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EFFECT OF FIRM SIZE AND INFLATION ON ACCOUNTING AND PRICE PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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Abstract
The objective of the study was to determine the influence of firm size, inflation and earnings management on accounting and price performance of manufacturing firms in Nigeria using secondary data obtained from firms' financial statement for the period 2013 to 2022. Six measures of performance Returns on asset, returns on equity, market capitalization, price earnings ratio, and Tobin Q and Enterprise value were proxied for performance. Multiple Regression analysis and correlation matrix was used in the study. Hausmann test was conducted for selection of model between fixed and random effects. Classic assumption tests and other diagnostic tests were conducted on data set. From the result of the study using p-values, we found Firm size, and earnings management significantly impact Returns on Asset while inflation has weak relationships with Returns on Asset. Earnings management significantly impact Returns on equity while size and inflation have weak relationships with Returns on Equity. Firm size, inflation and earnings management significantly impact Tobin. Firm size and earnings management significantly and positively impact Price earnings ratio while inflation has a weak relationship with Price earnings ratio. Firm size, inflation and earnings management significantly impact Market capitalization. Inflation reduces market capitalization while increase in firm size increases market capitalization. Bigger firms tend to attract higher market price. Firm size significantly and negatively affects enterprise value while inflation and earnings management insignificantly impact enterprise value. ENVA has a negative correlation with ROA, ROE and PE ratio. Indeed, the negative correlation between ENVA and ROE and ROA is significant and shows that when ROE or ROA are rising in the firms, ENVA is falling at the same time. Based on findings of the study we recommend that Corporate Managers should be observant and identify optimum firm size while expanding to ensure lowest cost and maximal profit. The impact of inflation should be considered in formulation of corporate policies while managers should avoid earnings management because of its significant impact on ROA and ROE.

KEYWORDS: Firm Size. Inflation. Earnings Management**.** P/E Ratio, TOBIN Q, ROA, ROE, Enterprise Value, Market Capitalization

Introduction

The Neoclassical theory of the firm forms the springboard of discussion about the firm and argues that firms are set to achieve goals some of which include cost minimization, profit and wealth maximization. The achievement of the goals is affected by exogenous environment with many factors which lie beyond the firm's control. This by implication means that profit as a motivation for the firm's growth and the purpose of its existence, is determined by external factors beyond the firm's control. However, other scholars argue that firm performance is guided by intrinsic factors. The resource-based view (Barney,

1991) suggests that the existence of firms with different profitability levels within the same industry could be attributed to internal factors such as size, employee skills and market share. These factors enhance the firms' competitive advantage over other firms within the same industry and subsequently dovetail into different profitability levels. Caves & Porter (1979) and Porter (1998) suggested that firms differ in profitability level achieved because of peculiarity in strategic group behavior by different industries. Yet some other authors argue that it is a combination of intrinsic and exogenous factors that drive financial performance and value. The ability of the firm to respond to the external and internal interplay of forces and fulfill the purpose of its creation is a challenge to Corporate Managers. There are many theoretical propositions on firm operations, performance and value. Some proponents argue that a firm is a nexus of contract, complex with many sides which combine to evoke and influence its nature, behavior and dimensions of a firm performance and value. Corporate managers are faced with the challenge and responsibility of coordination's of the sub parts that make them achieve success. The role firm size play in achieving profit and increasing firm value is a subject of debate by many Scholars, Practitioners and Corporate Managers.

Shaheen and Malik (2012) described firm size as the quantity and array of production capability and potential a firm possesses or the quantity and diversity of services a firm can concurrently make available to its clients. Firm size plays a significant and crucial role in explaining the kind of relationships the firm has within and outside its operating environment. In a modern world ruled by forces of demand and supply, the size of a firm is essential for accomplishment of set goals due to the economies of scale. The reason is not farfetched as firms in an attempt to leap frog competition try to upscale its size to leverage on cost reduction and increase its market share and take advantage of emerging opportunities. The ability to achieve enhanced success in performance and survival differ from firm to firm based on size. Firm size connotes ability to possesses and deploy varieties of production capabilities, quantity and various dimensions of service offerings consistently to its customers. In situating the concept of Firm size there are many theoretical suggestions that dates back many decades ago. The economies of scale first found its way into corporate finance literature and opine that a scale exist that enable a firm to take advantage of available resources to minimize cost and achieve profit maximization. As a firm grows and expand its capabilities it increases in size and ability to use its size to acquire and deploy resources and take advantage of emerging opportunities to achieve profitability and its goals. Thus, larger firms achieve higher profitability and value because of size. Based on this assumption size is assumed to have a positive association with performance and value. Earlier studies were based on this theoretical perspective. The nature of relation subsisting between size and profit of a firm is relevant in the achievement of business goals and gives an indication of factors boosting profit (Abdurahman et al. 2003). In concurrence to this assertion Doğan (2013) argues that larger firms exploit emerging opportunities to achieve higher market share and profit. Prior studies Shepherd (1972); Scherer (1973); Jelic et al (2001) and Kakani et al (2001 recognized the significance of economy of scale and other efficiencies in larger firms. Bigger firms benefit from reduced cost of transaction not available to smaller firms. Supporting this view is the study of Asimakopoulos et al. (2009) using total sales as a proxy for size found large firms achieve more profit than smaller firms. This high profit is possible through cost reduction achieved through bargaining and pricing during acquisition of inputs and quantity of output. It is also argued that higher assets by larger firms support higher profit and this narrative is supported by the study of (Lee, 2009).Another theoretical perspective

which supports the positivity of firm size in relation to performance is Positive accounting theory. Watts and Zimerman (1976) advanced the political cost hypothesis and theorized that large firms are politically more sensitive than smaller firms hence more efficient operationally and highly profitable. In the same vein. Gibrat law supports the positivity of firm size to performance and states that growth process is random, average independent growth of firm is achieved due to size. However findings from prior studies by Hart and Oulton (1996); Caves (1998); Del monte and Papagni (2003) and Coad (2007) testing Gibrat law provided conflicting and no clear evidence about correlation between size and firm performance.

Many prior studies (Sarkaria & Shergill, 2000; Liargovas & Skandalis, 2008; Merikas et al, 2006;, Oladele and Adebayo (2013), Babalola (2013), Dogan (2013), Kartikasari and Merianti (2016), Kumar and Kaur (2016);Tarawneh, 2006) support a positive relationship between firm size and profitability However some others reported a negative relationship (Wu, 2006; Athanasoglou et al., 2008; Punnose, 2008 Becker-Blease et al., 2010 and Banchuenvijit, 2012)).

Many reasons have been advanced by scholars to justify a negative relation of firm size to performance. The agency problem existing between the agents and the principal is attributed to this negativity. Managers have the potential to pursue self-aggrandizement, abandon the enterprise goal of profit and wealth maximization and exploit opportunities to satisfy selfish goals thus mitigating the advantage larger firms are to benefit. Kouseret et al.(2012) and Maja and Josipa (2012) situated this agency problem in their study. Also, larger firms require sustained coordination and supervision and bureaucracy bottlenecks can reduce managerial efficiency. Larger firms may have bureaucratic management structures which inhibit swift and efficient decision-making process. The additional management layers created to aid supervision and organization of the increased and diverse workforce may inadvertently add to the agency conflict and increase revenue loss while additional monitoring cost may exacerbate the loss. These scenario can cause reduced profit and advantages which larger firms are meant to enjoy. Baumol (1959) also supported the argument that increase co-ordination requirement make managerial task cumbersome resulting in inefficiencies and decrease earnings.

It is further enthused that diseconomies of scale can affect relationship between firm size and performance. Diseconomies of scale is the failure or inadequacy in matching resource requirements to produce more, when economies of scale and optimum profit is attained average cost is reduced. However, beyond the level where optimum economy of scale is achieved and the advantages therefrom is exhausted, a dis-acceleration occurs, average cost rises with unit cost of production. At this juncture, size fail to contribute positively to performance but rather it has a negative correlation to performance as economies of scale is exhausted and diseconomies of scale begins to take effect. Naser and Mokhtar (2004) find diseconomies to scale at the upper end of the size distribution among retail firms. The stage of the business cycle is also an important factor in causing a negative relation between size and performance. As size increases; the cost of production also rise causing performance to decline. Though, the way these affect performance varies across different firm sizes. At a growing stage of the business, profit is expected to rise with increase in size. However, at the declining stage of the business cycle increase size could be a disincentive and a negative correlate to profit. This is attributed to low customer patronage, building up of inventory and existence of alternative products which serve as substitutes. The possibility of negative size performance relationship can further be explained by the notion of x-efficiency which denotes imprudent management of costs and shows the degree which costs are higher

than expected. X-inefficiency opines that general managerial or technological inefficiency in larger firms could increase production costs and ultimately reduces the bottom line

The controversy is further exacerbated by other studies who found no relationship between size and performance. Example are studies by Mudambi and Nicosia, 1998; Lauterbach and Vaninsky, 1999; Durand and Coeuderoy, 2001; Tzelepis and Skuras, 2004 and Khatab et al, 2011). Cloodt (2003; Goddard et al, 2006; Mariuzzo et al, 2003. While Amato and Wilder (2001) and Hermawan (2010) found negative relationships.

Nigerian firms have substantial size increase on yearly basis as shown by increased turnover and asset base over the years. However, these increases in size are not matched with equivalent increase in earnings and profit. Secondly, the galloping inflation which increases cost of input and persistent rise in inflation tend to mask the role expansion on firm size play on performance. Many prior studies on the subject of firm size, performance and value failed to capture the peculiar situation of high inflation in Nigeria as a strong macroeconomic factor that can affect the result of the study. Further igniting the need for this study is that although some prior studies on the relationship between firm size and performance recognized the role of agency conflict in performance theoretically none has considered earnings management as part of the study of firm size. Further motivating this study is the third factor of choice of methods of measuring performance. Prior studies focused mainly on accounting-based measurement which are mainly historical in nature and reflect past events while neglecting market-based measures which are futuristic in nature and consider the future potentials of the firm. Based on conflicting findings from prior studies, failure to study the effect of inflation and earnings management on size and performance and the failure to recognize market measures of performance this study intends to fill these gaps. Therefore, the objective of this study is to determine how firm size, inflation, earnings management affect accounting and price performance of manufacturing firms in Nigeria.

Literature Review

Theoretical Framework

The theoretical framework for this study is anchored on Agency theory, Political cost Hypothesis, Penrose theory, neoclassical theory and theory of optimal firm size. The performance of the firm that is published to stakeholders could be subject to bias, manipulation, error of omission or commission. It could be as a result of the intentional act of management to massage earnings.

The agency theory proposed by Jensen and Meckling argues that Managers (agent) could act in their selfish interest and deviate from the original goal and mandate given to them by the principal. Managers could deliberately carry out opportunistic behavior and take sub-optimal decisions for their self-benefit and to the detriment of the profit and wealth maximization goal of the owners. When this occur reported profit deviate from actual and factors that enhance profit are masked. Sub-optimal decisions can jeopardize the efficiency of the firm and result in x-efficiency where actual cost exceed normal cost. Managers can engage in activities that enhance their bonus, income smoothing, wrong stock valuation strategy, wrong write-offs and provisioning, underpricing or over pricing of contracts, purchase of wrong equipment and low quality of raw materials, poor governance, deliberately hiring wrong staff with poor skill set due to favoritism, wrong classification of items in the statement of comprehensive income and statement of financial position, understatement of expenses or over statement of cost etc.

The list is endless. Also, the Principal in an attempt to mitigate the agency problem incur supervision, monitoring and control costs which reduces earnings and affect performance**.**

The political cost hypothesis embedded in positive accounting theory tries to emphasis the importance of size and predicts that firms will exploit discretion in accounting policies to orchestrate the appearance of lower profits in response to an increase in the threat of these political costs (Watts & Zimmerman, 1978, Watts & Zimmerman, 1986) he political cost theory—which considers taxes as a part of firms' political costs—assumes a positive relationship, as larger firms are subject to larger public visibility, which causes them to be exposed to greater regulatory actions by the government or to be expected to take more social responsibility (Jensen & Meckling, 1976; Watts & Zimmerman, 1986; Zimmerman, 1983). As this occur larger firms are likely to lower their profit to pay less tax or to avoid regulatory sanctions or governmental investigations. he political cost hypothesis assumes that firms will tend to show their profits lower by using different accounting methods and procedures so that the firm does not attract the attention of politicians, who will have an eye on high profit industries. Allowing lower profits steers away any attention by the public and the eyes of the government who will place higher regulation on high earning firms.

According to Penrose theory, Firms are created by individuals to serve the members of the society. Firms exist in a non-equilibrium state of firm growth, and seek to maintain administrative coordination within a multi-stakeholder environment. Managers in an effort to ensure firm survival and maintain good image for themselves generate creative innovations and adaptive responses through resource allocation. Thus, firms collect productive resources and the output of services from the productive resources is drivers of the uniqueness of the firm. Managers provide managerial and entrepreneurial services as catalyst in the resource-service conversion process. Managers understanding of the peculiar nature of the firm and through creative imagination coupled with entrepreneurial spirit identify growth opportunities, determine the most profitable option and execute growth projects for the firm. Penrose theory therefore recognize that a firm consist of the administrative process of decision-making ability to collect productive resources and making efficient and innovative use of these resources over time gives the firm its unique characteristics. The resources are raw materials and when converted gives the firm its uniqueness. Thus, it is services derived from resources that are the key drivers of firm heterogeneity. This crucial distinction between resources and the services made available from resources highlights the central proposition that firms achieve important outcomes (e.g., new products and services) not merely by possessing resources, but because of effective management of resources which consist of deployment, development, allocation, utilization, and combination of resources. Management is a team effort in which each employee deploys specialized, functional skills as well as more highly-efficient team-specific skills, which enable them to individually and collectively coordinate the many activities of the firm in a coherent manner. She argued that firms had no long-run determinant or optimum size, but only a limitation on current-period growth rates.

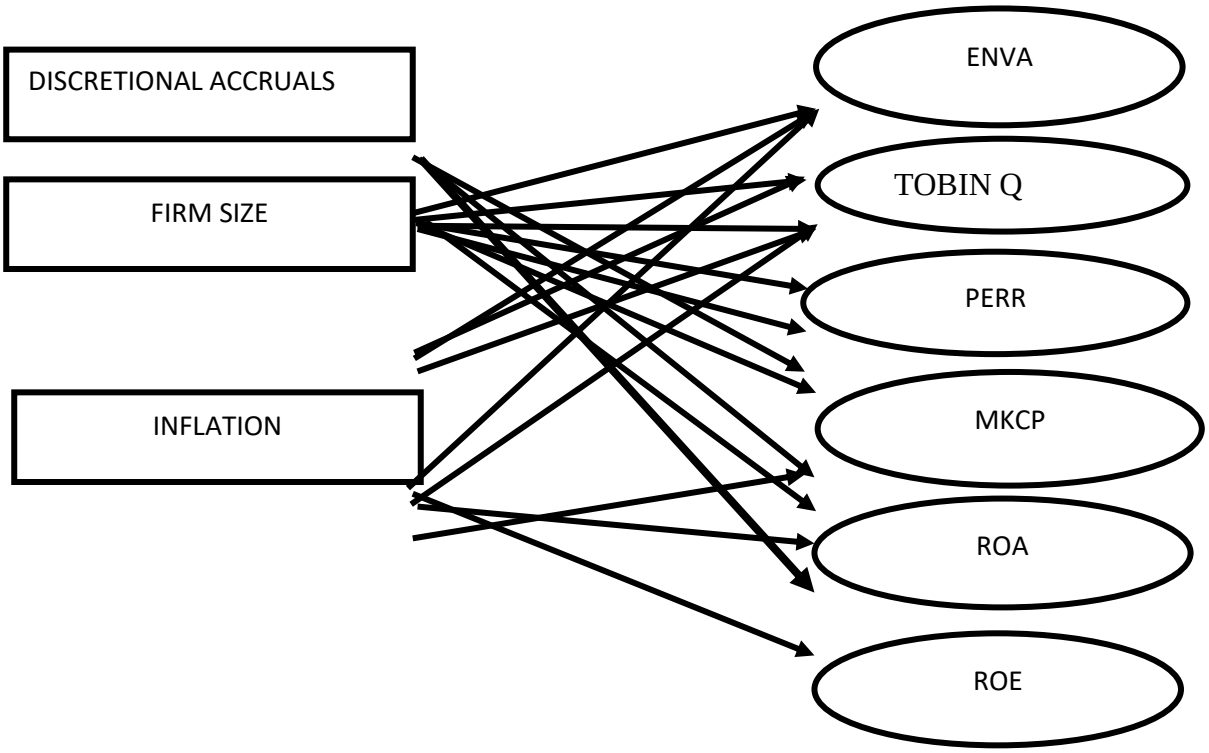
Neo Classical theory suggest that a firm is a perfect, abstract form of business established for purely economic desire of cost minimization and profit maximization. However, firms' achievement of goal of existence and profitability are influenced by external factors beyond its control.

The theory of Optimal firm size as proposed by Robinson suggest that a firm achieve optimum size when with the existing methods, resources and organizational ability achieve the minimum average production cost per unit when all run costs are considered. Bye also concurred with this proposition

when he asserted that optimum business firm is that entity which with existing technical know-how and market for its products can produce goods at lowest cost in the long run. However, this imply that optimum size is a function of many factors such as the market structure; that is if there is perfect market involving competition or imperfect market such as monopolistic competition, monopoly and oligopoly. Under such conditions smaller firm possess the intrinsic condition to evolve faster than smaller firms until minimum efficient scale of production is achieved. Also, under firm's ability to grow depends on ability to innovate predominantly influenced by demand for services and products rather than cost. **Resource-based theory** contends that possession of strategic resources provides an organization with a golden opportunity to develop competitive advantages over its rivals. These competitive advantages help the organization enjoy strong profits. A strategic resource is an asset that is valuable, rare, difficult to imitate, and non-substitutable. Valuable resources assist firms to create strategies that capitalize on opportunities and reduce threats. Competitors encounter difficulties duplicating resources that are difficult to imitate. A resource is non substitutable when competitors cannot find alternative ways to gain the benefits that a resource provides. Such resources provide competitive advantage and also provide sustained competitive advantage that endures for a long time over while ensuring long run future successes. These resources involve not only tangible assets but also intangible assets that meet the criteria of being valuable, rare, difficult to imitate, and non-substitutable. In addition, firms must have capabilities which is what the entity can do Capabilities. Capabilities arise over time as a firm takes actions that build on its strategic resources. However, firms must have dynamic capabilities; the possession of unique capabilities capable of creating new capabilities. The firm must be skilled at continually updating its array of capabilities to keep pace with changes in its environment. The firm must be able to bundle, manage, and exploit resources to create value added to customers and have competitive edge over competitors. The combination of resources and capabilities enhances firm growth. Thus, performance is a function of resources and how the resources are exploited by the firm.

Conceptual Framework

Conceptual framework involves division, mapping and explanation of concepts and the nature of relationship amongst variables being examined (Creswell, (2003). The conceptual framework is useful in studies as it helps in the determination of research scope, gap identification in literature and determination of relationships. This study depicts the conceptual framework as shown below in a diagrammatic manner to buttress the relationships between variables and provide insights to the measures of the variables used in the study



Empirical Review

The literature and studies on firm size and performance cut across continents.

Yadav, Pahi and Gangakhedkar (2022) examined the correlation between firm size, growth and profitability along with other firm-specific variables (like leverage, competition and asset tangibility), macroeconomic variable (like GDP growth-business cycle) and stock market development variable. on non-financial listed and active firms from 1995 to 2016 for twelve industrial and emerging Asia–Pacific economies. profits coefficient was found to be positive and modest. There is evidence of a negative size-profitability and positive growth-profitability relationship suggesting that initially profitability increases with the growth of the firm but eventually, overtime, gains in profit rates reduce, as size increases indicting that large size breeds inefficiency.

In Nigeria the following studies found positive relationship between firm size and performance. Oyelade, A (2019) examined the impact of firm size on firm's performance using selected firms in the building industry in Nigeria for the period 2004 to 2017. The study found a positive significant association of firm size with ROA and ROE. Olawale et al. (2017) investigated effect of firm size on the performance of firms in Nigeria for the period 2005 to 2013. The results of the study confirmed that firm size measured by total assets has a negative effect on performance, while firm size measured by total sales, has a positive effect on the performance of Nigerian non-financial companies. Akinyomi and Adebayo (2013) examined the effect of firm size on the profitability of Nigerian manufacturing sector using Pearson product moment correlation coefficient and regression method. Log of total assets and log of turnover were used as proxies for firm size. The results of the study revealed that firm size, measured by total asset and total sales has a positive effect on profitability. Also, Obehioye and Osahon (2013) investigated the determinants of corporate profitability in developing economies using Nigeria as a case study for the period 2006-2010. The ordinary least square regression method was utilized to

determine the relationship between size and corporate profitability. The study revealed positive relationship between size and performance. Studies in Nigeria by Babalola (2013) and Akinlo (2012) on the relationship between firm size and performance also revealed a positive relationship exist. Studies in other countries also revealed a similar trend. Kumar and Kaur (2016) studied the relationship between size and profitability in the Indian automobile industry from 1998 to 2014. The study showed that when using time-series analysis the variables have positive relationship. However, when usingcross-section analysis no relationship exist between variables of study. Sritharan, Vinasithamby (2015) studying Sri Lankan hotels and travels sector firms found firm size positively influenced profit using returns on asset as a measure. Tailab (2014 found size and firm age affect positively firm's performance of United States of American firms using a sample of 100 top non-financial American firms listed on Fortune 500 for a period between 2009 –2013. Size in terms of total sales have a positive significant effect on the profitability of U.S firms. Dahmash (2015) examined the effect of firm size on the profitability of 1538 firms listed on the Amman Security Exchange, Jordan, for the period 2005-2011. The results indicated a highly significant positive relationship between firm size and profitability for the three main sectors of the sample. Studying Iranian firms listed on Tehran stock exchange, Ghafoorifard et al. (2014) found a positive relationship between performance and size. Studies in Turkey Halil and Hasan (201 2); in Jordan by Shubita and Alsawalhah (2012) and in Pakistan (Akbas and Karaduman 2012) also revealed positive association of firm size with performance. Salim (2012) studied the relationship between bank size and financial performance of commercial banks in Kenya. The study identified strong correlation between size and performance Anilaet et al. (2011) studying pakistanian firms and Velnampy and Nimalathasan (2010) examining Sri Lankan firms also came to the conclusion of a positive relationship of firm size with performance.

There are however other studies that found negative association of firm size with performance.

Whittington (1980) found a negative association between firm size and profitability for U.K. based listed manufacturing firm covering the time period from 1960 to 1974. Ramasamy et al. (2005) examined the relationship between firm size and performance in Malaysian palm oil sector, from 2000 to 2003 using ordinary regression analysis. Result showed that size is negatively related to performance. Amato and Burson (2007) examined the size-profit relationship for firms operating in the financial services sector. Results revealed a negative influence of firm size on its profitability, although this influence was not statistically significant. Becker-Blease et al.(2010) and Banchuenvijit (2012) also found a negative relationship between size and performance. Beyond the positive and negative relationships found by the other authors another set of studies found no relationship exist between firm size and performance. For instance Goddard et al (2006),. Hagedoorn & Cloodt (2003, Tarawneh (2006) find a firm's market share instead of its size plays a significant role in explaining its relative performance. Based on this mixed outcome from studies there is therefore the necessity to examine further the relationship between firm size and performance

Methodology

The researcher used census method in gathering data across a section of manufacturing firms and ignored sampling which is not required in census method.

Table 1: Measurement of Variables and Aporipori Expectation

Independent Variable	Measurement	Expected Sign
Size	Natural log of sales/turnover	Positive
Inflation	Using annual average inflation rate from FOS	Negative
Accrual Quality	Calculated using Modified Jones Model	Negative
Dependent		
Returns on Asset (ROA)	Earnings before interest and taxes / Total Assets	Positive
Returns on Equity (ROE)	Earnings before Interest and Taxes / Shareholders' Equity	Positive
TOBIN Q	Market value of Equity + MV of debt / Total assets	Positive
Market Capitalization	Total number of share x market price per share	Positive
Enterprise value (ENVA)		Positive
Price Earnings ratio(PERR)	Market price / Earnings per share	Positive

Statistical Estimation

$TOBQ = \alpha_0 + \alpha_1 SIZ + \alpha_2 INF + \alpha_3 ACR + U_1, t$ - (i)

$RONE = \beta_0 + \beta_1 SIZ + \beta_2 INF + \beta_3 ACR + U_2, t$ (ii)

$RONA = w_0 + w_1 SIZ + w_2 INF + w_3 ACR + U_3, t$ (iii)

$PERR = x_0 + \alpha_1 SIZ + x_2 INF + x_3 ACR + U_4, t$- (iv)

$ENVA = y_0 + y_1 SIZ + y_9 INF + y_{13} ACR + U_5, t$ - (v)

$MKCP = z_0 + z_1 SIZ + w_2 INF + w_3 ACR + U_3$,(vi)

Descriptive Statistics

Table 2 presents annualized mean, annualized standard deviation and other summary statistics on the financial performances of the selected firms and the other variables in Nigeria. The descriptive statistics show that, for the performance variables, average Tobin's Q for the banks is 6.58, suggesting relatively low performance of the selected firms in terms of significance in the market. The Table also shows that certain firms had very low Tobin's Q ratios for certain years, while some other firms had values up to 14.76 percentage points. Average ROA is lower than average ROE for the firms, although the standard deviation of ROE is quite high at 3.23 which shows that there was wide variations in the performance of ROE among the firms or over the years. This is also confirmed by the high skewness value of 4.39, which suggests a very positive skewness among the data and show that much of the ROE values for the firms actually lie below the reported average value in the Table. Average P-E ratio is high at 90.54 although the median value is low at 7.82 and the standard deviation is very high at 801.17. This highlights the high level of differences in P-E ratio among the firms in the study.

Table 2: Descriptive Statistics of the Data

	Mean	Med	Max.	Min.	S.D.	Skew	Kurt	J-B	Prob.
TOBINQ	6.58	6.57	14.76	-0.47	2.35	0.20	7.20	75.58	0.00
ROA	0.09	0.07	0.38	-0.30	0.11	-0.25	3.92	4.64	0.10
ROE	0.27	0.21	3.23	-0.50	0.49	4.39	27.25	2827.12	0.00
P_ERATIO	90.54	7.82	8100.00	-64.31	801.17	9.94	99.88	41566.70	0.00
ENVATT	1.32	1.02	6.08	-0.38	0.91	2.18	9.73	273.57	0.00
MCP	9.93	10.10	15.13	4.15	2.75	-0.05	2.25	2.41	0.30
RISK	1.59	1.40	11.70	-2.19	1.42	4.57	31.32	3763.04	0.00
INFL	11.58	9.01	16.50	8.06	3.75	0.39	1.20	16.41	0.00
ACCR	0.05	0.00	1.60	0.00	0.22	5.26	32.00	4044.67	0.00

Source: Author's computations

Average ENVA value is 1.32 and average MCP is 9.93. For the explanatory variables, average leverage is 0.54, which shows that over 50 percent of the assets of most of the firms is made up debt instruments. The sgtandrad deviation of 0.18 ir relatively low, suggesting that the leverage of the firms are evenly distributed, though the skewness value of 1.31 shows slight leaning towards lower values of the mean reported. Average growth in assets is negative at -8.34, while average risk for the firms is not too high at 1.59. Average ta ratio is 0.27, which is relatively low, tangibility is 0.63 on average and liquidity is 1.74 on average (suggesting highly liquidity financial indicators for the firms). Average tax shield for the firms is also low at 0.15, although certain firms have a shield of up to 0.85 for some years and the standard deviation is slightly higher than the mean value. The J-B tests for each of the categories are high and easily passed the significance tests at the 1 percent level indicating that the datasets are non-normally distributed. These show clear cases of heterogeneity in the data sets across the firms. Essentially, the non-normal distribution shows that there are strong firm-specific influences on the outcome of each of the performance and determinant datasets reported in the Table. The correlation Table for the financial performance variables in the study is shown below. From the Table, it is seen that, apart from ENVA, positive correlations exist among all the performance variables in the study. This shows that when each of the performance indicators among the companies are increasing, the other indicators are also increasing. Thus, all performance indicators, apart from ENVA, move in the same direction. However, ENVA has a negative correlation with ROA, ROE and PE ratio. Indeed, the negative correlation between EMVA and ROE and ROA is significant and shows that when ROE or ROA are rising in the firms, ENVA is falling at the same time. Moreover, the correlations among the variables are significant (at least at the 5 percent level), apart from the correlations of other variables with PE ratio which are insignificant. Thus, it appears the PE ratio does not essentially measure the same financial performance characteristics of companies as the performance other ratios do.

Table 3: Correlation Matrix for performance variables

	TOBINQ	ROA	ROE	P_ERATIO	ENVATT
ROA	0.22				
	0.03				
ROE	0.13	0.25			
	0.19	0.01			
P_ERATIO	0.08	0.04	0.09		
	0.45	0.66	0.36		
ENVA	0.26	-0.24	-0.22	-0.08	
	0.01	0.01	0.03	0.42	
LMCP	0.79	0.30	0.14	0.13	0.25
	0.00	0.00	0.16	0.18	0.01

Source: Author's computations

The correlations among the selected determinants of financial performances among the firms are also presented in this section. This correlation analysis helps to present the initial patterns of relationship among the independent variables and also to consider the level of multicollinearity among the explanatory variables. It should be noted the multicollinearity may occur in estimates where the correlations among indepdent variables are very high, thereby rendering the estimated coefficients highly inefficient and biased. From the correlation matrix in Table 3, it can be seen that the correlations among each of the variables are very low. More importantly, the low correlation among the variables shows that the problem of multicollinearity among the variables would not arise since all the variables are shown to exhibit less relationships among each other.

Table 4.: Correlation Matrix for determinants variables

	SIZE	INFL
SIZE		
INFL	0.16	
	0.11	
ACCR	-0.01	0.03
	0.92	0.77

Cross-section Dependence Test

Before conducting the cause-effect testing for the study, the cross-section dependence tests are conducted. Such tests allow for disentangling the crucial features of the relevant variables taking into consideration the issue of cross-section dependence in the data. Notice that the presence of cross-section dependence within the framework of our dataset can lead to estimations that require the introduction of firm-biased variables in the study. Moreover, since the firms in the sample are all Nigerian firms, they are likely to exhibit similar responses to overall financial climate of the economy thereby presenting certain levels of interdependencies which may lead to spatial autoregressive processes. The issue of dependence across the companies is investigated by implementing the most commonly used test for cross section dependency (Pesaran, 2004 and 2007). Given that the number of cross-sectional units in this study is greater than the time period (n = 21 and T=5), the standard Breusch and Pagan (1980) LM test for cross-equation correlation is also appropriate for testing cross-sectional dependence in a panel data model (Baltagi, Feng & Kao, 2012). Thus, for this study, we also adopt the cross-sectional dependence (CD) test developed by Pesaran (2004) which uses a pair-wise average of a sample correlation to test the existence of cross-sectional dependence.

Table 5: Cross-section Dependence Test Results

Variables series tested	Pesaran CD	P-value	Breusch-Pagan LM	P-value
TBQR equation	7.63	0.00	300.8	0.00
ROA equation	3.28	0.00	275.4	0.00
ROE equation	3.04	0.01	277.6	0.00
P-E Ratio equation	4.97	0.00	289.1	0.00
ENVA equation	6.03	0.00	293.5	0.00
MCP equation	9.39	0.00	337.6	0.00

Source: Author's computations

The results of cross-section dependence test are reported in Table 5. From the result, it is seen that the Peseran CD test and Breusch-Pagan LM test for each of the equations on firm performance pass the significance test at the 5 percent level, suggesting the absence of cross-sectional dependence for the estimation structure. The absence of cross-sectional dependence implies that the estimations are efficient even with heterogeneous operational structures among the firms in the sample. Apparently, the test above reject the null of presence of cross-section dependence.

Empirical Results on the Panel Analysis

The standard test for the method of panel analysis to adopt is the Hausman test for random effects. From the Hausman test results on table 6, the statistic provides little evidence against the null hypothesis that there is no misspecification when the fixed effect model is employed for the performance equations. Hence, the best method to apply is the Fixed-effect strategy.

Table 6: Hausman Test for Cross-Section Random Effects

Model	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Tobin's Q	12.41	8	0.019
ROA equation	12.25	8	0.016
ROE equation	13.47	8	0.00
P-E Ratio equation	18.03		0.00
ENVA equation	21.11		0.00
MCP equation	13.37		0.00

Panel Estimation Analysis

In this study, we report the fixed effects estimates and use the results for conclusions drawn. In the results also, the estimates are presented for their effects on firm performance.

Determinants of Financial performance and Tobin Q

The result of the fixed effects model for firm performance (using Tobin's Q ratio as indicator) are presented in Table 7 below. The goodness of fit statistics are impressive for the results. The adjusted R-squared value shows that about 98 percent of systematic variations in Tobin's Q is captured in the models with control and without control. This also shows that the model has high explanatory power.

Table 7: Determinants of financial performance (Dependent variable is Tobin's Q)

Variable	Coeff.	t-Stat.	Prob.
C	9.37	37.95	0.00
SIZE	-0.90	-48.03	0.00
INFL	-0.02	-2.69	0.03
ACCR	0.73	2.89	0.02
Adj. R-sq.	0.98		
F-statistic	149.22		

The effect of the explanatory variables on Tobin's Q ratio is determined by observing the coefficients of the estimates in terms of signs and significance. From the result of the estimates with control, the coefficients SIZE passed the significance test at the 1 percent level (prob < 0.01), while, INFL and ACCR passed the test at the 5 percent level (p < 0.05). This shows that for the selected firms, the size of a firm has very strong negative impacts on its market performance based on the Tobin's Q ratio. Also, accruals have significant positive impact on Tobin's Q ratio implying that when these variables increase in a firm, the market performance of the firms will also increase.

Determinants of Financial Performance and Returns on Assets

Table 8 shows the result of the effects of the determinant factors on firms' ROA (operational performances). From the result, the diagnostic statistics are all high and impressive. The adjusted R-sqaured statistic is very high at 0.958, suggesting that over 95 percent of the variations in ROA was captured in the model. The individual contributions of the explanatory variables to the performance of ROA in the model is demonstrated by the coefficients of the explanatory variables. From the results in Table 7, only the coefficients of SIZE, and ACCR passed the significance test at the 1 percent and 5 percent levels. This result shows that among the main variables of the study, only firm size, is relevant determinants of ROA. Bigger firms tend to perform better in terms of ROA in Nigeria. It should be noted that between the performance's indicators of Tobin's Q and ROA SIZE appeared as strong determinants. This suggests that size is very important factors that contribute to over financial performance of firms in Nigeria. All the other variables in the model, fail the significance test even at the 5 percent level. This implies that these variables are not important determinants of ROA for firms in Nigeria.

Table.8: Determinants of financial performance (Dependent variable is ROA)

Variable	Coefficient	t-Statistic	Prob.
C	-0.034	-1.025	0.309
SIZE	0.003	3.886	0.000
INFL	-0.001	-1.302	0.197
ACCR	0.024	2.436	0.017
Adjusted R-squared	0.958		0.168
F-statistic	79.03		1.324355

Firm Size, inflation Earnings management and Returns on Equity

The result for ROE is also shown in Table 9 below and it suggests an impressive goodness of fit statistics for the model. The adjusted R-squared value of 0.917 is very high. It shows that the model exhibits are very high explanatory power and the main determinants of ROE has been captured in the model. The F-statistic value of 38.79 is also highly significant at the 1 percent level, which shows that the model has impressive overall significance. Indeed, the result of the F-test shows that a significant relationship exists between ROE and all the independent variables combined.

Table 9: Firm Size, inflation Earnings management (Dependent variable is ROE)

Variable	Coefficient	t-Statistic	Prob.
C	-0.194	-2.169	0.033
SIZE	0.011	1.897	0.062
INFL	0.002	1.237	0.220
ACCR	-0.195	-5.294	0.000
Adjusted R-squared	0.917		
F-statistic	38.789		

An examination of coefficients of explanatory variables revealed the coefficient of ACCR passed the significance test at the 1 percent level, while those of inflation and size fail the significance test even at the 5 percent level. From the result we identify accrual as the dominant factor that determine ROE among the firms. The other factors are not important determinants of ROE among the firms. Firm size is shown to be unimportant in explaining the behavior of ROE among the firms, even though size was an important factor in the determination of both Tobin's Q ratio and ROA.

In Table 10, the results for PE ratio among the firms is shown. The goodness of fit statistics are lower for this estimates, with adjusted R-squared value at 27.5 percent, which shows that a low proportion of the variations in P-E ratio was explained in the model. The F-value only passes the significance test at the 5 percent level but shows that a significant relationship exists between the dependent and independent variables in the model.

Table 10: Firm Size, inflation Earnings management (Dependent variable is P-E Ratio)

Variable	Coefficient	t-Statistic	Prob.
C	64.967	4.687	0.000
SIZE	2.119	2.963	0.004
INFL	-0.215	-1.156	0.252
ACCR	6.245	2.261	0.027
Adjusted R-squared	0.275		208.2736
F-statistic	4.0585		3.047238

The relationship between size, inflation earnings management and P-E ratio are observed by considering the significance and signs of the coefficients of the explanatory variables in the model. From the result, the coefficients of the coefficient of SIZE passed the significance test at the 1 percent level ($p< 0.01$), while that of ACCR passed the test at the 5 percent level. This shows that these are the main factors that determine P-E ratio among the firms. The coefficients of SIZE, and ACCR are positively signed, indicating that these variables have significant positive impacts on P-E ratio in the firms. Inflation in the model fail the significance test which shows that the variable is not important determinants of P-E ratio among the firms.

Another measure of financial performance among the firms is ENVA. The result for the determinants of ENVA among the firms is presented in Table 11. In this result also, the coefficient of determination is also high, which indicates are high goodness of fit statistic. The adjusted R-squared value shows that the over 90 percent of the systematics variations in ENVA is explained by the explanatory variables in

the model. Moreover, the F-value easily passes the significance test at the 5 percent level. This shows that the combined effects of the independent variables on the dependent variable is highly significant and that the model therefore exhibits an impressive overall significance.

For the individual effects of Size, inflation and earnings management on ENVA, we focus on the coefficients of the explanatory variables. From the result in Table 11, it is shown that the coefficient of SIZE passed the significance test at the 1 percent level. firm size has negative impacts on ENVA. Inflation and earnings management both have insignificant positive and negative relationship with ENVA respectively.

Table 11: Firm Size, inflation Earnings management (Dependent variable is ENVA)

Variable	Coefficient	t-Statistic	Prob.
C	1.665	11.684	0.000
SIZE	-0.160	-4.961	0.000
INFL	0.002	0.636	0.527
ACCR	-0.056	-0.629	0.531
Adjusted R-squared	0.902024		3.034842
F-statistic	32.60928		2.211261

Finally, the result for MCP is also shown in Table 12 below and it also suggests an impressive goodness of fit statistics for the model. The adjusted R-squared value of 0.996 is very high. It shows that the model exhibits are very high explanatory power and the main determinants of MCP have been captured in the model. The F-statistic value of 775.9 is also highly significant at the 1 percent level, which shows that the model has impressive overall significance. Indeed, the result of the F-test shows that a significant relationship exists between MCP and all the independent variables combined.

Table 12: Firm Size, inflation Earnings management (Dependent variable is MCP)

Variable	Coefficient	t-Statistic	Prob.
C	9.945	43.271	0.000
SIZE	0.030	3.193	0.002
INFL	-0.018	-2.418	0.018
ACCR	0.965	2.282	0.025
Adjusted R-squared	0.995		
F-statistic	775.97		

For the main determinants of MCP, the coefficients of the explanatory variables are considered in terms of signs and significance. It is seen that the coefficients of SIZE pass the significance test at the 1 percent level, while the coefficient of INFL pass the significance test at the 5 percent level. Thus, the result show that the main determinants of MCP are firm size and inflationary pressure in the economy. In particular, the result shows that the size of firms. Bigger firms tend to perform better in terms of MCP among the firms. On the other hand, inflation in the economy actually reduces firm performance by decreasing MCP among the firms

Test of Hypotheses

HO1: There is no statistically significant relationship between Firm Size, inflation Earnings management and Tobin Q

The outcome of the study revealed that there is a mixed statistical relationship between Firm Size, inflation Earnings management and Tobin Q as a measure of performance. We summarized the findings below. Size has a negative coefficient of -0.90 and p-value 0.00<0.05 implying significant negative relationship of firm size with Tobin q, therefore we reject the sub null hypothesis-1 which states that there is no significant relationship between firm size and Tobin Q. An increase in firm size decreases Tobin q as a measure of firm performance no significant relationship between tax and Tobin Q. Inflation has a negative co-efficient of 0.02 and p-value 0.03<0.05 indicating significant relationship with Tobin Q, therefore we reject the sub hypothesis which states that there is no significant relationship between inflation and Tobin q. Discretional accrual (earnings management) has a positive co-efficient of 0.73 and p-value 0.02<0.05 indicating significant relationship, therefore we reject the sub-null hypothesis which states that there is no significant relationship between earnings management and Tobin Q. In sum Firm size, inflation and earnings management significantly impact Tobin Q while leverage, growth, risk asset tangibility has weak relationships with Tobin Q

H02: There is no statistically significant relationship between Firm Size, inflation Earnings management and Returns on Asset.

There is a mixed statistical relationship between firm sizes, inflation, and earnings management as measure of performance. We summarized the findings below. Size has a positive coefficient of 0.003 and p-value 0.00<0.05 implying significant positive relationship of firm size with Returns on Asset, therefore we reject the sub null hypothesis-1 which states that there is no significant relationship between firm size and Returns on Asset. An increase in firm size increases Returns on Asset as a measure of firm performance. Inflation has a negative co-efficient of- 0.001 and p-value 0.197<0.05 indicating insignificant relationship with Returns on Asset, therefore we accept the sub hypothesis which states that there is no significant relationship between inflation and Returns on Assets. Discretional accrual (earnings management) has a positive co-efficient of 0.024 and p-value 0.017<0.05 indicating significant relationship, therefore we reject the sub-null hypothesis which states that there is no significant relationship between earnings management and Returns on Assets. In sum Firm size, and earnings management significantly impact Returns on Asset while, inflation has weak relationships with Returns on Asset.

HO3: There is no statistically significant relationship between, Firm Size, inflation Earnings management and Returns on Equity

The outcome of the study produces a mixed statistical relationship between firm sizes, inflation, earnings management and returns on equity a measure of performance. We summarized the findings. Size has a positive coefficient of 0.011 and p-value 0.62>0.05 implying insignificant positive relationship of firm size with Returns on Equity, therefore we accept the sub null hypothesis-1 which states that there is no significant relationship between firm size and Returns on Asset. Inflation has a positive co-efficient of 0.002 and p-value 0.220>0.05 indicating insignificant relationship with ROE, therefore we accept the sub hypothesis which states that there is no significant relationship between

inflation and ROE. Discretional accrual (earnings management) has a negative co-efficient of -0.195 and p-value 0.0000<0.05 indicating significant negative relationship; therefore, we reject the sub-null hypothesis which states that there is no significant relationship between earnings management and ROE. In sum Leverage, non-debt tax shield, asset tangibility and earnings management significantly impact ROE while size, growth, risk, tax, liquidity and inflation have weak relationships with Returns on Equity.

HO4: There is no statistically significant relationship between Firm Size, inflation Earnings management and Enterprise value

The outcome of the study revealed that there is a mixed statistical relationship between size, inflation and earnings management and enterprise value as a measure of performance. Size has a negative coefficient of -0.16 and p-value 0.00<0.05 implying significant negative relationship of firm size with enterprise value, therefore we reject the sub null hypothesis-1 which states that there is no significant relationship between firm size and enterprise value. An increase in firm size decreases Enterprise value as a measure of firm performance. Inflation has a positive co-efficient of 0.02 and p-value 0.527>0.05 indicating insignificant relationship with enterprise value, therefore we accept the sub hypothesis which states that there is no significant relationship between inflation and enterprise value. Discretional accrual (earnings management) has a negative co-efficient of -0.056 and p-value 0.531>0.05 indicating insignificant relationship, therefore we accept the sub-null hypothesis which states that there is no significant relationship between discretional accruals and enterprise value. In sum Firm size significantly and negatively affect enterprise value while inflation and earnings management insignificantly impact enterprise value

H05: There is no statistically significant relationship between Firm Size, inflation, Earnings management and Market capitalization.

There is a mixed statistical relationship between firm size, inflation, earnings management and market capitalization as a measure of performance. Size has a positive coefficient of 0.030 and p-value 0.002<0.05 implying significant positive relationship of firm size with Market capitalization, therefore we reject the sub null hypothesis which states that there is no significant relationship between firm size and market capitalization. An increase in firm size increases market capitalization as a measure of firm performance. Inflation has a negative co-efficient of- 0.018 and p-value 0.018<0.005 indicating significant relationship with market capitalization, therefore we reject the sub hypothesis which states that there is no significant relationship between inflation and market capitalization. Inflation significantly and negatively affect market capitalization. Increase in inflation decreases market capitalization. Discretional accrual (earnings management) has a positive co-efficient of 0.965 and p-value 0.025<0.05 indicating significant positive relationship, therefore we reject the sub-null hypothesis which states that there is no significant relationship between earnings management and market capitalization. In sum Firm size, inflation and earnings management significantly impact Market capitalization

HO6: There is no statistically significant relationship between firm size, inflation, discretional accruals and Price earnings ratio

The outcome of the study produces a mixed statistical relationship between firm size, inflation and discretional accruals (earnings management) and price earnings ratio as a measure of performance. Size has a positive coefficient of 2.119 and p-value 0.004<0.05 implying significant positive relationship of firm size with Price earnings ratio, therefore we reject the sub null hypothesis-1 which states that there is no significant relationship between firm size and Price earnings ratio. Inflation has a negative co-efficient of -0.225 and p-value 0.25270>0.05 indicating insignificant relationship with Price earnings ratio, therefore we accept the sub hypothesis which states that there is no significant relationship between inflation and Price earnings ratio. Discretional accrual (earnings management) has a negative co-efficient of 6.245 and p-value 0.02<0.05 indicating significant negative relationship; therefore, we reject the sub-null hypothesis which states that there is no significant relationship between earnings management (discretional accruals) and Price earnings ratio. In sum firm size and earnings management significantly and positively impact Price earnings ratio while inflation has a weak relationship with Price earnings ratio

Discussion of Findings

The objective of the study was to determine the nature of relationship between firm size and financial performance measures (Tobin Q, ROA and ROE). Taani (2012) study showed firm size have significant relation to net income and no significant impact on return on equity (ROE) and return on Assets (ROA). Ćurak et al. (2011) examined the determinants of the financial performance of the Croatian composite insurers, between 2004 and 2009 shows that company size, have a significant influence on profitability. Charumathi (2012) in a study of Indian firms found size is significantly and positively influenced by profitability. Mehari and Aemiro (2013) studied Ethiopian firms for the period 2005–2010 and concluded that size significantly positively determine performance Zeitun and Tian (2007) indicated that firm's size has positive and significant relationship with firm's performance. Vijayakumar and Tamizhselvan (2010) found a positive relationship between firm size and profitability. Papadognas (2007) in a study of 3035 Greek manufacturing firms revealed that for all size classes, firms' profitability is positively influenced by firm size. Amato and Burson (2007) tested size-profit relationship for firms operating in the financial services sector and revealed negative influence of firm size on its profitability. Amarjit et.al (2010) found no significant relationship between firm size and gross operating profit ratio. Our study found mixed result with dependent variable TOBINQ, ROA and ROE on size. Size is negatively significantly related to Tobin Q agreeing with the findings of Amarto and Burson. Size Relate positively and significantly with ROE thus agreeing with the study of Mehari & Aemiro (2013), Zeitun and Tian (2007). Vijayakumar & Tamizhselvan (2010) and Papadognas (2007) Study also showed insignificant relationship of size with ROA.

Shiu (2004) analyzes the determinants of the performance of the UK general insurance companies, over the period 1986–1999 and found negative significant relation of performance with inflation. Ćurak et al. (2011) examined the determinants of the financial performance of the Croatian composite insurers, between 2004 and 2009 and result show that inflation have a significant positive influence on insurers' profitability. Contrastingly, our study found Inflation has a negative significant relationship with Tobin Q implying an increase in inflation increases market performance measured by Tobin q. Also, the study

confirmed, negative insignificant relationship with ROA and positive insignificant relationship with ROE denoting a weak relationship between the variables.

The role of earnings management was also studied in relation to TOBINQ, Enterprise value, price earnings ratio, market capitalization, ROA and ROE. The study confirmed that earnings management negatively and significantly affect ROE implying increases in earnings management reduces return on equity and vice versa. Also, study confirmed earnings management positively significantly relate with TOBIN Q. Increase in earnings management increases TOBIN Q and ROA. Confirming earnings management to present a positive outlook in the market triggers a significant effect on price thus supporting signaling theory. Firm size decreases firm value as an increase in size have a negative effect on Enterprise value while inflation and earnings management have weak relationship with enterprise value. An increase in firm size increases market capitalization as a measure of firm performance. Inflation has a negative co-efficient indicating significant negative relationship with market capitalization Inflation significantly and negatively affect market capitalization. Increase in inflation decreases market capitalization. Discretional accrual (earnings management) has a positive and significant positive relationship with market capitalization. An increase in earnings management increases market capitalization. Market capitalization is affected by price. The implicate of this is that as management indulge in earnings management presenting positive impression by the firm to the market, investors receiving the information according to signaling theory increase demand for the shares thereby putting pressure on the market and prices and a rise in prices leads to a rise in market capitalization. Firm size has significant positive relationship with Price earnings ratio. As size increases, cost decreases and earnings increase in line with the theory of economy of scale. Price earnings ratio is computed by earnings per share over price, increases in earnings lead to a corresponding increase in market price as investors react to the good news of increased earnings hence the positive relationship between firm size and price earnings ratio. The speed which earnings are converted to market price increases hence the positive relationship of size to earnings. Inflation has a negative co-efficient of -0.225 and p-value 0.25270>0.05 indicating insignificant relationship with Price earnings ratio. Discretional accrual (earnings management) has a negative significant relationship with Price earnings ratio. Increase in earnings management reduce price earnings ratio implying a reduction in the speed which earnings are converted to market price.

Conclusion

The goal of the research was to empirically ascertain the nature of relationship between firm size, inflation, earnings management and financial performance. Firm size, inflation and discretional accruals (earnings management) were examined against Performance variables (Tobin q, Returns on Asset and Returns on Equity) to ascertain the extent of relationship amongst the variables of study. From the result of the study, we conclude that Firm size, and earnings management significantly impact Returns on Asset while, inflation, weak relationships with Returns on Asset. Further we conclude that and earnings management significantly impact ROE while size and inflation have weak relationships with Returns on Equity. We also conclude that Firm size, inflation and earnings management significantly impact Tobin Q This could be attributed to increase cost due to inflation having a proportionate effect on earnings as the cost is being passed to consumers. We conclude that various factors affect firms' performance differently. Firm size and earnings management significantly and positively impact Price

earnings ratio while inflation has a weak relationship with Price earnings ratio. Firm size, inflation and earnings management significantly impact Market capitalization. Inflation reduces market capitalization while increase in firm size increases market capitalization. Bigger firms tend to attract higher market price. Firm size significantly and negatively affects enterprise value while inflation and earnings management proxied by discretional accruals insignificantly impact enterprise value. Apart from ENVA, positive correlations exist among all the performance variables in the study. This shows that when each of the performance indicators among the companies are increasing, the other indicators are also increasing. Thus, all performance indicators, apart from ENVA, move in the same direction. However, ENVA has a negative correlation with ROA, ROE and PE ratio. Indeed, the negative correlation between ENVA and ROE and ROA is significant and shows that when ROE or ROA are rising in the firms, ENVA is falling at the same time

Recommendation

Given the result of the study we recommend that Managers in firm should pay special attention on factors that positively impact the performance of the firm to enhance performance. Sizeexert a major influence on both accounting and market performance. Also, when Managers are desirous of improving Return on assets special attention should be focused on size while attention should be focused on impact of inflation when Managers are desirous of improving ROE.

Implication for Theory and Practice

The impact of size on Tobin q and ROA conforms to the theory of political cost hypothesis which states that firm size influences profit, cost and earnings. The positive significant relationship of earnings management to TOBIN Q shows that Managers can use falsified earnings to impact market value thus aligning with the signaling theory, bonus compensation hypothesis.

Future Research

The present study focused on manufacturing; other studies can focus on other sectors of the economy as industry factors can affect performance. Secondly, the same research can be replicated using other research methods. The study considered manufacturing sector, future studies can be focused on banking and financial sector which is the engine for the economy. Further, the length of time adopted for this study is short, future studies could adopt longitudinal research design which considers a long length of time to make the result more robust.. Apart from ENVA, positive correlations exist among all the performance variables in the study. This shows that when each of the performance indicators among the companies are increasing, the other indicators are also increasing. Thus, all performance indicators, apart from ENVA, move in the same direction. However, ENVA has a negative correlation with ROA, ROE and PE ratio. Indeed, the negative correlation between ENVA and ROE and ROA is significant and shows that when ROE or ROA are rising in the firms, ENVA is falling at the same time. This phenomenon calls for further analysis and study which this paper has not accommodated. Therefore, future research can be carried out to investigate this phenomenon

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