Income Smoothing and Its Impact on Shareholder Wealth Creation: Evidence from Firms in the Nigerian Financial Services Sector

Boniface Umoh E.
Email: bontechsearch@gmail.com   (+234) 8038925441.

ABSTRACT

This study looks at how income smoothing affects the growth of shareholder wealth in Nigeria's financial services industry. It specifically examines the impact of return on equity (ROE), dividend per share (DPS), and return on assets (ROA) on earnings per share (EPS) at Zenith Bank Plc, a major stakeholder in the Nigerian financial industry. Utilising an ex-post facto research approach, the study focuses on data from 2013 to 2022 in order to document notable statutory and economic developments. Zenith Bank was chosen because of its clear financial reporting and steady performance. Secondary data was analyzed using trend analysis, SWOT analysis, and regression techniques with E-Views software. The findings reveal that ROA has a significant positive impact on EPS (p-value = 0.0056 < 0.05), while DPS has no significant effect (p-value = 0.1839 > 0.05). ROE, on the other hand, also shows a significant positive relationship with EPS (p-value = 0.0027 < 0.05). The overall model is statistically significant (p-value = 0.002905 < 0.05), confirming that income smoothing positively contributes to shareholder wealth creation in Nigeria's financial services. Based on these results, the study recommends that financial institutions focus on optimizing asset utilization, reconsider dividend policies to prioritize reinvestment, and enhance ROE by improving profitability and capital management, ultimately driving long-term shareholder value.

Keywords: *Income smoothing, return on assets, dividend per share, return on equity and earnings per share*

INTRODUCTION

The global economy depends heavily on the banking industry, acting as the cornerstone for financial stability and economic growth. Banks, as key players in the global financial system, are responsible for offering depository services, extending loans to individuals, businesses, and governments, and facilitating investment activities. However, the financial health of banks is often at risk due to the inherent nature of their business—extending large loans to customers, which can lead to increased default risks. To manage these risks, banks are required to set aside provisions for loan losses, a measure designed to safeguard their financial standing and minimize the impact of potential defaults. Despite the importance of these provisions, evidence suggests that some banks engage in income smoothing, manipulating loan loss provisions to influence reported earnings, manage reserves, or optimize tax obligations (Tahir et al., 2014; Ozili, 2015). This practice can have significant implications for shareholder wealth creation, as it affects the perceived stability and profitability of banks, which ultimately influences investor confidence and market performance.

In the African context, the banking sector is increasingly recognized as a key driver of economic development, particularly in emerging markets. Financial institutions in Africa face unique challenges, including a high risk of loan defaults, underdeveloped credit markets, and economic instability, which can undermine their financial resilience. As such, African banks, including those in Nigeria, often adopt provisions for loan losses to protect themselves from these risks. However, concerns have been raised about the extent to which income smoothing practices are employed in these regions. By manipulating loan loss provisions, banks may distort their financial performance, mislead investors, and reduce transparency in financial reporting. In Nigeria, where the financial services sector is expanding rapidly, these practices could influence shareholder wealth creation, affecting the long-term viability and investor trust in local banks.

In Nigeria, the banking industry is essential to the country's economy by providing credit to businesses and individuals, facilitating economic activities, and supporting government policies. However, Nigerian banks face considerable challenges due to the high rates of loan defaults, unstable economic conditions, and the need for rigorous regulatory oversight. As part of their risk management strategies, Nigerian banks are required to establish loan loss provisions to cover potential bad debts and safeguard their financial stability. Yet, there is growing concern over the manipulation of these provisions, which may be used to smooth income, boost earnings in lean periods, or manage tax liabilities. Research has shown that such practices could distort the true financial health of banks and ultimately affect shareholder wealth creation (Kabiru & Aliyu, 2019).

Concerns regarding income smoothing practices among corporations—whether in stable, ambiguous, or

financially distressed conditions—have raised alarm among corporate reporting professionals and academics worldwide. When a company has large fixed expenses, illiquid assets, or revenue that is susceptible to downturns in the economy, it is said to be in financial distress (Helmold, 2021). Those in this distress zone struggle to meet financial obligations, and even when they do, they often face significant challenges in satisfying creditors.

In recent years, income smoothing practices have been on the rise in Nigeria's banking industry, potentially misleading investors or gaining unearned accounting-based rewards by presenting a distorted view of financial health (Isoso & Okee, 2022). According to Aliyu's Kabiru and (2019) research, Nigerian income smoothing has a negative and insignificant effect on the return on equity (ROE) and return on assets (ROA) of Deposit Money Banks (DMBs). According to Rachel, (2021) management may feel pressured to manipulate earnings in times of financial distress, changing the accounting data by increasing profits while they're minimal and decreasing earnings whenever they're considerable.

The primary motivations for managers engaging in income smoothing include maximizing their personal wealth, minimizing perceived firm risk, enhancing company value, fulfilling debt covenants, reducing taxes and political costs, and improving the reliability of financial forecasts. Income smoothing, according to Guillaume and Pierre (2016), is an incentive-driven accounting technique used to mitigate profits volatility across different risk zones. Thus, income smoothing is seen as a type of earnings management.

Chhabra (2016) highlights two viewpoints on earnings management: one sees it as deceptive, while the other views it as management acting within their preferences. The process is not legally permissible as it involves manipulative accounting practices to stabilize net income fluctuations (Acharya & Lambrecht, 2015). This manipulation obscures actual earnings and can help companies evade taxes. According to Guillaume and Pierre (2016), such manipulation undermines the integrity of financial reports. Positive accounting theory suggests that management uses specific accounting methods to present favorable information. In the current study, earnings per share are employed to represent shareholder wealth, and the components of income smoothing are return on equity, dividend per share, and return on assets.

Return on assets (ROA) is a crucial indicator of the profitability of a business as it shows how well a business uses its assets to create revenue and connects income to total assets (Kabiru & Aliyu, 2019). A higher ROA suggests more efficient use of resources (Wen, 2010). Dividends serve as a reward for shareholders, with dividend per share (DPS) representing the declared dividends for each outstanding ordinary share. DPS is a critical metric for investors, as it directly affects their income (Arsa, 2021). Return on equity (ROE) measures a firm's profitability relative to shareholder equity, indicating what investors can expect in return for their investment. A high ROE implies that a firm can generate cash internally (Ongore & Kusa, 2013), showcasing the effectiveness of using shareholders' funds (Ezechukwu & Amahalu, 2016).

Maximizing shareholder value involves increasing stock prices and dividends over time (Egiyi & Okafor, 2022). Since individuals control the means of production, growing or maintaining shareholder wealth is the principal objective of a corporation in a capitalist society. However, income smoothing tactics can seriously jeopardise this objective (Ubogu, 2019).

Earnings per share, or EPS, is the portion of an organization's profits that are allocated to each common share following taxes and preferred dividends (Arslan & Zaman, 2014). EPS provides insight into a company's potential for profitability (Isoso & Okee, 2022).

In financial studies, there has been much discussion on the connection between income smoothing and shareholder wealth. The intricacy of this dynamic is demonstrated by the fact that although some research have identified a favourable association, others have discovered negative impacts. According to studies by Ogundajo et al. (2021), Isoso and Okee (2022), and Al-Natsheha and Al-Okdeh (2020), income smoothing has a positive effect on shareholder wealth. Banks employ income smoothing strategies to show a more stable financial performance, which boosts investor confidence and market valuation. On the other hand, Dada et al. (2023) and Ubesie et al. (2020) contend that these kinds of actions may have unfavourable effects, perhaps skewing the actual financial health of organisations and reducing shareholder value.

The goal of the current study is to investigate the influence of income smoothing on shareholder wealth advancements in order to shed further light on this continuing discussion in Nigerian financial services

industry, with a specific focus on Zenith Bank Plc from 2013 to 2022.

Zenith Bank was chosen for the present research because of its renown and dominant position in the Nigerian banking industry. Examining the potential impact of income smoothing procedures on shareholder wealth is made easier by Zenith Bank, one of Nigeria's biggest and most reliable financial institutions. The 2013–2022 timeframe was selected because it encompasses a variety of regulatory and economic developments, such as the effects of macroeconomic volatility, banking reforms, and changes in investor sentiment. These years offer a thorough dataset that enables a detailed examination of the ways in which income smoothing techniques were used over several economic cycles and the ensuing impact on shareholder value.

The present study, which focusses on Zenith Bank, aims to further knowledge by offering empirical data on the precise relationship between income smoothing and shareholder wealth at a reputable financial institution in Nigeria. For investors, politicians, and scholars intrigued in the implications of financial reporting systems in developing nations, this will give helpful information.

Statement of the Problem

Bank failures in recent years have frequently been connected to corporate governance issues that affect a number of stakeholders, including investors, management, and auditors. The conduct of directors and other participants has compromised the criteria for accounting reports. Income smoothing has significantly contributed to the loss of shareholder funds and the collapse of several banks in Nigeria. This research aims to fill the gap in the literature by carefully analysing the impacts of income smoothing on shareholder wealth creation in Nigeria's financial services sector, specifically focusing on Zenith Bank Plc.

Objective of the Study

The specific objectives are to:
1. Investigate the impact of return on assets on earnings per share for firms in Nigerian financial services sector.
2. Assess the influence of dividend per share on earnings per share in Nigerian financial services sector.
3. Analyze the impact of return on equity on earnings per share in Nigerian financial services sector.

Research Questions
i. What is the impact of return on assets on earnings per share in Nigerian financial services sector?
ii. How does dividend per share influence earnings per share in Nigerian financial services sector?
iii. What impact does return on equity have on earnings per share in Nigerian financial services sector?

Research Hypotheses

H_{01}: Return on assets does not have significant impact on earnings per share in Nigerian financial services sector.
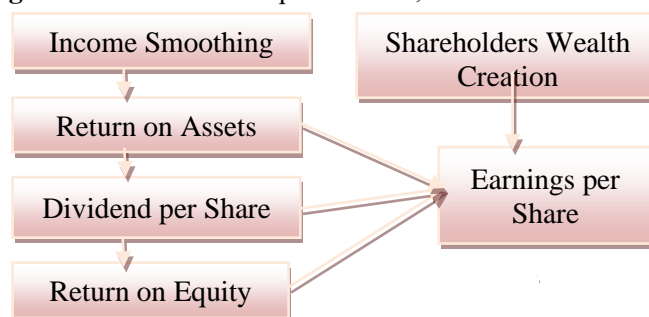
H_{02}: Dividend per share does not have significant influence in Nigerian financial services sector.

H_{03}: Return on equity does not have significant impact on earnings per share in Nigerian financial services sector.

REVIEW OF RELATED LITERATURE
Conceptual Literature
Figure 1: Author's Conceptual Model, 2025

Income Smoothing

In the event of income smoothing, management usually creates three sets of financial statements, each with a distinct goal in mind: 1) understating income to reduce tax obligations; 2) inflating current assets to artificially show that the company can pay its debts; and 3) a report with exaggerated dividend declarations to mislead investors and attract additional funding. These strategies aim to manipulate financial performance in order to inflate earnings.

Executives are particularly concerned with income swings because managers believe that these changes raise risk and make businesses with steady profits seem less dangerous. Some businesses use income smoothing, which minimises income unpredictability via the use of appropriate accounting procedures, to reduce this risk (Shammari, 2016). Enhancing returns is one of the objectives of this intentional behaviour, which also attempts to lessen sporadic income changes (Garizi et al., 2011). Although income smoothing could be legal, the

fact that it entails changing revenues and expenses over many reporting periods raises ethical concerns (Chong, 2006).

Business managers employ accounting techniques called income smoothing to stabilise irregular earnings from one period to the next (Lyu et al., 2017). It lessens notable income gaps and helps manage shareholder performance expectations. This technique usually reflects self-interested actions as managers may be tempted to smooth income for personal incentives such as bonus compensation and meeting performance goals. When actual income differs from stakeholder expectations, this is particularly true (Hamm et al., 2018).

Income smoothing is driven by pay quality and may be the consequence of opportunistic behaviour or a desire for transparency, according to Chung et al. (2015). It balances out variations in income throughout reporting periods by using accounting techniques (Chen et al., 2019). Business managers may utilise income smoothing to convince investors to pay more for stocks with consistent and predictable earnings rather than erratic equities, which risk-averse investors find less appealing, according to earlier research (Chen et al., 2019; Feng et al., 2019).

Management goes out of their way to smooth earnings in order to please investors. According to Goetzmann et al. (2014), income smoothing—basically, shifting revenues and expenses between accounting periods—is permissible as long as it conforms with generally accepted accounting principles (GAAP). However, despite its seeming legitimacy, Gross et al. (2016) argue that income smoothing lacks fairness and accurate portrayal of financial information since its goals frequently include tax evasion, fraudulent purpose, and attempts to draw in unsuspecting investors.

To present the required financial information, management may decide to use income smoothing and earnings management. Chen et al. (2019) classify income smoothing as a component of revenue management, which involves intentional acts that could not accurately reflect real operational activity. Over time, income smoothing seeks to show less perceived risk and earnings fluctuation (Luo, 2017; Sheng & Liu, 2020).

Although income smoothing cannot be categorically classified as unlawful or immoral, certain people may use dubious tactics to accomplish their goals. Presenting steady income statistics is the fundamental goal of income smoothing, which enables businesses to maintain positive profiles with regard to growth, profitability, and income predictions. This helps to avoid needless divestitures and unfavourable market reactions (Ubogu, 2019). This procedure might put the long-term viability of the company at risk by having auditors loosen their vigilance or financial preparers compromise their cautious reporting style (Carlson & Jasperson, 2021). Financial preparers should always follow applicable accounting rules and guidelines while using cautious techniques.

Return on Assets

The profitability of an organisation is gauged by its return on assets, or ROA, relative to its total assets. It illustrates how well management makes use of its resources to produce income. The capacity of a business to turn a profit is essentially measured by ROA, one of the common accounting ratios or financial measures used to evaluate profitability. Although there are many ways to understand and apply the idea, at its core, it shows how well management uses assets to generate revenue (Irom et al., 2018).

A key statistic that connects a company's revenue to its total assets is return on assets (ROA), which gauges how well a corporation uses its assets to create money (Kabiru & Aliyu, 2019). A greater return on assets (ROA) suggests that a business is making effective use of its resources to produce revenue (Wen, 2010). ROA is calculated as a percentage by dividing a company's annual earnings by its total assets. In governance literature centred on accounting measures, it is commonly known as "return on investment" and is a generally accepted performance statistic. Additionally, ROA shows the company's net income and evaluates how well its assets have been used to create profits over time (Saeed & Zahid, 2016).

Return on Equity

Return on equity (ROE), which illustrates the relationship between net profit after taxes and net equity—which includes capital as well as reserves and retained earnings—is a key indicator of shareholder wealth. How well a business uses its owners' resources is gauged by its return ROE. One of the most crucial ratios in financial analysis, it illustrates how, if a satisfactory return is obtained, the primary objective of any business is to maximise shareholder value. The ratio indicates the degree to which this objective has been accomplished (Isoso & Okee, 2022).

ROE is a yearly financial statistic that contrasts the total amount of shareholder equity shown on the balance sheet

with the company's profit. It evaluates the expected return on investment for shareholders (Kabiru & Aliyu, 2019). Better overall performance is usually indicated by a high ROE, which shows that a company can create cash internally. Ongore and Kusa (2013) claim that the ratio displays both the rate of return on shareholders' capital and the effectiveness with which management uses it.

A high return on equity (ROE) frequently means that a company is making good use of strong investment possibilities and producing a positive return for shareholders. This illustrates how well the business uses investment capital to boost profits (Olufemi et al., 2021). In addition to computing the net profit margin by asset turnover and the equity multiplier, ROE may also be computed by dividing net income by the value of shareholder equity, which is equal to total assets less total liabilities. An increasing ROE is a healthy sign, but a declining ROE may point to underlying issues (Ezewore–Obodoekwe & Agbo, 2020).

Dividend per Share
A company's dividend per share (DPS) can provide details about its past and present financial health as well as how lucrative it was during a certain accounting period (Arsal, 2021). In essence, it represents the benefits given to the owners of the company from a percentage of its revenues. The irreversible nature of dividend payments causes a permanent decrease in the amount of money on the company's books, which affects share values. Usually, prices increase by the announced dividend and then decline after the ex-dividend date (Meritt, 2019).

Since a company's dividends directly affect shareholder income, DPS is an important indicator for investors. Investors may use this simple figure to evaluate their dividend income over time from owning shares (Omaliko & Onyeogubal, 2021). Furthermore, a steadily increasing DPS might be a sign that management thinks profits growth can be sustained. One has to be sufficiently knowledgeable about DPS in order to assess an organization's financial status and long-term growth possibilities (Edwards, 2022).

Shareholders' Wealth Creation
Potential investors have long prioritised increasing their wealth, and shareholders of publicly listed firms frequently base their investment choices on this assumption. The wealth of shareholders demonstrates both the profitability of regular shareholders' investments and the effectiveness with which managers employ the resources available to them to produce value (Appolos &

Ademola, 2020). It is calculated by taking the entire number of outstanding common shares and dividing it by the post-tax profit.

Maximising shareholder value is essentially a depiction of the organization's profitability and potential returns per share. According to Pandey (2010), it is a profitability statistic that is a useful and widely used indicator for evaluating how well enterprises with positive earnings maximise shareholder wealth. Several research have supported it as a trustworthy indicator of shareholder wealth (Asia & Ratan, 2019; Arowosegbe & Emeni, 2014). Investors want management to produce value, hence maximising shareholder wealth is essential for assessing business success, according to Habib and Jiang (2015). The accuracy of these forecasts is a critical component of market forecasting.

Earnings per Share
According to Arslan and Zaman (2014), earnings per share (EPS) is the portion of the revenue of a business that is potentially allocated to each share of common stock following taxes and preferred stock distributions. This ratio illustrates the possible profit per share. In other words, the amount of profit that may be allocated to each share of common stock is determined by EPS (Muhammad et al., 2017). Current and potential investors, as well as corporate management, keep a close eye on EPS.

EPS is calculated by dividing the total number of outstanding common shares by the profit after taxes. A corporation tends to draw in more investors when it has high short- and long-term profits growth prospects. The demand for its equity shares may rise as a result of this heightened interest, which would raise market share prices. Even though EPS and its growth can be used as predictors of previous success and future prospects, they could not adequately account for investor value creation, earnings management strategies, or the propensity for positive EPS growth.

Theoretical Literature
The partnership between the owners of a business and management is described by agency theory, which was first presented by Jensen and Meckling in 1976, defining it as a contract where the owners appoint managers to act on their behalf. The theory highlights that even when parties share the same goal, their motivations can differ, leading to potential conflicts. This results in ongoing goal misalignment, as efficiency cannot be separated from effectiveness, creating inherent information

asymmetry between the principal (owners) and the agent (managers).

In the context of income smoothing in Nigerian financial services firms, agency theory suggests that managers, acting as agents, may smooth earnings to reduce perceived volatility, thereby enhancing the firm's stability and increasing shareholder wealth. However, such practices could also be used for managerial self-interest, potentially masking true performance. If income smoothing aligns with shareholder wealth creation, it could indicate effective managerial performance, but if it is merely a tool for managing short-term perceptions, it could undermine long-term firm value. Thus, the theory underscores the need for effective governance to ensure that income smoothing practices benefit shareholders, aligning both parties' interests.

Empirical Literature
Using data from 51 carefully chosen firms, Susanto (2019) examined, over a three-year period (2014-2016), the effects of earnings smoothing on firm size and value in Indonesian enterprises. Although business value was positively and considerably impacted by earnings smoothing, firm size was adversely impacted, according to the conflicting regression analysis results.

Kabiru and Aliyu (2019) examined the impact of income smoothing on the financial performance of Nigeria's authorised banks of deposit, spanning eight years from 2012 to 2017. According to the study, which used ordinary least squares for analysis, income smoothing had a minor and detrimental effect on Nigerian DMBs' financial stability.

The effect of earnings management on the financial performance of Nigerian consumer products businesses was examined by Ubesie et al. (2020) using simple regression analysis. The findings demonstrated that earnings management had no discernible effect on these businesses' financial success.

Using Polaris Bank, Oboh et al. (2020) employed multiple linear regressions to examine the impact of accounting practices on shareholders' wealth. Both descriptive and inferential statistics were employed using SPSS version 21. According to the findings, there was a significant inverse relationship between Skye Bank's ROE and adherence to the prudence principle, whereas a beneficial relationship was observed between ROE and tax planning and ethical accounting practices.

Al-Natsheha and Al-Okdeh's (2020) research sought to ascertain how Jordanian industrial businesses' profits per share are affected by novel accounting procedures between 2008 and 2017. According to their quantitative research, novel accounting had a major impact on earnings per share, and both income smoothing and earnings management had an influence on the firms traded on the Amman Stock Exchange (ASE) in terms of earnings per share.

In a controlled securities market, Abogun et al. (2020) investigated the connection between business valuation and income smoothing, controlling for market risk. Secondary sources supplied the data for this ex post facto investigation, which was then evaluated employing the system generalised technique of moments (Blundell–Bond). Market risk was found to be a significant factor influencing the relationship between income smoothing and firm value.

Almubaydeen (2020) used data from five commercial financial institutions to investigate how income smoothing affected business size as well as earnings in Jordanian banks throughout a four-year period (2015-2018). Income smoothing had a beneficial impact on the banks' profitability but a negative effect on firm size, according to descriptive research.

The effect of innovative accounting practices on the financial performance of particular Nigerian enterprises was investigated by Okoye and James (2020). They gathered information for listed deposit money banks between 2008 and 2018 from the Nigeria Security and Exchange Commission using an ex-post facto research approach. According to their study, loans and advances showed a positive but negligible link with return on assets, but equity capital and asset structure had a negative and negligible relationship. The results indicated that Nigerian banks' asset management was subpar, which impacted profitability negatively.

Siyanbola et al. (2020) used regression analysis to evaluate the impact of creative accounting on investment choices made in a specific category of traded manufacturing companies in Nigeria's real sector between 2007 and 2017. The results demonstrated that these businesses' investment decisions were slightly but favourably impacted by creative accounting.

Emuze (2020) examines how dividend policies affected Nigerian listed companies' profitability from 1999 to 2018. A regression matrix, descriptive statistics, and panel regression analysis were used with the aid of e-views 9 which found a favourable but not statistically significant correlation between dividend payments and

ROA. On the other hand, earnings per share and dividend yield had a positive and substantial association with ROA; in contrast, the timing of dividend payments associated negatively and considerably with ROE.

The impact of earnings smoothing on the market share prices of Nigerian firms that are publicly traded was examined by Aguguom and Salawu (2021), covered 2009–2020 public financial statements of a few chosen firms applying an ex post facto research approach. A panel data analysis with the Unobserved Effects Model and the Hausman test were utilised. The findings demonstrated that earnings smoothing has a substantial favourable influence on market share prices.

The impact of innovative accounting techniques on financial reporting in Nigerian deposit money institutions was examined by Egolum and Onodi (2021). A survey study design via questionnaires was used. With the use of SPSS version 20.0, the study found that innovative accounting techniques have led to bank distress in Nigeria. Additionally, it was demonstrated that creative accounting methods had a significant influence on judgements about accounting policy and financial reporting transaction deceit.

Obeidat (2021), in contrast, looked at the effects of income smoothing over a ten-year period, from 2010 to 2019, on the size and profitability of food and beverage enterprises quoted on the Amman Stock Exchange. Under consideration was the link between income smoothing and company size and the debt ratio was included as a controlled variable. While income smoothing had a detrimental impact on profitability, the results of the descriptive and multiple regression analysis indicated that it had a positive impact on firm size.

Ogundajo et al. (2021) looked at the effects of income smoothing and earnings management on the accuracy of accounting data in Nigerian listed manufacturing companies over a ten-year period (2010-2019) using multiple linear regression analysis (OLS). Both income smoothing and earnings management had a significant and positive influence on the trustworthiness of accounting information among Nigeria's registered industrial businesses, according to the research's data, which were examined

Isoso and Okee (2022) investigated the relationship between shareholder wealth in Nigeria's deposit money banks and creative accounting practices between 2008 and 2020. They used a cross-sectional survey method methodology and questionnaires to collect data, and they used SPSS for statistical modelling and regression analysis. The findings showed a robust, favourable, and steady correlation between income smoothing and shareholder wealth as determined by ROE.

Dada et al. (2023) examine the effect of new accounting practices on the solvency of certain deposit money banks listed in Nigeria covering 2006 to 2021. They analysed the collected data using a Panel Regression Model with mean scores. The findings showed that three proxies of creative accounting—cash asset structure, equity capital structure, and deposit liabilities—had a negative but not significant effect on the banks' ability to survive.

Gap in Literature
Previous research has provided extensive analyses of the impact of income smoothing on shareholder wealth creation within Nigeria's financial services sector. However, there have been no studies examining the effects of income smoothing on shareholder wealth in this sector beyond 2021. This gap presents an opportunity to explore this topic further. It seeks to expand current understanding by investigating the link between shareholder wealth creation as measured by earnings per share, and income smoothing, as represented by return on equity, dividend per share, and return on assets with emphasis on Zenith Bank Plc due to its attraction of both local and foreign investments, which enhances its operational capacity and employment opportunities in Nigeria.

METHODOLOGY
Research Design
In the present study, an ex-post facto research design is employed. This research approach was chosen since the data is resistant to alteration.

Source of Data
This study relied heavily on secondary data. The time series data used from 2013 to 2022 were obtained from the yearly statements of accounts of Zennith Bank Plc.

Sample Method
A purposive approach was applied with accessible financial statements from the Zennith Bank Plc quoted on Nigeria Exchange Group (NGx).

Methods of Data Collection
Secondary data gathered through documentation was used in the course of research. Data over a ten-year period were taken from the chosen bank's annual reports and financial statements.

Table 1: Model Specification

Model Specification	Hypotheses	Explanation of Model Components
EPS = $\beta_0 + \beta_1(ROA) + \varepsilon$	H_{01}: Return on assets does not have significant impact on earnings per share in Nigerian financial services sector.	β_0: The constant term, representing the intercept of the model. β_1: The coefficient of ROA, representing the impact of Return on Assets on Earnings per Share (EPS). A positive value indicates a direct relationship between ROA and EPS. ε: The error term, capturing unobserved factors that affect EPS.
EPS = $\beta_0 + \beta_2(DPS) + \varepsilon$	H_{02}: Dividend per share does not have significant influence on earnings per share in Nigerian financial services sector.	β_0: The constant term, representing the base level of EPS when DPS is zero. β_2: The DPS coefficient, which shows how dividends per share affect earnings per share (EPS). A high number indicates that DPS has a positive impact on EPS. ε: The error term, which takes into consideration other EPS-affecting variables that the model does not account for.
EPS = $\beta_0 + \beta_3(ROE) + \varepsilon$	H_{03}: Return on equity does not have significant impact on earnings per share in Nigerian financial services sector.	When ROE is 0, the constant component, β_0, represents the baseline EPS. The link between Return on Equity and Earnings per Share (EPS) is indicated by the ROE coefficient, or β_3. A positive β_3 indicates that EPS rises in response to increasing ROE. ε: The error term, which stands for additional unmeasured factors that affect EPS but are not included in the model.
EPS = $\beta_0 + \beta_1(ROA) + \beta_2(DPS) + \beta_3(ROE) + \varepsilon$	-	β_0: The intercept, representing the base value of EPS when all independent variables are zero. $\beta_1, \beta_2, \beta_3$: The coefficients for ROA, DPS, and ROE respectively, measuring the individual effects of these variables on EPS. ε: The error term, capturing all other variables and random factors that may affect EPS but are not included in the model.

Source: Author's adoption, 2025

Method of Data Analysis

The two descriptive and inferential statistics, such as correlations and multiple regression, as well as trend and SWOT analyses, were used to examine the data and e-views software to test hypotheses covering a ten-year period from 2013 to 2022.

DATA PRESENTATION AND ANALYSIS

Table 2: Data showing EPS, ROA, DPS and ROE of Zenith Bank, 2013-2022

Year (s)	EPS	ROA	DPS	ROE
2013	2.66	0.02897634	1.75	0.176492
2014	2.95	0.02701048	1.75	0.18037398
2015	3.15	0.0263401	1.55	0.18061015
2016	3.80	0.02784602	1.77	0.19353358
2017	4.87	0.03165367	2.45	0.21920734
2018	5.27	0.03339357	2.50	0.24514393
2019	5.67	0.0327508	2.50	0.22850339
2020	6.30	0.02776875	2.70	0.21856496
2021	3.42	0.01364545	2.80	0.10232764
2022	3.44	0.01247482	0.30	0.10027898

Source: Authors Compilations 2025

Trend Analysis

Figure 2: Showing the trends for EPS, ROA, DPS, and ROE of Zenith Bank from 2013 to 2022.
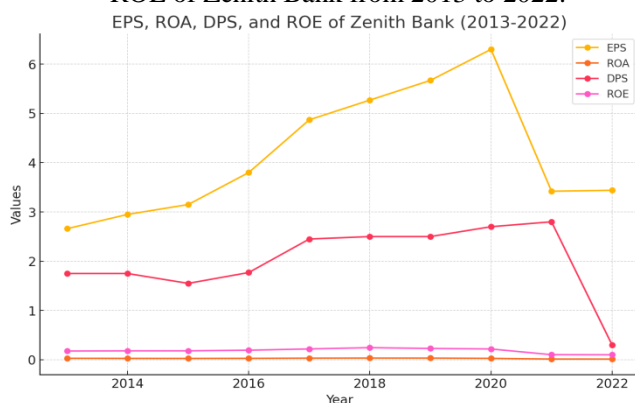
The **Table 3** below provides a detailed trend analysis of Zenith Bank's key financial indicators over the 2013-2022 periods, highlighting the bank's performance fluctuations and the potential implications for shareholders

Table 3: Trend Analysis of Zenith Bank's Financial Indicators (2013–2022) in (₦)

Year	EPS	ROA	DPS	ROE	Implications
2013	2.66	0.02898	1.75	0.1765	**Stable performance** with moderate growth. Positive outlook for shareholder wealth creation.
2014	2.95	0.02701	1.75	0.1804	**Continued growth** in EPS and ROE, indicating effective use of assets and equity.
2015	3.15	0.02634	1.55	0.1806	**Slight increase** in EPS, but DPS decreased, suggesting a more conservative approach to dividends.
2016	3.80	0.02785	1.77	0.1935	**Strong growth** in EPS and ROE, signaling robust profitability and efficient asset use.
2017	4.87	0.03165	2.45	0.2192	**Significant improvement** in all indicators, demonstrating effective management and strong returns for shareholders.
2018	5.27	0.03339	2.50	0.2451	**Peak performance**, with strong EPS and ROE, indicating efficient asset utilization and high shareholder returns.
2019	5.67	0.03275	2.50	0.2285	**Slight dip in ROE**, but overall strong performance continues, showing profitability and stable shareholder value.
2020	6.30	0.02777	2.70	0.2186	**Sharp rise in EPS**, indicating strong profitability during a challenging year (COVID-19 pandemic), though ROE and DPS slightly declined.
2021	3.42	0.01365	2.80	0.1023	**Decline in performance**, particularly EPS and ROE, suggesting challenges in profitability and asset efficiency.
2022	3.44	0.01247	0.30	0.1003	**Further decline**, with significant drop in DPS and ROE, indicating financial stress and reduced shareholder returns.

Source: Author's Analysis, 2025

Table 4: Shows the descriptive statistics

	EPS	ROA	DPS	ROE
Mean	4.392500	0.027797	2.252500	0.195548
Median	4.335000	0.028411	2.475000	0.206049
Maximum	6.300000	0.033394	2.800000	0.245144
Minimum	2.660000	0.013645	1.550000	0.102328
Std. Dev.	1.315335	0.006262	0.484082	0.044587
Skewness	0.104951	-1.542924	-0.396006	-1.097763
Kurtosis	1.579478	4.449648	1.488030	3.450478
Jarque-Bera	0.687314	3.874644	0.971112	1.674421
Probability	0.709172	0.144089	0.615355	0.432917
Sum	35.14000	0.222375	18.02000	1.564383
Sum Sq. Dev.	12.11075	0.000275	1.640350	0.013916

Source: E-views output, 2025

The descriptive data for the variables under study, such as EPS, ROA, DPS, and ROE, for Zenith Bank Plc from 2013 to 2022 are shown in Table 4. The mean values for EPS, ROA, DPS, and ROE are approximately ₦4.3925, ₦0.0278, ₦2.2525, and ₦0.1955, respectively, reflecting the average performance of the bank over the 10-year period. The table also provides minimum and maximum values, indicating the range of variation for each variable across the years.

Higher values of the standard deviation indicate greater unpredictability in the series, whereas lower values indicate less variation from the mean. The standard deviation values for EPS, ROA, DPS, and ROE are 1.3153, 0.0063, 0.4841, and 0.0446, respectively, with EPS showing the largest deviation.

Skewness values indicate the asymmetry of the data. In this case, ROA and ROE are negatively skewed, suggesting that their distributions have longer tails to the left. DPS is moderately skewed, while EPS is close to symmetric with a skewness of 0.1049. Kurtosis values provide insight into the "peakedness" of the distributions, with ROA having a higher kurtosis (4.4496), suggesting a more peaked distribution, while the other variables have lower values, indicating flatter distributions.

The Jarque-Bera test for normality shows that all the probability of the variables' values are higher than 0.05. with EPS, ROA, DPS, and ROE having p-values of 0.7092, 0.1441, 0.6154, and 0.4329, respectively. Since these values are above the 0.05 threshold (except for ROE, which approaches normality), we can conclude that the series are normally distributed. This confirms that the assumption of normality for ordinary least squares (OLS) regression has been satisfied.

In summary, the data in Table 4 suggests that Zenith Bank Plc's financial performance metrics exhibit reasonable stability with minor variations, and the distribution of these variables meets the normality assumption required for regression analysis.

Table 5: Results of General model tested

Dependent Variable: EPS				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA	-382.8209	90.98136	-4.207684	0.0056
DPS	0.287521	0.191510	1.501339	0.1839
ROE	68.85952	14.00146	4.918024	0.0027
C	0.954606	0.667198	1.430769	0.2024
R-squared	0.888466	Mean dependent var		4.153000
Adjusted R-	0.832699	S.D. dependent var		1.270398

squared			
S.E. of regression	0.519624	Akaike info criterion	1.817750
Sum squared resid	1.620052	Schwarz criterion	1.938784
Log likelihood	-5.088751	Hannan-Quinn criter.	1.684976
F-statistic	15.93178	Durbin-Watson stat	2.302590
Prob(F-statistic)	0.002905		

Source: E-views output, 2025

Table 6: Summary of Regression Results of Tested Hypotheses - Dependent Variable: EPS (Earnings per Share)

Variable	Variable	Coefficient	Std. Error	t-Statistic	Prob.	Outcomes/Decision
ROA	**H01:** Return on assets does not have significant impact on earnings per share in Nigerian financial services sector	-382.8209	90.98136	-4.207684	0.0056	Negative and statistically significant relationship with EPS, suggesting that higher ROA negatively impacts EPS.
DPS	**H02:** Dividend per share does nothave significant influence in Nigerian financial services sector.	0.287521	0.191510	1.501339	0.1839	Positive but not statistically significant, indicating a weak or no effect of DPS on EPS in Zenith Bank.
ROE	**H03:** Return on equity does not have significant impact on earnings per share in Nigerian financial services sector.	68.85952	14.00146	4.918024	0.0027	Positive and statistically significant, suggesting that higher ROE significantly boosts EPS.
	C (Constant)	0.954606	0.667198	1.430769	0.2024	The constant term is not statistically significant, suggesting that when other variables are zero, EPS is low but not statistically meaningful.
	R-squared	0.888466				Indicates that approximately 88.85% of the variation in EPS is explained by the independent variables in the model.
	Adjusted R-squared	0.832699				Adjusted R-squared (82.33%) suggests a good model fit, accounting for the number of predictors.
	S.E. of regression	0.519624				The small standard error of regression suggests relatively precise estimates of the model coefficients.
	F-statistic	15.93178			0.002905	The F-statistic is statistically significant, indicating that the model as a whole is a good fit.
	Prob(F-statistic)	0.002905				This very low probability value confirms that the overall model is statistically significant.
	Durbin-Watson stat	2.302590				The Durbin-Watson statistic is near 2, indicating that there is no significant autocorrelation in the residuals.

Source: Author's Analysis, 2025

Table 7: SWOT Analysis of Zenith Bank (2013-2022)

Strengths	Weaknesses
Strong profitability: Zenith Bank's EPS has a mean of ₦4.39, indicating a relatively high average profitability across the period. The maximum EPS reached ₦6.30 in 2020, showing strong periods of performance.	Negative impact of ROA on EPS: ROA has a negative coefficient (-382.8209), with a statistically significant relationship (p-value 0.0056), indicating that the bank's assets were not optimally utilized for profit generation. This could imply inefficiencies in asset management.
High ROE: The bank consistently achieved high ROE (mean 0.1955, maximum 0.2451), reflecting strong returns for shareholders. ROE has a statistically significant positive relationship with EPS (p-value 0.0027), indicating that higher equity returns drive EPS growth.	Fluctuating DPS: Although DPS showed variability (maximum of ₦2.80 in 2021, minimum of ₦1.55 in 2015), its impact on EPS was not statistically significant (p-value 0.1839), suggesting inconsistency in dividend payouts and limited influence on shareholder wealth growth.
Good model fit: The regression model has an R-squared value of 0.888, meaning it explains nearly 89% of the variation in EPS, indicating that the model effectively captures the key drivers of profitability.	Vulnerability to Asset Utilization: The relatively low ROA values and negative relationship with EPS suggest that inefficient use of assets might hinder Zenith Bank's profitability despite high ROE.
Opportunities	**Threats**
Improvement in Asset Efficiency: The negative ROA-EPS relationship suggests an opportunity for Zenith Bank to optimize asset management to enhance profitability and improve asset returns. This could lead to an increase in EPS over the long term.	Economic volatility: The period 2021-2022 witnessed a decline in EPS (to ₦3.44) and ROE (to 10.23%), indicating vulnerability to macroeconomic conditions or internal factors, such as operational challenges or market fluctuations.
Dividend Consistency: While DPS's direct effect on EPS is weak, a more consistent DPS policy could improve investor confidence and support shareholder wealth growth in the long term, potentially raising DPS and positively affecting market perception.	Regulatory Risks: Financial institutions, including Zenith Bank, face regulatory scrutiny, which could impact their profitability, especially regarding asset management practices, provisions for bad loans, and dividend policies.
Leveraging strong ROE: Zenith Bank has demonstrated strong return on equity, which could be leveraged to attract new investments and expand operations. The statistically significant positive impact of ROE on EPS offers a solid foundation for sustained shareholder value creation.	Volatility in earnings performance: The relatively high standard deviation in EPS (1.315) indicates that Zenith Bank's profitability is subject to fluctuations, which may cause concern for investors seeking stable earnings growth.

Source: Author's Analysis, 2025

Table 8: Implications of the Findings to Relevant Stakeholders

Stakeholder	Implication	Explanation
Shareholders	Profitability and Return on Equity	Shareholders benefit from strong ROE (mean of 19.55%) and the significant positive relationship between ROE and EPS. High ROE means that shareholders are receiving substantial returns on their equity investment, enhancing wealth creation.
Investors	Volatility and Risk Management	EPS has significant fluctuations, and ROA has a negative relationship with EPS, indicating inefficiency in asset utilization. This suggests that investors should carefully consider the bank's ability to optimize its asset base to achieve more stable returns.
Management	Need for Asset Optimization	The negative coefficient of ROA (-382.8209) with EPS suggests a need for management to focus on improving asset utilization. Enhancing operational efficiency could result in higher EPS, benefiting shareholders and strengthening financial performance.
Regulatory Bodies	Impact of Regulatory Changes on Profitability	Zenith Bank's ROE and EPS fluctuations may reflect external factors such as economic conditions or regulatory changes. Regulatory bodies need to monitor these factors to ensure the financial stability and profitability of banks, while also ensuring compliance with asset management standards.
Customers	Dividend Stability and Services	The bank's DPS variations suggest some uncertainty in dividend payouts. Stable and consistent dividends could enhance customer trust and loyalty. Additionally, higher profits could lead to better customer service offerings and more attractive financial products.
Employees	Job Security and	Strong EPS and ROE figures indicate profitability, which can positively affect

	Compensation	employee compensation and job security. However, the volatility of EPS suggests that management should work toward more consistent earnings to avoid potential layoffs or salary freezes during downturns.
Potential Clients	Financial Stability and Trust	The high R-squared (0.888) in the regression model reflects a solid financial performance, boosting confidence in Zenith Bank's stability. Potential clients can rely on the bank's strong financial fundamentals, making it an attractive choice for services.
Financial Analysts	Evaluation of Financial Performance	Financial analysts can use the regression results to assess the key factors influencing EPS (e.g., ROA, ROE, and DPS). When predicting the bank's future performance, analysts should take account of the strong influence of ROE and the limited influence of DPS on EPS.

Source: Author's Analysis, 2025

CONCLUSION AND RECOMMENDATIONS
Conclusion

This study offers important new information about the relationship between income smoothing and the creation of shareholder wealth in the Nigerian financial services industry. The results indicate that income smoothing practices, especially in banks such as Zenith Bank, directly affect the creation of shareholder wealth, though the effects vary depending on the variable.

Return on equity (ROE) has a positive impact on earnings per share (EPS), which emphasises how crucial profitable operations and intelligent financial management are to raising shareholder value. Return on Assets (ROA), on the other hand, showed a negative correlation with EPS, suggesting inefficiencies in asset use that may impair long-term shareholder returns. The necessity for financial institutions to concentrate more on asset management and operational efficiency rather than solely dividend distributions for shareholder wealth development is highlighted by the fact that dividend per share (DPS) has demonstrated little relevance in this context. The analysis also demonstrates that income smoothing may be a useful strategy for reducing earnings volatility, but it has to be used with caution to avoid obscuring long-term financial stability or skewing real performance indicators. The model indicates that the chosen variables offer a strong explanation for fluctuations in EPS, highlighting the significance of strategic decision-making in income smoothing, with an R-squared value of 0.888.

This study emphasises the necessity of striking a balance between short-term income smoothing and long-term sustainability for stakeholders, such as shareholders, regulators, and management, in order to make sure that financial strategies suit the interests of shareholders. Therefore, in order to promote sustainable wealth development and lessen the negative effects of income smoothing methods, banks in Nigeria's financial services industry should place a high priority on transparency, efficiency, and strategic resource management.

Recommendations

Recommendation	Explanation	Target Stakeholders
Enhance Asset Utilization Efficiency	In order to boost return on assets (ROA), which has a favourable impact on shareholder value, banks should concentrate on increasing asset utilisation efficiency.	Management, Investors
Adopt Transparent Income Smoothing Practices	Income smoothing strategies that adhere to moral principles should be employed by financial institutions to avoid hiding financial health or warping performance indicators.	Management, Regulators
Focus on Long-term Profitability over Short-term Gains	While short-term performance may benefit from earnings smoothing, long-term profitability-focused tactics should take precedence for long-term shareholder value.	Management, Investors
Strengthen Dividend Payout Policies	Despite DPS's minimal impact, creating a dependable and regular dividend policy helps increase shareholder loyalty and confidence.	Management, Shareholders
Improve Operational Efficiency	Increasing ROE, which has a major influence on EPS and the development of shareholder value, may be achieved by optimising operational efficiency.	Management, Investors
Regulatory Oversight on Income Smoothing Practices	In order to prevent banks from manipulating provisions and earnings at the expense of long-term growth, regulators should keep an eye on income smoothing techniques.	Regulators, Government

Encourage Shareholder Engagement and Feedback	Relationships may be strengthened and long-term wealth creation supported by consulting shareholders on important financial issues, such as dividend policy and financial transparency.	Shareholders, Management
Invest in Financial Training and Reporting	To prevent deception, financial managers should get training from banks on the best practices for managing earnings and financial reporting.	Management, Regulators
Conduct Regular Financial Audits and Reviews	To make sure that income smoothing procedures comply with accepted financial standards and laws, regular internal and external audits should be carried out.	Management, Regulators
Promote Stability in Return on Equity (ROE)	Long-term wealth building depends on ensuring steady performance in equity returns. By making smart investments, stability in ROE should be given priority.	Management, Investors

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APPENDICES

Table data showing variables used for the study via Zenith Bank, 2013-2022

Year (s)	Profit after tax (₦) 1	Shareholders equity (₦) 2	Total assets (₦) 3	Earnings per share (₦) 4	Return on assets (₦)5=1÷3	Dividend per share(₦) 6	Return on equity (₦) 7=1÷2
2013	83,414	472,622	2,878,693	2.66	0.02897634	1.75	0.176492
2014	92,479	512,707	3,423,819	2.95	0.02701048	1.75	0.18037398
2015	98,784	546,946	3,750,327	3.15	0.0263401	1.55	0.18061015
2016	119,285	616,353	4,283,736	3.80	0.0278460 2	1.77	0.19353358
2017	153,003	697,983	4,833,658	4.87	0.03165367	2.45	0.21920734
2018	165,480	675,032	4,955,445	5.27	0.03339357	2.50	0.24514393
2019	178,003	778,995	5,435,073	5.67	0.0327508	2.50	0.22850339
2020	197,852	905,232	7,124,987	6.30	0.02776875	2.70	0.21856496
2021	107,421	1,049,775	7,872,292	3.42	0.01364545	2.80	0.10232764
2022	107,869	1,075,689	8,646,940	3.44	0.01247482	0.30	0.10027898

Source: Authors Compilations 2025 from Annual Report and Financial Statement of Zenith Bank Plc