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CREATIVE ACCOUNTING AND FIRM VALUE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract

The study delved into the intricate dynamics of creative accounting practices and their impact on the firm value of listed manufacturing entities in Nigeria over the period spanning from 2011 to 2021. Drawing upon a comprehensive dataset compiled from the annual financial statements of quoted manufacturing companies, the research employed a rigorous analytical framework utilizing various statistical techniques within the Eviews9 software package. Through meticulous data analysis, including unit root tests, panel cointegration tests, Bayesian error correction models, panel ordinary least squares (OLS) regressions, and Granger causality tests, among others, the study unearthed compelling insights into the interplay between creative accounting maneuvers and firm valuation metrics. The findings revealed a mixed relationship between the variables under scrutiny, both in the short and long run. Notably, the study underscored a significant association between the employed variables and innovation accounting practices, emphasizing their pivotal role in driving organizational transformation towards heightened growth and productivity levels. In conclusion, the study elucidated that, with the exception of certain variables, such as DAC and RPT, which exhibited positive coefficients indicative of movement towards enhanced firm value, as measured by the Price to Earnings ratio. This observation aligns with the a-priori expectations posited at the outset of the research endeavor. Based on the findings, the study advocates for strategic interventions aimed at bolstering the efficacy of creative accounting practices within Nigeria's quoted firms. Specifically, it recommends ongoing training and re-training initiatives targeted at enhancing staff competencies in the judicious application of creative accounting techniques in financial reporting. Such initiatives are envisioned to catalyze improvements in key performance metrics, including return on equity, assets, and earnings, thus fortifying the overall financial health and market positioning of Nigerian manufacturing enterprises.

Keywords:

Creative Accounting, Firm value, Manufacturing Companies, Corporate Governance, Nigeria.

INTRODUCTION

The manufacturing sector, a cornerstone of many national economies, drives structural transformations, fosters employment opportunities, and sustains economic growth (Herman, 2015). Understanding the sector's firm value is paramount, with "performance," originating from the French word "parfounir," denoting the execution of activities to achieve specific goals, using human, financial, and natural resources (Khan et al., 2015; Nirmal, 2004).

Firm value encapsulates a company's financial operations, reflecting its overall health and outcomes within a specified timeframe (Naz, 2016; Verma, 2018). It assesses the efficacy of a firm's strategies and operations in monetary terms, evaluating the extent to which financial objectives are achieved (Audax, 2018). This metric's implications extend beyond individual companies, impacting market value and contributing to industry growth, thereby affecting the broader economy (Banafa et al., 2015).

Analyzing firm value involves various metrics, including profitability, efficiency, and repayment capacity (McWilliams & Sugel, 2010). Indicators such as price to earnings ratios, return on equity, operating profit margin, and earnings per share are scrutinized (Akintoye, 2008). Recent literature expands these metrics to encompass net operating profit, return on total assets, and return on invested capital (Raheman et al., 2010; Deloof, 2003; Padachi, 2006; Narware, 2010). In Nigeria, assessing corporate firm value is crucial for management to ensure stability and enhance market share (Costae, 2006). However, the complexities of financial reporting and performance evaluation are intertwined with the phenomenon of creative accounting.

Creative accounting, while not necessarily illegal, involves permissible techniques that may distort a company's true financial picture, exploiting accounting standards loopholes to present a more favorable position, often to meet earnings targets or manipulate market perceptions (Hussein et al., 2013; Idris et al., 2012). Instances of creative accounting globally have led to corporate scandals and financial losses, prompting regulatory interventions and increased scrutiny (Enron Scandal, 2001; WorldCom, 2002). In Nigeria, such practices have eroded investor trust, leading to financial misstatements (Bankole et al., 2018; Oluwagbuyi & Olowolaju, 2013).

Corporate governance plays a pivotal role in addressing creative accounting issues and enhancing firm value, encompassing 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 emphasizes governance practices' importance in fostering transparency and accountability, thereby influencing firm value (Uju & Omirin, 2016). Effective corporate governance aligns management interests with those of shareholders, shaping firms' operations and market dynamics (Lin & Hwang, 2010).

Despite the critical importance of these factors, research on their interplay in Nigeria remains inconclusive, with past studies often limited in scope and methodology. Addressing these gaps, this study aims to explore the correlation between creative accounting techniques, corporate governance, and firm value in listed manufacturing firms in Nigeria from 2011 to 2021. Through advanced statistical analysis, the research endeavors to provide valuable insights into the complex dynamics influencing financial outcomes in the Nigerian manufacturing landscape.

The reliability of financial information, crucial for stakeholders' decision-making, is increasingly questioned due to the prevalence of creative accounting practices. Manipulation of financial figures poses ethical and practical challenges, implicated in numerous corporate scandals worldwide (Elliot &

Elliot, 2004). Related party transactions exacerbate concerns, facilitating resource transfers between companies and affiliates, sometimes leading to asset misappropriation (Pozzoli & Venuti, 2014). These practices directly impact corporate investment and firm value, contributing to the closure of Nigerian manufacturing firms (Adeniyi, 2004).

Challenges such as liquidity issues, poor asset utilization, and inadequate infrastructure further compound the sector's struggles (Ogwo & Agu, 2016; Onuaha, 2010). Weak corporate governance, in particular, has been linked to various corporate scandals and failures, eroding trust in financial reporting (Egolum et al., 2021).

To address these challenges, understanding the interplay between creative accounting, related party transactions, and firm value is imperative. By unraveling the root causes and implications of these practices, stakeholders can devise strategies to promote transparency, integrity, and sustainable growth in Nigeria's manufacturing sector. This research investigates the relationship between creative accounting, corporate governance, and firm value of listed manufacturing companies in Nigeria from 2011 to 2021, focusing on industry-specific policies and governance mechanisms within the Nigerian context.

2. LITERATURE REVIEW

Theoretical Review

The Agency Theory

Agency theory, which gained prominence with Jensen and Meckling's seminal article in 1976, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," centers around the agency problem and its resolution. An agency relationship occurs when one or more principals engage an agent to perform services on their behalf, delegating decision-making authority to the agent (Hill & Jones, 1992). This theory addresses the conflicts of interest between principals and agents, where the agency problem arises from differing goals and work distribution among the involved parties (Jensen & Meckling, 1976). In essence, when one actor in a corporation is appointed as an agent to act on behalf of another party, conflicts may arise due to the agent's decision-making authority.

Examples of agency relationships are pervasive, encompassing contractual arrangements such as those involving workers, employees, and citizens (Gun, 2016). The theory considers the impact of various factors within the realm of contractual engagements. Central to agency theory is the concept of reducing information asymmetry between principals and agents, thereby aligning their interests and mitigating agency costs (Eisenhardt, 1989).

Stakeholder Theory

The term "stakeholder" emerged in management literature in the 1960s, initially intended to broaden the focus beyond stockholders as the sole group to which management should be responsive (Freeman et al., 2010). Stakeholder theory posits that organizations have a broader set of stakeholders whose support is essential for their continued existence (Freeman, 1984). While the concept predates Freeman's seminal work, his book "Strategic Management: A Stakeholder Approach" (1984) solidified organized thinking about stakeholder theory.

Donaldson and Preston (1995) synthesized stakeholder theory, highlighting four key ideas: descriptiveness, instrumentality, normativity, and managerialism. Descriptively, stakeholder theory examines how corporations behave and compares this behavior against theoretical frameworks. Instrumentally, it proposes that adherence to stakeholder management principles leads to positive outcomes. Normatively, it prescribes how managers ought to behave based on legitimate stakeholder interests. Finally, stakeholder theory is managerial, aiming to shape and direct managerial behavior systematically.

Information Asymmetry Theory

Asymmetric information, introduced by Akerlof in 1970, refers to unequal knowledge levels between parties in a transaction (Akerlof, 1970). This concept underpins various theories, including signaling and screening, developed by Spence (1973) and Stiglitz (1975), respectively. Signaling theory addresses how individuals with private information convey it credibly to counterparties, while screening involves the classification of individuals based on observable characteristics to mitigate adverse selection.

Information asymmetry theory has broad applications, explaining phenomena across diverse domains, from economics to finance. It serves as a valuable tool for understanding market inefficiencies resulting from unequal information distribution.

Positive Accounting Theory

Positive accounting theory, pioneered by Beaver in 1968, seeks to explain and predict accounting practices based on economic motivations (Beaver, 1968). It assumes that accounting theory's purpose is to explain and predict actual accounting practices, focusing on what is instead of what should be. The theory examines how accounting policies are chosen to address specific conditions in the future, aiming to explain observed practices and predict future phenomena.

The conceptual operational framework below illustrates the relationship between creative accounting techniques and firm value in listed manufacturing firms in Nigeria. Creative accounting, discretionary accruals, related party transactions, and firm value are key components within this framework, reflecting the intricate dynamics influencing financial outcomes in this context.

Measures of firm value

Price to Earnings Ratio

The Price to Earnings Ratio (P/E Ratio) is a financial metric used to assess a company's valuation by comparing its current share price to its earnings per share (EPS). It provides investors with insights into how much they are paying for each dollar of a company's earnings.

Mathematically, the P/E ratio is calculated by dividing the market price per share by the earnings per share. For example, if a company's stock is trading at $50 per share and its earnings per share is $5, then the P/E ratio would be 10 ($50 / $5 = 10).

A high P/E ratio suggests that investors are willing to pay a premium for the company's earnings potential, indicating optimism about future growth prospects. Conversely, a low P/E ratio may indicate undervaluation or concerns about future earnings growth.

The P/E ratio is commonly used by investors to compare the valuation of different companies within the same industry or sector, as well as to assess the overall market valuation. However, it's important to consider other factors such as the company's growth prospects, industry trends, and market conditions when interpreting the P/E ratio.

Empirical Review

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

Ismeal (2017) conducted a study to explore how creative accounting techniques impact the reliability of financial reporting, focusing on Saudi auditors and academics. Using a structured questionnaire distributed to certified auditors and accounting instructors, the study employed inferential statistical analysis through Chi-square tests in SPSS 24.0. The results indicated a negative correlation between creative accounting practices and the reliability of financial reporting.

Ijeoma (2014) investigated the influence of creative accounting on the Nigerian banking sector. Employing primary data collection methods and utilizing Kruskal-Walli's test and multiple bar chart analysis, the study found that creative accounting practices in the banking industry were primarily driven by motives to enhance share prices, inflate operating costs, and maintain a facade of consistent profit growth.

Christine and Mulyungi (2018) explored the impact of creative accounting on shareholders' wealth, focusing on companies listed on the Rwanda Stock Exchange. Employing a mixed research design and purposive sampling technique, the study revealed a positive association between creative accounting practices and shareholders' wealth.

Onyekwelu et al. (2018) investigated the relationship between firms' growth indicators and operational performance in selected Nigerian firms. Utilizing firm size and profitability as proxies for operational performance and price to earnings ratios as a measure of firm value, the study employed secondary data and multiple regression analysis. The findings indicated significant negative effects of firm size and insignificant effects of profitability on price to earnings ratios.

Ghaia and Al-Ammar (2018) examined the determinants of firm value among public textile firms in Syria. Analyzing unbalanced panel data from 2000 to 2016, the study revealed a negative and significant impact of debt financing on the profitability of public textile firms in Syria.

Matar and Eneizan (2018) investigated factors influencing the firm value of Jordanian manufacturing industrial firms. Using secondary data from the Amman Stock Exchange annual publication spanning from 2005 to 2015, regression analysis in E-views revealed positive relationships between liquidity, profitability, revenues, and price to earnings ratios.

Rafizadeh (2016) explored the relationship between related party transactions and firm value among companies listed in the Tehran Stock Exchange from 2009 to 2013. Employing the Morgan Table to select 78 companies and Eviews 7 for analysis, the study found a significant relationship between related party transactions and firm value in the Tehran Stock Exchange.

Umobong (2017) investigated related party transactions and firm value using secondary data from the Nigerian Stock Exchange spanning from 2006 to 2017. Employing Haussmann test, regression analysis, and causality tests, the study found no significant effect of related party transactions on price to earnings ratios and earnings per share. However, a significant relationship with return on equity was observed, potentially influenced by firms' shareholding structures.

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.

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 firm value. 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.

METHODOLOGY

In this study, the Ex-post facto research design was employed. The target population consisted of all manufacturing firms listed on the Nigerian Stock Exchange (NSE). Upon investigation, it was found that there are currently sixty-five (65) manufacturing firms listed and legally permitted by the Securities and Exchange Commission in Nigeria, according to information obtained from the NSE office. A census sampling approach was utilized, encompassing all sixty-five (65) listed manufacturing firms in Nigeria. This method was chosen to ensure that every subject in this finite population had an equal chance of being selected. However, the sampled manufacturing firms were specifically those that had achieved cumulative pre-tax profits from continuing operations of at least 2 years and maintained accessible financial records. As the target population possessed the aforementioned characteristics, there was no need for sample size determination. Secondary data collection methods were employed for this research, utilizing published annual financial statements of the 65 listed manufacturing firms under investigation for various years, spanning from 2011 to 2021. The collected secondary data were treated as panel data, resulting in a total of 650 observations for analysis.

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

$\hat{ROA} = f(\hat{DAC}, \hat{RPT})$ - - - - - (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:

PER = Price to earnings ratio (Firm value)

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.

4. 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(PER)	-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: PER DAC RPT

Lags interval (in first differences): 1 to 2

Unrestricted Cointegration Rank Test (Trace)

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	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

Pre Corporate Governance

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 [ ]

	PER	DAC	RPT
PER(-1)	0.442707	0.336179	0.002037
	(0.07462)	(0.07747)	(0.04748)
	[5.93262]	[4.33973]	[0.04290]

PER(-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: PER

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.

5. CONCLUSION AND RECOMMENDATIONS

This study delves into the intricate relationship between creative accounting practices and firm value within the Nigerian context spanning from 2011 to 2021. Employing robust analytical tools such as Johansen Co-integration and Error Correction Model (ECM), the research explores both the short-term and long-term dynamics between these variables.

The empirical findings unveil the pivotal role of corporate governance proxies as significant determinants influencing both creativity accounting practices and firm value. These variables exhibit a blend of randomness and fixed effects, signaling a shift towards innovation accounting within the manufacturing sector. However, the study notes a limited positive impact of the independent variables in the short run, albeit their statistical significance in predicting firm value. Thus, while a significant relationship between the predictor and criterion variables is observed, the effect remains subtle.

Based on the insights garnered, several recommendations are put forth to guide stakeholders towards fostering a conducive environment for the adoption of creative accounting practices, thereby bolstering operational efficiency and attracting foreign direct investments. These recommendations include:

1. Advocating for the Manufacturing Association of Nigeria to facilitate an enabling environment that promotes the adoption of creative accounting practices, thereby enhancing investor trust and facilitating international financial transactions.

2. Emphasizing the robust implementation of corporate governance principles to ensure the integrity of earnings, with a focus on substantive adoption rather than mere formal compliance.

3. Empowering regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) to monitor and enforce standards and training initiatives, particularly in alignment with International Financial Reporting Standards (IFRS), to enhance the credibility and quality of financial statements.

4. Prioritizing continuing professional education and training initiatives, with regulatory bodies and professional accountancy organizations aligning their requirements with creative accounting guidelines to ensure competence and compliance within the industry.

Additionally, the study underscores the importance of ongoing training for staff members within Nigeria's listed quoted firms, enabling them to adeptly apply creative accounting techniques in financial statement preparation and presentation. Moreover, sustained enforcement efforts by regulatory agencies, in collaboration with industry stakeholders, are deemed essential to curtail undesirable practices and uphold financial reporting integrity.

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