

THE IMACT OF CEATIVE ACCOUNTING ON ORGANIZATIONAL EFFECTIVENESSIN NIGERIA’S MANUFACTURING ORGANIZATION

ABSTRACT

This study uses data on fourteen manufacturing firms over five year period to examine whether creative accounting affect organizational effectiveness. Using correlation statistics, all the hypotheses were found to be statistically significant and positively correlated. Although we found weak evidence of a positive correlation between income smoothing, artificial transaction and market share, it demonstrates an interaction between creative accounting and organizational effectiveness. Although these results are sensitive to our apriori expectation they may not be consistent over time.

KEYWORDS: *Creative accounting, organizational effectiveness, profitability.*

1.0 INTRODUCTION

Income statement is arguably the most useful and important to all users especially for the shareholders or investors in decision-making process. Based on the financial statement itself, they can obtain useful information about the effectiveness of the organization. However, inadequate or misleading income disclosure may result when income is deliberately and artificially smoothed (Ashari et al., 1994). This is known as creative accounting, the effects of creative accounting would lead shareholders and investors to have inadequate information when evaluating the organization’s effectiveness.

The Cadbury saga in Nigeria discovered a significant overstatement of its financial position over a number of years.

The story is similar but also not palatable in the United States, where Enron which grew in just 15 years to be America’s seventh largest company went underground after it was discovered that the company has been fiddling with profit figure (Amatorio, 2005)

There are many reports of price manipulation, profit overstatement, and accounts falsification by some dubious stewards which rendered the financial reporting ineffective (Ezeani, 2010). This represents the transformation of the accounting figures from what they are in accordance with the economic reality into what the managers want using the advantages of the existing regulations and/or ignoring some of them. Griffiths (1981) puts it in his so-called bible of the business world “Creative Accounting:” “It is the biggest con trick since the Trojan horse. They are of the opinion that Creative accounting is the root of numerous accounting scandals.

But real world experience reveals that it is in most cases practiced in an undesirable way to attract investors by presenting an exaggerated financial report. Thus, two perspectives of this term may be identified. The first one recognizes genuine changes in the business accounting practices while the second one reflects undesirable window-dressing that tends to distort financial information.

According to the creative accounting theories there is a connection between the use of creative accounting techniques and managers' incompetence. A company that has reached an unstable situation will undoubtedly begin to use creative accounting techniques in order to artificially increase profit, and thus, the financial situation to be temporarily concealed. If organizations are to survive and achieve long term viability they must be effective. According to Friedland and Pickle (1968), an effective organization is one that is making profit in addition to other criteria. Imoisile (1978) included increase in market share as one of the evidence to show an organization that is effective. Shareholders require good returns on their investment and this cannot be achieved when a company is not profitable. Thus, a profitable firm is an effective organization. According to Richard et al. (2009) organizational effectiveness captures organizational performance plus the myriad internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation

Thus, to fill the gap in the literature, the study examined the relationship between creative accounting and organizational effectiveness (if any) in quoted manufacturing companies in Nigeria

2.0 THEORETICAL FRAMEWORK AND HYOTHESES DEVELOPMENT

In recent times the effectiveness of many nations' organizations have become uncertain, especially in the major sectors of the economy and this has become an issue that concerns stakeholders (Hope and Hope, 1996). The financial statements are expected to inform the stakeholders on the present financial state of the organization and also determine whether or not the organization is a going concern. Financial statements are prepared to disclose the present state of a company, it reveals if the business is making profit and providing a return on shareholders' investment.

However, prior studies has shown that this is not always the case as creative accounting is sometimes used by companies to manipulate profit figures which distort the true financial health of the company. Griffiths (1986) observed that every company is fiddling its profit. He also noted that every set of published account is based on books which have been completely roasted.

A company that has reached an unstable situation will undoubtedly begin to use creative accounting techniques in order to artificially increase profit, and thus, the financial situation to be temporarily concealed.

Business organizations set goals for themselves and tries to achieve these goals. Organizational effectiveness is the degree to which an organization realizes it goals. Burton and Manab (1995) in Nwachukwu (2002) said that an organization is considered effective when it is making profit. This supports the views of Friedland and Pickles (1968). Also, Negandhi and Reirann (1973) and Maheshwari (1980) believed that an effective organization will meet the goal of increase in market share. Organisational

effectiveness is also satisfying and meeting the expectation of the shareholders as they require a good return on their invested capital. When their desires and expectations are met the organization is considered effective.

The practice of creative accounting has the power to distort the underlying financial performance of a firm, making it more difficult for an investor or financial analyst to assess the performance of the firm and to compare between different companies.

Previous studies indicate that company's management may resort to the distortion and the manipulation of financial numbers or figures through the use of creative accounting tools such as income smoothing, regulatory flexibility, and artificial transaction readily available to play financial numbers games that would enable them produce financial statement that will meet the expectation of the shareholders and other interested parties.

2.1 CONCEPT OF CREATIVE ACCOUNTING

The concept of creative accounting is usually used to describe the process through which the accounting professionals use their knowledge in order to manipulate the figures included in the annual accounts.

The creative accounting appeared in the Anglo-Saxon literature in the 1970s, most often in the papers about the bankruptcy of enterprises and those written by Watts and Zimmerman (1978, 1986, and 1990) which represent the foundation of the positive accounting theory. This research trend made the object of several empirical works trying to explain the accounting choices starting from the problem of the political costs that the enterprises are exposed to. More recently, Brown and Steele (1999) have selected a portfolio of 12 accounting techniques, combining also the accounting options with the management decisions. In addition to the political costs, it is emphasized the importance of the activity and risk sector and that of the firm operation, as significant determinants of the creative accounting.

2.2 CONCEPT OF ORGANIZATIONAL EFFECTIVENESS

Cunningham (1977) maintained that the concept of organizational effectiveness is an elusive one that there is no single way of defining it. This may be due to the many criteria used and the many definitions available for the concept. Imoisili (1978) remarked that most practicing managers agree that organizational effectiveness incorporates both economic and non-economic or behavioural dimensions. The economic indicators include return on capital, productivity of assets, sales margin, and net operating margin. Non-economic indicators include employee turnovers, ability to retain management talents, competitiveness of compensation schemes, and degree of employee satisfaction. Supporting the views of Cunningham (1977) and Imoisili (1978), Veldsman (1982) defined organizational effectiveness as a qualification attached to an organization resulting from the comparison of the actual state of the entity against its ideal state. He maintained that an organization is effective if the actual state is congruent with the ideal and ineffective if it is not. Cameron (1978) posits that "The value ascribed to an

organization depends on the evaluator's conception of the ideal state of that organization". For example, whether an organization is described as Effective or ineffective depends on the evaluator's view of an organization's ideal state. This ideal state, in turn, prescribes the aspects of the actual state of the organization which the evaluator will use to make his comparison(Veldsrnan 1982).

Considering organizational effectiveness in Veldsman'sperception, the evaluator has freedom to decide what should constitute the ideal state. This requires a lot of individual judgment. For the judgment to be realistic it must be based on enterprise understudy and the various environmental stakeholders of the organization.

2.2.1 PROFITABILITY

Profit is one of the major reasons for venturing into business. Profitability therefore, means a state of producing a profit or the degree to which a business is profitable. Profitability is the primary goal of all business ventures (Arnah, 2006). Without profitability the business will not survive in the long run. Conversely, a business thatishighly profitable has the ability reward its owners with a large return on their investment. According to Thompson and Strickland (2001), Achieving acceptable financial result is crucial. Achieving acceptable financial performance is a must, otherwise the organization's financial standing can alarm creditors and shareholders, impair its ability to fund needed initiatives and perhaps even put its very survival at risk.

This makes measuring current and past profitability and projecting future profitability a very important issue. Profitability has been identified as criteria for organizational effectiveness by many authors (Friedlander and Pickle, I 968 Child, 1974 and 1975; Negandhi and Reimann, 1973; and Maheshwari, 1980).

It is measured with income and expenses. It may be expressed in terms of net income and earnings per share or return on investment (Daft 1998). A variety of profitability ratios can be used to assess the financial viability of the business. These ratios, created from the income statement can be with industry benchmarks.

2.2.2MARKET SHARE

Market share has the potential to increase profits. Small market share increases means very large sales increases. Studies have shown that, on average, profitability rises with increasing market share (Kotler and Armstrong. 2001). Because of these findings, many companies have sought to expand market shares to improve profitability. Kotler and Armstrong (2001) argue that higher market shares tend to produce higher profits only when unit costs fall with increased market share, or when the company offers a superior quality product and charges a Premium price that more than covers the cost of offering higher quality. Market share is important because it enables one to know the strength of the organization whetherthey are leaders or minor players and also if the organization is still holding, gaining or losing share of its target market (Kotler, 999). According to Kotler

and Armstrong (2001), organizations need to protect their current business against market attacks while trying to expand by first, fixing weaknesses that can provide opportunities or their competitors; second, keeping costs down and its prices in line with the value the customers see in the brand; Third, by continuous innovation and finally by increasing its competitive effectiveness and value to customers.

2.3 THE LINK BETWEEN CREATIVE ACCOUNTING AND ORGANISATIONAL EFFECTIVENESS

Companies' management may adopt various methods to dress up financial statement to show improved performance in respect of profit or loss. For the balance sheet, it may exist in three areas; the correct valuation of companies assets, accounting for all liabilities and over or understatement of net worth. The effect of creative accounting may defeat the purpose of presentation of true and fair financial statement, as required by companies and Allied matter Act (CAMA).

A typical aim of creative accounting will be to inflate profit figure. Some companies may also reduce reported profit in good years to smooth result.

Assets and liabilities may also be manipulated, either to remain within limits such as debt covenant, or to hide problems.

Typical creative accounting tricks include off balance sheet financing, over optimistic revenue recognition and the use of exaggerated non-recurring items.

Every organization desires to achieve its goals, objective or intended performance of continuous steady growth in profit, increase share prices by attracting more investors so as to get a larger share of their target market and increased productivity. Creative accounting seems to be a ready available tool in the hands of many preparers of financial statement to dress up its financial statement to achieve effectiveness.

Studies have revealed that company managers willfully manipulate reported profit to fit their own intentions or goals by selecting certain policies changing accounting estimates and manipulate accruals. (Yoon & Miller 2002). Of course, as soon as profits are manipulated, their integrity is in balance. Using creative accounting practices, management can alter impressions about their firm's business performance

Smoothing of income is a way of removing volatility in earnings by leveling over the earnings peaks over a number of years and raising the valley over the same period. Steps are therefore taken to reduce and "store Profit during good years for use during slower years. (Mulford and Comiskey 2002). income smoothing may be successfully applied, without questions from stakeholders, either when investors are "naïve" and ignore management's ability to manipulate earnings or "sophisticated" and correctly infer management's disclosure strategy (Kirschenheiter and Melumad 2002). Investors may be harmed by income smoothing if it is used as a strategic tool by management. Some investors do not ignore management's ability to smooth; they are simply uninformed or ignorant.

The selection and application of generally accepted accounting principles (GAAP) is flexible, leaving enough room for judgment in certain areas. We can consider the example of inventory valuation which offers a number of accounting policy choice and estimation decisions for the companies to prepare financial statements. Due to this flexibility the management can be creative in preparation of financial statements. In most cases the management judgment results in change of reported financial results from one direction to another which is generally referred to as aggressive accounting. But when the line is crossed and the accounting policies being employed move beyond the boundaries of GAAP, the actions may be termed as fraudulent.

In most creative accounting studies, creative accounting was viewed as "cheating", "misleading", and "immoral" on the part of the firm's management (Ronen and Sadan, 1981). According to Beidelman (1973) and Barnea, Ronen and Sadan (1976) smoothing of reported earnings may be defined as the intentional dampening of fluctuations about some levels of earnings that is currently considered to be normal for a firm. In this sense creative accounting represents an attempt on the part of the firm's management to reduce abnormal variations in earnings through the manipulation of the accounting and management principles. In other words, income smoothing is engaged in order to help the management to increase the perceived value of its services (Lambert, 1984).

Moses (1987) studied the factors that encouraged income smoothing among 212 EU companies. Firm size, market share, degree of unionization, bonus compensation, ownership control and preliminary earnings diverge from expectations were used as variables to examine the association between income smoothing and factors to motivate it. The results of the study showed that income smoothing was associated with company size, the existence of bonus compensation plans and the divergence of actual earnings from expectations. Market share was found to be associated with smoothing. However, the findings were very weak. In addition, it was found that there was no association between smoothing and union organization or management's ownership. Ashari et al. (1994) focused their study on listed companies in Singapore and they found that income smoothers tend to be less profitable companies, companies in more 'risky' industries and those Malaysian companies listed in Singapore Stock Exchange. However, based on univariate test, they found no evidence associating company size with creative accounting. Mohd Said (2001) conducted similar study to Ashari et al. (1994) in Malaysia with a sample of 137 companies listed on the Kuala Lumpur Stock Exchange (KLSE). Profitability, size of companies, market share and industrial sectors are variables used to detect whether companies smooth their income. The result indicates that companies with lower profitability tend to smooth their income more than companies with higher profitability. However, income smoothing does not depend on the size of companies and industrial sectors. Based on the above theories, the following hypotheses are formulated.

H₁ There is no significant effect of income smoothing on profitability.

H₂ Income smoothing does not affect market share.

H₃ There is no significant effect of artificial transaction on profitability.

H₄ Artificial transaction does not affect market share.

H₅ Regulatory flexibility does not affect profitability.

H₆ There is no significant effect of regulatory flexibility on market share.

3.0 RESEARCH METHODOLOGY

The research hypotheses were addressed experimentally. The dependent variable are the relevant key words derived from prior research studies on organizational effectiveness. Before starting the actual experiment, we worked through a practice case designed to help respondent understand the specifics of creative accounting and organizational effectiveness.

A random sample of 14 quoted manufacturing firms from Nigeria stock exchange were selected as the population of study (Appendix 1)

3.1 OPERATIONAL MEASURES OF VARIABLES

The study examined “creative accounting and organizational effectiveness”. The independent variable is “creative accounting”; and the dependent variable is “organizational effectiveness”. The dimensions of creative accounting are income smoothing, artificial transaction and regulatory flexibility. The measures of organizational effectiveness are profitability and market share.

Profitability as measured by return on investment of selected companies (Appendix 2)

The researcher used questionnaire as the instrument of the study. As the researcher depended mainly on primary data detailed questionnaire of 140 in number was prepared and distributed to (top and middle managers) with the hope of obtaining very useful information from them needed for this work.

The questionnaire was designed in ordinal scale with the use of the 5-point likert scale of strongly agree 5; agree 4; neutral 3; disagree 2; and strongly disagree 1 to elicit information from the respondents. Interesting questions covering likely attributes of creative accounting and organisational effectiveness was asked.

3.2 TEST OF VALIDITY AND RELIABILITY

The reliability of the instrument was established using the Cronbach’s Alpha Reliability Test and the result revealed a reliability of 0.996(99.6%). This showed that the variable used was reliable. (Table 2)

3.3 DATA ANALYSIS TECHNIQUE

The hypothesis for this study was tested using the Pearson product moment correlation coefficient (r). The Pearson moment correlation coefficient is more widely used in measuring the association between two variables given paired measurement.

3.4 : MODEL SPECIFICATION

The following models were specified in accordance with the objectives and formulated hypotheses in other to guide the study, thus:

$$1. P_i = f(IS, AT, RF) \dots\dots\dots 1a$$

Rewriting equation 1a explicitly;

$$P_i = \mu_0 + \mu_1 IS + \mu_2 AT + \mu_3 RF + U_1 \dots\dots\dots 1b$$

$$2. MS_i = f(IS, AT, RF) \dots\dots\dots 2a$$

Rewriting equation 1a explicitly;

$$MS_i = \beta_0 + \beta_1 IS + \beta_2 AT + \beta_3 RF + U_1 \dots\dots\dots 2b$$

Where:

P_i = Profitability

MS_i = Market share

IS = Income smoothening

AT = Artificial transaction

RF = Regulatory flexibility

μ_0, β_0, α = Intercept

$\mu_1 - \mu_2, \beta_1 - \beta_2,$ = Regression Coefficient

$U_1 - U_3$ = Stochastic Term

a'priori Expectation

$$\mu_1 > 1, \mu_2 > 1$$

$$\beta_1 > 1, \beta_2 > 1$$

Therefore, our a'priori expectation is that there might be a positive relationship between the dimensions of creative accounting and measures of organizational effectiveness

4.0 RESULTS

4.1 STATISTICAL TESTING OF RESEARCH HYPOTHESIS

Decision Rule

If significant 2-tailed value/probability value (PV)

= $0.000 < 0.005$ Reject H_0

If significant 2-tailed value/probability value (PV)

= $0.000 > 0.005$ Accept H_1

Tables 1 present the results of the estimation of regression equation in our model specification. In all instance we were unable to accept the hypotheses. The estimated coefficient on the relationship between income smoothening and

profitability in hypothesis one is positive and statistically, significant at 1 percent (5 percent) level.
 $r = 0.992$ and $p = 0.000$.
 Accordingly our regression coefficient as shown in hypothesis two (table1) shows $r = 0.558$; $p = 0.003$.
 Although there is a weak but positive relationship, we were able to reject the null hypothesis. In hypothesis 3 (Table 1) we found a statistically significant relationship between artificial transaction and profitability.
 $r = 0.984$; $p = 0.000$. Thus, the alternate hypothesis was accepted.
 Hypothesis four predicts that market share would be influenced averagely by artificial transaction with $r = 0.561$; $r^2 = 0.525$ and $p = 0.003$. (Table1)
 The result of the effect of regulatory flexibility on profitability (hypothesis 5) is reported on table 1. As shown in table 1 under the 0.986 correlation;
 The relationship is very significant at conventional levels.
 To examine the potential effects of market share dependence on regulatory flexibility (hypothesis 6) Table 1 indicates a moderate but significant relationship with $r = 0.560$; $r^2 = 0.525$ AND $P = 0.003$.

5. DISCUSSION OF THE FINDINGS

As noted previously, a growing literature in management accounting examine, the impact of creative accounting on organizational effectiveness. For most part, this literature concludes that creative accounting variables enhances profitability. The result of **hypothesis 1** which revealed the significant relationship between income smoothing and profitability is in conformity with the findings of Beidelman, (1973); Barnea Rand Sadan (1976). Smoothing of reported earnings may be as a result of the intentional dampening of fluctuations about some levels of earnings that is currently considered to be normal for a firm. Several reasons may have accounted for this association, every business organization want to always appear profitable and continue to improve profitability, thus business manager are likely to employ income smoothing as a creative accounting tool to smooth profit figures in bad years so as to continue to look effective the eyes of the users of the financial statement.

Again, the desire to be ahead of others in profit make organizations to engage in income smoothing. Also according to (Kirschenheiter and Melumad 2003), when a company smooths its income the information about a company's performance in terms of profitability is influenced. Companies can adjust profit to suit their own purpose. (Ellis and Williams 1993). Profitability reflects the overall performance of for-profit organizations (Daft 1998). Managers are evaluated by their level of profitability. Managers therefore tend to look for ways to smooth income so as to change their business by improving reported profitability.

Hypothesis Two: The statistical analysis indicates that there is a significant relationship between income smoothing and market share. ($r = 0.558^{**}$). A company tries to gain greater investors' confidence by increasing its market share when assessing the financial statement through smoothing of its income. Literature review suggests a positive relationship between income smoothing and market share but the association was however weak (Moses, 1987). Market share refers to the company's sales as a percentage of the

sales in its target market (Czinkota et al, 1997). The reason for the association is because market share has the potential to increase profit. Studies have shown that, on average profitability rises with increasing market share (Kotler and Armstrong, 2001).

(Lambert, 1984) is of the view that firms engaged in income smoothing in order to help the management to increase the perceive value of its services.

Hypothesis Three: The statistical analysis showed that: There is a significant relationship between artificial transaction and profitability. ($r = 0.984^{**}$). The literature of present day study suggested a positive relationship between artificial transaction and profitability. In other words when the balance sheet amount is manipulated and profit is moved between accounting periods the organization's reported profitability is impacted to show the desired image of higher profitability to indicate a good return on shareholder's investment which in economic reality is not so.

This finding agrees with studies carried out by (Yoon & miller 2002). They argued that company managers willfully manipulate reported profit to fit their own intention. The goal of every business organization in reporting high profit can be achieved by selecting certain accounting policies, changing accounting estimates and manipulate financial numbers to appear profitable. Also, According to (Mcnichols and Wilson, 1998) management may decide to move expenses or losses from one accounting period to period to create desired profit result.

Hypothesis Four: The statistical result revealed that there is a significant relationship between artificial transaction and market shares ($r = 0.561^{**}$). This is in line with Kotler and Armstrong, (2001) that increase in market share has the potential to increase profit. This accounts for the reason why company managers manipulate accounting figures and move profit figures between accounting periods so as to estimate sales that will portray the organization of being in control of the greater proportion of its target market which will directly impact on reported profit in the income statement. This is also in conformity with the findings of (Yoon & miller 2002). They are of the view that artificial transaction can greatly influence the decisions of the interest groups in the organization such as the owners or shareholders and other stakeholders in the organizations. Balance sheet amounts are manipulated and profit moved between accounting periods for the purpose of reporting financial results that will win and constantly increase investors and public confidence in their firm thereby enabling the company hold a greater percentage of the total available market that is being serviced by the company.

Hypothesis Five: The statistical result revealed that there is a significant relationship between regulatory flexibility and profitability. ($r = 0.986^{**}$). Modern day literature suggests that accounting regulation often permit a choice of accounting policy (Schippers, 1989). Business entities thus choose income boosting accounting policies to manipulate profit figures so as to create preferred image of reporting a favorable profit. Managers may decide to increase or decrease to adjust the desired result of appearing profitable. Using creative accounting practices, management may alter impressions

about their firm's business performance since companies are evaluated by their level of profitability. Managers therefore tend to look for ways to adopt accounting policies that may enable it present financial accounts that may make the organization appear profitable. Collingwood (1991) reports on how a change in accounting method boosted K-Mart's quarterly profit figure to \$160 million, by a happy coincidence distracting attention from the company slipping back from being the largest retailer in the USA to the number two slot.

Hypothesis Six: The statistical result indicates that there is a significant relationship between regulatory flexibility and market share. ($r = 0.560^{**}$). The literature of modern study suggests a positive relationship between regulatory flexibility and market share. Every organization or firm wants to strive amid stiff competition and gain a greater control of its target market. The public and investor's confidence must be won at each time, This is because market share enables one or investors to know how effective the organization is, if they are market leaders or minors player or if the organization is still holding, gaining or losing its market share (Kotler, 1999). The positive association between regulatory flexibility and market share indicate the reason managers may choose income boosting accounting policies that will aid the manipulation of the financial figures to report high sales figure that will portray a greater market share than other players in the market. Thus the sales figures are massaged to create desired image of appearing effective. If the intension is to attract new investors and increase its market share, such firm will choose at will any accounting policy that will enable them attract investors and other interest group without any restrictions from accounting regulators.

5.2 CONCLUSION

In this research an empirical survey was carried out to investigate the impact of creative accounting on organizational effectiveness.

The statistical results show that there is a positive and significant relationship between all the six (6) hypotheses. Therefore, the researcher concludes that there is a positive and significant relationship between creative accounting and organizational effectiveness of quoted manufacturing companies in Nigeria. The result that emerges from the analysis of expert views is that creative accounting has long been in practice in Nigeria. Most of the companies in Nigeria create accounts in an undesirable way to attract investors by reporting impressive financial information even when it may not be so in reality.

The following recommendations are made in line with the findings:

1. Adoption international financial reporting standard (IFRS) must be embraced by all operators of accounts or those performing an accounting duty.
2. Accounting practice and scandal can destroy any institution, there is the need to restore integrity and public confidence to accounting operations, the accountants should be strengthened to respond

- 537 quickly to the egregious abuses and malpractice in the world of
 538 business and impose sanctions on offenders.
- 539 3. The urgent need for practice monitoring to commence in order to raise
 540 the quality of financial report globally.
- 541 4. Greater emphasis on enforcement of code of corporate governance and
 542 ethics. Proper enforcement of changes in accounting regulation,
 543 ethical standard and governance code by regulatory authorities will
 544 prevent companies from employing misleading reporting practices of
 545 creative accounting. Ethical codes need to be given much importance
 546 by the accounting
- 547 5. Regulatory agencies in Nigeria should draft rules that minimize the
 548 use of Judgment estimation and prediction in the treatment of certain
 549 entries in financial reporting, e.g. extra ordinary items.
 550

551

552 REFERENCES

553

554 Barnea, A., Ronen, J. and Sadan, S.: 1976 'Classificatory smoothing of
 555 income with extraordinary items', *The Accounting Review*, January,
 556 pp.110-122.

557

558 Beidleman, C. R.: 1973 'Income smoothing: the role of management', *The*
 559 *Accounting Review*, October, Vol. XLVIII, pp. 653-667.

560

561 Hope, B and Hope, S (1996); *Comparing Financial Systems*, MIT Press,
 562 Cambridge.

563

564 Kirschenheiter, M., and Melumad.N. (2002): Can Big Bath and Earnings
 565 Smoothing co-exist as Equilibrium Financial Reporting
 566 Strategies? *Journal of Accounting Research* Vol.40 (3) pp.761-796.

567

568

569 Breton, G. and Taffler, R.J.: 1995 'Creative accounting and investment
 570 analyst response', *Accounting and Business Research*, Vol. 25, No. 98,
 571 pp. 81-92.

572

573 Conner, I.E.: 1986 'Enhancing public confidence in the accounting
 574 profession', *Journal of Accountancy*, July, p.7683.

575

576 Etzioni, A. (1960). Two approaches to organizational analysis: A critique and
 577 a suggestion. *Administrative Science quarterly*, 5, 257- 278.

578

579 Etzioni, A. (1975). A comparative analysis of complex organizations (Rev. ed).
 580 New York; Free press.

581

582 Griffiths, Ian (1992), *Creative Accounting: How to make your profits what you*
 583 *want them to be* (London: Routledge, First published in 1986).

584

Hermann, D. and Inoue, T.: 1996 'Income smoothing and incentives by operating condition: an empirical test using depreciation changes in Japan', *Journal of International Accounting Auditing and Taxation*, Vol. 5, Issue 2, pp.161-78.

Kirschenheiter, M., and Melumad.N. (2002): Can Big Bath and Earnings Smoothing co-exist as Equilibrium Financial Reporting Strategies? *Journal of Accounting Research* Vol.40 (3) pp.761-796.

Table 1

		Correlations Matrix				
		INCOME SMOOTHING	ARTIFICIAL TRANSACTION	REGULATOR Y FLEXIBILITY	PROFITABILITY	MARKET SHARE
INCOME SMOOTHING	Pearson Correlation	1	.994**	.989**	.992**	.558**
	Sig. (2-tailed)		.000	.000	.000	.003
	N	115	115	115	115	115
ARTIFICIAL TRANSACTION	Pearson Correlation	.994**	1	.990**	.984**	.561**
	Sig. (2-tailed)	.000		.000	.000	.003
	N	115	115	115	115	115
REGULATORY FLEXIBILITY	Pearson Correlation	.989**	.990**	1	.986**	.560**
	Sig. (2-tailed)	.000	.000		.000	.003
	N	115	115	115	115	115
PROFITABILITY	Pearson Correlation	.992**	.984**	.986**	1	.949**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	115	115	115	115	115
MARKET SHARE	Pearson Correlation	.558**	.561**	.560**	.949**	1
	Sig. (2-tailed)	.003	.003	.003	.000	
	N	115	115	115	115	115

** . Correlation is significant at the 0.01 level (2-tailed).

Table 2

Reliability

Reliability Statistics	
Cronbach's Alpha	N of Items
.995	5

Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
INCOME SMOOTHING	71.97	584.718	.994	.992
ARTIFICIAL TRANSACTION REGULATORY FLEXIBILITY	72.32	578.746	.993	.992
PROFITABILITY	72.57	552.915	.991	.992
MARKET SHARE	71.75	573.980	.987	.993
	74.63	561.392	.961	.997

APPENDIX 1

Name of company	
Nigerian Breweries Plc.	
Dangote cement Plc.	
Nigerian Ropes Plc.	
Berger Paints Plc	
Santex Portland paints & products Plc.	
PzCussion Nig. Plc.	
UnileverNig. Plc:	
Inter linked technologies Plc.	
7-up bottling Co. Plc.	
Cadbury NigPlc:	
Nestle Nig. Plc.	
First Aluminum Plc.	
Chemical and Allied Product Plc	
Guinness Plc	

Source: Nigerian Stock Exchange fact book.

630 **APPENDIX 2:PRESENTATION OF RETURN ON INVESTED CAPITAL OF**
631 **SELECTED MANUFACTURING COMPANIES**

	2011	2010	2009	2008	2007
Nestle	22%	21%	15%	17%	2.6%
Nigeria Breweries Plc	48.9%	60.5%	59.9%	79.71%	43.8%
Berger Paints Plc	14.10%	26.4%	14.4%	12.2%	10.4%
UnileverNig. Plc:	56.8%	50.2%	50.0%	39.0%	35.8%
Dangote Cement Plc	41.3%	50.4%	33.3%	24.7%	20.0%
Santex Portland paints & products Plc.	15.6%	14.0%	24.0%	26.2%	39.8%
Guinness Plc	45.0%	40.2%	43.0%	32.2%	34.0%
Chemical and Allied Product Plc	69.0%	86.5%	45.2%	107%	35.1%
PzCussion Nig. Plc.	13.0%	14.0%	14.0%	12.0%	18.0%
First Aluminum Plc.	-6%	-0.6%	0.5%	-6.2%	-19.4%
Cadbury NigPlc:	12.0%	4.7%	-4%	-12.8%	-1.94%
7 Up	27.0%	20.0%	19.2%	22.3%	22.3%
Nigerian Ropes Plc.	3.3%	-1.2%	-85.5%	10.1%	7.1%
Inter linked technologies Plc.	0.7%	-4.2%	-4.4%	-4.8%	-211%

632 **Source:** Obtained from five years financial statement summary of