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FRAUDULENT PRACTICES AND FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN RIVERS STATE, NIGERIA

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ABSTRACT: ***This study examines Fraudulent Practices and Financial Performance of Manufacturing Companies in Rivers State. The objectives of the study amongst others include; to examine the relationship between Money Laundering and Net Profit Margin of listed Manufacturing companies in Rivers State and also the relationship between Forgeries/ Defalcation and Return on Investment of listed manufacturing companies in Rivers State. A lot of literatures were reviewed by the researcher. The Researcher used the Survey Design approach. The population of the study consists of 15listed manufacturing companies in Rivers State, while a same size of 14 was derived from the target population using the Taro Yamene technique for sampling determination. The data for the study was Primary data. Primary Data were collected using questionnaires, personal interview, observations .The data were discussed as well; using tables, simple percentages, Mean score rating, variance, standard deviation and Pearson Product Moment Correlation (PPMC). The result of the findings revealed that there is a high positive significant relationship between Money Laundering and Net Profit Margin. It also revealed that there is high positive significant relationship between Forgeries/Defalcation and Return on Investment. Based on the findings, it was recommended that; Manufacturing companies in Nigeria should put more effort towards preventing fraud such as Money Laundering, Forgeries and Defalcation since it has an effect on their financial performance. Also, Government should establish more anti-graft agencies that will monitor the rate of fraud in manufacturing companies in Nigeria.***

Keywords: *Fraudulent practices, Fraud; Financial Performance*

INTRODUCTION

Manufacturing companies have always been viewed as a profitable venture by many investors as they have a wide customer base, high profitability margins and customer retention. However, just like another business, they are faced with a lot of challenges that always seem to slow them down e.g. competition, market forces of demand and supply, political stability, fraud and poor management of the organization. In recent times, fraud has been the major cause of manufacturing companies to collapse. Fraud if not checked might cause run-on in the manufacturing sector. The high turnover of frauds, theft, defalcations and forgeries in the manufacturing sector is capable of undermining the growth, development and stability of firms which at the moment seems to be doggedly affecting the financial sector of the economy (Nwanko, 2001). Fich & Anil (2005) assert that financial fraud has raised several concerns on the quality and level of corporate governance in a number of firms across the globe. They further argue that financial fraud has several effects on the firm ranging from the diminishing reputation of the directors to declining financial performance of the firm. According to Malone & Finerty (2010) posits the occurrence of fraud in any organization especially that of financial nature adversely affects the cash flows of the firm making it difficult for the firm to fulfill some of its obligations. Some important financial transactions that directly impact on the financial performance of the firm are also likely to be affected by financial fraud.

Finerty, Hedge & Malone (2016) also argue that financial fraud forces the actors or the agents that are involved to act fraudulently in order to portray a good picture as far as the financial performance of the firm is concerned. They further indicate that firms that are affected by financial fraud may exhibit very attractive or positive performance after fraud as one way of covering up the fraud. Finerty, Hedge & Malone (2016) further argue that the performance of a firm after some time preceding the fraud may face inevitable adverse shock. This is an indication that fraud has adverse effects on the performance of an organization.

Manufacturing companies in Nigeria, especially Rivers State have equally been marred by incredible waves of fraud, involving misappropriation of funds, funds diversion, etc. As in the society at large, frauds has become one of the most intractable problems of modern day business in Nigeria. While public concern is growing by the day and management vigilance improving with the aid of computerization, it is on record that millions of naira are lost to fraud and forgeries which Stanley (1994) had argued results in huge financial losses to business organizations and their customers, depletion of shareholders' funds and capital base as well as loss of confidence in businesses.

It cannot in anyway be considered an exaggeration to posit that the worst enemy of our business both in the past and present is fraud. Mismanagement may have put our country's economy in its present predicament. However, it cannot be contested that the high incidence of fraud has played even greater role in this respect. Over the years only the banking sub-sector among others in the Nigerian economy has received some attention on fraud related matters.

Statement of the Problem

Manufacturing companies operate on the pivot of public confidence and trust and the ability to produce goods that are demanded. The Nigeria society is bedeviled with the desire to get rich so as to feel important as Nigerian believed that wealth is the measure of power and importance. It is the realization of this fact that these "get rich quick" syndrome of people that made them to direct their attention on defrauding the companies.

Frequency occurrence of frauds untimely distracts the attention of the management and leads to increase running cost, time and energy that would have been spent in producing tangible goods.

Purpose of the Study

The main purpose of this study is to ascertain the impact of Fraudulent Practices on Financial Performance of Manufacturing Companies in Rivers State. However, other specific objectives include:

LITERATURE REVIEW

Theoretical Review

This study is based on the following theories that seek to explain the origin or factors that led to fraud in organizations.

The Theory of Fraud Triangle

The classical theory of fraud triangle was developed by Donald Cressey in 1973. According to Cressey (1973), fraud is likely to occur if a combination of these three factors exists, that is Pressure (Motivation), Opportunity and rationalization. Trusted persons become trust violators when they conceive themselves as having a financial problem which is non-shareable, and are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property.

Categories of Frauds

According to Bartho O. Okezie (2009), there are three categories of fraud which include; corruption, asset misappropriation and financial statements fraud.

Fraudulent Practices and Financial Performance

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Fraud Prevention and Control

Fraud risk is a contributor to operational risks of a business. Operational risks refer to the events in a transaction or process that put the assets of the business at risk. Some of the risks considered as operational risks include: incorrect and intentional false accounting, theft of assets or misappropriation of assets. Most organizations focus on a limited number of risks commonly of third party thefts but it is important to classify risks to possible type of offence and the potential perpetrators (Gates & Jacob, 2009). Adeyemo (2012) noted that to reduce cases of fraud while enhancing the fraud detection and prevention strategies, businesses must have internal control systems embedded in their operational framework.. It is therefore in a organization's self-interest to put in place, measures to prevent fraud or detect it as soon as it happens. An anti-fraud strategy includes elements of prevention, detection, deterrence and response. Business must develop concise and clear strategic responses towards fraud. This will include effective communication on the seriousness of fraud and the probable punitive measures taken due to fraud in the business (Wanjohi, 2014).

METHODOLOGY

Research Design

The researcher adopted hypothetical survey research design in carrying out the research work, as it was generally concerned with examining the effect of Fraudulent Practice and Financial Performance of Manufacturing Companies in Rivers State. It was used in explaining the nature of relationship or establishing the relationship that exists between Fraudulent Practices and Financial Performance as well as other related variables included in the study.

Population of the Study

The Population of this study includes all manufacturing firms in Rivers State totaling 15 in number. This number of population is selected for the sake of time available for the completion of this research.

Method of Data Collection

The Data for this study were collected through primary source only. Primary source of data were obtained through questionnaires administered to the management and staff of the various hotels under consideration. A total of 112 questionnaire were administered to 14 manufacturing firms in Rivers State. The section A' of the questionnaire was designed with Demographic factors (position, qualification, marital status, years spent, age, size) while the section B' was designed with likert scale (Strongly Agree, Agree, Disagree, Strongly Disagree). Secondary source of data were obtained from relevant journal, articles and review of research report. The internet was used in gathering the secondary data.

Data Analysis Techniques

The data analysis techniques used by the researcher in conducting this study include; simple percentage, mean score rating, variance, standard deviation, tables, and Pearson Product Moment Correlation Coefficient through the aid of the Statistical Package for Social Science (SPSS).

$$\left(r = \frac{n\sum xy - \sum x \sum y}{\sqrt{[(n\sum x^2 - (\sum x)^2)].[(n = \sum y^2 - (\sum y)^2)]}} \right)$$

Summary

The study was aimed to determined "Fraudulent Practice and Financial Performance of Manufacturing Companies in Rivers State. The objective of the study was to investigate how Money Laundering, Forgeries/Defalcation affect the Net Profit Margin and Return on Investment respectively.

CONCLUSION

Findings from the current study definitely offer practical value for managers and organizations with respect to the management of fraud. Based on the findings of this study, it is therefore concluded that; there is a high positive significant relationship between Money Laundering and Net Profit Margin, Return on Investment of quoted manufacturing companies in Rivers State and there is very strong positive significant relationship between Forgeries/Defalcation and Net Profit Margin, Return on Investment of quoted manufacturing companies in Rivers State.

RECOMMENDATIONS

Based on the findings and conclusions, it is therefore recommended that; Manufacturing companies in Nigeria should put more effort towards preventing fraud such as Money Laundering, Forgeries and Defalcation since it has an effect on their financial performance and Government should establish more anti-graft agencies that will monitor the rate of fraud in manufacturing companies in Nigeria.

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