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MANAGERIAL ATTRIBUTES AND FRAUDULENT FINANCIAL REPORTING IN NIGERIA QUOTED CONSUMER FOODS FIRM

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ABSTRACT

This study examined the relationship between managerial attributes and fraudulent financial reporting in Nigeria quoted consumer goods firms. This study used ex-post-facto research design to sample 16 quoted consumer goods firms in the Nigerian Exchange Group that have consistently published their annual audited financial report covering the period of 2016 to 2022. The data collected are analyzed using descriptive statistics, correlation analysis and robust linear model regression technique. The results revealed that managerial compensation has insignificant negative relations with fraudulent financial reporting and managerial ownership has insignificant positive relations with fraudulent financial reporting. The study therefore recommended that stakeholders and management of Consumer Goods Company should ensure that management offer more financial commitment for managerial efficiency for minimizing the presence of fraudulent financial reporting over time.

Key Words: Broken Trust Theory, Fraudulent Financial Reporting, Managerial compensation and Managerial Ownership

INTRODUCTION

The nomenclature of managerial activities has become a global concern in recent times due to the reported cases of fraudulent activities among quoted companies in Nigeria. The presence of financial statement fraud has become a major issue among quoted companies of various sizes, across industry and national boundary countries (Ashafoke, Dabor & Emeni, 2023) Balaciu, Bogdan and Feleaga (2014) argued that creative accounting is another fraudulent financial reporting (FFR) practice that is aimed at falsifying the books of account and has been both a temptation and a problem since the accounting principles were used for the first time in order to draw up the financial reports on company performance. Fraudulent financial reporting (FFR) undermines the reliability, quality, transparency and integrity of financial reporting process, jeopardizes the integrity and objectivity of the auditing professional especially auditors and auditing firms and also diminishes the confidence of the capital markets as well as market participants in the reliability of financial information (Akhidime, 2019). Financial reporting is usually maintained to attract unsuspecting investors or obtain underserved accounting-based rewards, by presenting an exaggerated, misleading or deceptive, state of a company's financial affair. FFR is the intentional misstatements and falsifications of figures in the financial statement which do not give a true picture of the financial position of the business organizations (Mukah, 2020).

Unfortunately, Patnaik, Satpathy and Das (2014) opined that majority of the external auditors were found to be assisting the management to practice an act of financial statement fraud through the process of creative accounting. In Nigeria, Ashafoke, *et al,* (2023) stated that during the investigation process of Cadbury corporate fraud, Akintola Williams and Deloitte were indicted assisting management to cook the

financial statement. Zikra, Yohanis and Grace (2018) argued that managerial effectively use the financial information to carry out an act of fraudulent reporting through the manipulation of financial statements rendered to the stakeholders. The study would bring distinct opinions regarding managerial stake. However, managers with more stock in organization may tend to take decisions which go for their self-interest to maximize their wealth, job tenure or to elevate their reputation and value. FFR is caused by fraudulent audit confirmations, falsification of financial amounts, alteration of accounting records, misrepresentations and improper capitalisation of expenses (Isuku, Akhidime & Isuku, 2022).

Managerial attributes is an instrument and mechanism of competing for effectiveness for the purpose of maintaining the stated goals (quality financial reporting) with low level fraudulent financial reporting. The essence of managerial capability is to create the platform for the change of directors and other top management. The change of top managerial position is due to poor leadership quality. Therefore, the transfer of authority from one leader to another is to improve the performance of management for attaining high level of efficiency (Nurbaiti & Hanafi, 2017). The motivation for this study is to carefully examine the presence of managerial attributes, and how it would reduce FFR among Nigeria consumer goods firms. Therefore, the study addressed the gap in knowledge by sampling quoted Consumer Goods Company to examine the relationship between managerial attributes and fraudulent financial reporting in Nigeria for the period covering 2016 to 2022. The extension of the time period to 2022 constitute period gap in knowledge.

REVIEW OF RELATED LITERATURE

Fraudulent Financial Reporting

The likelihood of fraudulent financial reporting (FFR) is the falsification of financial amounts, alteration of accounting records, misrepresentations, and improper capitalisation of expenses in the determination of fraud" (Mukah, 2020). According to Association of Certified Fraud Examiners (2022), FFR is the misconduct carried out by management through significant falsification and misrepresentation of financial information rendered to the shareholders. Meanwhile, financial statement is said to be misleading if it lacks the qualities of financial statements which include reliability, relevance, comparability, understandability, compliance with relevant accounting standards as laid down by the Financial Reporting Council (FRCN), etc. Ojiofor, Onuora and Akrawah (2021) opined that financial reporting (FR) is the degree at which accounting information vividly give a true and fair view of company. FFR reporting is the intentional, deliberate, misstatement or omission of material facts, or accounting data which is misleading and, when considered with all available information would cause the user of financial information to change his or her judgment or decision. Handayani, Kawedar and Faud (2018) posited that FFR is on the increase when there is presence of managerial ownership stakes, and this might result to biasedness of the accounting information disclose to the users. Anh and Linh (2016), argue that the M-score model is one of the useful techniques in detecting earnings manipulation behaviors of the companies and it could be applied for an improvement in financial reporting quality and a better protection for investors. Beneish's probit model of 1999 was considered variables related to financial information that would indicate whether financial statement fraud exists. Hapsoro and Handayani (2020) added that fraud of financial reporting existed in a quoted firm caused by information asymmetry. Besides, external stakeholders like investors and creditors should be protected by ensuring management rendered true

stewardship report.

Managerial Attributes

The presence of managerial attributes is the core value of management. Management is seen as a process, one which can engage everyone to get things done. It involves a manager to plan, control, direct, organizing and motivation of other resources in other to achieve predetermined objective of the organization (McCrimmon, 2010). Qaisar (2015) added that management role in earnings manipulation involves manipulating accounting figure and FFR to achieve the desired results of the company. The managerial attributes explored in this study include managerial compensation and managerial ownership.

Effect of Managerial Compensation on Fraudulent Financial Reporting

Managerial compensation (MC) has been a major debate by business practitioners and scholars in relation to fraudulent financial reporting. Managerial compensation can be seen as director compensation, chairman compensation and CEO compensation in the scale of managerial efficiency and ability. Compensation refers to packages offered top management that have a great influence on his performance. The primary reason why organisation offer compensation parcels to directors is to encourage them to assist the organisation to achieve the corporate goals and objectives that will ensure maximum return on the shareholders' value (Jensen & Murphy, 2010). Barde and Zik-Rullahi (2020) asserted that "board room management will be motivated if the company believes that strategic input will lead to good performance and good productivity in commensuration with the desired rewards". The marginal productivity theory stresses that the size of the chairman compensation package is proportional to the executive's marginal revenue product. Therefore, the amount of chairman compensation is equal with the executive's marginal revenue and net product. MC may include emoluments, salaries, bonuses, commissions, overtime work, and holiday premium are mainly the direct compensation. Akewushola and Saka (2018) posited that management with good demonstration of track records with value creation for shareholder in relation to management skills. More importantly, corporate organisations reward the board room management and other managers based on their performance for the purpose of reducing FFR. The CEO is committed to value rendering in a company for promoting the activities of the organization (Sajjad, Mubashar& Ahmad, 2015). However, the chief executive officer (CEO) is the highest position in any company's hierarchy and he/she is vested with the responsibility of strategy implementation and development, effective management of the overall operations of the company and decision making for key issues in the company.

The preposition implies that managerial compensation can influence managers to deviate from FFR. Therefore, based on this concept, managerial compensation is hypothesized to affect FFR. This statement is supported by previous research by (Ashafoke, *et al.,* 2023).

Hypothesis 1: Managerial compensation affects fraudulent financial reporting

Effect of Managerial Ownership on Fraudulent Financial Reporting

Managerial ownership (MO) is a concept that connotes the percentage of shares entrusted in the hands of management in a firm. MO is defined as equity stockholding by management in a company (Adebayo, 2021). MO had been proxied by the number of shares held by the executive directors sitting on the board and managing director in a firm. In some cases, managerial ownership is regarded as insider shareholding (Ogabo, Ogar & Nuipoko, 2021). Managerial ownership is the holding of shares by management (Bhutta & Hizmo, 2021). Managers are saddled with significant shares and command ownership interest in the

firm (Abdullah, Ali & Haron, 2018). Herdjiono and Indah (2017) stated that managerial ownership is mathematically computed as the percentage of shares owned by the management. The stakeholders expect the management (accountants) who prepare these financial statements to observe high ethically standards because they rely on the financial statements to make informed choices and investments decisions. The stakeholders of corporate organsations are government, financial institutions, shareholders, creditors, potential shareholders, employees, host communities, competitors and the various other users of financial statements". Theses stakeholders rely on the reliability, truthfulness and integrity of the financial statements for prompt investment decision. Managerial ownership according to Aryani, *et al.* (2023), it is a situation where shareholders also hold managerial positions within a company, aligning their interests with the company's performance. Almadi and Lazic (2016) stated that the relationship between the management obligation in terms of compensation and creative accounting depends on the level of corporate governance mechanisms put in place by the companies to increase performance of firm. The stakeholder commits financial resources to the managers to drive the performance of the firm through proactive strategies in implementing policies that can maximise their interests (Alregab, 2021). MO can be measured by the percentage of shares held by managers (Bazhair & Alshareef, 2022). The preposition indicates that managerial ownership can influence managers to deviate from FFR.

Therefore, based on this concept, managerial ownership on is hypothesized to affect FFR. This statement is supported by previous research by (Ejiofor, *et al,* 2022; Handayani, *et al.*, 2018; Aryani, Afrizal & Yulisman, 2023).

Hypothesis 2: Managerial ownership affects fraudulent financial reporting

Empirical Review

Ashafoke, *et al.* (2023) used ex-post-facto research design to examine the relationship between directors' characteristics and FFR in Nigeria. The study sample 80 listed companies in Nigerian Exchange Group for the period of 2012 to 2018 while panel logit regression method to analyse the data. The empirical evidence revealed that directors' compensation has a significant negative effect on FFR at 5% level of significance while directors' ownership, directors' financial expertise and directors' political connection had a negative and an insignificant effect on FFR at p-value > 0.05. The result also showed that director's overconfidence has a significant positive relationship effect on FFR at 1% level of significance. Aryani, *et al.* (2023) studied the influence of corporate governance mechanisms on financial statement fraud in Indonesia. The aim of the study is to examine the influence of managerial ownership, board commissioners, independent commissioners, institutional ownership, and audit committees on financial statement fraud. Secondary data were collected by sampling 16 companies of property and real estate companies listed on the Indonesian Stock Exchange for the period of 2018 to 2022 through purposive sampling technique while descriptive statistics and logistic regression to analyses the data. The results showed that managerial ownership, board commissioners, independent commissioners and institutional ownership has insignificant influence on financial statement fraud. However, audit committee has a significant positive influence on financial statement fraud. Ejiofor, *et al.* (2022) used ex-post facto research design to sample some selected quoted consumer goods on the Nigerian Exchange group for the period of 2014 to 2019 to examine the relationship between fair value accounting, managerial obligation and financial reporting quality in Nigeria. The study hypotheses were tested using multivariate regression

technique. The empirical evidence revealed that managerial obligation has a significant negative relationship with financial reporting quality at 1% level of significance while fair value accounting has an insignificant positive relationship with FRQ at p-value > 0.05. This indicates that managerial obligation would significantly reduce fraudulent financial reporting. Hapsoro and Handayani (2020) examined the effect of FFR on company value, with a moderating role of managerial ownership, audit committee, and quality of audit. Secondary data were collected from some selected public companies from the Kompas100 Index on the Indonesia Stock Exchange covering 2013 to 2017 while multiple linear regression to analyse the data. The result showed that managerial ownership has no moderate effect on FFR and company value. The result also revealed that FFR and audit committee has a significant negative impact on company value. Handayani, *et al.* (2018) used the agency and expropriation theory framework to study the effect of assets expropriation through managerial compensation to FFR in Indonesia. Secondary data were collected from some selected agriculture, mining and basic industries and chemicals companies listed in Indonesia Stock Exchange covering the period of 2008 to 2016 through purposive judgment sampling method and multiple linear regressions for the analysis of data. The results revealed that managerial ownership has a significant positive effect on FFR. This indicates that the presence of managerial lead credence to high level of FFR.

Theoretical Framework

The study was anchored on the broken trust theory because the theory helps to address the incidence of FFR committed by top management of quoted firms.

Broken Trust theory

The broken trust theory was developed by Albrecht, Albrecht, and Albrecht (2004). The theory helps to explain corporate executive fraud in a given company. The issue of trust that exists between management and shareholder is broken when there is breach of trust by board members. Albrecht, et al., (2004) assert that the factors that were responsible for the corporate executives to break the trust accorded them in the management of the company are pressure from the executives to meet the desired expectation of the financial analyst. However, breaching trust by managers undermines the agency and stewardship rules of business ethics. Therefore, the opportunity to commit fraud through FFR was created by the process of weak internal control system by breaking the agency and stewardship relationship and rationalization of the corporate executives' attitude of fraudulent reporting.

METHODOLOGY

Research Design

Research design employed in this study is ex-post facto research design which enables the researcher to collect, analyse and interpret data. The population of this research is made up of 21 quoted consumer goods companies whose shares are quoted on the floor of the Nigerian Exchange Group (NGX). Each of the quoted consumer goods companies in the population must have finished its obligation in delivering annual report for the year ended 2016 to 2022. In this study, simple random sampling technique and filtering method was used to select the sampled companies while descriptive statistics, Pearson correlation and robust linear model regression technique for the analysis of data.

Model Specification

The underpinning theory of the study is broken trust theory which draws relationship between managerial attributes and fraudulent financial reporting in Nigeria and it is proposed by Albrecht, et al (2004). The theory is very relevant in the area of managerial research in the present day going concern concept of fraudulent financial reporting. Hence, the study adopted the regression model of Isuku, *et al,.* (2022) to explain change or variation in the value of the dependent variable (fraudulent financial reporting) on the basis of changes in the independent or explanatory variables. Therefore, the adapted the model was re-specified to incorporate managerial attributes as shown below:

$FFR_i = \beta_0 + \beta_1 MC + \beta_2 MO + e_t$ ………………………………………………………………... (3.1)

Where;

FFR = Fraudulent Financial reporting

MC = Managerial compensation

MO = Managerial ownership

For the measurement of fraudulent financial reporting, we made use of Beneish Messod Score (M score) (1999) model as supported by Anh and Linh (2016).

The M-score = -4.84 + 0.920*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI - 0.172*SGAI + 4.679*TATA - 0.327*LVGI

The eight indicators of every single nonfinancial listed company are put in to the Beneish regression model. If the M-score is greater than (-2.22) benchmark, the company should be flagged as earnings manipulators. The M-score model and its 8 indicators were Days Sales in Receivables Index (DSRI), Gross Margin Index (GMI), Asset Quality Index (AQI), Sales Growth Index (SGI), Depreciation Index (DEPI), Sales General and Administrative Expenses Index (SGAI), Leverage Index (LVGI) and Total Accruals to Total Assets (TATA). The measurement of the dependent variable and independent variables were presented in Table 1 below:

Table 1: Measurement of Variables

Variables	Definition	Measurement	Source
FFR	Fraudulent financial reporting	Financial state ment fraud was measured by Beneish M-score.	Omar, Koya, Sanusi, & Shafie (2014)
MC	Managerial compensation	It was measured by the annual pay of the chief executive officer/ managing director of the company.	Barde & Zik-Rullahi (2020)
MO	Managerial ownership	This was measured by the percentage of share held by management board of the company to the total number of shares in issue	Bazhair & Alshareef (2022)

Source: Researcher's Compilation (2023)

PRESENTATION AND ANALYSIS OF DATA

The descriptive statistics of the variable of interest in presented in Table 2 below.

Table 2: Descriptive Statistics Result

	FFR	MC	MO
Mean	-2.547130	95060.49	8.721019
Median	-2.905000	40547.00	0.480000
Maximum	36.19000	505000.0	88.99000
Minimum	-15.25000	1820.000	0.000000
Std. Dev.	4.281354	108874.3	20.64014
Skewness	6.716717	1.429825	2.766853
Kurtosis	64.10433	4.724632	9.473572
Jarque-Bera	17613.88	50.18377	326.3807
Probability	0.000000	0.000000	0.000000
Sum	-275.0900	10266533	941.8700
Sum Sq. Dev.	1961.309	1.27E+12	45583.63
Observations	108	108	108

Source: EViews 9.0 Output (2023)

It would be revealed from Table 2 above that on the average, fraudulent financial reporting (FFR) of the sampled firm is -2.54. According to Feruleva and Shtefan (2017), aggregate score value of fraud above -2.76 signify manipulation of earnings. The result supported view that quoted consumer goods firm in Nigeria were free from manipulating the audited financial reports because the value of FFR (-2.54 < -2.22), and a corresponding standard deviation value of 4.28. This indicates that there is low variation in the manipulation of financial reports among the sampled firm. Managerial compensation (MC) has an average value of N95060.49 million and a corresponding standard deviation value of 108874.3. Managerial ownership (MO) has an average value of 8.72 and a corresponding standard deviation value of 20.64. On the skewness of data, FFR, MC and MO were positively skewed. The Kurtosis values depict that the leptokurtic and platykurtic nature of the data, FFR, MC and MO were leptokurtic because it exceeded the threshold of 3 and ACD was below 3 and this data was platykurtic in distribution.

Correlation Analysis

Pearson correlation was employed to measure the strength of relationship between dependent and independent variables. The Pearson correlation coefficient is a measure of the strength of a linear association between two variables, and is denoted by r. Table 3 below shows the summary of the correlation coefficient.

Table 3: Pearson correlation result

	FFR	MC	MO
FFR	1.000000	-0.060803	0.040435
MC	-0.060803	1.000000	-0.297116
MO	0.040435	-0.297116	1.000000

Source: EViews 9.0 Output (2023)

It was observed from Table 3 that managerial compensation (MC) is negatively and weakly correlated with fraudulent financial reporting (FFR=-0.0608). This means that high level of compensation offer to the CEO might reduce earnings manipulations. Managerial ownership (MO) is positively and weakly correlated with fraudulent financial reporting (FFR=0.0404). This means that high level of ownership concentrated in the hands of management might increase the level of earnings manipulations among the sample consumer goods firms.

Robust Linear Regression Analysis

The robust linear regression technique is employed to test the effect of independent variables on the dependent variable. The result is presented in the Table 4 below.

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-2.826852	0.188869	-14.96723	0.0000
MC	-8.16E-07	1.02E-06	-0.799863	0.4238
MO	0.009878	0.005479	1.802756	0.0714

Robust Statistics

R-squared	0.016326	Adjusted R-squared	-0.002411
Rw-squared	0.027028	Adjust Rw-squared	0.027028
Akaike info criterion	272.7717	Schwarz criterion	281.4916
Deviance	341.7669	Scale	1.130440
Rn-squared statistic	5.770589	Prob(Rn-squared stat.)	0.055838

Non-robust Statistics

Mean dependent var	-2.547130	S.D. dependent var	4.281354
S.E. of regression	4.324008	Sum squared resid	1963.190

Source: EViews 9.0 Output (2023)

It was observed from Table 4 above that R^2 which measures the strength of the effect of independent variables on the dependent variable has the value of 0.016326. This implies that 2% of the variation in

fraudulent financial reporting (FFR) is explained by variations in managerial attributes. The low level of R^2 is the exclusion of other possible variables that might to FFR. The account of the overall significance of the model, the Rn-squared statistic and its associated probability of 0.05 indicates that all the explanatory variables taken holistically significantly explain the dependent variable. Hence, the explanatory power of the model is strong.

More importantly, managerial compensation (MC) has a z-statistics value of -0.79 and a probability value of 0.42 which is statistically insignificant at p-value > 0.05. This indicates that increase in MC would lead to reduction of FFR but it is statistically insignificant because the variable failed the z-test at p-value > 0.05. Managerial ownership (MO) has a z-statistics value of 1.80 and a probability value of 0.07 which is statistically insignificant at p-value > 0.05. This indicates that the presence of MO lead to the presence of FFR but it was statistically insignificant. In summary, managerial attributes command a potential power to influence fraudulent financial reporting overtime.

Discussion of Findings

The regression result showed that managerial compensation has insignificant negative relationship with FFR. The result is inconsistent with the findings of Ashafoke, *et al.* (2023) that that directors' compensation has a significant negative effect on FFR. *Therefore, the hypothesis is rejected that managerial compensation has no effect on FFR.* Managerial ownership has insignificant positive relationship with FFR. The result is consistent with the findings of Aryani, *et al.* (2023) that managerial ownership has insignificant influence on financial statement fraud. The findings of Hapsoro and Handayani (2020) supported the results that managerial ownership has no moderate effect on FFR while inconsistent with the findings of Handayani, *et al.* (2018) that managerial ownership has a significant positive effect on FFR. *Therefore, the hypothesis is rejected that managerial ownership has no effect on FFR.*

CONCLUSION AND RECOMMENDATION

Fraudulent financial reporting is the misconduct carried out by management through significant falsification and misrepresentation of financial information rendered to the shareholders. The regression result showed that managerial compensation has insignificant negative relations with fraudulent financial reporting and managerial ownership has insignificant positive relations with fraudulent financial reporting.

Recommendation

(i) Based on the negative and insignificant relationship of managerial compensation, shareholders should ensure that management offer more financial commitment for managerial efficiency for minimizing the presence of fraudulent financial reporting over time.

(ii) Based on the insignificant positive relationship with fraudulent financial reporting, therefore, stakeholders of Consumer Goods Company should ensure that no management has more equity shareholding due to the presence of fraudulent financial reporting in the future.

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