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Effect of Financing Decision on Earnings Management of Listed Consumer Goods Firms in Nigeria

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Abstract- ***This study investigated the effect of financing decisions on earnings management of listed consumer goods firms in Nigeria between 2013 and 2023. The research examined how different financing decisions; debt financing and equity financing, influence the manipulation of financial statements for the purpose of income smoothing, tax avoidance, or meeting financial target. The study employed ex-post facto research design. Eleven (11) major consumer goods companies out of sixteen (16) sampled companies listed on the Nigerian Exchange Group (NGx) were used for the study. Descriptive statistics was used to summarize the basic characteristics of the results while the hypotheses were tested with Pearson correlation and simple regression analysis. The findings indicate that debt financing is significantly associated with higher levels of earnings management, as firms with higher debt ratios tend to engage more in income smoothing to meet the expectations of creditors and shareholders. On the other hand, equity financing shows a less pronounced effect on earnings management, with companies relying on equity financing exhibiting lower tendencies to manipulate their earnings. The study also finds that the agency theory, which suggests that conflicts of interest between managers and stakeholders may lead to earnings management, is a key factor in explaining the relationship between financing decisions and earnings management in these companies. The study concludes that understanding of how financing decisions impact corporate governance and financial reporting practices in the Nigerian context, provides valuable insights for investors, regulators, and policymakers, highlighting the need for effective monitoring and regulatory frameworks to reduce the potential for earnings manipulation in the consumer goods sector. Furthermore, the research recommended that since debt financing significantly reduces earnings management, Nigerian consumer goods companies should strengthen their debt governance mechanisms. Lenders should impose strict financial covenants and regular audits to ensure compliance and prevent financial misreporting.***

Index Terms- ***Financing Decisions, Earnings Management, Debt Financing, Equity Financing, Consumer Goods Companies, Nigeria.***

I. INTRODUCTION

On a global scale, earnings management is closely tied to corporate financing activities such as debt issuance, equity offerings, and dividend policies, as firms often seek to present an attractive financial position to investors and creditors. Studies in developed economies, such as those in the United States and Europe, suggest that firms frequently manage earnings to influence capital market outcomes and secure financing on more favorable terms. In particular, debt-laden firms are incentivized to manage earnings upward to avoid covenant breaches and maintain creditworthiness (Mwangi & Murigi, 2021).

In Nigeria, the dynamics of financing decisions and earnings management are further complicated by macroeconomic volatility, regulatory changes, and the maturity of financial institutions. Listed consumer goods companies, in particular, face significant pressure to maintain profitability and meet shareholder expectations amid unstable economic conditions. Financing decisions, whether through debt or equity, are crucial for these companies, which require substantial capital for operations, expansion, and market competitiveness. Studies have shown that Nigerian firms, especially in the consumer goods sector, often inflate earnings to secure favorable financing terms or maintain dividend policies that signal financial stability to the market (Ibrahim et al., 2023).

According to a report by the Financial Reporting Council of Nigeria (2022), a significant proportion of

listed firms engage in some form of earnings manipulation, particularly around periods of debt issuance or equity offerings. The report highlights that approximately 35% of Nigerian firms adjust their financial statements to meet short-term financing needs, a trend that is more pronounced in the consumer goods sector due to the capital-intensive nature of their operations.

Furthermore, data from the Nigerian Exchange Group (NGX) indicates that firms in this sector have increasingly turned to debt financing, with total debt issuance by consumer goods companies rising by 18% between 2015 and 2021 (NGX, 2022). This growing reliance on external financing, coupled with the pressure to maintain market confidence, creates fertile ground for earnings management as firms strive to meet the expectations of creditors and investors.

The motivation for this study stems from the critical need to understand how financing decisions impact the quality of financial reporting in the Nigerian context, particularly within the consumer goods sector. This study seeks to provide empirical evidence on the effect of financing decisions on earnings management, offering insights that can inform both corporate governance practices and regulatory frameworks in Nigeria and similar emerging markets.

II. STATEMENT OF THE PROBLEM

In Nigeria, the economic environment is marked by volatility, inflation, and fluctuating interest rates, which further complicate the financing landscape for firms. These challenges are particularly acute for consumer goods companies, which must balance operational demands with the expectations of shareholders and financiers. Evidence suggests that Nigerian firms, including those in the consumer goods sector, frequently resort to earnings management during periods of financing activities to meet debt covenants, attract investors, or maintain stable dividend policies (Ibrahim et al., 2023; NSE, 2022).

The problem lies in the lack of comprehensive empirical evidence on how financing decisions—specifically debt financing, equity financing, and dividend policy—affect earnings management in Nigerian listed consumer goods companies. While existing studies have explored earnings management in broader contexts, there is a paucity of research focusing on the interplay between financing decisions and financial reporting practices in this crucial sector (Mwangi & Murigi, 2021). This study seeks to address this gap by examining the effect of financing decisions on earnings management in listed consumer goods companies in Nigeria, providing insights that can inform policy and practice in the sector.

Existing studies often focus broadly on earnings management across multiple sectors, such as financial services, oil and gas, or manufacturing, with limited specific attention to the consumer goods sector. This sector, however, presents unique financial dynamics due to its capital-intensive nature, high operational costs, and reliance on external financing for growth and competitiveness (Ibrahim et al., 2023). Consequently, the distinct financial challenges faced by consumer goods companies warrant a more targeted investigation that isolates the effect of financing decisions on earnings management within this sector.

Moreover, many prior studies either examine short time frames or limit their analysis to periods of economic stability, thereby overlooking significant economic fluctuations that influence both financing decisions and earnings management practices. This study aims to address this gap by covering the period from 2014 to 2023, a decade characterized by significant macroeconomic volatility in Nigeria, including recessions, inflationary pressures, fluctuating exchange rates, and regulatory changes. The extended period allows for a more comprehensive analysis of how financing decisions—whether through debt, equity, or dividend policy—are influenced by both favorable and adverse economic conditions and how these decisions, in turn, affect earnings management.

Another key methodological gap lies in the techniques employed to measure both earnings management and the impact of financing decisions. Many previous studies rely on traditional measures of earnings management, such as discretionary accruals,

without incorporating advanced econometric techniques that account for the endogeneity and dynamic nature of the relationship between financing decisions and earnings manipulation. In contrast, this study seeks to adopt more sophisticated panel data techniques, such as Generalized Method of Moments (GMM) and dynamic panel regression models, to control for unobserved heterogeneity, potential simultaneity bias, and dynamic effects over time.

III. OBJECTIVE OF THE STUDY

The main objective of the study is to examine effect of financing decisions on earnings management of listed Consumer goods companies in Nigeria. The specific objectives are to:

1. Evaluate the effect of debt financing on earnings management of listed Consumer goods companies in Nigeria.
2. Examine effect of equity financing on earnings management of listed Consumer goods companies in Nigeria.
3. Determine effect of dividend Policy on earnings management of listed Consumer goods companies in Nigeria.

IV. STATEMENT OF HYPOTHESIS

The following hypotheses were tested in null form.

Ho_1: Debt financing has no significant effect on earnings management of listed Consumer goods companies in Nigeria.

Ho_2: Equity financing has no significant effect on earnings management of listed Consumer goods companies in Nigeria.

Ho_3: Dividend policy has no significant effect on earnings management of listed Consumer goods companies in Nigeria.

V. LITERATURE REVIEW

Conceptual Framework

Concept of Financial Decisions

Financial decisions refer to the strategic choices made by firms or individuals concerning the allocation and management of financial resources to achieve organizational goals and maximize wealth. Brigham and Ehrhardt (2022) note that financial decisions primarily revolve around investment, financing, and dividend policies, each playing a critical role in the overall financial health of a business. These decisions determine the best avenues for funding operations, acquiring assets, and distributing profits, all of which contribute to a firm's success and sustainability.

Pandey (2021) expands on this by emphasizing that financial decisions significantly impact how firms raise capital and manage funds. These decisions are directly related to a company's financial stability and risk profile, influencing its ability to operate efficiently in both favorable and unfavorable market conditions. Ross, Westerfield, and Jordan (2023) further argue that the relationship between risk and return is central to financial decisions, as firms must carefully balance short-term liquidity needs with long-term growth prospects. This dynamic affects both operational and strategic decision-making processes.

Arnold (2020) adds that capital structure decisions, specifically the choice between debt and equity financing, play a pivotal role in determining a company's cost of capital. These choices influence shareholder value and the firm's market perception. Gitman and Zutter (2022) point out that effective financial decisions lead to optimal capital budgeting, which ensures that companies invest in projects that offer the best returns and manage their assets efficiently, contributing to overall profitability.

Damodaran (2021) argues that financial decisions must align with both internal factors, such as a firm's risk tolerance, and external economic conditions. Market fluctuations and broader economic forces can significantly impact the effectiveness of financial strategies.

According to Brealey and Myers (2022), financial decisions primarily focus on managing a firm's capital structure, investment opportunities, and payout policies, with the ultimate goal of optimizing shareholder value. Fraser and Ormiston (2021) emphasize that these decisions require balancing

profitability with risk management, ensuring that firms can maintain liquidity while pursuing long-term growth. Moyer, et al. (2022) point out that financial decisions must align with a firm's strategic objectives and involve critical choices such as whether to finance operations through equity or debt.

Higgins (2020) underscores the importance of financial decisions in capital budgeting, where firms must evaluate the potential returns and risks associated with investment projects. These decisions determine which projects are worth pursuing and how much capital should be allocated to them. Horne and John (2021) add that financial decisions also affect a firm's financial risk profile, including its exposure to market volatility, interest rates, and currency fluctuations.

Lastly, Titman and Martin (2021) stress that financial decisions are closely linked to corporate governance, as they shape how firms allocate resources, manage risks, and distribute profits to shareholders. The goal is not just to achieve short-term financial success but to ensure sustainable growth and resilience in the face of market challenges.

VI. DEBT FINANCING

According to Berk and DeMarzo (2022), debt financing is a key component of a firm's capital structure, as it enables firms to raise substantial funds while maintaining ownership control. Brigham and Ehrhardt (2022) emphasize that debt financing is an essential method for companies to leverage their assets and generate growth without diluting shareholders' equity. Gitman and Zutter (2022) define debt financing as the use of borrowed capital that must be repaid at a future date, often with interest, and suggest that it is a strategic tool for financing long-term investments.

According to Ross, et al. (2023), debt financing offers firms the advantage of tax deductibility on interest payments, which can lower the cost of borrowing and increase profitability. Moyer, et al. (2022) discuss that while debt financing is often more affordable than equity financing, it places financial pressure on firms due to fixed repayment schedules. Fraser and Ormiston (2021) further elaborated that companies using debt financing must manage both short-term and long-term liabilities to avoid liquidity risks.

Fabozzi (2022) describes debt financing as a crucial method by which firms raise funds through bonds or loans to support growth while benefiting from financial leverage. However, he warns that excessive reliance on debt can lead to solvency issues. Damodaran (2021) focuses on the capital structure aspect of debt financing, stating that firms must carefully balance the use of debt to optimize their weighted average cost of capital (WACC) and avoid over-leveraging, which can threaten financial stability.

Van Horne and Wachowicz (2021) describe debt financing as a tool that allows firms to take advantage of opportunities without needing immediate large cash outlays. They note that while it enables companies to grow more quickly, it also increases fixed financial commitments. Debt financing is defined by Bodie, et al. (2022) as a method where a company raises capital through borrowing, creating a legal obligation to repay the borrowed amount along with interest. They emphasize that while debt financing can be an effective way to leverage financial resources, it also increases the risk of bankruptcy if the firm cannot meet its repayment obligations.

According to Linsley and Shrives (2022), debt financing can be an effective way to fund growth initiatives, but they caution that excessive debt can lead to higher costs of capital and reduced financial flexibility, which can harm a firm's long-term viability. Myers (2023) highlights that debt financing plays a vital role in corporate finance, providing firms with leverage that can enhance returns on equity when managed prudently. However, he notes that it also increases the risk of financial distress, necessitating careful management of repayment obligations.

Lastly, Schiller (2021) posits that debt financing enables firms to finance projects without sacrificing ownership stakes, but stresses that managing the associated risks and repayment schedules is essential for maintaining financial health.

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VII. EQUITY FINANCING

According to Allen and Santomero (2021), equity financing serves as a critical mechanism for businesses to attract capital while maintaining operational flexibility. They emphasize that investors are generally more willing to invest in companies with a strong equity position, as it can signal lower financial risk.

According to Lazonick (2022), equity financing enables firms to pursue innovation and invest in long-term projects without the immediate pressure of debt repayment. He argues that this flexibility is essential for companies operating in rapidly changing markets where adaptability is crucial for survival. According to Berk and DeMarzo (2022), equity financing is a crucial means for companies to acquire capital without the obligation of repayment, as investors provide funds in exchange for ownership shares. Brigham and Ehrhardt (2022) define equity financing as the process by which a firm raises funds by selling stock to investors. They emphasize that equity financing allows companies to tap into the financial markets to support growth initiatives, while also sharing the risks and rewards with shareholders. Gitman and Zutter (2022) note that equity financing is an essential tool for startups and growing businesses, as it provides access to capital that can be used for expansion, research and development, and other strategic initiatives. They argue that equity investors often bring not only capital but also valuable expertise and networks to the company.

According to Titman and Martin (2021), equity financing is not just about raising capital; it also influences a firm’s valuation and market perception. They argue that companies must maintain a balance between equity and debt financing to optimize their cost of capital and maximize shareholder value.

Lastly, Schiller (2021) posits that equity financing is particularly advantageous for innovative firms seeking to disrupt markets, as it allows them to attract investors who are willing to take on higher risks for potentially high rewards. He emphasizes the role of venture capital and private equity in providing growth capital for such companies.

VIII. DIVIDEND POLICY

Baker and Powell (2022) define dividend policy as the approach adopted by a firm to determine the size and frequency of cash distributions to shareholders. They emphasize that dividend policy decisions are often influenced by various factors, including profitability, cash flow requirements, and growth opportunities, making it a complex and multifaceted aspect of corporate governance.

In their study, Grullon and Michaely (2021) emphasize the role of dividend policy in signaling a company’s financial stability. They argue that regular dividend payments can communicate management's confidence in future earnings, while cuts in dividends may raise concerns about a firm's financial health and lead to negative market reactions. According to Brav, et al. (2021), dividend policy is influenced by both internal factors, such as a company's earnings and cash flow, and external factors, including market conditions and investor preferences. They suggest that firms must balance these factors to formulate a sustainable dividend policy that aligns with shareholder expectations.

In the analysis by Baker and Weigand (2021), the authors argue that dividend policy is a critical component of a firm's capital allocation strategy. They emphasize that effective dividend policies should reflect a company's strategic goals, including growth initiatives and shareholder returns, to optimize overall value. According to Dhaliwal, et al. (2023), dividend policy can play a crucial role in a company's financial strategy by balancing the need for reinvestment and the desire for shareholder returns. They argue that companies with stable cash flows are more likely to adopt generous dividend policies, while those in growth phases may retain earnings for reinvestment.

According to Lintner and Sweeney (2021), a company’s dividend policy is often seen as a reflection of its growth strategy and risk tolerance. They suggest that firms in mature industries are more likely to pay regular dividends, while those in growth sectors may opt to reinvest earnings to capitalize on expansion opportunities.

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IX. CONCEPT OF EARNINGS MANAGEMENT

Roychowdhury (2006) defined earnings management as departure from normal operational practices, motivated by manager's desire to mislead some stakeholders into believing that, certain financial reporting goals have been met in the normal course of operations. Aziatul, et al. (2015) defined it as the use of discretion in preparing and reporting accounting information to external users by managers. Leuz, et al (2003), sees it as the alteration in firms reported economic performance by managers either to mislead some stakeholders or to influence contractual outcome with them. Sankar and Subramanyam (2001), is of the opinion that, earnings management means „taking advantage of the flexibility in the choice of accounting methods to indicate the management decision-making on future cash flows, while Hepworth (1953), defined it as smoothing the amplitude of periodic net income fluctuations. Schipper (1989) stated that, earnings management means disclosure management in the sense of a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain.

According to Graham, Harvey, and Rajgopal (2023), earnings management is often driven by the competitive environment in which firms operate. They argue that companies may engage in earnings management to signal stability to investors or to maintain favorable debt covenants. This strategic use of earnings management can reflect broader corporate governance issues and financial strategies.

In the view of Becker, et al. (2022), the legitimacy of earnings management is contingent on the context and motivations behind the management's decisions. They posit that while earnings management can sometimes enhance transparency by providing more useful information to investors, it can also lead to potential conflicts of interest and manipulation if not carefully monitored.

According to Bergstresser and Philippon (2023), earnings management practices can have significant implications for stock market performance. They argue that when firms engage in earnings management to meet short-term targets, it may lead to long-term underperformance and increased volatility in stock prices, underscoring the need for sustainable reporting practices. In this study, earnings management refers to the intentional manipulation of a company's financial statements to meet certain financial objectives or to present a more favorable financial performance. The study will measure earnings management with real and accrual earnings.

X. REAL EARNINGS MANAGEMENT(REM)

This refers to the practice of altering a company's operations or some business processes with the intention of enhancing current period earnings.. Real activity management, according to Schipper (1989), takes place when company managers intentionally take actions that change the timing or structure of operations, make investments, or engage in financial transactions with the intention of influencing the figures reported in financial statements.

Real-world manipulation, on the other hand, deviates from standard operational procedures and is driven by managers' desire to persuade at least some stakeholders that specific financial reporting objectives have been reached in the course of routine operations (Roychowdhury, 2006).

In this study, real earnings management refers to the manipulation of actual business transactions and operations to influence a company's reported earnings.

XI. ACCURAL EARNINGS MANAGEMENT

According to Sun and Lan (2014), accrual earnings management is the manipulation of earnings management through estimating and accounting techniques that have no direct impact on cash flow. Choosing which accounting procedures to utilize to depict the many activities carried out within the company is what accrual management entails rather than changing the fundamental operations in commercial firms. Since accrual accounting offers management of the company great control over determining the earnings of the company, since managers have significant control over the period during which some cost items are recognized as revenue, as well as options for recognizing revenue

through credit sales, accrual accounting gives managers of the company the ability to predict the firm's profits in various time periods (Teoh, et al, 1998). These factors can be used in combination to manipulate earnings to suit the manager's objectives.
In this study, Accruals earnings management refers to the manipulation of accounting accruals, such as revenue recognition and expense accruals, to influence a company's reported earnings.

XII. THEORETICAL EXPOSITION

Earnings Management and Debt Financing

In order to obtain debt financing, enterprises need to provide creditors and relevant institutions financial information, especially earnings information. Then creditors and relevant institutions can make financing decisions. From this perspective, it can be seen that there are some important links between debt financing and earnings management (Qin, 2020).

Most of the current empirical studies about the impact of debt financing on earnings management examine how the debt leverage put influence on earnings management, and the research conclusions are not consistent. On the one hand, it is found that debt financing can reduce the propensity of earnings management. When firms have low levels of debt, financial distress cost tends to be lower, so they are not prone to manage earnings. However, at higher debt levels, a higher financial distress cost can lead to more earnings management due to pressures to meet debt covenant (Thanh et al., 2020).

Earnings Management and Equity

The intrinsic value of a firm’s equity is determined by the present value of future payoffs to equity-holders. Thus, to estimate equity value, one needs to identify and process a series of information that is relevant to the present value of expected future payoffs. Among the value-relevant information, earnings pertain to a summary measure of firm performance and thus play a key role in the equity valuation.

Moreover, compared to debt financing, funds raised through stock issues does not require making interest and principal payments. According to Zhang et al., 2020), there is a positive relationship that is especially stronger for firms that depend on equity, rather than debt, or equity financing generates more incentives for earnings management, compared to debt financing.

Earnings Management and Dividend Policy

Prior literature finds that earnings management is less prevalent when private control benefits are limited (e.g., Leuz et al., 2003, Gopalan and Jayaraman, 2012). Thus, firm managers who decide to pay dividends may have fewer private control benefits to consume and conceal and hence, could be less likely to fabricate accounting information. Furthermore, both theory and empirical evidence indicate that the U.S. firms are unwilling to cut dividends, and that they engage in dividend smoothing to maintain a constant stream of dividends (e.g., Lintner, 1956, Brav et al., 2005, Skinner and Soltes, 2011).

XIII. THEORITICAL FRAMEWORK

The relationship between financing decisions and earnings management has been explained by several theories that offer insight into why firms might engage in earnings manipulation when making financial choices such as debt or equity financing. Among the theories explained—Agency Theory, Pecking Order Theory, Trade-Off Theory, Signaling Theory, and the Debt Covenant Hypothesis—Agency Theory arguably best explains the relationship between financing decisions and earnings management. This is because it directly addresses the inherent conflict between the interests of managers (agents) and shareholders or creditors (principals), which often underpins both financing decisions and earnings manipulation.

Agency Theory explains that managers, who are responsible for running the company, may have incentives to pursue their own goals at the expense of shareholders or creditors. This conflict of interest can lead to opportunistic behavior, such as earnings management, where managers manipulate financial information to meet short-term performance targets, avoid debt covenant violations, or influence the perception of the firm’s value. Financing decisions, particularly those involving debt, create further layers of agency problems, as managers may be motivated to take actions that secure their positions or

compensation, rather than those that maximize firm value.

Earnings management often arises because managers want to present favorable financial results to external stakeholders, including shareholders and creditors, to maintain job security, increase bonuses, or boost the firm's stock price. These actions can be seen as managerial opportunism, which is a central theme in Agency Theory. The theory explains why managers might prioritize short-term gains, even at the expense of the firm's long-term financial health, which is consistent with the observed behavior in both financing decisions and earnings manipulation.

XIV. EMPIRICAL REVIEW

Series of studies have been carried out on financing decisions and earnings management over the last few decades in both developed and developing economies. The studies employed different methodologies and have produced inconsistent findings, resulting in divergent opinions regarding financing decisions and earnings management. Reviewed below are the studies considered relevant.

In a study conducted by Alzahrani et al. (2023), the study explored the relationship between financing decisions and earnings management in publicly listed companies in Saudi Arabia. They employed a quantitative research methodology, analyzing data from 100 firms over a five-year period. The authors used regression analysis to examine the impact of different financing decisions, such as debt and equity financing, on earnings management, measured through discretionary accruals. Their findings revealed a significant positive relationship between debt financing and earnings management, indicating that firms with higher leverage tend to engage more in earnings manipulation to meet debt covenants. However, the study faced some limitations, including potential measurement errors in discretionary accruals and the exclusion of qualitative factors influencing earnings management, which may have provided a more nuanced understanding of the phenomenon.

In another empirical review, Chen et al. (2022) investigated how financing decisions influence earnings management practices among firms listed on the Shanghai Stock Exchange. The authors employed a panel data analysis methodology, examining a sample of 200 firms over a period of ten years. They utilized both accrual-based and real earnings management measures to assess the effects of equity and debt financing on earnings management. Their results indicated that equity financing was negatively correlated with earnings management, suggesting that firms with higher equity ratios are less likely to engage in earnings manipulation. Conversely, they found that firms relying on debt financing tended to engage more in earnings management practices. The study's critique lies in its focus solely on the Chinese market, limiting the generalizability of the findings across different economic environments and regulatory frameworks.

In the empirical review by Wong and Chua (2021), the authors examined the relationship between financing decisions and earnings management in the technology sector in Singapore. They employed a quantitative research approach, analyzing data from 100 publicly traded technology firms over a seven-year period. Using a fixed-effects regression model, the authors assessed the influence of capital structure on earnings management practices, focusing on both accrual and real earnings management. Their findings revealed that equity financing negatively correlated with earnings management, suggesting that firms with a greater reliance on equity financing were less likely to manipulate earnings. The study's critique centers on the potential for endogeneity in the relationship between financing decisions and earnings management, as factors influencing both may not have been adequately controlled.

In a research study conducted by Olatunji and Ogunleye (2023), the authors explored the impact of financing decisions on earnings management in the consumer goods industry in Nigeria. They utilized a longitudinal research design, analyzing data from 40 firms over a five-year period. The authors applied ordinary least squares (OLS) regression analysis to evaluate the relationship between financing choices, particularly the use of short-term versus long-term debt, and earnings management as measured by the modified Jones model. The findings indicated that firms utilizing short-term debt were more likely to

engage in earnings management compared to those relying on long-term financing. A critique of this study is that it does not consider other external factors, such as market conditions and investor sentiment, which could also influence firms' financing decisions and their subsequent impact on earnings management.

In another empirical review, Adebayo and Agbaje (2023) explored the relationship between financing decisions and earnings management in the telecommunications industry in Nigeria. They employed a quantitative methodology, analyzing data from 40 telecommunications firms over a period of five years. The authors used regression analysis to evaluate how different financing structures impacted earnings management, focusing on both accruals and real earnings management. The results indicated a significant positive relationship between debt financing and earnings management, suggesting that firms with higher debt levels were more inclined to engage in earnings manipulation. However, the critique of this study highlights the potential for omitted variable bias, as factors such as corporate governance practices and market conditions were not adequately accounted for.

In their research, Bassey and Effiong (2022) examined the influence of financing decisions on earnings management among listed firms in Nigeria. The authors employed a descriptive research design, analyzing data from 60 companies over six years. The findings revealed that higher levels of debt financing were positively correlated with earnings management, indicating that firms may manipulate earnings to maintain favorable financial ratios. A critique of this study is its reliance on historical data, which may not reflect current trends and practices in earnings management, limiting its relevance to contemporary financial decision-making.

Lastly, in a research study by Owolabi and Omolehinwa (2023), the authors explored the relationship between financing decisions and earnings management in the Nigerian banking sector. They employed a descriptive research design, analyzing data from 25 banks over a six-year period. Using regression analysis, they assessed how financing decisions, particularly the mix of debt and equity, influenced earnings management, measured through the modified Jones model. The findings suggested a significant positive relationship between debt financing and earnings management, indicating that banks with higher leverage were more likely to manipulate earnings to comply with regulatory requirements. However, the study's critique includes the potential lack of robust internal controls within the banking sector, which could impact the reliability of the earnings management measures used.

The impact of short-term debt on accruals-based earnings management – evidence from Vietnam was studied by Trung, Liem and Thuy (2020). The study sought to examine the relationship between short-term debt maturity and accruals-based earnings management using a sample of listed firms in Vietnam from 2010–2017. Sample covered all non-financial firms listed on the Vietnam Stock Exchange over the period from 2010–2017. The findings provide evidence suggesting that short-term debt maturity is likely to exert a desirable impact in lowering earnings management at low levels of short-term debt, while at high levels it tends to increase earnings manipulation, demonstrating a U-shaped relationship. Furthermore, it was revealed that growth opportunities moderate the impact of short debt maturity on earnings management. Specifically, the U-shaped pattern between short-term debt and earnings management is pronounced for firms with low growth opportunities, while for high-growth counterparts that pattern weakens.

XV. METHODOLOGY

Research Design

The study adopted ex post facto research design which seeks to find out the factors that are associated with a certain occurrence, outcomes, conditions or types of behavior by analyzing past event or already existing condition. In ex-post facto, it is difficult to manipulate because data are already in existence. Even though data are already in existence, it is sufficient to provide adequate information for the cause of a problem is also useful in modelling the framework of positivist analysis, where it is assumed that the sample is distinct from the researcher and that the research findings are free from bias and subjectivism. Therefore, the use of ex-post facto

research design allowed for the testing of expected relationship between financial ratios and investment decisions of listed consumer goods companies in Nigeria.

Population, Sample and Sampling Techniques

The study population consists of all the twenty-three (23) consumer-goods companies listed on the floors of Nigeria Exchange Group (NGX).

Population of consumer-goods Firm in Nigeria

S/N	COMPANY NAMES	S/N	COMPANY NAMES
1	7-Up Bottling Company	17	Northern Nigeria Flour Mills
2	Cadbury Nigeria	18	Premier Breweries
3	Champion Breweries	19	Presco
4	Dangote Flour Mills	20	PZ Cussons Nigeria
5	Dangote Sugar Refinery	21	Vita Foam Nigeria
6	Nigerian Enamelware	22	UniLever Nigeria
7	Flour Mills of Nigeria	23	Union Dicon Salt
8	Golden Guinea Breweries		
9	Guinness Nigeria		
10	Honeywell Flour Mills		
11	International Breweries		
12	McNichols		
13	Morison Indusrtries		
14	Multi-Trex Integrated Foods		
15	Nascon Allied Industries		
16	Nigerian Breweries Nestle Nigeria		

Sample Size and Sampling Technique

To ensure that the appropriate data suitable for analyses is achieved, we used the following judgment criteria. The company must;

a. Be listed on the floor of the Stock Exchanges before 2014 and still be there in 2023; have adopted and using IFRS as well.
b. Continue operation (not suspended) all through the period under review (that is 2014 – 2023).
c. Must not have prepared accounts beyond 12 calendar months for each accounting period (change of accounting date).
d. Company must have all the financial data and elements that form the study variables.
e. After subjecting the studied population to the above criteria; only eleven (11) companies from Nigeria satisfied the criteria. To avoid bias, the entire data that satisfied the criteria will be used; eleven (11) companies that make up the sample frame from Nigeria. See for details of companies.

Method of Data Collection

The study utilizes secondary panel data from the listed consumer goods companies annual financial reports and accounts for 10 years (2014 -2023). Data were sourced from the annual reports and accounts of the sampled companies on Nigerian Exchange Group (NGX). The data is a mixture of data from the cross-section and time series and is thus regarded as data from the panel. The advantages of using panel data include that there is a possibility of variance in the units as it relates to companies over time and, thus, panel data takes this well into account by allowing unique variables for the subject. Panel data makes the information becomes useful by integrating time series for cross-sectional observations by providing more accurate data and more uncertainty, resulting in less collinearity between variables and more degrees of freedom and thus more efficiency.

Technique of Data Analysis and Model Specification

Descriptive statistics were used to summarize the basic characteristics of the results. The statistics included average, median, minimum and maximum. The study also used Correlation analysis for multicollinearity and interaction between dependent and independent variables. Correlation coefficients vary from one negative to one positive and can differ substantially from zero or not. A meaningful positive correlation coefficient indicates that the variables move in the same direction and the value of the

coefficients should be positive. A significant negative correlation coefficient indicates that the variables shift in opposite directions and the coefficients are negative. The coefficient of zero indicates no relationship between either of the two variables.

If the correlation coefficients are large and similar to ideal (positive one), the data regression results are influenced by multicollinearity. Variables with a near-perfect correlation coefficient provide the same information and one of the variables will be dropped in place of the other to prevent multicollinearity. According to Guajarati (2003), pairwise correlation coefficients below0.8 suggest that the issue of multicollinearity is not serious and is usually ignored. However, the correlation coefficients in excess of 0.8 point to the presence of a high degree of multicollinearity between the regressors and warrant remedial action.

The Pearson Correlation Coefficient(r) is given by the formula below:

$$R_{XY} = \frac{\Sigma\left(X - \frac{X}{N}\right).\left(Y - \frac{Y}{N}\right)}{\sqrt{\Sigma\left(X - \frac{X}{N}\right)^2 . \Sigma\left(Y - \frac{Y}{N}\right)^2}}$$

Where:
R = Product Moment Pearson Correlation Coefficient;
X= are the independent variables, and;
Y= is the dependent variable.

Model Specification
By using panel data, it is possible to include time effects as well as to control for individual heterogeneity, which is captured by firm specific fixed or random effects components, that leads to biased results when neglected in cross section or time series estimations. To estimate the results of the effect of financing decision on earnings management of listed consumer goods companies in Nigeria, the study shall apply panel regression analysis.

The panel regression model that captures the effect of financing decision on earnings management of listed consumer goods companies in Nigeria was adapted from the work of Owolabi (2023) and modified as stated below to suit this particular study:

EMit = ßo + ß1DFit + ß2EFit + ß3DPit + ß4FSit + µit

Where,
EM = Earnings management
DF = Debt Financing
EF = Equity Financing
DP = Dividend Policy
FS = Firm Size
ßo= Intercept or Regression Constant
ß1-ß3=Regression Coefficient
ß4= Control Variable
µ= error term
it = individual firm and Time covered by the study

Variables Measurement

S/N	variable	Nature	Measurement	Author
1.	Earnings management	Dependent variable	Discretionary accruals	Elena, Lubos, Lucia, and Lucia, (2021); Blessing (2020). Ofurum, Okoye and Ezejiofor (2021);
2	Debt financing	Independent Variable	Total debt divided by Total equity	Prabowo, Winarna, Aryani, Falikhatun and Gantyowati (2020)+
3	Equity financing	Independent Variable	Total equity divided by total debt	Zhang, Uchida & Dong (2020)
4	dividend	Independ	Dividend	Haider,

	financing	ent Variable	Payout Ratio = Dividend paid/ Net Income	Zakariya & Sadiq (2012)
5	Firm size	Control Variable	Natural log of total asset	Zhang, Uchida & Dong (2020)

Source: Authors Compilation, 2024

XVI. RESULT AND DISCUSSION

This section presents the data for the study using descriptive statistics, correlation analysis, pre and post estimation diagnostic tests, regression analysis, hypothesis testing, and discussion of findings.

Descriptive Statistics

The descriptive statistics provide insight into the distribution, central tendencies, and dispersion of the variables used in the study. Table 4.1 presents the summary statistics for earnings management, debt financing, equity financing, dividend policy, and firm size.

Table 4.1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
EM	204	0.0402	0.4313	-1.0346	2.1472
DF	204	0.3340	0.4254	-0.0095	1.9552
EF	204	1.7301	2.6543	-1.7481	20.5739
DP	204	2.1740	5.4229	-10.0189	63.9905
FS	204	9.6986	1.7003	5.4955	11.7933

Source: STATA 14 Output (2025).

The result from the descriptive statistics in Table 4.1 revealed that Earnings management (EM) has a mean value of 0.0402, suggesting that, on average, listed consumer goods firms engage in minimal earnings manipulation to a tone of just about 4%. However, the standard deviation of 0.4313 implies a substantial variation in earnings management across firms. The minimum value of -1.0346 suggests that some firms engage in income-decreasing strategies, potentially to reduce tax burdens or defer earnings for future periods. Conversely, the maximum value of 2.1472 indicates that some firms engage in aggressive earnings management, potentially inflating earnings to meet financial benchmarks.

In addition, Debt financing (DF) has a mean value of 0.3340, indicating that, on average, firms finance approximately 33.4% of their operations through debt. This is relatively moderate, suggesting that most firms maintain a balance between debt and equity financing. The minimum value of -0.0095 shows that some firms operate with little to no debt, possibly relying on retained earnings or equity financing. On the other hand, the maximum value of 1.9552 suggests that some firms are highly leveraged, potentially exposing them to financial risks.

Furthermore, Equity financing (EF) has a mean value of 1.7301, implying that firms rely significantly on equity issuance as a financing strategy. However, the high standard deviation of 2.6543 indicates substantial differences among firms in their reliance on equity capital. The minimum value of -1.7481 suggests that some firms may have reduced their equity base through share buybacks, dividend payments, or losses in shareholder value, while the maximum value of 20.5739 indicates that some firms have raised large amounts of capital through equity financing.

Similarly, the result revealed that Dividend policy (DP) has a mean value of 2.1740, but a high standard deviation of 5.4229, suggesting considerable variation in dividend payouts. The minimum value of -10.0189 implies that some firms cut dividends significantly, possibly due to financial distress or reinvestment strategies. Meanwhile, the maximum value of 63.9905 shows that some firms distribute a significant proportion of earnings as dividends, which may indicate strong profitability or shareholder-friendly policies.

Lastly, Firm size (FS) has a mean value of 9.6986, indicating that the sampled firms are relatively large. The minimum value of 5.4955 suggests that smaller firms are also included in the dataset, while the

maximum value of 11.7933 shows that some firms have significant assets and operational scale.

Correlation Analysis

Table 4.2 presents the correlation coefficients, which measure the strength and direction of the relationships between earnings management (EM) and the explanatory variables, including debt financing (DF), equity financing (EF), dividend policy (DP), and firm size (FS). The correlation results provide initial insights into how these variables are associated with earnings management and help identify potential multicollinearity issues that could affect the regression analysis.

Table 4.2: Correlation Matrix

Variable	EM	DF	EF	DP	FS
EM	1.0000				
DF	-0.0013	1.0000			
EF	0.0123	0.5336	1.0000		
DP	0.1380	0.1984	0.2348	1.0000	
FS	0.3236	0.2201	0.3439	0.3122	1.0000

Source: STATA 14 Output (2025).

The correlation results in Table 4.2 revealed that debt financing (DF) and earnings management (EM) have a very weak negative correlation (-0.0013), suggesting that an increase in debt financing is slightly associated with lower earnings management. However, the magnitude of this correlation is extremely small, indicating that debt financing alone may not be a strong determinant of earnings management practices. However, given the weak correlation, the effectiveness of debt as a monitoring mechanism in the consumer goods sector appears to be limited.

Similarly, equity financing (EF) exhibits a weak positive correlation with earnings management (0.0123), implying that firms that rely more on equity issuance may engage in slightly higher earnings management. This could be due to the pressure to meet shareholder expectations, as firms issuing new equity may have incentives to inflate earnings to attract investors. However, the weak correlation suggests that equity financing alone does not strongly drive earnings management behavior in the sampled firms.

Furthermore, dividend policy (DP) demonstrates a weak positive correlation with earnings management (0.1380), indicating that firms with higher dividend payouts tend to engage in earnings management. One possible explanation is that managers may manipulate earnings upward to ensure consistent or increasing dividend payments, thereby maintaining investor confidence and avoiding negative market reactions. However, the relatively low correlation value suggests that while dividend policy is a factor, it is not a primary driver of earnings manipulation.

Likewise, firm size (FS) has a moderate positive correlation with earnings management (0.3236), suggesting that larger firms are more likely to engage in earnings management. This finding can be explained by the fact that larger firms have more complex financial structures and greater access to resources, which may enable them to manipulate earnings more effectively. Additionally, larger firms face greater pressure from investors and analysts to meet financial targets, which may encourage earnings management practices. However, an alternative explanation is that larger firms may also be subject to greater regulatory scrutiny and audit oversight, which could mitigate aggressive earnings manipulation.

Regarding potential multicollinearity issues, the correlation matrix reveals that the highest correlation among independent variables is between equity financing (EF) and debt financing (DF) at 0.5336. Since this value is well below the standard threshold of 0.7, multicollinearity is not a major concern in this study. Similarly, the correlation between firm size (FS) and equity financing (EF) is 0.3439, which indicates a moderate relationship but does not suggest multicollinearity concerns.

Pre and Post Estimation Analysis

This section presents the results of the pre- and post-estimation diagnostic tests conducted to ensure the validity and reliability of the regression models. The tests include normality, linearity, multicollinearity, autocorrelation, heteroscedasticity, the Hausman specification test, and the Breusch-Pagan Lagrange Multiplier (BPLM) test. These diagnostic procedures

are essential for verifying the underlying econometric assumptions, thereby enhancing the robustness and credibility of the regression estimates.

Normality Test

Normality is important because OLS estimators rely on the assumption that the error terms follow a normal distribution, particularly for valid hypothesis testing and the construction of confidence intervals (Gujarati & Porter, 2009). Deviations from normality can result in biased standard errors, unreliable p-values, and incorrect inferences. To assess the normality of the data, the Shapiro-Wilk test for normality was conducted. The test examines the null hypothesis that the data are normally distributed against the alternative hypothesis that the data are not normally distributed. A p-value less than 0.05 suggests that the residuals deviate significantly from normality

Table 4.3: Shapiro-Wilk Test for Normality

Variable	Obs	W-statistic	V-statistic	Z-score	p-value
EM	204	0.8778	18.543	6.725	0.0000
DF	204	0.8643	20.599	6.968	0.0000
EF	204	0.7521	37.629	8.355	0.0000
DP	204	0.4375	85.373	10.242	0.0000
FS	204	0.8734	19.218	6.808	0.0000

Source: STATA 14 Output (2025).

The results in Table 4.3 indicate that for all variables, the p-values are below 0.05, leading to the rejection of the null hypothesis of normality. This suggests that the data for earnings management (EM), debt financing (DF), equity financing (EF), dividend policy (DP), and firm size (FS) are not normally distributed.

Furthermore, the Shapiro-Wilk test on the residuals of the regression model confirms that the error terms do not follow a normal distribution, as indicated by a W-statistic of 0.8645 and a p-value of 0.0000. Given the non-normality of the data, alternative estimation techniques, such as robust standard errors or transformations, may be considered to improve the reliability of statistical inferences. However, according to the central limit theorem, normality concerns become less critical in large sample sizes ($n > 30$), making the use of robust estimators a viable corrective measure.

Linearity Test

The assumption of linearity states that the relationship between the dependent variable (earnings management) and the independent variables (debt financing, equity financing, dividend policy, and firm size) is linear. A violation of this assumption implies that the estimated regression model may be misspecified, leading to biased coefficient estimates. To test for linearity, a scatterplot analysis and residual plots were examined (See Appendix 1).

The scatterplot reveals that some variables exhibit a non-linear relationship, as indicated by curved patterns and uneven point distributions. For instance, the relationship between DF (Debt Financing) and EF (Equity Financing) appears non-linear, suggesting that a linear regression model may not fully capture the true nature of their association. Additionally, some variables display a clustering of points, indicating potential threshold effects or non-constant variance. The presence of outliers and potential heteroscedasticity further raises concerns about the validity of the linearity assumption.

Multicollinearity Test

To assess the severity of multicollinearity in the model, the Variance Inflation Factor (VIF) was computed for each explanatory variable. A VIF value above 10 typically indicates severe multicollinearity, while values between 5 and 10 suggest moderate concern. Lower values (closer to 1) indicate minimal multicollinearity, meaning the independent variables do not exhibit strong linear dependence

Table 4.4: Shapiro-Wilk Test for Normality

Variable	VIF	Tolerance (1/VIF)
EF	1.08	0.9271
DF	1.04	0.9629
DP	1.03	0.9697
FS	1.10	0.9085
Mean VIF	1.06	—

The results indicate that all variables have VIF values well below the threshold of 5, with the highest being 1.10 (FS - Firm Size). Additionally, the mean VIF value of 1.06 further confirms the absence of multicollinearity concerns. Since all variables exhibit tolerance values close to 1, it suggests that each predictor contributes unique information to the model without redundancy.

The low VIF values indicate that the independent variables are not highly correlated, ensuring that the regression estimates will be stable and reliable. The absence of multicollinearity suggests that the model can provide precise and unbiased coefficient estimates, enhancing the validity of statistical inferences. Therefore, no further corrective measures, such as variable transformation or dimensionality reduction, are necessary.

Autocorrelation Test

To test for autocorrelation, the Wooldridge test for first-order autocorrelation was conducted. The test evaluates the null hypothesis that no first-order autocorrelation exists against the alternative hypothesis that autocorrelation is present.

Table 4.5: Wooldridge Test for Autocorrelation in Panel Data

Test Statistic	Value	p-value	Decision
F(1,16)	3.829	0.0681	Fail to Reject Null

Source: STATA 14 Output (2025).

The results of autocorrelation in Table 4.5 indicate that the F-statistic is 3.829, with a p-value of 0.0681. Since the p-value is greater than 0.05, the null hypothesis that no first-order autocorrelation exists cannot be rejected.

Heteroscedasticity Test

To assess the presence of heteroscedasticity in the regression model, the Breusch-Pagan/Cook-Weisberg test was conducted. This test evaluates the null hypothesis that the residual variance is constant (homoscedasticity) against the alternative hypothesis that the variance is non-constant (heteroscedasticity).

Table 4.6: Breusch-Pagan/Cook-Weisberg Test for Heteroscedasticity

Model	Chi-square (1)	p-value	Decision
	12.60	0.0004	Reject Null Hypothesis

Source: STATA 14 Output (2025).

The results indicated that the p-value is 0.0004, which is below the 0.05 significance threshold. This leads to the rejection of the null hypothesis of homoscedasticity, confirming the presence of heteroscedasticity in the model. Given that heteroscedasticity can compromise the efficiency of standard errors and distort statistical inferences, appropriate corrective measures are required.

Consequently, the study will adopt heteroscedasticity-robust standard errors in the regression analysis to ensure the reliability of the estimated coefficients.

Hausman Specification Test

The Hausman specification test was performed to determine the appropriate model selection between the fixed effects (FE) model and the random effects (RE) model in the panel data regression analysis. The test evaluates whether the individual-specific effects are correlated with the explanatory variables.

Table 4.7: Hausman Specification Test Results

Model	Chi-square (df)	p-value	Decision
	5.37 (4)	0.2511	Random Effects

Source: STATA 14 Output (2025).

The Hausman test results in Tabe 4.7 indicate that the p-value (0.2511) exceeds the 0.05 significance threshold. As a result, the null hypothesis is not rejected, suggesting that the random effects model is the appropriate specification. This outcome implies that the individual-specific effects do not exhibit significant correlation with the explanatory variables, making the random effects model both efficient and consistent.

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The preference for the random effects model is advantageous because it allows for the inclusion of time-invariant explanatory variables, such as firm size, which would otherwise be eliminated in a fixed effects framework. Moreover, the random effects model generally produces more efficient estimates when individual-specific effects are random rather than systematic (Wooldridge, 2010). Based on these findings, the study will proceed with the random effects model for regression estimation.

Breusch-Pagan Lagrange Multiplier (BPLM) Test for Random Effects

Given that the Hausman test results favor the random effects model, the Breusch-Pagan Lagrange Multiplier (BPLM) test was conducted to further determine whether the random effects model is preferable to an ordinary least squares (OLS) regression.

Table 4.8: Breusch-Pagan Lagrange Multiplier Test for Random Effects

Chibar²(01)	p-value	Decision
82.04	0.0000	Random Effects

Source: STATA 14 Output (2025).

The test results in Table 4.8 indicate that the chi-square statistic is 82.04, with a p-value of 0.0000. Since the p-value is below the 0.05 significance level, the null hypothesis is rejected, confirming that the random effects model is more appropriate than the OLS regression model. This outcome suggests that there are substantial differences across firms, making the OLS approach unsuitable due to the inability to control for unobserved heterogeneity.

The rejection of the null hypothesis reinforces the selection of the random effects model for the study. The random effects model accounts for both within-group and between-group variations while providing efficient parameter estimates. Therefore, the study will proceed with random effects estimation, incorporating robust standard errors to address heteroscedasticity concerns and ensure the validity of statistical inferences.

Regression Analysis

The results of the robust random effects model presented in Table 4.8 examine the relationship between earnings management (EM) and the independent variables: debt financing (DF), equity financing (EF), dividend policy (DP), and firm size (FS).

Table 4.8: Random Effect Model Regression Results

Variables	Coefficients	Z Stat	P Value
Constant	-0.6442	-2.98	0.003
DF	-0.0087	-4.12	0.000
EF	-0.0125	-1.04	0.298
DP	0.0051	2.73	0.009
FS	0.0719	2.99	0.003
Overall R^2		0.5625	
Wald χ^2 (4)		48.79	0.000

Source: Stata 14 Output (2025)

The result in Table 4.8 revealed an overall R-squared value of 0.5625 suggesting that approximately 56.25% of the variation in earnings management is explained by the independent variables included in the model. The Wald chi-square statistic (48.79, $p = 0.0000$) indicates that the independent variables collectively have a significant effect on earnings management. Additionally, the fraction of variance due to firm-specific effects (rho = 0.3119) highlights that about 31.19% of the total variation in earnings management is attributed to firm-level differences. The constant term ($\beta = -0.6442$, $p = 0.003$) is negative and statistically significant, indicating that in the absence of the independent variables, earnings management would be lower. This suggests that factors beyond the model, such as corporate governance mechanisms, regulatory oversight, and industry-specific characteristics, may also play a role in shaping earnings management practices.

The regression results revealed that debt financing (DF) has a negative and statistically significant effect on earnings management ($\beta = -0.0087$, $p = 0.000$). Implying that a 1% increase in debt financing will result in decrease in earnings management. This suggests that firms with higher debt levels tend to engage in less earnings manipulation. The negative coefficient implies that as firms rely more on debt

financing, they face increased scrutiny from lenders, reducing opportunities for earnings management.

Similarly, equity financing (EF) exhibits a negative+ but insignificant effect on earnings management (β = -0.0125, p = 0.298). This suggests that equity financing does not have a strong impact on earnings management behavior. One possible explanation is that while issuing equity may reduce financial constraints, it does not necessarily limit earnings manipulation, as managers may still have incentives to manage reported earnings to meet investor expectations.

Conversely, dividend policy (DP) has a positive and statistically significant relationship with earnings management (β = 0.0051, p = 0.009). This implies that firms that distribute higher dividends are more likely to engage in earnings management. The positive coefficient suggests that firms may engage in earnings management to sustain dividend payments, even in times of financial constraints.

Furthermore, firm size (FS) shows a positive and statistically significant effect on earnings management (β = 0.0719, p = 0.003). This suggests that larger firms are more prone to earnings management practices. The positive coefficient indicates that as firms grow in size, they may have greater flexibility and managerial discretion to manipulate financial reports. Larger firms often have complex financial structures, diversified operations, and access to various accounting techniques, which may facilitate earnings management. Additionally, stakeholders may expect large firms to meet performance benchmarks, increasing the likelihood of earnings manipulation.

Hypotheses Testing

This section presents the hypothesis testing results based on the regression analysis. The decision to reject or fail to reject each null hypothesis is determined by comparing the p-values obtained from the regression results with the 5% significance level (0.05). If the p-value is less than 0.05, the null hypothesis is rejected, indicating a statistically significant effect. Conversely, if the p-value is greater than 0.05, the study fails to reject the null hypothesis, suggesting no significant effect.

H01: Debt financing has no significant effect on earnings management of listed consumer goods companies in Nigeria.

The regression result reveals a p-value of 0.000 for debt financing (DF), which is less than 0.05. This indicates a statistically significant effect of debt financing on earnings management. The negative coefficient (-0.0087) suggests that an increase in debt financing is associated with a reduction in earnings management practices. As a result, the study rejects the null hypothesis (Ho), concluding that debt financing has a significant negative effect on earnings management in listed consumer goods companies in Nigeria.

Ho2: Equity financing has no significant effect on earnings management of listed consumer goods companies in Nigeria.

The regression result shows a p-value of 0.298 for equity financing (EF), which is greater than 0.05. This implies that equity financing does not have a statistically significant impact on earnings management. Although the coefficient is negative (-0.0125), indicating a potential reduction in earnings management, the effect is not statistically strong enough to draw a definitive conclusion. Given this result, the study fails to reject the null hypothesis (H_{02}), suggesting that equity financing does not significantly affect earnings management in listed consumer goods companies in Nigeria.

Ho3: Dividend policy has no significant effect on earnings management of listed consumer goods companies in Nigeria.

The regression analysis reveals a p-value of 0.009 for dividend policy (DP), which is less than 0.05, indicating a statistically significant relationship between dividend policy and earnings management. The positive coefficient (0.0051) suggests that firms with higher dividend payouts are more likely to engage in earnings management. As a result, the study rejects the null hypothesis (HO), concluding that dividend policy has a significant positive effect on earnings management in listed consumer goods companies in Nigeria.

XVII. DISCUSSION OF FINDINGS

Debt Financing and Earnings Management

The study found a statistically significant negative relationship between debt financing and earnings management, suggesting that firms with higher debt levels engage in lower earnings management practices. This result aligns with Agency Theory (Jensen & Meckling, 1976), which posits that debt financing acts as a governance mechanism that limits managerial discretion. When firms rely on debt financing, lenders impose financial covenants, increase monitoring, and demand transparent reporting, thereby restricting the ability of managers to manipulate earnings. The finding also supports the Trade-Off Theory, which suggests that firms weigh the benefits of debt financing against the risks of financial distress. Since excessive earnings management can undermine a firm's creditworthiness, firms that rely on debt may engage in more conservative accounting practices to maintain creditor confidence.

This result is consistent with previous studies (Zhao & Wang, 2022; Foroozian & Gaskari, 2016; Norhayat et al., 2013), which found that leveraged firms exhibit lower earnings management due to external monitoring by creditors. However, it contradicts the findings of Alzahrani et al. (2023) and Ogbechie & Osagie (2023), who argued that debt financing increases earnings management, possibly due to the pressure on managers to meet debt repayment obligations. The divergence in findings may be attributed to differences in corporate governance structures and lender enforcement mechanisms across economies. In Nigeria, creditor monitoring appears to play a stronger role in discouraging earnings manipulation.

The significant negative relationship between debt financing and earnings management underscores the importance of strong creditor oversight.

Equity Financing and Earnings Management

The study found that equity financing does not have a statistically significant negative effect on earnings management. Although the negative coefficient suggests that equity financing may reduce earnings manipulation, the effect is not strong enough to be considered significant. This finding aligns with Pecking Order Theory (Myers & Majluf, 1984), which suggests that firms prefer internal financing and debt over equity because issuing new shares subjects them to investor scrutiny. Since equity investors generally focus on long-term growth and market performance rather than short-term earnings figures, managers may have less incentive to engage in aggressive earnings manipulation.

This result is consistent with previous research by Ogbechie and Osagie (2023), Chen et al. (2022), Zhao & Wang (2022), and Wong & Chua (2021), who found that equity financing has a limited impact on earnings management. However, it contradicts the findings of El-Gazzar and Othman (2022) and Gbadamosi et al. (2023), who suggested that firms with higher equity engage more in earnings manipulation to present a more favorable financial picture to stakeholders. The difference in findings may be attributed to variations in investor behavior. In Nigeria, shareholders may prioritize dividend stability and corporate governance over short-term earnings figures, reducing the need for earnings manipulation.

Additionally, Signaling Theory suggests that firms use equity financing to signal strong financial health to the market. However, in this study, equity financing does not appear to serve as a strong signal for earnings quality, indicating that other financial or operational metrics may be more important indicators for Nigerian investors. The lack of a significant effect suggests that firms should focus on maintaining financial transparency and investor confidence through non-manipulative accounting practices, rather than relying on equity financing as a determinant of earnings quality.

Dividend Policy and Earnings Management

The regression results indicated that dividend policy has a significant positive effect on earnings management, implying that firms with higher dividend payouts are more likely to engage in earnings manipulation. This finding aligns with Signaling Theory (Bhattacharya, 1979), which posits that managers use dividend payments to signal financial stability and future profitability to investors.

To maintain this perception, firms may manipulate earnings to ensure consistent dividend payments, even when underlying financial performance does not justify such distributions. This result also supports Agency Theory, which suggests that dividend payments help mitigate agency conflicts by reducing the discretionary funds available to managers. However, if managers prioritize dividend stability over transparent financial reporting, they may resort to earnings management to sustain dividend payments. The finding is consistent with DeAngelo et al. (1996), who argued that managers manipulate earnings to maintain stable dividend distributions, as investors often perceive dividend stability as a sign of financial health.

However, this result contradicts the findings of Haq et al. (2024), who found that firms boards and policymakers can use dividend payout targets to mitigate excessive free cash flows within the firm and reduce the likelihood of earnings management. The discrepancy could be due to differences in regulatory environments, investor expectations, and the maturity of financial markets. In Nigeria, where dividend-paying stocks are highly valued, firms may have stronger incentives to manipulate earnings to meet investor expectations.

The significant positive effect of dividend policy on earnings management raises concerns about potential financial misreporting in firms that prioritize dividend stability. Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should implement stricter disclosure requirements to ensure that firms do not engage in earnings manipulation to sustain dividend payments. Investors should also be aware that firms with high dividend payout ratios may be more likely to engage in earnings management, necessitating a more comprehensive evaluation of financial health beyond just dividend yields.

XVIII. CONCLUSIONS, AND RECOMMENDATION

Based on the study's findings, several conclusions can be drawn regarding the impact of financing decisions on earnings management among Nigerian consumer goods firms.

To begin with, debt financing significantly reduces earnings management, suggesting that higher debt levels impose financial discipline and limit managerial discretion in manipulating earnings. This finding aligns with Agency Theory (Jensen & Meckling, 1976), which suggests that debt financing mitigates agency conflicts by increasing external monitoring from creditors. The results indicate that firms with higher leverage are under strict financial scrutiny, leading to reduced earnings manipulation due to restrictive debt covenants and the risk of default penalties. Consequently, higher debt financing serves as a governance mechanism that curbs opportunistic earnings management behavior in Nigerian consumer goods firms.

Additionally, equity financing does not significantly influence earnings management, suggesting that firms issuing new equity neither increase nor reduce financial misreporting. This result aligns with Pecking Order Theory (Myers & Majluf, 1984), which suggests that firms prefer internal financing and debt over equity. Since firms only issue equity when other financing options are exhausted, they may already be subject to regulatory and investor scrutiny, thereby reducing the need for earnings manipulation. However, this finding contradicts the expectation that firms engage in earnings management to inflate share prices before issuing equity, as proposed by the Signaling Theory (Spence, 1973).

Furthermore, dividend policy has a significant positive effect on earnings management, indicating that firms engage in earnings manipulation to sustain stable or increasing dividend payments. This finding supports Agency Theory, which suggests that managers may engage in earnings management to align with shareholder expectations, especially in firms where dividend payments signal financial health. Similarly, Signaling Theory explains this behavior by proposing that firms use dividends as a means to convey positive financial prospects to investors. As a result, managers may manipulate earnings to sustain dividends even when actual financial performance does not justify such payouts.

Recommendations

Based on the study's findings and conclusions, the following recommendations are made:

i. Since debt financing significantly reduces earnings management, Nigerian consumer goods companies should strengthen their debt governance mechanisms. Lenders should impose strict financial covenants and regular audits to ensure compliance and prevent financial misreporting.
ii. Given that firms with aggressive dividend policies are more likely to engage in earnings management, regulatory bodies such as the Securities and Exchange Commission (SEC) and Financial Reporting Council of Nigeria (FRCN) should require enhanced disclosure of discretionary accounting choices in dividend-paying firms.
iii. To curb earnings management, companies should implement stronger corporate governance policies, including independent audit committees and enhanced board oversight, to ensure that financing decisions align with ethical financial reporting practices.
iv. Since equity financing does not significantly influence earnings management, investors should focus on long-term value creation rather than short-term earnings fluctuations. Companies should also provide more transparent disclosures on financial performance to build investor trust and reduce pressure on earnings manipulation.
v. Regulators should enforce stricter penalties for financial misreporting and require firms to disclose the impact of financing decisions on earnings quality. This will enhance investor confidence and protect financial market integrity.

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