

EARNINGS MANAGEMENT PRACTICES AND ENTERPRISE VALUE OF LISTED PHARMACEUTICAL COMPANIES IN NIGERIA

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Abstract

This study examined the impact of earnings management practices on the enterprise value of publicly traded pharmaceutical firms in Nigeria. The ex post facto research design was chosen as the most suitable approach. Data was gathered from a sample of six listed pharmaceutical companies over a thirteen-year period, spanning from 2010 to 2022. Through content analysis, relevant data was extracted from the annual audited and published financial reports of the selected firms. Earnings management practices were assessed using discretionary accruals management (DAC), real activities management (REC), and non-discretionary accruals management (NDA), while firm value was evaluated based on market capitalization (MCP) and book value (BKV). The panel least squares estimation technique was applied for data analysis, with diagnostic and robustness tests conducted beforehand. Additionally, descriptive statistics were used to summarize key characteristics of the dataset, and the Hausman test was performed to determine the appropriate model selection between fixed and random effects. The findings revealed that discretionary accruals management had a negative but statistically insignificant relationship with enterprise value suggesting its limited impact on firm valuation in the sector. In contrast, real activities management reported significant relationships with enterprise value - indicating short-term boosts to market-based valuation metrics. It was thus suggested that companies prioritize robust internal controls systems and governance frameworks in order to reduce reliance on accrual-based manipulations. Companies are advised to use real activities management cautiously and ensure it aligns with long-term growth goals. It is further suggested that if regulators should mandate periodic disclosure of real earnings management activities, this will help to promote transparency.

Keywords: Discretionary Accruals Management. Real Activities Management. Non-Discretionary Accruals Management. Market Capitalization. Book Value.

Introduction

Earnings management refers to the deliberate manipulation of a company's financial earnings or reported profits with the intent of portraying a more favourable financial performance than what may exist organically (Bassiouny, 2016; Abernathy, Beyer, & Rapley, 2014). It involves the strategic adjustment of financial data, accounting methods, or transactions to achieve specific financial targets or to present a distorted view of the company's financial health. Earnings management can take various forms, ranging from legitimate and ethical practices aimed at smoothing earnings volatility to fraudulent activities aimed at deceiving investors, regulators, or other stakeholders (Perols, & Lougee, 2011).

For example, managers can exploit regulatory loopholes in various ways to manipulate earnings, thereby influencing the perceived financial health of their firms (Ozili, & Outa, 2019; Abdullahi, et al., 2020). One common tactic involves adjusting the timing of revenue recognition, where managers prematurely recognize revenue or delay recognition to smoothen earnings over multiple periods. By engaging in practices such as channel stuffing or extending credit terms to customers, they can inflate reported revenues artificially (Afrizal, et al., 2021; Abdullahi, et al., 2020; Aguguo, et al., 2019). Similarly, managers may manipulate expenses by deferring necessary expenditures or aggressively cutting costs to boost short-term profitability (Aguguo, et al., 2019). These manoeuvres distort the true financial performance of the business organisation, and thus creating a misleading picture for investors and stakeholders (Ozili, & Outa, 2019).

Another method of earnings management lies in provisioning and reserves, in which managers manipulate the levels of provisions for bad debts, warranties, or inventory write-downs (Burgstahler, & Dichev, 1997). By selectively adjusting these reserves, managers smoothen earnings or create income reserves to offset future losses (Cheng, & Warfield, 2011). Additionally, asset valuation presents opportunities for manipulation, as managers may overstate the value of assets or delay recognition of impairments to inflate reported earnings. This practice can distort the balance sheet and mislead investors about the true value of the company's assets (Cheng, & Warfield, 2011).

Furthermore, managers may employ complex financial instruments or transactions to manipulate earnings, such as off-balance sheet financing or derivatives (Afrizal, et al., 2021; Cohen, & Zarowin, 2010). These instruments can be used to shift income or expenses between reporting periods, obscuring the true financial performance of the organisation (Afrizal, et al., 2021). Aggressive tax planning strategies also play a role in Earnings Management, where managers exploit tax loopholes or incentives to reduce reported tax expenses, thereby inflating earnings. Overall, these tactics erode the reliability of financial statements, undermine investor confidence, and ultimately impact the long-term value and sustainability of the firm (Cohen, & Zarowin, 2010; Abdullahi, et al., 2020).

Managers in business organisations undertake earnings management activities for a multitude of reasons, driven by pressures to meet expectations, maximize incentives, and signal strength to the market (Cheng, & Warfield, 2011; Cohen, et al., 2008). Firstly, there's

the imperative to meet or surpass market forecasts and internal targets, crucial for maintaining investor confidence and averting shareholder and analyst backlash. These pressures can be particularly acute in industries with high visibility and scrutiny, where failing to meet expectations could lead to negative market reactions, affecting stock prices and shareholder perceptions (Godsell, Welker, & Zhang, 2010).

Secondly, incentive compensation structures play a significant role, with executive pay often tied to financial performance metrics like earnings per share (EPS) or profitability targets (Godsell, Welker, & Zhang, 2010; Cheng, & Warfield, 2011). For example, many organisations award special bonuses and other incentives to executive based on their performance - while others may be replaced if they are unable to meet the performance expectations. Managers may manipulate earnings to inflate reported profits, thereby boosting their bonuses, stock options, or other performance-based rewards. This financial motivation creates a hard to resist incentive for managers to engage in earnings management practices, especially when compensation packages heavily emphasize short-term financial results (Hodder, et al., 2006; Cheng, & Warfield, 2011).

Earnings management can also be driven by the desire to maintain or enhance the company's market perception and attractiveness to investors (Afrizal, et al., 2021; Amarjit, et al., 2013). For example, managers may aim to signal stability, attract investors, and bolster the firm's reputation in the market by smoothing earnings or reporting consistent profit growth. These efforts to manage market perceptions can influence stock prices, market valuation, and investor sentiment and shape the company's competitive position and access to capital (Afrizal, et al., 2021). The purpose of this paper is to investigate the effect of earnings management on the enterprise value of pharmaceutical companies in Nigeria.

Statement of the Problem

Detecting earnings management poses significant challenges due to the complexities inherent in financial reporting, including subjective judgments, creative accounting techniques, and information asymmetry between managers and external stakeholders (Jackson, 2018; Cohen, Dey, & Lys, 2008). Thus, earnings management activities tend to become public only after the companies have failed and extensive investigations into their financial activities are conducted. Managers often exploit accounting rules and discretion to manipulate reported earnings through techniques such as revenue recognition timing, expense manipulation, and off-balance sheet transactions (Graham, Harvey, & Rajgopal, 2005). These practices can obscure the true financial performance of a company and make it difficult for external parties to identify instances of manipulation, especially without access to detailed internal data and processes.

Additionally, legal and regulatory ambiguities, coupled with behavioural factors such as incentive structures and performance pressures, further complicate detection efforts, as some forms of earnings management may technically comply with regulations or fall into gray areas of enforcement (Graham, Harvey, & Rajgopal, 2005; Guidry, Leone, & Rock,

2009). Thus, while there has been numerous cases and allegations in Nigeria, verifiable empirical evidence is very limited (Agbata, et al., 2022; Atu, et al., 2016).

In spite of the difficulties in detecting earnings management, researchers continue to take interest in the phenomenon considering its far-reaching consequences not only on the concerned organisation but also for the wider market. In Nigeria for example, there has been extensive empirical research relating to earnings management. A large part of this research has focused on earnings management and financial performance (Okafor, & Ezeagba, 2018; Olaniyi, & Abubakar, 2018; Olotu, et al., 2019; Saidu, et al., 2017) and relationship between earnings management and corporate governance characteristics (Okpe, 2013; Omoye, & Eriki, 2014; Uwuigbe, Daramola, & Oyeniyi, 2014); financial reporting quality (Ozili, & Outa, 2019; Osamor, Abata, & Elluh, 2020; Oraby, 2017; Rabi, Awaisu, & Khalid, 2017).

While extensive research on earnings management and financial performance has focused on industries like manufacturing, industrial goods, and financial services, studies on pharmaceutical companies remain scarce. This study aims to bridge that gap by examining the relationship between earnings management and the enterprise value of pharmaceutical companies in Nigeria.

Aim and Objectives

The aim of this research is to investigate how earnings management activities affect the enterprise value of listed companies in the pharmaceutical industry in Nigeria. The specific objectives are to:

- i. Investigate whether discretionary accruals management practice affects the enterprise value of the pharmaceutical industry in Nigeria
- ii. Evaluate whether real activity management practice affects the enterprise value of the pharmaceutical industry in Nigeria

Discussion of Concepts

Earnings management involves strategic accounting choices that influence reported financial performance. While earnings management can be a legitimate tool for aligning reported earnings with economic realities, its excessive or aggressive use raises concerns about financial transparency and investor trust (Zang, 2012; Chhabra, 2016). Companies often engage in various earnings management practices, such as income smoothing, big bath accounting, cookie jar reserves, channel stuffing, and improper revenue recognition, each of which can have different implications for market perception (Baskaran, et al., 2020).

One common earnings management strategy is income smoothing - where companies adjust accruals to stabilize earnings over multiple periods (Kliestik, et al., 2020). By doing so, firms create the perception of financial stability, which can enhance investor confidence and valuation metrics. For instance, adjusting provisions for doubtful accounts allows firms to moderate fluctuations in reported earnings, making financial results appear more

predictable to stakeholders (Uwuigbe, et al., 2015; Xie, et al., 2003). While income smoothing can provide a more accurate long-term view of a company's performance, excessive reliance on this approach can obscure financial weaknesses and mislead investors, potentially leading to capital misallocation and market inefficiencies (Baskaran, et al., 2020).

Another earnings management technique is big bath accounting. In this technique, firms take significant one-time charges in a given period to absorb future losses or expenses. This has the effect of improving profitability in subsequent periods (Patro & Kanagaraj, 2016). This practice is often used during restructuring or economic downturns to reset expectations and create a more favourable financial outlook for the future (Menicucci & Menicucci, 2020). Similarly, cookie jar reserves involve the deliberate overstatement or understatement of reserves to manipulate reported earnings across different periods (Matonti, et al., 2021). For example, a company may set aside excess provisions for bad debts during profitable periods and later release them to boost earnings in weaker periods (Ghazali, et al., 2015). While this technique can smooth out earnings volatility and meet investor expectations, it also compromises the reliability of financial reporting.

Beyond accrual-based earnings management, companies may engage in more aggressive tactics like channel stuffing and improper revenue recognition, both of which directly inflate reported earnings. Channel stuffing involves pushing excess inventory to distributors or customers before the end of a reporting period to prematurely recognize revenue (Donegan, Ganon, & Johnson, 2017). This artificially boosts sales figures but often results in inventory build-ups, product returns, and future revenue shortfalls (Gujarathi & Dugar, 2020). Similarly, improper revenue recognition involves recognizing revenue from incomplete or non-existent transactions, distorting a company's true earnings (Matonti, et al., 2021).

Although such practices may temporarily enhance financial performance and investor confidence, they increase regulatory scrutiny and risk reputational damage in the long run (Rahman, et al., 2013). On the one hand, strategic earnings management can enhance a company's financial image, attract investors, and stabilize profitability. On the other hand, excessive manipulation undermines market trust, distorts financial decision-making, and can lead to regulatory and legal consequences (Baskaran, et al., 2020).

Positive Accounting Theory (PAT)

Positive Accounting Theory (PAT) provides a framework for understanding managerial behaviours. The theory asserts that executives select accounting policies to maximize personal utility, whether through earnings smoothing, income management, or strategic accounting choices (Ruwanti, Chandrarin, & Assih, 2018). This theory links closely with earnings management, as managers adjust financial statements to achieve performance targets, manage stakeholder perceptions, and influence corporate profitability (Nalarreason et al., 2019). While such practices may enhance short-term profitability, they

can also mislead investors and create long-term financial instability (Almeshref et al., 2020).

One of the key sub-theories of PAT is the Political Cost Hypothesis (PCH), which suggests that firms adjust financial reporting to mitigate political risks, such as regulatory scrutiny and public backlash (Nasution et al., 2020). Companies that anticipate government intervention or excessive taxation may underreport earnings to appear less profitable and avoid regulatory consequences (Alayemi & Abdul-Lateef, 2017). This practice can impact profitability by reducing tax liabilities but may also distort the firm's true financial position, affecting investor confidence and long-term growth. Similarly, the Bonus Plan Hypothesis (BPH) holds that managers engage in earnings management to maximize performance-based compensation (Wiratama & Asri, 2020). Firms with executive compensation tied to financial performance metrics often see managers inflating earnings to reach bonus thresholds, sometimes at the expense of genuine profitability and sustainability (Sidik & Nurmala, 2018).

The Debt Covenant Hypothesis (DCH) further explains how earnings management influences corporate profitability by addressing financial distress concerns. Firms with restrictive debt covenants may engage in accounting adjustments to avoid breaching contractual agreements, ensuring continued access to credit and preventing increased borrowing costs (Nalarreason, Sutrisno, & Mardiaty, 2019). In this context firms use the manipulation of financial results to maintain compliance and avoid default penalties, but this practice can mask underlying financial weaknesses, ultimately affecting profitability and long-term financial health (Kaya & Turegun, 2017).

Empirical Evidence

Temile, Dubem, Dadang and Biatna (2021) explored the effects of accounting manipulation on the financial performance of 90 listed Nigerian non-financial firms from 2007 to 2019. Utilizing panel regression analysis and secondary data from annual reports, the study identified both positive and negative impacts of various manipulation techniques on return on assets. Incorrect asset valuation and timing of transactions positively influenced performance while revenue falsification and understated liabilities had detrimental effects on performance. The research recommended engaging qualified financial analysts to scrutinize financial statements. They also suggested enforcing stricter regulations to curb unethical practices.

Olaoye and Akinleye (2020) investigated the relationship between accrual-based earnings, real earnings management, and the value of listed manufacturing companies in Nigeria. Employing panel least square regression techniques for pooled, fixed, and random effects models in addition to various diagnostic evaluation techniques, the researchers. Findings of the research revealed a positive relationship between accrual-based earnings management and the firm's return on equity (ROE). Individual assessments of quoted manufacturing companies further highlighted the influence of both accrual-based and real earnings management on ROE, with the former positively impacting and the latter

diminishing ROE. The study concluded that earnings management tends to favour the manipulators of accounts, with consequential impact on investor decisions regarding investment worthiness.

Abdullahi, Norfadzilah, Umar, and Ademola (2020) investigated the financial determinants of earnings management on the profitability of companies in Nigeria. Leveraging a panel data approach that included eighty-four listed companies on the Nigeria Stock Exchange, with seven hundred and fifty six firm-year observations spanning from 2010 to 2018, the researchers analyzed the dataset using multiple regression analysis. Their findings revealed a significant and positive relationship between earnings ability and profitability, as measured by ROA which suggests that heightened earnings ability correlates with increased profitability among listed companies. Furthermore, companies engaging in Earnings Management were observed to exhibit higher levels of profitability. Okafor and Ezeagba (2018) explored the impact of Earnings Management on the performance of corporate organizations operating within the Nigerian context. Leveraging a sample comprising seventeen (17) firms listed in the Nigerian stock exchange under the consumer goods sector, the study analysed data extracted from corporate annual reports and accounts spanning the period from 2010 to 2014. Employing a simple regression analysis, the study found a negative albeit statistically insignificant effect of Earnings Management on the performance of corporate firms.

Olaniyi and Abubakar (2018) investigated the impact of Real Earnings Management on future financial performance of listed consumer goods companies in Nigeria. Spanning a period of sixteen (16) years from 2001 to 2016 and employing a dataset sourced from the audited financial statements of twenty two (22) quoted companies and the panel Generalized Method of Moments Analysis Techniques. The findings revealed that consumer goods companies in Nigeria often resorted to Earnings Manipulation - particularly through sales tactics which tended to enhance financial performance insignificantly. The study concluded that there was need for stringent adherence to accounting standards to curtail opportunistic management discretion in financial transactions. It also advocated for the imposition of stricter penalties on firms involved in such practices to promote transparency and integrity in financial reporting practices.

Saidu, Ocheni, and Muktar (2017) assessed the impact of Earnings Management on the financial performance of listed Deposit Money Banks (DMBs) in Nigeria. Extracting data from the annual reports and accounts of five sampled banks over the period 2011 to 2015, the study utilized loan loss provision as a proxy for Earnings Management, while Return on Assets (ROA) served as a proxy for bank performance. Employing linear regression of pooled ordinary least squares for data analysis, the research uncovered noteworthy insights. Although the study identified the existence of Earnings Management practices within Nigerian Deposit Money Banks, it failed to establish any statistically significant impact of Earnings Management on Return on Assets. The study recommended for the implementation of proper and rigorous measures for the evaluation, examination, and

scrutiny of financial statements of Deposit Money Banks, despite the lack of a significant relationship between the variables.

Methodology

The ex-post facto design is considered appropriate for this study because it is concerned with the analysis of data on past event to explain the behavioural impact, relationship, effect or differences between variables (Kim, & Singhal, 2003). The target population of interest comprise of all listed pharmaceutical companies in Nigeria. The choice of this population is informed by the fact that there has been minimal research interest in evaluating how earning management affect the enterprise value of companies in the sector. Where the target population is very small like in this case, it may be feasible to conduct a census rather taking a sample. This involves studying the entire population rather than selecting a sample subset (Kim, & Singhal, 2003). This approach provides a comprehensive and accurate representation of the population characteristics. This ensures that the conclusions of the research can be reliably generalized to all companies in the industry. Based on information on the website of the Nigeria Exchange Group (NGX), there are seven listed pharmaceutical companies in Nigeria. However, one of these companies (Mecure PLC) is a recent listing (2023) and as such is not eligible for the research. The sample for this study comprise of all six companies in the sector with adequate dataset.

Consistent with the suggestions of the research design, the data for this study are entirely secondary in nature. This is obtained through the process of content analysis on historical economic events and business transactions reported in the audited annual reports and accounts as well as other publications of the relevant companies. The period of interest spans thirteen years period from 2010 - 2022. In addition to relying on published audited annual reports and accounts as the primary sources of data, the research also collect complementary data (where necessary) from the individual websites of the concerned companies as well as the Nigeria Exchange Group (NGX) website.

The study employed variables in literature to measure the criterion variable - Enterprise Value (EVL). Similarly, the explanatory variable (earnings management) which is discussed with its dimensions as: discretionary accruals management (DAC), and Real Activities Management (REC). It is also important to note that computation of earnings management is based on the Modified Jones Model. This model is deemed most suitable as it does not only address the lapses in the earlier Jones Model, its measurement parameters are present in the audited annual reports of listed companies in Nigeria.

The data is analysed with the aid of descriptive statistic and panel least square (PLS) regression method. Other diagnostic tests are conducted to establish validity. These include, test for stationary, heteroskedasticity and breusch and pagan LM test for random effects. It is posited that enterprise value (EVL) is functionally dependent on earnings management which was measured using discretionary accruals management (DAC), and real activities management (REC). Additionally, Firm Size (FZE) is included in the model as a moderating variable. This is represented as a functional equation:

Enterprise Value = f(Earnings Management, Firm Size) 1

The above functional form is expanded as follows:

$EVL = f(DAC, REC, FZE) \dots\dots\dots 2$

The following statistical models is used

$EVL = \beta_0 + \beta_1 DAC + \beta_2 REC + \beta_3 FZE + \varepsilon I \dots\dots 3$

Data and Results

Table 1 reports the descriptive statistics for the dataset used in this study. Enterprise value (EVL) displayed a similar trend as market capitalization - with mean and maximum values that are identical to market capitalization at ₦6.62 billion and ₦65.1 billion, respectively. For firm size (FZE), calculated as the natural log of total assets, the mean is 7.4015 with a standard deviation of 6.9036, indicating relatively consistent asset sizes across the sample.

Table 1: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Obs.
EVL	6620000000	2370000000	65100000000	2.02E+08	11600000000	78
FZE	7401524	4545128	31121864	1487556	6903637	78
DAC	10.04918	0.640256	621.6634	-63.1077	73.18334	78
REC	1.34374	1.124411	9.439237	-1.07616	1.9737	78

Discretionary accruals (DAC), which represent earnings management, exhibit a mean of 10.049, but the extreme values range from -63.11 to 621.66, which suggests that some companies engage in highly aggressive earnings management. Real earnings management (REC) had a mean of 1.34, with moderate variability, reflected in a standard deviation of 1.97. Finally, observations indicated 78 firm years which is explained by the fact that there were six companies with data available for a period of 13 years from 2010 to 2022.

Table 2 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	18.46554	4	0.001

The Hausman test results in table 4.8 analyze Enterprise value (EVL) in relation to discretionary accruals (DAC), real earnings management (REC), and firm size (FZE). The test reported a Chi-Square statistic of 18.46554 with a p-value of 0.001. This indicated a statistical significance at the 5% level. This result rejects the null hypothesis in favour of the fixed effects model. It implies that unobserved firm-specific factors significantly influence enterprise value, making fixed effects the preferred estimation method to account for these variations in the analysis.

Table 3 Panel Least Square Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.88935	1.303594	8.353336	0.0000
DAC	-0.00043	0.000374	-1.149552	0.2544
REC	0.051705	0.022459	2.302178	0.0244
FZE	-0.220457	0.19837	-1.111341	0.2703

R-squared: 0.87577; F-stat: 53.2628; Prob.(F-stat): 0.0000;

Durbin-Watson stat: 0.8011

Table 3 reports the regression results for the relationship between discretionary accruals (DAC), real earnings management (REC), and firm size (FZE) on Enterprise value (EVL) of listed pharmaceutical firms in Nigeria. Following the Hausman test results in Table 4.8, the fixed effects model was selected as the appropriate estimation technique, as it accounts for unobserved firm-specific effects. From the result, the relationship between discretionary accruals (DAC) and Enterprise value (EVL) was negative and with a regression coefficient of -0.00043. This result suggests that a unit increase in DAC leads to a 0.043% decrease in enterprise value, further implying that earnings manipulation through discretionary accruals had a slightly adverse effect on enterprise value. However, the relationship was not statistically significant, as indicated by a t-statistic probability of 0.2544 which is greater than the 0.05 significance threshold. This implies that discretionary accruals do not significantly impact enterprise value in this context.

Real earnings management (REC) also reported a positive and statistically significant relationship with Enterprise value (EVL). The regression coefficient of 0.0517 indicates that a unit increase in Real earnings management would result in a 5.17% increase in enterprise value. The t-statistic probability of 0.0244, which is below the 0.05 critical value further confirms the significance of this relationship. This result suggests that firms engaging in real activities management may experience short-term boosts in enterprise value, potentially due to increased operational activities or market perceptions.

Firm size (FZE) also exhibited a negative relationship with Enterprise value (EVL), with a regression coefficient of -0.2205. This implies that a unit increase in firm size is associated with a 22.05% decrease in EVL. However, this relationship is not statistically significant, as evidenced by a t-statistic probability of 0.2703, which is higher than the 0.05 significance threshold. This finding suggests that firm size alone does not play a substantial role in determining enterprise value within the studied sample. The overall regression model indicated a strong explanatory power, with an R-squared value of 0.87577 which indicating that approximately 87.58% of the variability in enterprise value is explained by DAC, REC, and FZE. The F-statistic of 53.2628 and its associated p-value of 0.000 confirm the overall significance of the model.

Discussion of Findings

Findings from the data analysis revealed that discretionary accruals (DAC) which is often associated with earnings manipulation showed a consistent negative but statistically insignificant relationship with enterprise value. This indicates that its limited impact within the pharmaceutical sector in Nigeria. A negative relationship was reported between discretionary accruals and enterprise value. The regression coefficient of the relationship reported a value of -0.00043 and a statistically insignificant probability ($p = 0.2544$). This also suggested a minor decline in Enterprise value (EVL) due to higher discretionary accruals.

However, the lack of statistical significance indicates that discretionary accruals do not play a critical role in shaping the enterprise value of firms in this sector. This aligns with the findings of DeFond and Park (2001). They argued that discretionary accruals have a limited impact on broader valuation measures similar to enterprise value. This is especially so in industries like pharmaceuticals where earnings are less volatile or accrual manipulations are harder to detect. The negative but insignificant relationship between discretionary accruals and enterprise value measure in this study suggests that earnings management practices using discretionary accruals may not significantly influence the intrinsic valuation of firms in the pharmaceutical sector.

The results further shows that there was a significant positive relationship between real activities management (REC) and Enterprise value (EVL). The reported coefficient of regression gave a value of 0.0517 and a probability value of 0.0244. This suggested that a unit increase in real activities management is associated with a 5.17% rise in enterprise value which is similar to its impact on market capitalization. This finding implies that real earnings management can enhance the broader valuation of a firm, particularly when operational activities lead to improved revenue figures or market perceptions. The significant positive relationship of real activities management on enterprise value suggests that analysts and investors in the sector may favour short-term performance improvements even where they arise from operational distortions.

Conclusion and Recommendations

From the findings, it is concluded that the non-significant negative relationship between discretionary accruals management and enterprise value indicates that discretionary accrual practices have minimal impact on firm valuation measures that incorporate both equity and debt perspectives. Consequently, companies may not derive significant benefits from manipulating discretionary accruals. On the other hand, the significant positive relationship observed between real activities management and enterprise value suggests that operational manipulations can enhance broader valuation and reflect their ability to influence market perceptions and financial performance indicators. Considering that discretionary accruals management negatively impacts enterprise value, it is suggested that companies prioritize robust internal controls systems and governance frameworks in order to reduce reliance on accrual-based manipulations. This can be achieved if regulators

can strengthen disclosure requirements in such a way that makes it mandatory for firms to report any material adjustments to discretionary accruals. The significant positive relationship between real activities management and enterprise value indicates its ability to improve valuation temporarily. In this case, companies are advised to use this practice cautiously and ensure it aligns with long-term growth goals. It is further suggested that if regulators should mandate periodic disclosure of real earnings management activities, this will help to promote transparency. Ultimately, businesses must enforce stricter regulatory oversight of accounting practices to prevent the misrepresentation of assets and liabilities. Investors are also encouraged to consistently assess earnings quality and carefully analyze financial statements for potential signs of discretionary accrual manipulation to make well-informed investment choices. Furthermore, regulators should strengthen monitoring systems to ensure that accrual adjustments consistently comply with accounting standards and do not distort a company's financial performance, thereby protecting stakeholder interests.

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