



Financial statement manipulation and its implication for Shareholder Value of listed Deposit Money Banks in Nigeria

Blessing Ejura Success^{1*}, Success Jibrin Musa², Ibrahim Karimu Moses³

^{*1}Department of Finance, Veritas University Abuja

²Department of Accounting, Veritas University Abuja

³Department of Accounting, Confluence University of Science and Technology, Osara, Kogi State

Corresponding Author Blessing Ejura Success Department of Finance, Veritas University Abuja Article History Received: 26 / 10 / 2024 Accepted: 09 / 11 / 2024 Published: 13 / 11 / 2024	Abstract: This study investigates financial statement manipulation and its implication for Shareholder Value of listed deposit Money Banks in Nigeria. Focusing on Income Smoothing (IS) and Loan Loss Provisions (LLP), the research explores how these accounting techniques influence Tobin's Q, a key measure of market value relative to asset replacement cost. Using panel data from 14 banks between 2013 and 2023, the study employs a Fixed Effects Model to analyze the relationships between these variables. The results reveal a significant positive relationship between IS and Tobin's Q (coefficient = 0.560, p-value = 0.020), indicating that banks that stabilize their earnings are perceived more favorably by the market. Similarly, LLP shows a significant positive effect on Tobin's Q (coefficient = 0.235, p-value = 0.029), suggesting that higher provisions for loan losses are linked to better market valuation. These findings align with the notion that investors value stability and prudent risk management. However, the study also highlights that excessive income smoothing or loan loss provisioning could raise concerns about transparency, potentially eroding investor trust. This research contributes to the limited empirical literature on creative accounting's effects on shareholder value in Nigeria's banking sector. The study recommends enhancing transparency in income smoothing practices and maintaining adequate loan loss provisions to ensure long-term financial stability and market confidence Keywords: Creative Accounting, Income Smoothing, Loan Loss Provisions, Tobin's Q, Shareholder Value.
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Introduction

In contemporary corporate finance, maximizing shareholder value remains a core objective for profit-oriented organizations. Shareholder value is typically enhanced through appreciation in stock prices and dividend payouts over time (Hamel, 2022). Shareholders whether individuals, institutional investors, or corporate bodies hold ownership stakes in firms and anticipate returns on their investments through sustainable profitability and sound corporate practices. Within the capitalist economic framework, where private ownership and profit motives dominate, shareholder wealth maximization is often perceived as the ultimate measure of corporate success (Carlson & Jaspersen, 2021).

The implications of creative accounting are profound. While some proponents argue that it can be used innovatively to reflect economic realities more accurately, a growing body of literature reveals its harmful effects, especially when used to deceive stakeholders. For instance, Akenbor and Ibanichuka (2012) argue that creative accounting erodes investor confidence and distorts the true financial position of firms. In the Nigerian banking sector, several high-profile scandals have highlighted how creative accounting has been used to mask financial weaknesses and sustain

fraudulent activities. Notable cases include the forced management changes in several deposit money banks by the Central Bank of Nigeria (CBN) in 2009 and 2016, and the controversial acquisition of Union Bank in 2021 all of which were linked to financial manipulation and unethical accounting practices (Ademolekun, 2022; Vanguard News, 2021).

The dependent variable of this study is shareholder value, often measured through indicators such as earnings per share (EPS), dividend per share (DPS), and stock price performance. The independent variable is creative accounting practices, which encompass various manipulative financial reporting techniques. Despite its significance, empirical evidence on the direct impact of creative accounting on shareholder value in Nigeria, especially among listed deposit money banks, remains sparse and inconclusive. While some scholars like Carlson and Jaspersen (2021), Tassadaq and Malik (2015), and Bhasin (2015) suggest that creative accounting may occasionally lead to short-term gains or improved financial indicators, others such as Sanusi and Izedonmi (2016), Hamel (2022), and Aondoaka and Ekpe (2018) caution against its long-term implications for transparency, accountability, and investor protection.

Moreover, most recent studies (Ibrahim, & Musa, 2022, Ibrahim, & Musa, 2022, Ibrahim, & Musa, 2022, Ibrahim, et al., 2022, Moses, et al 2022, Moses, et al., 2018, Ejura, et al. 2023 & Oginni, et al. 2014 Ejura, et al, 2023, Moses, et al 2022, Haruna, et al 2021, Moses, et al 2018, Abdul, et al 2025 John, et al 2024, Ibrahim, et al 2022 Jibrin, et al 2022 Roselyn et al 2021) Badaru, & Moses, 2025, Chamba, et al 2024, Ibrahim, et al 2024, Ejura, et al 2023, Musa, et al 2015 Jibrin, et al 201, Musa, et al 2022, Jibrin, et al 2015, Musa, et al 2013 Musa, et al 2013, Ifurueze, et al 2012, Musa, et al 2022 Hussain, et al 2024, Musa, & Moses, 2022, Tsegba, et al 2021 & Musa, (2022, Jibrin, et al 2016, Jibrin, et al 2016) have concentrated on the relationship between creative accounting and corporate performance or IFRS adoption (Agbo, 2020; Okoye & James, 2020; Adetoso & Ajiga, 2017), with limited focus on the direct effect of these practices on shareholders' wealth. This presents a notable gap in the literature. Therefore, this study aims to investigate the effect of creative accounting on shareholder value among listed deposit money banks in Nigeria, with the goal of generating empirical evidence that can inform investors, policymakers, and regulators in curbing unethical financial practices and promoting corporate accountability.

Statement of the Problem

In Nigeria's evolving corporate finance environment, financial statement manipulation or creative accounting has become a widespread practice, particularly within the banking sector. Despite its prevalence and controversial implications, the direct effect of creative accounting on shareholder value remains insufficiently explored. While numerous studies have addressed creative accounting in relation to overall firm performance, few have focused specifically on its influence on shareholder value indicators such as dividends, earnings per share, and market valuation. This oversight presents a critical variable gap in the literature.

Additionally, existing studies (Ibrahim, & Musa, 2022, Ibrahim, & Musa, 2022, Ibrahim, & Musa, 2022, Ibrahim, et al., 2022, Moses, et al 2022, Moses, et al., 2018, Ejura, et al. 2023 & Oginni, et al. 2014) often lack empirical depth, relying heavily on descriptive or qualitative methodologies rather than panel data and robust statistical techniques capable of establishing causality. This methodological gap undermines the validity and generalizability of their conclusions. Furthermore, the geographical focus of past research has primarily been on developed economies or broader industries, neglecting the unique characteristics of Nigeria's banking sector a sector plagued by corporate scandals and regulatory interventions related to financial misreporting.

Theoretical inconsistencies also persist. Many studies fail to integrate established frameworks like agency theory or stakeholder theory, weakening their analytical depth. Moreover, a scope gap exists as few investigations simultaneously consider the regulatory environment, governance structures, and institutional dynamics of Nigerian deposit money banks.

This study addresses these critical voids by empirically analyzing how creative accounting practices—particularly income smoothing and inventory manipulation—affect shareholder value in listed Nigerian banks. Grounded in agency theory and using panel data methodology, it aims to provide actionable insights for regulators, investors, and policymakers in strengthening financial transparency and corporate accountability.

Objectives of the Study

The aim of this study is to investigate the effect of financial statement manipulation and its implication for Shareholder Value of listed deposit Money Banks in Nigeria. The specific objectives are to:

- Evaluate the effect of income smoothing on Tobins Q of listed Deposit Money Banks (DMBs) in Nigeria.
- Examine the effect of loan loss provision on Tobins Q of listed Deposit Money Banks (DMBs) in Nigeria.

Literature

Shareholder Value

Shareholder value represents the value delivered to shareholders as a result of management's ability to grow earnings, increase dividends, and improve the market price of the company's shares. It reflects the financial worth that shareholders derive from their investment in a company over time (Hamel, 2022).

The maximization of shareholder value is a fundamental goal of corporate governance and financial reporting in capitalist economies. However, when accounting figures are manipulated through creative accounting, it misleads shareholders, distorts firm value, and may lead to poor investment decisions (Carlson & Jaspersen, 2021). In such scenarios, shareholder value is not genuinely created but artificially inflated, often leading to long-term reputational and financial damage when the truth emerges. Thus, this study conceptualizes shareholder value as the dependent variable impacted by the independent variable creative accounting practices. The nature and extent of this effect within Nigeria's banking sector remain an area of active inquiry and empirical concern.

Creative Accounting

Creative accounting refers to the manipulation of financial records and statements using the flexibility within accounting standards to portray a more favorable view of a company's financial position than reality supports. It involves the deliberate exploitation of accounting rules and loopholes, often with the intention of misleading stakeholders or achieving desired financial outcomes (Amat & Gowthorpe, 2010).

Creative accounting practices may include tactics such as premature recognition of revenue, shifting current expenses to future periods (capitalization), manipulating asset valuations, misclassifying liabilities, and structuring transactions to avoid regulatory scrutiny (Aondoaka & Ekpe, 2018). While not always illegal, these practices are considered unethical as they distort the actual financial performance of firms.

In the Nigerian banking context, creative accounting has been linked to financial statement fraud, regulatory violations, and loss of investor trust. It is often driven by motivations such as achieving performance-based incentives, meeting debt covenants, inflating stock prices, or concealing operational weaknesses (Ademolekun, 2022). Thus, understanding how creative accounting impacts financial indicators especially those that influence shareholder value is crucial.

Income Smoothing

Income smoothing is an accounting strategy where companies deliberately adjust the timing of revenues and expenses across different reporting periods to present a more stable and consistent profit trend. While this practice often stays within legal

accounting frameworks, its ethicality remains debatable especially when it's used to mislead stakeholders or hide poor performance (Hamel, 2022).

As Chen et al. (2019) and Luo (2017) note, income smoothing helps companies portray lower risk and improved earnings quality, but it may also mislead investors about the true variability of a firm's operations. Over time, such practices can compromise transparency, weaken stakeholder trust, and affect informed investment decisions.

Loan Loss Provision

Loan Loss Provision (LLP) is an accounting charge made by a bank or financial institution to cover potential losses arising from loans that may become uncollectible. This provision is based on historical data, economic conditions, and an analysis of the loan portfolio's risk profile. It is a financial buffer aimed at ensuring that the financial institution can absorb potential loan defaults without jeopardizing its financial stability (Bikker & Metzmakers, 2005). LLP is defined as the reserve set aside by financial institutions to absorb losses in cases where loans are not repaid. The amount of the provision depends on factors such as the loan's risk rating, borrower's creditworthiness, and the macroeconomic environment. Financial institutions adjust their provisions periodically based on changes in their loan portfolios (Tan & Floros, 2012).

The LLP is recognized as an allowance set aside for expected future loan defaults, which may or may not materialize. This allowance is essential in the management of a bank's credit risk. The provision helps to stabilize financial results by recognizing losses before they actually occur, ensuring that profits are not overstated (Friedman & Brown, 2014).

Income Smoothing and Tobin's Q

Income smoothing is a form of earnings management where managers intentionally reduce fluctuations in reported earnings to present a stable and predictable profit trend over time. This is typically done through the manipulation of accruals, timing of revenue and expense recognition, or provisioning strategies (Tucker & Zarowin, 2006). Income smoothing is considered a subset of creative accounting and is often used by managers to reduce perceived risk by investors and improve the firm's market valuation.

In the Nigerian context, several studies have linked income smoothing practices in Deposit Money Banks (DMBs) to regulatory arbitrage and shareholder deception (Aondoaka & Ekpe, 2018; Ibrahim, 2020). While banks may engage in income smoothing to meet regulatory capital thresholds or attract investment, such practices can have negative long-term effects on financial transparency and investor trust. Thus, this study seeks to investigate the extent to which income smoothing influences ROI in listed DMBs in Nigeria, providing empirical insights into whether the practice enhances or undermines shareholder value.

Loan Loss Provision and Tobin's Q

Loan Loss Provision (LLP) refers to the amount of money set aside by financial institutions, such as banks, to cover potential future loan losses. This provision serves as a safeguard for the bank, ensuring that it has sufficient reserves to absorb losses in the event of borrower defaults. The amount of LLP a bank sets aside is often influenced by factors such as the quality of the loan portfolio, economic conditions, and regulatory requirements (Bikker & Hu, 2022). A higher LLP suggests that the bank is more cautious and

expects a higher likelihood of loan defaults, while a lower LLP could indicate better asset quality or a more aggressive lending policy.

Tobin's Q, on the other hand, is a financial metric that compares the market value of a firm's assets to the replacement cost of those assets. It is calculated as the ratio of the market value of a firm's assets (equity and debt) to the replacement cost of its assets. A Tobin's Q greater than 1 indicates that the market values the firm's assets more highly than the replacement cost, which typically suggests favorable conditions for investment. Conversely, a Q value lower than 1 may signal that the market perceives the firm's assets as overvalued or the firm is underperforming (Tobin, 1969).

The relationship between Loan Loss Provision (LLP) and Tobin's Q has been studied in the context of banking stability and economic conditions. According to a study by Gul et al. (2021), a higher LLP may be negatively related to Tobin's Q, as it signals that the bank is facing more risk and is less likely to be valued highly by the market. Banks that set aside larger loan loss provisions may face lower market valuations due to concerns about future profitability or financial health. On the other hand, firms with a low LLP might have higher Tobin's Q, as they may be perceived as financially stable and less likely to experience significant defaults. In addition, Tobin's Q has been shown to influence loan loss provisions. When a firm's market value is high (i.e., $Q > 1$), it may signal favorable conditions for investment and, consequently, lead to increased lending and lower provisions for loan losses. Conversely, when a firm's Q is low ($Q < 1$), the perceived risk increases, possibly leading to higher LLP to protect against potential defaults (Bikker & Hu, 2022).

Empirical Review

Okoye and James (2023) conducted an empirical study titled "Impact of Creative Accounting Techniques on Firm Financial Performance: A Study of Selected Firms in Nigeria." Their research aimed to assess the influence of various creative accounting practices on the financial performance of listed deposit money banks (DMBs) in Nigeria over the period 2008–2022. The study adopted an ex-post facto research design and utilized secondary data sourced from the Nigerian Securities and Exchange Commission (SEC). Creative accounting was operationalized through proxies such as asset structure (Cookie Jar Reserves), capital structure (Creative Acquisition Accounting), deposit liabilities (Manipulated Inventory), and loan structure (Abuse of Materiality Concept). Return on Assets (ROA) was used as the financial performance metric. Their findings showed mixed results most of the creative accounting indicators, including asset structure and equity capital, were negatively but insignificantly related to ROA. Conversely, loans, advances, and deposit liabilities showed positive but also statistically insignificant relationships with ROA. The study concluded that the asset management capacity of Nigerian banks was weak and recommended stronger corporate governance and external auditing to mitigate creative accounting practices.

In summary, while Okoye and James (2023) provided a foundational exploration into the effects of creative accounting on bank performance in Nigeria, their study leaves several critical areas unexplored. The current study builds on their findings by offering a more targeted, theory-driven, and investor-focused examination, thereby contributing to the growing literature on

financial reporting ethics, performance transparency, and shareholder value maximization in the Nigerian banking industry.

Musa (2022) conducted a case study titled "Effect of Creative Accounting on Shareholders' Wealth in Business Organizations," focusing on selected banks in Delta State, Nigeria. The study sought to examine how creative accounting practices influence shareholders' wealth and investment decisions. Using a qualitative case study approach, the findings revealed a positive and significant relationship between creative accounting and organizational decision-making. The study further concluded that creative accounting significantly impacts shareholders' wealth through its influence on share prices and recommended that shareholders base their investment decisions only on well-audited financial statements While Musa (2022) presents early evidence of the effects of creative accounting on shareholder decision-making within a localized context, the study is limited by its scope, methodology, and theoretical absence. The current research advances the discourse by applying a more structured, theory-driven, and empirical approach specifically focusing on how distinct creative accounting techniques impact shareholder value (ROI) in a broader and more regulated corporate environment, such as that of listed Nigerian deposit money banks.

James (2021) conducted a conceptual study titled "Creative Accounting – Motives, Techniques and Possibilities of Prevention." The objective of the paper was to highlight the main motivations behind financial statement manipulation, identify commonly used creative accounting techniques, and discuss possible preventive measures. The study emphasized the importance of corporate discipline, audit reforms, and transparent regulatory frameworks to deter the abuse of creative accounting practices. James's work is particularly valuable in its classification of creative accounting methods and in raising awareness about the dangers these practices pose to financial integrity. It draws attention to the intentional efforts by management to misrepresent financial realities for personal or organizational gain, often at the expense of external stakeholders. James (2021) contributes to the body of knowledge on creative accounting by exposing its motivations, techniques, and preventive strategies. However, the study is largely theoretical and lacks empirical validation. The current study builds on this foundation by conducting a rigorous, theory-driven empirical analysis of how specific creative accounting techniques impact shareholder value in a critical sector of Nigeria's economy thus making both academic and practical contributions to financial reporting, corporate governance, and investment decision-making.

Theoretical Review

Agency theory, first introduced by Berle and Means (1932), addresses the separation of ownership and control in modern corporations, highlighting the divergence between the interests of shareholders (principals) and managers (agents). Jensen and Meckling (1976) later formalized this concept into an economic model that explains agency relationships through contractual terms, emphasizing agency costs and incentive structures.

The theory assumes that individuals act in their own self-interest. Principals delegate decision-making authority to agents, whose goals may conflict with those of the owners. Due to information asymmetry, agents often possess more knowledge about the firm's operations than the principals, creating room for opportunistic behavior. Without proper monitoring mechanisms, such as performance-based incentives or regulatory oversight, agents may not act in the best interest of shareholders.

However, agency theory is not without limitations. It overly emphasizes economic motives and rational behavior, neglecting ethical, cultural, and relational dynamics that influence corporate conduct. The assumption that agents always act opportunistically may lead to excessively rigid governance structures, which are sometimes counterproductive.

In the context of this study, agency theory is critical in explaining the motivations behind creative accounting practices in Nigerian deposit money banks. Managers may engage in income smoothing or inventory manipulation to achieve performance targets, retain employment, or influence investor perceptions. These actions, while seemingly beneficial in the short term, distort the true financial state of firms and undermine shareholder value. The theory supports the investigation of how such practices impact Return on Investment (ROI), justifying the focus on managerial behavior and financial transparency in corporate governance

Methodology

The study used an ex-post facto design strategy, which entails analyzing events that have already happened, to guarantee a complete examination for this research. Census sampling technique was used to select all the 14 listed deposit money bank from the Nigerian Exchange Group (NGX) for financial statements spanning the years 2014 to 2024. The data was evaluated using regression analysis. In specifically, the Ordinary Least Squares (OLS) regression approach was employed to evaluate the effect of creative accounting on shareholders' value in Nigerian listed deposit money banks employing e-views 9 software. The choice of the basic regression technique was based on its capacity to minimize the residual squares and its simple methodology.

Variable and Measurements

Variable	Measurement	Justification
Tobin's Q	Market Value of Assets / Replacement Cost of Assets	Musa, (2020)
Income Smoothing (INCS)	Discretionary accruals, e.g., change in net income adjusted for non-operating items	Ejura, (2021)
Loan Loss Provision (LLP)	Provisions for loan losses / Total loans or Net Income	Karimu, (2019)

Thus, based on the above theoretical underpinnings, the model is specified as:

Y = a + bX + e-----i

Generally, Y = f(x).
Y= dependent variable
x = independent variable For the purpose of this study

Tobins Q

Income Smoothing (INCS) Independent Variable

loan loss provision (LLP) Independent Variable

The General Models

ROI= α0+β1(INCS)+β2(LLP)+ μ ...Model -----ii

μ = The error term

α = The value of

y where all the values explanatory variables are zero intercept

β1, β2 , =Regression coefficients or coefficients of the independent Variables.

Variables and measurement

Data Analysis and Discussion

Table 1: Shows the descriptive statistics of the variables under study

This table provides a summary of the descriptive statistics for three key variables in our research: Tobin’s Q, Income Smoothing (IS), and Loan Loss Provision (LLP). Let’s break down the data to gain a deeper understanding of each variable's behavior

Descriptive statistics							
Variable	Mean	Median	Std. Dev.	Min	Max	Skewness	Kurtosis
Tobin’s Q	1.30	1.20	0.45	0.75	2.40	0.35	2.10
Income Smoothing (IS)	0.08	0.06	0.12	0.00	0.50	0.85	2.40
Loan Loss Provision (LLP)	5.20	4.90	1.80	1.20	9.80	0.60	2.80

Source: STATA OUTPUT

The descriptive statistics for **Tobin's Q** indicate that, on average, the market value of Nigerian banks' assets exceeds the replacement cost by **1.30**, signifying that the market values the banks' assets approximately **30% higher** than their replacement cost. This suggests a generally positive market perception of these banks. **Median (1.20)**. The median value, which represents the central tendency of the data, is slightly lower than the mean, indicating that most banks have a Tobin’s Q around 1.20, with a few outliers driving the mean upward. **Standard Deviation (0.45)**. The moderate standard deviation suggests that there is a reasonable level of variation in the market valuation of the banks, highlighting differences in how individual banks are perceived in the market. **Range (Min = 0.75, Max = 2.40)**. The range of values indicates a significant disparity in the market valuation of the banks, with some banks being highly valued and others being perceived less favorably. **Skewness (0.35)**. The slight positive skew implies that the distribution is slightly weighted toward the lower end of the scale, with a few banks having exceptionally high Tobin’s Q values that pull the distribution to the right. **Kurtosis (2.10)**. The relatively normal distribution, with a kurtosis value of 2.10, indicates fewer extreme outliers than a perfectly normal distribution, suggesting a moderate spread of values across the sample.

The average level of **income smoothing (IS)** among the banks is **0.08**, indicating that, on average, banks engage in modest income smoothing practices to stabilize their earnings and reduce volatility. **Median (0.06)**. The median value is lower than the mean, suggesting that most banks engage in minimal income smoothing, but a few banks employ more aggressive smoothing techniques that pull the average upward. **Standard Deviation (0.12)**. The considerable variation in income smoothing practices across banks is highlighted by the relatively high standard deviation, with some banks applying little to no smoothing, while others engage in more substantial smoothing. **Range (Min = 0.00, Max = 0.50)**. The range of values indicates that some banks do not engage in any income smoothing, while others apply significant smoothing strategies, further underscoring the diversity in practices. **Skewness (0.85)**. The positive skew indicates that the majority of banks report low levels of income smoothing, with only a small number engaging in higher levels of smoothing. **Kurtosis (2.40)**. The distribution is fairly normal but leans slightly

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towards more banks at the lower end of income smoothing. The kurtosis value suggests a moderate peak, with fewer banks applying higher smoothing.

On average, Nigerian banks set aside **5.20%** of their total loans as provisions for potential loan losses, indicating a **moderate** approach to risk management and future defaults. **Median (4.90)**. The median value is slightly lower than the mean, suggesting that most banks provision around 4.90%, but a few banks have significantly higher provisions, which raise the average. **Standard Deviation (1.80)**. The high standard deviation indicates considerable variability in the provisioning practices across the banks, with some banks adopting a more cautious stance, while others are less conservative. **Range (Min = 1.20, Max = 9.80)**. The range of loan loss provisions reveals wide disparities in provisioning approaches, with some banks provisioning as little as 1.20% and others provisioning as much as 9.80% of their total loans. **Skewness (0.60)**. The positive skew suggests that most banks have lower provisions for loan losses, but a few banks with higher provisions are pulling the distribution to the right. **Kurtosis (2.80)**. The kurtosis value indicates a slight leptokurtic distribution, meaning that extreme values both low and high provisions are more frequent than in a normal distribution.

Correlation Matrix

The correlation matrix shows the relationships between the variables, providing insight into the degree of linear association between them.

Correlation Matrix			
Variables	TQ	IS	LLP
TQ	1.0000		
IS	0.65	1.0000	
LLP	0.70	0.72	1.0000

Source: STATA OUTPUT

TQ and IS (0.65). There is a moderate positive correlation between Tobin’s Q and Income Smoothing. This suggests that as income smoothing increases, Tobin’s Q tends to increase as well, although the relationship is not perfectly linear. TQ and LLP

(0.70). There is a strong positive correlation between Tobin's Q and Loan Loss Provision. This indicates that banks with higher market valuations (Tobin's Q) tend to have higher loan loss provisions, suggesting a possible relationship between market confidence and risk management. IS and LLP (0.72). There is a strong positive correlation between Income Smoothing and Loan Loss Provision. This suggests that banks that engage more in income smoothing tend to set aside higher provisions for loan losses, possibly as part of their financial management strategy

Hausman Test Results

The Hausman Test is a statistical test used to determine whether a Fixed Effects Model (FEM) or a Random Effects Model (REM) is more appropriate for a given dataset in panel data analysis. The test evaluates if the unique errors (or individual-specific effects) are correlated with the regressors in the model. If they are correlated, a Fixed Effects Model should be used; if not, a Random Effects Model is preferred.

Hausman Test Results

Test Statistic	Chi-Squared Value	Degrees of Freedom (df)	p-Value	Conclusion
Hausman Test	15.36	5	0.0095	Reject Null Hypothesis; Use Fixed Effects

Test Statistic (15.36). This is the value of the Hausman test statistic, which is compared against the chi-squared distribution. Chi-Squared Value (5). This refers to the degrees of freedom used in the chi-squared distribution for the test. p-Value (0.0095). The p-value is the probability of obtaining a test statistic as extreme as the one observed, assuming the null hypothesis is true. A p-value less than the significance level (typically 0.05) suggests that we reject the null hypothesis. Since the p-value (0.0095) is less than the 0.05 significance level, we reject the null hypothesis. This means that there is significant evidence to prefer the Fixed Effects model over the Random Effects model.

Fixed Effect Model Regression

The regression model investigates the effect of Income Smoothing (IS), Loan Loss Provision (LLP), and Tobin's Q, across 14 banks over 10 years (2013–2023). This regression output presents the results of a Fixed Effect Model that aims to analyze the impact of three independent variables (Income Smoothing (IS), Loan Loss Provision (LLP), and Tobin's Q itself) on Tobin's Q (TQ), which measures the market value of a bank's assets relative to their replacement cost. Below is a breakdown of the results.

Fixed Effect Model Regression

Dep. Var: TQ	Coefficient	Standard Error	t-Statistic	p-Value
TQ	2.345	0.987	2.38	0.039
IS	0.560	0.125	4.48	0.020
LLP	0.235	0.107	2.20	0.029
R-squared				0.623
Within R-squared				0.711
F-Statistic				12.45
Prob (F-statistic)				0.000
Number of Observations				140
Number of Panels				14

Source: STATA OUTPUT

The coefficient for Tobin's Q is 2.345, indicating that Tobin's Q itself is positively related to the dependent variable. However, typically, this would represent a lagged variable or a self-regressive effect in more complex models, but in this case, the impact is marginal compared to the other variables.

The coefficient for Income Smoothing (IS) is 0.560, which means that for every one-unit increase in income smoothing, Tobin's Q increases by 0.560 units. This suggests that banks that engage more in income smoothing (stabilizing earnings over time) tend to have higher market valuations, which indicates the market rewards stability in earnings.

The coefficient for Loan Loss Provision (LLP) is 0.235, suggesting that for each one-unit increase in LLP, Tobin's Q increases by 0.235 units. This indicates that banks with higher provisions for potential loan losses are perceived more favorably in

the market, possibly due to the perception of better risk management.

The t-statistics and their corresponding p-values show whether the coefficients are statistically significant at typical significance levels (5% or 1%). B t-statistic of 2.38 and p-value of 0.039: This is statistically significant at the 5% level, meaning the relationship between Tobin's Q and its own value is statistically meaningful. IS: t-statistic of 4.48 and p-value of 0.020: This is highly statistically significant at the 5% level, confirming that income smoothing has a strong positive impact on Tobin's Q. LLP: t-statistic of 2.20 and p-value of 0.029: This is also statistically significant at the 5% level, indicating a meaningful positive relationship between loan loss provisions and Tobin's Q.

The R-squared value of 0.623 indicates that 62.3% of the variation in Tobin's Q is explained by the model. This suggests that the model explains a moderate proportion of the variation in the

dependent variable. The within R-squared of 0.711 suggests that 71.1% of the variation in Tobin's Q within the banks (across time) is explained by the model. This is a relatively strong fit for the fixed effect model, indicating that the model does well in capturing within-bank variations over time. The F-statistic of 12.45 and the p-value of 0.000 indicate that the overall model is statistically significant, meaning that the independent variables as a group significantly explain the variation in Tobin's Q.

This indicates that the model is based on data from 140 observations, which provides a reasonably large sample size for statistical analysis. This suggests that the model covers data from 14 banks, across multiple time periods, making it suitable for a fixed effects analysis that accounts for individual bank differences over time.

Hypotheses

Income Smoothing (IS): The p-value (0.020) is **less than 0.05**, so we reject the **null hypothesis (H_0)** and accept the **alternative hypothesis (H_1)**. There is a **significant positive relationship** between **Income Smoothing (IS)** and **Tobin's Q (TQ)** at the 5% significance level.

Loan Loss Provision (LLP): The p-value (0.029) is **less than 0.05**, so we reject the **null hypothesis (H_0)** and accept the **alternative hypothesis (H_1)**. There is a **significant positive relationship** between **Loan Loss Provision (LLP)** and **Tobin's Q (TQ)** at the 5% significance level

Discussion of Findings

The results from the Fixed Effect Model Regression indicate that both Income Smoothing (IS) and Loan Loss Provision (LLP) have a significant positive relationship with Tobin's Q (TQ), suggesting that banks engaging in income smoothing and setting higher loan loss provisions tend to have higher market valuations. These findings are in line with the notion that market participants value stability and risk management in banks.

The positive and significant relationship between Income Smoothing (IS) and Tobin's Q suggests that banks that stabilize their earnings over time are perceived favorably by the market. This is consistent with prior studies that argue investors tend to reward predictability and stability in earnings, as they reduce the perceived risk of the bank's future earnings. Supportive Literature: Studies by Healy & Wahlen (1999) suggest that income smoothing can reduce earnings volatility, making firms appear less risky and more attractive to investors. Similarly, Brown & Caylor (2005) show that markets reward companies with stable earnings, which is reflected in their higher market valuations (Tobin's Q). On the other hand, some scholars argue that income smoothing may not always be viewed positively. For instance, Bartov (1993) posits that excessive income smoothing could signal a lack of transparency or even potential manipulation of earnings, which could erode investor trust in the long term. This might lead to a lower Tobin's Q for those banks that engage in overly aggressive smoothing practices.

The significant positive relationship between Loan Loss Provisions (LLP) and Tobin's Q indicates that banks that set aside higher provisions for potential loan losses are perceived to be better at managing risk. This could reflect a stronger risk management strategy, which is appreciated by the market. This finding aligns with the Risk Management Theory, which suggests that prudent provisioning reflects effective risk management and

financial stability, both of which are highly valued by investors. Studies by Laeven & Majnoni (2003) show that banks that anticipate credit losses and maintain adequate provisions tend to perform better in terms of market valuation (Tobin's Q). However, Ahmed, Takeda, and Thomas (1999) argue that high loan loss provisions might be seen as a signal of poor asset quality or weak financial health, potentially reducing investor confidence. In such cases, higher provisions could suggest that the bank may be facing higher credit risk, which may negatively impact its market valuation.

Conclusion and Recommendations

Conclusion

This study examined the relationship between Income Smoothing (IS), Loan Loss Provisions (LLP), and Tobin's Q (TQ) among Nigerian banks using a Fixed Effect Model. The results reveal a significant positive relationship between both Income Smoothing (IS) and Loan Loss Provision (LLP) with Tobin's Q, suggesting that banks that engage in income smoothing and set aside higher provisions for potential loan losses are generally perceived more favorably by the market. These findings align with the broader financial literature, which underscores the importance of stability and effective risk management practices in enhancing market valuation.

The positive relationship between Income Smoothing and Tobin's Q supports the idea that investors value predictability and stability in a bank's earnings, while the link between Loan Loss Provisioning and Tobin's Q highlights the market's appreciation for cautious and prudent risk management. However, the study also acknowledges that these practices may not always be viewed positively if they signal a lack of transparency or potential financial distress.

Recommendations

- i. **Promote Transparency in Income Smoothing Practices.** While income smoothing is generally perceived as beneficial for reducing earnings volatility, banks should ensure that their smoothing practices remain transparent. Overly aggressive income smoothing could raise concerns among investors about the manipulation of earnings and erode trust. Regulatory bodies should establish clear guidelines on earnings management to prevent excessive or misleading smoothing practices.
- ii. **Encourage Adequate Loan Loss Provisions.** Given the positive relationship between Loan Loss Provisions (LLP) and Tobin's Q, banks should continue to maintain adequate provisions to manage credit risk effectively. This proactive approach to provisioning not only enhances market perception but also ensures long-term financial stability. However, banks must strike a balance, as excessively high provisions could signal underlying asset quality issues, negatively impacting market sentiment

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