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Creative Accounting and Investor Value: A Comparative Study of Income Smoothing of Listed Manufacturing Firms in Nigeria and South Africa

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Abstract. Given the mixed results of prior studies, this study determined the effect of creative accounting on the investor value of listed manufacturing firms in Nigeria and South Africa from 2012 to 2022. The study investigated the effect of income smoothing on Tobin's Q of listed manufacturing firms in Nigeria and South Africa. The study obtained data from Thomson One Banker concerning 25 and 44 manufacturing firms listed on the Nigerian Exchange Group and Johannesburg Stock Exchange respectively. The study reveals amongst other things, that income smooth does not significantly affect the investor value of listed manufacturing firms in Nigeria and South Africa. Also, one of the findings indicates that profitability significantly and positively moderated the income smoothing-investor value relationship of listed manufacturing firms in Nigeria and South Africa. The study recommends that firms reconsider their income-smoothing strategy, and factor in profitability in their income-smoothing decision.

Keywords: Creative accounting, Income smoothing, Investors value, South Africa, Tobin's Q, Nigeria.

1. INTRODUCTION

Firms prepare financial statements and file same with relevant regulatory bodies to provide information regarding the firm's financial performance to all stakeholders to make informed decisions. To be decision-useful, financial information should possess two fundamental qualitative characteristics – faithful representation and value relevance – and four enhancing qualitative characteristics viz: understandability, comparability, timeliness, and verifiability. The Generally Accepted Accounting Principles (GAAP) allow managers to exercise professional judgment in making accounting choices to better reflect the underlying economics of the firm. Managers and others involved in the accounting function continually seek to exploit the loopholes in accounting rules to provide the most desired outcomes to satisfy their self-interest. This practice is considered creative accounting (Hassan & Ahmed, 2018; *Kothari et al*., 2005). Regulators believe that creative accounting reduces the faithful representation of accounting numbers (Levitt, 1998) and misleads users of financial reports (Jaggi & Tsui, 2007). Several prior studies have documented an association between creative accounting practices and accounting scandals and corporate collapses, thereby generating regulatory reforms and corporate governance review.

Most of the studies focused on the drivers of creative accounting practices and consequences on earnings quality (Fodio *et al*., 2013; Dabor & Ibadin, 2013; Uwuigbe *et al*., 2014) with fewer empirical studies on the direct effect of creative accounting on investors' value. The dearth of empirical studies is more pronounced in Sub-Saharan African countries which have concentrated ownership, less investor protection, and weak legal enforcement (Leuz *et al*., 2003). Sub-Sahara Africa is the home of two of the largest economies in Africa - Nigeria and South Africa.

The few studies on the effect of creative accounting on investors' value recorded mixed and sometimes contradictory results. Furthermore, the studies are country-specific and bereft of large data sets to enhance the model adequacy. The sample period of the majority of prior studies in Sub-Saharan African countries was usually short – less than five years. This could impact the results of the studies this study, therefore, intends to fill the observed gap by investigating the effect of creative accounting with particular reference to Income Smoothing on investors' value using large data sets from listed manufacturing firms in Nigeria and South Africa from 2012 to 2022.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT.

2.1. Concept of Creative Accounting

Although creative accounting is widespread globally, it has no universally accepted conceptual definition. The term "creative accounting" is more often used within Europe while in the United States of America, it is usually referred to as Earnings Management (Amat & Gowthorpe, 2004). Other common terms include big bath accounting" (Amat & Gowthorpe, 2004), "window dressing" Teoh *et al.* (1998), 'and 'income smoothing" (DeFond & Park, 1997). Schipper (1989) stated that creative accounting is a deliberate intervention in the external financial reporting process" to obtain private benefits which may not be dishonest or fraudulent but misrepresents facts for investors and deny them full disclosure as required by GAAP Standards. Healy and Wahlen (1999) defined creative accounting as a practice which occurs when managers use their judgment in financial reporting

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and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. This paper adopts the definition as it is one of the most widely accepted definitions. It is also because the definition is comprehensive as it covers the various motives and consequences of creative accounting.

2.2. Concept of Investors' Value

Investors' value also called shareholder value (Saif-Alyousfi. 2019; Rashid, 2018; Ofori-Sasu, Abor & Osei, 2017; Lee & Powell, 2011) refers to the worth of investment of the shareholders. Since the over-riding objective of firms is to create and improve firm value which amounts to maximizing the wealth of shareholders, shareholder value is also used interchangeably with firm value. The literature frequently uses changes in share price and Tobin's Q as proxies of investor value. Tobin's Q summarizes investor expectations regarding a firm's potential to generate future revenues and profits. Profitability which can be expressed in terms of return on assets is a key valuation metric.

2.3. Theoretical Review

2.3.1. Agency Theory

Agency theory is one of the theories on which this study is built. It was traced to the seminal work of Berle and Means (1932) but popularized by Jensen and Meckling (1976) to explain human behaviour in an agency relationship. Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent Agency relationship evolves due to separation of ownership from control. Agency Theory sees the firm as consisting of two parties: the owners and the managers respectively.

The principal assumption of Agency Theory is that managers have objectives which are different from those of the owners and therefore would pursue activities to maximize their objectives but which will undermine the interest of the owner - maximizing shareholder wealth (Mahrani & Soewarno, 2018). The conflict of interest is exacerbated by information asymmetry and the impossibility of writing complete contracts to enforce compliance with terms of agency relationship. Information asymmetry exists when full information about the business entity is not fairly available to all interested users. The manager is at an information advantage over the owner and potential owners in terms of the operations of the firm. Agency Theory posits that managers may indulge in creative accounting opportunistically (Watts & Zimmerman, 1986) thereby creating agency costs grouped as (1) the monitoring expenditure by the principal, (2) the adherence or bonding cost by the agent, and (3) the residual cost. Some of the prior studies on creative accounting that were anchored on Agency Theory include Gunny (2010) and Jiraporn *et al.* (2008).

2.3.2. Signaling Theory

The second theory underpinning this study is the Signaling Theory. The theory is considered to be first introduced by Spence (1973). The central thesis of Signaling Theory is that individuals and firms need to provide signals in the form of information about themselves. It is grounded on the assumption of information asymmetry between the parties. Managers and other insiders have superior information compared to outside investors (Berk & DeMarzo, 2011). They can provide information that may be in their self-interest but at the expense of the shareholders. They can equally manipulate earnings and provide information signals to enable investors to properly assess the securities offered to them, knowing that investors value.

Prior studies anchored on Signaling Theory include Gunny (2010), Gunny and Zhang (2014) Al-Shattarat *et al.* (2018), Riedl and Suraj (2010); and Louis and Robinson (2005). To the extent that information asymmetry exists between managers and shareholders as well as other stakeholders for which managers, and the tendency of managers and insiders to exploit their information advantage to influence market perceptions of firm performance, and following prior studies, the use of Signaling Theory also to guide this work is considered appropriate.

2.4. Empirical Review

Creative accounting is always debated in either the opportunistic or efficient contracting perspective. In performance contracts, managers conduct income smoothing to convey a signal of positive prospects and mitigate market friction (Louis & Robinson 2005; Chaney & Lewis 1995). From the opportunistic perspective, it is contended that creative accounting seeks to hide negative prospects from investors while maximizing managerial benefits (Kedia & Philippon, 2009; Fudenberg & Triole, 1995; Guidry *et al.*, 1999; Healy, 1985).

The effect of income smoothing on firms' value was based on argument that volatile earnings are indicative of risk and investors price protection. It is therefore advisable to smooth earnings to enhance the information stakeholders can extract from reported earnings and this will lead to a lower share price. The counterargument is that income smoothing hides true firm performance thereby making it difficult for investors to accurately assess the underlying performance of firms and consequently limits the ability of investors in valuing firms accurately. It is also argued income smoothing might be exercised based on the wrong forecast about the prospects of the

firm. The empirical evidence of the performance consequences of income smoothing therefore is mixed.

Abogun *et al.* (2021) examined the effect of the impact of income smoothing on the value of 30 non-financial firms listed on the Nigerian Stock Exchange in the years 2013 to 2017. Using the system generalized method of moments (Blundell–Bond) panel estimation technique, the study analyzed the secondary sources from annual reports of the sample and found that income smoothing has a positive and significant impact on the firm value measured using Tobin's Q.

Ali *et al.* (2020) utilized 409 publicly listed companies on Bursa Malaysia to study the relationship between creative accounting practices (proxied by income smoothing and tax avoidance) and the impact of financial performance (measured using return on assets). The study which covered 5 years from 1 January 2016 until 31 December 2016, applied multiple regression and provided evidence that income smoothing has a statistically significant positive influence on the financial performance of Malaysian public listed companies.

In a bid to determine whether smoothing earnings creates value for shareholders, Yang and Zhu (2014) used 18229 firm-year observations from a sample of US public firms over the periods 1991 – 2009. The results of multivariate analysis revealed that stock returns were positively associated with earnings smoothing, suggesting that smoothing earnings creates shareholder wealth.

Ajekwe and Ibiamke (2017) evaluated the effect of earnings smoothing on firm performance in Nigeria. The study which has a sample of 48 firms listed on the Nigerian Stock Exchange in the period from 2013 to 2015 documented that the Nigerian market rewarded low income smoothing vide earnings per share with higher share prices but was somewhat indifferent to past earnings smoothing vide cash flows.

Khurana *et al.*(2017) used a sample of 32,188 US firm-year observations spanning the period 1993 through 2014 to investigate whether and when real earnings smoothing influences firm-specific stock price crash risk. Findings showed real earnings smoothing to be positively associated with firm-specific stock price crash risk implying that real earnings smoothing destroys shareholder value.

Huang *et al.* (2009) examined the potential impacts of artificial smoothing (abnormal accruals) and real smoothing (derivatives) on firm value, captured by Tobin's Q. The analysis of a sample containing 477 US firms, with 1105 firm-year observations over the period from 1994 through 1996 showed that the value of the firm decreased with the magnitude of income smoothing.

Based on the contradictory results in the above literature review, this study formulated the following hypotheses: (i) Income smoothing has no significant effect on investor value of the listed manufacturing firms in Nigeria and South Africa; (ii) The effect of income smoothing on investor value of the listed manufacturing firms in Nigeria is not significantly different from the listed manufacturing firms in South Africa; (iii) Profitability as no significant moderating effect on the relationship between income smoothing and investor value of the listed manufacturing firms in Nigeria and South Africa; (iv) The moderating effects of profitability on the income smoothing and investor value relationship of the listed manufacturing firms in Nigeria is not significantly different from the listed manufacturing firms in South Africa.

3. METHODOLOGY

The study employed ex post facto research design. The population of this study consists of all the manufacturing firms listed on the Nigeria Exchange Group and Johannesburg Stock Exchange during the eleven years 2012- 2022. Manufacturing firms are found in all sectors except the financial and services sectors. The study adopted the Purposive Sampling Method to select a sample of twenty-five (25) manufacturing firms listed on the Nigeria Exchange Group and forty (40) manufacturing firms listed on the Johannesburg Stock Exchange. In applying the purposive sampling method, the required firms to satisfy the selection criteria: the sampled firm (1) must be listed each year on the Nigeria Exchange Group and the Johannesburg Stock Exchange from 2012 to 2022; (2) provide complete financial statements having complete data required for analysis. Throughout the sample period, the study employed secondary data that are panel (time series and cross-sectional) in nature spanning 2012 - 2022 and retrieved from Thomson One Banker.

3.1. Model Specification

The empirical model for this study stipulates investors' value as a function of creative accounting and controls. In econometric terms, the model is specified as follows:

INVESTOR VALUE = f(CREATIVE ACCOUNTING, CONTROL, MODERATOR).

For purposes of testing the formulated hypotheses, the econometric version of the functional model is specified thus:

$$TOBQ_{jt}=\beta_0+\beta_1 SMOTH_{jt}+\beta_2 FSZ_{jt}+\beta_3 ROA_{jt}+\varepsilon_{jt} \quad \ldots\ldots(1)$$

$$TOBQj,t=Q_0+Q_1 SMOTHj,t,+Q_2 FSZj,t+Q_3 ROAj,t+Q_4 SMOTH*ROAj,+\varepsilon j,t \quad \ldots..(2)$$

Where for firm j in year t, TOBQ is Tobin's Q, SMOTH is income smoothing (SMOTH), FSZ is firm size, SMOTH*ROA is interaction of SMOTH and ROA, Q_0 is and β_0 are the intercepts, β_1 β_2, β_3 and Q1, Q2, Q3, and Q4 are regression parameters of Model 1 and Model 2 respectively, and ε is error term.

The control variables are firm size (FSZ) and return on assets (ROA). ROA which is a measure of profitability is also a moderating variable. The study controlled for firm size because large firms have more resources than

smaller firms and this could impact investors' value. Furthermore, large firms relative to small firms face high political costs which could provide an incentive for engagement in creative accounting (Watts & Zimmerman, 1986; Kedia & Philippon, 2009). Penman (2013) showed that profitability influences firm valuation and by extension investors' value.

The study measured Tobin's Q (TOBQ) as the sum of the market value of equity and total liabilities scaled by total assets. The market value of equity is the product of share price and the number of common shares issued (Penman, 2013). Firm size is the natural logarithm of total assets(Wenfang & Ayisi,2020). Income smoothing (SMOTH) is an accrual-based measure (Tucker & Zarowin, 2006), computed as the negative correlation between the change in a firm's discretionary accruals (ΔDA) and the change in its pre-discretionary income (ΔPDI). The PDI is calculated as net income minus discretionary accruals. The study derived discretionary accruals as residuals from the Jones (1991) model as modified by Kothari *et al.* (2005). Return on assets (ROA) is calculated as net income scaled by total assets.

4. RESULTS AND DISCUSSION OF FINDINGS

4.1. Univariate Analysis

Table 1 displays the descriptive statistics of the study.

Table 1: Descriptive Statistics.

Country	Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Nigeria & South Africa	To Be	715	1.510	1.137	-0.2	9.42
Nigeria & South Africa	Smooth	715	0.037	0.749	-1	1
Nigeria & South Africa	Fs	715	5.380	2.241	0.7	18.28
Nigeria & South Africa	Roa	715	3.447	8.212	-31.7	123.26
Nigeria	Tobq	275	1.683	1.389	0.33	9.42
Nigeria	Smoth	275	-0.049	0.7407	-0.999	1
Nigeria	Fsz	275	4.714	2.312	0.7	18.28
Nigeria	Roa	275	0.099	0.195	-0.580	2.84
South Africa	Tobq	440	1.401	0.931	-0.2	7.96
South Africa	Smoth	440	0.091	0.749	-1	1
South Africa	Fsz	440	5.797	2.092	0.86	14.77
South Africa	Roa	440	5.540	9.912	-31.7	123.26

Table 1 shows that the full sample has 715 firm-year observations. Nigeria's sample has 275 firm-year observations while the South Africa sample recorded 440 firm-year observations. The mean of TOBQ of the full sample is 1.51 with a range from -0.2 and 9.42. The mean value of TOBQ for the sample of Nigeria is 1.68 as against 1.401 for South Africa. In the full and Nigeria samples, the standard deviation is lower than the mean suggesting thedataarenot widely dispersed from the mean. The opposite holds for the South African sample. On average, SMOTH in the full sample is 0.037 compared to -0.049 and 0.091 for the Nigeria sample and South Africa sample respectively. In all samples, there is an indication of wide dispersion from the mean.

Table 2: Correlation Matrix.

Panel A:	**Full Sample**				
	Tobq	**Smoth**	**Fsz**	**Roa**	**Smoth*Roa**
Tobq	1.0000				
Smoth	-0.0269	1.0000			
Fsz	0.4056*	-0.0227	1.0000		
Roa	0.1854*	0.0010	0.2071*	1.0000	
Smoth*Ro	-0.0370	0.3421*	0.0283	0.5110*	1.0000
Panel B:	Nigeria Sample				
	Tobq	smoth	fsz	roa	smoth*roa
Tobq	1.0000				
Smoth	0.0766	1.0000			
Fsz	0.5105*	0.0593	1.0000		
Roa	0.1333*	0.0658	0.2077*	1.0000	
Smoth*Roa	-0.0033	0.3821*	0.0530	0.7654*	1.0000
Panel C:	South Africa Sample				
	Tobq	smoth	fez	roa	smoth*roa
Tobq	1.0000				
Smoth	-0.1020*	1.0000			
Fsz	0.3978*	-0.1171*	1.0000		
Roa	0.3667*	-0.0389	0.1865*	1.0000	
Smoth*Roa	-0.0549	0.4293*	0.0334	0.5351*	1.0000

Note:* denotes a 5% level of significance.

Table 2 presents the result of the correlation analysis. Pane a shows a negative and insignificant correlation between SMOTH and TOBQ as well as between SMOTH*ROA and TOBQ. Panel B indicated a positive correlation between SMOTH and TOBQ but an insignificant correlation between SMOTH*ROA and TOBQ. In contrast, the South Africa sample recorded a negative and significant correlation between both SMOTH and

TOBQ and SMOTH*ROA and TOBQ. In all the samples, the correlation coefficients are generally low implying the absence of serious multi co-linearity.

4.2. Test of Hypotheses

To test the formulated hypotheses, the study estimated Models 1 and 2 separately for the full sample and sub-samples using panel data methods because the panel data technique controls for unobserved heterogeneity in the sample. Cameron and Trevid (2010) identify three-panel data estimation methods viz: Pooled regressions (POLS), Fixed Effect Method (FEM) and Random Effect Method (REM). To select the appropriate method between POLS and REM, the study conducted the Breusch and Pagan LM Test. Table 3 shows the Chi-Square statistics with a p-value of 0.000 resulting in rejecting POLS in favour of REM.

Table 3: Results of Diagnostic Tests.

Sample	**Model 1**					
Panel A	**Hausman Test**		**Breusch and Pagan LM Test**		**Wooldridge Autocorrelation Test**	
	Chi-Square	**P-Value**	**Chi-Square**	**P-Value**	**F Statistics**	**P-Value**
Full Sample	6.01	0.1112	688.79	0.0000	0.215	0.6442
Nigeria Sample	0.80	0.8486	249.09	0.0000	0.076	0.7853
South Africa Sample	12.34	0.0063	201.19	0.0000	0.259	0.6134
Panel B	Model 2					
Full Sample	5.17	0.2705	713.49	0.0000	0.143	0.7066
Nigeria Sample	12.34	0.0063	243.09	0.0000	0.077	0.7842
South Africa Sample	19.54	0.0006	201.19	0.0000	0.136	0.7139

To select between REM and FEM, the Hausman Test was conducted with the null hypothesis that REM is a better estimator than FEM. REM is rejected if the p-value of the Chi-squared statistics is less than or equal to 0.05 and if otherwise, FEM is accepted. In Panel A of Table 4, the Hausman Test produces a p-value greater than 0.05 for both the full sample and the Nigeria sample thereby leading to the acceptance of REM. Conversely, the test for the South African sample produced Chi-Squared statistics with a p-value of 0.0063 implying FEM is preferred. In Panel B, the result of the Hausman Test yields a p-value of 0.2705 for the full sample, implying a preference for REM over FEM. Conversely, the samples have Chi-Squared statistics with p-value p-values of 0.0063 and 0.0006 respectively, implying rejection of FEM in favour of REM. The study also tested for serial correlation using the Wooldridge Test. Table 4 reveals p-values greater than 0.05 for all the samples, indicating the absence of serial correlations.

Table 4: Results of Diagnostic Tests.

Sample	**Model 1**					
Panel A	**Hausman Test**		**Breusch And Pagan LM Test**		**Wooldridge Autocorrelation Test**	
	Chi-Square	**P-Value**	**Chi-Square**	**P-Value**	**F Statistics**	**P-Value**
Full Sample	6.01	0.1112	688.79	0.0000	0.215	0.6442
Nigeria Sample	0.80	0.8486	249.09	0.0000	0.076	0.7853
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Tables 5, 6 and 7 display the results of estimating Model 1 and Model 2 to test the hypotheses. The Model Summary shows that the Models have a good fit (p-value of F statistics = 0.0000). The independent variables in the Models for the sub-samples have a better explanatory power than the full sample. In comparison, the variations in Tobin's Q were better jointly explained by the independent variables in the South African sample than Nigeria sample.

Table 5: Regression Results of Full Sample.

	Model 1				**Model 2**			
Tobq	**Coef.**	**Std. Err.**	**Z**	**P-Value**	**Coef.**	**Std. Err.**	**Z**	**P-Value**
smoth	0.009	0.041	0.22	0.827	0.094	0.045	2.09	0.037
roa	0.142	0.020	6.95	0.000	0.144	0.020	7.17	0.000
fsz	0.018	0.004	4.26	0.000	0.032	0.005	6.15	0.000
smoth*roa					-0.025	0.005	-4.51	0.000
cons	0.686	0.143	4.81	0.000	0.624	0.143	4.37	0.000
Model Summary								
No of obs		715				715		
No of groups		65				65		
Obs. per group: Min		11				11		
Avg.		11				11		
Max		11				11		
Wald chi2 Statistics		70.93				92.65		

P-value		0.000	0.000
R-sq:	Within	0.073	0.100
	Between	0.262	0.258
	Overall	0.171	0.185

Table 6: Regression Results Model 1 of Sub Samples.

	Panel A: Nigeria Sample				Panel B: South Africa Sample			
Tobq	**Coef.**	**Std. Err.**	**Z**	**P-Value**	**Coef.**	**Std. Err.**	**T**	**P-Value**
smoth	0.078	0.077	1.02	0.308	-0.051	0.047	-1.08	0.283
roa	0.175	0.308	0.57	0.571	0.018	0.004	4.84	0.000
fsz	0.254	0.047	5.47	0.000	0.089	0.022	4.05	0.000
cons	0.471	0.282	1.67	0.095	0.789	0.134	5.90	0.000
Model Summary								
No of obs		275				440		
No of groups		25				40		
Obs Per Group: Min.		11				11		
Avg		11.0				11.0		
Max		11				11		
Wald Chi2 Statistics		32.30						
F Statistics						15.32		
P-Value		0.000				0.000		
R-Sq: Within		0.070				0.104		
Between		0.404				0.493		
Overall		0.263				0.249		

Table 7: Regression Results Model 2 of Sub Samples.

	Panel A: Nigeria Sample				Panel B: South Africa Sample			
Tobq	**Coef.**	**Std. err.**	**Z**	**P-value**	**Coef.**	**Std. err.**	**T**	**P-value**
smoth	0.1882	0.0928	2.03	0.042	0.092	0.055	1.67	0.096
roa	0.239	0.047	5.10	0.000	0.032	0.005	6.83	0.000
fsz	1.2635	0.607	2.08	0.037	0.103	0.022	4.77	0.000
smoth*roa	-1.259	0.606	-2.08	0.038	-0.024	0.005	-4.72	0.000
cons	0.447	0.281	1.59	0.111	0.621	0.135	4.60	0.000
Model Summary								
No of obs		275				440		
No of groups		25				40		
Obs. Per Group: Min		11				11		
Avg.		11.0				1.0		
Max.		11				11		
Wald Chi2 Stat.		36.98						
F Stat						7.68		
P-Value		0.000				0.000		
R-Sq: Within		0.084				0.152		
Between		0.421				0.595		
Overall		0.279				0.331		

Ho_1 states that income smoothing has no significant effect on investor value of listed manufacturing firms in Nigeria and South Africa. Model 1 in Table 4 reveals a positive coefficient on SMOTH ($\beta_1 = 0.009$; p-value of 0.827). Since the p-value is greater than 0.05, Ho_1 is accepted and the study concludes that income smoothing has no significant effect on investor value of listed manufacturing firms in Nigeria and South Africa.

Ho_2 states that the effect of income smoothing on investor value is not significantly different between listed manufacturing firms in Nigeria and listed manufacturing firms in South Africa.

Table 5 reveals a positive coefficient on SMOTH of listed manufacturing firms in Nigeria ($\beta_1 = 0.078$ and a p-value of 0.308) and a negative coefficient on SMOTH listed manufacturing firms in South Africa ($\beta_1 = -0.051$ and a p-value of 0.283). The p-values are greater than 0,05 and therefore, it is concluded that the effect of income smoothing on investor value is not significantly different between listed manufacturing firms in Nigeria and listed manufacturing firms in South Africa.

Ho_3 states that profitability has no significant moderating effect on investor value of listed manufacturing firms in Nigeria and South Africa. Model 2 in Table 1 reveals a negative coefficient on SMOTH*ROA ($\beta_1 = -0.025$ and a p-value of 0.000). Since the p-value is less than 0.05, Ho3 is rejected. It is therefore concluded that profitability has a significant moderating effect on investor value of listed manufacturing firms in Nigeria and South Africa.

Ho_4 states that the moderating effect of profitability on the relationship between income smoothing and investor value is not significantly different between listed manufacturing firms in Nigeria and listed manufacturing firms in South Africa. Panel A of Table 6 reveals a negative coefficient on SMOTH*ROA ($\beta_1 = -1.269$ and a p-value of 0.038) of listed manufacturing firms in Nigeria and Panel B of Table 6 shows a negative coefficient on SMOTH*ROA ($\beta_1 = -0.024$ and a p-value of 0.000). Listed manufacturing firms in South Africa. Since the p-value is less than 0.05, Ho4 is rejected. It is therefore concluded that the moderating effect of

profitability on the relationship between income smoothing and investor value is not significantly different between listed manufacturing firms in Nigeria and listed manufacturing firms in South Africa.

4.3. Discussion of Findings

Panel A of Table 4 shows that income smoothing (SMOTH) has a positive coefficient ($\beta 1 = 0.009$). This suggests that as income smoothing increases by one unit, Tobin's Q increases by 0.009 units, and all else is held constant. The effect is not significant (p-value=0.827). Similarly, Panel A of Table 5 indicated a positive coefficient on SMOTH while Panel B of Table 5 showed a negative coefficient on SMOTH. In both cases, the effect is not significant as denoted by the p-value greater than 0.05, implying that SMOTH is not a critical determinant of investor value. The finding fails to support the evidence of the significant positive effect of income smoothing in Nigerian firms as provided by Abogun *et al*, (2021). From Table 5 and Table 6, it was observed that profitability has a significantly moderating effect on the relationship between income smoothing and firm value. While the effect in the full sample and Nigeria sample was positive and significant, it was negative in the South Africa sample. The differential effect could be due to a poor information quality environment, poor analyst following, and poor investor protection, as evidenced by weak regulatory enforcement in the two countries. The World Bank consistently shows that Nigeria has a poorer information quality environment and lower investor protection than South Africa. In such an environment, investors are fixated on patently observable metrics – earnings - and the mis-valuation of earnings is much higher. The control variable, firm size, has a positive and significant effect on Tobin Q across the sample. This concurs with the theoretical predictions that large firms enjoy the competitive advantage of economies of scale, and more room to hide undesirable losses from the prying eyes of investors thereby influencing investor value (Wenfang & Ayisi, 2020).

5. CONCLUSION

This study sought to determine the differential effect of creative accounting via income smoothing on investor value in Nigeria and South Africa and whether profitability plays any moderating role. The outcome of panel regressions revealed that income smooth has no significant effect on the investor value of listed manufacturing firms in Nigeria and South Africa. It also showed that profitability significantly moderated the income smoothing-investor value relationship of listed manufacturing firms in Nigeria and South Africa but the direction of the effect is significantly different between listed manufacturing firms in Nigeria and South Africa. The study recommends that firms should reconsider their income-smoothing strategies and take into account profitability in their income-smoothing decisions.

The study contributes to the literature by showing another channel through which income smoothing affects investor value in Nigeria and South Africa. Shareholders will find this outcome useful in their investment decisions.

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