DOI: https://doi.org/10.26642/ema-2026-1(115)-29-37
UDC 336:339(669.1)

S.Abdullateef, Doctoral Student
University of South Africa, College of Accounting Sciences, South Africa
C.C. Ngwakwe, Faculty Member
University of Limpopo, Graduate School of Leadership, South Africa

Earnings quality and stock returns: a causal relationship analysis in the Nigerian consumer goods sector

This study investigates the causal relationship between earnings quality and stock returns in Nigeria's consumer goods sector from 2015 to 2024. Using a comprehensive sample of 45 publicly listed consumer goods companies on the Nigerian Exchange Limited (NGX), we employ accounting-based earnings quality measures, including accrual quality, earnings persistence, earnings predictability, and earnings smoothness. Our findings show a significant negative impact of earnings persistence on stock returns, indicating that firms with more persistent earnings tend to have lower returns. Pairwise Granger-causality tests reveal that none of the earnings quality measures Granger-cause stock returns. However, the results also indicate reverse causality, with stock returns Granger-causing earnings persistence. The study employs the Arellano-Bond dynamic panel-data estimator and Granger-causality tests to examine the impact of earnings quality on stock returns and to establish causal relationships among the variables. This study provides comprehensive evidence of a limited causal relationship between earnings quality and stock returns in Nigeria's consumer goods sector. The findings have important implications for investors, managers, regulators, and researchers. They suggest that other market forces may have an overriding influence on stock returns beyond the fundamental quality of earnings.

Keywords: *earnings quality; stock returns; Granger-causality; efficient market; Nigerian consumer goods.*

Problem statement. Nigeria, as Africa's largest economy and most populous country, offers a unique perspective on the implications of earnings quality for explaining stock returns. The country's consumer goods sector has experienced significant growth, driven by a large domestic market of over 200 million people and increasing urbanization. However, the sector also faces challenges such as currency fluctuations, regulatory changes, diverse capital structures, and corporate governance frameworks, which may influence earnings targets, earnings quality, and its relationship with stock returns.

The relationship between earnings quality and stock returns has been a topic of discussion in accounting research since the 1960s and 1990s. Are well-known for their seminar work [5] that pioneered what is now called market-based accounting research. They conducted an empirical study of the informational value of accounting earnings and how quickly they influence stock prices, demonstrating that the market can quickly adjust prices to reflect new information from the firm, assuming market efficiency. However, most evidence comes from developed markets, with limited research focusing on emerging markets in Africa, where institutional structures, market efficiency, and investor sentiments may vary significantly. This study addresses the gap by examining the causal relationship between earnings quality and stock returns in listed consumer goods companies in Nigeria, which account for approximately 23 % of the market capitalization on the Nigerian Exchange Limited (NGX).

The consumer goods sector provides an ideal setting for this study due to several factors: 1) the sector's significant representation in the Nigerian stock market; 2) the availability of consistent financial data across multiple years; 3) the sector's exposure to both domestic and international market forces; and 4) the presence of both multinational corporations and local companies with comparable reporting standards.

Analysis of recent research and publications. These sections presents related and resent research publications by first highlighting how the study is anchored on the efficient market hypothesis, agency theory, information asymmetry, and even other behavioural finance theories and followed by related literatures.

Theoretical framework. The relationship between earnings quality and stock returns is grounded in several theoretical frameworks, including the efficient market hypothesis, agency theory, information asymmetry, and even other behavioral finance theories. The efficient market hypothesis [11] suggests that stocks are accurately priced at any given moment to reflect their intrinsic value, with no over- or underpricing, as rational and informed investors use all available information, including the quality of reported earnings, to maximize their wealth. However, behavioral finance theories suggest that market inefficiencies may prevent the immediate incorporation of earnings information, including its quality, into stock prices.

Agency theory [18] offers an alternative perspective for examining the relationship between earnings quality and stock returns. Managers, in their efforts to meet earnings targets set by shareholders, may engage in earnings management or smooth reported earnings to hide significant fluctuations in earnings trends, potentially undermining earnings quality. However, when earnings management occurs through managers' accounting judgments to influence earnings information – whether driven by an objective firm's welfare or by incentives that are deceptive and designed to maximize personal utility [10] – it results in lower-quality earnings. This is a position of information asymmetry, which creates information risks and widens the information gaps between management and investors, leading to higher risk premiums and reduced stock returns.

Earnings quality measurement. Earnings quality is a multidimensional construct that has been defined in various ways in the literature. Also, different authors have used different attributes and have used various tools, such as earnings persistence and earnings power [12], earnings persistence and earnings predictiveness [20], earnings smoothness [1], accrual quality, earnings timeliness, and earnings persistence [7] to measure the informativeness of accounting earnings. Also [14] suggested seven earnings attributes in their work to measure the relationship between earnings quality and the cost of equity within the United States of America: accrual quality, persistence, predictability, smoothness, value relevance, timeliness, and conservatism [14]. The first four attributes are referred to as accounting-based because measures of the variables depend entirely on accounting information. The last three attributes are referred to as market-based because they are expressed as relations between market data and accounting information [14]. Their work established a strong foundation for subsequent research linking earnings quality to various firm outcomes.

Earnings quality and stock returns: international evidence. Following [5], numerous studies in developed markets have documented a positive contemporaneous association between earnings quality and stock returns, generally attributed to earnings' ability to summarize value-relevant information. The seminal paper by [24] investigated whether the stock prices of NYSE and AMEX firms fully reflect the information in the accrual and cash components of current earnings. Alternatively, the association between earnings and stock returns may partly be attributed to investors' «naive» fixation on earnings rather than their ability to summarize value-relevant information, thereby creating opportunities for abnormal returns.

Building on [24, 23] demonstrated that the accrual anomaly exists across various countries, although its magnitude varies with market development and institutional factors. They developed a model demonstrating that less reliable accruals lead to lower earnings persistence, thereby contributing significantly to stock mispricing. These findings suggest that considerable costs are associated with including less reliable accrual information in financial statements. Their results also indicate that the relationship between earnings quality and returns is inconsistent across markets.

Examining the impact of earnings quality on stock returns, prior studies that used earnings persistence as an explanatory variable found a statistically significant positive association. These studies [2, 3, 16], document that a corresponding increase in stock returns was evident for each additional unit of earnings persistence. The positive correlation between earnings persistence and stock returns can be attributed to investors' favorable expectations stemming from reduced uncertainty, greater confidence in future earnings sustainability, more positive perceptions of the performance outlook, and anticipation of lower risk. Control variables, such as return on assets and the dividend payout ratio, are positively associated with stock returns. Earnings persistence, as a measure of earnings quality, has also been found to be positively correlated with firm market value, significantly influencing stock prices upward [7].

The study of the impact of earnings quality on the stock returns of companies in the Arab financial market was carried out by [3], which adopted six measures of earnings quality, namely accrual quality, earnings continuity, earnings predictability, earnings smoothness, value relevance, and earnings conservatism, found a significant positive impact of earnings predictability on stock returns.

Emerging market evidence. The study of the relationship between earnings quality and stock returns in emerging markets has yielded mixed results. Some studies find weaker relationships compared to developed markets, attributing to lower market efficiency and evidence of anomalies. Investigated the effect of real earnings management on the relation between current stock returns [19] and future earnings of companies listed in the Korean stock market from 2000 to 2015, and found that real earnings management prevents the market from assessing firms' future earnings reflected in the current stock prices. In a study that examined the impact of real earnings management on cross-sectional stock returns with attention to the moderating role of market effect, size effect, value effect, and momentum effect [6] found empirical evidence that investors discounted stock prices at higher rates because they perceived downward REM as a source of risk. On the contrary, the results show that investors held on to their stocks even when returns were lower, driven by a positive perception of upward REM. An anomaly, found to be robust across all considered moderations.

In the African context, there has been limited research conducted. Examined earnings management and stock returns in Nigeria [26], with a primary focus on the banking sector. Their study found evidence of earnings management but did not establish clear causal links to stock returns. Examined the association between various measures of earnings quality and stock return [13]. They measured earnings quality using accrual quality, conservatism, earnings persistence, predictability, and smoothness. A multilevel linear regression analysis revealed that accrual quality and earnings persistence are negatively correlated with idiosyncratic volatility. At the same time, conservatism and predictability show no significant relationship with stock return volatility. Smoothness, on the other hand, is positively related to the observed variable. The mixed results of this study support the noise and information perspectives in explaining the volatility of stock returns for JSE-listed companies and, indeed, other emerging markets in Africa.

Nigerian context. The Nigerian capital market has experienced significant growth in recent years, driven by improved regulatory frameworks and digital transformation, which have boosted investor confidence and attracted increased foreign investment. Market capitalization has expanded significantly, reflecting new listings and higher prices, reaching a notable ₦90 trillion in the third quarter of 2025. This expansion, driven by new entrants, comes with expectations of sustainable market performance that would deliver expected returns. These expectations demand continuous analysis of factors impacting stock returns, including firm-specific factors such as earnings quality and governance, as well as market-level factors. However, research on the relationship between earnings quality and stock returns has been scarce, and the limited studies have produced inconsistent results. Investigated the impact of earnings quality on the market values of listed quoted companies in Nigeria [4]. The study's findings show that accrual quality and earnings smoothness significantly negatively affect the market value of listed firms in Nigeria, as measured by share price. However, their study did not examine how this behavior affects stock returns. Investigated the relationship between earnings quality and firm value in Nigeria [22] and found a positive correlation. However, the study used market-to-book ratios instead of stock returns and did not establish causality.

Hypotheses development. Based on the theoretical foundations and empirical evidence, we develop the following hypotheses: H_{1a}: Earnings quality impacts the stock returns of listed consumer goods companies in Nigeria. H_{1b}: Earnings quality Granger-causes variations in the stock returns of listed consumer goods companies in Nigeria.

The purpose of the article. The purpose of this article is to contribute to knowledge by exploring the effect of earnings quality on the stock returns of Nigerian consumer goods companies. Therefore, the article makes several contributions to literature. First, it provides empirical evidence from an underexplored African market, enhancing our understanding of how earnings quality affects stock returns in emerging economies. Second, it employs multiple earnings quality metrics to provide a comprehensive assessment of the relationship. Third, it uses advanced econometric techniques to establish causality rather than merely establish association. Finally, it offers practical implications for investors, regulators, and corporate managers in Nigeria and other comparable emerging markets.

Presentation of the main material. The Sample Selection comprises all consumer goods companies listed on the Nigerian Stock Exchange from 2012 to 2023. We begin with 21 companies and apply the following screening criteria: 1) companies must have traded consistently on the NSE from 2012 to 2022; 2) sufficient data must be available for the entire study period, including relevant information for all research variables. After removing companies with missing data, the final sample consisted of 130 firm-year observations from 13 companies, representing 62 % of the total population. The sample includes major players such as Nestle Nigeria Plc, Unilever Nigeria Plc, Nigerian Breweries Plc, and Dangote Sugar Refinery Plc.

For the earnings quality measures, we employ four accounting-based earnings quality measures to capture the multidimensional attributes of earnings quality:

Accrual quality. We use a measure of accrual quality based on the model estimate in [9]. This measure clearly describes accounting accruals as another component of accounting earnings, alongside cash flow and accruals [9]. The model assesses accrual quality as the standard deviation of residuals in a regression that links the current period's working capital accruals to operating cash flows in past, present, and future periods. Consequently, a higher standard deviation indicates lower earnings accrual quality. To create practical measures of working capital accrual quality, the following firm-level time-series regression is proposed [9]:

$$\Delta WC_{it} = \beta_0 + \beta_1 CFO_{it-1} + \beta_2 CFO_{it} + \beta_3 CFO_{it+1} + \varepsilon_{it}, \quad (1)$$

where ΔWC_{it} represents the changes in working capital accruals during the current period, CFO_{it-1} is the cash flow from operations in the previous period, CFO_{it} is the cash flow from operations in the current period, and CFO_{it+1} is the cash flow from operations in the next period. B_1, β_2, and β_3 are the slope coefficients for the previous, current, and future periods' cash flows from operations, respectively, while ε_{it} is the residual.

$$AQ_{it} = \sigma(\varepsilon_{it}), \quad (2)$$

where AQ_{it} is accrual quality, σ denotes the standard deviation of the residual ε_{it}

Earnings persistence. We measure earnings persistence (PERSIST) as the coefficient from a simple regression of current earnings on past earnings [8, 13, 21]:

$$Earnings_{it} = \beta_0 + \beta_1 Earnings_{it-1} + \varepsilon_{it}, \quad (3)$$

where $Earnings_{it}$ is the current period earnings, $Earnings_{it-1}$ is the previous period earnings. Earnings in this model are generally scaled by the number of shares in most studies. β_1 is the slope coefficient for previous-period earnings, which measures the persistence. A higher coefficient (β_1) for $Earnings_{it-1}$ indicates greater earnings persistence.

Earnings predictability. We measured predictability (PREDICT) by the variance (σ^2) of earnings' persistence shock (ε_{it}) in the univariate earnings process given in equation (4) [21]:

$$PREDICT_{it} = \sigma^2 \varepsilon_{it}. \quad (4)$$

The higher(lower) the variance of the shock, the lower(higher) the predictability of earnings.

Earnings smoothness. Earnings smoothness is defined as the standard deviation of net operating income divided by the standard deviation of cash flows from operations. Higher values of Smoothness indicate less earnings smoothness, while lower values indicate greater earnings smoothness [14].

$$SMOOTH_{it} = \sigma NOI_{it} / \sigma CFO_{it} . \quad (5)$$

Stock Return Measures. We measure stock returns using the ratio of price appreciation plus dividends paid to the price at the beginning of the period [16, 17, 25]. This definition, also used in [15] and also adopted for this study, is stated in the relation below:

$$R_{it} = \frac{(P_{it} - P_{it-1}) + D_{it}}{P_{it-1}} , \quad (6)$$

where R_{it} is the stock returns at the end of year t, and P_{it} and P_{it-1} are the stock prices at the end of year t and t-1, respectively. At the same time, D_{it} is the dividend per share for year t.

Control variables. We include several control variables based on prior literature:

1) profitability ratio, measured by return on total assets (ROTA);
2) leverage ratio, calculated as the debt-to-total assets ratio.

Econometric specification. Generalized panel data regression model. To establish causality rather than mere correlation, we employ several econometric approaches:

$$SR_{it} = \beta_0 + \beta_{it}EQ_{it} + \beta_{it}LEV_{it} + \beta_{it}ROA_{it} + \varepsilon_{it}. \quad (7)$$

Specifically, the model in Eq. 7 will be replaced with various measures of the variables, where SR is the stock returns (SR); EQ is earnings quality, which includes accrual quality (AQ), earnings persistence (PERSIST), earnings predictability (PREDIST), and earnings smoothness (SMOOTH). Leverage (LEV) and return on assets (ROA) serve as control variables i and t represent firm i at period t, respectively; β is the regression coefficient; ε is the error term.

Dynamic panel estimation model. Given the presence of cross-sectional dependence in our panel data, as indicated by the cross-sectional dependency test, the random effects model, as suggested by the Hausman specification test, was deemed unsuitable for our analysis. We therefore choose a dynamic panel model, which better captures the complexities and dependencies in our data. Dynamic panel models, such as the Arellano-Bond and Blundell-Bond estimators, are designed to address such problems as cross-sectional dependence, endogeneity, and autocorrelation.

Granger causality tests. We test whether lagged earnings quality measures Granger-cause current stock returns and vice versa.

Results and discussion. Descriptive statistics. Table 1 presents descriptive statistics for our key variables. Stock returns (SR) have a mean value of 0.0980, indicating that, on average, the listed consumer goods companies experience a small positive return. However, the standard deviation of 0.5305 reflects the volatile characteristics of emerging markets. Accrual quality (AQ) has an average of 3.8647 and a relatively high standard deviation of 4.6982, indicating considerable variation in how firms manage their accruals. Similarly, earnings persistence (PERSIST) has a mean of -0.1197, suggesting that past earnings are not strongly predictive of future earnings for most firms. The standard deviation of 9.9647 and the wide range from -49.5165 to 60.0609 indicate that earnings persistence varies widely across firms. Earnings predictability (PREDICT) has an average of 38.2954 and a standard deviation of 108.9639, indicating high variability. Earnings Smoothness (SMOOTH) averages 0.4675, suggesting that most firms do not engage in excessive earnings smoothing. However, the standard deviation of 1.0244 and the wide range from 0.0011 to 8.0696 indicate that some firms significantly smooth their earnings, while others allow earnings to fluctuate naturally.

Table 1

Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
SR (Stock Returns)	130	0.0980	0.5305	-0.7625	1.8849
AQ (Accrual Quality)	130	3.8647	4.6982	0.0054	22.9571
PERSIST (Earnings Persistence)	130	-0.1197	9.9647	-49.5165	60.0609
PREDICT (Earnings Predictability)	130	38.2954	108.9639	0.0004	849.5227
SMOOTH (Earnings Smoothness)	130	0.4675	1.0244	0.0011	8.0696
LEV (Leverage)	130	0.0869	0.0898	0.0000	0.5035
ROA (Return on Assets)	130	0.1076	0.0969	-0.1054	0.3835

Source: author's computation using Stata

Correlation analysis. Table 2 presents the correlation coefficients among the key variables. We observe mixed correlations between earnings quality measures and stock returns. Accrual quality is negatively correlated with returns (-0.1683), suggesting that firms with higher accrual quality tend to have slightly lower returns. Earnings predictability and earnings are positively correlated with stock returns, at 0.0902 and 0.0633, respectively, indicating that companies with more predictable earnings tend to have slightly higher stock returns.

Similarly, earnings smoothness shows a weak positive relationship with stock returns, suggesting a limited impact on returns. Conversely, a negative correlation of -0.1784 between earnings persistence and stock returns suggests that more persistent earnings do not necessarily lead to higher stock returns.

Table 2

Correlation analysis

Variable	SR	AQ	PERSIST	PREDICT	SMOOTH	LEV	ROA
L1.SR	1.0000						
AQ	-0.1683	1.0000					
PERSIST	-0.1784	0.1015	1.0000				
PREDICT	0.0902	0.2862	-0.0136	1.0000			
SMOOTH	0.0633	0.0394	0.0038	0.0640	1.0000		
LEV	-0.1783	0.3582	0.0801	-0.0974	-0.0904	1.0000	
ROA	0.1028	0.0475	0.0302	0.0364	-0.0622	-0.0260	1.0000

Source: author's computation using Stata

Dynamic panel estimation. Table 3 presents the results of the Arellano-Bond dynamic panel estimation model used to examine the determinants of Stock Returns (SR) across 13 firms. This model is effective for handling endogeneity, autocorrelation, and unobserved heterogeneity in dynamic panels, especially when the lagged dependent variable is included as a regressor. In this case, the first lag of stock returns (L1.SR) was included to account for possible return persistence.

Earnings Persistence (PERSIST) is the only earnings quality measure that significantly predicts stock returns. The coefficient for PERSIST is negative and statistically significant at the 1 % level, with a value of -0.0176 and a p-value of 0.001, indicating that firms with more persistent earnings generally tend to have lower stock returns.

Other earnings quality measures – accrual quality (AQ), earnings predictability (PREDICT), and earnings smoothness (SMOOTH) – did not have significant effects on stock returns. This suggests that these qualitative dimensions of earnings may be important in understanding the quality of reported earnings, but may not be strong determinants of market performance in this context. Specifically, AQ had a negative but non-significant relationship, with a coefficient of -0.0032 and a p-value of 0.858. Predictability and smoothness both showed weak and statistically insignificant positive associations with stock returns.

Overall, the model's Wald chi-square test indicates that the joint effect of all variables on stock returns is marginally significant ($\chi^2 = 13.92$, $p = 0.0526$). Although only one predictor, earnings persistence, was statistically significant on its own, the near-significance of the overall model suggests a moderate explanatory power.

Table 3

Arellano-Bond dynamic panel-data estimation results

Variable	Coefficient	Std. Error	z-Statistic	P-value	Significance
L1.sr	-0.0056	0.0996	-0.06	0.955	Not Significant
Aq	-0.0032	0.0177	-0.18	0.858	Not Significant
Persist	-0.0176	0.0053	-3.31	0.001	**Significant at 1 %**
Predict	0.0003	0.0005	0.56	0.578	Not Significant
Smooth	0.0403	0.0488	0.83	0.408	Not Significant
Lev	-0.7254	0.9230	-0.79	0.432	Not Significant
Roa	0.8811	0.9906	0.89	0.374	Not Significant
Constant	0.0304	0.1324	0.23	0.818	Not Significant

Source: author's computation using Stata

Granger causality tests. Table 4 presents the results from Granger causality tests. We test whether lagged earnings-quality measures can predict current stock returns, and whether lagged returns can predict current earnings quality.

The results of the pairwise Granger causality tests on the data with two lags indicate unidirectional causality running from stock returns to earnings quality, measured by earnings persistence ($F = 5.13758$, $p = 0.0075$). This implies that firms' past market performance, as measured by stock returns, can predict future earnings persistence, suggesting that market performance may influence how consistently firms report earnings and the sustainability of earnings over time. Similarly, F-statistics for the hypothesis that the control variables – leverage and return on assets, also show a reverse relationship with stock returns, Granger-causing only return on assets (F = 6.11604, p = 0.0031). Thus, suggesting that stock performance might influence firm profitability metrics by boosting investor confidence and capital access following strong returns. This is also evidenced by the fact that stock returns also Granger-cause earnings persistence significantly.

When analyzing the interrelationships among the earnings quality attributes, the test indicates a strong one-way causal relationship from accrual quality to earnings predictability (F = 9.10277, p = 0.0002). This implies that the quality of accruals can significantly influence earnings predictability. However, there is no reverse causality – earnings predictability does not influence accrual quality (p = 0.9525). In either direction, no significant causal relationships were found between earnings persistence and accrual quality, earnings persistence and earnings predictability, or earnings persistence and earnings smoothness. Likewise, no Granger causality was observed between earnings smoothness and earnings predictability, indicating that these aspects of earnings quality tend to operate independently in the sampled firms.

Some relationships were detected among control variables and earnings quality attributes. Notably, leverage Granger-causes accrual quality (F = 3.18492, p = 0.0457), suggesting that changes in a firm's leverage can influence its accrual accounting practices, possibly due to earnings management under financial pressure. However, accrual quality does not Granger-cause leverage (p = 0.2249), implying no feedback effect. No significant bidirectional or unidirectional causal effects were observed between the control variables (return on assets and leverage) and most other earnings quality indicators (earnings persistence, earnings predictability, and earnings smoothness), indicating weak overall dynamic interaction.

Table 4

Granger causality test results is presented in the table below

Pairwise Granger Causality Tests			
Date: 04/23/25 Time: 19:35			
Sample: 2014 2023			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
AQ does not Granger-cause SR	104	0.90190	0.4091
SR does not Granger-cause AQ		0.89820	0.4106
PERSIST does not Granger-cause SR	104	0.46833	0.6274
SR does not Granger-cause PERSIST		5.13758	0.0075
PREDICT does not Granger-cause SR	104	0.01510	0.9850
SR does not Granger-cause PREDICT		1.00629	0.3693
SMOOTH does not Granger-cause SR	104	1.63676	0.1998
SR does not Granger-cause SMOOTH		0.21058	0.8105
ROA does not Granger-cause SR	104	0.41401	0.6621
SR does not Granger-cause ROA		6.11604	0.0031
LEV does not Granger-cause SR	104	0.38668	0.6803
SR does not Granger-cause LEV		1.80071	0.1705
PERSIST does not Granger-cause AQ	104	0.18366	0.8325
AQ does not Granger-cause PERSIST		0.04293	0.9580
PREDICT does not Granger-cause AQ	104	0.04870	0.9525
AQ does not Granger-cause PREDICT		9.10277	0.0002
SMOOTH does not Granger-cause AQ	104	0.31324	0.7318
AQ does not Granger-cause SMOOTH		0.13887	0.8705
ROA does not Granger-cause AQ	104	1.22132	0.2992
AQ does not Granger-cause ROA		1.38240	0.2558
LEV does not Granger-cause AQ	104	3.18492	0.0457
AQ does not Granger-cause LEV		1.51489	0.2249
PREDICT does not Granger-cause PERSIST	104	0.25935	0.7721
PERSIST does not Granger-cause PREDICT		0.05150	0.9498
SMOOTH does not Granger-cause PERSIST	104	0.04916	0.9521
PERSIST does not Granger-cause SMOOTH		0.09358	0.9107

The end of the table 4

ROA does not Granger-cause PERSIST	104	0.68581	0.5061
PERSIST does not Granger-cause ROA		1.42838	0.2446
LEV does not Granger-cause PERSIST	104	1.55486	0.2163
PERSIST does not Granger-cause LEV		0.40174	0.6702
SMOOTH does not Granger-cause PREDICT	104	0.14348	0.8665
PREDICT does not Granger-cause SMOOTH		0.13859	0.8708
ROA does not Granger-cause PREDICT	104	2.48008	0.0889
PREDICT does not Granger-cause ROA		0.69595	0.5010
LEV does not Granger-cause PREDICT	104	0.92595	0.3996
PREDICT does not Granger-cause LEV		1.08203	0.3429
ROA does not Granger-cause SMOOTH	104	0.02328	0.9770
SMOOTH does not Granger-cause ROA		3.01175	0.0537
LEV does not Granger-cause SMOOTH	104	0.59976	0.5509
SMOOTH does not Granger-cause LEV		0.71846	0.4900
LEV does not Granger-cause ROA	104	0.66825	0.5149
ROA does not Granger-cause LEV		0.36744	0.6934

Discussion. The Granger causality analysis reveals limited predictive relationships among earnings quality attributes and stock returns in Nigerian consumer goods firms. The most notable findings are that stock returns Granger-cause earnings persistence and return on assets, while accrual quality Granger-causes earnings predictability. These results suggest that market behavior may influence internal reporting consistency and profitability, and that specific accounting attributes, such as accrual quality, help explain other dimensions, including predictability. The findings have implications for investors, regulators, and managers in understanding how market and financial reporting variables interact over time.

The findings of this study indicate that accounting information quality measures (accrual quality, earnings persistence, predictability, smoothness) and the control variables (leverage and return on assets) have limited predictive power for stock returns. This is evident in that only earnings persistence has a significantly positive impact on stock returns; all other individual predictors are significant at the 5 % level, reinforcing the notion that stock returns are influenced by a broader set of factors beyond accounting quality alone. This suggests that stock price movements are primarily driven by broader market dynamics, investor sentiment, economic conditions, and firm-specific strategic decisions rather than accounting-based measures of earnings quality alone.

Our finding, therefore, aligns with financial market theories that emphasize the roles of market efficiency, behavioral finance, and macroeconomic conditions in determining stock prices.

Conclusions and prospects for further research. The findings from this study have far-reaching implications for both existing theories on the relationship between accounting information quality and practical considerations for capital market participants. This study contributes to the accounting information literature, specifically the earnings quality literature, in several ways. Firstly, the study's findings revealed a paradox that contradicts conventional wisdom about the relationship between earnings quality and stock prices or returns. Secondly, it opened the door to discussions supporting the idea that other forces (sentiment, external shocks) might overshadow fundamental accounting information quality. Thirdly, it demonstrates the importance of establishing causality rather than merely documenting correlations.

The findings support both the efficient market hypothesis and the behavioral finance perspective.

For Investors: our findings suggest that investors should look beyond earnings quality and consider macroeconomic trends, behavioral biases, and firm-specific financial strength. For Corporate Managers: the counterintuitive relationship between earnings quality and returns creates incentives to manipulate earnings to achieve desired increases in stock returns, rather than focusing on fundamentals that improve earnings quality. This means managers may be more concerned with the immediate financial benefits of stock price manipulation than with the business's long-term financial health. For Policymakers: our findings underscore the need to strengthen transparency measures if market efficiency erodes earnings quality.

Several limitations should be noted. First, our study focuses on a single sector in a single country, limiting its generalizability. Secondly, the sample selection criteria would also constrain data collection, further underscoring the limitations on the generalizability of the research findings. Thirdly, our earnings quality measures, while comprehensive, may not capture all aspects of reporting quality.

Future research could extend our analysis in several directions. First, examining other sectors and countries would enhance generalizability. Second, exploring the interaction between earnings quality measures and specific governance mechanisms could provide more granular insights. Thirdly, developing new earnings quality measures specific to emerging market contexts would also be valuable. Given that various external factors drive stock returns, future studies that incorporate additional variables, such as macroeconomic indicators (inflation, interest rates), market sentiment, industry trends, and firm-specific competitive advantages, would provide deeper insights into the variable with the greatest explanatory power for stock returns in emerging markets. Finally, research examining the welfare implications of earnings quality in emerging markets could inform policy discussions.

This study provides comprehensive evidence of a limited causal relationship between earnings quality and stock returns in Nigeria's consumer goods sector, with only reverse causality existing from stock returns to earnings persistence. This study also presented strong evidence of a counterintuitive relationship: a significantly negative impact of earnings persistence on stock returns. Suggesting that a highly persistent earnings firm could post a declining stock return, evidence that contradicts the general notion of a positive relationship between earnings persistence and stock returns.

The findings have important implications for investors, managers, regulators, and researchers. They suggest that other market forces may have an overriding influence on stock returns beyond the fundamental quality of earnings. As African capital markets continue to develop, understanding the role of high-quality accounting information in enabling market participants to rely on corporate performance measures becomes increasingly important. Our study contributes to this understanding and provides a foundation for future research in this important area.

References:

1. Abogun, S., Adigbole, E.A. and Olorede, T.E. (2021), «Income smoothing and firm value in a regulated market: the moderating effect of market risk», doi: 10.1108/AJAR-08-2020-0072.
2. Adityanur, S. and Mardijuwono, W. (2020), «Corporate Earnings Persistence and Stock Returns», *International Journal of Innovation, Creativity and Change*, Vol. 13, [Online], available at: www.ijicc.net
3. Al-Zarqi, I.H. and Bedoui, R. (2023), «Testing The Impact of Earnings Quality on Stock Returns: An Analytical Study in A Sample of Arab Financial Markets», *International Journal of Economics and Finance Studies*, Vol. 15, No. 02, pp. 502–530, doi: 10.34109/ijefs.202315224.
4. Ayuba, A. (2022), «Earnings Quality and Market Values of Listed Companies in Nigeria», *European Journal of Accounting, Auditing and Finance Research*, Vol. 10, Issue 3, [Online], available at: https://www.eajournals.org/
5. Ball, R. and Brown, P. (1968), «An Empirical Evaluation of Accounting Numbers», *Journal of Accounting Research*, Vol. 6, No. 2, pp. 159–178.
6. Bansal, M., Ali, A. and Choudhary, B. (2021), «Real earnings management and stock returns: moderating role of cross-sectional effects», *Asian Journal of Accounting Research*, Vol. 6 (3), pp. 266–280, doi: 10.1108/AJAR-11-2020-0107.
7. Dang, H.N., Nguyen, T.T.C. and Tran, D.M. (2020), «The impact of earnings quality on firm value: The case of Vietnam», *Journal of Asian Finance, Economics and Business*, Vol. 7, No. 3, pp. 63–72, doi: 10.13106/jafeb.2020.vol7.no3.63.
8. Dechow, P., Ge, W. and Schrand, C. (2010), «Understanding earnings quality: A review of the proxies, their determinants and their consequences», doi: 10.1016/j.jacceco.2010.09.001.
9. Dechow, P.M. and Dichev, I.D. (2002), «The Quality of Accruals and Earnings: The Role of Accrual Estimation Errors», *The Accounting Review*, Vol. 77.
10. Eze, R.C., Onyekwelu, U.L. and Egiyi, M. (2022), «Management Performance and Discretionary Accrual Measures in Nigeria», [Online], available at: https://www.researchgate.net/publication/363367521
11. Fama, E.F. (1970), «Efficient Capital Markets: A Review of Theory and Empirical Work», *The Journal of Finance*, Vol. 25, Issue 2.
12. Fatma, N. and Hidayat, W. (2019), «Earnings persistence, earnings power, and equity valuation in consumer goods firms», *Asian Journal of Accounting Research*, Vol. 5, Issue 1, pp. 3–13, doi: 10.1108/AJAR-05-2019-0041.
13. Fonou-Dombeu, N.C., Mbonigaba, J., Olarewaju, O.M. and Nomlala, B.C. (2022), «Earnings quality measures and stock return volatility in South Africa», *Future Business Journal*, Vol. 8, Issue 1, doi: 10.1186/s43093-022-00115-x.
14. Francis, J., Lafond, R., Olsson, P. and Schipper, K. (2004), «Costs of Capital and Earnings Attributes».
15. Goel, A., Tripathi, V. and Agarwal, M. (2021), «Information asymmetry and stock returns», *Journal of Advances in Management Research*, Vol. 18 (1), pp. 85–112, doi: 10.1108/JAMR-05-2020-0084.
16. Hung, D.N. and Van, V.T.T. (2020), «Studying the impacts of earnings quality on stock return: Experiments in Vietnam», *International Journal of Advanced and Applied Sciences*, Vol. 7, Issue 4, pp. 45–53, doi: 10.21833/ijaas.2020.04.007.
17. Dang, N.H., Vu, T.T.V. and Dao, T.N.L. (2022), «Accounting information and stock returns in Vietnam securities market: Machine learning approach», *Contabilidad y Negocios*, Vol. 17, No. 33, pp. 94–118, doi: 10.18800/contabilidad.202201.004.
18. Jensen, M.C. and Meckling, W.H. (1976), «Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure», *Journal of Financial Economics*, Vol. 3.
19. Jeong, K.H. and Choi, S.U. (2019), «Does Real Activities Management Influence Earnings Quality and Stock Returns in Emerging Markets? Evidence from Korea», *Emerging Markets Finance and Trade*, Vol. 55, Issue 12, pp. 2834–2850, doi: 10.1080/1540496X.2018.1535970.
20. Kimouche, B. (2021), «Persistence and Predictive Ability of Earnings: Evidence from France and the UK», *Economics and Business*, Vol. 35, Issue 1, pp. 190–200, doi: 10.2478/eb-2021-0013.

21. Lipe, R. (1990), «The Relation between Stock Returns and Accounting Earnings Given Alternative Information», *The Accounting Review*, Vol. 65, Issue 1.
22. Okolie, A.O. (2014), «Audit quality and earnings management of quoted companies in Nigeria», *European Journal of Accounting Auditing and Finance Research*, Vol. 2, Issue 3, pp. 13–23.
23. Richardson, S.A., Sloan, R.G., Soliman, M.T. and Tuna, I. (2005), «Accrual reliability, earnings persistence and stock prices», *Journal of Accounting and Economics*, Vol. 39, Issue 3, pp. 437–485, doi: 10.1016/j.jacceco.2005.04.005.
24. Sloan, R.G. (1996), «Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings?», *The Accounting Review*, Vol. 71, Issue 3.
25. Suroso, S. (2022), «Can Financial Ratios Improve Stock Returns in Manufacturing Companies?», *ATESTASI: Jurnal Ilmiah Akuntansi*, Vol. 5, Issue 1, pp. 137–151, doi: 10.33096/atestasi.v5i1.1190.
26. Uwuigbe, U., Ranti, U.O. and Bernard, O. (2015), «Assessment of the Effects of Firms Characteristics on Earnings Management of Listed Firms in Nigeria», *Asian Economic and Financial Review*, Vol. 5, Issue 2, pp. 218–228, doi: 10.18488/journal.aefr/2015.5.2/102.2.218.228.

Abdullateef Sheriff – Master in Accounting, Doctoral student at the College of Accounting Sciences, University of South Africa.

https://orcid.org/0009-0001-3048-9543.

Scientific interests:

- management accounting;
- environmental management accounting;
- sustainability accounting;
- corporate governance;
- stock market performance.

Ngwakwe Collins Chigaemecha – PhD in Accounting, Professor at the Turfloop Graduate School of Leadership, Faculty of Management & Law, University of Limpopo, South Africa.

https://orcid.org/0000-0002-6954-8897.

Scientific interests:

- managerial accounting;
- environmental management accounting;
- sustainability accounting;
- stock market performance;
- public financial accountability.

Нгвакве К.Ч., Абдулатіф Ш.

Якість прибутку та дохідність акцій: аналіз причинно-наслідкового зв’язку в секторі споживчих товарів Нігерії

У цьому дослідженні аналізується причинно-наслідковий зв’язок між якістю прибутку та дохідністю акцій у секторі споживчих товарів Нігерії у період з 2015 по 2024 рік. Використовуючи комплексну вибірку з 45 публічних компаній сектору споживчих товарів, що представлені на Нігерійській фондовій біржі (НФБ), ми застосовуємо бухгалтерські показники якості прибутку: якість нарахувань, стійкість прибутку, передбачуваність прибутку та згладженість прибутку.

Результати дослідження показують значний негативний вплив стійкості прибутку на дохідність акцій, що свідчить про те, що компанії з більш стабільним прибутком, як правило, мають нижчу дохідність акцій. Парні тести причинності за Грейнджером показують, що жоден із показників якості прибутку не є причиною змін дохідності акцій. Водночас результати також свідчать про наявність зворотної причинності: дохідність акцій за Грейнджером зумовлює стійкість прибутку.

У дослідженні застосовано динамічний панельний оцінювач Ареллано – Бонда та тести причинності за Грейнджером для аналізу впливу якості прибутку на дохідність акцій і встановлення причинно-наслідкових зв’язків між змінними.

Дослідження надає комплексні докази обмеженого причинно-наслідкового зв’язку між якістю прибутку та дохідністю акцій у секторі споживчих товарів Нігерії. Отримані результати мають важливе значення для інвесторів, менеджерів, регуляторів і дослідників. Вони свідчать про те, що інші ринкові чинники можуть переважно впливати на дохідність акцій, перевищуючи вплив фундаментальної якості прибутку.

Ключові слова: якість прибутку; дохідність акцій; причинність за Грейнджером; ефективний ринок; сектор споживчих товарів Нігерії.

The article was sent to the editorial board on 08.01.2026.