EARNINGS SMOOTHING AND MARKET SHARE PRICE: EVIDENCE FROM NIGERIA

Theophilus Anaekenwa Aguguom, Augustine University
Rafiu Oyesola Salawu, Obafemi Awolowo University

ABSTRACT

Studies of earnings smoothing reveal inconclusiveness as most corporate organizations consider earnings smoothing irresistible. A theoretical debate suggests that earnings smoothing happens as a strategic flattening of curves to remain afloat or intentionally to fix managerial incompetence. Following this argument, this paper investigates the impact of earnings smoothing on the market share price of listed companies in Nigeria. The study adopts ex-post facto research design using data sourced from published financial statements of selected companies. The population comprises 173 listed companies in Nigeria, covering a period of 2009-2020 as of 31st December 2020. 51 companies were purposively selected. The reliability and validity of the data are based on financial statements audited by the external auditors. The panel data is employed for the estimation using the Unobserved Effects Model (UEM), and Hausman test results to choose between random effect and fixed-effect models. The study finds that earnings smoothing has a positive significant on market share price. Introducing controls variables, SMOTH exhibits a negative significant impact on MSP while LEV reveals a negative significant. The study recommends that managers should excise flexibility within the allowed legal and ethical framework in earnings reporting and desist from using unethical practices that could undermine the quality and credibility of financial statements.

Keywords: Corporate Performance, Earnings Smoothing, Leverage, Income Smoothing.

INTRODUCTION

The essence of discretionary earnings seems to manage inefficiencies and incompetence of those saddled with the managerial and responsibility roles of organizations. Some existing literature document managerial propensity to income smoothing, as most corporate organizations still see market share price as an act of earnings smoothing and insider dealings (Ajekwe & Ibiamke, 2017; Jabin & Sumona, 2021). Theoretical literature suggests that the debate on earnings smoothness could happen from the effect of efficient resources utilization or intentional smoothness, yet the debate on earnings smoothing remains mixed results, indecisive and inconclusive. For instance, while some studies maintain that smoothing of earnings can be considered a favourable managerial tool, others view it unattractive and no longer fashionable (Alwan, 2021). Managers are motivated to earnings smoothing practices since investors appreciate companies that report high stable earnings, as such company's future earnings are easily forecast, and capital market participants especially, investors and analysts believe that smooth earnings suggest that earnings of the reported companies will continue in future and less risky compared to firms with volatile earnings (Jinang et al., 2005; Tucker & Zarowin, 2006; Wang & Williams, 1994). Unfortunately, the lengthy history of corporate failure links to earnings management and reporting failures are not only unethical but yet to build up confidence, following the sudden collapse of high-profile companies (Saksessia & Firmansyah, 2020).

Studies report that earning smoothing practices correlate to lewdness and indecency, fraudulent reporting that lack transparency (Susanto, 2019; Wijjaya, 2020; Obeidat, 2021).

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

Almubaydeen, (2020) posits that investment decisions based on discretionary earnings hurt investors in the long run and accounting information resulting from unethical smoothing does lack credibility and does not add value to investments decisions when investors relied on it. Managers who engage in earnings smoothing do not document accurate and truthful earnings and this ultimately affects the underlying economic realities of the health condition of companies being reported in financial statements (Jabin & Sumona, 2021). Making earnings less volatile during the period does not change the realities of earnings but the analysts are interested to see those income variabilities over time as a guide to predict future earnings (Kustono et al., 2021). While earnings smoothing affects the corporate image and performance, managers do not resist the practice as the public are enthusiastic to sell shares to gain economic benefits when earnings are less volatile because investors seem more enticed to invest more when organizations have a secure and stable income (Ch, 2019) Besides, earnings smoothing seem irresistible by managers for tax avoidance purposes, as companies tend to pay less tax when income is stable Lestari & Aeni, (2019), and earnings smoothing equally enhance analysts predictive abilities and also improves managers entitlements (Aguguom et al., 2021).

While inconsistencies results exist, fewer studies reveal a positive effect of earnings smoothing on market shares price (Koevoets, 2017; Shu & Thomas, 2019). Other studies assert that earnings smoothing is strategic and violates no accounting principles, rather a clear application of professional skills in utilizing the prescriptive nature of some standards to manage corporate accounting information (Nuryana & Surjandan, 2019). Consistent with this position, other studies equally report a negative effect of earnings smoothing on earnings (Alwan, 2021; Azeez et al., 2019; Lestari & Aeni, 2019).

Odo & Ugwu, (2020) state that creating accounting has a negative impact on the banking sector and in other corporate organizations in Nigeria. Ojomadele & Adejuwon, (2020) reveal that earnings smoothing aids some reported unfortunate financial scandals in Nigeria, notably the cases of Cadbury Nigeria Plc overstatement of earnings and the then Afribank accounting numbers falsification that result in financial scandals. Recently, the near-collapse of Skye bank and prompt acquisition by Polaris bank, the collapse of Diamond banks, and its acquisition by Access banks in Nigeria are few cases of earning smoothing practices in Nigeria. In a quick response by the financial regulatory bodies in Nigeria to forestall and reduce deepening cases of earnings smoothing, collaborative efforts the Economic and Financial Crimes Commission (EFCC), the oversight monitoring functions of Central Bank of Nigeria (CBN), Nigerian Stock Exchange (NSE) and Securities Exchange Commission (SEC) have yielded many results. In addition, the requirements of the Firms and Allied Matters Act (CAMA) 2004 sections 352-354 as amended and CAMA 2020 sections 401-404 of Nigeria and the Financial Reporting Council (FRC) Act of Nigeria has strengthened the capability to reduce earnings smoothing and improve the credibility of financial statements in Nigeria.

In addition, the adoption of International Financial Reporting Standards has brought huge sanity and reasonable and commendable credibility to financial reporting and financial statements in Nigeria. Besides, the big-sized corporate organizations in Nigeria while guiding against future financial scandals are mindful of possible damage to their reputations when found culpably involved in form of earnings smoothing practices (Adetoso, 2017; Umonong & Ironkwe, 2017). For instance, according to Business and Human Rights Resources Center (2019), the case of Chevron Petroleum Nigeria Plc, and Shell Western Supply and Trading Ltd and Agip Oil Company Ltd under-declaring volume of crude oil shipped out of Nigeria covering the period of 2011 to 2014 in an attempt to evade taxes are bitter pill these multination companies would not prefer to swallow. Bankola & Dubus, (2018) posited that institutional holding involvement in the corporate organizations, its presence in the board

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

composition, and insistence of independence of the board are further reinforcement efforts to lessen earnings smoothing in listed companies in Nigeria.

The objective of this study is to examine the effect of earnings smoothing on the market share price of listed companies in Nigeria. For the remainder of the study, the rationale and steps are fashioned in this manner: Section 2 considers extant literature, in section 3, the methodology is considered. Section 4 data analysis and discussion are presented and in section 5, the study presents a conclusion and recommendations.

REVIEW OF RELATED LITERATURE

Market Share Price: This variable is consistent with the model used by (Ahmad & Aladwan, 2015; Francis & Schipper, 1999; Pathirawasam, 2013; Umobong & Akani, 2015). The variable clearly represents the value of any firm's equity as a function of its earnings and its book values. Market price per share determines the value of the company based on its earnings. It enhances shareholders' worth and influences the decisions of potential investors. It represents the price a potential investor or buyer is willing to buy or sell its share at an arms-length transaction, in most cases through stockbrokers. Market value and book value are very important tools to measure a firm's portfolios and indicators of how well a corporate organization is performing. It is believed that while market value reveals the current market value of a company, it also provides a clue to a company's financial strength and likely future prospects, book value equally discloses the current state of the company and ignores the future growth potential of the company. According to, Dan et al. (2020), the market share price of an organization is one of the clear indicators of its financial performance and the ability of the management to optimally utilize the productive assets of the organization.

Earnings Smoothness: The practice of earnings smoothing has been argued from different perspectives. While some studies have seen nothing wrong in earnings smoothing (Al Baaj et al., 2018; Alwan, 2021), others condemns the practice in all its forms and method (Rahman et al., 2020). According to Al Baai et al. (2018) earnings smoothing is accepted if the act is within the accounting standards and violates no part of the standards. However, Alwan (2021) posits that earning smoothing tends to be a managerial strategic action within the prescriptions of the standards by merely flattening the uneven cash flows through the accounting period. On the contrary, Rahman et al. (2020) submits that there seem hidden facts behind every smoothing. It is a reflection of distorted information and stakeholders will be fine if the facts are allowed to remain as they were. Yohan, (2016) posits that in most cases, earnings smoothing are old tracks to cover up managerial incompetence, and for managers' bonuses benefits intentions and in meeting shareholders' expectations when under intense pressure.

Leverage: The capital structure of any firm reflects the level of the firm leverage. Capital structure refers to the way and proportional funding of the firms. According to Rajhans & Kaur, (2013), capital structure refers to the way the firm's assets are financed out of long-term sources of finance. Also, the study of Ward & Price, (2006) defines leverage as the financial funding proportion of capital by which a company is financed by debt as against equity usage. That the higher the leverage, the higher the amount of debt in the company's operating capital structure. The gearing ratio is an indication of the capital structure of the company and provides needed vital information that will assist investors and analysts make informed financial decisions, as such, the relationship between the amount financed by the equity holders and contribution by non-equity holders has an impact on the degree of risk to the market values. Abdullah, (2014) states that demand for a company's shares largely depends on the company's dividend policy. The study of Kurfi, (2005) opines that dividend policy is critical in financial decisions, the management attempts to obtain an optimum

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

dividend policy over which to maximize the market value of the firm's share.

Firm Size: Firm size is defined as the nature of the log of total assets (Warfield, 2005; Hassan & Ahmed, 2012; Swastika, 2013). It is used in this study to control the likely effect of earnings smoothing on the market values. There has been a debate in the literature that the larger the firm size, the higher the expected agency issues that firms are expected to face between the principal and the agent (Hassan et al., 2012). The argument is based on the premise that when there is a high level of firm size, it attracts more agency costs, information asymmetry problems, political costs, capital structure issues, likely litigation costs, and audit firm reputation, which tends to be of the beneficiary to the managers who give the contracts to maximize their welfare (profit maximization) in contrast to wealth maximization desires of the shareholders (Dan et al., 2020).

Board Independence: As hypothesizes by Agency theory, a higher proportion of non-executive directors can help monitor and control the discretionary and opportunistic behavior of the management, thereby reducing the agency problem and as well maximize shareholders' wealth (Jensen & Meckling, 1976). Board independence is the proportion of outside directors or the non-executive directors among the total directors of the company, who are not among the management team of the company (Swastika, 2013; Gao, 2018). Board independence in some companies who have a greater proportion of non-executive directors among the board members are likely to have efficient and good corporate governance control to check some discretionary behavior of management, hence, a board dominates by outside directors are expected to be in a good position to exert control over the managers (Al-Natsheh & Al-Okdeh, 2020). Nigeria in response to good corporate governance policy, through Nigerian Securities and Exchange Commission (SEC) in 2003 instituted a committee headed by Atedo Peterside, developed a Code of Best Practices for Public Companies in Nigeria and also there is the Central Bank of Nigeria Code of Best Practice as well.

EMPIRICAL REVIEW

Earnings smoothing and Market share Price

Ajekwe & Ibiamke, (2017) studied market rewards to earnings smoothing from the perspective of a firm’s valuation in Nigeria. The study measures earnings smoothing using the standard deviation of earnings stream over a five-year rolling period of 3 years (2013-2015) using 48 firms. The study finds that the Nigerian market patronized stable earnings companies and to some degree indifferent to the smoothing trends of the company’s cash flows. Llukani, (2013) confirms an association of earnings smoothing and firm size in firms listed at the Albanian Stock Market using the logarithm of total assets to proxy for the firm size.

Nuryana & Surjandari, (2019) examine the impact of good corporate governance on earnings management on firm performance. The study regression analysis of specified data using multiple regression analysis reveals that board independence as characteristics of corporate governance has a negative effect on firm performance. In addition, that earnings management earnings has a negative effect on firm performance. This is consistent with other studies (Ahmad et al., 2015; Susanto & Paradipta, 2016).

Jabin & Sumona, (2021) studied the effect of income smoothing on the possibility of bankruptcy risk of non-banking institutions in Bangladesh. Using data for a period of 5 years 2013 to 2017, the study adopted Altman’s Z score model and find that income smoothing had a negative effect on bankruptcy risk, implying that many companies involved in bankruptcy risk were not involved in income smoothing.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

Earnings Smoothing and Firm Size

Susanto, (2019) investigates the impact of earnings smoothing on firm size and firm value of companies listed in Indonesia for a period of 3 years 2014 to 2016, using data extracted from 51 purposively selected companies, and regression analysis, and the result reveals mixed results. It reveals that earnings smoothing has a positive significant effect on firm value also that income smoothing has a negative effect on firm size. Almubaydeen (2020) evaluates the impact of income smoothing on profitability and firm size of banks in Jordan and used data of 5 commercial banks for a period of 4 years 2015 to 2018. Descriptive analysis was carried out and the result shows that income smoothing has a positive effect on the profitability of the banks tested in Jordan for the period tested. In addition, the study also reveals that income smoothing has a negative effect on firm size. More still, Obeidat, (2021) studies the impact of income smoothing on firm size and profitability of food and beverages firms listed in Amman Stock Exchange and covered a period of 10 years 2010 to 2019. Also, the study considers the firm size and income smoothing and the effect of the controlling variable of debt ratio. Descriptive and multiple regression analyses were adopted. At 95 level of significance, the result reveals that income smoothing had a positive effect on firms' size, while income smoothing exhibiting a negative effect on profitability.

Earnings Smoothing and Leverage

Gupta et al. (2016) empirically investigate the effect of operating and financial leverage on the firm share price in India. The study uses a sample size of 231 manufacturing companies listed on the floor of the National Stock Exchange (NSE) of India for the period 2001-2011. The study finds a negative significant effect on operating leverage. It also finds that there is a positive significant relationship between and firm share price on one part, and a statistically negative significant relationship between financial leverage and firms' market share price on the other based on the sampled listed firms in India. Wijjaya & Mauren, (2020) conducted an empirical examination of the impact of financial leverage and firm size on income smoothing of manufacturing companies in Indonesia for a period of 3 years 2016 to 2018. 38 manufacturing companies were tested and the analysis showed that firm size had a positive effect on income smoothing and on the contrary, leverage, and dividend had a negative effect on income smoothing.

Kustono et al. (2021) studied the impact of quality of earnings and income smoothing on leverage and institutional ownership of companies in Indonesia. Using a quantitative approach, the regression analysis reveals that institutional ownership has a negative effect on earnings quality and that leverage has a negative effect on earnings smoothing while independent commissioners had a positive effect on earnings smoothing. This s finds to be consistent with (Wijjaya et al., 2020; Amubaydeen, 2020). Alvan (2021) examines the effect of income smoothing on lowering accounting standards in Indonesia, using data extracted from public manufacturing firms in Indonesia for a period of 10 years from 2009 to 2018. The result reveals that audit tenure as the explanatory variable had a negative effect on earnings smoothing practices.

Earnings Smoothing and Board Independence

Fallatah, (2021) investigate the effect of earnings smoothing on the independence of the board of directors in Saudi Arabia. The study employs secondary data extracted from the financial statement of the leading banks operating in the Kingdom of Saudi Arabia for an unspecified period. The regression analysis carried out using Jone's modified model reveals that earnings management has a negative effect on independent board of directors. Ideh et al.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

(2021) examine the influence of board independence and board size on earnings management in Nigeria. The study employs secondary data extracted from selected 92 firms for a period of 12 years covering 2007 to 2018. Evidence from the regression analysis showed that board size and board independence have a positive influence on the extent of earnings management in Nigerian firms.

Ch, (2019) conducts an empirical investigation, the effect of leverage and firm size on income smoothing and profitability using estate companies listed in Indonesia Stock Exchange for a period of 4 years 2014 to 2017. The result of the analysis reveals that income smoothing was positively influenced by firm size and leverage, while leverage and firm size have a negative effect on income smoothing in Indonesia. Samarakoon et al. (2014) investigates the impact of two distinct forms of leverage that rises due to the financial activities and operational activities upon the profitability and market performance of firms. The study used 28 listed companies in the manufacturing sector of the Colombo Stock Exchange for the period of 2008-2012. The study reveals a positive relationship between leverage and profitability which has a positive significant impact on the return on net operating assets. It also reveals that leverage affects the return on assets negatively and significantly. That there is a negative significant association between total leverage and return on equity. However, only market capitalization is captured by operating liability leverage and total leverage positively and negatively respectively.

THEORETICAL FRAMEWORK

The agency theory developed by Berle & Means, in (1932) suggests that there is a contractual relationship between the principal (shareholders) and agents (Managers) when the agents agree to run the business of the principal who voluntarily consents to that arrangement. This posited is validated by the position of Jensen & Meckling, (1976), who posits that there appears an agency agreement in place within the managers and shareholders relationship when the managers accept to run the business on behalf of the shareholders. The agency theory suggests that while the shareholders own the company, voluntarily authorize the managers to manage the company, believing that the managers will act in good faith, and render stewardship accounting periodically (Skeikh et al., 2012). The shareholders expect honesty, transparency, and accountability from the managers. However, the managers because of human nature tend to be selfish and act to serve and protect their own interests to the detriments of the shareholders. Eisenhardt, (1989) posits that because of privilege information at the disposal of the managers, the managers tend to take advantage in preparing the financial statement in their favour and also have the incentive to earnings smoothing to level up curves and incompetence, thereby hiding some information and result to partial information disclosure which in turn may cause information asymmetry and adverse effect to the shareholders (Alchian et al., 1972; Eisenhardt, 1989). Graham et al. (2013) posits that agency theory controls the extent of earnings smoothing and discretionary market share price in the market and Nigerian market participants are averse to the negative signal of earnings smoothing of share price, hence earnings smoothing is a disincentive to the market share price.

METHODOLOGY

The population of this study comprises all the 173 companies listed on the Nigerian Stock Exchange for the period 2006-2020. 51 companies out of the population were selected for this study using a purposive sampling technique. The longitudinal research design is employed while data were sourced from the audited and published financial statements of the sampled companies.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

The study employs panel data for the estimation, using the Unobserved Effects Model (UEM). The study employs Hausman test results to choose between random effect and fixed-effect models. Random effect (RE) and fixed effect (FE) models are used in addition to the traditional pool regression estimation (OLS-PLE) in order to circumvent endogeneity problems and to account for firms' specific unobservable effects that may feature in the data. Validation of normality, multicollinearity, and heteroscedasticity assumptions were carried out using Jarque-Bera (JB), Variance Inflation Factor (VIF), and Breusch-Pagan/Cook-Weisberg test.

In an attempt to differ from a prior theoretical understanding of earnings smoothing studies conducted, this current study in expanding the frontiers and contribute to knowledge in this manner: First, this current study is a country-specific using Nigerian accounting variables of panel data based on agency theory, whereas some prior foreign-based studies have not tested the volatility of the Nigerian market (Alwan, 2021; Al-Natshel & Al Okdeh, 2020). Secondly, some Nigerian related studies have used singular-faced model estimate regression, Ochuko & Idowu, (2018) and Ude et al. (2016), while the current study considers one model with expanded explanatory variables of country specific, of market share price, firm size, leverage and board independence in considering of the volatility ad peculiarity of the Nigerian domestic capital market where these companies operate.

Model Specification

$$MSP = f(ESMT) \quad (1)$$

$$MSP = (ESMT, FIRMSIZE, LEV, BORINDPEN) \quad (2)$$

$$MSPit = \beta 0 + \beta 1ESMTit + \beta 2FRMSIZEit + \beta 3LEVEit + \beta 4BORINDPENit + \mu it \quad (3)$$

Where

Y = Dependent variable; X = Independent variable; Z = Control variables

MSP = Market share price; ESMT = Earnings smoothing; FRMSIZE = Firm size; LEVE = Leverage; BORINDPEN = Board independence

β_0 = the regression intercept which is constant; β-β_3, = the coefficient of the explanatory variable; ε = the error term of the model; i = cross-sectional variable; t = time series variable.

RESULTS AND DISCUSSIONS

Correlation Matrix

The result in Table 1 shows that there is no evidence of multi-collinearity among the variables given the fact that the correlations among the independent variables are generally weak. Specifically, the result shows that positive and significant association exists between MSP and FRMSIZE (r = 0.498) indicates insignificant but positive association. Also, positive and significant correlation exist between ESMOTH and BOARDINDP (r = 0.003), and LEV and FIRMSIZE (r = 0.035) are positively correlated. Conversely, MSP and BOARDINDP (R = -0.094) are negatively associated.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

Table 1 CORRELATION MATRIX					
	MSP	**ESMOTH**	**LEV**	**FRMSIZE**	**BOARDINDP**
MSP	1	-0.021	-0.047	0.498	-0.094*
ESMOTH		1	-0.050	-0.061	0.003
LEV			1	0.035	-0.015
FRMSIZE				1	-0.221*
BOARDINDP					1

Source: Author's Computation, 2021. Underlying data from annual reports of firms listed on NSE. MSP = Market Share Price. ESMOTH = Earnings Smoothness. LEV = Leverage. FRMSIZE = Firm Size. BOARDINDP = Board Independence. The earnings smoothing indicators are computed using a 5-year rolling window. * P-value< 0.05

Variance Inflation Factor (VIF)

The result in Table 2 indicates that for robustness, the variables were considered to multicollinearity test using VIF and this is within the tolerance value.

Table 2 VARIANCE INFLATION FACTOR				
	Model Without Control Variables (Panel A)		**Model With Control Variables (Panel B)**	
Variable	VIF	1/VIF	VIF	1/VIF
ESMOTH	1.08	0.925	1.1	0.913
LEV	-	-	1.05	0.949
FRMSIZE	-	-	1.12	0.896
BOARDINDP	-	-	1.07	0.938
Mean VIF	1.08		1.085	

Source: Author's Computation, 2021. Underlying data from annual reports of firms listed on NSE. ESMOTH = Earnings Smoothness. LEV = Leverage. FRMSIZE = Firm Size. BOARDINDP = Board Independence. The earnings smoothing indicators are computed using a 5-year rolling window

Judging from the result, the VIF value are 1.08 (for model without firms' characteristics) and 1.085 (model with firms' characteristics) which are far less than 10. Specifically ESMOTH, has VIF value of 1.08, in panel A while ESMOTH, LEV, FRMSIZE and BOARDINDP have VIF values of 1.10, 1.05, 1.12 and 1.07 respectively in Panel B. Also, the corresponding reciprocal of tolerance was close to 1. The results display none of the VIFs are above three, this further suggests that multicollinearity does not pose a problem to the regression analysis.

Earnings Smoothing and Market Share Price of Listed Companies in Nigeria

Table 3 EARNINGS SMOOTHING INDICATORS AND MARKET SHARE PRICE									
	(1)			**(2)**			**(3)**		
VARIABLES	**OLS**			**RE**			**FE**		
	Coeff.	**t – stat**	**p – value**	**Coeff.**	**t - stat**	**p - value**	**Coeff.**	**t – stat**	**p - value**
ESMOTH	-0.040***	-4.90	0.000	-0.027***	-5.69	0.000	-0.027***	-5.61	0.000
Constant	2.342***	23.59	0.000	2.510***	11.22	0.000	2.517***	40.97	0.000
Observations	612			612			612		
R-squared	0.014			0.043			0.043		
Firm Effect	NO			YES			YES		
Year Effect	NO			NO			NO		
F-test	18.15			39.10			9.533		
Prob > F	0.000			0.000			0.000		

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

Hausman [Prob.]		2.68 [0.612]	
LM Test [prob.] 1861.26[0.000] **Post Estimation Test**			
Jarque-Bera Normality Test [Prob.]		4260.00 [0.000]	
Breusch-Pagan test for Heteroskedasticity [Prob.]		0.030 [0.860]	

Source: Author's Computation, 2021. Underlying data from annual reports of firms listed on NSE. MSP = Market Share Price. ESMOTH = Earnings Smoothness. LEV = Leverage. FRMSIZE = Firm Size. BOARDINDP = Board Independence. The earnings smoothing indicators are computed using a 5-year rolling window. The dependent variable is the Market Share Price (MSP). *** P-value < 0.01, ** P-value < 0.05, * P-value < 0.10.

Based on the Hausman-statistics values of 2.68 (p=0.612), the null hypothesis that difference in coefficients of FE and RE in the models are not systematic is accepted, hence, the study focuses on random effect model for interpretation in Table 3.

In model 1, the result of the panel regression estimates for Model 1 indicate that Earnings smoothness (ESMOTH) had a negative significant effect on market share price $\beta 4 = -0.027) < 0$. Based on the coefficient of the variables, the result further revealed that a unit change in earnings smoothness will lead to a decrease of 0.027 in market share price. Interpreting the random effect model's result, F-statistic value of 39.10 ($p < 0.00$) rejects the null hypothesis that the explanatory variables are not statistically significant in explaining variations in MSP and on this ground the study accepts the alternative hypothesis and concluded that the explanatory variables affects MSP of the selected companies. The R-square value 0.043 indicates that the explanatory variable successfully explained about 4.3% of changes in the performance indicator. Earnings smoothness (ESMOTH) and market share price (MSP) at 1% levels of significance. The negative and significant relationships indicates that the firms with high market share price have low earnings predictability and smoothness. Also the t-statistics of (-5.69) with Prob. (0.002 and 0.000) < 0.05 for earnings smoothness (ESMOTH).

Consistent with our study, Dewi et al., (2018) find that income smoothing had a positive significant with market price, also in line with the result of this study, earnings smoothing exhibited nonsignificant results and effect with market returns and firm size in tandem with our result in table 3 when the control variables were introduced. More studies also have similar results. Dey, (2004) finds that earnings smoothing is one of the methods in the intertemporal volatility of reported economic earnings, while Iniquez & Poveda, (2005) finds similar result from Spanish market suggesting that smoother companies reported bigger earnings.

Earnings smoothing and other Control Variables

Table 4
SELECTED FIRMS' CHARACTERISTIC, EARNINGS SMOOTHING INDICATORS AND MARKET SHARE PRICE

	(1)			(2)			(3)		
Variables	**OLS**			**RE**			**FE**		
	Coeff.	**t – stat**	**p – value**	**Coeff.**	**t - stat**	**p - value**	**Coeff.**	**t - stat**	**p – value**
ESMOTH	-0.030***	-4.45	0.000	-0.029***	-5.81	0.000	-0.030***	-5.96	0.000
LEV	-0.350***	-3.25	0.001	-0.289***	-2.73	0.006	-0.334***	-2.73	0.009
FRMSIZE	1.003***	15.74	0.000	0.380**	2.08	0.038	0.180	0.77	0.445
BOARDINDP	0.079	0.22	0.828	-0.691	-1.63	0.103	-0.730	-1.67	0.101
Constant	-4.847***	-8.77	0.000	0.452	0.33	0.744	1.943	1.06	0.293
Observations	612			612			612		

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

R-squared	0.273	0.098	0.103
Firm Effect	NO	YES	YES
Year Effect	NO	NO	NO
F-test	43.81	91.85	9.623
Prob > F	0.000	0.000	0.000
Number of COYID		51	51
Hausman [Prob.]		483.06 [0.000]	
LM Test [Prob.] 1485.10 [0.000] **Post Estimation Test**			
Jarque-Bera Normality Test [Prob.]			0.988 [0.610]
Breusch-Pagan test Heteroskedasticity [Prob.]			10.040 [0.002]

Source: Author's Computation, 2021. Underlying data from annual reports of firms listed on NSE. MSP = Market Share Price. ESMOTH = Earnings Smoothness. LEV = Leverage. FRMSIZE = Firm Size. BOARDINDP = Board Independence. The earnings smoothing indicators are computed using a 5-year rolling window. The dependent variable is the Market Share Price (MSP). *** P-value<0.01, ** P-value< 0.05, * P-value <0.1.

The Hausman-statistics value of 483.06 ($p = 0.000$) indicates the rejection of the null hypothesis and suggests that fixed effects estimation is more appropriate compared to random effects estimations. Earnings smoothing (ESMOTH) and leverage (LEV); and Board independence (BOARDINDP) in relation to market share price (MSP), though negatively signed, ($\beta1 = - 0.030$; $\beta2 = -0.334$; $\beta4 = -0.730$) < 0. However, each of ESMOTH and LEV has a negative significant effect on market share price ($p = 0.000 < 0.05$; $p = 0.009 < 0.05$. However, FRMSIZ and BOARDINP exhibited nonsignificant effects. The result shows that an increase in firm size results in 0.180 on MSP while increase in of 0.030 and 0.334 in each of ESMOTH, LEV and 0.730 decrease in BOARDINP respectively in Table 4.

In contrary to our findings, the study of Francis et al., (2004), who conducted their study in the United States of America, did not find any significant impact of earnings smoothing and predictability on the cost of equity capital. Our result echoes the findings of Mohammad & Mohammad, (2017), Perotti et al., (2014). Our results contradicts the results of (Alavn, 2021; AlAzeez et al., 2019). Earnings smoothness is positively associated with the absolute excess returns (Perotti et al., 2014; Reguera & Alvarado, 2019). Lestari & Aeni, (2019) reports that earnings smoothing positive insignificance effect lessen volatility of companies reported earnings, while Le McInnis,, (2010) finds a significant relationship between earnings smoothness and average stock return of the firm when introduced earnings smoothness measured by standard deviation of earnings divided by the standard deviation of cash flows from operations.

Normality Test

Table 5
NORMALITY TEST

Regression	Models	Jarque-Bera normality test
MSP and ESMOTH	I	4260.000 [0.000]
	II	0.988 [0.610]

Source: Author's Computation 2021, underlying data from annual reports of firms listed on NSE. MSP = Market Share Price. ESMOTH = Earnings Smoothing. The figures in brackets are probability values and Chi2 are outside the bracket. The figures in brackets are probability values.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

In Table 5, the study reveals that there is no evidence of normality treat except in model II of MSP and EQI. Nonetheless, this does not pose any problem since the study is dealing with sufficiently large sample data (Oscar, 2007).

CONCLUSION AND RECOMMENDATIONS

An empirical investigation was carried out to ascertain the impact of earnings smoothing on market share price. In carrying out this, each member of the model exhibits mixed results, while some reveals positive significant effect, other negative effect. Based on these results, it affirms that earnings smoothing, leverage and board independence have a negative and significant effect on market share price. Mixed results equally affirm negative effect of earnings smoothing resulting from inconsistencies of corporate management monitoring activities. Corporate board and managers should exercise control over high appetite to unethical earnings smoothing and discretional earnings. Mangers should understand that unethical earnings smoothing are undesirably distortions and obnoxious to facts and fairness in final reporting. Evidently, investors distaste falsehood attributable to unethical smoothing, this drags corporate bodies into unnecessary financial scandals and litigations. Auditors are advised to exercise professional skepticisms and due care in certification of financial statement to ensure they do not contain material errors, and misstatement capable eroding public confidence in audited financial statements.

REFERENCES

Abdullah, A. (2014). Dividend policy and its impact on stock price: A study on commercial banks listed in Dhaka stock exchange. *Global Economics and business Journal, 3*(1), 201-224.

Adetoso, J., & Ajiga O. (2017). Creative accounting practices among listed commercial banks. Curtailing effects of IFRS adoption. *Journal Resources Development and Management 3*(8) 54-63.

Aguguom, T. A., Dada, S. O., & Nwaobia, A. N. (2019). Earnings persistence and firm performance: Implications of Analysts' accurate forecast ability from the emerging market of Nigeria. *International Journal of Accounting Research, 7*(1), 2-7.

Ahmad, F. B., & Aladwan, S. M. (2015). The effects of fair value accounting on Jordan investment properties: An empirical study on Jordan listed real estate companies. *International Journal of Financial Research, 6*(4).

Ahmad, R. A. R., Abdullah, N., Jamel, N. E. S. M., & Omar, N. (2015). Board and risk management and internal control disclosure level: Evidence from Malaysia. *Procedia Economics and Finance, 31*(2011), 601–610.

Ajekwe, C. C. M., & Ibiamke, A. (2017). Accounting flexibility and earnings management: evidence from listed real sector firms in Nigeria. *Journal of Research in Business and Management, 5*(3), 1-8.

Al Baaj, Q. M. A., Al-Zabari, S. A. H., & Al Marshedi, A. A. S. (2018). The impact of income smoothing on tax profit: an applied study to a sample of international companies. *Academy of Accounting and Financial Studies Journal, 1*(1), 1-25

Alchian, A. A., & Demsetz, H. (1972). Production, information costs, and economic organization. *American Economic Review, 52*(5), 777-795.

Almubaydeen, T. H. (2020). Influence of income smoothing on tax profitability of commercial banks of Jordan. *International Journal of Scientific and Technology Research, 9*(2), 1–5.

Al-Natsheh, N., & Al-Okdeh, S. (2020). The impact of creative accounting methods on earnings per share. *Management Science Letters, 10*(4), 831–840

Alwan, S. K. (2021). Corporate governance mechanism as income smoothing suppressor. *Accounting, 7*(3), 977–986

Alwan, S. K., Ahmad, R., & Nanggala, Y. A. (2021). Earnings Quality and Income Smoothing Motives: Evidence from Indonesia. *Journal of Asian Finance, Economics and Business, 8*(2), 0821–0832

Andreas, C., Ifigenia, G., & Andreas, S. (2016). Corporate governance, board composition, director expertise, and value: The case of quality excellence. *Finance Journal, 20*(3), 181–236

Balarabe, A. J., & Auwalu, I. (2014). Corporate governance: A strategic tool for survival in the Nigerian banking sector. *Journal of Economic Development, Management, IT, Finance and Marketing, 6*(2), 48-56.

Bankole, K. O., & Dubus, O. F. (2018). Creative accounting practices and shareholders wealth. *Accounting and Taxation Review, 2*(4), 1-7.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

Berle, A. A., & Means, G. C. (1932). The Modern corporation and private property. (3rd Ed) New York: Harcourt, Brace & World Publishers.

Business & Human Rights Resources. (2019). Nigeria: Federal lawsuit against Chevron and Total over missing crude oil revenue adjourned to February 2019. Available at: https://www.business-humanrights.org/en/latest-news/nigeria-federal-lawsuit-against-chevron-and-total-over-missing-crude-oil-revenue-adjourned-to-february-2019/.

Ch, F. N. (2019). The effect of financial performance on income smoothing practice in property and real estate companies listed on Indonesia Stock Exchange. *Advances in Economics, Business, and Management Research, 127*(1), 46–50

Cheng, Q., & Warfield. T. (2005). Equity incentives and earnings management. *The Accounting Review 80*(2): 441–476.

Coles, J. L., Daniel, N. D., & Naveen, L. (2014). Co-opted boards. *Review of Financial Studies 27*(6), 1751-1796.

Dang, H., Nguyen, T., & Tran, D. (2020). The impact of earnings quality on firm value: The case of Vietnam. *The Journal of Asian Finance, Economics and Business, 7*(3), 63-72.

Dewi, K., MukhtaruddinL., & Prayudha, I. A. (2018). Income smoothing and market performance: empirical study on manufacturing companies listed in Indonesia stock exchange. *Investment Management and Financial Innovations, 15*(1), 106-119.

Dey, A. (2004). Income smoothing and sophisticated investor preferences (Postgraduate Thesis). Kellog University.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review, 14*(1), 57–74.

Eliwa, Y. A. M. (2015). The Impact of earnings smoothing on aspects of capital markets: Evidence from UK listed firms. (Doctoral thesis). Heriot-Watt university school of management andlanguageshttp://www.ros.hw.ac.uk/bitstream/handle/10399/3005/EliwaY_0615_sml.pdf?sequence=1. Accessed 1/05/2017

Fallatah, R. (2021). Earning management and the independence of board of directors: a study of financial sectors in Saudi Arabia. *Academy of Accounting and Financial Studies Journal, 25*(1), 1-12.

Francis, J., & Schipper, K. (1999). Have financial statements lost their relevance? *Journal of Accounting Research, 37*(2), 319-352.

Francis, J., LaFond, R., Olsson, M, P., & Schipper, K. (2004). Cost of capital and earnings attribute. *The Accounting Review, 79(*4) 969-1010.

Francis, J., Olsson, P., & Schipper, K. (2004). Earnings smoothing. *Foundations and Trends in Accounting, 1*(4), 259-340.

Gao, Y. (2018). Board gender diversity, earnings smoothing and stock price in formativeness. *American Journal of Industrial and Business Management, 8*(1), 306-312.

Graham, J. R., Harvey, C. R., Rajgopal, S., Li, S., & Qiu, J. (2013). Corporate misreporting and bank loan contracting. *Journal of Financial Economics, 88*, 44–61.

Gupta, K. P., Kumar, S., & Verma, P. (2016). Association between degree of leverages and firm value. *Asian Journal of Finance and Accounting, 8*(1), 46-52.

Hassan, S. U., & Ahmed, A. (2012). Corporate governance, earnings management and financial performance: A case of Nigerian manufacturing firms. *American International Journal of Contemporary Research, 2*(7), 69-78.

Huang, S., Lyu, C., & Lin, X. (2018). Is labor related to the duality of earnings smoothing?. *Sustainability, 10*(12), 4396.

Ideh, A. O., Edirin, J., & Ebiaghan, O. F. (2021). Board structure of corporate organizations and earnings management: does size and independence of corporate boards matter for Nigerian firms? *International Journal of Financial Research, 12*(1), 329-338.

Idris, M., Abu Siam, Y., & Nassar, M. (2018). Board independence, earnings management, and the moderating effect of family ownership in Jordan. *Management and Marketing, 13*(2), 985–994.

Iniguez, R., & Poveda, F. (2005). Long-run abnormal returns and income smoothing in the Spanish Stock Market. *European Accounting Review, 13*(1), 105-130

Jabin, S., & Sumona, S. I. (2021). Bankruptcy risk and income smoothing tendency of NBFIs in Bangladesh. *Journal of Business, Economics and Environmental Studies 11*(2) 27-38.

Jensen, M. C., & Meckling. W. H. (1976). Theory of the firm: managerial behavior agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.

Jiang, L., & Zhang, C. (2005). Information uncertainty expected returns. *Review of Accounting Studies, 10*(1), 223-226.

Koevoets, S. (2017). Board characteristics and earnings quality: Evidence from the USA. Erasmus Universitieit Rotterdam.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria*. Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

Kurfi, A. K. (2005). Principles of Financial Management, (1st Ed), Kano. Benchmark Publishers limited.

Kustono, A. S., Roziq, A., & Nanggala, A.Y. (2021), Earnings quality and income smoothing motives: Evidence from Indonesia. *Journal of Asian Finance, Economics, and Business, 8*(2), 821–831.

Lestari, N., & Aeni, N. (2019). The Effect of audit quality and earnings management on firm performance. https://doi.org/10.2991/icaess-.2019.7

Llukani, T. (2013). Earnings management and firm size: An empirical analyze in Albanian market; *European Scientific Journal 9*(16).

Luo, J., & Jeyaraj, S. S. (2019). Board characteristics and earnings management: Empirical analysis of UK listed companies. *European Journal of Accounting, Auditing and Finance Research, 7*(5), 27–54.

McInnis, J. (2010). Earnings smoothness, average returns, and implied cost of equity capital. *The Accounting Review, 85*(1), 315-341.

Mohammad, A. C., & Mohammad, B. R. (2017). The relationship between earnings persistence and stock market research: Evidence from firms listed in Tehran Stock Exchange. *Sindhological studies*. ISSN: 1032-6759, 97-102.

Myers, J. N., Myers, L. A., & Skinner, D. J. (2007). Earnings momentum and earnings management. *Journal of Accounting, Auditing & Finance, 22*(2), 249-284.

Nuryana, Y., & Surjandari, D. A. (2019). The effect of good corporate governance, and earning management on company financial performance. *Global Journal of Management and Business Research: Accounting and Auditing, 19*(1), 26–39.

Nyor, T., & Nasiru, R. (2015). Association between Accounting Numbers and value of food and beverages firm in Nigeria. *International Journal of Economics and Finance, 7*(12).

Obeidat, M. S. (2021). Relationship between firm size and profitability with income smoothing: evidence from food and beverages (F&B) firms in Jordan. *Journal of Asian Finance, Economics and Business, 8*(5), 0789–0796

Odo, J., & Ugwu, J. I. (2020). Creative accounting and performance of deposit money banks in Nigeria. *Journal of Accounting Information and Innovation, 6*(8), 37-47.

Oei, R., Ramsay, A., & Mather, P. (2008). Earnings persistence, accruals and management share ownership. *Accounting and Finance. 48*, 475-502

Ojomadele, D. J., & Adejuwon, A. J. (2020). Creative accounting and corporate failure in Nigeria. *Global Scientific Journals, 8*(10), 1-14

Oscar, T. (2007). Linear regression using strata. Data and statistical services. Princeton University. http://dss.princenton.edu./training.

Paiva, I. C., & Lourenco, I. C. (2013). The effect of size on the level of earnings management in family firms. ISCTE Journals. *IUL Business School, Avenida das Forças Armadas*, 1649-026 Lisboa.

Pathirawasam, C. (2013). The value relevance of earnings and book value: The importance of ownership concentration and firm size. *Journal of Competitiveness, 5*(2), 98-107.

Perotti, P., & Wagenhofer, A. (2014). Earnings smoothing measures and excess returns. *Journal of Business Finance & Accounting, 41*(5) & (6), 545–571

Rahman, M., Saima, F., & Jahan, K. (2020). The impact of financial leverage on firm's profitability: An empirical evidence from listed textile firms of Bangladesh. *Journal of Business Economics and Environmental Studies, 10*(2), 23-31.

Rajhans, R., & Kaur, K. (2013). Financial determinants of firm's value: Evidence from India firms. Zenith *International Journal of Business Economics & Management Research, 3*(5).

Saksessia, D., & Firmansyah, A. (2020). The role of corporate governance on earnings quality from positive accounting theory framework. *International Journal of Scientific and Technology Research, 9*(1), 808–820.

Samarakoon, S. M., Kumarta, U. E., & Gunarathne, U. G. (2014). Effect of leverage on profitability and market performance in the manufacturing sector of Sri lanka: A panel regression analysis. *Journal of Accountancy and Finance, 1*(1), 15-52.

Sheikh, J., Kahn, M. M., Iqbal, W., & Ahmed, W. S. (2012). Examination of theoretical and empirical studies on firm's performance in relation to its board size: A study of small and medium size public firms. *Journal of Management Research, 4*(2), 242-254.

Shu, S. Q., & Thomas, W. B. (2019). Managerial equity holdings and income smoothing incentives. *Journal of Management Accounting Research, 31*(1), 195–218.

Spanos, L. J. (2005). Corporate governance in Greece: Developments and policy implications. *Corporate Governance, 1*, 15-30.

Susanto, Y. K. (2019). Firm value, firm size and income smoothing, GATR Journals jfbr151, Global Academy of Training and Research (GATR) Enterprise.

Susanto, Y. K., & Pradipta, A. (2016). Corporate governance and real earnings management. *International Journal of Business, Economics and Law, 9*(1), 17–23.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria. *Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.

Swastika, D. L. T. (2013). Corporate governance, firm size, and earning management: Evidence in Indonesia stock exchange. IOSR. *Journal of Economics and Finance (IOSR-JEF), 10*(4), 77-82.

Toumeh, A. A., & Yahya, S. (2019). A Review of Earnings Management Techniques: An IFRS Perspective. *11*(3), 1–13.

Tucker, J., & Zarowin, P. (2006). Does income smoothing improves earnings informative? *The Accounting Review, 81*(1) 251-270.

Tyokoso, G. M., Sabari, M. H., Dogarawa, A. B., & Ibrahim, H. (2019). Effect of audit quality on earnings management of listed oil marketing companies in Nigeria. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3492016

Umobong, A. A., & Akani, D. (2015). IFRS adoption and accounting quality of listed manufacturing firms in Nigeria: A cross section study of brewery and cement manufacturing firms. *International Journal of Business and Management Review, 3*(6), 61-77.

Umobong, A., & Ironkwe, U. (2017). Creative accounting practices and financial performance of firms. *International Journal of Innovative Finance and Economic Research, 5*(1), 1-10.

Wang, C., & Williams. (1994). Accounting income smoothing and stockholders' wealth. *Journal of Applied Business Research, 10*(3), 96-104.

Ward, M., & Price. A, (2006). Turning vision into value. (2st Ed). Pretoria: Van Schaik Publishers.

Wijaya, H., & Mauren, H. C. (2020). Factors influencing income smoothing practices with firm size moderation. *Jurnal Akuntansi, 24*(2), 250–265

Yohan, A. (2016). Effects of outside director's quality on firm value and earnings smoothing. *Research Journal of Business Management, 11*(1), 39-45.

Citation Information: Aguguom, T.A., & Salawu, O.R. (2022). Earnings smoothing and market share price: evidence from nigeria*. Academy of Accounting and Financial Studies Journal, 26*(2), 1-14.