P17-22

MANAGERIAL ABILITY AND EARNINGS QUALITY OF NIGERIAN LISTED DEPOSIT MONEY BANKS.

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ABSTRACT

Globally, stakeholders are concerned about managerial ability and financial reporting quality. The management is usually accused of taking advantage of the information asymmetry arising from agency contracts to manipulate earnings quality. However, there is limited extant literature on the subject matter in Nigeria. The study fills the gap by examining the effect of managerial ability on the earnings quality of listed deposit money banks in Nigeria. We collected data on relevant variables from 2006 to 2020. Data envelopment analysis, Tobit regression and the ordinary least squares method are employed in analysing the secondary data collected. The result indicates that managerial ability is positively and significantly associated with earnings quality. The study concludes that managers with highly technical improve earnings quality in line with Resource Based view theory.

Keywords: Agency Contract, Earnings Quality, Data Envelopment Analysis, Managerial Ability, and Resource Based View Theory.

1. INTRODUCTION

Several stakeholders rely on the financial reports' earnings quality to make an informed decision. However, following the global financial crisis of 2008 and 2009, the bank's external stakeholders were concerned about the reported earnings quality (Garcia-Meca & Garcia- Sanchez, 2018). The stakeholders' scepticism is attributed to the banking system's opaqueness, information gap and complexity (Levine, 2004). Studies have shown that low earnings quality results in high capital

cost (Francis et al., 200); poor future performance (Garcia-Meca & Garcia-Sanchez, 2018; Huang & Sun, 2017); and investors' negative reaction to share price (Feroz et al., 1991; Palmrose et al., 2004); hence there is a need to improve earnings quality.

Beneish (2001) classifies earnings quality into the informative and opportunistic perspective. The informative perspective of earning quality shows the firm's current and future performance while the opportunistic behaviour perspective posits that reported earnings should be devoid of material misstatement. Dechow and Schrand (2010) assert that earnings quality reflects the firm's operating performance and financial position. Earlier studies view the earnings quality from the opportunistic perspective, overlooking the informative perspective (Beneish, 2001; Brennan, 2021), which is an important indicator for external stakeholders in making investment and economic decisions. Also, archival literature on earnings quality focuses on firm-specific determinants (Cohen & Zarowin, 2010; Garcia-Lara, 2009; Roychowdhury, 2006; Zang, 2012), neglecting the effect of highly capable managers (Abernathy et al., 2018; Demerjian et al., 2013; Garcia-Meca & Garcia-Sanchez, 2018; Huang & Sun, 2017).

The neo-classical view of firm theory postulates that managers are homogenous and perfect substitutes for each other (Bamber et al., 2010; Wang et al., 2017). The limited archival literature on managerial ability before 2012 measured the variable with metrics such as chief executive officer (CEO), turnover, CEO age, education and experience, among others (Demerjian et al., 2012, 2013; Garcia-Meca & Garcia- Sanchez, 2018). The neo-classical view of firm theory assumes that managerial ability is observable. For instance, all other factors held constant, managers of the same age will have the same efficiency level. In reality, the level of efficiency of two managers with the same years of experience has a higher likelihood of not being equal; hence managerial ability is not directly observable.

Demerjian et al. (2012) acknowledge that managerial ability is not directly observable, anchoring their study on the resource-based view theory and the upper echelon theory, and developing new metrics for managerial ability. The resource-based view theory posits that capable managers effectively utilise the firm resources. The upper echelon theory views that highly able managers possess idiosyncrasy attributes developed from their educational background, experience and knowledge within the firm and industry, making them not easily transferable or replaceable

(Bertrand & Schoar, 2003; Hambrick, 2007; Holcamb et al., 2009). Furthermore, the upper echelon assumes that the manager's distinct strategies and styles affect the corporate decision (Bamber et al., 2010; Bertrand & Schoar, 2003; Hambrick, 2007; Garcia-Meca & Garcia- Sanchez, 2018; Ge et al., 2011) and the reported corporate earnings, especially in a complex situation (Garcia-Meca & Garcia- Sanchez, 2018; Wang et al., 2017). Studies (Andreou et al., 2015; Garcia-Meca & Garcia- Sanchez, 2018; Levine, 2004) show that managerial ability reduces information asymmetry and opportunistic behaviour (Garcia-Meca & Garcia- Sanchez, 2018; Wang et al., 2017) and increases future performance (Herianti et al., 2021; Huang & Sun, 2017; Inam Bhutta, 2021; Kanageretnam et al., 2014) contrary to the agency theory.

The limited empirical literature is situated in advanced economies' non-financial sector (Garcia-Meca & Garcia- Sanchez, 2018). There is scarce empirical evidence of managerial ability in accounting, auditing and financial reporting-related fields (Abernathy et al., 2018; Demerjian et al., 2013; Garcia-Meca & Garcia- Sanchez, 2018; Haider et al., 2021; Huang & Sun, 2017; Wang et al., 2017). There is a need to examine the effect of capable managers in utilising the company's resources in a complex situation with high information asymmetry in Africa, especially in the Nigerian banking sector.

The Nigerian business environment is less regulated compared to countries in advanced economies; the banking industry is still a well-regulated sector. The stakeholders of the Nigerian banks exhibit mixed reactions to the quality of the reported earnings. There is anecdotal evidence of the managers of the defunct banks (Oceanic Bank, Intercontinental Bank, Bank PHB, Spring Bank) using their ability to engage in opportunistic behaviour. Conversely, there is evidence of improved banks' performance due to establishing foreign branches and reducing the information gap by introducing electronic financial reporting, likely influenced by the managers. Despite those above, the Nigerian empirical studies on managerial ability and earnings quality are limited. Studies have focused on firm-specific attributes, audit-specific attributes and corporate governance (Dabor & Uyagu, 2018; Kajola et al., 2020; Mohammed, 2018; Osisioma et al., 2020; Ozili and Outa, 2019; Siyanbola et al., 2019) notwithstanding the visible prospect and challenges of the superior managers in the determination of earnings quality.

To the best of our knowledge, there is limited, if any, archival literature on managerial ability in Nigeria. Hence, our studies bridge the gap by adding to the limited archival literature, especially in the banking sector. Secondly, we fill the gap in knowledge by taking a broader view of the earnings quality by measuring the variable from the informative perspective using earnings persistence (Kanagaretnam et al., 2014; Richardson et al., 2005) and the opportunistic perspective using the discretionary accrual (Abou El Sood, 2012; Danisman et al.,2021; Ozili, 2015) in line with the Beniesh (2001) model. We achieved the objective using a census study by selecting all the listed banks incorporated before 2006, whose stocks are actively traded, and data readily available from 2006 to 2020. Hence, our study sample size is 11 listed DMBs resulting in 165 firm-year observations. We estimate the managerial ability using a two-stage process following these studies (Andreou et al., 2015; Demerjian et al., 2012, 2013; Garcia-Meca & Garcia- Sanchez, 2018; Huang & Sun, 2017; Wang et al., 2018). We estimate the total firm efficiency score index in the first stage using the Data Environment Analysis. In the second stage, we separate the total firm efficiency score, into the firm and managerial specific, by using a Tobit regression. The managerial ability is measured by the error term of the Tobit regression in line with studies (Demerjian et al., 2012, 2013; Garcia-Meca & Garcia- Sanchez, 2018). The study uses Ordinary Least Square Method to estimate the effect of managerial ability on earnings quality. Our result shows that managerial ability is positive and significantly associated with future performance, aligning with the resource-based view theory and upper echelon theory.

Our study shows that managerial ability is positively related to earnings quality. The study concludes that superior managers use idiosyncrasy styles and strategies to effectively and judiciously utilise the firm's resources in complex situations. Our study shows that able managers are a distinct and not perfect substitute for one another; this contradicts the neo-classical view. Also, our findings indicate that talent managers are more interested in the normal activities of the firm and less engaged in opportunistic behaviour, which is contrary to agency theory. The study recommends that banks hire superior managers who can effectively utilise the bank resources to improve the reported earnings and increase the confidence of external stakeholders in reported earnings and financial reports.

The remaining part of our study is subdivided into sections. Section two deals with the related literature and hypothesis development of earning quality and managerial ability. Section three discusses the methodology and research design. Section four describes the result and interpretation of the estimation, while section five is the conclusion and recommendation.

2. REVIEW OF LITERATURE

There is no consensus as regards the definition of earnings quality (Beniesh, 2001; Brennan, 2021). Beniesh (2001) broadly classifies earnings quality into informative and opportunistic perspectives. The informative perspective depicts that earnings quality reflects future performance, while opportunistic behaviour indicates that the report should be devoid of material misstatement. Based on the broad categories of earnings quality, the reported earnings can be adjudged to be of the quality provided they signal a reliable future performance; hence the external stakeholders rely on the financial report in the economic decision-making process. Beneish (2001) and Brennan (2021) claim that archival literature on earnings quality focuses on the opportunistic perspective neglecting the informative perspective. The opportunistic perspective assumes that management exploits the information gap and engages in opportunistic behaviour for its benefit (Abad et al. 2017; Srinidhi et al. 2011), consistent with agency theory. Furthermore, managers manipulate earnings to meet the benchmark set by the board (Wang et al., 2017); and personal financial pressure (Cressey, 1950), in line with the agency theory. The earlier studies (Dechow & Dichev, 2002; Doyle et al., 2007; Roychowdhrury, 2006) on earnings quality fail to examine the effect of managerial ability on earnings quality (Abernathy et al., 2018; Demerjian et al., 2013; Garcia-Meca & Garcia- Sanchez, 2018; Huang & Sun, 2017). The management may use their knowledge, experience and talent to improve the corporate entities'earnings and financial reporting quality rather than engage in fraudulent practices.

Managerial ability is a manager's distinct skills, knowledge, and experience (Boeker, 1989; Kor, 2003). Managers' idiosyncrasy styles and strategies are influenced by their educational background, on-job experience and off-job training (Collins et al., 2009). The resource-based view theory postulates the importance of capable managers (Holcomb et al., 2009; Coff, 1997; 1999; Collins, 2021). The theory opines that superior managers use their unique skills to utilise the firm's resources effectively. Reputable Managers generate more earnings from a given set of

resources when compared to less able managers (Carmeli, & Tishler, 2004; Chemmanur & Paeglis, 2005; Demerjian et al., 2012; Inam Bhutta, 2021). Furthermore, the resource-based theory posits that superior managers devote their limited time to normal operating activities (Huang & Sun, 2017); understand the effect of earnings management practices on future performance (Cohen & Zarowin, 2010; Huang & Sun, 2017; Inam Bhutta, 2021), reduces the information asymmetry (Andreou et al., 2015); estimate accrual accurately (Demerjian et al., 2012; 2013); select the appropriate accounting policies (Haider et al., 2021; Wang et al., 2017); and less likely to involve on earnings management (Cohen & Zarowin, 2010; Zang, 2012).

Conversely, the neo-classical theory presumes that top managers' skills are homogenous and perfect substitutes for one another (Wang et al., 2017). The earlier studies (Cohen & Zarowin, 2010; Dechow & Schrand, 2004, 2010; Doyle et al., 2007; Roychowdhrury, 2006) relied on the neo-classical view and focused on the firm-specific characteristic determinants of earnings quality and assumed that managerial ability is directly observable. Before Demerjian et al. (2012), there was no consensus on managerial ability metrics. Surrogates such as chief executive officer turnover, visibility and firm performance; are employed to measure managerial ability (Abernathy et al., 2014; Garcia-Meca & Garcia-Sanchez, 2018). Demerjian et al. (2012) developed a metric for measuring managerial ability widely accepted by several subsequent studies (Haider et al., 2021; Herianti, 2021; Inam Bhutta, 2021; Huang & Sun, 2017; Wang et al., 2017).

The resource-based view theory stipulates that reputable managers effectively utilise the company's resources (Collins, 2009; 2021). The upper echelon postulates that able managers use their distinct characteristics to influence corporate decisions (Bamber et al., 2010; Bertrand & Schoar, 2003; Hambrick, 2007). Studies (Garcia-Meca & Garcia-Sanchez, 2018; Herianti et al., 2021; Huang & Sun, 2017; Inam Bhutta, 2021; Kanageretnam et al., 2014) have shown that managerial ability has a positive effect on future performance. Also, studies (Demerjian et al., 2013; Garcia-Meca & Garcia-Sanchez, 2018) show that managerial ability positively affects earnings quality. Also, studies (Francis et al., 2004) conclude that managerial ability has a negative effect on earnings quality. Based on those mentioned earlier and consistent with resource-based view theory and upper echelon theory, we posit a significant association between managerial ability and earnings quality. Hence;

H_1: There is a significant association between managerial ability and earnings persistence.

H_2: There is a significant association between managerial ability and discretionary accrual.

3. METHODOLOGY

3.1 Research Design and Model Specification

We employ a census study by selecting all the DMBs incorporated before 2006. Our study hand-collects data on the variables of interest from the audited financial report of the 11 listed DMBs' from 2006 to 2020, resulting in 165 firm-year observations. The study uses balanced panel data and estimates the efficiency scores using the Data Envelopment Analysis (DEA). We collect secondary data on the Decision-Making Unit (DMU). The output DMU are of deposit (Depo), loan (lon), investment (inv) and Interest income on loan (intinc); while the input efficiency variables (property, plant and equipment (ppe), intangible asset (intasst), labour cost (labco) and rental expenses (renexp). We employ the DEA to estimate the firm efficiency using various decision-making Units. The Tobit regression is used to arrive at the managerial ability from the total efficiency. The ordinary least square method estimates the managerial ability and earnings, quality model. The managerial ability and earnings quality model includes the firm-specific control variables associated with the banking system.

3.2 Model Specification

We proxy earnings quality in line with Beniesh (2001) by using earnings persistence (Garcia-Meca & Garcia- Sanchez, 2018; Kanageretnam et al., 2014; Richardson et al., 2005) and the inverse of discretionary accruals (Abou El Sood, 2012; Danisman et al.,2021; Ozili, 2015). The earnings persistence measures the informative perspective of earnings quality as it surrogates the projection of future earnings of the DMBs, while the inverse of the earnings management measures the opportunistic perspective.

Our study models the association of managerial ability and earnings quality in line with studies (Garcia-Meca and Garcia-Sanchez, 2018). The management is an integral part of the firm resources and utilises all other resources for the firm's benefit. Hence, consistent with related studies (Demerjian *et al*., 2012; Garcia-Meca & Garcia-Sanchez, 2018), the managerial ability (MA) is derived from the

residual term of the Tobit regression in Equation 2 following the efficiency index. The total firm efficiency score, consistent with Garcia-meca and Garcia-sanchez (2018), is :

$$max\theta = \frac{(depo+lon+inv+intin)}{(ppe+intaasst+labcos+renexp)} \quad 1$$

Where: $max\theta = total$ firm efficiency score, depo represents deposits, lon indicates loans, inv is the code for investments, INTIN depicts interest income from loans, PPE signifies property, plant and equipment. Also, intaasst connotes the value of intangible assets, labcos is the labour costs, and renexp indicate the Rental expenses,

We estimate Equation 1 using the DEA, while the numerator of Equation 1 is the summation of the output DMU, and the denominator shows the summation of the input DMU. Following the estimation of model one, we analyse model two using Tobit regression to determine the Managerial ability, which is the error term of the firm efficiency in line with studies (Demerjian et al., 2012; Garcia-Meca & Garcia-Sanchez, 2018).

$$deas_{it} = \lambda_0 + \lambda_1 fsiz_{it} + \lambda_2 share_{it} + \lambda_3 FCf_{it} + \lambda_4 age_{it} + Year + e_{it} \quad 2$$

The DEA score represents the data envelopment analysis score obtained from Equation one, which is a score between one and zero inclusive. The firm's size is represented by fsiz; fcf connotes the free cash flow; age indicates the successive age of the firm after incorporation. The e_{it} is the residual of Equation 2, which invariably is the managerial ability. Consistent with Beniesh (2001), the study measures earnings quality using the informative and opportunistic perspective. The informative perspective is measured using earnings persistence as the earnings before tax in one lead period (Garcia-Meca & Garcia- Sanchez, 2018; Kanageretnam et al., 2014; Richardson et al., 2005). The opportunistic perspective is measured by the inverse of the discretionary accrual obtained from the error term in Equation 3, consistent with the study (e.g., Abou El Sood, 2012; Danisman et al.,2021; Ozili, 2015), stated as:

$$llp_{it} = \beta_0 + \beta_1 npl + \beta_2 \Delta npl_{it} + \beta_3 \Delta loan_{it} + e_{it} \quad (3)$$

The llp represents the loan loss provision, the npl connotes the non-performing loan, and the loan denotes the total loan while Δ indicating a change. The inverse of the error term represents the

earnings quality from the opportunistic perspective. We control for serial correlation by scaling down equation 3 using the loan at the beginning of the year.

Hence the association between managerial ability and earnings quality from an earnings persistence perspective with the inclusion of control variables such as firm size, total deposit to total asset ratio, and loan growth which are assumed to be positively related to earnings quality consistent with studies (Garcia-meca & Garcia-sanchez, 2018), functional represented as:

$$lnebt_{t+1} = \beta_0 + \beta_1 ma_{it} + \beta_2 (ma * lnebt)_{it} + \beta_3 lnta_{it} + \beta_4 (lnta * lnebt)_{it} + \beta_5 dep_{it} + \beta_6 lgrow_{it} + e_{it} \quad 4$$

While the association from the opportunistic behaviour perspective is

$$(DA * -1)_{t+1} = \beta_0 + \beta_1 ma_{it} + \beta_2 (ma * lnebt)_{it} + \beta_3 lnta_{it} + \beta_4 (lnta * lnebt)_{it} + \beta_5 depo_{it} + \beta_6 lgrow_{it} + e_{it} \quad 5$$

Where lebt indicates the natural logarithm of earnings before tax; ma connotes the managerial ability; lnta indicates the natural logarithms of total assets, which measured the firm size; depo represents a deposit lgrow connotes the loan growth. DA measures the earnings quality from the opportunistic behaviour perspective.

The Apriori Expectation.

$$\beta_1, \beta_2 - \beta_6 > 0$$

Definition of variables

Table 1

Variables	Variable Definition
Earnings persistence $(\boldsymbol{ebt})_{t+1}$	Is the natural logarithm of earnings before tax in one lead period
Discretionary Accrual (DA*-1)	Derived from the error term in the Equation
Managerial Ability (ma)	The residual value derived from equation 2

Firm Size (Lnta)	Natural logarithm of total asset
Deposit to total asset	This is the total deposit value scaled down by the total asset.
LGrow	the deviation of the bank's loan rate of growth and the median loan the growth rate of all banks

Source: Authors' computation (2022)

4. RESULT AND INTERPRETATION

4.1 Preliminary Analysis

The efficiency result of the 11 DMBs from 2006-to 2020 is pooled together and reported in deciles. The DEA scores show that the bank efficiency score is 58.6 per cent over the period, as shown in Table 2. The result indicates that the Nigerian banks are slightly efficient. We decomposed the efficiency index using Tobit regression to estimate Equation 2. The error term for the 11 banks from 2006 to 2020 is extracted to form the managerial ability consistent with studies (Demerjian et al., 2012; 2013; Garcia-Meca & Garcia-Sanchez, 2018; Huang & Sun, 2017; Wang et al., 2018). The study performs the stationarity test using Im Pesaran and Shin (IPS), Augmented Dickey-Fuller (ADF), and Phillip Perron (PP) to ascertain the order of integration of the data series, and the result shows that all the variables are stationary at a level I (0) as shown in Table 3.

Table 2: DEA Efficiency score in Decile

Eff range	Number	%
0<= E <0.1	11	6.670
0.1<= E <0.2	10	6.061
0.2<= E <0.3	17	10.303
0.3<= E <0.4	15	9.091
0.4<= E <0.5	15	9.091
0.5<= E <0.6	20	12.121
0.6<= E <0.7	13	7.879
0.7<= E <0.8	20	12.121

0.8<= E <0.9	15	9.091
0.9<= E <1	19	11.515
E =1	10	6.061
TOTAL	165	100
Mean	0.586	

Source: Authors' Computation (2021)

Table 3: Unit Root Test

	IPS			ADF			PP		
VAR	COFF	PROB	O of I	COFF	PROB	O of I	COFF	PROB	O of I
DA	-13.778	0.000	I (0)	75.149	0.0000	I (0)	52.9603	0.0002	I (0)
EBT	-64.300	0.000	I (0)	54.020	0.000	I (0)	31.381	0.009	I (0)
FSIZE	-2.000	0.041	I (0)	37.400	0.021	I (0)	60.480	0.000	I (0)
LNDEP	-1.900	0.027	I (0)	33.900	0.040	I (0)	56.790	0.000	I (0)
LNGROW	-54.200	0.000	I (0)	102.110	0.000	I (0)	68.958	0.000	I (0)
MA	-3.400	0.000	I (0)	52.740	0.000	I (0)	72.914	0.000	I (0)

Source: Authors' Computation (2021)

4.2 Descriptive Analysis and Correlation Analysis

Table 4 describes the variable of interest used in achieving the objective. The variables include discretionary accrual (DA), earnings persistence (EBT_{it}) managerial abilities (MA), earnings before tax (EBT), total deposit ratio (DEPO), firm growth (LNGROWTH), and firm size (LNTA). Table 4 shows that the discretionary accrual has a mean and median of 0.00 and -0.02, respectively. Also, the average value of the managerial ability resolves around zero, evidenced by the mean and median

values. The value of MA and DA resolving around zero is expected as these variables are the stochastic terms of Equations 2 and 3, respectively. The maximum value of the inverse of the Discretionary accrual is 12.59, which indicates that the management provides a credible financial report, while the minimum value depicts the possibility of some bank managers engaging in opportunistic behaviour, which is in line with the agency theory. The maximum and the minimum value of MA evidence the existence of superior and less-superior managers in the Nigerian banking sector. The financial performance of the banking sector is good, with a mean value of 4.35, and the natural profit is relatively stable, with a standard deviation of 3.58 per cent.

The possibility of multicollinearity problems only exists when an explanatory variable is highly correlated with any other regressors. The pairwise correlations of the independent variables of interest in Equation 5 indicate that there is no existence of a multicollinearity problem as the highest pairwise correlation value between the explanatory variables is 0.468 at a ($p>0.05$), which is the correlation between earnings before tax (EBT) and firm size (LNTA) as shown in Table 5. The highest value of 0.991 existed between the dependent variable (EBT) and independent variable of EBT one lead period (EBT+1,), hence cannot result in a multicollinearity problem.

Also, Table 5 shows that the pairwise association between variables possesses other characteristics worthy of discussion. Table 5 shows that the ratio of the banks' deposit to total assets (DEPO) is directly associated with firm size (LNTA) at the statistic of ($r = 0\ .295\ p< 0.05$). The result depicts that bank deposit is a reflection of bank size. The rationale for banking with large DMBs possibly is the fear of financial distress or liquidations

Table 4: Descriptive statistics

	DA	EBT	FSIZE	DEP	GROW	MA
Mean	0.00	4.35	17.62	58.26	2.28	0.00
Median	-0.02	5.12.	19.86	60.35	2.15	-0.00
Maximum	12.59	10.12	29.59	74.23	12.33	0.04
Minimum	-14.59	0.00	10.00	40.00	0.00	-0.02
Std. Dev.	0.70	3.58	7.01	6.29	10.69	0.40
Observations	165	165	165	165	165	164

Source: Author's Computation (2021)

Table 5: Correlation Analysis

Probability	EBT_{it+1}	BET	LNTA	DEPO	LNGROW
EBT_{it+1}	1.000				
	0.000				
EBT	0.991	1.000			
	0.000	0.000			
LNTA	0.482	0.468	1.000		
	0.000	0.000	0.000		
LNDEP	0.141	0.138	0.295	1.000	
	0.113	0.123	0.001	0.000	
LNGROW	0.174	0.109	0.140	0.009	1.000
	0.051	0.223	0.117	0.918	0.000

Source: Author's Computation (2021)

4.4 Interpretation and Discussion of Finding

Table 6 shows the result of the association between managerial ability and earnings quality reported in columnar format. Column one shows the association between managerial ability and earnings persistence measured by future performance (EBT_{+1}), while column two indicates the association between managerial ability and financial reporting quality.

Based on hypothesis one, column one shows the association between managerial ability and future performance. Model 4 is estimated using the ordinary least square regression to achieve the objectives, and the result is reported in Table 6. The result shows that managerial ability is positively associated with future performance with statistics of (coeff= 0.03, t= 3.45) at a five per cent level of significance. The result indicates that higher-ability managers judiciously use the company's resources to generate future profit. Also, the combined effect of managerial ability and

current profit (MA*EBT) has a positive and significant association with future performance with a statistic (coeff= 0.01, t= 2.99) at a five per cent significance level. The result shows that managers in a profitable firm likely generate a projected net income. The result is consistent with the resource-based view theory and studies (Herianti et al., 2021; Garcia-Meca & Garcia-Sanchez, 2018; Inam Bhutta et al., 2021).

Also, column two shows the association between managerial ability and earnings quality proxied by the inverse of the discretionary accrual. The result indicates that the regressors accounted for 74.5 per cent of the variation in earnings quality, evidenced by the adjusted R square value of 0.74. Column two of Table 6 indicates that managerial ability is positively associated with earnings quality (proxy by the inverse of the Discretionary accrual) with a statistic of (coeff= 0.07, t= 8.78) at a one per cent level of significance. Also, column two of Table 6 shows that managerial ability and current earnings jointly affect financial reporting quality with a statistic of (coeff= 0.07, t= 8.78). The results, based on the association of managerial ability and earnings quality, as shown in columns 1 and 2, indicate that the superior managers of high-performing banks engage less in earnings smoothing, consistent with studies (Garcia-Meca & Garcia-Sanchez, 2018; Mansourfa et al., 2015; Salehi et al., 2015; SeTinMur & Waningsari, 2018). In line with the resource-based view theory, the results showed that capable managers effectively utilise the firms' resources, which invariably improves the banks' performance. Also, the managers use their limited time on the firm's normal operation rather than engage in opportunistic behaviour; this is evidenced in the positive association between managerial ability and earnings quality.

Table 6: The result of the association between managerial ability and earnings quality

	Variable	**1**	**2**
Dep		**Ebt+1**	**(DA*-1)**
		Coefficient	Coefficient
		t-statistic	***t-statistic***
	C	15.45	15.86
		14.25*	***13.58****
Ind	MA	0.03	0.07

		3.45***	8.78***
	MA*LNEBT	0.01	2.35
		2.99**	2.51**
Control	LNTA	0.7	0.542
		11.22*	***7.419****
	LNTA*LEBT	0.04	0.03
		18.19*	***9.57****
	DEPO	0.02	0.041
		0.71	***0.91***
	LNGROW	0.01	0.02
		0.2	***0.22***
	R-sq	0.8	0.75
	Adj. R-sq	0.79	0.74

Source: Authors' Computation (2022)

MA represents the managerial ability, LNTA is the value of the natural logarithm of total assets, Depo is the value of the total deposit scaled down by the total assets, Dep is the Dependent Variable, Ind is Independent Variable, Control represents the Control Variables.

*Note ***, ** and* indicated level of significant at 1%,5%and10% respectively*

5. CONCLUSION AND RECOMMENDATIONS

Our study measures earnings quality from the informative and opportunistic perspectives consistent with Benish (2001). The informative perspective of earnings quality is surrogated by earnings persistence, while the opportunistic perspective is measured using the inverse residual from the loan loss provision. The study examines the effect of managerial ability on the earnings quality in the Nigerian listed financial institution by selecting 11 DMBs from 2006 to 2020, resulting in 165 firm-year observations. The efficiency index is estimated using the DEA. Subsequently, we employed the Tobit regression to estimate managerial ability. The managerial ability is the stochastic term, while the firm efficiency is the deterministic term of the Tobit regression.

We limit the study to Nigerian deposit money banks due to the disparity in the discretionary accrual model for financial and non-financial institutions. The study collects secondary data from the audited report of the 11 DMBs that satisfy our sample selection criteria. We employ estimation techniques such as the DEA to obtain the efficiency score. The Tobit regression is used to obtain the managerial ability and the panel ordinary least square method to estimate the model. The study concludes that managerial ability positively and significantly affects future performance and financial reporting quality. The result indicates that hiring a manager with talent likely increases the informative content of financial reporting. Also, managers with higher abilities are less likely to issue a misleading financial reports to engage in opportunistic behaviour. The study conforms with the resource-based theory view theory, indicating that distinct managers effectively utilise the firm's resources and are less interested in opportunistic behaviour, which contradicts the firm's agency theory and neo-classical theory. The study is timely as there is limited empirical evidence on managerial ability in Nigeria. This study will assist financial regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Security Exchange Commission (SEC) in understanding managers' behaviour regarding business and accounting practice, hence useful in policy formulation.

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