

**DETERMINANTS OF ACCOUNTING EARNINGS SUPRISES: EVIDENCE FROM NIGERIA  
INDUSTRIAL LISTED COMPANIES**

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**Abstract:**

*This work tried to look at the determinants of earnings surprises in Nigeria industrial sector. The earnings of the individual sampled companies were bench marked against the industrial earnings mean so as to group the companies into positive and negative earnings category which was then analyzed using fixed multiple regression analysis. The findings of the work reveal that Revenue growth is significant in driving positive earnings surprises; while Firm age and stock price were significant determinants of negative earnings surprise in Nigeria industrial sector.*

Keywords: Earnings surprise, Sales growth, firm size, stock prices, capital investment

**INTRODUCTION**

The number that analysts wait for is earnings. Earnings are essential for a stock to be considered a good investment. The results reported during earnings season dictate how high or low companies revenue and earnings per share have performed. When a company's reported earnings deviate from market analysts consensus estimates, earnings surprises would occur (Degeorge, Patel, & Zeckhauser, 1999). Analysts produce individual forecasts, based on the company prospects and trends in growth and costs, before it releases its actual earnings. Analysts' forecasts are important for market efficiency because investors rely on these authoritative predictions of firm performance to properly value a firm's stock and deploy their investment (Degeorge, 1999; Williams, 1996). Firms that exceed earnings estimates are credited with achieving positive earnings surprises, while those that fail to meet earnings estimate have negative earnings surprises (Abraham & Harrington, 2010). However, when the analysis fail to yield expected results, there is always disappointment among market participants. This is because both types of surprises violate investors' expectations of predictable earnings and negatively affect the accuracy of financial evaluations and investment choices and opportunities. (Degeorge et al.,1999; Kasznik & Lev, 1995; Tan, Libby, & Hunton, 2002; Williams, 1996).

Negative surprises not only violate expectations of predictability, but also reflect disappointing firm performance and can elicit strong, negative responses from investors (Brown, 2001; Kasznik & Lev, 1995; Skinner, 1994; Skinner & Sloan, 2002). Positive surprises, on the other hand, are viewed more ambivalently. Although they affect the predictability of a firm's performance and hence the accuracy of market forecasts, they are, nevertheless, signals of good performance; as a result, they usually generate relatively smaller, but positive, responses from investors (Brown, 2001; Kasznik & Lev, 1995; Skinner & Sloan, 2002; Westphal & Clement, 2008). Consistent with that, Patatoukas & Yan (2009) argue that corporate earnings performance is tied to the macro economy and so earnings surprises affect stock market valuations. Most studies conclude that a surprise in the earnings announcement, leads to abnormal returns in the period following the announcement.(Yan & Zhao, 2008),

In the academic literature, the abnormal returns pattern is called Post-Earnings Announcement Drift (PEAD) (Yan & Zhao, 2008). At the firms level, Fama (1998), describes PEAD as an anomaly above suspicion. Bernard & Thomas (1990) ; Daniel, Hirshleifer & Subrahmanyam (1998) cited PEAD as a prime example of market

inefficiency. The Efficient market Hypothesis (EMH) states that prices should fully and instantaneously reflect all publicly available information. Meaning that all information (factual or Predicted), should be incorporated into prices in a quick and unbiased way. Thus a price drift in general, indicates that the market fails to translate the information into prices. Hence, Determinants of earnings surprises have been a great issue of concern to investors, market observers and participants because they are behaviors and expectations that interfere with the smooth and efficient functioning of markets (Tan, 2002). Mikhail, Walther & Willis (2015) document that repeated earnings surprises are costly and provide evidence that managers have incentives to avoid missing earnings targets. Accordingly, managers strive to facilitate and improve their firms' valuations by avoiding earnings surprises and meeting analysts' consensus estimates. Thus, meeting analysts' earnings expectations either exactly or within a reasonable forecast limit is the norm, yet the surprises still do happen.

The work of Ball and Brown (1968) was one of the prominent to introduce the idea of unexpected rise or fall of stock prices given to earnings performance or announcement of companies. Based on their work, earnings behavior have been studied by various researchers to identify the various types of earnings responses to variant corporate and non-corporate characteristics of firms. It has been observed that managers may deviate from their optimal investment policy if they face agency costs (Jensen, 1986), financial constraints (Fazzari, Hubbard & Petersen, 1988; Rauh, 2006), or if stock markets are not fully rational and when any of these is present, there is the tendency of earnings surprises (either negative or positive) to occur and non-separating equilibrium may arise in which the market cannot differentiate myopic firms from the firms that invest optimally which might eventually lead to sentimental surprises in the market (Baker, Stein and Wurgler, 2003; Jensen, 2005; Polk & Sapienza, 2009). Thus, earnings surprises or drift continues to pose a significant challenge to financial theorists Brennan (1991); Fama (1998).

The objective of this paper is to investigate the determinants of earnings surprises of industrial listed companies in Nigeria as it has been believed that the extent of any return of any company can actually be driven by certain specific factors. Hence, this work tries to identify those factors that are significant enough to drive earnings drift. Several research questions abound. Is the sales growth the underlying reason for earning surprise?, Does the size of the firm account for the large earnings surprises?, Do firms stock prices drive earnings surprises? Is the capital investment related to earnings surprises? Abraham & Harrington (2010) document that number of analysts, significantly predicted positive earnings surprises regardless of business condition, while sales and industry type showed similar results for weak business conditions. Their results also show that cash flow explained positive earnings surprises for weak business conditions while industry type was significant for strong business condition. The findings from this work can help guide investors idea about what drives earnings deviation or surprises in the Nigeria industrial sector and to take advantage of them to avoid the possible dangers that might be associated with them. Thus Since both positive and negative earnings have lingering long term effects, a rewarding investment task would be to avoid stocks that will have negative earnings surprise or those that have had negative earnings surprise (Stockopedia, 2011)

## LITERATURE REVIEW

This aspect of this paper considers the available literatures that would be appropriate to aid proper understanding of the various determinants of earnings surprises

### **Earnings surprises and sales growth**

Every business makes money by selling goods or services. When there is increase in these sales, it is expected that the earnings of such a company would rise alongside. We study the stock market's reaction to aggregate earnings news. Prior research shows that, for individual firms, earnings react positively to revenue growth news but require several quarters to fully reflect the information in earnings. (Jerold, 2004). Jegadeesh & Livnat (2004), document significant abnormal returns in the post announcement period for stocks that have large revenue surprises. Vuolteenaho, (2002) finds that returns are unrelated to past sales history, suggesting that earnings neither underreact

nor overreact to aggregate increase in revenue due to sales growth news. Hecht & Vuolteenaho, (2003); Lettau & Ludvigson, (2004), provide direct evidence on the correlation between aggregate earnings outcome or surprise with growth and movements in sales growth. They further argue that the market's reaction to aggregate earnings news provides interesting and directing evidence. Yan, (2004) suggests that common variation in revenue due to favourable sales condition explains an important fraction of stock market behavior and earnings of firms in that financial year as the market begins to react according to the news that such change in revenue carries. Also, it has been argued that Sales growth may affect the propensities of firms to manage earnings. Firms with high sales growth may not necessarily manipulate earnings to report positive earnings or change in earnings, while those with low growth rates may have to bias up earnings or change in earnings through earnings management so as to influence the earnings expectation and confidence of the shareholders. High growth firms, however, may manipulate earnings once they form a consecutive earnings or sales growth trend (Myers & Skinner 2000). Based on these suggestions, this work would try to investigate if the sales growth of Nigeria industrial companies is a significant determinant of their earnings.

### *Earnings surprise and Firm size*

Size is a very crucial factor in the business world. It is expected that large firms have tendency to do better than small firms. Empirical evidence suggests that both large and small sized firms manage earnings to avoid reporting small negative earnings or small earnings decreases. However, it can be observed that firm size plays different roles in earnings volatility. On the other hand, large and medium-sized firms exhibit more aggressive earnings management to avoid reporting earnings decreases than small-sized firms. Larger companies may have more sophisticated internal control systems and have more competent internal auditors as compared to smaller companies who would aid their reporting and manage their earnings in such a way that the reported performance doesn't differ much from analysts and general market expectations. An efficient internal control system helps control inaccurate disclosure of financial information to the public and this has a way to provide earnings direction for investors (Beasley, 2009).

Large firms face more pressure to perform and deliver value than small firms. Barton and Simko (2002) indicate that large firms face more pressures to meet or beat the analysts' expectations and can make them pull more earnings surprises. Myers & Skinner (2000) compile empirical evidence that large firms do not hesitate to surprise the market with their earnings at the time of reporting. The work of Myers and Skinner (2000) documents that small firms that had preceding positive earnings are more likely to manipulate earnings to keep the consecutive earnings growth trend. Therefore, the performance in previous years affects the managers' tendency to manipulate earnings to avoid reporting negative earnings that would most likely generate negative surprise. Bartov, (2002) compiled evidence that firms may meet or beat earnings expectations through earnings or expectation management. Therefore, we expect small firms to have stronger desire to manipulate earnings to keep consistent earnings growth trend and meet or beat earnings expectations. This suggests that the cycle position of a firm in terms of growth has a strong incentive to affect whether the earnings would surprise expectant investors in the future.

### *Earnings and firm age*

"High reputation" refers to the accumulation of high levels of public recognition of the quality of a firm's capabilities and outputs and this generally is associated with age; the longer a company stays in the market place, the reputation it gains among its competitors. According to Rindova, (2005), these older firms can attract high level of public attention with "positive emotional responses from stakeholders. Similarly, older firms build and tries to sustain a reputation that constitute distinct interpretative frames that are likely to influence Stakeholder behaviors and forecast in many different ways (King & Whetten, 2008; Rindova & Fombrun, 1999). Rindova (2005) found that age and perceived quality did not affect a firm's performance outcomes directly but was mediated by the firm's public recognition. This review suggested that older firm's reputation may be best understood as an intangible asset based on broad public recognition of the high quality of its capabilities and outputs and this provide interpretive frames associated with positive expectations about a firm's future performance (Deepphouse, 2000); King &

Whetten, 2008); Rindova et al., 2005). Research on the psychology of expectancy violations tells us that a violation that exceeds prior expectations tends to result in greater satisfaction with the outcome (Brown, Venkatesh, Kuruzovich, & Massey, 2008; Burgoon & Hale, 1988); and that positive prior expectations heighten this effect (Burgoon & Lupoire, 1993). Building on these ideas, it can be argued that positive interpretative frames associated with positive expectations from older firms can enhance investors' reactions to the positive earnings surprises of these firms that possess the greater assets in the industry.

However, because age and social approval derived from stakeholders would be different in perceptions and expectations, their effects on investors' reactions and earnings of the older firms are likely to differ. Firms earn high reputations through consistency in delivering valued outcomes and this is most times enhanced by the how older such firm has occupied the value chain. As a result, investors are likely to expect not only positive, but also predictable, outcomes from older firms with high-reputation. A material positive earnings surprise generated by a high-reputation firm therefore conveys both positive and negative information—the firm has performed well, but it has also behaved inconsistently. In contrast, some degree of unpredictability is expected from older firms (Rindova, 2006), from which investors may not only tolerate, but even anticipate, variable outcomes. Therefore, for big firms with a good reputation, a material positive earnings surprise is likely to be seen as strictly positive information. Further, a positive earnings surprise is an effectively positive stimulus whose effect is likely to be accentuated by the positive holistic affective frame associated with bigness (Agarwal & Malhotra, 2005; Slovic, 2004). As a result, investors might expect to see positive earnings returns from older firms more than the younger ones who are yet to establish their place in the business environment. In sum, it is proposed that whereas age is likely to have a positive effect on investors' reactions to positive earnings surprises, the effect will be stronger for older firms. This is because for old firms some degree of expected unpredictability and a positive holistic affective frame converge to strengthen the positive surprise effect; in contrast, for high-reputation old firms, unmet expectations of predictability are likely to weaken the effect.

### ***Earnings surprises and stock prices***

Many studies have examined stock price reactions to earnings announcements and the surprises that such brings. Ball & Brown (1968), Beaver (1968), and Rendleman, Jones, & Latané (1982) report that stock returns are positively related to positive earnings surprises. This is a very robust result and subsequent work has confirmed the findings of the early studies in this area. This suggests that the stock price of a particular company can help to provide good information that help drive the earnings of the company. Also, the work of Larry (2004) finds that abnormal stock returns are contemporaneously positively related to all components of the earnings surprise. The marginal value of innovations to expected normal accruals much exceeds the marginal value of innovations to expected cash flow, which exceeds the marginal value of abnormal accruals.

DeGeorge, Patel and Zeckhauser (1999) find that the distribution of earnings exhibits strong patterns suggestive of earnings in relationship to the relative stock price of the company in question. The work of Gregy (2014) also supports these findings and opines that stock price can be strongly relied on to provide earnings performance direction which can be followed by investors. Stock price informativeness has become very important and this generally indicates the amount of firm specific information impounded into share price (Cheung, 2005; Ferreira, 2011). More informative a stock carries, the more such information can be relied upon by investors and this can significantly produce a significant earnings surprise (Jing, 2011; Watanabe & Trulaske 2012; Cheng, 2013). Works such as Narasimhan (2004); Kothari, (2001) also found a significant positive associations between earnings surprises and stock prices around the preliminary earnings announcements, as well as in the post-earnings announcement period. Since earnings is a summary measure of material economic events that affect a firm in a given period, the intense focus on earnings surprises by investors and academics is not surprising.

Kinney, (2002) observe the manner in which earnings surprise materializes in stock returns, and find that although some small negative surprises accompany large negative returns and some small positive surprises accompany large positive returns, consistent with anecdotes from the press, 43% to 45% of firms' surprises are associated with returns

of the opposite sign. For instance, analysts underreact to past stock returns (Abarbanell, 1991) or to bad news contained in the firm's prior year performance (Easterwood & Nutt, 1999). Note that financial analysts are not necessarily irrational by not fully incorporating past observed investment in their EPS forecasts. Rauh, (2006), Johnston (2009) Likewise examined the relationship between stock price synchronicity and earnings surprise, they proposed a negative relationship. This findings support that stock price synchronicity as the measure of firm specific information. The work of DuCharme (2004), Malatesta, & Sefcik (2001), On the other hand, Rayburn (1986) support the view that stock price might not provide any significant information that might reveal significant information on the earnings volatility of companies. Kothari, Lewellen & Warner(2009) document that aggregate returns and earnings surprises are negatively associated. Callen & Segal (2004) also support these findings. Hence, this work tries to investigate these assertions with the case of Nigeria industrial companies.

### ***Earnings surprises and capital investment***

Capital investment is one of the major ways that companies increase their efficiency by increasing their production capacity via investment in fixed asset. It's expected that as the investment in fixed asset rises or reduces, the more likely that the firm in question would produce some reasonable measures of earnings surprises depending on the direction of such investment. It is found that firms that reduce investment systematically increase their probability of meeting or beating analyst short-term EPS forecasts. Brav and Heaton, (2002) opines that a reduction in investment in fixed asset by one standard deviation results in an estimated increase of 12% in mean net income through the sole depreciation channel and affects other collateral costs too. The work further provides evidence that analysts do not adjust their forecasts to the impact that changes in investment have on EPS. Low (high) past observed investment predicts subsequent positive (negative) earnings surprises up to one quarter and this behavior may be caused by analysts' under reaction to observed firms' investment behavior owing to analysts' cognitive biases, or it may be the product of rational learning Meeting or beating analysts' EPS forecasts is important to managers (Kinney, Burgstahler, and Martin, 2002; Skinner and Sloan, 2002).

Jackson (2008) found that the correlation between investment and earnings surprises is primarily driven by joint abnormally low investment and Positive earnings surprises, against joint abnormally high investment and negative earnings surprise but is not driven by negative shocks to investment opportunities that are revealed during the forecasting period (e.g. bad news). On the other hand, investment projects are usually associated with a ramp-up phase during which costs that appear on the income statements need to be incurred immediately because new projects will increase the firm's cost base. Thus while not generating large immediate revenues, investments put the firm's ability to meet or beat the financial analysts' Earnings forecasts for the period considered at risk. This research would therefore find out whether capital investment drives earnings surprises in Nigeria

### **RESEARCH METHODOLOGY AND MODEL SPECIFICATION**

This work empirically test the determinants of earnings surprises in Nigeria industrial sector. *Earnings surprises* occur when a firm's actual earnings deviate from market analysts' consensus estimates according to DeGeorge, Patel, & Zeckhauser, (1999) and this deviation can be either positive or negative.

In this work, the researcher is going to measure earnings surprise by taking the sample period average of the reported earnings of the sampled companies; all the companies whose earnings are above this reported average are taken as companies with positive earnings while those whose earnings in each period fall below this are seen as negative earnings companies. This is in line with Doyle, (2006); Livnat & Mendenhall, (2006) Kinney, (2002); Matsunaga & Park, (2001). To analyze the data, a fixed panel regression analysis would be employed to determine the significant determinants of earnings surprises in Nigeria industrial sector. In line with [Kanwal\(2012\)](#), the fixed effect method would be most appropriate to explain in this paper as this would present a more statistically robust and worthy result and removes all bias in the data as it only explains within the sample variation. In this work, this method is seen to be better and most efficient given to the homogeneous nature of the companies involve as much variation would not be expected from their behavior over time.

## DATA COLLECTION AND DEFINITION OF VARIABLES

Sample of selected quoted companies in Nigeria industrial sector who have consistently published their financial reports for the period of 2013-2014. The data has been sourced secondarily from MACHAMESTAT®.

**Earnings surprise:** This is taken as the dependent variable and proxied by the mean deviation in EPS of the selected companies. The EPS with negative deviation would proxy negative earnings surprises while the positive ones would represent positive earnings surprises.

**Firm size** would be measured by the log of total assets of the sampled companies.

**Firm leverage** would be taken as the as total asset of the company as against the company's total asset. This would measure the extent of leverage in the selected companies.

**Firm sales growth** is measured by the revenue growth of the selected companies. This variable considers the extent of revenue improvement in the selected companies within the period.

**Stock prices** are measure by the log of total assets of the sampled firms. It is believed that large firms would have matured with more free cash to reward their shareholders in the form of dividends.

**Age** is measured by the years of incorporation. Thus, age is measured by how long the company has existed in the stock market.

**Capital investment (fixed asset):** this would be measured by the value of cash flow from investing. This variable would give information to the extent of investment made by the selected companies within our study period.

Our hypothesis for this paper would be stated in null form

Hypothesis: firm age is not a significant determinant of positive earnings surprises.

Hypothesis: firm age is not a significant determinant of negative earnings surprises

Hypothesis: firm size is not a significant determinant of positive earnings surprises.

Hypothesis: firm size is not a significant determinant of negative earnings surprises.

Hypothesis: firm sales growth is not a significant determinant of positive earnings surprises.

Hypothesis: firm sales growth is not a significant determinant of negative earnings surprises.

Hypothesis: investment in fixed asset is not a significant determinant of positive earnings surprises.

Hypothesis: investment in fixed asset is not a significant determinant of negative earnings surprises.

Hypothesis: firm stock price is not a significant determinant of positive earnings surprises.

Hypothesis: firm stock price is not a significant determinant of negative earnings surprises.

Hypothesis: firm leverage is not a significant determinant of positive earnings surprises.

Hypothesis: firm leverage is not a significant determinant of negative surprises.

Theoretical framework



Source: Author (2015)

Earnings surprise models,

Positive earnings model.... (1)

$$+ES_{it} = \alpha_{it0} + \beta_1 SIZE_{it} + \beta_{it2} LEVERAGE + \beta_{it3} S\_GROWTH + \beta_{it4} AGE + \beta_{it5} S\_PRICE + \beta_{it6} FASSET + \varepsilon_{it}$$

Negative earnings model.... (2)

$$-ES_{it} = \alpha_{it0} + \beta_1 SIZE_{it} + \beta_{it2} LEVERAGE + \beta_{it3} S\_GROWTH + \beta_{it4} AGE + \beta_{it5} S\_PRICE + \beta_{it6} FASSET + \varepsilon_{it}$$

## RESULTS AND DISCUSSION OF FINDINGS

The table below shows the descriptive statistics including the mean, standard deviation minimum and maximum value of all variables in the sample. This a way of exploring the data, so as to observe certain features and behavior of the data which would aid our proper understanding of the work

TABLE1:

<i>DESCRIPTIVE STATISTICS</i>							
	<b>EARNSP</b>	<b>SIZE</b>	<b>TL_TA</b>	<b>REV_G</b>	<b>AGE</b>	<b>DEC_P</b>	<b>CFI</b>
Mean	0.41	7.13	0.58	0.12	22.56	34.56	-9563826
Median	-0.13	7.14	0.53	0.06	27	5.91	661678.5
Maximum	3.03	8.99	1.5	3.48	49	236	6464545
Minimum	-0.02	5.82	0.28	-0.86	3	0.5	-1.92
Std. Dev.	0.70	0.74	0.22	0.52	13.21	61.61	33648219
Jarque-Bera	296.70	1.88	140.72	2006.16	4.06	83.92	1454.60
Probability	0	0.38	0	0	0.13	0	0

From the table above, it can be observed that the average earnings surprise within our sample period is 0.41; the maximum surprise was 3.03 while the value for the least amount of surprise within the period stood at -0.02. Also, the extent of deviation in the market within our sample period was 0.70. The value of size in our sample is not too far apart which indicates that the sampled companies are a good combination of both old and young firms. It can also be observed that the highest deviation was caused by investment in fixed asset. It is realistic as the companies investment in fixed asset needs would differ.

From the table above, it is also obvious that while some of our sampled companies experienced growth in revenue within the period, some had a decline. The leverage condition of the sampled companies too is worthy of notice. The result shows that while some of the sampled firms are over borrowed as revealed by leverage variable (TL\_TA), others are very low geared to the minimum tune of 0.28. This shows that the leverage extent of some Nigeria industrial firms is not encouraging. The table shows also that the variables are normally distributed with the exception of size which has a JB-Stat of 0.13. Therefore, we can go ahead and accept the nature of the variables with little fear of out-liers

Correlation analysis is used to demonstrate the extent of relationship among variables. The table below shows the correlation metrics between the variables of our study. It must be noted that while correlation shows relationship it doesn't show causality. The correlation table is :

TABLE2      *CORRELATION ANALYSIS*

	EARNSP	SIZE	TL_TA	REV_G	AGE	DEC_P	CFI
EARNSP	1	0.00	-0.17	0.13	-0.07	-0.06	-0.07
SIZE		1	0.02	-0.16	-0.00	0.64	-0.57
TL_TA			1	-0.13	0.04	-0.02	0.15
REV_G				1	0.01	0.01	-0.00
AGE					1	0.27	0.19
DEC_P						1	-0.61
CFI							1

From the table above, it can be observed that material earnings surprises has an inverse but weak relationship with leverage(TL\_TA), firm age(AGE), stock price(DEC\_P) and investment in fixed asset(CFI). This shows that above variables move in opposite direction with earnings surprises. However, firm revenue growth (REV\_G)moves in same direction with earnings surprises within our sample period.

The correlation metrics presented above shows only the relationship between the variables, we the employ a regression analysis to identify the significant determinants of positive and negative earnings surprises in Nigeria industrial sector. The regression table and explanation is given below:

**TABLE 3**

**Table 4.3: EARNINGS SURPRISE RESULT**

	<b>Expected Sign</b>	<b>POSITIVE SURPRISE (FIXED)</b>	<b>NEGATIVE SURPRISE (FIXED)</b>
C		<b>6.86</b> (1.19) [0.24]	2.22 (0.48) [0.63]
SIZE	+	<b>-0.55</b> (-0.59) [0.55 ]	0.01 (0.02) [0.98]
TL_TA	+	<b>-0.46</b> (-0.68) [0.49 ]	-0.04 (-0.21) [0.82]
REV_G	+	<b>0.35</b> (1.78) [0.08 ]	-0.03 (-0.32) [0.74]
AGE	+	<b>-0.08</b> (-1.25) [0.22]	-0.10 (-2.01) [0.05]*
DEC_P	+	<b>-0.00</b> (-0.04) [0.96]	- 0.00 (-0.27) [0.03]*
CFI		<b>-7.60</b> (-0.08) [0.93]	1.43 (1.69) [0.10]
R-Squared		0.96	0.97
Adj-R-Squared		0.92	0.92
F-Statistic		20.54(0.00)	22.17(0.00)
N		60	60

Source: Computations based on Various Financial Reports and Accounts

Note: (1) Parentheses ( ) are t-statistic while bracket [ ] are p-values

(2) \* is 5% level of significance

From The table 3 above R-Square reveals that the independent variables are able to predict 96% and 97% of positive and negative earnings surprises in Nigeria industrial sector. The F-Statistic shows that the variables are normally distributed at 1% level of significance. The result further reveals that size has a non-significant positive relationship with positive earnings surprise but a negative relationship with negative earnings surprises. Also, Leverage is negatively associated to both positive and negative earnings surprises.

Revenue growth is to be significantly and positively related to positive earnings surprises but negatively with negative earnings surprises. This suggests that industrial firms whose revenue is growing can generate abnormal profit. Also, firm age was found to be negatively related to positive and negative earnings surprise but significant with negative earnings surprise. This result suggests that age of a company can impact on its chances of making abnormal losses. This could be synonymous with the age drag hypothesis which proposes that as firms get older, they might lose focus and begin to drag along in the industry. More so, Stock price is inversely related to positive and negative earnings surprises but significant with negative earnings surprises. This means that increase in the stock price of a company reduces the chances of an industrial company making abnormal loss because such a company would be seen as a strong and profitable company.

Investment in fixed asset is positively related to positive earnings surprise but negatively with negative earnings surprises. Though this is not significant but it suggests that increase in fixed asset investment can spur abnormal profits as these newly acquired assets can help improve the earnings condition of a firm along the line. In the same way, when a company is constantly reducing its assets, its earnings ability might degenerate.

### **CONCLUSION**

The conclusion of this work is that revenue growth is significant in driving positive earnings surprise. Hence, companies with improved revenue conditions are most likely to generate abnormal profits. Stock price and firm age are also significant drivers of negative earnings surprises in Nigeria industrial sector. Therefore, the work recommends that market participants should kindly observe the behavior and movement of these variables in making their decisions. However, the work recommends that this work should be extended to other sectors or the entire market since the determinant drivers of earnings surprises might vary with industry or market condition.

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Appendix 1: regression result

**POSITIVE EARNINGS SURPRISE RESULT**

Dependent Variable: EARNSP  
 Method: Panel Least Squares  
 Date: 08/27/15 Time: 00:36  
 Sample: 2013 2014  
 Periods included: 2  
 Cross-sections included: 30  
 Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.869863	5.75882	1.192929	0.2446
SIZE	-0.550391	0.926497	0.594055	0.558
TL_TA	-0.463681	0.67546	0.686466	0.499
REV_G	0.35781	0.200759	1.782288	0.0874
AGE	-0.083675	0.066747	1.253604	0.2221
DEC_P	-0.00017	0.004463	0.038197	0.9698
CFI	-7.60E-10	8.61E-09	0.088237	0.9304

Effects  
Specification

Cross-section fixed (dummy variables)

R-squared	0.967705	Mean dependent var	0.4145
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Adjusted R-squared	0.920608	S.D. dependent var	0.70195
S.E. of regression	0.197785	Akaike info criterion	0.119558
Sum squared resid	0.938858	Schwarz criterion	1.137049
Log likelihood	39.58674	Hannan-Quinn criter.	0.37197
F-statistic	20.54709	Durbin-Watson stat	3.280428
Prob(F-statistic)	0		

**NEGATIVE EARNINGS SURPRISES**

Dependent Variable: EARNSP  
 Method: Panel Least Squares  
 Date: 08/27/15 Time: 00:45  
 Sample: 2013 2014  
 Periods included: 2  
 Cross-sections included: 30  
 Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.225195	4.575696	0.486307	0.6312
SIZE	0.01327	0.675934	0.019632	0.9845
TL_TA	-0.047145	0.216911	-0.21735	0.8298
REV_G	-0.031636	0.097433	0.324698	0.7482
AGE	-0.107007	0.053185	2.011982	0.0556
DEC_P	-0.004375	0.001923	2.274806	0.0321
CFI	1.43E-08	8.45E-09	1.690663	0.1038

Effects  
Specification

Cross-section fixed (dummy variables)

R-squared	0.970003	Mean dependent var	0.414333
Adjusted R-squared	0.926258	S.D. dependent var	0.701851
S.E. of regression	0.190592	Akaike info criterion	0.193659
Sum squared resid	0.871803	Schwarz criterion	1.062948
Log likelihood	41.80977	Hannan-Quinn criter.	0.297869

F-statistic	22.17376	Durbin-Watson stat	3.195177
Prob(F-statistic)	0		

Appendix 2: correlation analysis

**CORRELATION ANALYSIS**

	EARNSP	SIZE	TL_TA	REV_G	AGE	DEC_P	CFI
EARNSP	1	0.004371	-0.17047	0.131378	-0.0768	-0.06334	-0.07903
SIZE	0.0043709	1	0.024292	-0.16202	-0.00959	0.647565	-0.572472
TL_TA	-0.170471	0.024292	1	-0.1398	0.040163	-0.02447	0.1557572
REV_G	0.1313784	-0.16202	-0.1398	1	0.013572	0.017937	-0.007768
AGE	-0.076799	-0.00959	0.040163	0.013572	1	0.275094	0.197541
DEC_P	-0.063336	0.647565	-0.02447	0.017937	0.275094	1	-0.612232
CFI	-0.07903	-0.57247	0.155757	-0.00777	0.197541	-0.61223	1

Appendix 3: descriptive statistics

**CORRELATION ANALYSIS**

	EARNSP	SIZE	TL_TA	REV_G	AGE	DEC_P	CFI
EARNSP	1	0.004371	-0.17047	0.131378	-0.0768	-0.06334	-0.07903
SIZE	0.0043709	1	0.024292	-0.16202	-0.00959	0.647565	-0.572472
TL_TA	-0.170471	0.024292	1	-0.1398	0.040163	-0.02447	0.1557572
REV_G	0.1313784	-0.16202	-0.1398	1	0.013572	0.017937	-0.007768
AGE	-0.076799	-0.00959	0.040163	0.013572	1	0.275094	0.197541
DEC_P	-0.063336	0.647565	-0.02447	0.017937	0.275094	1	-0.612232
CFI	-0.07903	-0.57247	0.155757	-0.00777	0.197541	-0.61223	1
Jarque-Bera	296.7039	1.886906	140.7257	2006.169	4.060139	83.92816	1454.608
Probability	0	0.389281	0	0	0.131326	0	0
Sum	-24.86	428.11	35.16	7.61	1354	2073.77	-5.74E+08
Sum Sq. Dev.	29.06307	33.1371	2.86864	16.0953	10306.73	223996.5	6.68E+16
Observations	60	60	60	60	60	60	60