The study is beneficial to shareholders and potential investors because it provides insight into how managerial discretion in financial reporting may influence the value of their investments. Earnings management practices can affect investors' judgement regarding profitability, future performance, and the overall financial position of a firm. Understanding these practices enables investors to make better-informed decisions when evaluating companies and allocating investment resources.

The study is also relevant to corporate managers because it highlights the implications of earnings management on shareholders' value creation. Managers are responsible for preparing financial reports and making operational decisions that influence reported earnings. Therefore, understanding the consequences of earnings management may encourage the adoption of more transparent reporting practices and ethical financial decision-making.

Furthermore, the study provides useful information to regulatory authorities and professional accounting bodies in Nigeria by emphasising the importance of effective monitoring mechanisms that discourage opportunistic manipulation of financial information. Strong regulatory frameworks and proper enforcement

of financial reporting standards are necessary to improve transparency, protect investors, and enhance confidence in corporate reports.

The study also contributes to academic knowledge by expanding existing literature on earnings management and shareholders' wealth, particularly within the Nigerian manufacturing sector. While previous studies have examined earnings management from different perspectives, investigating its relationship with shareholders' wealth provides additional evidence regarding how managerial reporting behaviour affects investor returns.

Finally, the findings of the study may serve as a useful reference for future researchers interested in earnings management, financial reporting quality, corporate governance, and value creation in Nigeria and other developing economies.

Scope of the Study

This study focuses on examining the influence of earnings management on shareholders' wealth in selected manufacturing firms in Nigeria. The study is restricted to the relationship between earnings management, which represents the independent variable, and shareholders' wealth, which represents the dependent variable.

Earnings management is examined through two major dimensions: accrual earnings management and real earnings management. Accrual earnings management involves the use of accounting estimates, judgement, and reporting choices to influence reported earnings, while real earnings management involves modifications to normal business activities with the intention of affecting reported financial outcomes (Soyemi et al., 2020).

Shareholders' wealth is measured using earnings per share (EPS), which represents the earnings attributable to each ordinary shareholder and serves as an indicator of the returns generated from shareholders' investment. EPS provides useful information regarding firm profitability and assists investors in evaluating corporate performance (Jasman & Kasran, 2017).

The study is limited to selected manufacturing firms in Nigeria because the manufacturing sector plays an important role in economic development and provides an appropriate setting for examining financial reporting practices and their implications for investors' wealth.

The study relies on secondary data obtained from corporate annual reports and audited financial statements of the selected firm. The analysis focuses on determining whether earnings management significantly influences shareholders' wealth during the period covered by the study.

LITERATURE REVIEW

Concept of Earnings Management

Earnings management has remained one of the most widely discussed issues in accounting and financial reporting because of its implications for the quality of financial information and the decisions made by investors and other stakeholders. The concept arises from the discretion available to managers in preparing financial reports, which allows them to influence reported earnings through accounting choices and operational decisions.

According to Yasser and Soliman (2018), earnings management refers to the deliberate involvement of managers in the financial reporting process with the intention of achieving certain objectives or obtaining personal benefits. Because managers are responsible for preparing and presenting financial information, they possess significant discretion over accounting estimates, reporting methods, and disclosure decisions. This discretion may be used either to provide more meaningful information to users of financial statements or to manipulate reported results for opportunistic purposes.

The occurrence of earnings management is closely associated with the flexibility provided within accounting standards. While accounting principles allow managers to exercise professional judgement when estimating items such as expenses, revenues, and asset values, excessive use of this judgement may result in financial statements that fail to accurately reflect the actual economic performance of a firm. Susanto et al. (2021) observed that managers may exploit accounting flexibility to increase or decrease reported profits, thereby affecting stakeholders' perception of corporate performance.

From an agency theory perspective, earnings management is linked to the conflict of interest that exists between managers and shareholders. The separation between ownership and control gives managers access to information that shareholders may not possess, creating opportunities for managers to make reporting decisions that favour their personal interests rather than the objectives of shareholders (Jensen & Meckling, 1976).

However, earnings management does not always represent fraudulent financial reporting. In some situations, managerial discretion may be used to communicate private information about the future prospects of a company. For example, managers may adjust reported earnings to reflect expected improvements or temporary conditions affecting business performance. Nevertheless, when earnings management becomes excessive and driven by self-interest, it may reduce transparency, weaken investor confidence, and negatively affect the credibility of financial statements (Cudia & Dela Cruz, 2018).

The continued interest in earnings management research is largely due to its relationship with financial reporting quality, investor confidence, and firm value. Existing studies generally classify earnings management into two major forms: accrual earnings management and real earnings management.

Dimensions of Earnings Management

Earnings management can broadly be classified into two major approaches:

1. Accrual Earnings Management
2. Real Earnings Management

Although both approaches aim to influence reported earnings, they differ in the methods employed by managers. Accrual earnings management focuses mainly on accounting estimates and reporting choices, while real earnings management involves altering actual business activities to achieve desired financial reporting outcomes.

Accrual Earnings Management

Accrual earnings management occurs when managers use accounting discretion to influence reported earnings without necessarily changing the underlying economic activities of the organisation. It involves adjustments to accounting estimates, assumptions, and reporting choices that affect the timing and recognition of revenues, expenses, assets, and liabilities.

Soyemi et al. (2020) explained that accrual earnings management occurs when managers utilise discretionary accruals and accounting procedures to modify reported financial outcomes. Examples of such practices include adjustments in depreciation estimates, provisions for doubtful debts, inventory valuation, revenue recognition methods, and other accounting decisions that influence reported profits.

The possibility of accrual earnings management exists because accounting standards provide managers with some degree of flexibility when preparing financial statements. Such flexibility is necessary because managers often require professional judgement to represent complex business transactions accurately. However, when this discretion is intentionally used to present a more favourable financial position than the underlying economic reality, the reliability of financial reports may be compromised.

Accrual-based manipulation has received considerable attention among accounting researchers because investors often rely on reported earnings when evaluating corporate performance. Since earnings information influences perceptions about profitability and future returns, the use of discretionary accruals may affect shareholders' assessment of company value and investment decisions.

Therefore, while accrual earnings management may sometimes serve legitimate reporting purposes, excessive manipulation may reduce the quality of financial information and create misleading impressions regarding the true performance of a firm.

Real Earnings Management

Real earnings management differs from accrual-based manipulation because it involves changes in actual business operations rather than adjustments to accounting records. Managers engage in real earnings management by altering normal operating decisions with the aim of achieving specific earnings targets.

According to Habib et al. (2022), real earnings management occurs when managers deviate from normal business practices in order to influence reported financial outcomes. These practices may include reducing research and development expenditure, changing production levels, offering excessive discounts to increase sales, or delaying necessary expenses.

Managers may prefer real earnings management because operational decisions are often more difficult for external users of financial statements to detect compared with accounting adjustments. However, although such actions may improve reported earnings in the short term, they may create long-term consequences for the sustainability and competitiveness of the organisation.

For instance, reducing investment in research and development may increase current profits but weaken future innovation and growth opportunities. Similarly, excessive production designed to reduce production costs per unit may result in unnecessary inventory accumulation and increased future costs.

Consequently, real earnings management may create a temporary improvement in reported performance while negatively affecting long-term shareholders' wealth creation. This highlights the importance of examining not only reported earnings but also the managerial actions that contribute to those reported figures.

Shareholders' Wealth

Shareholders' wealth refers to the economic value generated for owners of a company as a result of their investment in the organisation. The primary objective of corporate financial management is to maximise shareholders' wealth because investors provide capital with the expectation of receiving adequate returns from their investment.

Khan and Hussanie (2018) explained that shareholders' wealth, also referred to as shareholders' value, represents the extent to which business decisions contribute to increasing the market value of shareholders' investment. Therefore, managers are expected to make strategic decisions that enhance profitability, improve operational efficiency, and create sustainable value for shareholders.

Shareholders' wealth can be evaluated using different financial indicators, including market price per share, dividend payments, return on investment, and earnings per share (EPS). Among these measures, earnings per share is particularly important because it indicates the amount of profit attributable to each ordinary share held by investors.

Jasman and Kasran (2017) noted that earnings per share represents the income earned by each ordinary shareholder and serves as an important measure of corporate profitability. A higher EPS generally reflects improved financial performance and may increase investors' confidence in the company's ability to generate returns.

The creation of shareholders' wealth depends largely on the ability of managers to effectively utilise organisational resources and generate sustainable earnings. Consequently, managerial decisions that influence reported financial performance, including earnings management practices, may affect investors' perception of firm value and the returns associated with their investments.

Relationship between Earnings Management and Shareholders' Wealth

The relationship between earnings management and shareholders' wealth is important because reported earnings serve as a major source of information used by investors when assessing the performance and value of a firm. Investors often rely on financial statements to evaluate profitability, estimate future returns, and determine whether a company represents a worthwhile investment opportunity.

When managers manipulate reported earnings, the financial information available to shareholders may not accurately represent the underlying economic condition of the organisation. For instance, managers may increase reported profits through earnings management practices, creating a temporary perception of improved performance and potentially increasing the market value of the firm. However, when such practices are discovered, they may reduce investor confidence, negatively affect share prices, and ultimately diminish shareholders' wealth.

Agency theory provides an explanation for why managers may engage in earnings management. Due to the separation between ownership and control, managers may have incentives to manipulate accounting information to achieve personal objectives, such as improving managerial compensation, maintaining job security, or creating a favourable image among investors (Jensen & Meckling, 1976).

The existence of information asymmetry between managers and shareholders further increases the possibility of earnings manipulation. Since managers possess greater knowledge about the internal operations and financial position of the company, they may use this advantage to influence reported earnings in ways that external stakeholders cannot easily detect.

Susanto et al. (2021) argued that managerial discretion over financial reporting allows managers to adjust reported earnings either upward or downward. While such flexibility may sometimes be used for legitimate reporting purposes, excessive manipulation can reduce the quality of financial information and negatively affect shareholders' investment decisions.

Nevertheless, some researchers argue that earnings management does not always produce negative consequences. Jiraporn et al. (2008) suggested that earnings management may have either beneficial or opportunistic effects depending on managerial intentions and the circumstances surrounding the reporting decisions. In some cases, managers may use reporting discretion to communicate relevant information about future business prospects.

Despite this argument, excessive and self-serving earnings manipulation remains a major concern because it reduces transparency and may result in inaccurate assessment of firm value. Therefore, examining the influence of earnings management on shareholders' wealth remains important, particularly in developing economies such as Nigeria where investors depend significantly on corporate financial reports when making investment decisions.

THEORETICAL REVIEW

The relationship between earnings management and shareholders' wealth can be explained through several theoretical perspectives. However, the theories most relevant to this study are Agency Theory, Information Asymmetry Theory, and Signalling Theory because they explain managerial behaviour, financial reporting decisions, and the effect of information quality on investors.

Agency Theory

Agency theory was developed by Jensen and Meckling (1976) to explain the relationship between owners of a company and those responsible for managing its operations. The theory is based on the assumption that conflicts may arise when ownership and control are separated because managers (agents) may not always act in the best interests of shareholders (principals).

In corporate organisations, shareholders provide financial resources and expect managers to make decisions that increase firm value. However, managers control daily operations and possess greater access to internal information, creating an information gap between managers and shareholders.

According to Jensen and Meckling (1976), this separation creates opportunities for managers to pursue personal interests rather than focusing entirely on shareholders' wealth maximisation. For example, managers may manipulate reported earnings to improve performance indicators, secure higher compensation, maintain their positions, or create favourable impressions among investors.

The application of agency theory to earnings management suggests that managerial discretion over accounting decisions may be influenced by personal incentives. When managers engage in opportunistic earnings management, the quality and reliability of financial information may decline, making it difficult for shareholders to accurately evaluate firm performance.

Kazemian and Sanusi (2015) noted that agency conflicts encourage managers to select accounting methods and reporting strategies that may provide personal advantages. Therefore, agency theory provides a useful framework for understanding why earnings management occurs and how such practices may influence shareholders' wealth.

Information Asymmetry Theory

Information asymmetry theory explains situations where one party possesses more information than another party within an economic relationship. In corporate organisations, managers generally have greater knowledge about business operations, financial conditions, and future prospects than shareholders and other external stakeholders.

This information advantage may create opportunities for managers to influence financial reports because shareholders cannot directly observe every managerial decision or operational activity.

The existence of information asymmetry increases the likelihood of earnings management because managers may use their superior access to information to present financial results in a manner that creates favourable perceptions about company performance.

High-quality financial reporting is therefore essential in reducing information gaps between managers and investors. When earnings management practices reduce transparency, shareholders may find it difficult to accurately determine the true value of their investment, which may affect investment decisions and market confidence.

Signalling Theory

Signalling theory explains how companies communicate information about their performance and future prospects to external stakeholders through financial reports and other corporate disclosures.

Managers use reported earnings as a signal to communicate information about the financial strength and stability of the organisation. A company reporting consistent growth in earnings may attract investors because such information signals profitability and positive future prospects.

However, earnings management may distort this signalling process by presenting information that does not accurately reflect the actual economic condition of the firm. Although some forms of earnings management may be used to communicate private information, opportunistic manipulation can mislead investors and negatively influence shareholders' wealth.

Therefore, signalling theory highlights the importance of credible financial reporting in ensuring that investors receive accurate information when evaluating company performance and investment opportunities.

EMPIRICAL REVIEW

Previous empirical studies have produced mixed evidence regarding the relationship between earnings management and corporate value. The differences in findings may be attributed to variations in research settings, measurement approaches, and institutional characteristics of the countries examined.

Jiraporn et al. (2008) investigated whether earnings management creates or destroys firm value and found that the effect of earnings management depends on managerial intentions. The study argued that earnings management may not always be detrimental because managers can use reporting discretion to communicate private information. However, the study focused on firms in developed markets, limiting the applicability of its findings to emerging economies such as Nigeria where financial reporting environments and regulatory mechanisms differ.

Similarly, Susanto et al. (2021) examined earnings management practices and reported that excessive managerial discretion reduces financial reporting quality and may negatively influence stakeholders' confidence. However, the study concentrated mainly on corporate governance factors rather than directly examining shareholders' wealth outcomes.

In Nigeria, Soyemi et al. (2020) examined the relationship between audit quality and accrual earnings management and found that external audit characteristics influence managerial reporting behaviour. Although the study provides evidence on earnings management practices within the Nigerian environment, it did not examine the implication of such practices for shareholders' wealth.

The reviewed studies indicate that existing evidence has mainly focused on earnings quality, audit mechanisms, and financial performance, while limited attention has been directed toward the direct effect of earnings management on shareholders' wealth measured through earnings per share. Furthermore, variations in findings across studies suggest the need for additional evidence using firm-specific data from Nigerian manufacturing companies.

METHODOLOGY

Research Design

This study adopted an ex-post facto research design to examine the influence of earnings management on shareholders' wealth in selected manufacturing firms in Nigeria. The choice of this research design was considered appropriate because the study relied on historical financial information obtained from corporate records without manipulating the variables under investigation.

The ex-post facto design enables researchers to examine relationships among variables based on existing data and determine whether changes in one variable are associated with changes in another. Since earnings management practices and shareholders' wealth were measured using information contained in published financial statements, the design provided a suitable framework for achieving the objective of the study.

Population and Sample of the Study

The population of the study comprises manufacturing firms listed on the Nigerian Exchange Group (NGX). However, the study selected Nestlé Nigeria Plc as the unit of analysis because of its position as one of the leading manufacturing companies in Nigeria and the availability of consistent audited financial reports required for the computation of earnings management and shareholders' wealth variables.

Nestlé Nigeria Plc was selected as a case study because the company has maintained continuous operations and provides publicly accessible financial information over the study period. The availability of reliable longitudinal financial data makes it suitable for examining the relationship between managerial reporting practices and shareholders' wealth.

However, the use of a single-firm case study implies that the findings should be interpreted within the context of Nestlé Nigeria Plc. Therefore, while the study provides useful insights into the relationship between earnings management and shareholders' wealth, the findings may not be fully generalizable to all manufacturing firms in Nigeria due to differences in industry characteristics, corporate governance structures, and operational environments.

Measurement of Variables

The study examined earnings management as the independent variable and shareholders' wealth as the dependent variable. Shareholders' wealth was measured using Earnings Per Share (EPS), which represents the earnings attributable to each ordinary shareholder and provides an indication of the return generated from shareholders' investment.

Earnings management was operationalized using two dimensions: accrual earnings management and real earnings management. Accrual earnings management captures managerial discretion in accounting estimates and reporting choices, while real earnings management reflects changes in actual operational decisions undertaken to influence reported earnings.

Accrual earnings management was measured using discretionary accruals derived from the Modified Jones Model. The model estimates abnormal accruals by separating total accruals into discretionary and non-discretionary components. Higher absolute values of discretionary accruals indicate greater levels of accrual-based earnings management.

Real earnings management was measured using abnormal operating activities based on the Roychowdhury (2006) approach. The model identifies deviations from normal business operations through abnormal cash flows from operations, abnormal production costs, and abnormal discretionary expenses. Higher abnormal activity levels indicate increased engagement in real earnings management practices.

The use of both accrual-based and real earnings management measures provides a broader assessment of managerial attempts to influence reported earnings because managers may employ either accounting choices or operational decisions to achieve desired financial outcomes.

Model Specification

The relationship between earnings management and shareholders' wealth was expressed using the following model:

$$EPS = \beta_0 + \beta_1 EM + \varepsilon$$

Where:

EPS = Shareholders' wealth measured by Earnings Per Share

EM = Earnings Management

β_0 = Constant term

β_1 = Coefficient of earnings management

ε = Error term

The model was designed to determine whether earnings management significantly influences shareholders' wealth.

Method of Data Analysis

The data collected for the study were analysed using descriptive statistics, correlation analysis, and regression analysis.

Descriptive statistics were employed to summarise the characteristics and behaviour of the study variables. Correlation analysis was used to determine the direction and strength of the relationship between earnings management and shareholders' wealth, while regression analysis was applied to examine the extent to which earnings management influences shareholders' wealth.

Based on theoretical expectations, the study anticipated that excessive earnings management would negatively influence shareholders' wealth because manipulation of financial reports may reduce transparency, increase information asymmetry, and weaken investor confidence. However, the empirical results were used to determine the actual relationship between the variables.

RESULTS AND DISCUSSION

Table 2: Correlation Matrix

	EM	BS	EPS
EM	1	-0.4917	-0.5420
BS	-0.4917	1	0.9787
EPS	-0.5420	0.9787	1

The correlation matrix presented in Table 2 examines the degree and direction of the relationship among Earnings Management (EM), Board Size (BS), and Shareholders' Wealth measured by Earnings Per Share (EPS). The correlation coefficient ranges between -1 and +1, where a positive value indicates a direct relationship, while a negative value indicates an inverse relationship between variables.

The correlation coefficient between Earnings Management (EM) and Board Size (BS) is -0.4917, indicating a moderate negative relationship between the two variables. This implies that an increase in board size is associated with a decrease in earnings management practices. The result suggests that larger boards may provide stronger monitoring mechanisms, which could limit managerial discretion in manipulating reported earnings.

The correlation between Earnings Management (EM) and Shareholders' Wealth (EPS) is -0.5420, indicating a moderate negative relationship. This suggests that higher levels of earnings management are associated with lower shareholders' wealth. The implication is that excessive earnings management may reduce the reliability of financial information and negatively influence investors' perception of firm value, thereby affecting earnings per share.

Furthermore, the correlation coefficient between Board Size (BS) and Shareholders' Wealth (EPS) is 0.9787, indicating a very strong positive relationship between board size and shareholders' wealth. This implies that increases in board size are associated with increases in earnings per share. The result suggests that an effective board structure may contribute positively to monitoring, strategic decision-making, and overall firm performance.

Overall, the correlation results indicate that earnings management is negatively associated with both board size and shareholders' wealth, while board size has a strong positive association with shareholders' wealth. However, correlation analysis only shows the degree of association between variables and does not establish causality; therefore, regression analysis is required to determine the actual influence of earnings management on shareholders' wealth.

Table 1: Unit root test

Variable	Level Result	ADF	1st Difference	2nd Difference	Order of Integration	Decision
EM	Stationary (I(0))	—	—	—	I(0)	Stationary at level
EPS	Non-stationary	Stationary	—	—	I(1)	Stationary at 1st diff
BS	Non-stationary	Stationary	—	—	I(1)	Stationary at 1st diff

Source: Author's computation, 2026

The Augmented Dickey-Fuller (ADF) unit root test presented in Table 1 examines the stationarity properties of the study variables: Earnings Management (EM), Earnings Per Share (EPS), and Board Size (BS). The purpose of the test is to determine whether the variables are stationary or contain a unit root. A stationary variable has a constant mean, variance, and covariance over time, which is important for avoiding misleading regression results.

The results indicate that Earnings Management (EM) is stationary at level, with an order of integration of I(0). This implies that the variable does not require differencing before analysis because its statistical properties remain stable over the period of study. Therefore, EM is considered stationary at its original level.

However, Earnings Per Share (EPS) was found to be non-stationary at level but became stationary after taking the first difference. This indicates that EPS has an order of integration of I(1), meaning that one transformation (first differencing) was required to remove the effect of trend and achieve stationarity.

Similarly, Board Size (BS) was found to be non-stationary at level but became stationary after first differencing. Therefore, BS is integrated of order I(1), indicating that changes in board size over time exhibit a trend effect that must be removed before reliable statistical analysis.

Overall, the unit root test results show that the variables are integrated at different orders, with EM being I(0) and EPS and BS being I(1). This suggests that the variables do not all exhibit the same stationarity level. Since none of the variables is integrated beyond order two (I(2)), the dataset remains suitable for regression analysis. The findings confirm that the variables are appropriately transformed and their relationships can be examined without the risk of spurious regression arising from non-stationary data.

Empirical Results

Table 4.1: Influence of Earnings Management on Shareholder's Wealth



Dependent Variable: EPS				
Method: Least Squares				
Date: 07/01/26 Time: 15:35				
Sample: 2016 2025				
Included observations: 10				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
EM	23.22235	10.17876	2.281450	0.0020
BS	3.945056	0.086228	45.75122	0.0000
R-squared	0.937840	Mean dependent var		37.88000
Adjusted R-squared	0.930070	S.D. dependent var		7.730287
S.E. of regression	2.044215	Akaike info criterion		4.444761
Sum squared resid	33.43052	Schwarz criterion		4.505278
Log likelihood	-20.22381	Hannan-Quinn criter.		4.378374
Durbin-Watson stat	1.073887			

Source: Researcher's Computation,				
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Source: Researcher's Computation, 2026

The regression results presented in Table 4.4 examine the effect of Earnings Management (EM) on Shareholders' Wealth (EPS), while controlling for Board Size (BS) over the period from 2016 to 2025.

The coefficient of Earnings Management (EM) is 23.22235, indicating a positive relationship between earnings management and shareholders' wealth. This implies that an increase in earnings management practices is associated with an increase in earnings per share. In other words, variations in earnings management activities appear to influence the level of reported earnings attributable to shareholders, thereby affecting EPS. The relationship is statistically significant, as indicated by the probability value of 0.0020, which is below the 5% significance level. This suggests that earnings management has a significant influence on shareholders' wealth.

Similarly, Board Size (BS) recorded a coefficient of 3.945056, indicating a positive and statistically significant relationship with shareholders' wealth. The probability value of 0.0000 confirms that board size significantly contributes to changes in EPS. This finding suggests that an increase in board size may enhance the effectiveness of corporate monitoring mechanisms, improve managerial oversight, and promote better financial reporting practices, which may subsequently contribute to improved firm performance and shareholder returns.

The explanatory power of the model is relatively high, with an R-squared value of 0.937840, indicating that approximately 93.8% of the variations in shareholders' wealth (EPS) are explained by earnings management and board size. The adjusted R-squared value of 0.930070 further confirms the reliability of the model after considering the number of explanatory variables included in the analysis. This indicates that the model provides a strong explanation of the relationship between the variables examined.

The Durbin-Watson statistic of 1.073887 indicates the possibility of positive autocorrelation among the residuals, suggesting that the error terms may not be completely independent across the study period. However, this does not undermine the overall significance and explanatory ability of the regression model.

The findings reveal that earnings management has a significant positive effect on shareholders' wealth, while board size also contributes positively and significantly to EPS. The result highlights the importance of managerial reporting practices and corporate governance structures in influencing firm value and the returns generated for shareholders.

Test of Hypotheses

Table 4.2

H₀₁: Earnings management has no significant effect on shareholders' wealth in Nestlé Nigeria Plc

Variable	Prob. Value	Decision Rule (5%)	Decision	Variable
EM	0.0020	Reject H ₀ if p < 0.05	Reject H ₀₁	EM

Source: Researcher's Computation, 2026

The probability value of Earnings Management (EM) is **0.0020**, which is lower than the 5% level of significance (**0.05**). Based on this result, the null hypothesis is rejected. Therefore, the study concludes that earnings management has a statistically significant effect on shareholders' wealth of Nestlé Nigeria Plc.

DISCUSSION OF FINDINGS

The findings of this study reveal that earnings management has a positive and statistically significant effect on shareholders' wealth of Nestlé Nigeria Plc. The regression result indicates that earnings management significantly influences earnings per share, suggesting that managerial reporting practices contribute to variations in the returns attributable to shareholders. This finding implies that earnings management activities undertaken by management during the study period were associated with improved reported earnings and higher shareholder returns.

The positive relationship identified in this study is consistent with the findings of Jiraporn et al. (2008), who argued that earnings management does not always represent opportunistic behaviour but may sometimes serve as a mechanism through which managers communicate private information about expected future performance. From this perspective, managerial discretion in reporting may improve the informativeness of financial statements when applied within acceptable limits.

However, the finding differs from studies that associate earnings management with negative consequences for shareholders' wealth. Previous researchers have argued that excessive earnings manipulation reduces the credibility of financial statements, increases information asymmetry, and may negatively affect investors' confidence and firm value. For instance, Susanto et al. (2021) emphasized that opportunistic earnings management weakens financial reporting quality and may adversely affect stakeholders' evaluation of corporate performance.

The difference between the current finding and studies reporting negative effects may be explained by variations in research context, measurement approaches, and managerial incentives.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the influence of earnings management on shareholders' wealth of Nestlé Nigeria Plc over the period from 2016 to 2025. Using earnings per share (EPS) as a measure of shareholders' wealth, the study established that earnings management has a significant influence on the value generated for shareholders.

The findings demonstrate that managerial decisions relating to financial reporting practices have important implications for reported earnings and investor returns. The study further highlights that factors associated with corporate reporting and governance structures contribute significantly to determining firm value and shareholders' wealth.

Based on the findings, the study concludes that maintaining reliable financial reporting practices, promoting effective corporate governance, and ensuring appropriate monitoring mechanisms are essential for improving transparency, strengthening investor confidence, and enhancing sustainable shareholders' value. Effective management of financial reporting processes is therefore necessary to support improved firm performance and long-term value creation.

Recommendations

Based on the findings of the study, it is recommended that management should prioritise transparent and credible financial reporting practices to ensure that financial statements provide a fair representation of the company's performance. While managerial discretion may be necessary in financial reporting, excessive

earnings management practices that could mislead investors and reduce confidence in corporate information should be avoided.

The study also recommends that firms should strengthen their corporate governance structures by establishing effective monitoring mechanisms that promote accountability and responsible managerial decision-making. Strong governance practices can help reduce opportunistic reporting behaviour and protect shareholders' interests.

Furthermore, companies should continue to improve audit quality by maintaining effective relationships with auditors and providing adequate support for audit processes. A strong audit system enhances the reliability of financial information, improves stakeholders' confidence, and contributes to sustainable value creation for shareholders.

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