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Income Smoothing (INSM) Tendencies and Financial Performance of Targeted Banks in Nigeria

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Abstract: *This paper examined the effect of income smoothing-INSM on the Nigerian banks' performance. The three (3) performance proxies considered are common stocks, return on equity-ROE, and Tobins Q. Although, the study populations are the 14 quoted DMBs in Nigerian as at December, 2021, five of these banks were selected. The primary source of data collection was used through the aid of a well-structured questionnaire. 64 copies were used for data for analysis from the 72 copies distributed. Using SPSS software, version 21.0, the variables were subjected to complementary statistical test and the results were used for hypothesis verification. The result obtained shows that INSM has a strong, direct, and high effect on ROE. Hence, the paper suggests that, robust internal control system should be advocated for. Again, Nigerian accountants should adhere strictly to ethical standards. Lastly, shareholders should only use audited financial statements in making material and significant business decisions.*

Keywords: INSM metrics, Financial Performance, Targeted Banks, Common Stocks, Return on Equity-ROE, Tobins Q.

1. INTRODUCTION

Over time, there has been a global widespread dissatisfaction by accounting stakeholders as to why should financial statements lack credibility. The discontent is factored on the need for credible financial information. Also, it has been alleged that, the financial statement reports are inexact, misleading, and not a reflection underlying economic performances and realities of what is obtainable in companies audited and given clean health condition (Luo, 2017). These shortfalls were therefore traceable to the flexibility in reporting. Consequently, the issue of INSM-INSM remains increasingly pervasive (Kim, et al., 2020).

Consequent to a distasteful and deceitful concealment nature of INSM, this study is aware of possible effects, and financial scandals, the magnitude of these effects remain unknown, hence need for further investigation and extending the frontiers in literature is germane. In this era of that is data-driven, there are dire need for credibility with focus on addressing the huge unethical inconsistencies, creditability gap, and material misstatement are key (Liu, 2020).

From empirical viewpoints, there are mixed results from available literature on the issue of INSM in that while some empiricists reported that INSM has improves firm performance (Carlson & Jasperson, 2021; Bhasin, 2016 etc.); others reported that the negative effects of INSM outweigh its positive effect (Hamel, 2022; Andooaka & Ekpe, 2018). Hence, the need to engage in more discussion on it and to create more awareness about it for shareholders and potential shareholders is therefore paramount in the Nigerian banking environment. Again, this study will provide useful insight and empirical evidence on creative accounting-CREA and the shareholders wealth in Nigeria. Lastly, the study will add to literature on the burning issue of INSM practices among Nigerian businesses.

2. LITERATURE REVIEW

INSM-INSM is the act of using accounting methods to level out fluctuations in net income from different reporting periods. The INSM process involves moving revenues and net expenses from one period then to another. Though an INSM practice being used by a firm may be legal, it may not be ethical (Hamel, 2022). In a nutshell, INSM cannot be out rightly classified as an illegal or unethical act, only that some persons resort to using ill means to achieving the same goal. The INSM intention is to smooth the income figures. This is because the firm wants to avoid unnecessary divestments and market reactions (Ubogu, 2019; Carlson & Jasperson, 2021).

The theory that was used to underpin the study is the asymmetric information theory. This theory was developed by Akerlof, Spence, and Stiglitz. The theory was developed to address the market failure recorded in the 70s and 80s. The theory advocates that, what leads to market failure is imperfect/incomplete information between sellers and buyers (Akan, Ighosewe & Temile, 2021). The term "Asymmetric information" otherwise termed "information failure," is a term that refers to when one party in a transaction possesses greater material knowledge than the other party.

The implication of the above statement to the study is that, if the manager has more perfect knowledge than the owner, the managers may use the loopholes inherent in the accounting standards to take undue advantage various stakeholders.

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Empirically, Safdar, and Yan, (2016) evidenced that, INSM lowers (reduces) reported earnings so greatly while some empiricists reported that INSM has improves firm performance (Carlson & Jasperson, 2021; & Bhasin, 2016 etc.); others reported that, the adverse effect of INSM outweigh its positive effect (Hamel, 2022; Andooaka & Ekpe, 2018).

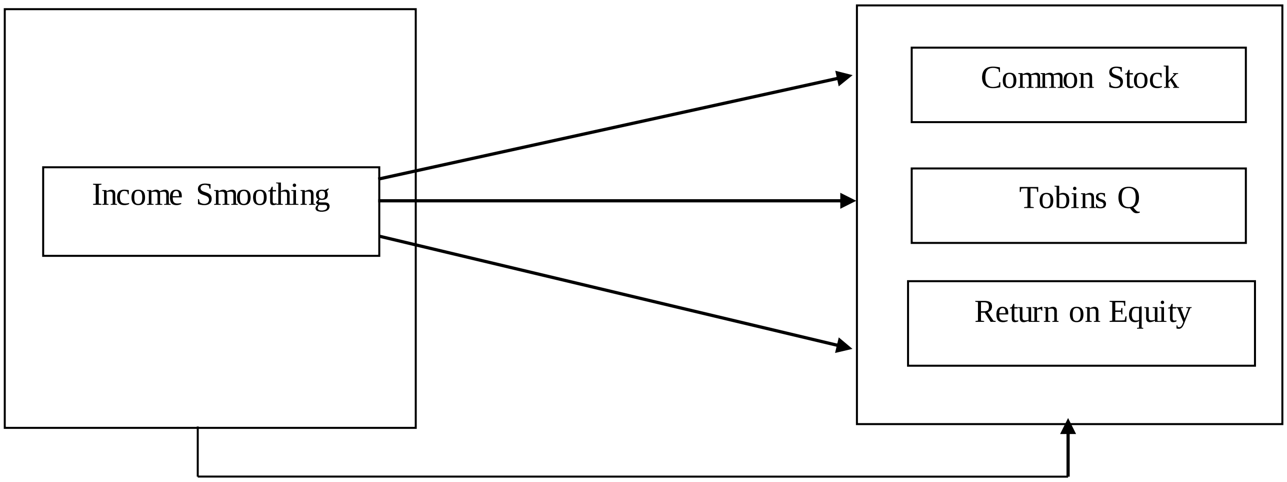

Fig 2.1 Operational framework for INSM and Financial Performance
Source: (Edesiri & Emmanuel, 2016; Researcher s Concept, 2022).

3. METHODOLOGY

For the purpose of carrying out a good analysis and reaching a reasonable conclusion, data was collected from the primary source. The research design is the way the various component is organized in a coherent and logical way, thereby, ensuring an effective addressing of the research problem (Adegoke, 2016). The cross sectional research design was used. Although, the study populations are the 14 quoted banks as at December, 2021, five of these banks were selected. They include:

- I) Zenith Bank Plc,
- II) First bank Nig. Plc,
- III) UBA Plc,
- IV) GT Bank Plc and
- V) Access Bank Nigeria Plc.

The paper used the triangulation method. Data used were collected mainly from primary sources. The primary sources used for this work were gotten through questionnaire and oral interview which was administered (the selected management staff. for the selected DMBs). Instructions pertaining to the filling the research questionnaires were thoroughly explained to our respondents. A time period of two (2) weeks was allocated for the questionnaire distribution and collection.
The data sourced were analyzed using the OLS regression technique and guided by a cross sectional survey method OLS regression Model to ascertain whether or not they have influence over one another using SPSS Version 21.0 statistical software. This helped in testing the hypotheses developed. Accordingly, the models (variables) were subjected to complementary statistical test.

4. Results and Discussions

4.1. Data Presentation

4.1.1 Data Retrieval

The frequency distribution for the retrieval of questionnaire copies in table 1:

Table 1: Questionnaire Retrieval Analysis

S/N	LGA	No distributed	No. Returned	No. not retuned	% Returned	% Unreturned
1	Zenith Bank Plc,	20	18	2	90	10

2	First bank Nig. Plc	16	16	0	100	0
3	UBA	14	10	4	71	29
4	GT Bank Plc	12	12	0	100	0
5	Access Bank Nigeria Plc	10	8	2	80	20
	Total	**72**	**64**	**8**	**88.9%**	**11.1%**

Source: Survey Data, 2022

Seventy Two (72) questionnaires were distributed. There was 88.9% retrieval rate and (64) copies were accurately completed and returned. 8 copies (11.1%) were not returned. Furthermore, the 64 copies were used for data for analysis

4.1.3. Post-coding Preparation and Treatment:

In this stage, the coded data was yet still examined for possible errors such as outliers or missing values during the coding process. However, there were no missing numbers from the codes.

Table 2: Post-coding Preparation and Treatment

		N	%
Cases	Valid	64	100.0
	Excluded[a]	0	.0
	Total	64	100.0
a.			

Cronbach's Alpha	Standardized Items	N of Items
.993	.994	35

Reliability Statistics

Cronbach's Alpha	N of Items
.987	7

Source (Data result, 2022)

Table 2 evidenced that, the instruments have high alpha coefficients which exceed the adopted criterion of .70 as proposed by Neuman (2006). The result indicates that overall coefficient of variables IS, CS, TB, and FSIZE (representing the average responses for each variable) is high (.987) while that of all the constructs for the variables is (.993) still > the adopted .70. That is, a strong level of coherence and clarity of the indicators and suggests the adoption and replication of the instruments in other related fields based on similar parameters.

4.1.4 Demographic Analysis

Table 3: Position of Respondents

Position					
		Frequency-F	Percent-%	Valid Percent-%	Cumulative Percent-%
Valid	Senior staff	28	43.8	43.8	43.8
	Middle Management	22	34.4	34.4	78.1

	Management staff	14	21.9	21.9	100.0
	Total	64	100.0	100.0	

Source: Survey Data, 2022

Table 3 represents the respondents' cadre in the various targeted banks. The table reveals that 43.8% of them falls under senior staff category, 34.4% are middle management staff, while 21.9% are of management staff respectively. The implication of this is that those principal officers who have knowledgeable are covered and thus opinion that could be relied upon has been provided.

Table 4: Working Experience

		YOS Frequency-F	Percent-%	Cumulative Percent-%
Valid	1-5 years	13	20.3	20.3
	6 – 10 years	22	34.4	54.7
	11 – 15 years	16	25.0	79.7
	More than 15 years	13	20.3	100.0
	Total	64	100.0	

Source: Survey Data, 2022

Table 4 represents the working experience put in by the respondents within the targeted DMBs. The table reveals that 20.3% of the sampled bank staff have 1-5 years' experience, 34.4% have 6-10 years' experience, while 25% have 11 - 15 working experience respectively. 20.3 % however, have over 15 years' experience related to their job. The implication of this is that those principal officers, whom have adequate knowledge on the INSM and Performance.

Table 5: Gender

		Frequency-F	Percent-%	Cumulative Percent-%
Valid	Male	35	54.7	54.7
	Female	29	45.3	100.0
	Total	64	100.0	

Source: Survey Data, 2022

Table 5, depicts that 54.7% respondents are males while 45.3% are females.

Table 4.5 Unit Affiliations of Respondents

		UNIT Frequency-F	Percent-%	Valid Percent-%	Cumulative Percent-%
Valid	Accounts Reconciliation (ACR)	21	32.8	32.8	32.8
	Compliance and Monitoring (CM)	17	26.6	26.6	59.4
	Customer Accounts	10	15.6	15.6	75.0
	Internal Audit (IA)	6	9.4	9.4	84.4
	Others	10	15.6	15.6	100.0
	Total	**64**	**100.0**	**100.0**	

Source: Survey Data, 2022

Table 5 represents the unit and departments of the targeted staff from the targeted DMBs. The table reveals that 32.8% of the respondents work in the accounts and reconciliation unit, 26.6% are from compliance and monitoring unit, 15.6% are of customer accounts section while 9.4% are of internal audit unit. 15.6% are from other departments. By implication, related departments and units which could facilitate INSM techniques.

Table 6: Descriptive statistics

	N	Sum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
IS	64	209.000	3.26563	.707380	-.856	.299	.503	.590
CS	64	223.600	3.49375	.602607	-.928	.299	-.058	.590
TQ	64	227.400	3.55313	.520979	-.741	.299	-.779	.590
ROE	64	228.600	3.57188	.507552	-.583	.299	-1.215	.590

Source (SPSS output of data, 2022)

From table 6 above, INSM has the highest variation amongst the regressor with a STD. Deviation of 0.707380. However, all their mean scores were all above 3, indicating even distribution.

4.2. Regression Results

The OLS estimate (table 7) was used to test the effect of INSM on the common stock, TB, and ROE:

Table 7: Tabular Summary of Findings

S/N	Hypotheses (HO)	Statement	Decision rule: (Pv) < 0.05 reject Null	Interpretation	Decision
1	**HO_1**	INSM and common stock	p=0.000, R^2=0.870	Very strong, positive (direct) and significant	Rejected HO_1
2	**HO_2**	INSM and TB	p=0.000, R^2 = 0.830	Very strong, positive (direct) and significant	Rejected HO_2
3	**Ho_3:**	INSM and ROE	p=0.000, R^2=0.735	Very strong, positive (direct) and significant	Rejected HO_3

Source (SPSS output of data, 2022)

4.3. Discussion of Results

Looking at research hypothesis one, INSM has a P-value of 0.000 (Table 7) which is substantially lower than the stated 0.05. The Ho was rejected and alternate accepted that INSM reduced common stock of targeted DMBs significantly. Also, the F-statistic has a probability that is well below 5% (*p*-value = 0.000), i.e. estimated model for common stock is significant. To further evidence this, the Adj. R-squared value of 0.868 indicates that, the model is feasible of policy formulation. By implication, variables not factored into the model jointly account for the remaining 16.2%. Furthermore, all the other variables have positive coefficients. The coefficients of .933 signify that INSM improves common stock. By implication, INSM would result in a 93.3% increase in common stock of the targeted banks. This result here supports (Adeosun et al., 2021; Ubogu, 2019) findings.

As regards, INSM and TB model, a p-value of 0.000 and F-statistic (*p*-value) of 0.000 were recorded, i.e. the estimated model for Tobin's Q is jointly significant. The adjusted R-squared of 0.828 i.e. about 82.8% indicate that, the model has a high predictive power. Furthermore, the coefficients of .911 signify that INSM increase Tobin's Q. This result here supports (Carlson, & Jasperson,

2021) findings whose study results indicated that INSM and other CREA dimensions are major performance but disagrees with Tunji, Benjamin, Bintu, and Lloyd (2020) findings.

Similar situation is applicable to INSM and ROE model. Based on the P-values (INSM and ROE) is 0.000 (table 7). Thus, INSM has a considerable effect on ROE. By implication, the more companies prefer to report a stable profit growth trends, such company may violate profit, they may likely increase ROE. This was affirmed by both Andooaka and Ekpe (2018).

5. CONCLUSION AND RECOMMENDATIONS

The result obtained shows that INSM has a strong (high), positive (direct) and significant relationship with ROE. Hence, the paper suggests that, more robust internal control system in place. It is presupposed that higher internal control addresses issues related to governance. Once more, Nigerian accountants should uphold the highest ethical standards and act honourably.

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