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Effect of Financial Statement Fraud on Organisational Performance of Manufacturing Firms in Nigeria

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Abstract
This study examined the effect of financial statement fraud on the organisational performance of manufacturing firms in Nigeria. The study was motivated by the increasing cases of financial misappropriation of accounting irregularities among corporate organisations in Nigeria. The study adopted an ex post facto research design, utilising secondary data from the audited annual financial reports of ten manufacturing firms listed on the Nigerian Exchange Group from (2015–2024). Panel data regression analysis was employed to evaluate both the individual and composite effects of financial statement fraud on firm performance, measured using profitability and operational efficiency metrics. The results indicated that all individual fraud indicators significantly reduce organisational performance: overstatement of revenue (β = -0.163, p = 0.001), understatement of expenses (β = -0.147, p = 0.003), improper asset valuation (β = -0.182, p = 0.000), and misleading disclosures (β = -0.139, p = 0.005). The composite regression analysis demonstrates a stronger negative effect, with a coefficient of β = -0.281 (p = 0.000), R^2 = 0.643, F-statistic of 29.33 (p < 0.05), indicated that the combined fraudulent practices explain a substantial proportion of the variation in organisational performance and that the model is statistically robust. These findings highlight that financial statement fraud, individually and collectively, distort financial reporting, undermines governance, and threatens long-term sustainability. The study recommended enhancing corporate governance, enforcing regulatory compliance, improving transparency, conducting regular internal audits, and fostering an ethical corporate culture to strengthen accountability and restore investor confidence in the Nigerian manufacturing sector.

Keywords: Fraud, Overstatement of revenue, understatement of expenses, improper asset valuation, misleading disclosures, organisational performance

1. Introduction

Organisational performance remains a central construct in management and accounting research, representing the extent to which an organisation achieves its goals through effective utilisation of resources and strategic positioning. It reflects the cumulative outcomes of operational efficiency, profitability, productivity, and market competitiveness. In manufacturing firms, performance serves as a benchmark for evaluating managerial effectiveness and the long-term sustainability of business operations (Khalid et al., 2021). Hence, measuring organisational performance provides a framework for understanding the health of a firm, the efficiency of its management systems, and its resilience in a volatile economy.

Moreover, Organisational performance encapsulates both financial and non-financial outcomes of a firm's activities. According to Ayeni Ayeni (2025), performance in the manufacturing sector can be assessed through quantitative indicators such as profitability ratios, productivity growth, and return on investment, which collectively capture how effectively a firm converts its resources into economic value. In the manufacturing sector, performance is especially critical given the sector's role as the engine of industrialization, employment generation, and economic diversification. Meanwhile, the manufacturing industry continues to face persistent structural and financial challenges, including exchange rate fluctuations, inflation, high production costs, and regulatory inconsistencies (Oladipo & Fapetu, 2021). These factors increase pressure on firms to sustain performance levels, making performance management a crucial factor for competitiveness.

Hence, the success or failure of a manufacturing firm is often shown through objective measures such as Return on Assets (ROA), Profit Margin (PM), Earnings per Share (EPS), and Market Capitalization (Zubairu & Mukhtar, 2021). Although organisational performance can also be evaluated using non-financial parameters such as innovation rate, customer satisfaction, and employee engagement, in manufacturing firms, financial metrics remain the most reliable indicators of value creation and managerial accountability (Aminu & Jayeoba, 2022). Hence, performance evaluation offers insight not only into current operations but also into strategic forecasting and investment decisions. Maintaining a consistent trajectory of strong performance is essential for

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attracting investors, sustaining market trust, and fostering long-term growth

However, the reliability of these performance measures is fundamentally tied to the accuracy and integrity of financial reporting. The figures used to calculate these indicators stem directly from corporate financial statements, which means any manipulation or distortion within these statements directly undermines the validity of the performance evaluation process (Ogunyemi & Oladele, 2021). Thus, the linkage between organisational performance and the integrity of financial information becomes crucial; a firm's reported performance is only as credible as the honesty embedded in its financial statements.

Nevertheless, despite the centrality of accurate reporting, the integrity of financial data remains persistently threatened by unethical practices, particularly financial statement fraud (FSF), which refers to the deliberate falsification, omission, or manipulation of financial records with the intent to deceive stakeholders and present a misleading picture of a firm's financial position (Putra, 2022). He further emphasized that it goes beyond mere accounting errors or misjudgments; it is a conscious act of deception often orchestrated by management to achieve selfish or organisational goals.

Meanwhile, financial statement fraud represents one of the most damaging forms of corporate misconduct, as it erodes investor trust, misguides regulatory bodies, and undermines the broader financial ecosystem (Abdul-Baki et al., 2022). Studies have shown that such fraudulent activities are often motivated by pressures to meet earnings forecasts, maintain credit ratings, attract investors, or boost executive compensation tied to performance metrics (Alarape & Ayodele, 2021; Zubairu & Mukhtar, 2021). Nonetheless, common fraudulent techniques include premature revenue recognition, fictitious sales, concealment of liabilities, asset overvaluation, and manipulation of expense classifications (Lawal & Audu, 2020). These schemes distort the financial statements to present an illusion of profitability and stability that does not exist in reality. The manufacturing sector, with its complex operations and high financial transactions, is particularly vulnerable to such manipulations, as multiple cost components (inventory, depreciation, materials, and overheads) offer numerous avenues for fraudulent entries (Idris, 2023).

Although empirical evidence suggests that financial statement fraud persists, particularly in emerging markets, where the enforcement of accounting standards and oversight mechanisms remains weak (Adetula et al., 2023). The authors added that the challenge is compounded by limited transparency, political interference, and inadequate whistleblowing protections. Hence, financial statement fraud not only compromises the firm's internal integrity but also disrupts capital market stability and stakeholder confidence. Consequently, financial statement fraud exerts both direct and indirect adverse effects on organisational performance. Once uncovered, it leads to loss of investor confidence, reputational damage, and regulatory sanctions (Alarape & Ayodele, 2021). These outcomes often trigger declines in share prices and market capitalization, jeopardizing both short-term profitability and long-term sustainability (Anietie & Iwu, 2023). Moreover, firms embroiled in fraud scandals experience a higher cost of capital, reduced access to credit, and decreased operational morale among employees.

Furthermore, financial statement fraud distorts managerial decision-making by providing misleading information that can result in poor investment choices, inefficient allocation of resources, and strategic failures, but the extent to which it can hinder the performance of manufacturing firms remains unanswered in the literature (Okoro, 2024). Since management relies heavily on internal accounting data to plan production, pricing, and expansion, fraudulent financial statements create a deceptive sense of performance that misguides corporate strategies. This misrepresentation can lead to overinvestment in unprofitable ventures or underinvestment in critical innovation, thereby eroding the firm's competitive advantage (Ogundele, 2023). Hence, the foregoing rightly pointed out that the cumulative effect of financial statement fraud on performance is not only financial but also structural and reputational. It compromises organisational learning, damages stakeholder relationships, and reduces employee trust. In extreme cases, it may lead to corporate collapse and systemic failure.

Although studies have investigated the nexus between fraud and organisational performance, most of them focused on financial institutions rather than the manufacturing sector. Meanwhile, the manufacturing sector remains understudied despite its significant contribution to GDP and employment. This creates a research gap in understanding the measurable effects of financial statement fraud on objective performance indicators such as ROA, PM, and EPS in manufacturing contexts. This study aims to examine the impact of financial statement fraud on the organisational performance of manufacturing firms in Nigeria.

1.1 Statement of the Problem

The manufacturing sector plays an essential role in Nigeria's drive toward economic diversification, industrial expansion, and job creation. Yet its progress is often hindered by problems such as low productivity, poor resource utilization, and ineffective governance. A major concern within the sector is financial statement fraud, which involves deliberately altering financial information to mislead users of financial reports. Although regulatory frameworks like the Financial Reporting Council of Nigeria Act and the

updated Companies and Allied Matters Act aim to promote transparency, fraudulent accounting practices still occur. These actions weaken the reliability of financial information and undermine confidence in the system. Financial statement fraud affects more than the accuracy of books; it distorts critical indicators like profitability, return on assets, and cash flow performance. When managers manipulate figures to show short-term improvements, they jeopardize long-term survival and weaken investor trust. Meanwhile, weak internal controls and management's ability to override established procedures further encourage such practices. In competitive environments where rewards are tied to reported earnings, the temptation to manipulate results increases. The implications are particularly serious in developing economies where investor confidence is already fragile. Manufacturing firms depend on accurate data for budgeting, resource allocation, and production decisions. Fraudulent information leads to poor planning, waste, and financial instability. Once fraud is exposed, firms face sanctions, loss of investors, reputational setbacks, and declining performance. Complex production processes also make it easier to hide irregularities by inflating asset values, fabricating inventory records, or concealing liabilities. Despite existing research on corporate fraud in Nigeria, limited attention has been given specifically to manufacturing. Understanding how fraudulent reporting affects firm performance is therefore crucial for improving governance practices, strengthening oversight, and rebuilding stakeholder confidence.

1.2 Objectives of the Study

The main objective of this study was to investigate the effect of financial statement fraud on the organisational performance of manufacturing companies in Nigeria. While the specific objectives were to:

1. Explore the effect of overstatement of revenue on the organisational performance of manufacturing companies in Nigeria.
2. Investigate the effect of understatement of expenses on the organisational performance of manufacturing companies in Nigeria.
3. Assess the effect of improper asset valuation on the organisational performance of manufacturing companies in Nigeria.
4. Examine the effect of misleading disclosures on the organisational performance of manufacturing companies in Nigeria.
5. Investigate the composite influence of financial statement fraud (overstating revenue, understating expenses, improper asset valuation, and misleading disclosures) on organisational performance of manufacturing companies in Nigeria.

1.3 Hypotheses

H_{01}: There is no significant effect of the overstatement of revenue on organisational performance of manufacturing companies in Nigeria.

H_{02}: There is no significant effect of understatement of expenses on organisational performance of manufacturing companies in Nigeria.

H_{03}: There is no significant effect of improper asset valuation on organizational performance of manufacturing companies in Nigeria.

H_{04}: There is no significant effect of misleading disclosures on organisational performance of manufacturing companies in Nigeria.

H_{05}: There is no significant composite effect of financial statement fraud (overstatement of revenue, understatement of expenses, improper asset valuation, and misleading disclosures on organisational performance of manufacturing companies in Nigeria.

2. Literature Review

Omah (2023) analyzed the relationship between financial statement fraud indicators and the financial performance of selected food and beverage companies in Nigeria. The study used a quantitative design based on archival data obtained from firms' annual reports and the Nigerian Exchange Group filings. Financial statement fraud was proxied through indicators such as improper asset valuation, expense misclassification, and revenue overstatement, while financial performance was measured using profitability ratios. Regression results revealed a significant negative relationship between fraudulent accounting practices and profitability. The study concluded that persistent misstatements erode investors' trust and weaken firm performance. The research gap identified was the narrow focus on the food and beverage subsector without considering other manufacturing segments for broader generalization.

Oladipo and Fapetu (2021) conducted a cross-country empirical analysis of accounting manipulation and firm value, using a large panel drawn from global financial databases. The study measured manipulation with modified Beneish scores and discretionary-accrual indicators and used Tobin's Q and stock returns for valuation; enforcement indices were included to test moderation. Data collection relied on international databases and firm annual reports; fixed-effects panel regressions with interaction terms assessed relationships. Results showed manipulation reduces firm value and that stronger enforcement intensifies market corrections after manipulation is revealed. The authors concluded that enforcement and detection are central in mitigating fraud's value costs. One-line gap: broad cross-country scope limits sectoral nuance for Nigerian manufacturing firms.

Duan et al. (2024) examined the information content of ex-ante financial-statement-fraud risk indicators and whether those signals predict later financial and market

underperformance. Using a large archival panel across industries, the study constructed fraud-risk scores from disclosure and accounting anomalies and linked these to later ROA and abnormal returns using panel regressions and event-study methods. Data were drawn from audited reports and market databases and analysis controlled for firm and time fixed effects. Results showed higher fraud-risk firms experienced weaker future operating performance and negative abnormal returns once risk was revealed. The paper argued for incorporating fraud-risk indicators into audit/regulatory monitoring. One-line gap: the study is cross-industry and does not examine manufacturing-specific operational outcomes.

Putra (2022) analysed how COVID-19-related financial pressure influenced fraud incidence, using a quasi-experimental difference-in-differences panel of Indonesian listed firms before and during the pandemic. The study computed modified Beneish M-scores and other anomaly metrics from audited statements to proxy fraud risk and used sales shocks to proxy pressure. Data were captured from firm annual reports and market databases; difference-in-differences and panel regressions estimated the pandemic's effect. Results indicated that increased financial pressure was associated with higher fraud-risk signals and subsequent restatements or regulatory action. The authors concluded that crisis periods heighten fraud risk and recommended intensified audit scrutiny during shocks. One-line gap: the Indonesian setting requires replication in Nigeria's institutional context and manufacturing sector.

Idris (2023) explored the relationship between earnings management (both accrual and real) and firm performance across Anglophone Sub-Saharan Africa, employing a panel design and system-GMM estimators to control for endogeneity. The sample consisted of listed firms with continuous financial data between 2010 and 2020, and the authors computed discretionary accruals and REM proxies from audited accounts. ROA, ROE and market-based measures were used as performance outcomes; analyses found EM practices often produced short-term accounting gains but were associated with poorer subsequent market valuation and operating outcomes upon detection. The study concluded that earnings management is value-damaging in the medium term. One-line gap: the regional aggregation calls for focused, in-country manufacturing studies to capture sectoral particularities.

Also, Junus (2025) tested drivers of fraudulent reporting and their value consequences in Indonesia's mining sector using panel regressions and event studies. The population was listed mining firms for 2020–2022 and fraud was proxied via statistical anomaly detection and regulatory actions where available; financials and market prices were obtained from annual reports and databases. Results showed managerial pressure and weak governance increased fraud likelihood and market value declined sharply on fraud revelation. One-line gap: industry specificity (mining) means empirical parallels for manufacturing require direct testing.

Beemamol (2024) mapped contemporary forensic-accounting detection methods and empirically validated hybrid detection approaches (Benford's Law, modified Beneish, ML classifiers) on a multi-sector sample. The empirical component used digit-level and ratio data from annual reports and applied statistical and ML classification with precision/recall evaluation. Hybrid approaches substantially improved flagging accuracy and many flagged firms exhibited later negative performance outcomes. The authors concluded multi-tool detection frameworks are more effective. One-line gap: empirical validation on Nigerian manufacturing firm samples was limited and needs sector-specific testing. Additionally, Oladipo and Fapetu (2021) combined interviews with IT and audit managers and archival event-study analysis to assess the effect of forensic analytics on fraud outcomes in Nigerian financial institutions. Using a mixed-methods design and purposive sampling of institutions with documented fraud analytics adoption, the study found analytics investments led to earlier detection and smaller financial impacts from fraud. The gap in this study is the focus on financial institutions, which leaves manufacturing forensic analytics under-examined.

Okoro (2024) investigated whether enforcement intensity moderates the relationship between fraudulent reporting and firm performance, using a cross-country panel of firms from regional exchanges. Fraud proxies, enforcement indices, and market valuation measures were collated from exchange and global databases; fixed-effects panels with interaction terms indicated that stronger enforcement amplified market penalties for fraudulent reporting. The authors concluded that enforcement matters for market correction dynamics. One-line gap: regional aggregation masks country-specific differences in manufacturing sector structures and institutional details.

3. Methodology

This study adopted an ex post facto research design, which is suitable for investigating relationships between variables using already existing data. The ex post facto design is appropriate because the study examines how different forms of financial statement fraud affect corporate performance without manipulating any variables. Secondary data extracted from the published financial reports of selected manufacturing firms in Nigeria was analyzed to determine the relationship between financial statement fraud indicators and firm performance metrics. The study relies solely on secondary data, which was obtained from the published annual audited financial statements of the selected manufacturing companies. The use of secondary data is justified because financial statement frauds and performance measures can be

objectively assessed from existing financial records without requiring field surveys or questionnaires. The population of this study consists of all manufacturing firms listed on the Nigerian Exchange Group from 2015-2024. Using a purposive sampling technique, ten (10) manufacturing were chosen, based on data availability and consistency of financial reports over the study period. These companies are: Nestlé Nigeria Plc, Nigerian Breweries Plc, Cadbury Nigeria Plc, Flour Mills of Nigeria Plc, PZ Cussons Nigeria Plc, Guinness Nigeria Plc, Dangote Sugar Refinery Plc, NASCON Allied Industries Plc, Fries land Campina WAMCO Nigeria Plc, and Unilever Nigeria Plc. These companies maintain headquarters, major production facilities, or substantial manufacturing operations within the Southwest region of Nigeria, particularly in Lagos and Ogun States). Only firms that have continuously published complete financial statements for at least five consecutive years were included in the sample. The period of ten (10) years was chosen because the researcher assumed it to be long enough to establish the effect of financial statement fraud on the corporate performance among manufacturing firms in Nigeria. These firms were chosen because they are required by law to publish audited financial statements annually, which serve as reliable sources for detecting potential irregularities in financial reporting. The study employed panel data regression analysis to account for both cross-sectional and time-series variations among the selected firms. Descriptive statistics such as mean, standard deviation, minimum, and maximum values was computed to provide an overview of the data distribution. Data collected were analysed to test the hypotheses using Linear Regression Analysis to test hypotheses 1—4, while Multiple Regression Analysis was used to test hypothesis 5. All analyses were conducted using statistical software (SPSS) version 25.

4. Model Specification

Model specification refers to the process of expressing a theoretical relationship among variables in a mathematical or econometric form that can be tested empirically. In other words, it is the stage where a researcher identifies the dependent variable to be explained and the independent variables believed to influence it, and then formulates how these variables are linked in an equation. The model specification establishes the functional and econometric relationships between the dependent and independent variables. The dependent variable is Organisational Performance (OP) and this is measured in this study using Return on Assets (ROA), while the independent variables represent various dimensions of financial statement fraud, namely Overstatement of Revenue (OR), Understatement of Expenses (UE), Improper Asset Valuation (IAV), and Misleading Disclosures (MD).

$$OP = f(OR, UE, IAV, MD) \quad (1)$$

$$OP_{it} = \beta_0 + \beta_1 OR_{it} + \beta_2 UE_{it} + \beta_3 IAV_{it} + \beta_4 MD_{it} + \mu_{it} \quad (2)$$

where:

OP_{it} = Organisational Performance of firm i at time t
OR_{it} = Overstatement of Revenue of firm i at time t
(UE_{it} = Understating of Expenses of firm i at time t
IAV_{it} = Improper Asset Valuation of firm i at time t
MD_{it} = Misleading Disclosures of firm i at time t
β_0 = Intercept or constant term
β_1–β_4 = Coefficients of the independent variables
μ_{it} = Error term capturing the effect of other variables not included in the model

5. Results and Discussion

5.1 Descriptive Statistics

Table 1 presents the descriptive characteristics of the study variables for the 10 manufacturing firms observed over 10 years (2015–2024). Organisational performance (OP) was measured using Return on Assets (ROA). The financial statement fraud indicators include Overstatement of Revenue (OR), Understatement of Expenses (UE), Improper Asset Valuation (IAV), and Misleading Disclosures (MD).

Table 1 presents the descriptive statistics of the dependent and independent variables used in the study. The result shows that Return on Assets (ROA), which measures organisational performance, has a mean value of 0.084 (8.4%), indicating a moderate level of profitability among the sampled manufacturing companies during the study period. This suggests that, on average, the firms generated ₦0.084 profit for every ₦1 invested in assets, reflecting moderate efficiency in the utilization of corporate assets to generate earnings. The standard deviation of 0.051 indicates a relatively low dispersion of ROA values around the mean, suggesting that the profitability levels of the sampled firms did not vary widely over the period. The minimum and maximum values of -0.12 and 0.22 respectively indicate that while some firms experienced losses, others recorded relatively strong profitability.

The mean value of Overstatement of Revenue (OR) is 0.321 with a standard deviation of 0.114. This implies that revenue overstatement practices were moderately present among the sampled firms and varied considerably across companies and years. The minimum and maximum values of 0.10 and 0.59 respectively further indicate substantial differences in the extent of revenue overstatement among the firms. Understatement of Expenses (UE) recorded a mean value of 0.278 and a standard deviation of 0.098, suggesting a moderate occurrence of expense understatement with moderate variability among the sampled companies. The values ranged from 0.09 to 0.52, indicating that some firms engaged minimally in expense understatement while others exhibited relatively higher levels.

Similarly, Improper Asset Valuation (IAV) recorded the highest mean value of 0.356 among the fraud indicators, with a standard deviation of 0.129. This suggests that improper asset valuation was relatively more prevalent compared to the other dimensions of

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
ROA	0.084	0.051	-0.12	0.22
OR	0.321	0.114	0.10	0.59
UE	0.278	0.098	0.09	0.52
IAV	0.356	0.129	0.11	0.63
MD	0.301	0.112	0.12	0.55

Table 2: shows the Pearson correlation matrix. All fraud indicators are negatively associated with ROA.

Variable	ROA	OR	UE	IAV	MD
ROA	1				
OR	-0.442	1			
UE	-0.391	0.364	1		
IAV	-0.428	0.402	0.318	1	
MD	-0.356	0.298	0.277	0.331	1

Table 3: Fixed Effects Regression Results (Individual Effects)

Variables	Coefficient (β)	Std. Error	t-value	p-value
Constant	0.192	0.037	5.19	0.000
OR	-0.163	0.027	-3.29	0.001
UE	-0.124	0.041	-3.02	0.003
IAV	-0.139	0.052	-2.67	0.008
MD	-0.118	0.046	-2.57	0.011

Model Summary: $R^2 = 0.612$ Adj. $R^2 = 0.587$ F-statistic = 24.42 ($p < 0.05$)

financial statement fraud and exhibited considerable variation across the firms. The minimum and maximum values of 0.11 and 0.63 respectively support the existence of substantial differences in asset valuation practices among the sampled companies. Misleading Disclosures (MD) had a mean value of 0.301 and a standard deviation of 0.112, indicating a moderate level of misleading disclosure practices with noticeable variability across firms. The minimum value of 0.12 and maximum value of 0.55 further suggest differences in the quality and transparency of financial disclosures among the sampled manufacturing companies.

Generally, the descriptive statistics reveal moderate profitability among the manufacturing firms and indicate that the dimensions of financial statement fraud overstatement of revenue, understatement of expenses, improper asset valuation, and misleading disclosures were present to varying degrees across the sampled companies. The relatively moderate standard deviations suggest that although differences existed among firms, the variations were not excessively wide, thereby providing a suitable basis for further inferential analysis.

5.2 Correlation Analysis

Based on Table 2, the correlation matrix shows important patterns that explain how different forms of financial statement fraud relate to firm performance (ROA). All fraud variables: Overstatement of Revenue (OR), Understatement of Expenses (UE), Improper Asset Valuation (IAV), and Misleading Disclosure (MD) show negative correlations with ROA, meaning they all reduce true financial performance. Overstatement of Revenue (OR) has a moderately strong negative correlation with ROA (r = -0.442), indicating that firms reporting inflated revenue figures often have weaker real profitability. This suggests that revenue inflation is used to conceal declining performance. Understatement of Expenses (UE) also shows a negative relationship with ROA (r = -0.391), implying that firms reducing reported expenses artificially may actually be financially unhealthy. Improper Asset Valuation (IAV) demonstrates a negative and meaningful correlation with ROA (r = -0.428), showing that firms manipulating asset figures tend to perform poorly. Misleading Disclosures (MD) also correlate negatively with ROA (r = -0.356), indicating that deceptive narrative reporting often accompanies weak financial performance. Among the fraud indicators, ORV and IAV show a noticeable positive association (r = 0.402), meaning firms that overstate revenues also tend to manipulate asset values. UE and OR also correlate positively (r = 0.364), suggesting expense understatement often accompanies revenue inflation. IAV and MD display a positive correlation (r = 0.331), showing that manipulation of numerical figures often comes with misleading disclosure practices. UE and MD correlate at r = 0.277,

Table 4: Random Effects Regression Results

Variables	Coefficient (β)	Std. Error	z-value	p-value
C	0.185	0.040	4.63	0.000
OR	-0.151	0.051	-2.96	0.003
UE	-0.117	0.043	-2.72	0.007
IAV	-0.131	0.054	-2.43	0.015
MD	-0.109	0.048	-2.27	0.023

Model Summary: $R^2 = 0.584$ Wald Statistic = 21.76 ($p < 0.05$)

Table 5: Fixed and Random Effect Analysis

Statistic	Fixed Effects	Random Effects
R^2	0.612	0.584
Constant	0.192	0.185
Overall Significance	F = 24.42 ($p < 0.05$)	Wald = 21.76 ($p < 0.05$)

Table 6: Hausman Test Results

Test	Chi-Square	p-value	Decision
Hausman Test	21.87	0.000	Fixed Effects Preferred

and ORV and MD at r = 0.298, further demonstrating interconnected fraudulent tendencies. Generally, the matrix reveals that fraud practices tend to occur together and significantly distort the true financial performance (ROA) of Nigerian manufacturing firms.

5.3 Panel Regression Results

A Hausman test indicated that the fixed effects model was more appropriate ($\chi^2 = 21.87$, $p < .05$). Table 3 shows the fixed effects regression results for the individual hypotheses (H_{01}–H_{04}).

The Hausman test result ($\chi^2 = 21.87$, $p < 0.05$) indicated that the Fixed Effects model was more appropriate for the analysis. The constant term (C) has a coefficient of 0.192 and is statistically significant at the 5% level (p = 0.000), implying that when all explanatory variables are held constant, organisational performance will be 19.2%. The coefficient of Overstatement of Revenue (OR) is -0.163 and statistically significant (p = 0.001), indicating that overstatement of revenue negatively affects organisational performance. Understatement of Expenses (UE) has a coefficient of -0.124 and is statistically significant (p = 0.003), suggesting that it significantly reduces organisational performance. Similarly, Improper Asset Valuation (IAV) has a coefficient of -0.139 and is statistically significant (p = 0.008), while Misleading Disclosures (MD) has a coefficient of -0.118 and is statistically significant (p = 0.011), indicating that both variables exert significant negative effects on organisational performance. The R^2 value of 0.612 indicates that approximately 61.2% of the variations in organisational performance are explained by the independent variables included in the model, while the remaining 38.8% is attributable to factors outside the model. The F-statistic of 24.42 ($p < 0.05$) shows that the model is statistically significant and that the explanatory variables jointly have a significant effect on organisational performance.

The Random Effects regression results presented in Table 4 showed the effect of financial statement fraud dimensions on organisational performance. The constant term (C) has a coefficient of 0.185 and is statistically significant at the 1% level (p = 0.000). This implies that when all explanatory variables are held constant, the baseline level of organisational performance is 18.5%. The coefficient of Overstatement of Revenue (OR) is -0.151 and

statistically significant (p = 0.003), indicating that a unit increase in overstatement of revenue reduces organisational performance by 15.1%. Similarly, Understatement of Expenses (UE) has a coefficient of -0.117 and is statistically significant (p = 0.007), suggesting that an increase in understatement of expenses leads to an 11.7% decline in organisational performance. Improper Asset Valuation (IAV) recorded a coefficient of -0.131 and is statistically significant (p = 0.015), implying that an increase in improper asset valuation decreases organisational performance by 13.1%. Likewise, Misleading Disclosures (MD) has a coefficient of -0.109 and is statistically significant (p = 0.023), indicating that an increase in misleading disclosures reduces organisational performance by 10.9%. The coefficient of determination (R^2) of 0.584 indicates that approximately 58.4% of the variation in organisational performance is explained by overstatement of revenue, understatement of expenses, improper asset valuation, and misleading disclosures, while the remaining 41.6% is explained by factors outside the model. The Wald Statistic of 21.76 with a probability value less than 0.05 indicates that the overall model is statistically significant and that the explanatory variables jointly influence organisational performance.

Table 5 presents the results of the Fixed Effects and random-effects analyses. The fixed-effects model explains 61.2% of the variation in the dependent variable ($R^2 = 0.612$), while the random-effects model explains 58.4% ($R^2 = 0.584$). The estimated constant terms are 0.192 and 0.185 for the fixed-effects and random-effects models, respectively. Both models are statistically significant, as indicated by the F-statistic of 24.42 ($p < 0.05$) for the fixed-effects model and the Wald statistic of 21.76 ($p < 0.05$) for the random-effects model.

As shown in Table 6, the Hausman test yielded a chi-square value of 21.87 (p = 0.000), leading to the rejection of the null hypothesis and supporting the use of the fixed-effects model over the random-effects model. This suggests that the unobserved firm-specific effects are correlated with the explanatory variables. Consequently, the Fixed Effects model was adopted for hypothesis testing and interpretation. In addition, the Fixed Effects model exhibited a higher explanatory power ($R^2 = 0.612$) than the Random Effects model ($R^2 = 0.584$), further justifying its selection as the preferred model for the study.

H_{01}: Overstatement of revenue has no significant effect on organisational performance

The coefficient for ORV ($\beta = -0.163$, $p = 0.001 < 0.05$) is significant. The decision was to reject hypothesis one (H_{01}). Therefore, overstatement of revenue significantly reduces organisational performance. The regression result shows that Overstatement of Revenue (OR) has a significant negative effect on organisational performance, as indicated by the coefficient $\beta = -0.163$ and significance level p = 0.001. This implies that by 16.3%, reduced financial accuracy and efficiency. when firms inflate their revenue figures, their actual performance declines. The negative coefficient indicates that revenue exaggeration creates a misleading picture of profitability, often masking operational inefficiencies and financial distress. Overstating revenue may provide short-term cosmetic gains but undermines long-term financial sustainability. The statistical significance ($p < 0.05$) confirms that this effect is not due to chance. Therefore, the study concludes that ORV is a harmful, fraudulent practice that materially weakens the true performance of manufacturing companies in Nigeria. This result corroborates the study by Omah (2023), who analysed the relationship between financial statement fraud indicators and the financial performance of selected food and beverage companies in Nigeria. The study concluded that persistent misstatements erode investors' trust and weaken firm performance. Similarly, Okoro (2024) conducted a cross-country empirical analysis of accounting manipulation and firm value using a large panel drawn from global financial databases. The result showed that manipulation reduces firm value and that stronger enforcement intensifies market corrections after manipulation is revealed. The author concluded that enforcement and detection are central to mitigating the value costs associated with fraudulent financial reporting.

H_{02}: Understatement of expenses has no significant effect on organisational performance.

The coefficient for UNE ($\beta = -0.124$, $p = 0.003 < 0.05$), which means that understatement of expenses significantly reduces organisational performance. Therefore, H_{02} is rejected. The negative coefficient ($\beta = -0.124$). This implies that underreporting expenses reduces ROA by 12.4%, indicating that such fraudulent practices harm financial performance. Expense understatement distorts cost structures, leading to inflated profit figures that do not reflect operational realities. This fraudulent practice may mislead investors temporarily, but eventually results in cash flow pressures and declining efficiency. The significance level (p = 0.003) confirms that the effect is statistically meaningful and not random. The result suggests that manipulating expenses undermines long-term sustainability and signals weak financial discipline within manufacturing firms. This outcome is consistent with the findings of Oladipo and Fapetu (2021), who found that accounting manipulation reduces firm value and that stronger enforcement intensifies market corrections once manipulation is revealed. The authors concluded that enforcement and detection mechanisms are essential in mitigating the value-damaging effects of fraudulent practices. However, the study's broad cross-country scope limits sectoral specificity for Nigerian manufacturing firms. Similarly, Duan et al. (2024) examined the information content of ex-ante financial-statement-fraud risk

indicators and whether those signals predict subsequent financial and market underperformance. Their findings revealed that firms with higher fraud-risk indicators experienced weaker future operating performance and negative abnormal returns once the fraud risk became publicly known.

H_{03}: Improper asset valuation has no significant effect on organisational performance.

Coefficient for IAV ($\beta = -0.139$, $p = 0.008 < 0.05$). The decision was to reject hypothesis three (H_{03}). Therefore, Improper asset valuation significantly reduces organisational performance. The result shows that improper assets valuation has a strong negative effect on firm performance, as indicated by $\beta = -0.139$. This suggests that when firms overstate or manipulate asset values, they weaken their actual profitability and operational effectiveness. Asset inflation often conceals depreciation problems and inefficiencies, leading to misguided investment decisions. A highly significant p-value (0.008) further validates the robustness of this relationship. The finding implies that inaccurate asset reporting erodes investor trust and exposes firms to long-term financial instability. This outcome corroborates the study by Putra (2022), who analysed how COVID-19-related financial pressure influenced fraud incidence using a quasi-experimental difference-in-differences panel of Indonesian listed firms before and during the pandemic. The findings indicated that increased financial pressure was associated with higher fraud-risk signals and subsequent restatements or regulatory actions. The author concluded that crisis periods heighten fraud risk and recommended intensified audit scrutiny during periods of economic shocks. Similarly, Idris (2023) explored the relationship between earnings management, both accrual and real, and firm performance across Anglophone Sub-Saharan Africa. The study found that earnings management practices often produced short-term accounting gains but were associated with poorer subsequent market valuation and operating outcomes once detected. The author concluded that earnings management is value-damaging in the medium term.

H_{04}: Misleading disclosures have no significant effect on organisational performance

Coefficient for MSD ($\beta = -0.118$, $p = 0.005$ $p< 0.05$). The decision was to reject hypothesis four (H_{04}). Therefore, misleading disclosures significantly reduce organisational performance. The negative coefficient ($\beta = -0.118$) indicates that misleading narrative disclosures adversely affect firm performance. When companies manipulate notes, footnotes, or management discussions, they create information asymmetry that obscures operational weaknesses. This lack of transparency can misguide stakeholders and delay corrective actions, ultimately lowering performance. The effect is statistically significant ($p = 0.011$), confirming that dishonest disclosures are a critical driver of declining ROA by 11.8%. Overall, the evidence suggests that weak disclosure practices damage credibility and undermine sustainable growth in manufacturing firms. This finding is in accordance with Junus (2025), who found that increased financial pressure was associated with higher fraud-risk signals and subsequent restatements or regulatory action. The authors concluded that crisis periods heighten fraud risk and recommended intensified audit scrutiny during shocks. Meanwhile, Okoro (2025) combined interviews with IT and audit managers and archival event-study analysis to assess the effect of forensic analytics on fraud outcomes in Nigerian financial institutions, the study found analytics investments led to earlier detection and smaller financial impacts from fraud.

H_{05}: There is no significant composite effect of financial statement fraud (overstatement of revenue, understatement of expenses, improper asset valuation, and misleading disclosures on organisational performance of manufacturing companies in Nigeria.

The Table 7 indicates that composite fraud index shows a strong negative effect ($\beta = -0.281$, $t = -3.90$, $p = 0.000$, $R^2 = 0.643$, Adj. $R^2 = 0.628$, $F = 29.33$) on organizational performance. The decision was to reject hypothesis five. Hence, financial statement fraud significantly predicts organisational performance when considered jointly. The composite regression result provides a holistic understanding of how all forms of financial statement fraud: including overstatement of revenue, understatement of expenses, improper asset valuation, and misleading disclosures jointly affect organisational performance. The coefficient for the FSF composite index is ($\beta = -0.281$), indicating a substantial negative effect on performance when all fraudulent practices are considered together. This means that as the overall level of financial statement fraud increases, firm performance declines significantly. The negative coefficient reflects the cumulative damage caused by multiple fraudulent activities, which distort financial information, mislead stakeholders, and result in poor strategic decision-making. The t-value of -3.90 and p-value 0.000 demonstrate that this effect is highly statistically significant, confirming that the composite FSF index is a strong predictor of declining organisational performance. This implies that financial fraud practices reinforce one another, amplifying their harmful consequences. When firms simultaneously manipulate revenues, expenses, assets, and disclosures, the distortions in financial reporting become deeper and more difficult to detect, leading to severe long-term performance deterioration. The model summary further strengthens this conclusion. The R^2 value of 0.643 shows that approximately (64.3%) of the variation in organisational performance is explained by the combined fraud indicators, a very high explanatory power for behavioural and financial data. The Adjusted R^2 of 0.628 confirms the model's robustness after adjusting for the number of predictors. The F-statistic

Table 7: Composite Effect of All Fraud Indicators on Organisational Performance

Variable	Coefficient (β)	Std. Error	t-value	p-value
FSF (composite index)	-0.281	0.072	-3.90	0.000
Constant	0.214	0.041	5.22	0.000

Model Summary: $R^2 = 0.643$ Adj. $R^2 = 0.628$ F-statistic = 29.33 ($p < .05$)

of 29.33 ($p < .001$) indicates that the model is statistically significant overall, meaning the composite fraud index reliably predicts performance changes across firms and time. Because the composite FSF index significantly predicts organisational performance ($p < 0.001$), H_{05} is rejected. Therefore, financial statement fraud, when considered as a combined phenomenon, exerts a powerful and detrimental effect on the performance of manufacturing companies in Nigeria. The joint influence of fraudulent reporting practices weakens profitability, reduces operational efficiency, and undermines long-term sustainability.

The outcome of this study is consistent with the findings of Junus (2025), who tested the drivers of fraudulent reporting and their value consequences in Indonesia's mining sector using panel regressions and event studies. The study found that managerial pressure and weak corporate governance increased the likelihood of fraud, while market value declined significantly following the revelation of fraudulent activities. Similarly, Beemamol (2024) mapped contemporary forensic-accounting detection methods and empirically validated hybrid detection approaches such as Benford's Law, modified Beneish models, and machine-learning classifiers on a multi-sector sample. The study concluded that multi-tool detection frameworks are more effective in identifying fraudulent financial reporting and reducing the adverse consequences associated with fraud.

6. Conclusion

The study concludes that financial statement fraud has a profound and detrimental impact on the performance of manufacturing firms in Nigeria. Practices such as revenue overstatement, expense understatement, improper asset valuation, and misleading disclosures individually compromise profitability, efficiency, and the reliability of financial reporting. When these practices occur simultaneously, their collective effect intensifies, distorting organisational performance and undermining stakeholder confidence. The findings underscore that financial statement fraud is a systemic challenge that weakens governance structures, misguides managerial decisions, and threatens long-term sustainability. Addressing these unethical practices is therefore critical for enhancing transparency, strengthening internal controls, and promoting the overall competitiveness and stability of manufacturing firms within the Nigerian economy.

7. Recommendations

1. Manufacturing firms should reinforce internal controls, audit committees, and oversight mechanisms to detect and prevent fraudulent financial reporting.
2. Regulatory bodies should implement stricter monitoring and enforcement of financial reporting standards to discourage unethical accounting practices.
3. Firms should adopt comprehensive and transparent reporting practices, ensuring that financial statements accurately reflect operational realities.
4. The organisation should establish frequent and independent internal audits, this can help identify irregularities early, reducing the likelihood of revenue overstatement, expense understatement, and asset misevaluation.
5. Management should cultivate a corporate culture that prioritizes ethics and accountability, linking incentives to actual performance rather than manipulating financial outcomes.

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