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MANIPULATIVE INCENTIVES AND GOODWILL IMPAIRMENT OF LISTED FINANCIAL SERVICE FIRMS IN NIGERIA

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Abstract

This study assessed the effect of manipulative incentives on goodwill impairment of listed financial service firms in Nigeria. Secondary source of data was used and the data was obtained from the annual reports of the firms. The results from the regression analysis show that political cost and contracting motive have a significant effect on the manipulative incentives on goodwill impairment of listed financial service firms in Nigeria. The study concludes that political cost and contracting motive are determinants of manipulative incentives of goodwill impairment of listed financial service firms in Nigeria. The study therefore recommends among others that regulatory bodies should enforce stringent disclosure requirements mandating comprehensive and transparent reporting regarding goodwill impairment assessments. Also, develop standardized impairment testing procedures, guided by robust methodologies and objective criteria, to limit managerial discretion in impairment assessments. Regulators should conduct periodic reviews to identify potential manipulative incentives.

Keywords: Goodwill, Impairment, Manipulative Incentive, Political Cost, Contracting Motive.

Introduction

The current accounting practices for goodwill impairment afford opportunity for manipulative incentives through the degree of choice of policies, professional judgment in determining the method of measurement, criteria for recognition, and even the disclosure requirement of goodwill impairment (Filip et al., 2021). As a result, some managers exploit this and opt for a deliberate manipulation of accounting figures, thereby presenting a false image than it is in reality misleading the users of financial statements (Pardo & Giner, 2022).

Political cost is a manipulative incentive in explaining goodwill impairment manipulation. Manager of large corporations uses goodwill impairment to engage in manipulation in order not to attract political attention. Therefore, large firms are more likely to use goodwill impairment to decrease earnings in order to reduce political exposure (Engberg & Schenberg (2020). Greater attention faced by a company results in managers choosing accounting procedures that will reduce the reported period earnings. Goodwill seems to allow for some level of manipulation and that the political cost appear to be a factor in manipulating impairment. Political cost is one of the manipulative incentives in the accounting treatment of goodwill impairment (Stenheim & Madsen, 2016). Larger companies are easily scrutinized by their relevant stakeholders this makes managers to be more anxious to ensure that their reporting performance does not attract political cost thereby creating incentives for manager's opportunistic behavior in order to manage political costs (Engberg, & Schenberg, 2020). Political cost contributes to the manipulation embedded in the valuation of goodwill impairment due to the reason that enormous demand and expectations are placed on most of the big organizations (Gonçalves et al., 2019). In Nigeria, this manipulation as a result of political cost is abetted due to the inefficiency in the financial reporting process and absence of well-structured systems to enable an effective evaluation of the financial processes (Olugbenga et al., 2014).

Prior studies such as Stenheim and Madsen (2016), Li (2018), Gonçalves, et al. (2019), reveals that political cost have an effect on goodwill impairment. On the contrary, Oliveira et al (2018), reveals that political costs does not affect the recognition of goodwill impairment which implies that larger companies do not use goodwill impairment as an incentive to engage in manipulative practices. Therefore, this problem of inconsistency in previous findings amongst various authors create an empirical gap that demand the need to look into the relationship between political cost and goodwill impairment. Also, the result of prior study such as Zang (2008), Lemans (2009) and Ostende (2009) have been overtaken by events as the scope of their study did not cover the recent provision of goodwill impairment standard. Furthermore, political cost was not analyzed directly with goodwill impairment manipulation thereby creating the need to analyze political cost in relation to goodwill impairment.

Another, manipulative incentive of goodwill impairment is the contracting motive because firms with debt covenant are more likely to exploit the opportunity in accounting principles in order not to violate the credit agreement. The breach of a given covenant can lead to an immediate repayment claim from the creditor, which would result in extensive liquidity problems for most companies. In order to avoid such problem managers engage in discretionary behavior (Katri, 2018). Contracting motive in reporting goodwill impairment has it that firms approaching violation of their debt covenants have a lower likelihood of reporting goodwill impairment losses. Firms with debt covenant have the predisposition to opportunistically understate goodwill impairments possibly to avoid breaching of debt covenants (Korošec et al., 2016). It is expected that firms with high leverage are less likely to impair goodwill in order to avoid unnecessary costs, such firms tend to act in a discretionary manner so as to present accounting numbers that meets up with the requirements of the covenant (Abdul-Majid, 2017).

Contracting motive considers debt contracts as a potential source of management to act opportunistically. Debt contracts will trigger the manipulative behavior of management when there are differences in alignment of interests of managers, shareholders with those of the debt holders (Korošec et al., 2016). In Nigeria, debt covenant considerations is an incentives leading to a reporting inducements that seeks to increase earnings and net asset values (Olaleye et al., 2014). This suggests that firms that are close to violating debt covenants will have incentives to avoid impairment loses. In particular, firms with high debt proportion when compared with their asset ratios are believed to be close to violating debt covenants, these firms are predicted to avoid accounting decisions that increase debt ratios (Chukwu, & Salifu, 2018).

Prior studies such as Mander (2015) and Katri (2018), have considered the contracting motive in relation to goodwill impairment with the findings that provision for goodwill impairment gives the manager leeway to choose whether or not to impair as to protect the firm from violating its debt covenants. On the contrary prior studies such as Gaio et al. (2021), reveal that contracting motive is not a manipulative incentive of goodwill impairment which implies that companies with high debt do not use goodwill impairment as an incentive to engage in manipulative practices. Therefore, this discrepancy in prior findings identified serves as a problem that creates an opening in literature and this provides opportunity to analyze the relationship between contracting motive and goodwill impairment.

This study is focus on addressing the various gaps identified by examining the manipulative incentives of goodwill impairment of listed financial service firms in Nigeria.

Objectives of the Study

The overall objective of this study is to examine the effect of manipulative incentives on goodwill impairment of listed financial service firms in Nigeria. The specific objectives of the study are to:

i. Examine the effect of political cost on goodwill impairment of listed financial service firms in Nigeria.

ii. Assess the effect of contracting motive on goodwill impairment of listed financial service firms in Nigeria.

Research Hypotheses

In line with the research objectives stated above, the following hypotheses are formulated in null form.

H_{o1}: Political cost have no significant effect on goodwill impairment of listed financial service firms in Nigeria.

H_{o2}: Contracting motive has no significant effect on goodwill impairment of listed financial service firms in Nigeria.

Concept of Goodwill Impairment

IAS 36 requires that an asset shall be tested for impairment if the firm recognizes indicators of a reduction in the value of the asset. One indication of this reduction is if the recoverable amount for the cash generating unit(s), that the goodwill has been allocated to, is less than the carrying amount of the unit(s). When allocating the goodwill to the cash-generating units, the smallest group of assets that are able to generate cash flows from ongoing use and that has a cash-flow that is separated from other groups or assets, is recognized (IAS 36). If so, an impairment should be recognized as the difference between the recoverable and carrying amount. A firm cannot recognize an impairment and reduce the carrying amount of the goodwill below the highest of: (1) if measurable, the asset's fair value less costs of disposal (2) if determinable, the asset's value in use and (3) zero (IAS 36). The standard imposes further restrictions specifically for goodwill, which requires the asset to be tested for impairment at least annually, and once recognized, the impairment cannot be reversed (IAS 36).

When assessing goodwill impairments, a company needs to document and estimate the recoverable amount of goodwill for which the cash-generating units have been allocated to, and compare that amount with the carrying value of goodwill allocated on the financial statement. The recoverable amount of an asset is defined as the greater value of the asset's fair value less cost of disposal, or the assets value in use (IAS 36). If the fair value less cost of disposal or its value in use is more than the carrying amount, it is not necessary to calculate the other amount since the asset is not impaired (IAS

36). It can be hard to measure the cash-generating units' fair value less cost of disposal, since it might be that there is not a reasonable estimation of the true value for the asset.

Concept of Manipulative Incentive

Accounting practice lacks a clear set of rules but rather acts as a framework within which different companies can adapt their accounting to fit their business and as a result of this lack of clear-cut framework, provision is made for management to carry out manipulative practices (Verdes & Nguyen, 2019). Schuchter and Levi (2014), conceptualize manipulative incentives as subverting accounting principles in a business environment which brings an unfair economic advantage. Zhao et al. (2023), operationalize manipulative Incentives as when managers intentionally use their judgment in financial reporting and transactions to manipulate financial reports to mislead stakeholders about the underlying economic reality of the firm. This is also true when managers use discretion to alter financial information that would influence contractual outcomes that depend on reported accounting numbers (Albersmann et al., 2020).

According to this conceptualization, companies who make a deliberate attempt to understate or overstate the accounting numbers presented in the financial statement in order to achieve their duplicitous motives. Manipulative practices can be achieved as a result of the flexibility inherent in accounting standards. Accounting based standard has an advantage in terms of discretionary flexibility that allows for discretionary incentive (Sang, 2021). This flexibility however can be used by managers to exercise discretion in order to mislead one or more stakeholders. The flexibility inherent in standards enables firms to carry out manipulative practices and claim that their operations can be reported using discretion (Rubio et al., 2021). The flexibility innate in Goodwill impairment is contemporaneously linked to the issue of manipulative practices, goodwill impairment constitutes a form of manipulative incentive which present management with the inducement to exploit the discretionary elements for their own benefit (Filip et al., 2021). The debate surrounding manipulative incentives and goodwill impairment arises from the flexibility, numerous assumptions required in the fair value estimation based on present value techniques and the allocation of goodwill to a cash generating unit and also, the value in use estimation allows for great discretionary leeway (Avallone & Quagli, 2015).

Concept of Political Cost

Political cost is an influence triggering management manipulation of accounting numbers (Gonçalves et al., 2019). This incentive stem from the fact that accounting numbers may influence the degree to which firms are subject to regulations that impose political costs on them. This is particularly prominent in firms that are large and has significant high net earnings, large fluctuations in net earnings or a significant market share, which suggests more political visibility (Stenheim & Mad-

sen, 2016). Political cost is a crucial element explaining the differences found in the accounting treatment of impairment losses. Consistent with the political cost argument, larger companies show a higher level of divergence, therefore to mitigate political costs associated with their public visibility, these companies tend to influence the recognition of goodwill impairment which alters credibility of the financial statements that does not actually reflect the overall true financial and economic condition (Oliveira et al., 2018).

Concept of Contracting Motive

Contracting motive also referred to as financial covenant, debt covenant, or loan covenant, are conditions set forth within financial contracts (such as loans and bonds) in which the borrower is either obligated or forbidden to undertake a specific action (Hassine & Jilani, 2017). Lenders typically use debt covenants as a means of ensuring that a borrower maintains their business in a way that will make the loan payment most likely. It is a way that lenders can micromanage borrowers in order to attempt to mitigate risk and a form of guard rails that lenders can set up to ensure a business is staying well within a margin of operation (Frankel et al., 2008).

Contracting motive is referred to restrictions imposed on borrowers because of limitations and targets that cannot be breached. The contracting hypothesis posits that when a firm has a higher debt ratio, they are less likely to impair which is consistent with our expectation. This is in line with common theory that a firm is less likely to take an impairment loss to goodwill and risk triggering debt covenants. Firms that have high debt to asset ratios are the firms who carry higher amounts of debt on their books and naturally would have to be more careful with operating results as to not disrupt the covenant reached (Mander, 2015).

When firms take an impairment that crosses the threshold of a debt covenant, then immediate repayment of the debt is likely to be required by the firm's creditor. The provision for goodwill impairment gives the manager leeway to choose whether or not to impair as to protect the firm from violating its debt covenants (Koresec et al., 2016). The contracting motive conceptualizes that the closer a firm is to compromising their debt covenants, the more likely management is to use accounting policies that increases reported earnings, companies that are closer to breaching debt covenants (debt contract agreements) tend to choose the accounting procedures that increases reported earnings (Jarkvist & Svanå, 2015). This is because higher net earnings will reduce the probability of technical default on the debts.

Review of Empirical Studies

Stenheim and Madsen (2016), investigate the association between goodwill impairment losses and proxies of economic impairment, earnings management incentives and corporate governance mechanisms. The objective of the study is to examine the determinants of goodwill impairment losses

by examining the associations between impairment losses and proxies of economic impairment, earnings management incentives and corporate governance mechanisms.

The empirical results of the study are based on observations from the largest firms listed at the London Stock Exchange over the fiscal years 2005 to 2009, logit and tobit regression was used to analyze the data. The results establish significant associations between impairment and earnings management incentives. Specifically, the result reveals that political cost has a significantly positive association with impairment decisions. This suggests that political cost is positively associated with impairment losses.

Winter (2017), investigate the determinants of IAS 36 goodwill impairments in Finnish listed companies. This study aims to investigate whether goodwill impairments recognized by Finnish listed companies are driven by managerial reporting incentives or actual economic conditions, as intended by the standard setting authorities. The research sample comprises of OMXH listed non-financial companies from the period 2010-2016. Using logistic and multiple linear regression, the study separately examines the decision to impair and the size of the reported impairment loss. The combined results provide evidence on the notion that Finnish managers use their discretion in goodwill impairment accounting. More specifically, managerial reporting incentives appear to influence decisions relating to both the timing and the magnitude of reported impairment losses. The empirical results indicate that debt does not appear to influence the impairment decision.

Oliveira et al. (2018), investigate the impact of the first-time adoption of the accounting standardization system impairment losses in Portugal. The study seeks to analyze the impact of first-time adoption regarding the accounting treatment of impairment losses this objective aroused as a result of the fact that Portugal has been recognized as a Code-law country, with weak legal enforcement mechanisms, and conservative accounting practices. The sample comprises of companies selected from the Exame Magazine ranking in 2010, the selection was based on companies whose individual annual reports for 2009 and 2010 had been published in their websites and was approved by (Sistema de Normalização Contabilística – SNC) and published through the Decree-Law no. 158/2009. The study reveals that political cost has a positive and insignificant effect on goodwill impairment. This means that political cost is not a determinant of goodwill impairment manipulation. The shortfall of this study is that the scope is not large to arrive at a conclusion and make generalization.

Li (2018), examine lifting of short selling constraints and accounting policy options empirical data from asset impairment provision. The study examines accounting policy by means of the exogenous event of loose short selling control. The study scope was based on the listed companies in Shanghai and Shenzhen from 2008-2016. The data of this study is derived from the CSMAR database

and the Wind data-base. The sampled firms comprise of companies owned by the A-share listed corporations of the Shanghai and Shenzhen stock exchanges. The study finds that political cost has a significant effect on goodwill impairment. Furthermore, the study finds that after relaxing the short selling control, the company reduces the proportion of the provision for impairment of assets, and the company's reduced provision for the provision for impairment of assets can be higher than the non-returnable asset impairment provision. The study has some shortcomings due to the reason that short selling transactions started late in China, the current stocks that can be sold short account for a small proportion of the overall sample of the study. During the sample period, the size of stocks that can be sold short accounts for a very small number of the total sample. This therefore limit the generalization of the study.

Katri (2018), analyze the association of earnings management motives and goodwill impairment losses in Finnish listed companies between 2005 and 2017. Earnings management is analyzed by focusing on the patterns of big bath accounting, covenant contract compliance and income smoothing. The study employs logistic regression to capture the decision to report impairment of goodwill loss, and OLS regression to explore the magnitude of goodwill impairment losses. The results indicate that impairment losses are smaller for companies with higher levels of debt. Companies with high debt are presumed to decrease impairments in order to prevent debt covenants violation.

Gonçalves et al. (2019), examine the extent to which recognition of impairments in goodwill is associated the capital market restrict the recognition of such losses. The study took a quantitative approach based on accounting and market data of companies listed on the Lisbon and Madrid stock exchanges from 2007 to 2015. The study made use of the multivariate regression models estimated using the generalized moment method (system GMM). The result reveals that political cost has a positive and significant effect on the impairment of goodwill. The positive relationship between political cost and the impairment in goodwill suggests that, in the context of manipulative practices, large organization are more likely to use goodwill impairment for manipulative practices than in smaller firms.

Li (2020), investigate the impact of executive changes on goodwill impairment based on the proxy theory, information asymmetry theory and signal transmission theory. The study was conducted using the data of A-share listed companies in Shanghai and Shenzhen stock exchanges for a period of nine (9) years spanning from 2010-2018. The research results show that when compared with companies that have not undergone executive changes, companies that have undergone executive changes have a greater degree of goodwill impairment and that companies audited by the non-big four which implies that high audit quality can effectively play an external monitoring role and

curb the opportunistic behavior of senior management. The study further reveals that debt have no effect on goodwill impairment.

Engberg and Schenberg (2020), analyze goodwill impairment factors in Sweden. The objective of the study is to analyze how impairment factors affect discretionary goodwill impairment decisions in Swedish Large Cap and Mid Cap firms. The study examines the occurrence and the size of goodwill impairment losses. The scope of the study comprises Swedish Large Cap and Mid Cap firms during the period of seven years from (2006-2012). The study analyzed its data using the logistic regression to investigate what indicators causes firms to make goodwill impairments. The study also did a regression analysis to examines what influences the amount of goodwill impaired using a censored Tobit regression. The result reveals that political cost have a positive and significant effect on goodwill impairment. The shortcoming of this study is that the scope is outmoded.

Jung and Waesame (2021), investigate managers of unionized firms' tendency to reduce reported earnings by reporting goodwill impairment losses for a unique group of firms experiencing mergers and acquisitions. The study hypothesize that the existence and strength of labor unions are positively linked to the likelihood, frequency, and amount of goodwill impairment. The study sample consist of U.S. firms with a goodwill balance from 2007 to 2016 a period of ten (10) years. The study obtains its data from coverage database, compustat, execucomp, IBES, CRSP and Thomson Reuters' institutional holding database. The result reveals that debt covenant does not have significant effect on goodwill impairment.

Gaio et al. (2021), investigate the impact of the financial crisis on the recognition of non-financial asset impairments in European listed companies. The study explores the impact of measuring the economic value of non-financial assets on managers' decisions to recognize impairments, especially in the context of an economic crisis with the aim to analyze the impact that the 2008-2009 financial crisis had on the recognition of impairments in non-financial assets by listed companies in the European Union. The study made use of Logit and ordinary least squares models were estimated to analyze the probability of recognition and the amount of impairment recognized, respectively, from year 2005 to year 2014. The results show that European companies recognized less impairments during the crisis, including companies in countries that have used external financial aid, suggesting that managers may use impairment recognition as a way of practicing earnings management. The results also suggest that larger firms with higher debt levels were more likely to recognize asset impairments.

Theoretical framework

The relationship between shareholders and managers is often depicted as a principal-agent relationship. The principal, i.e., shareholders, hires managers (called agents) to manage and operate the company. This relationship has evolved over time where ownership has become more dispersed

with the consequence of owners not having full access of certain estimates used regarding the company's operations. The principal is unable to observe and verify all actions taken by the agents, where agents may select other actions than those desired by the principal (Jensen & Meckling, 1976). The firm's managers may take actions in their own interest that will not lead to overall gains for the company and consequently for the shareholders. This opportunistic practice arises as a result of taking several different unverifiable parameters into consideration when deciding the recoverable amount which includes an estimation of the asset's future cash flow, and the cost for bearing the uncertainty inherent in the asset (AbuGhazaleh et al., 2011). Since these parameters are based on estimations which are unverifiable therefore making such estimate subjective, in other words, the weight and amount of the parameters might depend on the judgement of management of the organisation. (Ramanna & Watts, 2012).

Carlin and Finch (2009), illustrate how managers opportunistically use the discretion in the impairment testing of goodwill to avoid impairments and hence negative effects on the organization. Watts (2003), emphasis the problematic nature of uncertain estimates, since the numbers are difficult to verify and therefore creates a possibility for manipulating the values. The current accounting regime gives managers incentives to manipulate goodwill impairment since it gives them an opportunity, they have a high degree of control over. This opportunity gives managers the possibility to use their information advantage to keep goodwill balances far from what the economic reality would suggest. The agency problem arises as a result of managers looking for incentives to act in their best interest at the detriment of the principals. Managers take advantage of their discretion in impairment recognition and decision in order to fulfil specific reporting targets, which forms the agency problem (Bednar, 2016).

Agents (managers) exploit their position for private gain, by manipulating reported earnings in an attempt to reach a desirable level of earnings. This is often to the concern of investors and stakeholders and should be regarded as a signal that managers are acting opportunistically when managers smooth earnings of a financial report by taking discretionary actions. When pre-impairment earnings are higher than expected, the reporting strategy of income smoothing occurs more frequently as a way to reach expected levels of earnings. According to agency relationship managers will exploit the discretionary elements for their own benefit in other words discretionary behavior is a likely strategy by management to improve the result presented in the financial statement that is conveyed to principals, this observed behavior is described as an undesirable manipulation or even threat to the integrity of financial reporting (Ramanna & Watts, 2012).

Research Methodology

Correlational research design is adopted for the study. Correlational research design allows for testing of expected relationship among variables and making prediction regarding these relationships. This study used secondary source of data. this source of data has the advantage of being relatively more reliable since the financial statements have been audited by an independent auditor. Data was extracted from the Published Audited Annual Reports and Accounts of the selected firms from 2013 to 2022. The population of the study comprised all financial service firms listed on the Nigerian Exchange Group as at 31st December, 2022.

Logit regression technique is used to examine discretionary accounting of goodwill impairment of listed financial service firms in Nigeria. Stata 13 is used for the data analysis. Diagnostics tests such as Hosmer-Lemeshow goodness of fit test, Akaike information criterion (AIC) and Bayesian information criterion (BIC) for logistic regression was conducted to ensure the robustness of the methodology. The measurements of the dependent and independent variables are provided in the table below.

Table 1: Measurement of the Dependent and Independent Variables

Variable	**Nature of Variable**	**Proxy**	**Measurement**	**Source**
Goodwill Impairment	Dependent Variable	GWI	Dichotomous variables 1 and 0. The value 1 is assigned if the firms recognised impairment at the end of each year and 0 if not	Vogt, Pletsch, Moras, and Klann (2016); Koresec, Jerman & Tominc (2016)
Political cost	Independent Variable	POC	Natural logarithm of the total assets	Li and Dang (2013); Stenheim and Madsen (2016).
Contracting Motive	Independent Variable	COM	Proportion of a firm's total indebtedness whether long or short to the firm total worth because it takes account of a firm's total obligation in relation to its total worth.	Shahid, Akmal, and Mehmood (2016).

Source: Compiled by Author (2024)

The study seeks to examine the effect of manipulative incentives on goodwill impairment of listed financial service firms in Nigeria for the period of ten years, the model for this study is a panel regression. The panel data model is succinctly captured below:

$$GWI_{it} = \beta_0 + \beta_1 POC_{it} + \beta_2 COM_{it} + \mu_{it} \text{ ---------- (1)}$$

Where:

GWI_{it} = Goodwill Impairment of firm ì in year t.

β_0 = intercept

β_1- β_2 = Coefficient of the independent variables

POC = Political cost of firm ì in year t

COM = Contracting motive of firm ì in year t

μ_{it} = Residual or error term of firm 'i' in year't'

4.0 Result and Discussion

Table 2 shows the descriptive statistics table reveals information on the mean, standard deviation, maximum and minimum for each of the dependent and independent variables.

Table 2: Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum	OBS
GWI	0.6782	0.4681	0	1	230
POC	6.05e+10	7.25e+11	2.19e+08	1.10e+13	230
COM	**0.4917**	**0.2186**	**0.0012**	**2.5475**	**230**

Source*:* Output of summary of statistics obtained from STATA 13.

The dependent variable is a dichotomous variable which have a minimum and a maximum value of 0 and 1 respectively. The mean value of goodwill impairment disclosure is 0.67 and the standard deviation is 0.46. The mean value of 0.67 signifies that the average record of goodwill impairment disclosure across the firms during the periods of the study is 67%. The standard deviation of 0.46 indicate low dispersion from the mean.

The average total assets value of political cost is 6.05 and the standard deviation of 7.25 suggest that the total assets value is not widely disperse. The maximum value of 1.10 shows that the highest total assets value is over ten trillion Naira while the minimum value of 2.19 depicts the lowest asset value is about two hundred and nineteen million Naira.

Contracting motive have a mean value of 0.4917, indicating that the average level of debt across the financial firms during the period of the study is approximately 49%. The standard deviation

of 0.2186, suggests that the value of leverage is not widely disperse among the firms. The minimum and maximum value are 0.0012 and 2.5475 respectively depicts the lowest and highest value of leverage respectively. The standard deviation discloses a low variation.

Correlation Matrix of Dependent and Independent Variables

Correlation matrix expresses the relationship between variables in the regression model. Table 4.2 below contains the correlation values between the explanatory variables and the explained variable as well as the independent variables amongst themselves

Table 3 Correlation Matrix of Dependent and Independent Variables

	GWI	POC	COM
GWI	1.0000		
POC	0.3163	1.0000	
COM	-0.2149	-0.4466	1.0000

Source: output of correlation matrix obtained from STATA 13.

The correlation matrix table shows that the coefficient of correlation of goodwill impairment and political cost is 0.3163. The result implies that political cost have a weak positive relationship with goodwill impairment of listed financial service firms in Nigeria.

The result revealed that the correlation coefficient of goodwill impairment and comparability motive is -0.2149. The result implies that comparability motive have a weak negative relationship with goodwill impairment of listed financial service firms in Nigeria.

The correlation matrix table reveals that there is no presence of possible multicollinearity among the independent variables. The highest relationship amongst the independent variables is below the threshold of 80% as postulated by Gujarati and Porter (2009).

Robustness Test

The study made selection of its model between the logistic regression and the random effect logistic model using the likelihood ratio test and the Akaike information criterion (AIC) and Bayesian information criterion (BIC) for logistic regression. Agresti (2002), opine that the model with the lowest AIC and BIC is the most suitable for the study.

The study made selection of its model between the logistic regression and the random effect model using Akaike information criterion (AIC) and Bayesian information criterion (BIC) for logistic regression. The result shows that the logistic regression has an AIC of 61.75348 and BIC of 82.38196

while the random logistic regression has an AIC of 63.7217 and BIC of 87.78826. Evidence from (Akaike, 1974), suggests that the model with the lowest AIC and BIC is the most suitable for the study and this is also supported by Raftery (1995); Sakamoto, Ishiguro, and Kitagawa (1986); Schwarz (1978) and Agresti (2002).

The pseudo R^2 (also known as MC Fadden R^2) as shown in the logistic result in appendix B is 0.8278% which indicates that the sum of the independent variables selected explains the likely changes in the dependent variable to a tune of 82.78%, indicating that the variables selected in this study are able to explain the variation of the dependent variable to a tune of 82.78%. Robustness tests are conducted to test the validity of the statistical inference of a regression model. The robustness tests conducted for this study include goodness of fit test, Akaike information criterion (AIC) and Bayesian information criterion (BIC) for logistic regression.

The Hosmer and Lemeshow test of the goodness of fit is used to test if the logistic regression model is fit and well specified as one of the assumption of logistic regression. Evidence from Hosmer and Lemeshow (1989), simulation study indicates that when the model is correctly specified, the distribution of the statistic is well approximated by a chi square X^2 distribution. The test of the goodness of fit shows a chi square of 8.28 and an insignificant P-value of (0.9938). Based on the insignificant p-value of the chi-square it indicates that the goodness of fit for the model is adequate.

Hypotheses Testing

The study did a test on two hypotheses. These hypotheses which were earlier stated in null forms were analyzed using the logistic regression and the result obtained is presented in Table 4.3 below.

Table 4 Regression result

Variables	Coefficient	Z	p-value
POC	1.26	2.44	0.015
COM	-2.70	-2.20	0.028
CONS	-34.52	-4.01	0.000

Source: Regression Result from Output STATA 13

The hypotheses are tested here using the logistic regression and they are discussed below.

Political Cost and Goodwill Impairment

The regression results as indicated in Table 4, reveals that political cost have a z-value of 2.44 and a coefficient of 1.26 with a p-value of 0.015. The result means that political cost have a significant positive effect on goodwill impairment of listed financial service firms in Nigeria. The 1% level of

significance as indicated by the p-value means that political cost have a significant effect on goodwill impairment, while the positive coefficient signifies an increase in recognizing goodwill impairment loss. This result means that large firms are more likely to use accounting choices that reduce reported profits in order to avoid political attention. The result is in line with the postulation of the political cost hypothesis which states that firms want to avoid the unwanted attention associated with high reported earnings, thus lower their earnings by the use of manipulative incentive. Managers of listed financial services firms use goodwill impairment to avoid unwanted political attention due to the reason that enormous attention and expectations are placed on most big organizations. The finding is in tandem with Engberg and Schenberg (2020), Gonçalves et al (2019) but contradicts that of Oliveira et al (2018).

Contracting Motive and Goodwill Impairment

Also, the result as shown in table 4 reveals that contracting motive have a z-value of -2.20, a coefficient of -2.70 and a p-value of 0.0028. This means that contracting motive have a significant negative effect on goodwill impairment. The 5% level of significance as indicated by the p-value means that contracting motive have a significant effect on goodwill impairment, while the negative coefficient signifies a negative effect on goodwill impairment. The negative effect shows that the higher the value of leverage, the lower the propensity to recognize goodwill impairment. However, the value of the beta coefficient means that the relationship between contracting motive and the goodwill impairment is negative. The negative relationship means that as leverage increases, the tendency of the firms recognizing goodwill impairment losses is expected to decrease. The inverse effect of contracting motive on the goodwill impairment implies that as contracting motive increases, it will result to the decrease in recognizing recognize goodwill impairment loss. This finding is in tandem with the argument put forth by debt covenant hypothesis. The theory states that firms with high leverage because of debt covenant are likely not to recognize goodwill impairment loss suggesting that the more levered a firm is the less likely is to recognize goodwill impairment loss. This reflect the opportunistic behavior by the managers as a result of the subjective and the managerial discretion present in the standard. Managers of listed financial service firms in Nigeria are ready to utilize the discretion when contracting motive is concern. This finding is consistent with the study conducted by Engberg and Schenberg (2020), Katri (2018), and Brand (2016) but contrary to the findings of Jung and Waesame (2021), Gaio et al (2021), and Li (2020).

Conclusion and Recommendation

This study examines the manipulative incentives of goodwill impairment of listed financial service firms in Nigeria. The specific objectives include: to determine the effect of political cost and contracting motive on goodwill impairment of listed financial service firms in Nigeria. Correlational

research design was adopted to examine the effect of manipulative incentive on goodwill impairment of listed financial service firms in Nigeria. The population of the study consist of the listed financial service firms in Nigeria as at 2022. Based on the findings from the regression result, the study draws its conclusions that political cost have a significant effect on the manipulative incentive of goodwill impairment of listed financial service firms in Nigeria. Thus, the study concludes that large corporations uses goodwill impairment to reduce political attention. The study provide evidence that comparability motive have an effect on goodwill impairment of listed financial service firms in Nigeria. Hence, this study concludes that comparability motive is a manipulative incentive of goodwill impairment of listed financial service firms in Nigeria.

In line with the findings and conclusions of the study, the following recommendations are proffered:

Regulatory bodies should enforce stringent disclosure requirements mandating comprehensive and transparent reporting regarding goodwill impairment assessments. Specifically, include disclosures related to any political considerations impacting impairment decisions. Develop standardized impairment testing procedures, guided by robust methodologies and objective criteria, to limit managerial discretion in impairment assessments. Standardization can prevent deliberate overstatement of impairment charges practices under political cost motive.

Also, accounting supervisory body should strengthen regulatory oversight and monitoring of goodwill impairment assessments, emphasizing the scrutiny of impairment decisions and examining the patterns and motives behind impairment charges. Regulators should conduct periodic reviews to identify potential abuse of contracting motive. There should also be introduction of stringent disclosure requirements mandating comprehensive and transparent reporting on the motives and underlying reasons influencing goodwill impairment assessments. Specifically, emphasize disclosures related to contracting motives and their potential impact on impairment decisions.

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