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Creative Accounting and Financial Performance of Quoted Nigerian Manufacturing Companies

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ABSTRACT:

This study investigated creative accounting and financial performance of listed manufacturing firms in Nigeria from 2011-2021 using stacked data from annual financial statement of quoted manufacturing companies. Data for the study were obtained from secondary sources and analysed using Eview9 statistical package namely: Unit root test, Panel Cointegration test; Bayesian error correction model, panel OLS and Granger causality test among others. Data for the work were drawn with purposive sampling techniques from samples of 651 observations Nigeria stock exchange statistical Bulletins. The R-square shows explanation proxies and of the variance of the criterion variable is explained by the predictor variable. Which shows how well fitted the regression is based on the unique theoretical combinations of variables. While the remaining 56% is captured by other variables not included in the model i.e. the error term. The study rejects the null hypothesis and observes that there is significant (short-run and long-run) relationship between employed variables but in favour with on innovation accounting for transformation of the organisational setting into the betterment of rapid growth and productivity. The Granger Causality test shown from the results indicates there are four uni-directional and one bi-directional causality among the variables. Thus, there are correlations between the variables so as to predict the future trend. In conclusion, it can be notices that with the exception of DAC and RPT exhibited a positive coefficient and movement towards the criterion variable, financial performance i.e. ROA, which corroborates the a-priori expectation. We therefore recommend among others that Nigeria quoted firms should continue to train and re-train their staffs in order to refresh their knowledge on appropriate application of creativity accounting for the preparation and presentation of financial statements to boost their return on equity, asset and earnings.

KEYWORDS:

Creative Accounting, Financial Performance, Manufacturing Companies, Corporate Governance, Nigeria.

INTRODUCTION

The manufacturing sector stands as a pivotal pillar in the economies of many nations, driving structural changes, employment creation, and sustained economic growth (Herman, 2015). Central to understanding the significance of this sector is an examination of its financial performance. Naz (2016) defines "performance" as originating from the French word "parfounir," meaning to carry out or bring forth, indicating the execution of activities aimed at achieving specific goals, leveraging human, financial, and natural resources (Khan et al., 2015; Nirmal, 2004).

Financial performance, in essence, portrays the financial operations of an organization, reflecting its overall health and outcomes within a defined timeframe (Naz, 2016; Verma, 2018). It encompasses measuring the effectiveness of a firm's strategies and operations in monetary terms, evaluating the extent to which financial objectives are met (Audax, 2018). The ramifications of a company's financial performance extend beyond its individual success, influencing the market value of the organization and contributing to industry growth, thus impacting the broader economy (Banafa et al., 2015). Assessing financial performance entails various metrics, including profitability, efficiency, and repayment capacity (McWilliams & Sugel, 2010). Additionally, it involves analyzing indicators such as return on assets, return on equity, operating profit margin, and earnings per share (Akintoye, 2008). Recent literature further expands the spectrum of metrics to include net operating profit, return on total assets, and return on invested capital (Raheman et al., 2010; Deloof, 2003; Padachi, 2006; Narware, 2010). In Nigeria, analyzing corporate financial performance holds particular significance for management, aiming to ensure stability and enhance market share (Costae, 2006). However, the intricacies of financial reporting and performance evaluation are often intertwined with the phenomenon of creative accounting.

Creative accounting, characterized by permissible accounting techniques that may distort the true financial picture of a company, has become a contentious issue in financial reporting (Akenbor & Ibanichuka, 2012; Gowthorpe & Amat, 2005). While not necessarily illegal, creative accounting exploits loopholes in accounting standards to present a more favorable financial position, often to meet earnings targets or manipulate market perceptions (Hussein et al., 2013; Idris et al., 2012).

This practice has led to corporate scandals and financial losses globally, prompting regulatory interventions and heightened scrutiny (Enron Scandal, 2001; WorldCom, 2002). In Nigeria, instances of creative accounting have been reported, resulting in financial misstatements and eroding investor trust (Bankole et al., 2018; Oluwagbuyi & Olowolaju, 2013).

Corporate governance emerges as a critical factor in addressing issues related to creative accounting and enhancing financial performance. It encompasses managerial controls aimed at reducing fraud risk, improving performance, and demonstrating social responsibility (Chartered Management Institute, 2003).

The recent National Code of Corporate Governance in Nigeria underscores the importance of governance practices in fostering transparency and accountability, thereby influencing financial performance (Uju & Omirin, 2016). Effective corporate governance aligns management interests with those of shareholders and plays a pivotal role in shaping firms' operations and market dynamics (Lin & Hwang, 2010).

Research on the interplay between creative accounting, corporate governance, and financial performance in Nigeria remains inconclusive, with past studies primarily focusing on specific sectors and utilizing limited creative accounting methods. Addressing these gaps, this study aims to explore the correlation between creative accounting techniques and financial performance in listed manufacturing firms in Nigeria, taking into account industry-specific policies and governance mechanisms. Through an extensive analysis employing advanced statistical tools, this research endeavors to provide valuable insights into the complex dynamics influencing financial outcomes in the Nigerian manufacturing landscape.

Financial statements serve as a cornerstone for stakeholders to evaluate managerial performance and make informed economic decisions (Mance & Katunar, 2012). However, the reliability of financial information is increasingly questioned due to the prevalence of creative accounting practices, where preparers manipulate statements to portray a distorted image of the company's performance (Akenbor & Ibanichuka, 2012). This manipulation often stems from the dual role of preparers, who are evaluated based on the same financial data they provide, leading to conflicts of interest.

Creative accounting, characterized by deliberate non-disclosure and manipulation of financial figures, poses significant ethical and practical challenges (Liandu, 2004; Elliot & Elliot, 2004). Such practices have been implicated in numerous corporate scandals worldwide, such as the infamous cases of Enron, WorldCom, and Satyam, raising concerns about the integrity of financial reporting (Aguolu, 2006).

Moreover, related party transactions further exacerbate these concerns by facilitating the transfer of resources, services, or liabilities between a company and its affiliates (Pozzoli & Venuti, 2014). While some related party transactions may be legitimate, others serve as avenues for asset misappropriation and wealth expropriation, particularly by controlling shareholders and directors (Gordon et al., 2004).

The impact of creative accounting and related party transactions extends beyond financial misrepresentation. It directly affects corporate investment and financial performance, contributing to the closure of many Nigerian manufacturing firms (Adeniyi, 2004). Challenges such as liquidity issues, poor asset utilization, and inadequate infrastructure further compound the struggles of the manufacturing sector in Nigeria (Ogwo & Agu, 2016; Onuaha, 2010).

The manufacturing sector, once a significant contributor to Nigeria's GDP, has faced a steady decline due to a combination of internal and external factors (Nasir, 2011). Inadequate access to credit, infrastructural deficiencies, and stiff competition from imported goods have hindered the growth and competitiveness of local manufacturers (MIT Sloan, 2011).

Additionally, systemic issues such as corruption, inefficient trade policies, and poor corporate governance have undermined investor confidence and stifled industry growth (Ajogwu, 2014). Weak corporate governance, in particular, has been linked to various corporate scandals and failures, eroding trust in financial reporting and exacerbating credibility crises (Egolum et al., 2021).

To address these challenges, it is imperative to explore the interplay between creative accounting, related party transactions, and the financial performance of manufacturing firms in Nigeria. By understanding the root causes and implications of these practices, stakeholders can devise effective strategies to promote transparency, integrity, and sustainable growth in the manufacturing sector. Based on these problems, this research therefore investigates the relationship between creative accounting, corporate governance and financial performance of listed manufacturing companies in Nigeria during the period 2011 to 2022.

This study is restricted to the theories that are related to creative accounting techniques, financial performance as well as the moderating role of corporate governance for publicly listed manufacturing entities in Nigeria. This research covers only the territorial borders of the Federal Republic of Nigeria. This study is restricted to cover the organisational level within the period 2011 to 2021 using publicly listed manufacturing firms in Nigeria. The following sectors of the listed manufacturing firms were considered in this study: Alternative Securities Market (ASeM), Agriculture, Conglomerates, Consumer Goods, Health Care, Industrial Goods, Natural Resources and Services/Printing.

2. LITERATURE REVIEW

Theoretical Review

The Agency theory

Agency theory was without significance until Jensen and Meckling (1976) wrote a seminal article titled – "Theory of the firm: Managerial behaviour, agency costs, and ownership structure". Agency theory revolves around the issue of the agency problem and its solution. An agency relationship is defined as one in which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Hill & Jones, 1992). The theory is related to setting the conflict of interests between principals and agents. Agency theory also expressed as agency problem is defined as possessing different goals and work distribution of the actors who in fact should be in collaboration (Jenen&Meckling, 1976). Basically, the principal-agent problem arises when one of the two actors in corporation is appointed as an agent who conducts the activities on behalf of the counterpart with a given authorization to be able to make decisions that impact the other party called the principal. Examples related to agency relationship are widespread, essentially, all arrangements based on contracts like samples of workers, employees and citizens are involved in agency problems (Gun, 2016). The theory includes the effects of the factors that compose the sphere of the relations based on contractual engagements.

Stakeholder Theory

The actual word "stakeholder" first appeared in the management literature in an internal memorandum at the Standford Research Institute (now SRI International Inc. in 1963). The term was meant to generalise the notion of stockholder as the only group to whom management need be responsive. Thus, the concept of stakeholder was originally defined as "those groups without whose support the organization would cease to exist (Freeman, *et al*.2010). The list of stakeholders originally included shareowners, employees, customers, suppliers, lenders and society.

For many contemporary scholars, organised thinking about the stakeholder concept began with Freeman's seminal book, Strategic Management, A Stakeholder Approach (1984). But, as Freeman acknowledged, the general idea of stakeholder theory antedated this book by at least several years, perhaps by centuries. Donaldson & Preston (1995) provided one influential method for synthesizing the array of work that had been done to date. They advanced four key ideas that they claimed were central to stakeholder theory which make it a distinctive theory rather than a set of disparate ideas about "stakeholders". According to Donaldson and Preston (1995), stakeholder theory is descriptive, instrumental, normative and managerial. It is descriptive in the sense that researchers advancing stakeholder theory attempt to talk about, or describe, what the corporation is (that is how people at the corporation behave). They then compare that to some large schematic to evaluate their performance (for instance, do they act as though the stakeholder or shareholder model is driving their behaviour?). Stakeholder theory is instrumental in that researchers advance "if … then" types of propositions specifically, that acting according to stakeholder management principles would be associated with positive outcomes for the corporation. Donaldson and Preston (1995) then claim that the central strand of stakeholder theory, and the "glue" which holds the theory together, is its normative content-claims that focus on what managers that focus on what managers ought to do. Stakeholder management principles set out the legitimate interest of various stakeholders (including but going beyond stakeholders) in the corporation and use these as 'basis for determining how managers should behave. Indeed, it is this distinctive normative core which helps give shape and substance to the first two strands. This normative strand provides a descriptive story (that is respect the legitimate interest of stakeholders) one could use to compare to real managerial behaviour to see if they are similar or different. These normative commitments provide a set of behaviour one might test to see the performance implications. Finally, Donaldson and Preston (1995) claim that stakeholder theory is managerial, in that it aims to shape and direct the behaviours of managers at the corporate in a specific and systematic way.

Information asymmetry theory

The concept of asymmetric information was introduced by George, A. Akerlof in 1970 during the publication of the paper The Market for "Lemons"; Quality Uncertainty and the Market Mechanism" (Elbadry, *et al*. (2010). Akerlofrelates quality, uncertainty and develops the notion. of asymmetric information, using the automobile market as example. The main idea in Akerlof's paper is that the parties to a transaction have unequal amounts of information about the other party. Many researchers in different areas, have explored the concept of asymmetric information and different definitions have emerged depending on the area of application. In 1973, Michael Spence developed the concept of signalling. In 1975 Joseph Stiglitz introduced the idea of screening, which can be used for example by an employer to classify individuals into levels that replicated their efficiency or some other ability. Stiglitz (1975) applied this idea to the insurance market, which is characterised by asymmetric information problems, leading to both moral hazard and adverse selection. Auronen (2003) opines that the concept of information asymmetry was able to explain many common phenomena that could not be otherwise explained when it was first introduced in the early 1970s. Since then it has become a valuable tool in the field of economics and it is used to explain a diverse set of phenomena.

Signalling theory

Signalling theory is fundamentally concerned with reducing information asymmetry between two parties (Spence, 2002). For example, Spence's (1973) seminal work on labour markets, demonstrated how a job applicant might engage in behaviours to reduce information asymmetry that hampers the selection ability of prospective employers. Spence illustrated how high-quality prospective employees distinguish themselves from low-quality prospects via the costly signal of rigorous higher education. This work triggered an enormous volume of literature applying signalling theory to selection scenarios that occur in a range of disciplines from anthropology to zoology (Bird & Smith, 2005). Management scholars have also applied signalling theory to help explain the influence of information asymmetry in a wide array of research contexts. A recent study of corporate governance,for example, shows how CEOs signal the unobservable quality of their firms to potential investors via the observable quality of their financial statements (Zhang & Wiersema, 2009).

Positive Accounting Theory

Positive accounting research was first discovered by William H. Beaver in 1968 with the publication of an article entitled "The Information Content of Annual Earnings Announcements" (Jensen &Meckling, 1976). Positive accounting theory seeks to explain a process, which uses the ability, understanding, and knowledge of accounting and the use of accounting policies that are most suitable for dealing with certain conditions in the future. Positive accounting theory in principle assumes that the purpose of accounting theory is to explain and predict accounting practices. The purpose of positive accounting theory is to explain and predict accounting practices. Explanation means giving reasons for the observed practice. For example, positive accounting theory seeks to explain why companies continue to use historical cost accounting and why certain companies change their accounting techniques. While predictions of accounting practices mean the theory tries to predict phenomena that have not been observed. From the description above, it can be stated that PAT emphasizes whether the accounting theory put forward in the accounting literature can explain the accounting practices carried out and predict the cause of the phenomenon that is happening now and its influence in the future.

Conceptual Review

The figure below shows the conceptual operational framework of the relationship between creative accounting techniques and financial performance of listedmanufacturing. firms in Nigeria. The framework represented in figure 2.1 captures the independent (predictor) variable with its proxies as well as the dependent (criterion) variable with its proxies. Creative accounting practice (CAT) is represented as the independent variable, while off-balance sheet financing (OBS), related party transactions (RPT), and allowance for provisions (AFP) are captured as the proxies. The dependent variable is represented by financial performance (FCP)

alongside return on assets (ROA) and return on equity (ROE) as the proxies.

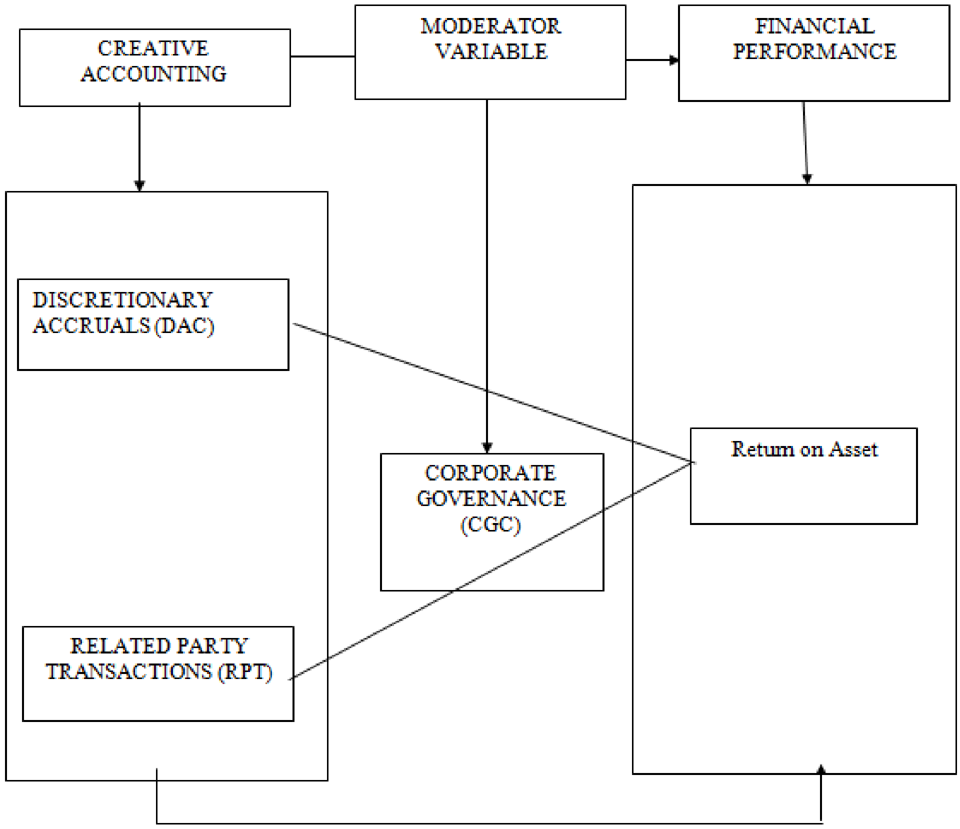

Figure 2.2a: an operational framework of the relationship between creative accounting, corporate governance and financial performance of listed manufacturing firms in Nigeria.

Source: Swain & Panda (2015), McTague (2013); Okoro & Jeroh (2016), Rafizadeh (2016); Gadawska (2011), Duvan & Yurtoglu (2004); Purnamasari (2015), Idawat & Wahyudi (2015); Kamar (2017), Berzkalne & Zelgalve (2014)

Creative Accounting

The term "creative accounting" was first used in 1968 in the film "The Producers" by Mel Brooks (Stanwick & Stanwick, 2013 cited in Bhargava &Khaneja, 2017). Since the numerous researchers have tried to define creative accounting, however no universal definition has been accepted. In Nigeria, the word" cosmetic accounting was recently used by Maduagufor (2008) as creative accounting euphemism in reporting that the accounts of some notable companies were meddled with financial report overstatement. In the expose on the concept of creative accounting, Smith (1992) recounts how a private company Brentford Nylon collapsed shortly after reporting a profit of 130,000 pounds sterling. A study by Leung and Cooper, 1995) highlighted that creative accounting is considered one of the major ethical problems of the accounting profession. Retrospectively, references to the creative accounting practices and fundamentals were also made for the first time in 1494 within the famous treatise by Luca Paciolo: "Suma de arithmetica, geometria, proportioni et proportionalita". It refers to creative accounting techniques used in Venice in terms of a foreign trade very well developed (Lucian, *et al.* 2016).

Dimensions of creative accounting

Creative accountinghas variously been explained, therefore examining the meaning and role of the individual dimensions as they relate to this research becomes imperative. The dimensions of creative accountingas considered in this research include the following.

Discretionary accruals

Discretionary accruals refer to the portion of total accruals that can be manipulated easily by managers hiding behind accounting rules and principles. That portion of total accruals is not incurred in the ordinary course of business activity and is not directly discernible but has impact on the quality of earnings. In Literature, many researchers have given considerable attention to the study of accruals because they hold the belief that accruals are a key tool of earnings' manipulation, hence their interests in estimating accruals precisely (Acar& Yilmaz, 2020). Discretionary accruals do reflect the true value of the financial performance of the organisation; hence, this sometime is not reliable resource to use as a tool for financial decision-making factor. This practice may misguide the stake holders while making financial decision. If the managers' opportunistic behaviour is avoided, the practice of discretionary accruals may create reliable financial report, hence, may help in right decision making to the investors and shareholders (Chang, *et al.* 2010). The implications of discretionary accruals can have impact on stock markets regulators, shareholders, creditors, suppliers, investors, and other concerned stakeholders.

Related Party Transactions

Related party transactions can be considered as one of the most common opportunistic behaviours by management, while commercial activities common features are held, it can also dramatically affect the performance of a firm (Rafizadeh, 2016). Recent corporate scandals around the world have highlighted the expropriation of firm assets through related-party transactions (Munir, *et al.* 2013). These transactions normally involve diverse, complex and undisclosed business transactions between a firm and parties such as directors, controlling shareholders and other business affiliates. Related party transactions present opportunities to expropriate firm resources and provide managers with incentives to exercise earnings management (Gordon, *et al.* 2004). Moreover, users of financial reports agree that related party transactions indicate aggressive accounting practices that allow firms to arbitrarily increase or decree\\se earnings (Sherman & Young, 2001). Related party transactions are considered difficult to audit (Johnstone & Bedard, 2004) and are one of the causes of firms restating financial reports (General Accounting Office, 2003).

Financial performance

Osmani and Deari (2016) state that financial statements present database for accounting information required by users for interpretational decision making. The word "performance" is said to have originated from the old French word "parfournir" whose meaning is to bring through, to carry out, to do or to bring forth (Ijaz, *et al.* 2016). Performance is an act of implementing, achieving, and fulfilling of the given tasks that needs to be measured against defined sets of precision, money, fullness and timing. In the finance discipline, it refers to the measurements of the company's success compliance and financial position. Ijaz, Naz and Naqvi (2016) further posit that financial performance is an extent to which a company financial health over a period of time is measured. The financial performance of a firm emphasizes on variables related directly to financial report (Omondi &Mutun, 2013).

Measures of financial performance

Return on asset (ROA)

An important measure of profitability is return on assets (ROA) which explains the overall effectiveness of management in generating profits with its available assets (Mogonta&Porndono, 2016). Return on assets measures a company's success in using assets to earn income (Horngren, *et al.* 2009). To calculate return on assets, the following formula can be used:

$$\text{Return on Assets (ROA)} = \frac{Net\ Profit}{Total\ Assets} X\ 100$$

The higher this ratio means the company is more effective in utilizing the assets to generate net income. Thus, a higher ROA means the company's performance is more effective because the rate of return will be greater. This further increases the company's attractiveness to investors (Saragih, 2018). The use of ROA as an accounting measure has not been limited to foreign studies only as it has proved to be a very effective means of determining financial performance of business entities (Nkomani, 2013). Return on assets is also an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how effective and efficient management is at using its assets to generate earnings. ROA is usually displayed as a percentage and sometimes referred to as return on investment (ROI). ROA tells what earnings were generated from invested capital (assets). The percentage for public companies can vary substantially and highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against company's previous ROA numbers or the ROA of similar company. ROA over 5% are generally considered good https://www.miraeassetmf.co.in/uploads/.

Moderating role of corporate governance (CGC)

Generally, corporate governance CG is defined as the mechanisms, institutions and laws upon which an entity is managed and controlled. Ajogwu (2014) described CG as the system of rule, procedure and mechanism by which the directors of entities ensure transparency fairness and accountability in the running of the company. The supervision of operations of every organization is vested in the hands of the board of directors. Here, CG refers making those saddled with the responsibility of managing the affairs of a firm to be held responsible, accountable and sensitive to the interest of their stakeholders of the firm. According to Egolum, *et. al*. (2021), CG consists of various sets of legal and institutional mechanisms aimed at safeguarding the interests of corporate shareholders and reducing agency costs attributable to separation of ownership (shareholders) from control (managers and/or controlling shareholders).

Relationship between creative accounting, corporate governance and financial performance

The accuracy and reliability of financial statements are very crucial to stakeholders of firms in order to make appropriate decisions (Ndegari&Senzu, 2017). However, creative accounting practices occasioned by flexibility in the corporate governance mechanisms have provided loopholes for manipulating financial information. The practice of creative accounting can be seen in various ways during the preparation offinancial statements so as to meet management needs withregards to theperformance of the company, and this leads to distorted financialstatements (Balacia, 2008). Undoubtedly, financial reporting is a crucial element necessary for corporate governance system to function effectively; but current accounting practices allow degree of choice of policies and professional judgments in determining the measurements, criteria for recognition and even the definition of the accounting entity (Akenbor&Ibanichuka, 2012). Creative accounting, as a matter of approach, is not objectionable per se, however, when unethical elements make intrusion, the resultant accounting details become anything but true and fair. Bhasin (2015) opine that under creative accounting practices, the manager uses the accounting knowledge to present the accounting data, figures and statements in such a manner, which seems very attractive to the stakeholders instead of showing the real position or performance of the company, but all these are done within the parameters of accounting standards and rules. Even if there exist a strong accounting standard to guide financial accounting activities, sometime it becomes impossible to prevent the “manipulative” behaviour of the financial statement preparers.

Empirical Review

This covers the review of previous related empirical studies on creative accounting practices, financial performanceas well as the moderating role of corporate governance. All the aforementioned are adumbrated as follows:

Ismeal (2017) investigated the impact of creative accounting techniques on the reliability of financial reporting with particular reference to Saudi Auditors and Academics. Data for the study were collected using a well-structured questionnaire distributed to a randomly chosen sample of certified auditors and accounting instructors in some universities. The inferential statistical results and analysis under Chi-square contained in SPSS 24.0 revealed that creative accounting techniques used by management negatively affect the reliability of financial reporting.

Ijeoma (2014) examined the effect of creative accounting on the Nigerian banking industry. Primary source of data collection was employed with the Kruskal-Walli’s test and multiple bar chart analysis. Judgmental sampling technique was used in drawing a size of 50 respondents under the Taro Yamane sampling technique. The findings revealed that the major reasons for creative accounting practices in the banking industry are to boost the share price, inflate the amount of operating costs and to report a steady trend of growth in profit.

Christine and Mulyungi (2018) examined the effect of creative accounting on shareholders’ wealth; a case study of companies listed on Rwanda Stock Exchange with a mixed research design, a sample size of 32 respondents derived under the purposive sampling technique, a primary as well as a secondary data source. The result of the analysis shows that creative accounting leads to shareholders wealth.

Onyekwelu, *et al.* (2018) examined the effect of firms’ growth indicators on operational performance of selected firms in Nigeria. Firm size and profitability were used as proxies for operational performance while return on assets was the measure of financial performance. The study adopted the Ex-post facto research design. Using secondary data source and multiple regressions for analysis, the results show that firm size and profitability have significant negative and insignificant effect on return on assets.

Ghaia and Al-Ammar (2018) examined the determinants of financial performance of public textile firms in Syria. The analysis of the study was based on unbalanced panel data of 7 public textile firms for the period 2000-2016. Using the results showed that debt financing has a negative and significant effect on profitability of public textile firms operating in Syria.

Matar and Eneizan (2018) investigated the factors affecting the financial performance of the Jordanian manufacturing industrial firms. Secondary data was collected from the Amman Stock Exchange annual publication for the period 2005-2015. The E-views regression analysis revealed that the variables of liquidity, profitability and revenues are positively related with return on assets.

Rafizadeh (2016) examined the relationship between related party transactions and financial performance of companies listed in Tehran Stock Exchange during the period of 2009-2013. Using the Morgan Table to select 78 companies and Eviews 7 for analysis, the research results showed that a significant relationship existed between related party transactions and financial performance of companies listed in Tehran Stock Exchange.

Umobong (2017) investigated related party transactions and firm's financial performance using secondary data obtained from Nigerian Stock Exchange during 2006 to 2017. The study determined whether related party transactions is used by firms to manipulate and bloat return on assets return on equity and earnings per share of manufacturing firms. The results of the study after subjecting related party transactions to Haussmann test, regression analysis and causality test showed that related party transactions have no significant effect on return on assets and earnings per share and also not used to manipulate returns on assets and earnings per share. However, related party transactions have significant relationship with return on equity without any causal relationship which may be attributable to the shareholding structure of the firms.

Azim, *et al.*(2018) investigated the impact of corporate governance (CG) variables and related party transactions on firm performance in Pakistani family-owned firms. The study analysed the panel data of 150 family-owned firms listed on the Karachi Stock Exchange (KSE) from 2004 to 2014. Using Different Panel Least Square Model, the results showed that Pakistani family-owned firms' related party transactions have positive and significant relationship with firm performance.

Bansal and Thenmozhi (2018) studied the effect of concentrated founder ownership on related party transactions of emerging economy. Using data published by the India Stock Exchange from 2002 to 2015 of all listed firms excluding financial firms. With the sample of 12,245 firm year observations, the regression result showed perceived negative effects of related party transactions.

Suffian,*et al.* (2018) investigated the management of related party transactions in earnings quality. Using empirical literature review supported by agency theory as related to listed companies in Malaysia, the result showed that related party transactions affect earnings quality.

Rahman (2018) investigated related party disclosure, IAS 24 in the context of listed commercial banks in Bangladesh and discussed issues surrounding such disclosure. The study applied secondary data collected from the bank's annual financial report for 2014. Related party disclosure index was used as dependent variable, while banks attributes like age, size, profitability and liquidity were used as independent variables. Using descriptive and regression analyses, the hypotheses test results showed that related party transactions have no significant association with commercial banks' attributes in Bangladesh.

Bhandari, *et al.* (2017) investigated the association between related transactions a firm's capital allocation efficiency in the U.S.A. Samples were drawn from S&P 1500 firms in 2001, 2004, 2007 and 2013 which identified 6,489 firm year observations. The study used tone and business-related party transactions as well as investment sensitivity as independent and dependent variables respectively. With descriptive and Pearson correlation analyses, the results showed that tone related party transactions but not business-related party transactions are associated with distorted investment sensitivity.

Cherkasova and Rasadi (2017) the study explores the firm-level relationship between earnings quality and investment efficiency. The research carried out sample of 7,546 companies from Eastern Europe for the period 2010-2015. The results show that a higher earnings quality mitigates both overinvestment and underinvestment issues.

Ibrahim and Jehu (2018) investigated the effect of board composition on the in formativeness of financial reporting quality; empirical evidence from Nigeria during the period 2011 to 2016. With multivariate analysis, the findings revealed that the proportions of the non-executive directors and the independent non-executive directors have a negative and significant relationship with abnormal accruals.

Elewaand El-Haddad (2019) investigated the effect of audit quality on firm performance. With financial statements of non-financial firms quoted as EGX 100 and a population of 30 non-financial firms during 2010 to 2014 using Huasman test to compare the Fixed-Effects Model, the results showed that audit quality has an insignificant impact on firm performance.

Mehdi, *et al*. (2017) studied the impact of the ownership structure and board governance on dividend policy in emerging markets using a panel regression approach on a sample of 362 non-financial listed firms from East Asian and Gulf Cooperation Council countries. It is shown that board independency affects significantly the dividend policy of firms. Finally, the results show that dividend decision is inversely related to board size.

Elmagrhi, *et al*. (2017) examine the extent to which corporate board characteristics influence the level of dividend pay-out ratio using a sample of UK small- and medium-sized enterprises from 2010 to 2013 listed on the Alternative Investment Market. The data are analysed by employing multivariate regression techniques, including estimating fixed effects, lagged effects and two-stage least squares regressions. The results show that board size has a significant relationship with the level of dividend pay-out. By contrast, the findings suggest that board independence does not have any significant effect on the level of dividend pay-out.

Jizi (2017) have found outside or independent directors have positively associated with CSR disclosure among a sample of FTSE 350 firms for the period of 6 years in Lebanon. Ahmadi and Bouri (2017) studied the relationship between boards of directors ‘composition and performance in French CAC 40 listed firms. The found evidence that board composition is positively correlated to the firm performance.

Zayol andKukeng (2017) reviewed the effect of auditor independence on audit quality. The study adopted the ex post facto research design relying on secondary information obtained from journals, text books and other internet materials. Based on the review, they concluded that there is a strong relationship between auditor independence and audit quality. They also revealed that there are four threats to auditor independence, which they listed as client importance, non-audit services (NAS), audit tenure, and client’s affiliation with CPA firms.

Stella and Uchenna (2019) studied the effect of audit independence on audit quality. Ex-post facto research design was employed and data from four (4) banks listed on the Nigerian Stock exchange and also operates within the African region. The data spanning across 5years from 2014-2018, were analysed using multivariate linear regression. Findings revealed that audit independence had a significant effect on audit quality of commercial banks in the sample. This was reflected in how the amount spent on audit fee had no significant effect on the reported earnings per share (proxy for reliance on financial reports by investors). Further findings reveal that audit independence has an insignificant effect on the timeliness of financial reports. It was recommended that banks and other firms alike should negotiate for reasonable audit fees that would ensure engagement of an independent audit firm; in order to enhance the degree of confidence in the reported financial statement and thus create a high level of reliability on the financial reports.

Quick and Schmidt (2018) investigated whether perceptions of auditor independence and audit quality are influence by audit firm rotation, auditor retention and joint audits by conducting an experiment with bank directors and institutional investors in Germany. The result indicates a negative main effect for joint audit on perceived auditor independence. Also, beside the main effects, planned contrast tests suggest a negative interaction between rotation and joint audit on participant perceptions of auditor independence. Furthermore, the study could not identify a positive impact of the regulatory measures taken or supported by the European Commission on perceptions of auditor independence and audit quality.

Haeridistia and Fadjarenie (2019) used primary data collected through questionnaire from auditors working in the public accounting firm in the region of Jakarta. The result of their study revealed that auditor's independence has significant and positive effect on audit quality which means that if auditor's independence increases then audit quality also increases. In a study on whether auditor independence, audit tenure, and audit fee affect audit quality of firms listed in Capital Market Accountant Forum – FAPM in Indonesia both partially and simultaneously.

Kertarajasa,*et al*. (2019) used primary data obtained from external auditors in South Sumatra, Indonesia in their study of independence and other variables on audit quality. The study show that independence variables do not significantly affect audit quality.

Pakianathan (2017) studied the impact of internal audit quality on earnings management in public listed entities in Sri Lanka. Using panel data analysis, the study concluded that audit quality exerts no significant impact on the degree of earnings management.

Soyemi and Olawale, (2019) investigated firm's characteristics effect on financial reporting quality of Nigerian quoted manufacturing companies. Twenty-five (25) non-financial companies from 2009 to 2016 were used as sample, findings revealed firm size and profitability have significant positive influence on quality of financial reporting, while tangibility and firm growth were documented to have significant but negative influence on quality of financial reporting.

Webometric Presentation of Empirical Review

Author	**Aim**	**Country studied**	**Time line**	**Methodology**	**Result**
Al-Awawdeh & Al-Sakini (2017)	Investigated the effect of off-balance sheet items on the Jordanian	Jordan	2009 to 2016	Descriptive and regression analysis	Showed that off-balance sheet items are high amongst Jordanian

	commercial banks performance criteria.				banks
Maigoshi, Latif & Kamardin (2016)	Investigated how and why managers or controlling shareholders use related party transactions.	Malaysia	2009 to 2014	Descriptive statistics	Showed that earnings management could be affected with the aid of related party transaction
Suffian, Sanusi, Ghafer & Wahab (2018)	Investigated the management of related party transactions in earnings quality	Malaysia	2009 to 2016	Descriptive statistics	Showed that related party transactions affect earnings quality
Rahman (2018)	Investigated related party disclosure,IAS 24 in the context of listed commercial banks	Bangladesh	2014	Descriptive and regression analysis	Showed that related party transactions have no significant association with commercial banks' attributes
Matar&Eneizan (2018)	Investigated the factors affecting the financial performance of the Jordanian manufacturing industrial firms	Jordan	2005-2015	Eview regression analysis, secondary data	Results showed that the variables of liquidity, profitability and revenues are positively related with return on assets .

Alavinasab, Nadiri & Behzadi (2018)	Examined the impact of off-balance sheet activities on the risk of banks	Tehran	2005-2015	Multivariate regression under Eview software	The results showed that off-balance sheet activities have significant and negative effect on total risk. Also leads to increase in the total risk
Ahmad (2018)	Investigated the relationship between off balance sheet risk	Malaysia	2006 to 2008	General least estimation	Findings showed significant relationship between off balance sheet activities and default risk, liquidity risk and leverage risk
Azim,Mustapa&Zainir (2018)	Impact of corporate governance variables and related party transactions	Pakistan	2004 to 2014	Different panel least squares model	Showed that Pakistani family
Beerbaum&Piechocki (2017)	Investigated related party transactions based on IFRS and SEC disclosing	USA		Descriptive analysis	No significant relations of the variables studied
Nga (2017)	Studied the macro-micro factors affecting the bad debt provision of commercial banks	Vietnam	2016 to 2017	Structured questionnaire coronach alpha and regression	Showed positive and significant relationship

Christine &Mulyungi(2018)	Examines the effect of creative accounting on shareholders wealth	Rwanda	-	Mixed research design, purposive sampling	Creating accounting leads to shareholders wealth loss
Swain & Panda (2017)	Investigated the determinants of growth of off-balance sheet activities of private sector banks	India		Cross sectional research design, multiple linear regression	Findings showed that there is a relationship of 89% net profit with off-balance sheet activities of private sector banks

Gap in Literature

After a review of extant literature, the study derived the following gap in literature:

i. **variables of study:** past empirical studies hardly used discretionary accruals, modified Jones 1995 accrual model and related party transactions as dimensions of creative accounting. For example, Rahman (2018) that investigated related party disclosure, IAS 24 in the context of listed commercial banks in Bangladesh employed variables such as banks' age, size, profitability and liquidity.

ii. **methodology:** previous empirical studies scarcely used the tool of statistical interaction to determine the moderation of corporate governance on creative accounting and financial performance. For example, Uzoma, *et al.* (2016) that investigated how off-balance sheet engagements of deposit money banks affect risk and profitability composition of such banks in Nigeria used descriptive and content analysis of secondary data collected from financial statements of the banks.

iii. **industry policy usage:** previous studies hardly christened the corporate governance (CGC) as industry policy in their investigation.

iv. **location of study:** past studies had mixed geographical and time locations as the results may not be similar.For example, Deigo (2015) investigated off-balance sheet credit exposure and asset securitization of banks in the United States, Al-Awawdeh and Al-Sakini (2017) investigated the effect of off-balance sheet items in the Jordanian commercial banks.

v. **study scope:** previous empirical studies hardly used large sample size such that was up to 650 firm observations. For example, Bianchi, *et al.* (2014) collected data sample from 125 listed Italian companies.

METHODOLOGY

The Ex-post facto research design was employed in this study. The target population for this study comprised of all listed manufacturing firms that currently trade shares in the Nigerian Stock Exchange (NSE). However, available information from the Nigerian Stock Exchange (NSE) office showed that the following sixty-five (65) manufacturing firms are currently listed and legally permitted by the Securities and Exchange Commission in Nigeria. The census sampling approach was employed on the chosen sampling frame of sixty-five (65) listed manufacturing firms in Nigeria. The suitability of this method was to give every subject in this finite population an equal chance of appearing in the selection. Using the census sampling approach, however, the sampled manufacturing firms were those that have fulfilled the cumulative pre-tax profits from continuing operations of at least 2 years and as possesses accessible financial records. Thus, the target population was found to posses the above characteristics and were used for the study. Hence, there was no use for sample size determination. The secondary source of data collection method was utilised for this research. Available source of secondary data was the published annual financial statements of the 65 listed manufacturing firms that are under investigation for various years including 2011 to 2021. The generated secondary data were treated as panel data for 650 observations.

Model Specification

The model specified for this study was done in line with the multiple and partial regressions. This research however adopted the modified jones 1995 model for discretionary accruals by dropping some variables and adding new variables to suite the purpose of this research and the local environment during the years 2011 to 2021 through statistical interaction effect was therefore, specified in the functional, mathematical and econometric forms as follows:

Functional Form

$ROA = f(DAC, RPT)$ -- - - - - (1)

Using equation 1, gives;

Mathematical Form

$\hat{R}OA = f(D\hat{A}C, R\hat{P}T)$ - - - - - (2)

Using equation 2 gives;

Econometric Form

$ROA = \mu_0 + \mu_1 DAC + \mu_2 RPT + \ldots.. + \mu_{1,t}$ - - - (3)

Econometric model for moderator regression

$ROA = \beta_0 + \beta_1 CAT + \beta_2 CGC + \beta_3 CAT^{*}CGC + \text{----} + \mu_{1,t}$ - - - - - - (4)

From equations 3and 4, it is expected a priori that $\mu_1, \mu_2, \beta_1, \beta_2, \beta_3 > 0$.

Where:

ROA = Return On Asset (Financial performance)

DAC = Discretionary accruals

RPT = Related party transactions

μ_0, β_0 = Regression constant

$\mu_1, \mu_2, \beta_1, \beta_2, \beta_3$ = Regression coefficient

$\mu_{1,t}$ = Stochastic error term

CAT = Creative accounting

CGC = Corporate governance

^ = Statistical estimator

***** **=** Statistical interaction symbol

Multiple regression analysis was employed to test the composite hypotheses. Furthermore, the partial regression analysis was used to test the moderating variables using the Ordinary Least Square (OLS) method of E-view 10.0 version statistical software.

RESULTS AND DISCUSSION

Unit Root Test (Augmented Dickey Fuller)

Due to the underlying shocks inherent in time series variables, and also shocks that could be found in the error terms (other variables not captured by the model), we therefore intend to capture the stationarity of the employed variables, since a stationary variable is useful in forecasting and predicting and has a great possibility of the effect if shock to die out gradually, while non-stationary data are not suitable for long run test.

Table 4.1: Summary Output of Unit Root Output (Augmented Dickey Fuller)

Variable	ADF t-statistics	Critical Value 5%			Order of Integration	Prob.
		1%	5%	10%		
D(ROA)	-5.974886	-4.284580	-3.562882	-3.215267	I(1)	0.0001
D(DAC)	-5.974886	-4.284580	-3.562882	-3.215267	I(1)	0.0000
D(RPT)	-4.084765	-3.724070	-2.986225	-2.632604	I(1)	0.0000

Source: E-view 10 Output (Authors Extractions).

Going by the critical values of (1%), (5%) and (10%), it can be identified that all variables are stationary at the first difference (1) showing a great level of co-integration amongst variables, since the prerequisite of co-integration is the integration of all variables at same level. This parameter therefore leads to the co-integration of employed variables.

Panel Co-integration Test

The researcher proceeds to test the long run association/Relationship amongst employed variable Over the period of 2011 to 2021.

Table 4.2 Results of Co-integration Test (Johansen Co-integration)

Trend assumption: Linear deterministic trend

Series: ROA DAC RPT

Lags interval (in first differences): 1 to 2

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.385446	85.27293	69.81889	0.0018
At most 1 *	0.289849	51.67967	47.85613	0.0209
At most 2	0.169564	28.06247	29.79707	0.0782
At most 3	0.149623	15.24200	15.49471	0.0546
At most 4 *	0.057126	4.058769	3.841466	0.0439

Trace test indicates 2 cointegratingeqn(s) at the 0.05 level

1 * denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: E-view 10 Output (Authors Computation).

The co-integration test seeks to empirically define the Long-run association/relationship between a given set of variables i.e. identifying the stochastic drift amongst variable (to know if the variables move together). Carried out using the johansencointegration output. Assuming all study variable as endogenous using the trace and Eigenvalue test.

From the trace test output above, it can be seen that the exists one (1) co-integrating equation, which were all signed respectively, judging by the signed rank, there exist a long run association and movement amongst employed variables, indicating that there is a presence of long run cointegration amongst employed variable since the probability level exhibit values greater than 0.05 level of significance in which case we do not proceed to Vector Error Correction, hence we utilized the Bayesian Error Estimates.

Error Correction Model

To adjust for discrepancies between the long and the short run, the study proceeds to the error correction estimate utilizing the Bayesian VAR Estimates Model

Table 4.3 Bayesian VAR Estimates Model

Bayesian VAR Estimates

Prior type: Litterman/Minnesota

Initial residual covariance: Univariate AR

Hyper-parameters: Mu: 0, L1: 0.1, L2: 0.99, L3: 1

Standard errors in ( ) & t-statistics in [ ]

	ROA	DAC	RPT
ROA(-1)	0.442707	0.336179	0.002037
	(0.07462)	(0.07747)	(0.04748)
	[5.93262]	[4.33973]	[0.04290]
ROA(-2)	0.090374	0.065364	-0.029496
	(0.04692)	(0.04852)	(0.02977)
	[1.92598]	[1.34723]	[-0.99088]
DAC(-1)	0.228581	0.414426	0.132272
	(0.07596)	(0.07968)	(0.04862)
	[3.00942]	[5.20081]	[2.72047]
RPT(-1)	-0.054246	0.420459	0.439065
	(0.11765)	(0.12286)	(0.07579)
	[-0.46107]	[3.42237]	[5.79310]
C	1652.035	2104.621	87.74691
	(663.131)	(692.279)	(424.442)
	[2.49126]	[3.04014]	[0.20673]
R-squared	0.852352	0.931583	0.880374

Adj. R-squared	0.738776	0.878954	0.788354
F-statistic	7.504720	17.70111	9.567199
Mean dependent	5597.042	9847.000	2993.083
S.D. dependent	5718.618	7989.957	4213.011

Source: E-view 10 Output (Authors Computation).

The significant negative value of the ecm(-1) coefficient in table 4.7 indicates that ROE responds to disequilibrium with an adjustment period of 1 year (1/0.07981). Hence, 7.981% deviations from equilibrium in the previous year are adjusted back to equilibrium in the current year. This shows a long-run error correction among the variables. Furthermore, an increase of one percent of ROE led to growth rate decreasing by 1.000 percent and shows a positive influence on the current asset, DAC, RPT and equity. Whereas it shows negative impact on Equity. Moreover, this is as a result of the recession and creeping inflation of prices all over the country. Thus, the poor economic policy of the Buhari administration could be tail to this detriment. The negligence of the government in the poor performance and worst output since decades has negative syndrome on the macro and domestic economy. The amount in the data is worrisome because (S.E 18903.67); which portray precise measurement of the coefficient. Adjusted R^2 is -0.562897which means that 56.2897% of variations of inflation are explained by changes in RPT and government expenditure. Overall, all the variables are jointly significant and hence the model is fit for forecast and policy (F-statistic=1.674127).

Multiple Regressions (Panel Ordinary Least Square)

The multiple regression was carried out using the Panel Ordinary Least Square regression tool, as it is the best unbiased linear regression estimator, it was carried out in the differenced form.

Table 4.4: Panel Ordinary Least Square Output Over the period of 2011 to 2021.

Dependent Variable: ROA

Method: Panel Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15236.18	2916.957	5.223314	0.0000
DAC	-0.811828	0.381609	-2.127383	0.0409
RPT	-0.173295	0.707946	-0.244786	0.8081

R-squared	0.265249	Mean dependent var	7670.996
Adjusted R-squared	0.220719	S.D. dependent var	12049.34
F-statistic	5.956587	Durbin-Watson stat	1.394956
Prob(F-statistic)	0.006185		

Source: E-view 10 Output (Authors Computation).

From the result of the regression estimates the t-cal value is -2.127383, the p-value is 0.0409 which is greater than the t-tab critical value of +1.96 at the 0.05 alpha level of significance; hence we accept the alternate hypothesis and reject the null hypothesis which states that RPT does significantly relates to return on equity in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study examined the relationship between creativity accounting, corporate governance and financial performance in Nigeria for the period 2011–2021. The study investigated the long run and short run relationship between the variables by using Johansen Co-integration and Error Correction Model (ECM) approach. The empirical result shows that corporate governance proxies are all important determinants of creativity accounting and financial performance both in the short run and the long run as these variables have randomness and fixed effect portray presses towards innovation accounting by transforming the threshold in the manufacturing firms. Thus, the study concludes that the independent variable have not much positive effect in the short-run as these variables are found to be statistically significant in predicting the financial performance.

This study concludes that there is a significant relationship between the predictor variables and criterion variables on minute effect.

Corporate governance is typically perceived by academic literature as dealing with problems that result from the separation of ownership and control, accountability, transparency, audit and fair disclosure of reports to the shareholders and also emphasize on problems and prospects of corporate entities. From this perspective, corporate governance would focus on internal structure and rules of the board of directors, the creation of independent audit committees, rules for disclosure of information to shareholders and creditors and management control. Corporate governance is also viewed as a broad term that defines the process, customs, policies, laws and institutions that direct the organizations and corporations in the way they anti-administer and control their operation

Recommendations

Base on the findings of this study, the following recommendations are advanced:

On the basis of the foregoing, the study hereby recommends that the manufacturing association of Nigeria should create an enabling environment to encourage investors to adopt the creative accounting practices for smooth operations, so as to attract foreign direct investments for the enhancement of economy status of Nigeria. This process will yield more genuine annual reports that will provide a basis for true interpretation, as it will boost investors' trust and arouse the desire for international financial transactions.

1. Organisations should ensure that corporate governance is strongly implemented since it ensures the quality of earnings. Corporate governance should be adopted not just in form but in substance

2. Organisations should provide all necessary resources needed to understand the impact of corporate governance on their organisation and train staff on changes in accounting framework

3. Government should empower the financial reporting council of Nigeria (FRCN) to monitor and enforce standards and training to smoothen the introduction of International Financial Reporting Standards (corporate governance). This process will enhance credible and qualitative financial statements, engendering growth and development of capital market, which will stir up the need to embrace and practice corporate governance in Nigeria.

4. The Financial Reporting Council in conjunction with various professional bodies should place more premium on continuing professional education and training. As much as possible, the professional accountancy bodies should align their continuing professional education requirements with creative accounting guidelines.

Nigeria listed quoted firms should continue to train and re-train their staffs in order to refresh their knowledge on appropriate application of creative accounting for the preparation and presentation of financial statements.

The MAN in conjunction with CBN and other regulatory agencies should sustain the enforcement of compliance with the creative accounting features to guarantee an enduring curtailment of practices this is sacrosanct that where enforcement is weak, creative accounting is encouraged.

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