Global Journal of Auditing and Finance | *ISSN 1694-4445*
Published by AIR JOURNALS | *https://airjournal.org/gjaf*
16/18 Avenue des Longaniers, Quatre Bornes, Mauritius
airjournals@gmail.com; enquiry@airjournal.org

RESEARCH ARTICLE

Management Performance and Discretionary Accrual Measures in Nigeria

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Accepted: July 24th, 2022	Published: July 31st, 2022

Citations - APA

Eze, R. C., Onyekwelu, U. L. & Egiyi, M. A. (2022). Management Performance and Discretionary Accrual Measures in Nigeria. *Global Journal of Auditing and Finance, 4(2), 28-33.*

ABSTRACT

The aim of this research work is to examine management performance and discretionary accrual measures in Nigeria. An expo factor research design was used to analyze Data from quoted companies that are listed in the Nigerian stock exchange within the period of 2017-2021 and a total of 5 manufacturing companies were adopted as samples. Profitability, liquidity and firm's growth were the variables used to measure firm's performance as it relates to earnings management. The findings of this study demonstrate that profitability and liquidity have a positive relationship with discretionary accrual measure. However, company growth and discretionary accrual measure have a positive but no statistically significant association. Therefore, this study recommends that regulatory authorities should implement compliance with Accounting Standards, particularly: International Financial Reporting Standards (IFRS) in accounting disclosure such that financial information manipulation undertaken by firms to improve profit are eliminated.

Keywords: *Discretionary Accrual measures, Earnings Management, Management Performance*

Introduction

Every serious business manager is interested in ensuring that the prospect of the business is intact. The desire of every business is to operate beyond the foreseeable future and maximizing shareholders' wealth in the face of economic uncertainties (Effiong, 2020). Management performance is however evaluated through its ability to provide adequate records of the economic transactions and disclosure of relevant information as regards the activities of the company to its stakeholders. Discretional accruals or popular term earnings management, occurs when ''managers use judgement financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Sharifah, 2012). The value of financial information provided to stakeholders, which also depends on the strength of the relationship between them, is at the heart of accounting's relevance. Accrual anticipate probable future economic benefits and obligation (Allen, 2011). The production of financial statements using the accruals accounting concept necessitates the use of professional judgement to ensure that expenditures and relevance are matched with appropriate accounting period. Management roll-on accrual accounting's deficiency to manipulate financial facts because of reversal complication in the reported financial statements. When manipulation is in question, generally and normally most of the people think that firms decrease their incomes and increase their expenditures in order to pay less tax. However, the exact opposite of this is performed in order to achieve firm value (stock price) maximization which we briefly mentioned above. While firms apply earnings management, they choose to increase their incomes (for example making consignment sales look like normal sales) and decrease their expenditures (for example making sales and marketing expenditures look like research and development expenditures) by using accruals generally in the legislative framework (Yurt, 2015). According to Mithat (2015), over the last years, earnings management has become a hot topic in accounting world. After different bookkeeping scandals like waste management, Enron, worldcom and Leham Brothers where they included wrong numbers in the annual report of the firm, earnings management has become increasingly popular. In these scandals the earnings of the firms were manipulated to create a better view of the economic performance of the firm. When manipulating the earnings of the firm by showing the profit and the equity of the firm higher in the annual report, the shareholders and the stakeholders may derive wrong conclusions and take wrong decisions. Thus, discretion accrual which could be either positive or negative as observed in firm's return should not often be used to identify and describe situation representative of earnings management in the general population of the firms (Efiong, 2018).

Theoretical Framework

Agency Theory

The theory on which this study is based is Agency theory. The agency concept stresses the complexities that can arise due to agent and principal relationship. It suggests that separation between ownership and control leads to a divergence between manager and owner interest (Michael, 1976). Agency theory bases its foundation on conflict of interest between investors and stakeholders, in that managers act to exploit their own personal interests. Whereas, stakeholders act in a rational way to maximize their personal utility (Jemaa, 2015). The agency relationship leads to information asymmetry problem, due to the fact that managers can access information more than shareholders (Nermeen, 2014). This will allow the pursuit of self-interest, where, management alter the company's reported earnings in order to meet or beat earnings targets. Leuz (2003), asserted that the effects of such behavior will ultimately be reflected in the company earnings. Therefore, strict monitoring of managers by the principles or external auditors is seen as a checkpoint to restore shareholders interest by blocking predicament intentions of managers.

Empirical Review

This study was undertaken to assess the effect of discretion accruals on managers' performance. Using the accrual model to justify accrual effect on company's performance constitutes managers' power for future performance. This study considers related reviews on the usefulness of discretion accruals on managers' performance.

Effiong (2020) carried out research to examine the extent to which accruals discretionarily created by management will affect the going concern status of manufacturing firms. The expo-facto research design was adopted, and data were gathered using the retrieval method. Panel regression model was employed combining the properties of time series and cross-sectional data. The study, from the empirical findings establishes that discretionary accruals exerted positive and negative significant effects on liquidity positions and profitability levels of the studied companies, and thus affect the going concern status of the manufacturing companies.

Efiong (2018) examined the effect of discretion accruals on stock prices of quoted manufacturing firms in Nigeria. Four years annual data was considered, they were prior to the adoption of international financial reporting standard (IFRS) from ten (10) quoted manufacturing companies. The study adopted expo-facto design that necessitated the determination of the pre-existing independent data variables used in the study. Data were gathered using on-line retrieval method. Also, panel regression model was employed to combine the properties of time series and cross-sectional data. The result demonstrated increase and existence of a unique long-run relationship between discretion accruals and stock prices. This implied that firms whose share prices were very high and recorded high returns in the stock market used discretionary accruals to influence their performance.

Kirubel (2019) looked at earnings management from agency and signaling theory perspective. Considering the nature of the problem, explanatory research design with mixed research approach was employed. The sample used were large manufacturing companies from the period of 2009 to 2017 in Addis Ababa, Ethiopia. The study used audited financial reports of 14 large manufacturing companies in Addis Ababa operating from the period of 2009 to 2017 for which random effect regression model was used. The study concluded that signaling and agency theories partially explained earning management in Ethiopian large manufacturing share companies.

Anam (2021) carried out research on the relationship in accrual earnings management and real earnings management in context of pakistan. The study focuses on trade-off decision between earnings management strategies. The sample is based on non-financial firms that are listed on PSX from 2007 to 2018 that further divided and adopt those firms that suspects to enjoying EM incentives. For analysis purpose we use panel data. The findings approved that Accrual earning management have no switching relationship with any measurement of earnings management except abnormal production cost.

Methodology

The research study adopted an expo factor research design, to achieve the objective of this study which involve estimating the relationship between management performance and discretionary accrual measure, data were sourced from the quoted manufacturing companies that is listed in the Nigerian stock exchange within the period of 2017-2021. A total of 5 manufacturing companies were adopted as the sample.

Data Analysis Techniques

In order to calculate the association between management performance and the discretionary accrual measure in Nigeria, this study used a correlational and probit analysis. Because earnings management is a dependent variable with a binary code of 0 and 1, this strategy is justified (which involve in a company engaging in earnings smoothing being assigning 1 otherwise 0).

The model for the study is presented in the below equation 1

$$\textbf{Earnings Managment} = \boldsymbol{\alpha_0} + \boldsymbol{\alpha_1}\textbf{PFT} + \boldsymbol{\alpha_2}\textbf{LIQ} + +\boldsymbol{\alpha_3}\textbf{FGRW} + \boldsymbol{\pi_i} \ldots\ldots\ldots\ldots\ldots\ldots (\mathbf{1})$$

Were

PFT= Profitability
LIQ=Liquidity
FGRW= Firm growth
α_i= Coefficient of predictors variable
π_i= Error Term.

Results and Discussion

The result of the correlation analysis and probit analysis is presented in the below table 1 and 2.

Table 1: Correlation

	Earning Mgt	Profitability	Liquidity	Firms Growth
Earnings Mgt	1			
Profitability	0.514	1		
Sig	**[0.000]** *			
Liquidity	0.661	0.327	1	
Sig	**[0.000]** *	[0.082]		
Firms Growth	0.437	0.609	0.271	1
Sig	**[0.001]** *	**[0.011]** *	**[0.007]** *	

[] * Represent significant correlation

Table 1 is the correlation analysis table showing the significance level of each relationship of the variables at 5% significance level. The results indicate a positive and significant relationship among the variables studied. This implies that the correlations never occurred by chance.

Table 2: Probit Analysis

	Coefficients	Std. Error	z-Statistic	P-value	LR-Statistic	Prob (LR-Stat)
Constant	2.78619	0.83524	3.33579	0.0002		
Profitability	0.27342	0.09543	2.86514	0.0381	16.984	0.00119
Liquidity	0.41465	0.23410	0.17713	0.0412		
Firms Growth	0.03452	0.02161	1.59740	0.0681		

The output of the linear probability regression also known as the probit analysis is presented in table 2; the result indicates that at 5% level of significant, profitability and liquidity have a statistically effect on earnings management. Here earnings management is a proxy for discretionary accrual. The goodness of fit of the model was also significant to interpreting the individual contribution of the predictors variables as presented in equation 2 below:

$$\mathbf{Earnings\ Mgt} = \mathbf{2.79} + \mathbf{0.27(PFT)} + \mathbf{0.41(LIQ)} + \mathbf{0.03(FGRW)} + \boldsymbol{\pi_i} \ldots \ldots \ldots \ldots (\mathbf{2})$$

The R-Squared, which is consistently larger than the controlled adjusted R-Squared and exhibits a significant fluctuation of the dependent variable explained in the predictor's variable, reveals the overall explanatory power of the model. Discretionary accruals are influenced by management performance inferentially in Nigeria.

Profitability and Liquidity demonstrate a positive relationship with discretionary accruals measure based on the individual influence of the predictors to the dependent's variables, suggesting that a unit increase change in profitability will result in a corresponding increase change in the dependent variable.

Lastly, the company growth and discretionary accruals measure have a positive but not statistically significant association, suggesting that an increase in the business growth may not necessarily result in an increase in the dependent variable. These findings are however in line with the conclusion reached by Effiong (2020) that, discretionary accruals exerted positive and negative significant effects on liquidity positions and profitability levels of the studied companies, and thus affect the going concern status of manufacturing companies. This implies that discretionary accruals were found to exert a negative but significant effect on both liquidity and profitability of the companies studied, thereby creating an avenue for going concern problems in the future.

Conclusion

The purpose of this study is to investigate the relationship between management's performance and discretionary accrual measures in Nigeria. Liquidity, Profitability, and firm's growth were the variables used to measure firm's performance as it relates to earnings management. An expo factor research design was used to analyze Data from quoted companies that are listed in the Nigerian stock exchange within the period of 2017-2021, a total of 5 manufacturing companies were used as samples. The findings of this study demonstrate that company growth and discretionary accrual measure have a positive but no statistically significant association while, profitability and liquidity have a positive relationship with discretionary accrual measure.

For firms in Nigeria that seek to examine how discretionary accrual measures influence management's performance, the study's conclusions have made recommendations on how earnings management can be put in check. In order to avoid threat in the going concern of a company, restrictions should be on how accrual values are used to record fake transactions and accounting guidelines should encourage the clarification of true and fair value as the prevalence of substance over form. The level at which management freedom extend judgement in the preparation of accounting reports should be controlled. Accounting and Audit codes need to be strengthened so as to refrain from encouraging discretionary accrual measures.

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