

Aggressive Earnings Management And Stakeholders Protection In Profit Listed Organizations

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Abstract

Investors want to know that their interests come first, thus they place a high value on the public perception of the companies in which they have invested. The problem of stock market and share price performance, which is a major concern for shareholders and investors in the Nigerian capital market and indeed any other stock markets, is unpredictable. This study investigated the relationship between aggressive earnings management and shareholders' interest in profitable publicly listed corporations. The study employed an ex-post facto research design. The population of the research consisted of 35 manufacturing companies listed on the Nigerian Exchange Group as of December 31, 2020. Purposive Sampling technique was adopted to select 10 companies from 2011-2020. Data were obtained from publicly available yearly reports, and they were certified by the NSE and outside auditors. Both descriptive and inferential statistics were utilized to analyze the data using regression analysis. According to the findings, aggressive profits management had no discernible effect on business protection ($F\text{-Stat}(2,97)=11.994, p > 0.05, \text{Adj } R^2=0.43$), but it had a discernible effect on creditors' protection ($F\text{-Stat}(2,97)=2.74, p < 0.05, \text{Adj } R^2=0.39$). In contrast, based on the study's findings, it was advised that management of businesses develop measures to help increase their profitability, which would in turn have an effect on shareholders' return on equity and earnings per share. Significant relationships between discretionary accruals, unusual production costs, and irregular levels of operational cash flow and stakeholders' interest in profit-listed firms were discovered. Second, business owners should use profits measurement methods that have been validated via testing on a global scale, like the numerous indicators included in this study that were gleaned from accounting and finance literature.

Keywords: *Abnormal Production Cost, Abnormal Level of Operating Cash Flow, Aggressive Earnings Management, Discretionary Accruals, Shareholder's Interest*

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I. Introduction

There can never be enough emphasis placed on how important it is for shareholders to feel confident in their investment. Investors want to know that their interests come first, so they place a high value on the public perception of the companies in which they have invested. From a global standpoint, an observable standard for all indicators used to evaluate the underlying economic performance of publicly traded corporations around the world is the performance of any organization. According to Sorensen and Miller (2017), managers are aware of the fact that share prices and stock returns of Italian corporations are a reflection of their general health and wellbeing and make every effort to maximize profits while also prioritizing strategic actions that raise expected share prices for shareholders (Abdel-Meguid, Fernando, Schneible & Suh, 2019). Although the ultimate goal of organizations is to have stable, growing share price performance, the US share price is sadly facing a number of difficulties that are varied and multidimensional in character (Belcaid & El-Ghini, 2019).

According to Loukil, Yousfi, and Yerbanga (2020), there have been significant and unresolved issues with corporate organizations and their performances in the French market over the years. These issues include inadequate optimal utilization of scarce productive resources and a trend of management team inefficiencies as a reflection of internal and external forces. It appears that there is a direct correlation between future earnings and movements in stock and share prices, which has caused great fear in the minds of shareholders. Expected and unexpected news incidents of events had a huge impact on the possible capital market reaction to the information available to investors and future earnings (Wang, Vredenburg, Wang, Xiong & Feng, 2017; Rezaee & TUO, 2019). Brokers' emotions, anxiety, and restlessness can lead to fear and pessimism about future earnings, which can negatively impact investment choices and share price performance (Papanastasopoulos, 2017; Park, Han, Lee & Kim, 2018).

Earnings management is a strategy for hiding a company's actual financial performance and situation as well as for obscuring information that stakeholders need to be aware of (Lawal, Nwanji, Opeyemi & Adama, 2018). When managers utilize their skills to alter the financial report's appearance from reality, this is referred to as earnings management. Agency problems with separating ownership and control necessitate an external audit. When there is a knowledge asymmetry and shareholders lack the resources, incentives, or access to pertinent information to monitor managers' behavior, earnings management may take place (Warfield & Wild, 2015). According to Roychowdhury (2006), stakeholders cannot tell the difference between profits adjusted by real earnings management and actual earnings. He therefore proposed an empirical model linked to real earnings management to help distinguish between a firm's normal and abnormal business activity.

Other studies have found that controlling earnings does not always hurt firms. If the accounting requirements are too strict, profits management's potential benefits as a way for managers to communicate accurate projections will be discouraged (Dutta & Gigler, 2002). According to Magrath and Weld (2002), managers can employ earnings management to lower earnings volatility. The value of the company may benefit from this since it might help investors perceive less risk. Therefore, profits management may not be detrimental to the worth of the company but rather be compatible with the maximizing of firm value. Earnings management has the potential to increase or decrease a company's worth. It can be challenging to tell the difference between positive and negative earnings management, but it is hypothesized that if there is a mechanism that can be used to reduce managerial opportunism in terms of stealing private benefits from firm value, it should be able to discourage negative earnings management but not positive ones. As a result, if such a system is in place, profits management should have a less detrimental effect (or more positive). A corporate governance approach that addressed how shareholder interests are protected should be utilized to reduce managerial opportunism (Magrath & Weld, 2002). In light of this, it's crucial to keep in mind that businesses aim to maximize value. In order to achieve this goal, businesses disclose information about their past, present, and future activities (Liziska & Czapiewski, 2018).

The problem of stock market and share price performance, which is a major concern for shareholders and investors in the Nigerian capital market and indeed any other stock markets, is unpredictable. The unexpected shock can dip and contrast economic trends and suddenly change investors' sentimentality towards making investments or divestment decisions that will have a negative effect on businesses. Bad news, according to Ito and Crawford-Brown (2017), can induce anxiety and can affect investors' moods because nervous and risk-averse investors may become gloomy and cynically apprehensive about potential stock and share returns. Huynh (2018) claimed, in line with Ito and Crawford-Brown (2017), that poor share price performance is incompatible with investments, breeds anxiety and unease that might influence investment choices, and as a result, managers avoid taking any chances that it will happen.

The Nigerian capital market's high information asymmetry, which encourages unhealthy insider dealing because only a select few have access to it, makes investors fearful of their investments (Omodero & Dangago, 2018); the market's inability to respond to external pressure due to its underdeveloped and unstable economic policies (Abdullah, Habibullah, and Mohammad); and other issues that are currently plaguing the sector and organizations (Akinola & Akinsulere, 2019); Diverse and changing investors' irrational expectations and disparate interpretations of the facts available on the Nigerian stock market (Anokye, 2020). According to Brown and Nyeche (2016), the prevalence of irrational stockbrokers and capital market traders makes it difficult to predict share price market performance.

With an emphasis on the link between aggressive earnings management and shareholders' return on investment and dividend per share, the study aims to empirically analyze the relationship between aggressive earnings management and shareholders' interest in profit-listed businesses.

In order to precisely address the specified purpose, the following assumptions were tested:

H₀₁: Aggressive profits management does not have significant effect on firm protection in listed businesses in Nigeria

H₀₂: Aggressive profits management does not have significant effect on creditors rights in listed companies in Nigeria.

II. Literature Review/Theoretical Framework

Conceptual Review Stakeholders Protection

A management- and ethics-oriented explanation of the term "stakeholder" is given by Freeman (1984), who defines it as "any group or individual who may impact or is affected by the attainment of the organization's objectives." Stakeholders are people or organizations that have something to gain or lose if a system succeeds or fails (Nuseibeh & Easterbrook, 2000). Stakeholders, according to Clarkson (1995), are people or groups that have ownership rights to or interests in an organization and its activities in the past, present, or future. Stakeholders are

"individuals and constituencies that contribute, either freely or involuntarily, to its wealth-creating capabilities and activities and who, as a result, are its potential beneficiaries and/or risk bearers" in a business. When referring to stakeholders as "persons or groups with legitimate interests in procedural and/or substantive aspects of company activity," Donaldson and Preston (1995) gave a legal/contractual position.

Regardless of whether the company has comparable interests, stakeholders are known, identified, and characterized by their stake in a corporation (Donaldson & Preston, 1995). There is no management without interests since there is no stakeholder. In a business, stakeholders are defined as "individuals and constituencies that contribute, either freely or involuntarily, to its wealth-creating capabilities and activities, and who, as a result, are its potential beneficiaries and/or risk bearers" (Post, Preston, and Sachs, 2002). When referring to stakeholders as "persons or groups with legitimate interests in procedural and/or substantive aspects of company activity," Donaldson and Preston (1995) gave a legal/contractual position.

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However, that isn't enough to define the interests of shareholders. Every interest including that of investors and other stakeholders culminates in the ultimate benefit and success of the firm (Langford, 2014). In order to achieve high performance, businesses now employ stakeholder interests. There is a pressing push for businesses to embrace a normative perspective on stakeholder interests, realizing that doing so is the right thing to do in terms of ethics and morality (Donaldson & Preston, 1995).

Firm Protection

Numerous studies have demonstrated that business company performance is determined by how well they use their resources to benefit stakeholders. To optimize these resources and produce shared benefit for others. In other words, every business firm functions as a separate legal entity with its own needs and resources, and accounting shares this entity perspective through the concept of a business entity. As a result, businesses are first and foremost concerned with making the best use of their resources, and this concern has not changed despite the existence of different corporate objectives such as the shareholder model, enlightened shareholder value, and stakeholder model. The company has a duty to its stakeholders through its corporate executives, and it holds all capitals—financial, manufactured, human, intellectual, social, and relationship—in trust for each stakeholder. However, for sustainability purposes, a business entity also needs the protection of its capital in trust from all stakeholders that come into touch with it (Langford, 2014).

Creditors Protection

Another significant source of financial capital comes from creditors, who issue debts with varying periods and the promise of interest in exchange for the repayment of capital according to a predetermined contract. This particular stakeholder group works hard to defend itself through different agreements, promote sustainable business practices, and sway the organization's activities for their own eventual gain. Another advantage of this organization is its capacity to obtain disclosures from business executives and evaluate the degree to which their interests are protected (Langford, 2014).

Earnings Management

The phrase "earnings management" does not yet have an agreed definition in the accounting literature. There are several names for managing earnings, including "accounting numbers game," "creative accounting," "income smoothing," and others (Tucker & Zarowin, 2016). Depending on how they view it, various scholars describe the notion of profits management differently. According to Healy and Wahlen (2019), earnings management is the alteration of financial statements through the use of discretion in financial reporting and transaction structuring to either mislead some stakeholders about the company's true economic performance or to sway the results of contracts that depend on reported accounting numbers.

In general, there are two perspectives on earnings management. First and foremost, it is seen as a management tool used to fulfill their obligation to maximize wealth. Second, it's believed that earnings management involves changing economic developments in order to deceive those who read financial accounts. Different definitions of profits management have emerged in earlier literature as a result of these two divergent approaches. According to Beneish (2018), earnings management is the process by which managers communicate to investors their individual forecasts for the company's future cash flows. This assertion was supported by McKee (2015), who defined earnings as fair and legal management decision-making and reporting with the goal of achieving stable and predictable financial results. Fields, Lys, and Vincent (2011) concurred with this viewpoint. The following definitions are provided with the idea of earnings management having a negative impact in mind. On the other hand, one of the proxies used outside of earnings management to assess the quality of financial reporting is value relevance. Value relevance, according to Vishnani and Shah (2018), describes how well

financial statements' accounting information explains how the stock market is assessed. Additionally, information's capacity to be captured and influence share value (Barth et al., 2011; Hellstrom, 2012).

Discretionary Accruals

The amount of an asset or obligation that is not required to be recorded in the system but is still accrued is known as a discretionary accrual. Any anomalous quantity, including abnormal accumulation, should be thoroughly investigated. The amount of an asset or obligation that is not required to be recorded in the system but is still accrued is known as a discretionary accrual. Because of the freedom it offers, discretionary accrual, according to Dechow (1994), frequently gives managers the chance to influence results.

The first person to utilize discretionary accruals to denote earnings management was Healy (1985). Non-discretionary accruals, which are susceptible to managerial discretion, were deemed to be the expected amount of accruals in the firm under the assumption that outcomes would not be manipulated. Healy (1985) also claims that the discretionary accruals component in a given year equals the total accruals scaled by the total assets with a lag. It is inferred that the non-discretionary accruals are zero in expectation since none of the accruals' components can be observed. Healey claims that managers took use of accruals to increase their bonus (1985). DeAngelo (1986) adopted this unusual behavior as his starting point and made the assumption that non-discretionary accruals are random in nature. The discretionary portion of accruals from the change in total accruals from the preceding year to the current should be considered when determining earnings management.

Abnormal Production Cost

According to Hanggana, the cost of production is the total cost incurred to manufacture one unit of finished goods, which includes the cost of raw materials, direct labor charges, and factory overhead (2006).

The whole cost of producing a unit of completed goods, including the expenses of raw materials, direct labor, and factory overhead, is known as the production cost (Mulyadi, 2010, Hanggana, 2006). Costs exhibit a variety of mixed (fixed and variable) behaviors. While the variable cost part fluctuates as the quantity of production changes, the fixed cost factor does not change with the amount of output generated. The selling price of a good or service is significantly and directly influenced by the production costs (Putri, 2018). Furthermore, Tamuleviiien, Tvaronaviien, and Mackeviius (2020) stress the importance of production cost in terms of price forecasting, calculating profit and profitability, creating budgets, controlling spending, determining the effectiveness of a company and its departments, and for optimizing economic decisions as such.

Cost of production might be standard or unusual. When a company produces more goods than is typical, this results in abnormal production, which raises overall production costs but lowers cost per unit due to the spread of fixed costs across the products produced. This implies that the COGS per unit decreases and profit margin per sale item increases (Thomas and Zhang, 2002).

Abnormal Level of Operating Cash Flow

Operating cash flow, which includes the cash effect of the transactions used to determine net income in the income statement, is the cash flow from the primary operations that produce revenue. Operational cash flow is used to evaluate the company's capacity to run profitably enough to pay down short-term debt and meet operating costs. The cash that is received and spent during operations is seen in the company's operating cash flow. The actual manipulative activities that have an impact on operating cash flow are sales management techniques. By offering discounts and extending the payment terms for purchased goods, management increases sales. As a result, the company will generate more profits. On the other hand, the opposite situation has an impact on the cash flow statement, particularly on the cash flow of operational activities. The company's operating cash flow will be less than it would be if it were conducting regular sales. Due to the company selling on credit and the discounted price, which necessitates the company lowering the sale price, the company receives this small amount of cash. As a result, the firm received less money than it typically would have (Ji'ah and Pujiati, 2013).

Offering "limited-time" price discounts is one way managers can increase sales or move sales from the following fiscal year into the current year. When the business reinstates the previous pricing, the increased sales volumes brought on by the reductions are likely to diminish. As margins decrease from these new sales, the cash inflow per sale, net of discounts, decreases. Assuming positive margins, the current period's total earnings increase as the extra sales are accounted for. The unreasonably high manufacturing costs in relation to sales are brought on by the decreased margins caused by the price cuts. Offering more liberal credit conditions is another technique to temporarily improve sales volumes in order to increase profits. For instance, shops and automakers sometimes provide zero percent financing at cheaper interest rates at the conclusion of their fiscal years. These are basically price reductions, and they reduce cash flow throughout the course of the sale so long as the business's suppliers do not also provide price reductions on firm inputs. Generally speaking, one anticipates that sales management operations will result in lower current-period CFO and higher manufacturing costs than is typical given the sales level.

Theoretical Review

Agency Theory

Jensen and Meckling popularized the Agency hypothesis (1976). The relationship between the principle (shareholder) and the agent is the foundation of the theory (managers). The function of agency hypothesis is supported by the separation of ownership from management and control in contemporary corporate enterprises. The possibility to designate an agent (manager) to oversee day-to-day business operations is made possible by this separation. However, this connection raises the possibility of conflicts of interest between the agent and the principal and necessitates keeping an eye on the expenses involved in resolving these conflicts (Jensen & Meckling, 1976).

According to Jensen and Meckling (as cited in Tshipa, 2017), an agency relationship is a contract under which one or more persons (the principals) engage another person (the agent) to carry out some service on their behalf. It focuses on the relationship that arises between two parties when one (the principal) engages the other (the agent) to perform a service on their behalf (Jensen & Meckling as cited in Masli, 2018). Here, the principals are the shareholders while the agent is the management.

According to the agency hypothesis, managers try to advance their own interests rather than the interests of the shareholders since they are driven by personal gain. Since the owners bear the expense of these products rather than the managers, they may be interested in purchasing opulent offices, corporate automobiles, and other costly equipment (shareholders). The primary challenge facing agency theory is how to reconcile the competing interests of managers and those of shareholders. As a result, managers manipulate the company's reported results when they have incentives to control earnings, such as the need to reach or exceed their earnings targets and performance-based remuneration. The relevance and dependability of reported accounting results and financial statements as a whole are diminished by this manipulation. As a result, agency theory recommends monitoring techniques like high-quality auditing to minimize these conflicts and align managers' interests with those of shareholders. Therefore, the self-serving interests of managers raise the costs to the company, such as the expenses of contract formulation, losses resulting from agent decisions, and the costs of monitoring and managing the activities of agents.

The relevance of the agency theory is that the agency cost theory is the conflict of interest of the managers and shareholders. The concern of the investors is to ensure that their funds are not expropriated or wasted by the managers on unsuccessful projects.

Stakeholders' Theory

According to this thesis, which was made popular by Freeman in 1984, the viability and sustainability of enterprises as well as their interests depend on having strong connections with stakeholders. According to the notion, it would be better for commercial organizations to take stakeholders into account and adjust their strategy and operations accordingly. It makes the assumption that corporate mission and strategy generate shared value creation for all members of the organization (Narbel & Muff, 2017). It is thought that Friedman's (1972) shareholder perspective on business provides a limited definition of a stakeholder. Nevertheless, adopting the broadened definition to cover everyone impacted or likely to be impacted by a firm's activities (Freeman, 1984) goes beyond economic consideration and instead emphasizes the importance of keeping in mind stakeholders' influence and the necessity for businesses to obtain their consent when adjusting or adapting their operations in this direction.

Although the shareholder and stakeholder models have different foci, they are both capitalist in nature. A key component of stakeholder theory is stakeholder management, which focuses on how a business responds to societal interests and achieves its corporate goal (Gray et al., 1997; Ullmann, 1985). The aforementioned highlights the organizational management presumption in stakeholder theory. Stakeholder management is viewed as a morally correct course of action in Freeman's (1984) stakeholder theory, which goes further to address ethics. The morals and values of business serve as both a justification and a benchmark for stakeholder management, which in turn acts as a prelude to organizational management. Therefore, stakeholder theory blends ethics and sustainability into the economic perspective of capitalism while also incorporating shared value development (Deegan, 2014; Freeman, Harrison, Wicks, Parmar, & De Colle, 2010).

Stakeholder theory views organizations as a system that accommodates not only the interest of the owners but also the interest of other groups within the environment in which the organization operates. This view is contrary to the view of agency theory that sees organizations as a system of relationship between shareholders and management (Lawal, 2012).

Stakeholder theory was approached from two perspectives by Donaldson and Preston (1995): instrumental and normative. According to Narbel and Muff (2017), these two strategies are the main reasons why companies use stakeholder management. According to the "instrumental stakeholder theory," managing stakeholders can help a company perform better financially. In contrast, the normative approach considers management and stakeholder interests to be of intrinsic value.

The relevance of this theory to this study is that the management of the banks should try and build a framework that will be representative to the concerns of managers who were being buffeted and considers all the stakeholders' groups.

Empirical Review

Okaro, Okafor, and Nnabuife's (2019) investigation into stakeholder protection and earnings management. The use of content analysis of the annual reports of the sampled companies was combined with focus group discussions. The study, which concentrated on governance, labor, and the environment, demonstrated that inadequate model adoption causes misery. The study found that adding a business model will improve Nigerian firms' ability to compete globally, but it also suggested a discounted approach model.

Udofia, Fagboro, and Adeyemi (2020) examined 90 publicly traded Nigerian companies between 2013 and 2017 to determine how ready they were to adopt strategic business models. The financial industry was the one where they were most widely used, followed by the manufacturing, extractive, and other industries. Iyoha, Ojeka, and Ogundana (2017) made an effort to obtain bankers' viewpoints (using Zenith Bank employees) on the market comparison business valuation model and its well-known advantages of value creation that resulted in creditors' protection.

In an exploratory study, Pellens and Sellhorn (2006) talked about how creditor protection and accounting regulations ought to work together in the future. A supplementary, liquidity-focused, prospective solvency test was suggested as a way to improve creditor protection before each intended distribution. The study placed a strong emphasis on using solvency tests to determine creditor protection.

Creditor protection through obligatory disclosure was evaluated by Merkt (2006). The research examined the legislative framework for creditor protection, together with the associated market efficiency benefits and difficulties that would support any entity's ability to continue operating. The study recommended using discounted cash flow, comparable transaction, and market comparison to protect stakeholders in a firm. For data analyses spanning 1997 to 2016, Jandik and McCumber (2018) combined both primary and secondary data sources. According to the study, following the origination of syndicated loans, borrowers perform better than non-issuers in terms of capital efficiency, investments in productive assets, and operating performance. As a result of the concentration of creditor positions, creditor power is growing, to the benefit of equity holders.

III. Methodology

This paper adopted the *ex - post facto* research design making use of data from the Exchange Group. The period will cover 10years (2011– 2020).

The population of the study comprised 35 manufacturing companies. The study adopted the purposive sampling technique making use of 10 companies that are profit listed.

To achieve the stated objective of this study, both the descriptive and inferential statistics was employed in the study. The descriptive statistics examined the mean, maximum, minimum and standard deviation parameters of the variables. The multiple regression analysis was used to analyze the data from the annual reports and will show the extent of the causal relationship of the two variables (independent and dependent). Pearson correlation was also done to show the association and relationship between the two variables of study.

The Hausman estimation tests were carried out to determine the appropriateness of the model estimations to choose between the fixed effect and random effect. The post estimation test was also carried out which includes serial correlation test, heteroscedasticity test, as well as cross sectional dependence test.

The model is as specified below:

$$Y=f(X)$$

Where Y = Dependent Variable represented by Stakeholders Interest

y₁ = Firm Protection (FP)

y₂ = Creditors Protection (CP)

X = Aggressive Earnings Management (AEM)

x₁ = Discretionary Accruals (DAC)

x₂ = Abnormal Production Cost (ABPC)

x₃ = Abnormal Level of Operating Cash Flow (ABLOCF)

β₁, β₃= Model Coefficient and parameter estimates

e_{it}= Error term

$$FP_{it} = \beta_0 + \beta_1 DAC_{it} + \beta_2 ABPC + \beta_3 ABLOCF + e_{it} \dots \dots \dots H_{01}$$

$$CP_{it} = \beta_0 + \beta_1 DAC_{it} + \beta_2 ABPC + \beta_3 ABLOCF + e_{it} \dots \dots \dots H_{02}$$

IV. Analysis, Results And Interpretation

Descriptive Statistics

Variables	Mean	Std. Deviation	Minimum	Maximum
DA	0.420477	1.550969	0.001437	23.70832
ABPRC	0.002085	0.022779	-0.107943	0.198161
ABOCF	0.320477	1.450970	0.001437	22.70832

Source: Researcher's Computation (2022)

The table displays a statistical overview of all the factors from the mentioned under-researched for-profit enterprises. The mean value of discretionary accrual (DA) is 0.420477, while the standard deviation is 1.550969. The standard deviation, which is 1.551 in discretionary accrual, indicates the level of volatility and represents the degree of variation from the mean. This is further demonstrated by the 23.706883 difference between the smallest value (0.001437) and greatest value (23.70832).

In contrast to Discretionary Accrual, Abnormal Production Cost (ABPRC) has a mean of 0.002085 and a standard deviation of 0.022779, indicating little dispersion in the series. This is further demonstrated by the 0.306104 difference between the minimum value (-0.107943) and greatest value (0.198161).

The anomalous level of operational cash flow (ABOCF) has a mean of 0.320477 and a standard deviation of 1.450970, which shows minor dispersion in the series in comparison to discretionary accrual. The gap of 22.706883 between the lowest number (0.001437) and highest value serves as more evidence of this (22.70832).

Pre-estimation Tests

In order to ascertain the appropriateness of the data used, the series were tested for multicollinearity using the Variance Inflation Factor (VIF) and correlation matrix tests. The VIF results reveal the presence or absence of multicollinearity through the mean value but does not reveals the degree of association among the variables in order to identify the variables affected. However, the correlation matrix reveals the magnitude of the associations among the variables under study.

Variance Inflation Factor (VIF) Test Result

Variables	VIF	1/VIF
DA	1.09	0.917431
ABPRC	1.06	0.943396
ABOCF	1.15	0.869565
Mean VIF	1.10	0.910131

Source: Researcher's Computation (2022)

The results show the mean VIF to be 1.10 which is below the threshold of 5 and signifies the absence of multicollinearity problems among the variables data series.

Pearson Correlation Matrix Test

	DA	ABPRC	ABOCF
DA	1	0.0971	-0.1026
ABPRC	0.0971	1	-0.0443
ABOCF	-0.1026	-0.0443	1

Source: Researcher's Study (2022)

Discretionary Accrual (DA) is positively but weakly associated with Abnormal Production Cost (ABPRC) and Abnormal Level of Operating Cash Flow (ABOCF).

Test of Hypothesis one

Regression Analysis for Hypothesis One: Aggressive Earnings Management and Firm Protection

Dependent Variable: FP

Variables	Coeff	S.E	Z-test	Prob.
ROE	1.0444***	0.029	36.553	0.000
DA	0.0003	0.006	0.041	0.967
ABPRC	-1.5675	0.955	-1.641	0.101
ABOCF	-0.7795***	0.251	-3.110	0.002
Constant	0.3590	0.306	-1.172	0.241
Observations	100			
Adjusted R2	0.43			
F-Stat	F(2, 97) = 11.994			
Probability of F-Stat	0.7343			
Hausman Test	chi2(3) = 3.13(0.3726)			
Heteroskedasticity Test	chi2(1) = 0.18 (0.6739)			

Serial Auto-Correlation Test	F(1, 9) = 11.994 (0.0035)		
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Source: Researcher's computation (2022)

$$FP_{it} = 0.3590 + 0.0003_{it} - 1.5675 - 0.7795 + e_{it}$$

The regression analysis's findings shown that Discretionary Accrual (DA), Abnormal Production Cost (ABPRC), and Abnormal Level of Operating Cash Flow (ABOCF) all had a favorable impact on Financial Performance (FP) (= 0.3590). The probability level of =0.7343, which is greater than 5%, indicates that the impact of DA, ABPRC, and ABOCF on FP is not significant.

The joint variations (Adj R²) in the independent variables provide 43% variation in FP, whereas the remaining 57% changes in FP are induced by additional factors not included in this model, according to the explanatory capabilities of the independent variables. As a result, the coefficient of determination demonstrates the significant explanatory power of the primary model. The likelihood that this model is statistically significant, as indicated by the F statistics, emphasizes this further. The likelihood of the F-test (-values of 0.7343), however, indicated that the Discretionary Accrual (DA), Abnormal Production Cost (ABPRC), and Abnormal Level of Operating Cash Flow (ABOCF) indicators of earnings management do not have a significant impact on the financial performance of listed organizations in Nigeria. Regression estimations, earnings management as assessed by discretionary accrual (DA), abnormal production cost (ABPRC), and abnormal level of operating cash flow (ABOCF), all together have substantial effects on the financial performance of listed firms in Nigeria.

This study did not reject the null hypothesis, which stated that aggressive earnings management does not have a significant relationship on FP of listed organizations in Nigeria, and rejected the alternate hypothesis, which states that earnings management insignificantly affects FP of listed organizations, based on the insignificance of the probability of the F-test of 11.994 , with a -value of 0.7343, which is more than the chosen level of significance for the study at 5 percent.

Decision: At a level of significance 0.05 and degree of freedom 2,97, the F-statistics is 11.994, while the probability is 0.7343 which is more than the significance level adopted for the study, the study did not reject the null hypothesis which means that Aggressive profits management does not have significant effect on firm protection in listed businesses in Nigeria

Test of Hypothesis two

Regression Analysis for Hypothesis Two: Aggressive Earnings Management and Creditors Protection

Dependent Variable: CP

Variables	Coeff	S.E	Z-test	Prob.
EPS	0.914***	0.170	5.390	0.000
DA	-0.002	0.004	-0.482	0.630
ABPRC	-0.567***	0.138	-4.109	0.000
ABOCF	0.640***	0.120	5.333	0.000
Constant	0.141	0.172	0.818	0.414
Observations	100			
Adjusted R ²	0.39			
F-Stat	F _(2,97) = 2.74			
Probability of F-Stat	0.0148			
Hausman Testchi ² ₍₃₎ = 3.10 (0.7966)				
Heteroskedasticity Testchi ² ₍₁₎ = 1.71 (0.1910)				
Serial Auto-Correlation TestF _(1, 9) = 1.761 (0.2043)				

Source: Researcher's Computation (2022)

$$CP_{it} = 0.141 - 0.02_{it} - 0.567 + 0.640 + e_{it}$$

The given regression result demonstrated a positive impact on CP (= 0.14) of Discretionary Accrual (DA), Abnormal Production Cost (ABPRC), and Abnormal Level of Operating Cash Flow (ABOCF). The impact of DA, ABPRC, and ABOCF is significant to CP at the level of significance of =0.0148, which is less than 5%.

The combined variations (Adj R²) in the independent variables explain 39% of the variance in CP, according to the explanatory capacities of the independent variables, whereas the remaining 61% of the variation in CP is caused by other factors that are not included in this model. As a result, the coefficient of determination demonstrates the significant explanatory power of the primary model. The likelihood of the F statistics showing that this model is statistically significant emphasizes this even more.

The likelihood of the F-test (-values of 0.0148) demonstrated that earnings management, as measured by discretionary accrual (DA), abnormal production costs (ABPRC), and abnormal levels of operating cash flow (ABOCF), significantly affect the earnings per share (EPS) of listed organizations in Nigeria. Because of this, the

regression estimates, earnings management assessed as Discretionary Accrual (DA), Abnormal Production Cost (ABPRC), and Abnormal Level of Operating Cash Flow (ABOCF), together have considerable influence on CP of listed firms in Nigeria.

This study rejects the null hypothesis, which stated that aggressive earnings management does not have a significant relationship on the CP of listed organizations in Nigeria, and accepts the alternate hypothesis, according to which earnings management significantly affects the CP of listed organizations in Nigeria, based on the significance of the probability of the F-test, with a -value of 0.0148, which is less than the chosen level of significance for the study at 5 percent.

Decision: At a level of significance 0.05 and degree of freedom 2,97, the F-Statistics is 2.74, while the p-value of the F-statistics is 0.0148 which is less than the adopted level of significance. Therefore, the study rejected the null hypothesis which means that Aggressive profits management have significant effect on creditors rights in listed companies in Nigeria.

V. Discussion Of Findings

It was determined by discretionary accruals, irregular production costs, and anomalous cash flow that earnings management had an effect on FP and CP, according to the conclusions of this study as well as those of Michael, Ahmad, Hakeem, Mary-Jane, and Babajide (2020). The study's results agreed with those of Loukil, Yousfi, and Yerbanga (2020), who discovered that the implementation of discretionary accruals, abnormal production costs, and abnormal cash flow would increase both their protection levels and overall financial performance.

Discretionary accruals and FP had a substantial positive association. This implies that the more the use of discretionary accruals, the greater the rise in shareholder protection. This outcome is consistent with the findings of Pastor and Veronesi's (2013) study, which showed that the adoption of discretionary accruals and irregular production costs would boost both the firm's protection and the protection of its creditors. This implies that investors will have less worry the more profits management is practiced, which allows them to detect future expectations. According to Zhou et al. (2017), high earnings management is associated with enhanced and higher performance in terms of profitability, which is advantageous for the shareholders. Additionally, it was observed that older businesses would have gained expertise managing their revenues; additionally, newer businesses often had better profit certainty and always higher return certainty.

In line with the findings of this study, O'Hara (2004) stated that returns are positively connected with information asymmetry because increased uncertainty causes higher volatility returns in a setting where investors learn about the uncertainty in a firm's profitability. This is because a lack of public information forces investors to depend more heavily on private information. The information risk that results from effectively managing the flow of earnings information to the market through discretionary accruals could therefore potentially affect investors' perceptions of the firm's profitability and, as a result, affect the volatility of their returns relative to their investment. This is because earnings are a crucial factor that investors closely monitor.

VI. Conclusion

For hypothesis one the study did not reject the null hypothesis which means that Aggressive profits management does not have significant effect on firm protection in listed businesses in Nigeria while for hypothesis two the study rejected the null hypothesis which means that Aggressive profits management have significant effect on creditors rights in listed companies in Nigeria. The study's findings did lead to the conclusion that anomalous manufacturing costs, abnormal levels of operational cash flow, and abnormal profits management all had a substantial impact on shareholders' interest in profit-listed companies as evaluated by FP and CP. The data also helped in drawing the conclusion that while earnings management was once seen negatively by some businesses, it now has a favorable benefit that is intended to draw in new investors, which will boost their return on equity and profits per share and inspire public trust. However, as noted in the section on the discussion of the findings, this is in agreement with some literary findings.

VII. Recommendations

The following suggestions were made in light of the findings from the analysis of the correlation between shareholders' interest and several parameters of earnings management:

Organizational management should implement measures to increase revenue since this will have a positive impact on shareholders' return on equity and earnings per share, both of which are of utmost importance to them.

Business owners should adopt earnings measurement models that have been validated through testing on an international level, like the various measures used in this study and found in accounting and finance literature.

VIII. Contribution To Knowledge

The study has added to our understanding of the idea, technique, and theory around the impact of earnings management and shareholder interest as well as accounting practice.

Conceptually, this study has added to the body of work that has already been done utilizing multiple measures of profits management and shareholder interest to establish an empirical and theoretical link between the variables being examined.

Regarding technique, the econometric model used is what led to the empirical discoveries and discussions.

Because investors are stakeholders in organizations and anticipate a maximum return from their investment decisions, it has given the agency and stakeholders theory more credibility. These expectations are met by the real and actual reality, which is based on inferences drawn from the financial statements, which create economic reality.

Last but not least, accounting professionals and researchers who can understand the significance of earnings management tactics that will assist them boost their earnings while safeguarding the interests of the shareholders.

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