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Moderating Effect of Whistleblowing Disclosure on Income Smoothing and Shareholders' Value of Listed Deposit Money Banks in Nigeria

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Abstract
This study investigates the relationship between income smoothing (IS), whistleblowing disclosure (WBD), and Earnings Per Share (EPS) within firms. The problem addressed is how income smoothing and the disclosure of whistleblowing activities affect firm profitability and stability, particularly in terms of earnings management and corporate transparency. The title of the study is "The Impact of Income Smoothing and Whistleblowing Disclosure on Firm Performance: Evidence from Panel Data Analysis. *The study employs a fixed-effect regression model with panel data, analyzing 140 observations from 14 firms. The results reveal a statistically significant positive relationship between both income smoothing and whistleblowing disclosure with EPS, suggesting that these factors contribute to greater financial stability and performance. Furthermore, the interaction term between IS and WBD is highly significant, indicating that the combination of these two factors enhances earnings. The study concludes that while income smoothing can help stabilize earnings, it should be carefully managed to avoid masking underlying financial conditions. The research recommends that firms adopt transparent whistleblowing disclosure policies and integrate income smoothing with strategic long-term investments to foster sustainable growth and enhance corporate integrity.*
Keywords*: Income smoothing, Whistleblowing disclosure, Earnings Per Share,*

1. Introduction

Shareholder value has become a central focus in contemporary corporate finance, particularly for financial institutions globally. This is due to its role in evaluating managerial effectiveness, firm performance and investor appeal. Shareholders Value encompasses the financial returns that accrue to equity holders through dividend distribution, stock appreciation and long-term wealth maximization (Rappaport, 2023; Jensen, 2021). In recent years, there is growing concern regarding the erosion of shareholder value caused by unethical financial reporting, income smoothing practices, governance failures and regulatory lapses. These concerns are not only global but acutely pronounced in emerging markets such as Africa, with Nigeria standing out due to the complex socio-economic and regulatory environment influencing its financial institutions.

Globally, financial scandals such as Enron, WorldCom, and Lehman Brothers were largely attributed to manipulative accounting and weak oversight, emphasizing the consequences of financial misrepresentation on investor confidence and capital markets (Healy & Palepu, 2023; Jones, 2021) and how income smoothing and aggressive earnings management erode shareholders' confidence and value. In Africa, these challenges are exacerbated by the fragile institutional structures, poor enforcement mechanisms and limited financial transparency across many Countries. Several studies, such as Iyoha and Override (2020) and Nwanyanwu (2020), have reported that financial misstatements and income smoothing in African markets undermine investor

trust, distort firm valuations, and hinder the development of robust capital markets. In Nigeria, shareholder value in the banking sector remains particularly vulnerable due to the prevalence of earnings manipulation, insider dealings, and poor disclosure practices. The 2009 Nigerian banking crisis of Heritage Bank's regulatory scrutiny underscore the sector's susceptibility to financial malpractice (Sanusi, 2024; Okolie, 2024).

Income smoothing, also known as earnings manipulation, is the deliberate use of accounting methods to present a desired image of a firm's financial performance and position. This practice is not necessarily illegal but often misleads investors by distorting the true economic reality of a company (Abed, et al 2022). Income smoothing practices, which include techniques such as income smoothing, earnings management, related-party transactions, changes in accounting policies and estimates, and tax avoidance strategies, have become common tools used by managers to manipulate reported earnings and financial statements. The Income smoothing and earnings management, for instance, distort the volatility of profits to present a façade of stable growth, which can mislead investors about the firm's true performance and risk profile. Related-party transactions, if not transparently disclosed, can lead to conflicts of interest and the siphoning off of shareholder wealth to insiders, (Adaramola, 2024). Changes in accounting policies and estimates can be manipulated to achieve desired financial results, while tax avoidance strategies, although legally permissible, can raise ethical concerns and impact long-term shareholder value by inviting regulatory penalties or reputational damage, (Adetoso & Ajiga 2025).

For instance, Income smoothing involves manipulating earnings to reduce fluctuations over time, thereby creating the illusion of consistent financial performance. While this may initially enhance investor confidence and firm valuation but it often leads to long-term misalignment between reported and actual earnings. According to Uwuigbe et al. (2024) and Li (2020) posited that income smoothing in Nigerian banks increased short-term performance metrics but will ultimately triggered valuation corrections when discrepancies were uncovered. The preservation and enhancement of shareholder value remain core objectives in corporate finance globally, as shareholder value serves as a critical indicator of a firm's financial performance, stability, and attractiveness to investors. It reflects the economic returns delivered to shareholders through earnings growth, dividend payouts, and long-term capital appreciation, (Kamau, 2025). However, in recent years, growing concerns have emerged over the erosion of shareholder value, driven largely by unethical financial reporting practices, recurring corporate scandals, weak corporate governance structures, and ineffective regulatory enforcement mechanisms. The main objective of the study is to examine moderating effect of whistleblowing disclosure on income smoothing and shareholders' value of listed deposit money banks in Nigeria. The specific objectives were to:

i. Assess the effect of income smoothing on shareholders' value in listed deposit money banks.
ii. Determine the moderating effect of whistleblowing disclosure on the relationship between income smoothing and shareholders' value in listed deposit money banks in Nigeria.

2. Literatures Review

Shareholders' Value

Shareholders' value refers to the return or benefit derived by equity holders as a result of their ownership in a company. It encapsulates the increase in the value of a shareholder's investment over time, reflecting both capital gains (i.e., appreciation in stock price) and income streams (dividends) received from the firm. As such, maximizing shareholders' value is considered a principal objective of modern corporate governance and strategic financial management (Jensen, 2021). The concept of shareholder value has evolved beyond mere profitability. It now encompasses the long-term sustainability of returns, trust in corporate governance, and confidence in financial transparency. Shareholders assess both current and future earning potential, which hinges heavily on the integrity of financial reports (Damodaran, 2022). In the presence of income smoothing, the reported financial outcomes may not reflect the economic reality of a firm's performance. For example, earnings may be temporarily inflated through income smoothing or delayed expense recognition to create an illusion of profitability or stability (Healy & Wahlen, 2019; Dechow, Ge & Schrand, 2024). While such manipulations may result in short-term increases in stock prices and perceived value, they often undermine long-term shareholder confidence and market integrity once the manipulations are uncovered.

Income Smoothing

Income smoothing is a deliberate accounting practice where managers adjust the timing or recognition of revenues and expenses to reduce fluctuations in reported earnings across periods. This technique aims to present a more stable and predictable financial performance to external stakeholders (Barnea, 2026). While it may seem beneficial in terms of reducing volatility, income smoothing often conceals the true economic performance of a firm, especially when applied aggressively. According to Monday (2022), income smoothing is a form of earnings management designed to influence stakeholders' perceptions by reporting a consistent earnings trend. Managers often use discretionary accruals, provisions, and accounting estimates to smooth earnings, particularly in industries where volatile earnings may negatively affect stock valuation or regulatory assessments, such as the banking sector. The banking sector is particularly susceptible to income smoothing due to its exposure to credit risk, regulatory oversight, and sensitivity to market perception. Banks may delay or accelerate loan loss provisioning to manage profits. For instance, during economic booms, provisions may be understated to increase earnings, while in recessions, excess provisions may be used to absorb future losses (Yang, 2024).

In Nigeria, studies by Uwuigbe et al. (2024) and Obigbemi et al. (2022) observed that listed banks frequently engage in income smoothing by manipulating loan loss provisions and reclassifying non-performing assets. These practices are often intended to portray financial strength and compliance with Central Bank of Nigeria (CBN) regulations, even when actual financial performance is weak. While income smoothing can temporarily enhance perceived financial stability, it erodes financial statement reliability and damages long-term shareholder trust if detected (Dechow et al., 2020). Firms that engage in smoothing are often penalized by capital markets when the practice is exposed, leading to stock price decline, regulatory sanctions, and reputational harm (Kothari et al., 2026).
Moreover, income smoothing reduces earnings in formativeness, meaning that reported profits become less reflective of underlying economic conditions. This misguides investors, analysts, and regulators, resulting in misallocation of resources and suboptimal decision-making (Leone, Minutti-Meza, & Wasley, 2017).

Whistle-Blowing Disclosure

Whistle-blowing has emerged as a critical tool for enhancing corporate transparency, accountability, and ethical behavior, particularly in the banking sector where risks of fraud and regulatory infractions are high. In Nigeria, the banking industry, governed primarily by the Central Bank of Nigeria (CBN), has faced challenges relating to financial misconduct, poor risk management, and unethical practices. Against this backdrop, whistle-blowing disclosure serves as an internal control mechanism that enables stakeholders to report fraudulent, unethical, or illegal behavior within the organization, (Musa et al 2025). This study discusses the concept, significance, regulatory framework, and empirical evidence related to whistle-blowing disclosures in Nigeria's Deposit Money Banks (DMBs). Whistle-blowing refers to the act of exposing wrongdoing within an organization by reporting it to internal or external authorities. Whistle-blowing disclosure, particularly in deposit money banks, is a structured reporting mechanism that allows employees, customers, or third parties to reveal fraudulent or unethical practices (Okoye & Gbegi, 2013). It can be either internal (reported within the organization) or external (reported to regulators or the public). Whistle-blowing disclosures can cover a wide range of issues including financial impropriety, breach of internal controls, regulatory violations, and insider trading.

Conceptual Framework

A conceptual framework is a visual or narrative structure that outlines the key concepts, variables, and their presumed relationships in a study. It provides a logical foundation for the research by connecting the theoretical background to the research objectives and methodology. Essentially, it is a blueprint that helps guide the study by clearly showing what is being studied, why it is being studied, and how the variables interact

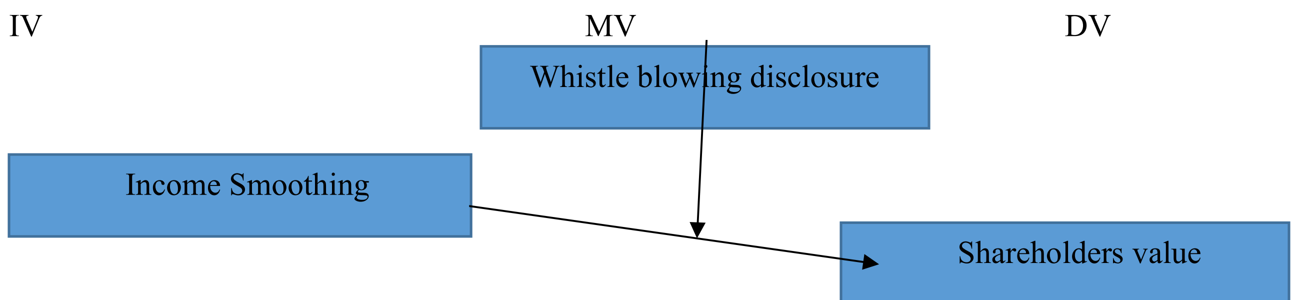

Figure 1: Conceptual Framework
Source: Researchers (2026)

The core assumption is that various income smoothing practices may affect shareholders' value, either positively or negatively. Whistle-blowing disclosure is expected to moderate this relationship by enhancing transparency and deterring unethical financial manipulations. For instance, even if earnings management is present, strong whistle-blowing systems could mitigate its adverse impact on shareholders by increasing the probability of detection and corrective action. The model thus allows for the testing of both direct effects.

Theoretical Framework

Agency Theory was developed by Jensen and Meckling (1976) in their seminal *work,* Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. The theory examines the relationship between principals (typically shareholders) and agents (typically managers), focusing on the conflicts that arise when the interests of the two parties diverge. The central thrust of agency theory is that managers, as agents of the shareholders, are expected to act in the best interests of the owners**.**

However, due to information asymmetry and self-interest, managers may prioritize their own goals such as securing bonuses, job security, or prestige over maximizing shareholder wealth. This misalignment can give rise to agency costs, which include monitoring expenses, bonding costs, and residual loss of value due to suboptimal managerial decisions. In the context of financial reporting, agency theory helps explain why managers may engage in income smoothing techniques to manipulate earnings and portray a more favorable view of company performance**,** even if the underlying fundamentals are weak.

The relevance of Agency Theory to this study lies in its ability to explain why managers in Nigerian deposit money banks might engage in income smoothing, especially in situations where Executive compensation is linked to performance metrics (EPS, ROE). There is pressure to meet regulatory standards, such as the Central Bank of Nigeria's capital adequacy ratio. Shareholders have limited oversight, and internal governance mechanisms (audit committees) are weak.

Applying Agency Theory, this study will investigate how such opportunistic behaviors distort financial reports and ultimately affect shareholders' value through misrepresentation, market mispricing, and loss of investor confidence. The theory also informs the need for strong corporate governance to realign the interests of managers and shareholders, thereby reducing the incidence of income smoothing practices.

Empirical Reviews

Uwuigbe, (2025) conducted a comprehensive empirical investigation on the effect of income smoothing practices on the financial performance and shareholders' value of listed deposit money banks in Nigeria. The study was motivated by the increasing concern over the credibility of reported earnings in the Nigerian banking sector and the potential implications of income smoothing on investor decision-making. Utilizing a panel data regression analysis, the researchers examined annual financial reports of a sample of ten listed deposit money banks over a ten-year period (2014–2024). The study employed discretionary loan loss provisions and variation in net income as proxies for income smoothing, while Earnings Per Share (EPS) and Tobin's Q were used as indicators of shareholders' value. The findings revealed that income smoothing practices were significantly and positively associated with short-term increases in EPS, thereby suggesting that managers employed these techniques to meet performance benchmarks and influence market perception. However, the study also found that this positive effect was not sustained in the long term. Instead, prolonged income smoothing led to growing investor skepticism, reduced earnings informativeness, and ultimately diminished shareholder trust. Furthermore, the study highlighted that banks engaging in aggressive income smoothing were often penalized by the market during periods of earnings correction or when the true financial condition was revealed. Shareholders of such banks experienced valuation volatility, reflecting a misalignment between reported earnings and actual economic performance. The authors recommended that regulatory bodies such as the Central Bank of Nigeria (CBN) and the Financial Reporting Council (FRC) should enhance monitoring of

earnings management behaviors and enforce stricter disclosure of discretionary accounting practices. They also advised investors to critically assess the quality of earnings and not rely solely on EPS figures when evaluating investment opportunities. While the study provided robust evidence of the short- and long-term effects of income smoothing, it did not explore the moderating role of corporate governance mechanisms (audit committees or board independence) on the relationship between income smoothing and shareholder value. Future studies were encouraged to examine this dimension.

In their empirical study, Obigbemi, (2025) examined the relationship between sustained income smoothing practices and shareholder satisfaction among listed deposit money banks in Nigeria. The study was inspired by growing concerns about the disconnected between reported earnings and actual firm performance, which has been observed in several Nigerian financial institutions. The researchers employed a survey-based and archival data approach, combining financial statement analysis from 2012 to 2021 with responses from institutional investors, analysts, and bank stakeholders. Income smoothing was measured using discretionary accruals, particularly loan loss provision adjustments, while shareholder satisfaction was proxied through dividend payout consistency, share price reaction, and investor sentiment indices. The results revealed a strong negative correlation between long-term income smoothing and shareholder satisfaction. Future research may address this segmentation. In a multi-country empirical analysis,

Olobo, (2025) investigated the relationship between income smoothing practices and shareholder's wealth of deposit money banks (DMBs) in Nigeria within the period of 2008-2020. Its specific objectives were to investigate the relationship between the Income smoothing and return on equity, and Inventory manipulation and return on equity of DMBs in Nigeria. The cross- sectional survey research design was adopted for the study; the population of the study was all the 14 DMBs listed in Nigerian Exchange as at December 2021. Using purposive sampling technique, 5 deposit money banks were sampled and 74 respondents comprising accountants, auditors and compliance officers across the selected DMBs were used. 64 adequately completed and returned copies of questionnaire was used for the study analysis. Copies of questionnaire was used for data gathering. Univar ate and Bivariate analysis was done. Regression analysis and model Statistics was used for data analysis and testing of hypothesis with the aid of SPSS. The result of the study shows that income smoothing dimensions of income smoothing and inventory manipulation have strong, positive and significant relationship with shareholder's wealth measured in terms of return on equity (ROE). The study concluded that income smoothing affects shareholder's wealth thus the need to checkmate the practice so that shareholders would actually know the true worth of their investment not that which is coated that ends up giving them false hope in the long run. The study recommended that: Bank regulators should evaluate the adequacy of policies around inventory and assets valuation and at the same time, financial analysts and shareholders should note the application and consistency of accounting policies on inventory and assets. This way where inventory records have been manipulated can be discovered. There should be a review of the ownership structure of banks. There should be more dispersed ownership to include

Musa (2025) carried out a study to determine the effect of income smoothing practices on shareholders wealth in listed companies in Nigeria. The quantitative study adopted a survey research design with a target population of 134 staff from ten (10) selected listed companies. Both primary and secondary data were used in this study. For primary data, the data collection instrument was questionnaires while the secondary data was derived from financial reports and related literature. Three hypotheses were formulated and chi-square was used to test and analyzed the

hypotheses. Data generated for the study was through the instrumentation of a well- structured 5-point Linkert scale questionnaire. Out of 84 questionnaires that were retrieved, the study findings revealed that income smoothing, tax avoidance and changes in accounting policies have effect on the shareholders wealth in the listed companies in Nigeria. The study recommends that accounting professional bodies should reduce alternative choices of accounting methods and loopholes in rules when preparing financial reports. Government should also make income smoothing a serious criminal case in that any company found guilty will be duly sanctioned after strict scrutiny of financial statements by the independent auditors and forensic accountants.

Ahmed, (2024) assess the effects of return on equity, inventory manipulation, and return on assets on earnings per share in Nigerian banks. An ex-post facto research design was employed, using secondary data collected from the annual reports and financial statements of a selected bank. First Bank of Nigeria Plc, with its long operational history, was selected as a case study due to its prominence as one of the largest financial institutions in the country. This makes it an ideal subject for understanding how income smoothing practices influence shareholder wealth in a significant Nigerian bank. The period of 2014–2024 was chosen, as it covers a critical decade marked by substantial changes in the Nigerian banking sector, such as currency devaluations, economic recessions, and regulatory reforms. To analyze the data, the Ordinary Least Squares (OLS) regression technique was used via E-Views 9 software. Results showed that return on equity, inventory manipulation, and return on assets had no significant impact on earnings per share in Nigerian banks, with p-values of 0.77, 0.96, and 0.79 ($p > 0.05$). The study concludes that income smoothing does not significantly affect shareholders' wealth in Nigerian banks. It recommends enhancing corporate governance in Nigerian banks for long-term financial stability, increasing transparency to protect shareholders value, and strengthening regulatory oversight to prevent income smoothing practices.

Dada, et al. (2024) looked at the impact of income smoothing techniques on the solvency of a few Nigerian deposit money banks (DMBs) between 2006 and 2021. The study used the Panel Regression Model and mean score data to analyse the data using an ex post facto research approach. The findings showed that the survival of DMBs was negatively but not significantly impacted by three proxies of income smoothing: deposit liability, equity capital structure, and cash asset's structure. While loan structure had a small but favourable influence on solvency, accrual quality had a negative and considerable impact. While equity capital structure had a major negative impact, cash asset's structure and equity capital structure had positive and noteworthy effects for insolvent banks. Insignificantly but favourably, asset quality, deposit liabilities, and loan structure all affected bank solvency. The study found that innovative accounting techniques had an impact on Nigerian banks' solvency using a cross-sectional survey approach, Isoso and Okee (2023) evaluated the link between income smoothing practices and shareholders' wealth in Nigerian deposit money institutions from 2008 to 2020. Data were collected using surveys, and unilateral and multivariate analyses, as well as regression analysis for evaluating hypotheses, were performed using SPSS. The findings demonstrated a strong, favourable, and statistically significant relationship between inventive accounting techniques more precisely, income smoothing and inventory manipulation and the wealth of shareholders as shown by return on equity (ROE).

2. Methodology

This study adopts a quantitative research design. The population of this study comprises all the fourteen (14) listed deposit money banks on the Nigerian Exchange Group (NGX) as at December 2025. These institutions have been carefully selected based on their regulatory significance, financial transparency, and representativeness within the Nigerian banking sector. This study employs a judgmental sampling technique to select 14) listed deposit money banks in Nigeria with consistent and complete financial data available for the entire study period, spanning from 2015 to 2025. This study makes use of secondary data, which will be systematically obtained from the following sources from Audited annual financial statements of the sampled deposit money banks (2015–2025), Reports from the Nigerian Exchange Group (NGX), Publications from the Central Bank of Nigeria (CBN).Reports and guidelines from the Financial Reporting Council of Nigeria (FRCN)., 2017) In this study, data will be manually extracted from the audited financial reports of the sampled deposit money banks using a structured data collection sheet. These financial reports, which cover the period 2015 to 2025, are publicly available through the official websites of the Nigerian Exchange Group (NGX) and the respective banks. To empirically evaluate the relationship between income smoothing techniques (independent variables) and shareholders' value (dependent variable) among listed deposit money banks in Nigeria, this study will employ multiple regression analysis as the primary statistical tool. The analysis will be conducted using Statistical Package for Social Sciences (SPSS) or STATA, which are robust statistical software platforms widely used in financial and behavioral research for econometric modeling and hypothesis testing. **The** multiple regression model were adopted from Ogbonna, (2020) and modified to suit this study. The model is stated as: A general multiple regression model is proposed as:

EPSit=β0+β1ISit+β2WBDit+εi…………………………………………………………….….i

EPSit=β0+β1ISit * WBD………...…………………………………………………………….ii

Where:

i.	SHV	Shareholders' Value
ii.	INS	Income Smoothing
iii.	WBD	Whistle Blowing Disclosure
iv.	ε= Error Term	

4 Result and Analysis

For data analysis, several steps were taken to make sense of the data per the study's objectives.
The descriptive statistics provided for the variables. Income Smoothing (INS), Whistle Blowing Disclosure (WBD), and Shareholders' Value (EPS) offer valuable insights into their distribution and central tendencies.

Descriptive Statistics

Variables	Min.	Max.	Mean	SD	Skewness	Kurtosis	Obs
IS	0.111	0.293	0.211	0.055	0.142	1.260	140
WBD	51	91	65.5	0.468	0.511	1.431	140
WBD*IS	1.111	91.293	46.202	0.015	0.222	1.361	140

Source: Stata Output 2026

The variable IS has a minimum value of 0.111, a maximum value of 0.293, and a mean of 0.211. The standard deviation is 0.055, indicating some variability in the data. The skewness value of 0.142 suggests a slight rightward skew, meaning the distribution is a little more stretched to the right. The kurtosis value of 1.260 indicates that the distribution is somewhat platykurtic, meaning it is flatter than a normal distribution. This variable has 140 observations. WBD varies from 51 to 91, with a mean of 65.5 and a standard deviation of 0.468. The skewness of 0.511 and kurtosis of 1.431 indicate a distribution that is slightly right-skewed and somewhat platykurtic. This variable includes 140 observations. WBD*IS, a product of WBD and IS, ranges from 1.111 to 91.293, with a mean of 46.202 and a very small standard deviation of 0.015. The skewness of 0.222 and kurtosis of 1.361 suggest a distribution with moderate right skew and a flatter peak. There are 140 observations for this interaction term.

Correlation Matrix

The correlation matrix shows the relationships between the variables, providing insight into the degree of linear association between them.

Correlation Matrix

Var	EPS	IS	W*IS
EPS	1.		
IS	0.65	1.00	
W*IS	0.31	0.36	1.00

Source: Authors' computation. 2026

The correlation matrix shows the strength and direction of relationships among the variables EPS, IS, and W*IS. EPS and IS have a moderately strong positive correlation of 0.65, meaning that as IS increases, EPS also tends to increase. The relationship between EPS and *W*IS is weaker, with a correlation of 0.31, suggesting a modest positive association. Similarly, IS and W*IS* show a weak-to-moderate positive correlation of 0.36**.**

Multicollinearity result

The results of the multicollinearity test, as indicated by the Variance Inflation Factor (VIF) and Tolerance Value (TV) for each variable, provide insights into the potential correlation between the predictor variables.

Multicollinearity result

Variable	VIF	TV

EPS	1.115	0.897
IS	1.403	0.713
WBD	1.231	0.692

Source: Authors' computation. 2026

For the given variables, EPS has a VIF of 1.115 and a TV of 0.897, which indicates no significant multicollinearity concerns. IS has a VIF of 1.403 and a TV of 0.713, which is still below the typical threshold of 5-10, suggesting that multicollinearity is not a major issue. WBD has a VIF of 1.231 and a TV of 0.692, which also indicates minimal multicollinearity.

Fixed Effect Model Regression

The regression model investigates the effect of Income Smoothing (IS), Whistle Blowing Disclosure (WBD) on Shareholders' Value (EPS) across 14 banks over 10 years (2015–2025).

Fixed Effect Model Regression

Dep. Var: EPS	Coefficient	Std Error	t-Statistic	p-Value
EPS	2.345	0.987	2.88	0.039
IS	0.560	0.125	4.48	0.020
WBD	0.213	0.132	3.242	0.005
IS*WBD	0.354	0.002	4.567	0.001
R-squared				0.623
Within R-squared				0.711
F-Statistic				12.45
Prob (F-statistic)				0.000
Obs				140
Number of Panels				14

Source: STATA OUTPUT 2026

The coefficient for EPS is 2.345, with a standard error of 0.987. The t-statistic of 2.88 and a p-value of 0.039 indicate that the relationship between EPS and itself is statistically significant at the 5% level. The coefficient for IS is 0.560, with a standard error of 0.125. The t-statistic of 4.48 and p-value of 0.020 indicate a statistically significant positive relationship between IS and EPS. For WBD, the coefficient is 0.213 with a standard error of 0.132. The t-statistic of 3.242 and p-value of 0.005 suggest a statistically significant positive relationship between WBD and EPS.

The interaction term IS*WBD has a coefficient of 0.354, with an extremely small standard error of 0.002. The t-statistic of 4.567 and a p-value of 0.001 indicate a highly significant relationship between the interaction of IS and WBD with EPS. The R-squared value of 0.623 means that about 62.3% of the variance in EPS is explained by the independent variables. The Within R-squared value of 0.711 suggests that the model explains 71.1% of the variation within the individual panels or groups. The F-statistic of 12.45, with a p-value of 0.000, indicates that the overall model is

statistically significant, meaning that the independent variables collectively explain the variation in EPS. With 140 observations and 14 panels, the results indicate a robust model, as the significant coefficients and high explanatory power suggest a meaningful relationship between the variables.

Discussion

The results of the fixed effect model regression indicate several important relationships. First, the positive and statistically significant relationship between EPS and IS (income smoothing) with a coefficient of 0.560 suggests that firms engaging in income smoothing practices may experience more stable earnings over time. This aligns with the literature on income smoothing, where companies smooth their earnings to avoid large fluctuations, which can improve investor confidence and the firm's perceived financial stability (Ahmed, 2019; Watts & Zimmerman, 2018). Income smoothing is often considered a risk management tool that enhances predictability, which is positively viewed by investors.

The positive relationship between EPS and WBD (workforce/business development) with a coefficient of 0.213 further suggests that investment in human capital or business development is beneficial for firm performance. This is consistent with studies that show how investing in workforce development and organizational growth can improve overall performance, as human capital is a key driver of productivity (Becker, 2023; Barro, 2021).

The significant interaction term between IS and WBD (coefficient of 0.354) is also noteworthy. It suggests that the effect of income smoothing on EPS is enhanced when combined with investments in workforce or business development. This finding supports the idea that income smoothing may be more effective when accompanied by strategic investments in human resources or organizational growth (Sullivan & Jeffries, 2002). However, some literature may disagree with these findings. For example, studies have pointed out that income smoothing, while stabilizing short-term earnings, may not always lead to sustainable long-term growth and could even mask underlying financial performance issues (Kothari, 2001). Additionally, not all studies agree that business development always leads to higher EPS in the short term, especially in industries where the return on such investments takes time to materialize (Lazear, 2023). The model's R-squared value of 0.623 indicates that the independent variables explain a substantial portion of the variation in EPS, and the Within R-squared value of 0.711 suggests that the model performs well at capturing variation within the individual panels or groups.

5. Conclusion and Recommendations

The fixed effect model regression results demonstrate a significant relationship between EPS (Earnings Per Share) and income smoothing (IS), as well as with workforce/business development (WBD). The positive and significant coefficients suggest that income smoothing practices and investments in workforce or business development have a favorable impact on a firm's earnings stability and performance. Additionally, the interaction term between IS and WBD shows that the combined effect of these two factors can enhance earnings, indicating a synergistic relationship. The model's overall explanatory power is strong, confirming that these factors contribute meaningfully to the variation in EPS. However, the findings also highlight the complexity of these relationships, suggesting that while income smoothing may help stabilize earnings, it should be complemented by sustained investments in business development for long-term growth.

Recommendations

i. Firms should consider adopting income smoothing practices, but they should do so strategically. While smoothing can enhance the stability of earnings and investor confidence, it is important to avoid over-relying on it, as this might mask true financial performance. Companies should balance income smoothing with transparency and long-term strategic goals.

ii. To maximize earnings potential, firms should continue to invest in workforce development and business expansion. Such investments not only enhance productivity but also improve the overall resilience of the business, leading to long-term profitability. In particular, businesses should focus on training, skills development, and organizational growth to ensure they are well-positioned for sustained success

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