EFFECTS OF CREATIVE ACCOUNTING ON CORPORATE IMAGE OF COMPANIES IN NIGERIA

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ABSTRACT
THE study examines the effect of creative accounting on corporate image of companies in Nigeria. It defines creative accounting as accounting practices that tend to circumvent, or manipulate the rules of standard accounting practices or the spirit of those values characterized by dubious complication and use of "novel" way of presenting incomes, assets or liabilities. However, since it is predicated on deceit, namely, altering financial reports to either mislead some stakeholders or to influence contractual outcome that depend on reported accounting numbers it can at best give a temporary positive impression for as long as the lie goes undiscovered. The effects of creative accounting on corporate image may include among others, corporate bankruptcy, relevant governance agencies that are meant to exercise control are often blacklisted when bubble of hidden deceit is exposed. High profile individuals may be criminally investigated resulting in loss of public image and job. The study concludes that no individual or organization can hope to gain an enduring positive corporate image by engaging in fraudulent manipulation of its accounting records because honesty remains the best policy while the cost of corporate misconduct is usually very high.
Keywords*: Creative accounting, Corporate image, financial reports, stakeholders*

INTRODUCTION

Managers of whatever description have access and control over the resources of their employers. As agents, managers, posturing as General Manager, Managing Director or even members of board of directors of a company have a responsibility to prepare and render account of their stewardship to their principals - shareholders, individual or corporate employers at agreed intervals. The account must be prepared based on some generally agreed principles and prescribed standards set by relevant regulatory agencies. Thus, the stewardship accounting requirement is normally satisfied by financial statements prepared and presented at Annual General Meeting of companies by directors.

For obvious reason by Management to deceive stakeholders in the affairs of a company, it may resort to what Healy & Wahlem (1999) refer to as "systematic misrepresentation of the true income and assets of corporations or other organizations which is at the root of a number of accounting scandals". Creative accounting practice led to the collapse of big corporations around the world. For example in 2001 and 2002, corporate giants like Enron, Global Crossing and WorldCom were forced into bankruptcy, and massive accounting and other irregularities were revealed at this and other companies**.** In Nigeria, Okoye & Alao (2008) reported that Cadbury Nigeria Plc sacked its Managing Director and Finance Directors on account of manipulating the company's financial records, book padding scandal and corruption". Creative accounting is therefore established as a global threat to corporate trust, as company owners and sundry stakeholders find it difficult to rely on accounts prepared by boards of directors, as they often contain falsehood, intended to mislead users of such accounts.

Glautier & Underdown (2001), infer that the main objective of financial reporting is to communicate economic information about resources held by an entity and its performances to those having the right to such information. This paper, therefore, examines the effects of creative accounting on corporate image of companies in Nigeria.

What is Creative Accounting?

Creative accounting is the process of changing the financial information from what it should be to what the company wants relying on the existing loopholes of law or financial standards (IFRS) flexibility that allows firm to choose method and rate of asset depreciation and inventory valuation. However this act has derogative effect on integrity of financial statement and audit profession and this corporate scandal disrupts capital market, reduction in GDP, massive loss in jobs and investments, (Adetayo & Ajiga, 2017). According to Haruna & Emmanuel, (2017) these manipulative behaviours of figures in accounting reporting are often called “creative accounting”. In reality, financial accounting reports are produced to show the true and fair view of the financial positions of reporting entities in order to help stakeholders in making appropriate decisions, however, current accounting practices which allow different policies and professional judgments are being manipulated to boost the companies’ present image at the expense of the information provided to the users and the future of the corporate entities.

Okoye & Alao (2008) define creative accounting (earning management) as euphemisms for accounting practices that tend to circumvent, albeit cleverly, or manipulate the rules of standard accounting practices or the spirit of those values. They are characterized by dubious complication and use of “novel” ways of presenting incomes, assets or liabilities. It is the deliberate dampening of fluctuations about “some levels of earnings considered to being normal for the firm”. Schipper (1989) agrees that creative accounting can be equated with “disclosure management”, in the sense of a purposeful intervention in the financial reporting processes. Okoye & Alao (2008) further contends that the information perspective is a key element underpinning the creative accounting phenomenon. Thus a conflict is created by the information asymmetry that exists in complex corporate structures between a privileged management and more remote body of stakeholders. Furthermore, managers may choose to exploit their privileged position for private gain, by managing financial reporting disclosures in their own favour. Naser (1993) views creative accounting as the transformation of financial accounting figures from what they actually are to what prepares desire, by taking advantage of the existing rules and/or ignoring some or all of them.

On a final note, Healy & Wahlem (1999) observes that "earning management" (another name for window dressing or creative accounting) occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stake holder about the underlying economic performance of company or to influence contractual outcomes that depend on reported accounting numbers. These creative accounting practices in financial reporting have been termed by Fizza & Malik

(2015) as "the art of faking or calculating or presenting the balance sheet, and the art of saving money."

Corporate Image

The advanced Learners Dictionary defines image as mental picture, idea or concept of something or somebody e.g. a politician, political party or commercial firm, product, held by the public. Thus, image has to do with how the public perceives, thinks or imagines an entity. The mental picture of a firm, an establishment or a corporation defines its corporate image. Every establishment struggles to outdo one another in the rate race for positive public perception. It is not new to see nations engaging in image laundering in order to achieve positive international acceptability. Positive corporate image drive informs the idea of corporate social responsibility which Johnson et al (2008) say is concerned with the ways in which an organization exceeds its minimum obligations to stakeholders specified through regulations.

Creative Accounting and Corporate Image

Creative accounting refers to accounting practices that follows the letter or rules of standard accounting practices but certainly deviate from the spirit of those rules. Creative accounting practices are different from fraudulent practices and thus are not illegal but immoral in terms of misguiding investors. The practices, which are followed in manipulating the books, are duly authorized by accounting system and thus cannot be considered as a violation of any rule or regulations. It is characterized by excessive compliance and the use of novel ways of characterizing income, assets, or liabilities and the intent to influence readers towards the interpretations of desired results. Creative accounting is the root cause of a number of accounting scandals and many proposals for accounting reform are focusing on removing such practices (Egolum *et. al..,* 2019).

Creative accounting is intended by company management to achieve positive corporate image but in a way that is socially unacceptable. In creative accounting, management wants to create a positive public image by making its account look attractive. A cosmetic effort intended to mask the true economic performance of a firm in order to achieve public applause. However, since creative accounting is predicated on deceit, namely, altering financial reports to either mislead some stakeholders or to influence contractual outcome that depend on reported accounting numbers it can at best give a temporary positive impression for as long as the lie goes undiscovered. Writing on the Theme: The Enron Affairs - A High Cost of Corporate Misconduct, Odozi (2002) comments as follows "one of the most enduring lessons that flow from these cases (failure and serious scandals associated with Johnson Matheys Bank (JMB), Bank for Credit and Commerce International (BCCI), Baring Brothers, Nomura Securities, Bre-X and Long Term Capital Management (LTCM) of the 1980s and 1990s and of course, the most epoch- making scandal so far in the 21" century associated with ENRON, which collapsed in 2002, (all in USA), is that honesty is the best policy not only because of the benefits associated with being highly regarded and trusted as a good corporate citizen but also because of the consequences of illegality and unethical behaviour. Corporate failure is perceived as when a company becomes insolvent or goes out of business as witnessed, "failure and distress" associated with fraudulent accounting and window dressing of financial statement such as in Enron,2001, WorldCom scandal 2002, Olympus, 2011, Lehman Brothers 2008 and recently; Thomas Cook, 2019 in UK and USA. In the case of Nigeria; bank PHB, Spring Bank and Diamond Bank are examples of corporate failures and Akintola William and Deloitte were indicted for facilitating the falsification of accounts of Afribankplc (Main Stream Bank Plc) and for deliberately overstating the profits of Cadbury Plc. It is reported that between 1990 and 1994, Nigeria lost more than ₦6b ($42.9m) within the banking sector, Oluwagbuyi, (2013) cited in (Bankole, 2018).

The systemic failure of the above corporations were attributed to unethical practices and financial mismanagement by the directors and non-discovery of same by the external auditors (professional accountants). It is argued that without the connivance of professional accountants the above manipulations could not be successful.

As will be pointed out in our conclusion, any corporate image drive that is dependent on deceit can only give a temporary image boost, ultimately, when bubbles eventually burst, the damage to such firm's image would far outweigh the temporary positive image gained through deceit.

The following are the impacts of creative accounting on corporate image of companies:

1. Corporate bankruptcy. Enron, an energy giant was declared bankrupt (once America's 7^{lh} biggest company) on December, 2, 2001and it is perhaps, the biggest corporate bankruptcy in America history. In similar version, Cadbury Nigeria Plc, after sacking its Managing Director and Finance Director on account of manipulating the company's financial records... By the time an independent audit firm carried out a review of the company's accounting records, it was discovered that over a period, profit was overstated by between N13 and N15 billion and this warranted an adjustment to reflect an operating loss of between N1 and N2 billion. In the event of bankruptcy and adverse profit adjustment as we have in Cadbury Nigeria Plc, adverse corporate image and associated loss to stakeholders is set in motion.
2. The roles of various parties whose concerted efforts should have prevented or minimized creative accounting may be called to serious questioning. The audit committee, the Board of Directors, the external auditors, rating agencies, analysts and investment bankers etc may suffer adverse public image.
3. The role of the various personalities in exposed creative accounting scenario have sometimes been investigated by state institutions e.g. the Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices Commission(ICPC), Securities and Exchange Commission (in Nigeria) and in USA by the Capitol Hill. These have produced very adverse consequences on the affected organizations and their officers. Odozi (2002) reported that Mr. Clifford Baxter, a former Vice Chairman of Enron and the company's Chief Strategy Officer committed suicide when their deeds were uncovered, while Mr. Kenneth Lay, Chairman and Chief Executive of Enron resigned a few days later.

The plight of Mrs. Cecilia Ibru of Oceanic Bank Plc and Chief Erastus Akingbola of Intercontinental Bank Plc are clear cases of what creative accounting practice can do to the image of firms and highly placed individuals when exposed.

4. While concluding his write up, Odozi (2002) observes there is the issue of the high cost of corporate sandal. He listed these to include, loss of jobs, loss of income, criminal prosecution, erosion of corporate and individual reputation etc.
5. On the issue of reputation of indicted or accused persons in connection with creative accounting practice, Emmanel Ikazoboh, a CEO in Akintola Williams Deloitte, (the firm of auditors of Cadbury for more than 40 years), when asked to comment about his firm's tough moments such as the Cadbury scandal, in "Sunday Punch" of February 14, 2009, he says "we challenged the SEC findings by going to the Investment and Security Tribunal to appeal that even though we had paid the fine, we were appealing against it because we didn't believe we did anything wrong". It is only *easy* to imagine what the singular episode of Cadbury scandal had done to more than 50 years accountancy practice of Akintola Williams.

CONCLUSION

One incontrovertible lesson that flow from Enron and other monumental scandal and corporate failure traced to creative accounting is that honesty is the best policy. No individual or organization can hope to gain an enduring positive corporate image by engaging in fraudulent manipulation of its accounting records. Furthermore, the cost of corporate misconduct is usually very high. Finally, management of firms should try to base their investment decision on financial report that has not been manipulated. What shall it profit a company management to gain huge financial advantage through creative accounting practice, only to lose more than what is gained in financial terms to destroyed long and hard earned personal reputation of top officers of such companies and that of the company in a fell swoop.

RECOMMENDATION

It is recommended that:

(a) Creative accounting should be considered a serious crime and accounting bodies and other regulatory authorities need to adopt strict measures to stop these practices and duly punish the offenders;

(b) Accountants should hold high ethical standards and maintain integrity in all their professional dealings. They need to ensure that the accounting profession rests on ethical principles and value, commanding national and international respect, stopping the unscrupulous practice of creative accounting;

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