EARNINGS QUALITY AND FINANCIAL PERFORMANCE OF CONSUMER GOODS FIRMS IN NIGERIA

Yikarebogha Erorogha Akpos Ph.D.
Department Of Accounting
Federal University Otuoke, Bayelsa State.
yikareboghaea@fuotuoke.edu.ng

Izein Brother Claudius
Department of Accounting
Federal University Otuoke, Bayelsa State
izeinnathan@gmail.com

Corresponding Author: yikareboghaea@fuotuoke.edu.ng
DOI: https://doi.org/10.57233/ijamer.v2i2.21

Article History: Received: 10 May 2026 | **Revised:** 17 May 2026 | **Accepted:** 30 May 2026 | **Published:** 25 June 2026

How to Cite This Article:
Akpos, Y. E., & Claudius, I. B. (2026). Earnings quality and financial performance of consumer goods firms in Nigeria. *International Journal of Accounting, Management and Economic Review, 2*(2). https://doi.org/10.57233/ijamer.v2i2.21

Abstract
This study investigated the relationship between earnings quality and firms' performance of consumer goods in Nigeria. The objectives of the study were to determine whether the Jones model, income smoothing, earnings persistence, and value relevance have any relationship with the profitability of Nigeria Exchange Group quoted consumer goods companies using return on assets as a measure of profitability. The study covered the period 2009-2024, while secondary data collection was done by obtaining data from the reviewed companies' financial statements. Analysis was conducted using correlation analysis, panel unit root test, and regression model estimation. The test results revealed that the Jones model, income smoothing, earning persistence, and value relevance have no significant relationship with the return on assets of Nigerian consumer goods companies the study therefore recommended that management should continue to use the Jones performance-adjusted DAC model.

Keywords: Earnings quality, earnings persistence, income smoothening, jones model, value relevance.

1.0 Introduction

Earnings quality is a pivotal concept in financial reporting that reflects a company's reliability and sustainability. High quality earnings are characterized by their ability to accurately represent a firm's financial performance over time, whereas low-quality earnings may arise from aggressive accounting practices or earnings management, which can mislead stakeholders about a firm's actual performance (Fassas*et al.,* 2023). In the consumer goods sector, which encompasses companies that produce essential products for daily consumption, the implications of earnings quality are particularly pronounced. This sector is characterized by intense competition, rapid changes in consumer preferences, and varying economic conditions, all of which can influence a firm's FRPs. Recent studies have shown that firms with higher earnings quality tend to have better market performance and are perceived as less risky by investors, thereby enhancing their overall firm value (Hugos, 2023).

The relationship between earnings quality and firm performance is further complicated by factors such as corporate governance, market conditions, and regulatory frameworks. For instance, strong corporate governance mechanisms can enhance earnings quality, which in turn positively impacts firm performance (Ghofir*et al*., 2020). Additionally, the adoption of IFRS has introduced new complexities in financial reporting, making it essential to

investigate how these changes affect earnings quality and, consequently, firm performance in the consumer goods sector (Gajdosikova*et al*., 2022).

The potential impact of earnings quality of investor decision and market stability underscores the importance of earning. High-quality earnings can increase investor confidence, whereas low-quality earnings may result in market volatility and uncertainty. Understanding the dynamics of earnings quality and its influence on firm performance is vital for stakeholders, including investors, management, and policymakers.

The relationship between earnings quality and firm performance is critical, yet underexplored, particularly in the context of listed CG firms. Despite the essential role that consumer goods companies play in the economy, many of these firms face significant challenges in ensuring high quality earnings. This problem is intensified by several factors, such as competitive pressures. The consumer goods sector is characterized by fierce competition, which can incentivize firms to engage in earnings management to present a more favorable financial position. In striving for short-term gains, companies may resort to aggressive accounting practices that compromise the integrity of their financial statements. This practice can lead to inflated earnings, which do not reflect the firm's true economic performance (Gajdosikova*et al*., 2022).

Market expectations which are that investors and analysts often have high expectations regarding earnings performance, leading management to feel pressured to meet or exceed these expectations. This pressure can result in the manipulation of financial results, which may mislead investors and distort the firm's perceived financial health. When actual performance eventually diverges from reported earnings, significant drop in stock prices and investor trust can occur.

The shift toward theInternational Financial Reporting Standards (IFRS) has introduced complexities in how earnings are reported. While IFRS aims to enhance transparency and comparability, firm's interpretation and application of these standards can vary significantly. This variability can lead to inconsistencies in earnings quality, making it difficult for stakeholders to accurately gauge true performance (Gajdosikova*et al*., 2022). While there is considerable literature on earnings quality, there is a noticeable scarcity of studies that specifically focus on its impact on firm performance within the consumer goods sector. This gap highlights the need for empirical research that investigates the direct correlation between earnings quality and various performance metrics in this industry. Given these challenges, research that not only examines the state of earnings quality among listed consumer goods firms but also explores its implications for overall firm performanceis urgently needed. This study aims to address these gaps by delving deeper into the specific earning quality that impactsconsumer goods companies'performance in Nigeria. Based on the objectives and focus of the study on earnings quality and listed consumer goods firms in Nigeria, the following hypotheses are formulated:

H_{01}: Income smoothing has no significant relationship withreturn on assets of quoted consumer goods firms in Nigeria.

H_{02}:Earnings persistence has no significant relationship withreturn on assets of quoted consumer goods firms in Nigeria.

H_{03}: The value relevance model has no significant relationship withreturn on assets of quoted consumer goods firms in Nigeria.

Literature Review

Earnings quality is a critical aspect of financial reporting that significantly influences investors, analysts, and other stakeholders' decision-making processes. It refers to the degree to which a firm's reported earnings reflects its true economic performance, free from manipulation or distortion. High-quality earnings are sustainable, reliable, and indicative of a company's actual financial health, whereas low-quality earnings may arise from aggressive accounting practices or earnings management, leading to a misrepresentation of a firm's performance (Dechow et al., 2023; Fassas et al., 2023).

Income Smoothing

According to Lyu et al. (2017), income smoothing is the process by which business organization management applies accounting principles to level out uneven and fluctuating earnings from one accounting period to the next. According to Caballero and Krishnamurthy (2008), it is employed to mitigate significant volatility, reductions, and shareholders' high-performance expectations. Accordingto earlier research, the opportunistic activities of income smoothing refer to corporate managers' self-interested behaviors. This is because managers have an incentive to engage in income smoothing to achieve personal goals such as bonus-compensational plans and targets, close gaps caused by managerial incompetence, and meet expectations, especially when there is a divergence between the actual income and the expectations of shareholders and other stakeholders (Hamm et al., 2018). Institutional pressures, investor protection, and corporate governance also ensure a positive picture of the underlying economic success of the company's financial activities (Cahan et al., 2008). However, Chung et al. (2015) proposed that income smoothing motivation is comparatively linked to wage quality and motivation by formativeness or opportunism.

Earnings Persistence

The time-series metric known as earnings persistence gauges how much permanent earnings innovations affect projected future profits. This parameter explains the relationship between earnings and firm valuation Kormendi & Lipe, 1987; Ohlson, 1995). Persistent earnings are useful for stock return Collins & Kothari, 1989) and earnings forecasts (Frankel & Litov, 2009). A business's value is impacted by anomalous earnings that follow an autoregressive process, and the parameter of earnings persistence shows how sensitive the firm's value is to earnings realization (Ohlson, 1995). Companies with more consistent earnings have a more "sustainable" cash flow stream and earnings, making them more valuable inputs for stock valuation models (Dechow et al., 2010). The second consequence of earnings persistence is that it is a gauge of managerial time orientation and long-term performance. Knowledge asymmetry regarding long-term performance is attributable to myopic behavior (Jacobson & Aaker, 1993), which may be mitigated by the persistence of the accounting series. Cheng et al. (2007) also highlighted how capital markets misprice current earnings when the persistence of earnings components due to earning persistence is misjudged.

Value Relevance

The degree to which investors consider accounting statistics from financial statements when making equity investment decisions is referred to as value relevance. It is the degree to which variations in accounting data account for stock price variations (Brown et al., 2019). Several studies have used the coefficient of determination of the regression model of equity market value versus profits and book values to quantify value relevance (Lev & Zarowin, 2021; Nwaeze, 2019). In this study, value relevance is defined as the degree of correlation between stock prices and financial statement items. The degree to which market-based performance

metrics typically represented by stock price shifts reflect cash and accrual performance metrics, which are frequently found in financial statements.

Firm Performance

Firm performance is a multidimensional construct that measures a company's effectiveness in achieving its financial and operational objectives. It is typically assessed through various quantitative metrics that reflect a firm's profitability, market valuation, growth potential, and overall financial health. Understanding firm performance is important for all relevant stakeholders by providing an understanding of a firm's value-generating ability and its sustenance.

Return on Assets

This shows how profitable a business is in relation to its overall assets. It is a crucial ratio that offers a benchmark for assessing an organization's management effectiveness. An accounting-based metric called return on assets is used to assess a company's operational and financial success. The return on assets is a measure of profitability. Although it may be skewed by off-balance-sheet activities, ROA shows the capacity of management to make money from the bank's assets (Obiora et al., 2022). It measures how much profit an organization makes relative to its total resources. The income statement or statement of comprehensive income provides net income, which is the business's profit after taxes (Chinedu et al., 2023). ROA is a profitability metric that accounts for the assets required to generate revenue. Return on assets (ROA), ascertained by the division of net profit total assets, gauges how well a business uses its resources to turn a profit, especially in the manufacturing sector. The greater this ratio, the stronger the organization's economic unity, which indicates how well management makes use of its assets to produce profit and also reflects the ratio of an organization's earnings on its assets base. According to the measurement, the more effectively assets are used to benefit shareholders, the better the return on assets. According to Akinleye (2022), the return on assets is the net income of a business expressed as a proportion of its total assets. Return on assets indicates that companies with more assets are more eager to buy more assets. Management's ingenuity to generate returns on the company's assets or resources are ascertained by returns on assets.

The amount of revenue included in this computation is income before interest expenditure is deducted because interest is a return to creditors for the resources they provide to the business. Consequently, the return on assets is determined by multiplying net income + interest expense by the average asset investment over time, whereas adjusted income is determined by multiplying net income interest expense by the average asset investment over time. It is a metric that evaluates the efficiency of assets used and displays the profits the business has made from its capital asset investment to investors. A company's rate of return on assets is the strongest indicator of how well its assets are being used. The return on assets demonstrates how much the company's managers are investing in net income to shareholders. It is a profitability ratio for a business's net income. It is a metric that evaluates the efficiency of assets used and displays the profits the business has made from its capital asset investment to investors. A company's rate of return on assets is the strongest indicator of how well its assets are being used. The return on assets demonstrates how much the company's managers are investing in net income to shareholders It is a profitability ratio for a business's net income.

Theoretical Review

For the research work on earnings quality and firm performance of listed consumer goods firms, adopting a combination of agency and signaling theories would be particularly effective.

Agency Theory

According to agency theory, a principal-agent relationship develops when a party known as the principal delegates authority to making a decision to another party called the agent under a contract (Jensen & Meckling, 1976; Clarke, 2004). According to Jensen and Meckling (1976), a principal-agent relationship is a contract in which one or more individuals (principals) hire another individual (the agent) to perform certain tasks on their behalf, including granting the agent some degree of decision-making authority. Driven by greed, management is tempted to pursue personal goals rather than the principal's, despite the "article of faith" in an agency agreement being for both the principle and the agent to strive towards the principal's interest. An agency dilemma arises from this conflict of interest or objective incongruence. From a business standpoint, an agency relationship is created when shareholders, who are the resource owners, provide management, who runs the company, with the responsibility of managing an entity. In this way, management becomes the agent of shareholders. In this type of relationship, the agent (management) is expected to pursue the goal of maximizing shareholder wealth.

Signaling Theory

The focus of signaling theory is understanding why some signals are trustworthy and others are not in terms of making decisions. The theory examines the accuracy and dependability of accounting data that a business provides to its consumers to enable potential investors to make informed investment decisions. According to Spence's (1973) theory, a well-performing company sets itself apart from a nonperforming one by providing a reliable signal about its performance to potential investors and capital markets. A company's operating activities produce signals that inform investors about the company's prospects going forward. A strong framework for examining the connection between earnings quality and company performance in the consumer goods industry will be provided using a dual-theory approach of agency and signaling theories. This method enables a comprehensive analysis of both external impressions and internal governance systems, producing deeper insights and more useful findings.

Review of the Empirical Literature

Okereke (2022) used discretionary accruals as proxy for earnings management. Panel data regression analysis was used on Nigerian consumer goods firms in the period covered (2017-2021). The audit quality was categorized based on whether auditing was done by the Big Four firms or smaller firms. The study found that firms audited by Big Four firms had significantly lower discretionary accruals than firms audited by smaller audit firms, implying that high-quality audits reduce earnings manipulation.

Khan et al. (2020) tested the relationship between earnings quality (measured by accruals quality) and firm performance (measured by ROA and ROE). Ordinary Least Squares (OLS) regression was employed to analyze data from 120 Pakistani consumer goods firms over 6 years (2014-2019). The study found a positive relationship between quality of earnings and financial performance. Firms that maintained high earnings quality had higher ROA and ROE, indicating stronger financial performance. Roychowdhury (2021) investigated real activities manipulation by examining how operating decisions, such as overproduction,

reduce discretionary expenses. This study used quantitative analysis of real activities manipulation (RAM), examining data from publicly listed consumer goods firms. The study found that while RAM helped stabilize short-term financial outcomes, it harmed long-term firm performance. Firms engaging in manipulation saw a reduction in investor trust and a decline in future growth prospects. Grewal et al. (2020) examined the impact of DT on earnings quality and financial performance. The sample included consumer goods firms that implemented e-commerce platforms and digital tools for customer engagement and financial reporting. The study used regression analysis. The findings revealed that firms using digital technologies, such as e-commerce platforms, big data analytics, and cloud-based financial reporting systems, showed enhanced earnings accuracy and investor confidence. These firms also reported higher sales growth and market share.

Ashtiani et al. (2022) evaluated the impact of earnings restatements and financial performance metrics, such as ROE and earnings volatility, as proxies for earnings quality. This study employed a comparative analysis of financial data from 200 global firms, focusing on their compliance with the International Financial Reporting Standards (IFRS) standards. The study found that IFRS-compliant firms exhibited fewer financial restatements, higher earnings quality, and more stable financial performance. These firms could manage earnings more accurately, resulting in better investor trust and reduced stock price volatility. Koutsou et al. (2021) examined what relationship exist between corporate social responsibility (CSR) and earnings quality for which the sample consisted of European consumer goods firms that actively engaged in CSR initiatives. Multivariate regression analysis was adopted for this study. Firms with strong CSR programs, such as sustainability efforts and ethical labor practices, reported higher earnings quality. These firms could build stronger consumer trust, which translated into enhanced financial performance.

3.0 Methodology

This study adopted a correlational research design to examine the relationship between earnings quality and financial performance of listed consumer goods firms in Nigeria. The population comprised all sixteen (16) consumer goods listed in the Nigerian Exchange Group (NGX) during the period 2009-2024. A consensus sampling approach was employed whereby all the sixteen (16) firms with complete and accessible financial data throughout the study period were included in the analysis. Secondary data were extracted from the audited annual reports and accounts of the selected firms, as well as relevant publications of the Nigerian Exchange Group. The use of secondary data was appropriate because the variables investigated are accounting and market-based measures that are objectively reported in the financial statements.

Model Specification and Technique for Data Analysis

Data were analyzed using descriptive statistics, correlational analysis, and simple linear regression techniques. Financial performance was measured using Return on Assets (ROA), while earnings quality was proxied by Income Smoothing (SM), Earnings Persistence (PER), and Value Relevance (VALR).

Model Specification

$ROA = f(SM, PERS, VALR)$ ……..(1)

$ROA = \beta o + \beta 1SM + \beta 2PERS + \beta 3VALR + \varepsilon it$ ……...(2).

Because of the panel nature of the data, the model is further stated as follows:

ROAit + βo + β1SMit + β2PERSit+ β3VALRit + εit …….(3).
Measurements and Explanations of Earnings Quality Variables

Income Smoothing
SM = Income Smoothing = Standard deviation of Earnings Per Share = σ(EPS).

The standard deviation of EPS for each company for the periods under study (2009-2024).
Earnings Persistence (PERS)

NIBEit = βo + β1NIBEit-1 + it ……(2).

Where NIBE = net income before the extraordinary items. NIBEit-1= NIBE last year. Bo = Constant εit = Stochastic White Noise or Error term.
To calculate PERS, the cross-sectional regression analysis of Equation 2 is run for each firm from 2009 to 2024 and obtain β1 which is the slope coefficient of NIBEit-1

Value Relevance
RET = βo + β1NIBEit/MPSit + it (3).
Where RET = stock return; NIBE = net income before extraordinary items; MPS = Market Price per Share; Bo = Constant εit = Stochastic White Noise or Error term.

To calculate VALR, the cross-sectional regression analysis of Equation 3 above was run for each firm from 2008 to 2023 and obtain the R-squared (R2) of equation 3.

4.0 Data Analysis and Discussions
Various relevant analyses were conducted on the regression models and the performance of some diagnostics.

Table 4.1
Univariate data analysis (descriptive statistics)

Variables	Number of observations	Mean	Std Deviations	Minimum	Maximum	Probability of Jarque-Bera
SM	256	0.046993	0.048658	-0.093086	0.164478	0.000000
PERS	256	0.427582	0.341817	-0.093086	0.966650	0.000016
VALR	256	0.4290	0.339782	-0.093086	0.966650	0.000013

Source: Researcher's computations (2025) using EViews 13 software.

The variables' mean values, standard deviations, minimum, maximum, and Jarque-Bera Statistics Probability values are all displayed in Table 4.1 above. The mean values of PERS, and VALR are higher than the corresponding standard deviation values (Mean>SD). This indicates that the variables' averages are rather high because there are no outliers in their dataset, which means that there is no significant difference between the highest and lowest values over the previous 16 years (Lestari & Setiany, 2023). Nevertheless, the mean value of SM is less than its standard deviation (Mean<STD). This indicates that outliers exist in the data set for this variable, resulting in a large difference between the highest and lowest values

during the previous 16 years, indicating a relatively low average (Lestari & Setiany, 2023).

The null hypothesis of a normal distribution can be accepted or rejected at the 0.05 level using the likelihood of the Jacque-Bera statistic. In other words, we can determine whether our variables are normally distributed using the Jacque-Bera statistic and its associated p-value. When the Jacque-Bera statistic's p-value is more than 5%, we agree that a variable is normally distributed; when it is equal to or less than 5%, we reject this normalcy hypothesis. Because of the extremely low probability values of 0.00000 in Table 4.1, all the key variables are abnormally distributed. If the assumption of normalcy is not taken seriously, drawing accurate and trustworthy conclusions regarding a study may be impossible. However, Ghasemi and Zahedias (2012) pointed out that the violation of the normalcy assumption should not result in significant issues with sufficiently large sample sizes (>30 or 40). Because of the number of observations in this study 255 non-normality is not a concern.

Bivariate Data Analysis (Correlation Analysis)

Table 4.2

Correlation Statistics

Variable	JONES	SM	PERS	VALR
JONES	0.068355			
	1.000000			
SM	-0.001544	0.002358		
	-0.121581	1.000000		
PERS	-0.003521	0.002608	0.116382	
	-0.039475	0.157404	1.000000	
VALR	-0.004084	0.002404	0.115625	0.115001
	-0.046062	0.145975	0.999442	1.000000

Source: Researcher's computations (2025) using EViews 13 software.

The initial goal of the correlation analysis is to ascertain the relationship between each pair of independent and dependent variables and between the explanatory factors. This shows how strongly the explanatory factors are related to one another.

There are three possible associations: mild (0.00-0.5), moderate (0.51-0.8), and high (0.81 and above). A multicollinearity issue arises when a very strong correlation exists between the regressors. According to Gujarati (2004), multicollinearity might only be an issue if the correlation coefficient between regressors is more than 0.80. All of the variables of interest have a very weak connection, with the exception of VALR to PERS at 0.999442, according to Table 4.2. This confirms that the variables do not have a multicollinearity issue.

Unit Root Test

An initial analysis was conducted to determine whether or not the variables were steady to determine the properties of panel data The PP - Fisher Chi-square and Hadri unit root tests were conducted, and the results are shown in Table 4.3

Table 4.3:

Unit Root Test Results (P-values)

Variables	Levin, Lin and Chu t*	Hadri Z-Stats	Decision for stationarity
ROA	0.7305	0.0000	Stationary
SM	0.2660	0.0000	Stationary

PERS	Not Applicable	0.0000	Stationary
VALR	0.8687	0.0000	Stationary

Source: Researcher's computations (2025) using EViews 13 software.

According to the Levin, Lin and Chu t* and Hadri unit root test results at 5% critical values, at least one of the variables is stationary at levels (Table 4.3). Because at least one of the pertinent variables is I(0) or stationary at levels, all variables are I(0). When variables are not constant, regression findings may be erroneous or illogical because they may gradually drift away (Maeso-Fernandez et al., 2004). We can proceed with the regression estimation utilizing the OLS approach of estimate based on the results of this unit root test. However, this study employed the GLS regression method because our GLS results produced a more effective estimation than the OLS results of either the pooled OLS or the random effect models.

Estimation of regression models

The connection between the independent and dependent variables is examined using the Panel Estimated Generalized Least Squares (EGLS) model to determine the effect of earnings quality on the performance of Nigerian listed consumer goods companies.

Table 4.4:
Results of Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SM	-1.784453	0.888794	-2.007723	0.0457
PERS	14.77378	1.117469	13.22076	0.0000
VALR	-15.97387	1.094365	-14.59648	0.0000
C	1.036287	0.082964	12.49084	0.0000
Weighted Statistics				
R-squared	0.999848	Mean dependent var		-8.730794
Adjusted R-squared	0.999846	S.D. dependent var		78.07763
S.E. of the regression	0.960900	Sum squared resid		230.8320
F-statistic	411214.1	Durbin-Watson stat		1.947745
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.002393	Mean dependent var		1.080114
Sum squared resid	36971.57	Durbin-Watson stat		0.371817

Source: Researcher's computations (2025) using EViews 13 software.

Test of the Hypotheses

The hypotheses that were previously stated in their null forms earlier for each of the independent variables are now restated and tested for acceptance and rejection. The null hypothesis is rejected when the p-value is 0.05. The null hypothesis is accepted when the p-value is greater than 0.05.

H_{01}: No significant relationship exists between earning quality represented by income smoothing and return on assets of quoted consumer goods firms in Nigeria.
The SM coefficient is negative (-1.784453) and significant (p = 0.0457) at the 44% level of significance with a t-Statistics of -2.007723. As the p-value at 4% is less than 5%, we reject the null hypothesis that SM has no significant relationship with ROA and accept the alternative hypothesis that SM has a significant relationship with ROA.

H_{02}: There is no significant relationship between earnings persistence and return on assets of quoted consumer goods firms in Nigeria.

The PERS coefficient is positive (14.77378) and statistically significant (p = 0.0001) at the 1% level with a t-statistic of 13.22076. We reject the null hypothesis that PERS has no significant association with ROA and accept the alternative hypothesis that JONES has a significant association with ROA because the p-value is 1%, which is less than the 5% level of significance.

H_{03}: There is no significant relationship between the value relevance model's earnings quality and return on assets of quoted consumer goods firms in Nigeria.
At the 1% level of significance, the VALR coefficient is negative (-15.97387) and significant (p = 0.0000) with a t-statistic of -14.59648. As long as the p-value at 1% is less than 5%, the alternative hypothesis that VALR has a significant link with ROA is accepted and the null hypothesis that VALR has no significant relationship with ROA is rejected.

Discussion of the Results
Earnings quality is represented by income smoothing and ROA.
The SM coefficient is negative (-1.784453) and significant (p = 0.0457) at the 44% level of significance with a t-Statistics of -2.007723. This implies that for every one unit increase in SM, the ROA of the sampled firms decreases by 1.784453, or for every 1% increase in SM, the ROA of the sampled firms decreases by 1.784453%, that is, 0.0.01784453.

Earnings quality is represented by earnings persistence and ROA.
With a coefficient of 14.77378, a t-statistic of 13.22076, and a p-value of 0.0000 at the 1% significance level, the PERS association with ROA is favorably significant. This implies that for every one unit increase in PERS, the ROA of the sampled firms increases by 14.77378, or for every 1% increase in PERS, the ROA of the sampled firms increases by 14.77378%, that is, 0.1477378. The sign or direction, as well as the size or magnitude, are in line with our expectations.

Earnings quality is represented by value relevance and return on assets
The coefficient of VALR is negative (-15.97387) and significant (p = 0.0457) at the 44% level of significance with a t-Statistics of -14.59648. This indicates that the ROA of the studied firms falls by 15.97387 for every unit increase in VALR, or by 15.97387%, or 0.1597387, for every 1% increase in VALR. Although the size and magnitude are consistent with our expectations, the sign and direction are not.

Overall Model
With an R2 of 0.999848 and an adjusted R2 of 0.999846, Table 4.4 indicates that SM, PERS, and VALR account for almost 99.99% of differences in ROA, whereas other factors not included in this model account for only 0.01%. This line of argument is also captured by the

F- statistics (411214.1) and Prob (F-statistics values at 0.000000, showing the combined effect or joint significance of SM, PERS, and VALR in explaining ROA. A Durbin-Watson stat of 1.947745 indicates that the model is free from first order serial correlation.

Residual Diagnostic Tests with No Cross-Sectional Dependence

Similarly, we performed statistical tests for unit roots on the data and performed diagnostic checks on the ROA models based on the underlying assumptions of the models. These tests are vital for establishing the model's final validity and regression findings.

According to a growing body of panel data research, the errors in panel data models are expected to exhibit high cross-sectional dependence. Common shocks and other invisible factors that might equally be incorporated in the error term could cause this. De Hoyos and Sarafidis (2006) ascertained that nations' growing economic and financial integration over the past few decades indicates substantial interdependencies among cross-sectional units. People respond similarly to common "shocks" or some common unobserved aspects due to neighborhood effects, herd behavior, social norms, and related preferences (De Hoyos & Sarafidis, 2006). Since the test-statistic findings are greater than the 5% threshold, at least one of the cross-sectional dependence test results in Table 4.5 accepts the null hypothesis that there is no cross-sectional dependence in the residuals.

Table 4.5: Residual Cross-Section Dependence Test

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	32.87110	120	1.0000
Pesaran scaled LM	-5.624146		0.0000
Pesaran CD	-0.384256		0.7008

Source: Researcher's Computations (2025) Using EViews10 Software

5.0 Summary, Conclusion and Recommendation

This study examined the performance and earnings quality of sixteen consumer products companies listed on the Nigerian Exchange Group (NGX). Empirical studies were examined, and the majority of them indicated a connection between company performance and QE Data from 2008 to 2023 were analyzed using the static estimated generalized least squares regression approach.

a) The SM coefficient is negative (-1.784453) and significant (p = 0.0457) at 44% level of significance with a t-Statistics of -2.007723. This implies that for every one unit increase in SM, the ROA of the sampled firm's decreases by 1.784453%, and for every 1% increase in SM, the ROA of the sampled firm's decreases by 1.784453%, that is, 0.0.01784453. The sign or direction is contrary to our expectations, but the size or magnitude is in line with our expectations.

b) The relationship betweenPERS and ROA is positively significant, with a coefficient of 14.77378, a t-statistics of 13.22076, and a p-value of 0.0000 at the 1% level of significance. This implies that for every one unit increase in PERS, the ROA of the sampled firms increases by 14.77378% or for every 1% increase in PERS, the ROA of the sampled firms

increases by 14.77378%, that is, 0.1477378.The sign or direction is contrary to our expectations, but the size or magnitude is in line with our expectations.

c)The coefficient of VALR is negative (-15.97387) and significant (p = 0.0457) at the 44% level of significance with a t-Statistics of -14.59648. This implies that for every one unit increase in VALR, the ROA of the sampled firms decreases by 15.97387% or for every 1% increase in VALR, the ROA of the sampled firms decreases by 15.97387%, that is, 0.1597387. The sign or direction, as well as the size or magnitude, are in line with our expectations.

Conclusion

The study used panel data secondarily sourced from 16 services businesses listed on the Nigerian Exchange Group (NGX) floor between 2009 and 2024. The findings of the dynamic estimated generalized least squares (EGLS) show that: (i) Because the SM coefficient is negative and statistically significant, the ROA of the sampled firms falls during the study period for every unit increase in SM. (ii) The ROA of the sampled firms increases for every unit increase in PERS during the study period because the coefficient of PERS is positive and statistically significant. (iii) The ROA of the studied firms declines with each unit rise in VALR during the study period because the coefficient of VALR is statistically significant and relative

Recommendations

based on the regression results, the study makes the following recommendations:

a) Management should desist from the practice of income smoothing because it has the potentials of reducing the percentage of return on assets of the firms.

b) Management should continue to use the of earnings persistencetechnique because it increases the value of return on assets, which will eventually enhance the firms' financial performance.

c) Management should be discouraged in the use of value relevance since its eventual outcome results in decreasing the value of return on assets which will ultimately reduce the firms' financial performance.

Reference

Abarbanell, J., & Bernard, V. (2000). Is the U.S. stock market myopic? *Journal of Accounting Research, 38*(2), 221-242.

Ali, A., Hwang, L.-S., & Trombley, M. A. (2003). Residual-income-based valuation predicts future stock returns: Evidence on mispricing vs. risk explanations. *The Accounting Review, 78*(2), 377-396.

Ashtiania, D., & Sujono, S. (2022). The effects of profitability on firm size in manufacturing companies at Indonesia stock exchange. *International Journal of Engineering and Science, 5*(10), 81-89.

Baber, W. R., Kang, S.-H., & Kumar, K. R. (1998). Accounting earnings and executive compensation: The role of earnings persistence. *Journal of Accounting and Economics, 25*(2), 169-193.

Bae, K.-H., Tan, H., & Welker, M. (2008). International GAAP differences: The impact on foreign analysts. *The Accounting Review, 83*(3), 593-628.

Baginski, S. P., Lorek, K. S., Willinger, G. L., & Branson, B. C. (1999). The relationship between economic characteristics and alternative annual earnings persistence measures. *The Accounting Review, 74*(1), 105-120.

Bernard, V. L., & Thomas, J. K. (1990). Evidence that stock prices do not fully reflect the implications of current earnings for future earnings. *Journal of Accounting and Economics, 13*(4), 305-340.

Bhojraj, S., & Libby, R. (2005). Capital market pressure, disclosure frequency-induced earnings/cash flow conflict, and managerial myopia. *The Accounting Review, 80*(1), 1-20.

Black, A., & Fraser, P. (2002). Stock market short-termism: An international perspective. *Journal of Multinational Financial Management, 12*(2), 135-158.

Brown, M. A. (2019). Firm attributes and earnings quality of consumer goods companies in Nigeria research. *Journal of Finance and Accounting, 5*(17).

Caballero, L., & Krishnamurthy, R. (2008). Assessing the relationship between income smoothing and the value of the firm. *Journal of Business and Economics, 35*, 16-35.

Chen, C. (2013). Time-varying earnings persistence and the delayed stock return reaction to earnings announcements. *Contemporary Accounting Research, 30*(2), 549-578.

Chikoko, W., & Mhlanga, J. M. (2021). Influence of profitability to the firm value of diversified companies in the Philippines. *Accounting and Finance Research, 5*(2), 57-76.

Chinedu, K. A., & Wan Ismail, W. A. (2023). Earnings quality construct and measures in empirical accounting studies. *International Conference on Governance & Strategic Management. Procedia Economics and Finance, 2*(1), 542-578.

Claus, J., & Thomas, J. (2001). Equity premia as low as three percent? Evidence from analysts' earnings forecasts for domestic and international stock markets. *The Journal of Finance, 56*(5), 1629-1666.

Coelho, A. C., Aguiar, A. B. D., & Lopes, A. B. (2011). Relationship between abnormal earnings persistence, industry structure, and market share in Brazilian public firms. *Brazilian Administration Review, 8*(1), 48-67.

Collins, F. (1997). The impact of earnings quality and income smoothing on the performance of companies listed in Tehran stock exchange. *International Journal of Business and Social Science, 2*(17), 193-197.

Dechow, P. M., & Fassass, R. O. (2023). The quality of accruals and earnings: The role of accruals estimation errors. *The Accounting Review, 77*, 35-59.

Deloitte, L. (2022). Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance, 10*(3), 703-728.

Dichev, D., & Qi, Y. (2021). Accrual quality, stock returns, and macroeconomic conditions. *Journal of Finance, 50*(5).

Fama, E. F., & French, K. R. (2000). Forecasting profitability and earnings. *The Journal of Business, 73*(2), 161-175.

Fama, E. F., & Macbeth, J. D. (1973). Risk, return, and equilibrium: Empirical tests. *The Journal of Political Economy, 81*(3), 607-636.

Fassass, R. O., & Adegbite, E. (2023). Corporate governance regulation in Nigeria. *Corporate Governance, International Business Journal, 12*, 257-276.

Feltham, G. A., & Ohlson, J. A. (1999). Residual earnings valuation with risk and stochastic interest rates. *The Accounting Review, 74*(2), 165-183.

Gajdosikova, A. O., & Oyerinde, A. A. (2022). Value relevance of financial accounting information of quoted companies in Nigeria: A trend analysis research. *Journal of Finance and Accounting, 5*(8).

Ghofir, R. E. (2023). IFRS adoption and value relevance of financial statements of Nigerian listed banks. *International Journal of Finance and Accounting, 4*(1), 1115.

Grewal, R. G., Soliman, M. T., & Tuna, I. (2005). Accrual reliability, earnings persistence and stock prices. *Journal of Accounting and Economics, 39*(4), 437-485.

Hamm, N., Jung, V. F., & Lee, A. (2018). Conceptual model for relationship between earning quality and cost of capital. *African Journal of Business Management, 5*(22), 9724-9733.

Heinrichs, N., Hess, D., Homburg, C., Lorenz, M., & Sievers, S. (2013). Extended dividend, cash flow, and residual income valuation models: Accounting for deviations from ideal conditions. *Contemporary Accounting Research, 30*(1), 42-79.

Hou, K., Van Dijk, M. A., & Zhang, Y. (2012). The implied cost of capital: A new approach. *Journal of Accounting and Economics, 53*(3), 504-526.

Hugos, B. Y. (2023). Significant of accounting information on corporate value of firms in Nigeria. *Research Journal in Organization Psychology and Education Studies, 1*(2), 105-113.

Jacob, D., & Aaker, C. (1993). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics, 50*(3), 344-401.

Keller, E. (2013). Factors affecting firm competitiveness: Evidence from the emerging market. *International Journal of Financial Studies, 4*(9), 123-141.

Kharabsheh, L., Arshad, A. B., & Abdul, R. (2017). Earnings quality: A missing link between corporate governance and firm value. *Business & Economic Review, 9*(2), 255-280.

Koutsou, K., & Vincent, L. (2021). Earnings quality. *Accounting Horizons, 17*, 97-110.

Krismiaji, R. M. (2016). Investigating the effect of firm size and financial leverage on the relationship between cost management and relevance of accounting information. *Caspian Sea Journal, 10*(1), 335-342.

Matsuomoto, P. J. (2014). Corporate governance index and firm performance. *Journal of Contemporary Research in Management, 9*(3), 33-44.

Miles, D. (1993). Testing for short terms in the UK stock market. *The Economic Journal, 103*(421), 1379-1396.

Nkiru, S., & Godwin, G. (2015). The impact of information asymmetry, firm size, leverage, profitability and employee stock ownership on earnings management. *International Journal of Business and Law, 8*(2), 451-472.

Obiora, T., Javaid, F., & Saboor, A. (2015). Impact of corporate governance index on firm performance: Evidence from manufacturing sector. *Journal of Public Administration and Governance, 5*(2), 1-21.

Ohlson, J. A. (1995). Earnings, book values, and dividends in equity valuation. *Contemporary Accounting Research, 11*(2), 661-687.

Pimentel, R. C., & Aguiar, A. B. (2012). Persistence of quartery earnings: An empirical investigation in Brazil. *Brazilian Business Review, 5*(2), 38-54.

Pimentel, R. C., & Lima, I. S. (2010b). Time-series properties of earnings and their relationship with stock prices in Brazil. *Business and Economics Research Journal, 1*(4), 43-65.

Roychowdhury, P. D. (2021). Earnings management and investor protection: An international comparison. *Journal of Financial Economics, 69*(3), 505-527.

Shen, Y., & Stark, A. W. (2013). Evaluating the effectiveness of model specifications and estimation approaches for empirical accounting-based valuation models. *Accounting and Business Research, 43*(6), 660-682.

Sliwka, D. (2002). On the use of nonfinancial performance measures in management compensation. *Journal of Economics & Management Strategy, 11*(3), 487-511.

White, H. (1980). A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity. *Econometrica: Journal of the Econometric Society, 48*(4), 817-838.