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FINANCIAL MANAGEMENT PRACTICES AND EARNINGS MANAGEMENT OF LISTED HEALTHCARE FIRMS IN NIGERIA

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ABSTRACT
The study examines the relationship between financial management practices on earnings management of listed healthcare firms in Nigeria. For empirical analysis the study employed panel stationarity tests and Autoregressive Distributed Lag. The presence of mixed order integration among the variables necessitated the adoption of the Autoregressive Distributed Lag model. For model one, it was discovered that internal rate of return and debt-to-equity ratio have no significant relationship with earnings smoothing. For model two, the results indicate that internal rate of return has a positive and significant relationship with discretionary accruals, while debt-to-equity ratio has a negative and significant relationship with discretionary accruals. Based on these findings, it is recommended that there is urgent need for firms to explore alternative mechanisms such as cost control and operational efficiency to maintain stable earnings rather than leveraging debt-driven financial adjustments

Keywords: financial management practices, earnings management, discretionary accrual

1. INTRODUCTION
Earnings, often referred to as the "bottom line" or "net income," are a crucial metric in a firm's income statement, representing its financial stability, profitability, and market strength. Undoubtedly, earnings figures serve as a summary measure that captures the overall performance of a company (Ni, Meng, Chen, Zhao, Chen, Li & Chan, 2024), providing valuable signals for both internal and external stakeholders. Earnings power is the key to a firms' success, hence, managers utilize earnings information in compensation plans, while investors and creditors rely on it to assess the firm's financial health and risk profile. Nevertheless, He, Chen and Liu, (2020), document that the strategic significance of earnings in decision-making and performance evaluation has given rise to earnings management practices which involves the deliberate manipulation of financial statements by managers to meet specific targets, influence perceptions, or achieve desired contractual outcomes.

According to Okougbo and Okike (2021), the expectation of every user of financial information is that such information would help them in gauging the health status of the reporting entity and in making informed financial decisions This implies that companies that practice earnings management do so within the limits of accepted accounting procedures (Rahman & Ali, 2020). Thus, Tang (2017), asserts that earnings management is the deliberate manipulation of the financial reporting process for personal gain. Earnings management is a term that refers to management's deliberate intervention in the financial reporting process to deceive stakeholders about the company's economic and financial position, or with the personal intent of profiting from contracts based on these manipulated financial reports (Ajibolade & Uwuigbe, 2018).

Thus, the importance of preciseness and predictability as indicators of high financial reporting quality is emphasized (Gajevszky, 2021). According to Amer and Abdelkarim (2019), simple measures that capture aggregate discretion reflected in reported income statements are used to assess financial reporting quality. Discretion is required in financial reporting because it requires numerous accounting estimates that are subject to neutral errors and strategic manipulation. According to

Scott and Irem (2018), companies that exercise more accounting discretion have poorer financial reporting quality than those that exercise less discretion.

Earnings management is common in Nigerian listed companies. Part of the reason is Nigerian regulators' reliance on accounting numbers to govern listed companies (Awotundun, 2011). For example, the Nigeria Securities Regulatory Commission (NSRC) requires listed companies to have a certain return on equity (ROE) before allowing them to issue new shares to existing shareholders (rights issues) (Uwalomwa, Daramola & Anjolaoluwa, 2019). However, it is unfortunate that some Nigerian listed companies in poor financial state with evidence of being financially distressed and or bankrupt are still listed in the country.

However, Previous studies on earnings management such as Sen and Inanga (2014); Domash (2012) have focused mainly on the impact of earnings management on investors' decisions in the stock market without highlighting the factors that may determine the likelihood or otherwise of earnings management as well as the effects of earnings management on financial management.

This study fills this gap by investigating the possible effects of earnings management practices on financial management of healthcare firms in Nigeria during the period 2015 to 2024.

$H0_1$: there is no significant relationship between capital budgeting decision and earnings smoothing of listed healthcare firms in Nigeria?

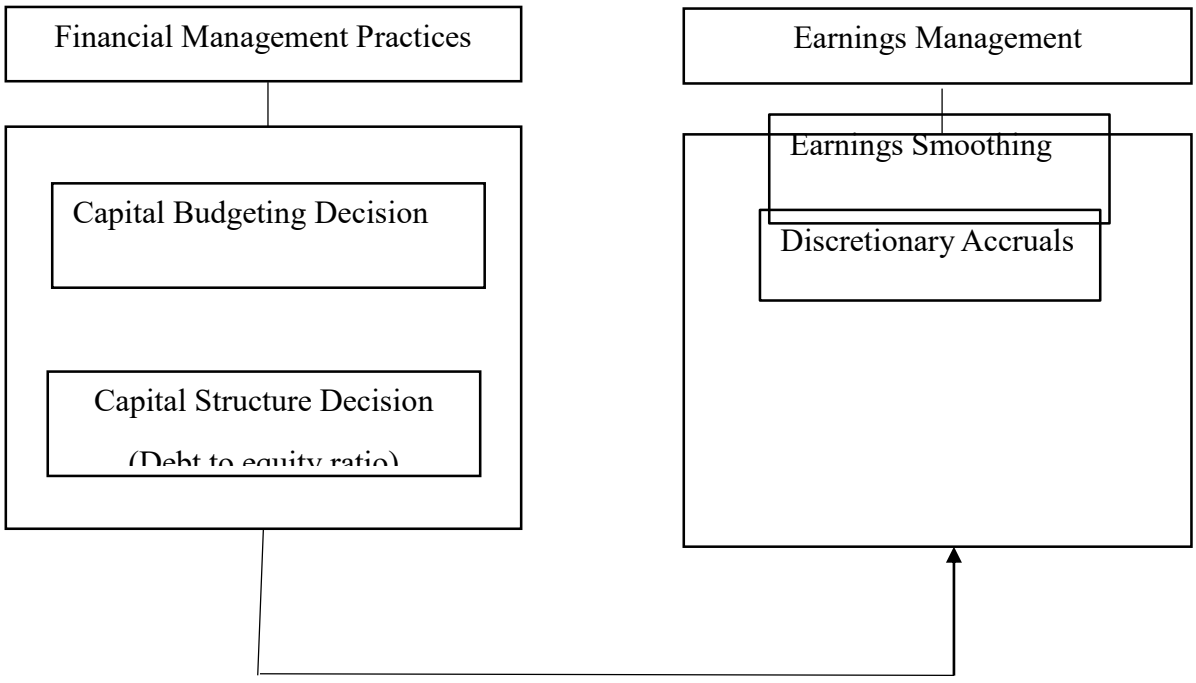
$H0_2$: there is no significant relationship between capital structure decision and earnings smoothing of listed healthcare firms in Nigeria?

$H0_3$: there is no significant relationship between capital budgeting decision and discretionary accruals of listed healthcare firms in Nigeria?

$H0_4$: there is no significant relationship between capital structure decision and discretionary accruals of healthcare firms Nigeria?

2. REVIEW OF RELATED LITERATURE

Conceptual Framework



Source: Louis and Robinson (2015), Fields et al. (2021)

Figure 2.1: Conceptual Framework of the relationship between Financial Management Practices and Earnings Management.

Concept of Financial Management Practices
According to Parishmita (2022), financial management should necessarily be integrated with corporate plan. The financial management defines targets in concrete and quantitative terms for the firm as well as for each functional area.

Capital Budgeting Decisions
Capital budgeting decisions are critical to the success of any firm. Brigham and Ehrhardt (2018) argued that capital budgeting decision is vital to a firm's financial well-being and are among the most important decisions that owners or managers of a firm must make. Their rationale for that belief is that capital budgeting decision often involves significant capital outlay to acquire fixed assets.

Capital Structure Decision
Basely and Brigham (2018) conceptualized capital structure as the blend of long-term debt capital, preferred share capital and the net worth that is being used as a method of permanent financing by the firm.

Concept of Earnings Management
Martínez-Ferrero and Banerjee (2016) framed earnings management as a discretionary exercise that, while possibly improving short-term financial optics, can undermine the credibility of reported earnings. This perspective aligns with concerns over opportunistic behavior, where managers prioritize personal gain or shareholder appeasement at the expense of long-term organizational value. Conversely, Srivastava (2019) introduces the concept of earnings management as a strategic adaptation to external shocks, portraying it as a mechanism for conveying management's insights into future uncertainties.

Earnings Smoothing
Income smoothing is the use of accounting techniques to level out fluctuations in the income of a business (Doonor 2017). The technique can sometime be used illegally or fraudulently by management and can also be used or deployed legally within the guidelines permitted by generally accepted Accounting Principles (GAAP) (Dorthey, (2015) in Asuquo, , Ewang, & Obialor, (2024). It is part of earnings management that involves moving revenues and expenses around by business manager in order to help investors better predict future performance (Dyer & Arnold, 2017). Example of Income smoothening technique is revenue deferring during a good year where it is anticipated that the following year it could be difficult or deferring recognition of expenses in a challenging year in anticipation of improved performance in the near future (Emad, Wasan, & Laith, 2020).

Discretionary Accruals
Discretionary accruals are accounting adjustments that are made at the discretion of management, rather than being based on objective events or transactions (Asuquo, Ewang, & Obialor 2024). These accruals can have a significant impact on a company's financial statements and can be used to manipulate income of particular organization (Khante & Canon, 2016).

Theoretical framework
Agency Theory
Empirical Review
Chakroun and Amar (2021) investigated the impacts which earnings management has on financial performance and used corporate social responsibility to moderate the effects of the variables. Data were obtained from quoted French firms. Analysis of data was done using Feasible Generalized Least

Square Regression method. Results showed the independent variable significantly and negatively affects the dependent variable.

Itivi (2021) sought to determine the effect of capital budgeting on the growth of manufacturing firms listed at the Nairobi stocks exchange. The study adopted a descriptive research design, and a census survey was used where statistical data was collected quantitatively and qualitatively. A finding of this study was that capital budgeting process affects the growth of listed manufacturing firms.

Alrjoub, Almomani, Al-Hosban and Allahham (2021) assessed the relationship between financial performance of Jordanian financial firms and their earnings management practices behaviours. Finding revealed a statistically significant correlation between financial performance and earnings management practice.

Tonye and Sokiri (2020) examined the influence which financial leverage has on earnings management of quoted Nigerian manufacturing companies". 29 firms were sampled. OLS was employed in analysing data. The outcome disclosed evidence of financial leverage having insignificant influence on accruals earnings management of the sampled firms but has an influence on actual earnings management and its deferred tax aspect.

3. METHODOLOGY

The study adopted the ex-post facto research design because it relies on past data that helps to explain the relationship between predictor and criterion variables as would help in actualizing the objectives of this study. The target and accessible group for this study is all listed healthcare firms in Nigeria. However, the sample size is the entire four (4) healthcare companies that are reported in the stock exchange from 2015–2024. Thus, the census sampling technique was adopted. The reason for this sample size is the reliability and the availability of the necessary and complete data from annual reports submitted to the Nigeria exchange Group. This study employed secondary sources of data collection. The secondary data were extracted from published documents including: 2024 and previous years Nigeria Exchange Group (NGX) Fact book.

The Ordinary Least Square (OLS) was employed to estimate the parameters for multiple regression models, which would equally be used to test the hypotheses. Correlation analysis was used to make inference before reaching valid conclusion for the study. Hausmann test was used for selection of model between fixed effects and random effects. the econometric view (E-views version 12) was used to facilitate the data analysis.

$EM = f(FMP)$ ..... (i)

Where: EM- Represents earnings management measured by two models; earnings smoothing and discretionary accrual model (Modified Jones model).

FMP- Represents Financial Management Practices measured by two models; capital budgeting decisions (IRR), capital structure decision (DER).

Equation is further described as follows:

$ESM = f(IRR, DER)$ ..... (ii)

Where:

The econometric relationship is as stated below:

$ESM_t = \beta_0 + \beta_1 IRR_t + \beta_2 DER_t + \varepsilon i_t$ ..... (iii)

$DAC_t = \beta_0 + \beta_1 IRR_t + \beta_2 DER_t + \varepsilon i_t$..... (i)

ESM = Earnings Smoothing, DAC=Discretionary Accruals, IRR= Internal Rate of Return, DER = Debt-to-Equity Ratio, i = Number of Companies, t = Time Frame, it = Number of Companies for Period, εi = Error Term, β0 = Intercepts, β_1, β_2 = Coefficient of the independent variables.

4. RESULTS AND DISCUSSION

Test for Stationarity

Ensuring the stationarity of these variables confirms their suitability for regression analyses, minimizing the risk of spurious results since their statistical properties remain stable over time.

Table 4.1: Summary of Unit Root Test for Model I

Variable	Method	Levin, Lin & Chu t* (Prob)	Breitung t-stat (Prob)	Im, Pesaran and Shin W-stat (Prob)	ADF - Fisher Chi-square (Prob)	PP - Fisher Chi-square (Prob)	Order of Integration
ESM	Level (0)	-9.64373 (0.0000)	2.19556 (0.9859)	-0.83061 (0.2031)	17.1242 (0.0288)	16.4458 (0.0364)	I(0)
ESM	Level (1)	-4.41877 (0.0000)	-3.41909 (0.0003)	31.0525 (0.0000)	9.47469 (0.1486)	18.9750 (0.0042)	I(1)
IRR	Level (0)	-5.63190 (0.0000)	0.23664 (0.5935)	-0.81742 (0.2068)	9.76935 (0.0425)	-3.97378 (0.0000)	I(0)
DER	Level (0)	0.20567 (0.5815)	-0.45484 (0.3246)	0.29606 (0.6164)	0.63403 (0.7283)	0.87997 (0.6440)	I(0)
DER	Level (1)	-4.59878 (0.0000)	-0.83732 (0.2012)	-1.49143 (0.0679)	26.6192 (0.0088)	26.7952 (0.0083)	I(1)

Source: E-Views 10 Output.

Model 1, Unit Root Test Analysis

The unit root test results in Table 4.1 provide insights into the models' stationarity properties this is essential for ensuring reliable regression analysis. The results from multiple tests, including Levin, Lin & Chu t*, Breitung t-stat, Im, Pesaran and Shin W-stat, ADF-Fisher Chi-square, and PP-Fisher Chi-square, indicate mixed integration orders among the variables, necessitating careful handling in subsequent modeling. Earnings Smoothing (ESM) initially showed a mix of stationarity and non-stationarity characteristics. At level form, the Levin, Lin & Chu t* test rejects the null hypothesis of a unit root with a strongly significant probability ($p = 0.0000$), indicating stationarity at I(0). However, the Breitung t-stat, Im, Pesaran and Shin W-stat, and Fisher Chi-square tests suggest non-stationarity at level form with p-values above 0.05, showing inconsistencies in stationarity confirmation. This suggests that while some firms might have stable earnings smoothing practices, others experience fluctuations due to external financial pressures or regulatory changes. At first difference, all test statistics strongly reject the presence of a unit root ($p < 0.05$), confirming that ESM becomes fully stationary at I(1). The economic implication is that earnings management practices within listed healthcare firms in Nigeria are influenced by both short-term fluctuations and long-term adjustments, possibly due to regulatory interventions or shifts in financial reporting strategies.

For the Internal Rate of Return (IRR), the results suggest that the variable is stationary at level form, as the Levin, Lin & Chu t* test strongly rejects the unit root hypothesis ($p = 0.0000$). However, the Breitung t-stat test fails to confirm stationarity ($p = 0.5935$), while the Im, Pesaran and Shin W-stat test and the ADF-Fisher test produce mixed results. Despite these variations, the Phillips-Perron (PP) Fisher Chi-square test confirms stationarity at level with a significant probability ($p = 0.0000$). This suggests that IRR among healthcare firms remains relatively stable over time, likely due to predictable investment returns in the healthcare sector. The stability in IRR could be attributed to the fact that healthcare firms often have steady revenue inflows from insurance

Presentation of Panel Autoregressive Distributed Lag (ARDL) Test Result

The Panel Autoregressive Distributed Lag (ARDL) test is used to capture the short-term and long-term dynamics of variables. It is particularly useful for analyzing data with varying levels of stability, as it helps determine the optimal lag structure to ensure the model accurately reflects the relationships within the dataset.

Table 4.2 Panel Autoregressive Distributed Lag (ARDL) for Model I

Dependent Variable: D(ESM)
Method: ARDL
Date: 13/12/25 Time: 20:58
Sample: 2017 2024
Included observations: 32
Maximum dependent lags: 1 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (1 lag, automatic): IRR DER
Fixed regressors: C
Number of models evalulated: 1
Selected Model: ARDL(1, 1, 1)
Note: final equation sample is larger than selection sample

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
	Long Run Equation			
IRR	0.333948	1.863571	0.179198	0.8598
DER	1.353300	1.000421	1.352730	0.1929

Source: E-Views 10 Output Result.

Interpretation of Panel ARDL Model 1 Result

Table 4.2 presents the results of the Panel ARDL model, analyzing the long-run relationship between Internal Rate of Return (IRR), Debt-to-Equity Ratio (DER), and Earnings Smoothing (ESM) for listed healthcare firms in Nigeria. The coefficients suggest that IRR (0.333948) and DER (1.353300) have a positive association with earnings smoothing, implying that firms with higher internal returns and greater leverage may engage in more earnings management practices. However, statistical significance tells a different story.

IRR appears to have little to no long-term influence on earnings smoothing, given its t-statistic of 0.179198 and probability value of 0.8598. This suggests that a firm's ability to generate internal returns does not significantly impact its earnings management strategies. This may be due to external constraints such as regulatory pricing, government reimbursements, and industry-specific operational costs, which limit flexibility in manipulating earnings.

Similarly, while DER's coefficient of 1.353300 indicates that firms with higher leverage may smooth earnings, its effect is not statistically significant (t-statistic of 1.352730 and p-value of 0.1929). While debt financing can pressure firms to adjust earnings to meet debt covenants or creditor expectations, the weak significance level suggests that Nigerian healthcare firms might rely on other strategies, such as cost adjustments or revenue recognition, rather than directly responding to their leverage positions.

Overall, although both IRR and DER show positive coefficients, their lack of statistical significance implies that earnings smoothing in these firms is driven by factors beyond financial performance alone. Healthcare firms often operate under strict financial regulations, government policies, and unpredictable cash flow conditions, which may shape their earnings management strategies more than internal returns or capital structure decisions. These findings highlight that while leverage and internal return are theoretically linked to earnings management, other firm-specific or industry-wide influences likely play a more substantial role in shaping financial reporting behaviors in this sector.

Test for Stationarity

The stationarity of these variables helps us ensures that they are appropriate for use in regression analyses without the risk of spurious results, as their statistical properties do not vary over time.

Table 4.3: Summary of Unit Root Test for Model II

Variable	Method	Levin, Lin & Chu t* (Prob)	Breitung t-stat (Prob)	Im, Pesaran and Shin W-stat (Prob)	ADF - Fisher Chi-square (Prob)	PP - Fisher Chi-square (Prob)	Order of Integration
DAC	Level (0)	-3.72288 (0.0001)	0.12273 (0.5488)	-0.08225 (0.4672)	8.76213 (0.3628)	7.44282 (0.4897)	I(0)
DAC	Level (1)	-5.64147 (0.0000)	-0.05676 (0.4774)	21.1629 (0.0067)	27.0912 (0.0007)	19.5290 (0.0123)	I(1)
IRR	Level (0)	-5.63190 (0.0000)	0.23664 (0.5935)	-0.81742 (0.2068)	9.76935 (0.0425)	-3.97378 (0.0000)	I(0)
DER	Level (0)	0.20567 (0.5815)	-0.45484 (0.3246)	0.29606 (0.6164)	0.63403 (0.7283)	0.87997 (0.6440)	I(0)
DER	Level (1)	-4.59878 (0.0000)	-0.83732 (0.2012)	-1.49143 (0.0679)	26.6192 (0.0088)	26.7952 (0.0083)	I(1)

Source: E-Views 10 Output.

Model II, Unit Root Test Analysis

The unit root test results in Table 4.3 provide insights into the stationarity of the variables in Model II, using multiple testing approaches.

For Discretionary Accruals (DAC), the results are mixed at the level form. The Levin, Lin & Chu t* test confirms stationarity at level I(0) with a highly significant statistic (-3.72288, p = 0.0001). However, other tests, such as the Im, Pesaran and Shin W-stat and Fisher Chi-square, suggest non-stationarity, with probability values above 0.05. When analyzed at the first difference, though, all tests confirm stationarity, including a strongly significant Levin, Lin & Chu t* (-5.64147, p = 0.0000) and Fisher Chi-square (27.0912, p = 0.0007). This indicates that discretionary accruals show some persistence over time and require first differencing to remove potential trends.

For the Internal Rate of Return (IRR), the findings suggest that the variable is stationary at the level form. The Levin, Lin & Chu t* test (-5.63190, p = 0.0000) provides strong evidence of stationarity. While some other tests, like the Breitung t-stat (p = 0.5935) and Im, Pesaran and Shin W-stat (p = 0.2068), do not support this conclusion as strongly, the ADF-Fisher Chi-square (p = 0.0425) reinforces the finding that IRR is integrated at I(0). This suggests that investment performance does not follow a long-term trend and remains relatively stable over time.

For the Debt-to-Equity Ratio (DER), the results at the level form suggest non-stationarity, as indicated by the Levin, Lin & Chu t* (0.20567, p = 0.5815) and the Fisher Chi-square (p = 0.7283), which confirm the presence of a unit root. However, after taking the first difference, the variable becomes clearly stationary, with significant results from the Levin, Lin & Chu t* (-4.59878, p = 0.0000) and Fisher Chi-square (p = 0.0088). This implies that firms' leverage structures fluctuate

over time but stabilize after adjustments, likely due to financial constraints, regulatory requirements, or strategic changes in capital structure.
Overall, the results indicate that DAC and DER need first differencing for meaningful analysis, while IRR remains stable at its level form. The fact that some variables require differencing suggests that financial decisions related to earnings management and capital structure may be influenced by external factors and long-term strategic shifts, requiring careful adjustments before applying statistical models.

Presentation of Panel Autoregressive Distributed Lag (ARDL) Test Result
The Panel Autoregressive Distributed Lag (ARDL) test helps us understand how variables in the model evolve and interact over time, this helps us in capturing both short-term fluctuations and long-term trends.

Table 4.4 Panel Autoregressive Distributed Lag (ARDL) for Model II

Dependent Variable: D(DAC)
Method: ARDL
Date: 13/12/25 Time: 21:01
Sample: 2017 2024
Included observations: 32
Maximum dependent lags: 1 (Automatic selection)
Model selection method: Akaike info criterion (AIC)
Dynamic regressors (1 lag, automatic): IRR DER
Fixed regressors: C
Number of models evalulated: 1
Selected Model: ARDL(1, 1, 1)
Note: final equation sample is larger than selection sample

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
	Long Run Equation			
IRR	2.688735	0.774639	3.470954	0.0027
DER	-0.830322	0.283607	-2.927727	0.0090

Source: E-Views 10 Output Result.

Interpretation of Panel ARDL Model II Result.
The ARDL results for Model II showed that the selected ARDL(1,1,1) model, chosen using the Akaike Information Criterion (AIC), confirms that both IRR and DER have a lasting effect on discretionary accruals. The standard errors 0.774639 for IRR and 0.283607 for DER indicates that while both variables significantly influence DAC, IRR shows more variability in its impact. It can be deduced from the result that the relationship between IRR, and discretionary accruals this might be more sensitive to external factors, like investment decisions, or changes in the cost of accessing capital.
IRR has a positive and significant effect on DAC. The coefficient for IRR is 2.688735, with a t-statistic of 3.470954 and a p-value of 0.0027, indicating a strong statistical relationship. This suggests that as a firm's internal rate of return increases, discretionary accruals also tend to rise. A possible reason is that firms with higher returns may have more flexibility in managing their earnings whether to smooth out financial fluctuations or to align reported profits with strategic

financial goals. Finally, DER has a negative and significant effect on DAC. The coefficient for DER is -0.830322, with a t-statistic of -2.927727 and a p-value of 0.0090, confirming an inverse relationship. In other words, firms with a higher debt-to-equity ratio tend to engage in less earnings management. This makes sense, as highly leveraged firms often face closer scrutiny from creditors and financial regulators. Lenders usually impose financial covenants and stricter reporting requirements, limiting the firm's ability to manipulate accruals and ensuring greater transparency.

4.2 Discussion of findings

Test of Hypotheses for Model I and II

4.2.1. Hypothesis 1

$H0_1$: Capital budgeting decisions does not significantly affect earnings smoothing of listed healthcare firms in Nigeria.

Interpretation of Model I, Hypothesis I ($H0_1$)

Since the p-value is greater than the 0.05 significance level, we fail to reject $H0_1$. This suggests that IRR is not a key determinant of earnings smoothing among listed healthcare firms in Nigeria. The result implies that external industry factors, regulatory policies, and operational constraints may restrict firms from leveraging IRR for earnings management. Hence, there is no sufficient statistical evidence to conclude that IRR plays a significant role in earnings smoothing. The result indicates that the internal rate of return (IRR) does not have a significant effect on earnings smoothing, as reflected in a t-statistic of 0.179198 and a probability value of 0.8598. Since the p-value is greater than 0.05, the null hypothesis (H_{01}) is not rejected, implying that IRR is not a major determinant of earnings smoothing in listed healthcare firms in Nigeria. This finding is consistent with the Agency Theory, which suggests that managers prioritize their self-interest over financial performance alignment with investor expectations (Abbas, 2018). In this context, firms may not necessarily use IRR as a tool to smooth earnings since managerial discretion is often exercised based on external constraints rather than the internal rate of return itself.

A key factor supporting this result is the influence of regulatory policies on healthcare firms, which impose stringent financial reporting standards that limit the ability of firms to adjust reported earnings based on IRR. Since the sector is heavily regulated, companies may find it challenging to manipulate earnings through IRR-driven strategies. Contrary to apriori expectations, where a higher IRR is anticipated to encourage earnings smoothing due to increased financial flexibility, the result suggests otherwise.

4.2.2. Hypothesis 2

$H0_2$: Capital structure decisions does not significantly affect earnings smoothing of listed healthcare firms in Nigeria.

Interpretation of Model I, Hypothesis II ($H0_2$)

Debt-to-equity ratio (DER) has a positive coefficient of 1.353300, suggesting a potential link with earnings smoothing. However, its t-statistic of 1.352730 and p-value of 0.1929 indicate that the relationship is not statistically significant. Given that the p-value exceeds 0.05, we fail to reject H_{02}. This implies that the debt-to-equity ratio does not significantly affect earnings smoothing among healthcare firms in Nigeria. Although firms with higher leverage might be inclined to smooth earnings to meet creditor expectations, the lack of strong statistical significance suggests reliance on alternative financial strategies. Therefore, the influence of DER on earnings smoothing is inconclusive within the observed data.

The analysis reveals that the debt-to-equity ratio (DER) does not have a statistically significant effect on earnings smoothing, with a positive coefficient of 1.353300, a t-statistic of 1.352730, and a p-value of 0.1929. Since the probability exceeds 0.05, the null hypothesis (H_{02}) is not rejected, implying that DER does not significantly impact earnings smoothing among listed healthcare firms

in Nigeria. Since firms must meet multiple stakeholder interests, they may not prioritize using debt structures to manage reported earnings.

This result contradicts the apriori expectation, where higher debt levels were expected to increase earnings smoothing due to firms' need to maintain stable financial performance to satisfy lenders. However, the evidence suggests that firms with higher DER do not necessarily engage in earnings smoothing, likely due to regulatory oversight and lender-imposed financial discipline.

4.2.3. Hypothesis 3

$H0_3$: Capital budgeting decisions does not significantly affect discretionary accruals of listed healthcare firms in Nigeria.

Interpretation of Model II, Hypothesis III ($H0_3$)

Internal rate of return (IRR) has a significant positive effect on discretionary accruals, with a coefficient of 2.688735, a t-statistic of 3.470954, and a p-value of 0.0027. Since the p-value is below 0.05, we reject H_{03}. This means IRR significantly affects discretionary accruals in listed healthcare firms in Nigeria. The strong statistical significance suggests that firms with higher IRR may engage in discretionary accrual adjustments to manage reported earnings. This may be done to align financial reports with strategic objectives or maintain investor confidence. The result highlights IRR as a crucial factor influencing earnings management practices.

The analysis indicates that IRR has a significant positive effect on discretionary accruals, with a coefficient of 2.688735, a t-statistic of 3.470954, and a probability value of 0.0027. Since the p-value is below 0.05, the null hypothesis (H_{03}) is rejected, suggesting that IRR significantly influences discretionary accruals among healthcare firms in Nigeria. This finding aligns with the Signal

One major factor supporting this result is the role of investor expectations in financial reporting. Firms with high IRR often attract investors seeking stable and profitable firms, incentivizing managers to use discretionary accruals to align financial reports with growth projections.

This outcome is consistent with apriori expectations, where a higher IRR was anticipated to encourage earnings management through discretionary accruals. Firms with strong returns may have greater financial flexibility to engage in accrual-based adjustments, reinforcing this relationship.

4.2.4. Hypothesis 4

$H0_4$: Capital structure decisions does not significantly affect discretionary accruals of healthcare firms in Nigeria.

Interpretation of Model II, Hypothesis IV ($H0_4$)

The debt-to-equity ratio (DER) negatively impacts discretionary accruals, as shown by a coefficient of -0.830322, a t-statistic of -2.927727, and a p-value of 0.0090. Given that the p-value is below 0.05, we reject H_{04}. This indicates that firms with a higher debt-to-equity ratio are less likely to engage in discretionary accruals. The negative relationship suggests that increased financial leverage subjects' firms to stricter oversight from creditors and regulators, thereby limiting earnings manipulation. The findings confirm that financial constraints and lender scrutiny reduce the flexibility of firms to engage in earnings management through accrual adjustments.

The findings indicate that DER negatively affects discretionary accruals, as evidenced by a coefficient of -0.830322, a t-statistic of -2.927727, and a probability value of 0.0090. Since the p-value is below 0.05, the null hypothesis (H_{04}) is rejected, confirming that higher debt-to-equity ratios reduce discretionary accruals among healthcare firms in Nigeria. In this case, firms with higher DER are under increased scrutiny, making it difficult to engage in discretionary accrual practices.

A primary factor supporting this result is that firms with high debt levels are subjected to stringent lender-imposed restrictions, reducing their ability to manipulate earnings through accrual adjustments.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings

Findings reveal mixed results concerning the role of IRR and DER in earnings management, providing insights into firms' financial reporting strategies and capital structure implications. The panel ARDL results indicate that IRR does not significantly influence earnings smoothing, suggesting that external factors such as regulatory frameworks, industry-specific constraints, and operational limitations restrict firms from leveraging IRR for earnings management. This aligns with the Stakeholder Theory, which emphasizes the role of external oversight in financial decisions. The lack of statistical significance implies that healthcare firms may adopt more structured financial reporting approaches rather than manipulating reported earnings through IRR adjustments.

The debt-to-equity ratio also does not significantly impact earnings smoothing, highlighting the possibility that firms rely on alternative financial management techniques rather than debt restructuring to stabilize reported earnings. This outcome deviates from the expectations of

Conversely, IRR significantly affects discretionary accruals, indicating that firms with higher IRR actively adjust accruals to align financial reports with strategic objectives or investor expectations. The result supports the Positive Accounting Theory, which posits that firms engage in earnings management to maximize benefits while adhering to accounting standards. The statistical significance of this relationship suggests that firms use discretionary accruals as a tool for financial flexibility. The debt-to-equity ratio negatively influences discretionary accruals, reinforcing the idea that firms with higher leverage face stricter financial oversight and reduced flexibility in earnings management. This outcome aligns with Stewardship Theory, which suggests that managers act in the best interest of stakeholders when under regulatory and creditor scrutiny. The findings indicate that financial constraints and lender monitoring reduce the likelihood of earnings manipulation through accrual adjustments.

Conclusion

This study provides empirical insights into the relationship between internal rate of return, debt-to-equity ratio, earnings smoothing, and discretionary accruals among healthcare firms in Nigeria. The findings indicate that IRR does not significantly influence earnings smoothing but plays a crucial role in discretionary accruals, suggesting that firms adjust reported earnings based on strategic financial objectives. The debt-to-equity ratio does not significantly impact earnings smoothing but negatively affects discretionary accruals, highlighting the role of financial oversight in limiting earnings manipulation. These results align with established accounting theories, reinforcing the importance of regulatory enforcement and financial discipline. Strengthening corporate governance and refining financial reporting standards will be crucial in mitigating earnings management practices while ensuring transparent and reliable financial statements.

Recommendations

Based on the result of the two models presented in the previous chapter the following recommendations are therefore put forward;

i. Listed healthcare firms in Nigeria should focus on sustainable earnings management practices that align with industry regulations rather than relying on IRR-based financial strategies. Moreover, investors should assess operational stability rather than depending on IRR figures for financial health and earnings predictability.

ii. The healthcare firms to explore alternative mechanisms such as cost control and operational efficiency to maintain stable earnings rather than leveraging debt-driven financial adjustments. Likewise, investors and analysts should assess earnings stability based on operational fundamentals rather than debt-equity structures.

iii. IRR significantly influences discretionary accruals; thus, regulatory authorities should strengthen monitoring to prevent excessive reliance on discretionary accruals for financial reporting.

iv. The debt-to-equity ratio negatively affects discretionary accruals; consequently, firms should maintain an optimal capital structure to balance financial flexibility with regulatory and lender constraints.

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