

## EFFECTS OF MANAGERIAL ABILITY ON FINANCIAL REPORTING QUALITY OF DEPOSIT MONEY BANKS IN NIGERIA.

<sup>1</sup>Oladele Olubode Olusegun; <sup>2</sup>Ogunwoye Adewuni Abigael; <sup>3</sup>Aremu Rafiu Oyewale;

<sup>4</sup>Fakunle Isaiah Omotayo and <sup>5</sup>Olatunji Ibrahim Gbenga

<sup>1,4,5</sup>Department of Accounting and Finance, Kings University, Odeomu, Osun State, Nigeria

<sup>2</sup>Department of Business and Entrepreneurial Studies, Kings University, Odeomu, Nigeria

<sup>1</sup>[oo.oladele@kingsuniversity.edu.ng](mailto:oo.oladele@kingsuniversity.edu.ng)

<sup>2</sup>[aa.ogunwoye@kingsuniversity.edu.ng](mailto:aa.ogunwoye@kingsuniversity.edu.ng)

<sup>4</sup>[io.fakunle@kingsuniversity.edu.ng](mailto:io.fakunle@kingsuniversity.edu.ng)

<sup>5</sup>[ig.olatunji@kingsuniversity.edu.ng](mailto:ig.olatunji@kingsuniversity.edu.ng)

\*Corresponding author: [oo.oladele@kingsuniversity.edu.ng](mailto:oo.oladele@kingsuniversity.edu.ng) (Oladele Olubode Olusegun)  
olaolubode@gmail.com

### ABSTRACT

*The study investigated the effects of managerial ability on the financial reporting quality of deposit money banks in Nigeria between the period of 2018 and 2022.*

*The study used descriptive and inferential statistics whereby secondary data collected from financial statements of 11 deposit money banks listed on the Nigerian Exchange Group was used in the analysis. Managerial ability and financial reporting quality are the two variables used in this study, having used discretionary accruals to proxy financial reporting quality. Data Envelopment Analysis developed by Demerjian et.al (2012) was used to analyze managerial ability while financial reporting quality was analyzed using Ordinary Least Square Method. This study also did test of validity and reliability of the data and model used. Unit root test, redundancy fixed effect test (Hausman Test), random effect test, variable inflation factor test and auto co-linearity for robustness of the model used in the study.*

*The result of the study revealed that managerial ability has significant effect on financial reporting quality with a t-value of 2.8400 and a p-value of 0.0056. The result showed that there is positive relationship between financial reporting quality and managerial ability of the management staffs.*

*The study concluded that managerial ability has a significant and positive effect on financial reporting quality of deposit money banks in Nigeria. The study therefore recommends that banks should ensure skillful and technically competent managers are engaged during recruitment or promotion as their ability has effect on reliability and credibility of financial reporting.*

**Keywords:** Managerial Ability, Financial Reporting Quality, Deposit Money Banks, Nigerian Exchange Group.

### INTRODUCTION

All over the world, users of financial information extracts from financial statements are skeptical in using such information for decision making without observing due diligence on them. This is as a result of their perception of quality of financial statements especially since the Global financial crises involving big corporations such as Eron, Sartyam and Worldcom. In Nigeria, Financial sector in particular and the economy at large had also witnessed financial crises involving big corporation such as Lever Brothers, Ile-Oluji Cocoa processing Company, Cadbury Plc (Inneh, Oboko and Busari 2020) as a result of poor-quality financial reporting involving earnings management through window dressing reporting. Questions have been raised on the degree of managerial ability and competence in operation of an effective internal control and sound accounting system in the financial crises as a result of poor financial reporting quality.

Quality of financial reporting of an organization would determine the perspectives of users and the confidence they would have in the organization. Financial Statements are the final

outcome of an accounting and internal control system, which implies that the quality of these statements is contingent upon the robustness of the underlying accounting and internal control systems (Sinta and Syvial, 2019). Management is responsible for developing and operating the system that generates financial reports. The effectiveness of these systems relies on the management's knowledge and capabilities to run them efficiently and effectively (Wang et al., 2017, as cited in Sinta and Syvial, 2019). When managers possess a strong understanding of their business and the intricacies of accounting and internal control systems, the system is likely to function well, resulting in high-quality financial statements. Competent managers are equipped to formulate appropriate policies, make informed decisions, and provide valuable contributions that enhance the organization, ultimately leading to the production of quality financial statements.

Deposit money banks that are listed on the Nigerian Exchange Group reporting framework are highly regulated by Security and Exchange Commission aside the regulation of Financial Reporting Council of Nigeria. These regulations are anticipated to instill caution among managers and ensure that the information presented in Financial Statements is both reliable and valid. However, legal enforcement in Nigeria is weak, leading managers to believe they can conceal or manipulate information in these statements with minimal risk of punishment. This is illustrated by the cases of several defunct banks in Nigeria, such as Devcom Bank and Society General Bank, where the managers involved were merely dismissed from their positions without facing prosecution. The recent financial crisis at Guarantee Trust Bank further highlights this pressing issue. This study will focus on eleven (11) of the thirteen (13). Banks listed on Nigerian Exchange Group put effort to ensure good quality financial statements before they are chunked out to the public. Some would produce good quality financial reporting especially the large banks while some do otherwise. This brought the question of whether the good quality financial statements being produced is as a result of highly competent and skillful managers being in charge and vice versa.

Studies have shown dissenting results on managerial ability and financial reporting quality. Luth and Dharma (2019) stated that able managers are knowledgeable to set policies that ensure that proper disclosures are made in the Financial Statement in accordance to the legal and regulatory requirements. Managerial ability has positive and significant effects on the quality of earnings, timeliness of reporting and fraud in financial reporting of companies (Weitzu and Chia, 2015). These studies support managerial ability as a requisite for quality financial reporting while Sinta and Sylvia (2019) posited that managerial ability leads to financial fraud because of information asymmetric that managers would have more access to information of the company than external users and can manipulate this information in the financial statements to suit their narratives. Earnings management in the financial statement can only be practiced by able and knowledgeable managers as a strategy to make information in the financial report look good but in actual seNEG of it, the financial statements have be window-dressed to show strong and positive information about the operation of the companies.

This study determined whether deposit money banks with able managers use discretionary accruals in the financial statements and also determine if banks with able managers institute and run effective and efficient accounting and internal control systems.

This study focused on money deposit bank listed on the Nigerian Exchange Group, the study focused on the banks because there is severe competition for relevance among them, and this competition may lead the banks to practice window-dressing reporting to make them look strong, efficient and profitable to the public. Also the stringent regulation framework used by the Central bank of Nigeria and Security and Exchange Commission to monitor the banks may caution the management from the practice of earning management.

Literatures on managerial ability and quality of financial reporting only focused on companies (non-financial institution) and in Nigeria, there are scanty empirical work that studied managerial ability and financial reporting quality of companies, to the best of our knowledge, little or no empirical work has been done on the effect of managerial ability on financial reporting quality of deposit money banks in Nigeria.

This study expands body of literature by examining how managerial ability influences financial reporting quality of deposit money banks in Nigeria.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Conceptual Review**

#### **Management**

The management is in three levels in organizational settings, namely, strategic management level, tactical level and operational level. The strategic level is the topmost level that set policies which includes accounting and internal control policies that affect financial reporting quality.

#### **Managerial Ability**

The role of management is a strategic role in an organisation where decisions affecting operations are being taken, at this level, divers skills are required to make effective and efficient performance of management staff. This skills are required to make improved decisions, coordinate and direct subordinates to carry out their daily routine job. These skills are among others integrity, experience, performance management, judgement and leadership (El-Sabaa, 2001 as quoted in Gambier 2014). Studies have shown that, specific characteristics of managers can affect profitability and financial reporting quality, therefore, managerial ability is essential to accounting management and economics (Demerjian et al, 2012).

#### **Earnings Management**

There are numerous literatures on earnings management with different definitions pointing at manipulating accounting policies made by managers so as to have effects on earnings and suit their financial reporting narratives (Scott 2011 as quoted in gambier 2014). Earnings management occurs when the judgement used by in accounting reported by the managers is geared towards structuring transactions for report modification purpose. This is done either to deceive the stakeholders about the economic performance of the company.

#### **Theoretical Review**

Because it may be impracticable for owner(s) to be involved in day to day running of business activities, in view of this, there is a need to engage someone to run the day to day activities on behalf of the owner(s). This relationship between owner(s) and the person running the business is known as principal(s) agent(s) relationship.

#### **Financial Reporting (FR)**

This is an action taken by organisation to disseminate company's financial information to the general public in line with regulations and relevant standards and also in compliance with the company's accounting procedures (Putri and Suputra, 2019).

#### **Financial Reporting Quality (FRQ)**

Financial reporting is said to have a good quality when it is free of errors and irregularities, it will be useful for stakeholders' value added decision making. The management of company

have statutory responsibility of ensuring high quality financial reports is produced (Putri and Suputra, 2019).

### **Theoretical Review**

Agency theory was developed because of the relationship between principal(s) and Agent(s) and the divergence of interest of both parties especially financial interest. The agent(s) run the business by making strategic decision that could affect the performance of the business and invariably the interest of the principal(s).

Non-alignment of interest of principal and agent is what Agency theory called principal-agent problem. Agents in business organization are the management team engaged by the owners to run the business on day to day basis. Part of the decisions made by the agent is financial decision which include Accounting and internal control systems which also could affect the quality of financial reporting of the entity. The decision to engage able managers or otherwise is the responsibility of the owners and how it affect the financial reporting depends on the ability of the managers to make an effective and efficient decision and the way the managers want the financial reporting to look like.

Key disputes between the principal and agents that agency theory addresses are disposition of the principals and Agents. Shareholders may not want to take risk that can erode their capital while Agent need which to take such risk because of high return on suck risk. The management may want to invest for long term growth and profitability.

Resource base theory has been in use by scholars since 1930s. This theory is a managerial framework that focuses on the heterogeneous nature of organizations because of different internal resources at the disposal of the management to be used to effectively and efficiently for superior competitive advantage of the firm. According to Penrose (1959) as cited in Lowe and Teece (2001) managerial resources is the primary push to growth, for an organization it can also put limit to how and organisation would grow depending on the ability of the manager. Quality of financial reporting is also an indicator of an organisation growth or otherwise.

Upper echelons theory was published by Donald C. Hambrick and P.Mason in 1984. It is managerial framework. It states that what would be the outcome of organisation's operation is determines by management team's background. Their ability to develop policy and operational framework that would ensure organisation enjoys market competitive advantage. Quality of financial report of an organisation is a pointer to how effective and efficient the organisation is been run by the management. Upper echelon theory is also being used as a framework for hiring a new management team.

Managerial ability can prevent fraud in financial reporting while political connections of Firms can hinder managerial ability from preventing fraudulent information reporting in the financial statements by weakening managerial ability to prevent fraud (Zhi, Mei-Hui, Chen and Qi 2017). Able managers can increase Firm's value by limiting regulatory check because regulatory authorities are likely to focus on Firms without able managers. It can also bring about better business performance by judicious utilization of the available resources (Chen, Chin and Zheng, 2017). Able managers have significant control over internal audit process, timeliness of financial reporting, information contained in the financial statements and timeliness of announcement of earnings (Kubick and Masli, 2018).

Able managers would have appropriate skill and technicalities to ensure proper accounting records devoid of fraud and irregularities are kept and sound and workable internal control system is instituted and operated within the Firm which invariable would bring about quality financial reporting. This could be achieved by able manager when there is no interference from

political connections that can circumvent the working of accounting and internal control system to suit their narratives thereby giving room for fraudulent financial reporting. Internal control weakness is synonymous to Firms that have complex business, severe accounting risk, financial distress and auditor change. Managerial ability can bring about effectiveness and efficiency in the operation of internal control and accounting system, therefore prevent the risk of financial distress. This is because able managers have knowledge of how internal control and accounting system work, they have technical ability to make informed and efficient decisions that strengthened internal control and accounting systems that would produce quality financial reporting (Lee 2015). According to Hairston, Yu and Liu (2018) able managers have technical competence to recognize internal control weakness, make accurate predictions and estimates and institute workable and strong internal control. Able managers also have the ability to exploit fraud opportunities. The ability of managers to make decision on appropriate policies to implement in order to ensure the company operate effectively and efficiently is called managerial ability (Putri and Suputra, 2019). Technically sound managers has comprehensive knowledge of the company they run. Managers' technical ability is one of the drivers of operational and financial effectiveness and efficiency of companies. This operational and financial efficiency includes but not limited to earning quality, accounting and internal control quality and financial reporting quality (Putri and Suputra, 2019).

Putri and Suputra (2019) posit that the occurrence of earnings management is when managers have the abilities and motivations to portray financial statements as good when it is actually not so as to mislead the users. This is done by applying series of accounting policies or by manipulating financial figures, information or activities in the financial reporting.

Earning management is a situation where managers try to manipulate profit in the company's financial reporting for certain reasons known to them but not known to the external stakeholders of the company. This is a deliberate attempt to apply accounting policies or manipulate accounting information in the financial reporting so as to mislead the users for purposes personal to the managers (Putri and Suputra, 2019). For this study, the researchers posit that managerial ability has positive effect on quality of financial reporting.

H<sub>1</sub>: managerial ability has positive effect on quality of financial reporting.

**Table 1: Empirical Review**

<b>Author Conclusion</b>	<b>Country/Population/ Period</b>	<b>Methodology</b>	
Demerjian, Lev, Lewis and Mc Vay (2012)	USA/ (78,423 firm-year observation) 1989-2009	DEA, M-score & Regression	+
Demejian, Lev and Mc vay Peter, Baruch and sara 2012	USA/ (177,134 Firm – year) 1992 – 2009	DEA, OLS	+
Andreou, Ehrlich and Louca (2013)	USA / 4024 firms (2344 firms) 2008 – 2011	DEA & Tobit Regression	+
Cantrell (2013)	USA/ (10,971 firm- year observation) 1994 – 2010	DEA. Pearson & spearman correlation	+
Li (2014)	China/(5,390 observations) 2007-2012	DEA & Regression Model	
	+		
Naomi, Sikali dis and Qin (2014)	USA/ 75999 Firms/ (12,866) firms 2005 – 2010	DEA, OLS & Jones model	+
Jong (2015)	USA/ (17,904 Firm – year observation) 2004-2011	OLS, DEA	+
Myung, Robert & Hulqi (2015)	USA/ (1375 Firms) 1993 – 2011	DEA, OLS Logistic regression	+
Koester, Shevan &Wangerin(2016)	USA/(44,616 firm-year observation) 1994 – 2010	DEA, Regression Pearson correlation	+
Habib and Hasan (2017)	France/ (76,249 Firm-year observation) 1987 -2012	DEA & Regression model	+
Sinta and Sylvia (2018)	Indonesia/ (210 firm-year) 2010-2016	Panel data regression DEA	+
Weitzu and Chia (2018)	UK/ (9,878)	DEA and Multiple Regression	
John, Thomas and Adi (2018)	USA/(38,476 Firm-year observation)/ 2003 – 2014	DEA, Tobit regression	+
Meca and Sanchez (2018)	9 countries/ (877 observations) 2004 – 2010 Canada, Germany, France, Italy, Spain, USA UK, Sweden and Netherland	DEA & Regression model	+
Stephanie, Ji and Zenghui (2019)	USA, (2964)/1980-2011	Regression Model	
Luh, Dharma (2019)	Indonesia (375 Companies/ 2012 – 2016	DEA, Moderate Regression and Jone’s Modification	-
Mahdi, Hasan and Abbas (2019)	Iran 120 firms (120 firms) 2005 -2017	Multivariate regression DEA	
Bok, Paul David, Sam	USA/ (15,207 firm-year observation) 1993 - 2010	DEA, Pearson correlations	+

**Source: Authors’ Computation (2024)**

**Where + signifies positive, - connotes negative.**

## METHODOLOGY

### Population

The population of this study is thirteen deposit money banks licensed by the Central Bank of Nigeria (CBN) and listed on the Nigerian Exchange Group (NEG)

### Sample Size and Sampling Technique

The sample for the study is 13 deposit money banks listed on the Nigerian Exchange Group while the sample size for the study is 11 deposit money banks listed on Nigerian Exchange Group that was chosen based on availability of data.

The sampling Technique used for this study is purposeful sampling techniques. Any Bank that is listed on NEG with availability of required data was taken as sampled for observation between 2018 – 2022 resulting in 55 firm year observation.

The banking industry was choosing for this study because the banking industry in Nigeria is highly regulated by CBN and NDIC. Apart from these corporations, NEG also has her own control mechanism and set time when annual financial statements must be submitted each year. Financial data of the sampled banks were collected through the audited financial report of the banks. The study also used financial information contained in Central Bank of Nigeria and Nigeria Deposit Insurance Corporation's bulletin.

Inferential statistic (regression analysis) and Descriptive Statistic (Mean, Standard deviation etc) will be used for this study.

### Variable measurement.

**Dependent variable** for the study is financial reporting quality and is measured by using discretionary accrual as proxy. (e.g Deangelo 1986: Jones 1991: Deschow et al. 1995) as the substitute variable for earning quality and applies the model proposed by Kothari, Leone, and Wasley (2005) for estimation:

$$\frac{TA_{yt}}{A_{yt}} = a_0 + a_1 \left( \frac{1}{A_{yt-1}} \right) + a_2 \left( \frac{\Delta REV_{yt} - \Delta REC_{yt}}{A_{yt-1}} \right) + a_3 \left( \frac{PPE_{yt}}{A_{yt-1}} \right) + a_4 ROA_{yt} + \varepsilon_{yt} \quad (1)$$

Where;  $TA_{yt}$  is the total accrual for company  $t$  in industry  $j$  at period  $t$ ,  $A_{yt-1}$  is the total assets for company  $t$  in industry  $j$  at the end of period  $t$ .  $\Delta REV_{yt}$  is the net change operating revenue for the company  $t$  in industry  $j$  at the end of period  $t$ .  $\Delta REC_{yt}$  is the change in accounts receivable for company  $t$  in industry  $j$  at the end of period  $t$ .  $PPE_{yt}$  is the gross property, plant and equipment for company  $t$  in industry  $j$  at the end period  $t$ .  $ROA_{yt}$  is the returns on assets for company  $t$  in industry  $j$  at the end of period  $t$ .  $\varepsilon_{yt}$  is the error term for company  $t$  in industry  $j$  at the end of period.

### Independent Variable

This study measured managerial ability using the MA score developed by Demerjian et. al (2012), as modified by Garcia-meca and Garcia-sanchez (2017) which provides an estimate of the level of efficiency in the utilization of firms' resources by managers. The managerial ability measure was formulated using two stages: Data Envelopment Analysis is used to estimate firm efficiency by comparing revenue level of firms on inputs used to generate revenue which are Selling and administrative expenEGs, cost of goods sold, operating lease, Research and Development, Net Property Plant & Equipment, purchased Goodwill and other intangible assets.

According to Garcia-meca and Garcia-sanchez (2017) DEA is a linear programming technique for evaluating the efficiency of banks, where the behaviour of each bank observed is optimized. The model as given by Demerjian et. al (2012) is as follows:

$$\max\theta = \frac{\text{Revenue}}{u_1TCOS+u_2SGA+u_3PPE+u_4Goodwill+u_5Intan} \dots\dots\dots(2)$$

Where: TCOS= Cost of sales, SGA = selling and administrative expenEGs, PPE= property, plant and equipment, Goodwill = purchased goodwill, Intan= other intangible assets

The model as modified by Garcia-meca and Garcia-sanchez (2017) is as follows:

$$\max\theta = \frac{\mu_1DEP+\mu_2LOAN+\mu_3INVEST+\mu_4INTINCO}{v_1PPE+v_2INTAN+v_3LAB+v_4INTEX+v_5RENT} \dots\dots\dots(3)$$

Where: DEP = Deposits, LOAN = loans, INVEST = investments, INTINCO = interest income from loans, PPE = property, plant and equipment, INTAN = value of intangible assets LAB = labour costs, INTEX = interest expenEGs, RENT = Rental expenEGs

The measure of efficiency generated can be attributed to both the firm and its managers, thus it is necessary to separate firm specific characteristics which can limit management effort from the result. Demerjian et. al (2012) estimated the following Tobit regression model

$$DEAScore = \lambda_0 + \lambda_1FSIZE + \lambda_2MKTshare + \lambda_3FCflow + \lambda_4FIRMAGE + \lambda_5FCI + Year + \varepsilon \dots\dots(4)$$

The residual of the equation represents the Managerial Ability (MA) score which is the primary measure of the ability of managers.

Where: FSIZE = firm size, MKTshare = market share of the firm, FCflow = free cash flow, FIRMAGE = Age of the firm, FCI = Foreign currency indicator.

## FINDINGS

### Descriptive Statistics of the Variables

The outcome of the descriptive statistics in Table report 1 shows that on average the banks financial reporting quality was 0.063138 and the minimum was -11.24453. The maximum value of financial reporting quality was 27.3014. The standard deviation of the financial reporting was 4.1829. These descriptive properties indicate that financial reporting quality among the banks was highly dispersed. The mean of 0.0631 is not close to the standard deviation and the different between the minimum and maximum is high, which indicates high degree of disparity. More so, managerial ability of the banks report high degree of disparity. The median value of 0.0324 and the average was 0.0111, while the standard deviation was 0.1290. These statistics shows that firms are not exhibiting similar managerial ability. The skewness shows that the managerial ability of the banks was negatively skewed. The average leverage value of 1.644 and standard deviation of 8.5432 indicates that bank ability to control debt is high. The maximum level of leverage was 90.3999 and minimum -1.000. Also, the average age of the bank was 38.04 years and varies at the level of 11.7835. The oldest bank was 60.00 years and newest sampled bank was 21.00 years. The biggest bank reports an average size of 19.67 and standard deviation of 4.8356. The biggest bank reports a firm size value of 29.594. Another variable in the model is the employee compensation. The average log of employee compensation was 11.63106 and minimum employee compensation stood at 3.4339 and maximum employee compensation was 22.1795. In term of normal distribution as captured by the Jarque-Bera statistics indicates financial reporting quality, managerial ability, leverage, firm age and firm size were not normally distributed at 5% level of significance, while employee compensation was normally distributed. Firm size and managerial ability report negative skewness, while others were positively skewed.

**Table 1: Descriptive Statistics**

	FRQ	MAB	LEV	FIRIMAGE	FSIZE	LCOMP
Mean	0.063138	0.011146	1.644432	38.04545	19.67927	11.63106
Median	-0.675026	0.044910	0.870549	34.00000	20.72876	12.66717
Maximum	27.30145	0.235168	90.39955	60.00000	29.59463	22.17955
Minimum	-11.24453	-0.260150	-1.000000	21.00000	0.000000	3.433987
Std. Dev.	4.182919	0.129079	8.543292	11.78351	4.835679	4.840168
Skewness	3.736079	-0.244772	10.33262	0.254051	-0.837333	0.007444
Kurtosis	24.09234	1.909710	107.8482	1.606720	6.691682	2.337822
Jarque-Bera	2169.787	6.546766	52342.61	10.08056	75.31800	1.699967
Probability	0.000000	0.037878	0.000000	0.006472	0.000000	0.427422
Observations	104	110	110	110	110	93

Source: Author’s computation 2024.

The individual variables used in the model were tested in order to assess their degree of stationarity. The test comprises of Im, Pesaran and Shin W and Levin, Lin and Chu test. For the outcome of the LPS test, all the variables were stationary at level. In the same vein, for the LLC test all the variables were stationary at level. The result shows that the variables were integrated of order zero and they can be estimated using the panel least square model.

**Table 3: Unit Root Test**

Variable	LLC		IPS	
	Statistics	p-value	Statistics	p-value
LCOMP	-4.77857	0.0000	-3.25617	0.0000
MAB	-3.54210	0.0002	-2.43259	0.0075
LEV	-12.0341	0.0000	-4.23997	0.0000
FSIZE	-5.89362	0.0000	-2.52084	0.0059
FRq	-4.2245	0.0000	-7.1499	0.0000
Firmage	-6.9821	0.0000	-5.1033	0.0000

Author’s computation, 2024

**Table 4: Redundant Fixed Effects Tests**

Redundant Fixed Effects Tests			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	11.347019	(10,73)	0.0000
Cross-section Chi-square	25.071281	10	0.0052

Author’s computation, 2024

The study also reports the Hausman test which assess the difference between random effect and fixed effect model. Having discovered that the model report significant effect, the study conducted Hausman test. The result of the test as displayed in the Table 5 below shows that random effect is significant

**Table 5: Hausman Test**

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.977658	5	0.7034

Source: Author’s computation 2024.

The Lagrange Multiplier Tests for Random Effects was carried out in order to assess the significant difference between the random effect and pooled OLS. The result of the test shows

that there is significant effect and therefore, panel random effect is appropriate. in line with the outcome of the test. The study will go ahead to interpret the result of the random effect.

**Table 6: Lagrange Multiplier Tests for Random Effects**

Lagrange Multiplier Tests for Random Effects			
Null hypotheses: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives			
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	23.26972	20.83753	32.107262
	(0.0000)	(0.0000)	(0.0000)

Source: Author’s computation, 2024.

**Multicollinearity Test**

The variance inflation factor another means of assessing the degree of collinearity of explanatory variables. The VIF of independent variables must be less than 10. The result of the VIF variables as presented in the Table 7 report that all the variables exhibit non collinearity with VIF value less than 4. This corroborates the previous result of the correlation analysis. It shows that there is tendency of experiencing multicollinearity problem.

**Table 7: Variance Inflation Factors**

Variance Inflation Factors		
Variable	Coefficient Variance	Uncentered VIF
MAB	11.68426	1.003863
LEV	0.002555	1.072976
FIRMAGE	0.000899	3.647449
FSIZE	0.018636	3.416230
LCOMP	0.030499	2.170564

Source: Author’s computation, 2024.

More so, assumption of homoscedasticity was assessed in order to ensure that the residual of the model is consistent and efficient. The result of the test shows that residual exhibit constant variance, therefore alternative hypothesis of heteroskedasticity is rejected. In the same vein, the study carried out the autocorrelation test in order to confirm the robustness of the model. The test indicates that serial correlation cannot be established in the model residual.

**Table 8: Post Estimation Test**

Arellano-Bond Serial Correlation Test				
Test order	m-Statistic	rho	SE(rho)	Prob.
AR(1)	-0.305328	600395.901885	1966397.248042	0.7601
AR(2)	0.786352	39351.807327	50043.481824	0.4317
Panel Cross Heteroskedasticity LR Test				
Null hypothesis: Residuals are homoscedastic				
	Value	Df	Probability	
Likelihood ratio	6.763700	10	0.7475	

Author’s computation, 2024

### The effect of managerial ability on the quality of financial reporting of deposit banks listed on Nigerian Exchange Group

This section reports the effect of managerial ability on the quality of financial reporting of deposit money banks listed on Nigerian Exchange Group. The model specification test was carried out using the Hausman test. The test assesses the significant difference between fixed and random effect. The outcome of the Hausman test shows that random effect is the best assumption. In line with this outcome and other test, the study will interpret random effect test. The joint significance of the independent variables shows that the model is statistically significant with the p-value of 0.0000 and f-statistics of 12.9484. The model coefficient of determination revealed that 57.23% of the sources of variation in financial reporting quality was explained by the independent variables. The r-squares of the models capture the explanatory power of the variables. The result of the estimate shows that 57.23% of the variation in dependent variable was accounted for by the independent variables.

The variables of the managerial ability had statistical positive relationship with the financial reporting quality of the banks. The result shows that rise in managerial ability leads to 2.9338 in financial reporting quality. The t-value of the managerial ability shows that there is significant effect of the managerial ability on the financial reporting quality. Managerial ability goes with efficiency and banks with good managerial set up will report good performance and this will discourage the likelihood of financial manipulation. More so, leverage of the banks revealed that there is negative relationship between the financial reporting quality and leverage. Banks with increase leverage will report declining or decreasing financial reporting quality. Leverage report coefficient of -0.0616 and t-value of -4.4266.

The result shows that leverage ratio of the bank had statistical effect on the financial reporting quality. In the same vein, financial reporting quality of the banks reported a statistically significant relationship with firm size. The variable reports a coefficient of -0.2754 and t-value of -2.9663. The result shows that big banks are more likely to report low financial reporting quality compares to the small banks. However, age of the banks does not affect their financial reporting quality with t-value of 0.6587 and p-value of 0.5119. The result of the employee compensation failed to exhibit significant relationship with the financial reporting quality of the banks.

**Table 9: Model Estimate of effect of managerial ability on the quality of financial reporting of commercial banks listed on Nigerian Exchange Group**

	Fixed Effect Model			Random Effect Model		
	Coefficient	t-value	p-value	Coefficient	t-value	p-value
MAB	0.4846	2.1723	0.0326	2.9338	2.8400	0.0056
LEV	-0.0844	2.1151	0.0378	-0.0616	4.4266	0.0000
FIRMAGE	0.1655	1.2530	0.2142	0.0469	0.6587	0.5119
FSIZE	-0.2599	2.8603	0.0055	-0.2754	2.9663	0.0039
LCOMP	0.1261	0.2298	0.8189	0.1008	0.6632	0.5090
C	0.4852	0.0516	0.9590	2.6594	0.5519	0.5824
R-squared	0.5346			0.5723		
Adjusted R-squared	0.4773			0.4164		
F-statistic	14.9197			12.9484		

Prob(F-  
statistic) 0.0000 0.0000

#### Authors' Computation, 2024

#### CONCLUSION.

A bank that has capable management team stand to have good human resource management, effective succession planning, implementation of good internal control and accounting system, sanitized and effective reporting system which ensures the going concern status of the bank in a way that benefit all the stakeholders as against the other way round where the shareholders fund is not safe, and the bank stands the possibility of window dressing of accounts and reports which could lead to potential liquidation of the bank and hence the stakeholders could lose their investments.

The result of the study revealed that managerial ability has significant effect on financial reporting quality. The result shows a positive relationship with financial reporting quality. The implication of this is that able managers can make decisions that would discourage earnings management and discourage the likelihood of financial manipulation. This result is consistent with the work of Jong 2015; Ahsan and Monsur 2017; Zhi, Mei Chen and Qi 2017. John, Thomas and Adi 2018; Bok, Paul, David and Sam 2018; Mahdi, Hasan and Abbas 2019. The study therefore recommends that, banks should ensure skillful and technically competent managers are engaged during recruitment or promotion as their ability has effect on reliability and credibility of financial reporting.

This study expands body of literature by examining how managerial ability influences quality of financial reporting in Nigeria banking industry. The study showed the quality of financial reporting of banks in Nigeria and the relationship between managerial ability and financial reporting quality

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