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Managerial Efficiency and Financial Reporting Quality in Quoted Deposit Money Banks in Nigeria

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ABSTRACT

The paper investigated the quality of financial reporting in Nigerian banks, the impact of certain firm-specific institutional factors, and the how corporate governance mechanisms influence the relationship between managerial efficiency and reporting quality. Discretionary accruals were utilized in the study as a gauge of the financial reporting quality because they provide a reliable assessment of earnings management in Nigerian banks. The study employed a retrospective method using data on 11 quoted deposit money banks in Nigeria and the period 2014 to 2024. Audited financial statements and regulatory reports provided the firm-level data. Variables included were size, leverage, liquidity, ownership, age, managerial efficiency, corporate governance mechanisms, and growth with the analysis being done through econometric tests to ensure stringent and valid analysis. The results stated that the quality of financial reporting was positively and significantly influenced by size (0.0062), liquidity (0.0038) and negatively and significantly by leverage (-0.0005) and ownership (-0.0321). Managerial efficiency (0.0158, 0.0505) positively affected reporting quality, corporate governance mechanisms (-0.0236, 0.0042) negatively affected reporting quality, and their interaction (0.0519, 0.0192) enhanced the association. The values of R-squared were 0.2876 and 0.2714, which indicated moderate power of explanation. The study established that firm-specific characteristics and governance structures have a crucial role in influencing financial reporting quality, providing useful information to regulators, management, and policymakers in improving reporting practices.

INTRODUCTION

Banks serve as a great influence on a country's economic growth as they provide the necessary financial services that facilitate development. In this industry, the degree to which the management uses financial, human, and operational resources effectively, is a key to profitability, competitiveness, and endurance as stated by IASB 2008 and as supported by Amahalu, Egolum and Obi (2019), reliable financial reporting ensures transparency and supports informed decision making to stakeholders. Despite regulatory improvements, there are still challenges that threaten managerial efficiency and the reporting quality such problems that question the quality of financial disclosure by banks are inefficiency, high costs, weak governance, and earnings manipulation as identified by Nwaobia, Kwarbai, Jayeoba and Ajibade, (2016). The connection between the quality of financial reporting and managerial efficiency is one that has not been worked out in the simplest way: management efficiency can lead to better internal controls and greater reporting transparency, but inefficiency can drive the motivation to manipulate and loss of confidence in financial statements.

This paper aimed to achieve three significant objectives: to analyze trends and determinants of financial reporting quality in Nigerian Banks; to examine the influence of selected firm-specific institutional factors on the financial reporting quality; and to test the connection between

managerial efficiency and financial reporting quality and the use of corporate governance mechanism in Quoted money deposit banks in Nigeria.

This study is important to a variety of stakeholders, First, it provides practical advice to bank management and explains the influence of efficiency-oriented decisions on the credibility of financial reports. Second, it has a positive effect on investors and shareholders because it determines the drivers of reporting quality, which affects market confidence and capital allocation. Third, it assists regulators and policymakers to develop policies which promote stability and transparency. In addition to practice, the study also advances academic literature by offering empirical data on the nexus of efficiency and reporting quality in a developing economy. The study is based on the secondary data of quoted money deposit banks in Nigeria, covering the period 2014-2024. Through its analysis of managerial efficiency and reporting practices, it hopes to produce both practical and theoretically informative results.

LITERATURE REVIEW

Theoretical Framework: Agency Theory

"Agency theory explains the interaction between shareholders who are the principals, and the managers who act as their agents (Jensen & Meckling, 1976), and therefore provides a solid foundation towards the interpretation of the relationship

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between the two variables. As highlighted by Healy & Palepu, 2001, “managers sometimes mask poor results or adjust reports with an aim to attract investors”. These risks are managed through agency theory by focusing on the significance of corporate governance mechanisms in checking the managers’ activities and holding them accountable to the shareholders’ interests according to Fama and Jensen (1983). Thus, this theory would be an appropriate methodology of this study because it shows the connection between the quality of financial reporting and managerial effectiveness in governance systems and mechanisms of oversight.

Empirical Review: Managerial Efficiency and Financial Reporting Quality

Empirical research on Nigerian banks has inquired into managerial efficiency and financial reporting quality, but seldomly together. Managerial efficiency concept evaluated by means of optimal resource use, cost management, and innovation has been found to positively contribute to the performance and resilience of banks Adegbe et al (2020). Simultaneously, as shown by Amahalu et al (2019); Muhammad & Bilal, (2019), financial reporting quality reduces the information asymmetry, builds investor confidence and reinforces performance in the market. The sources of financial reporting quality have been hotly contested by prior studies and studies of firm specific institutional factors have given mixed results. Some studies argue that firm size and leverage have little effect on reporting, while others show that adoption of IFRS and growth improve reporting quality. Nnenna and Ugwoke (2019) have documented positive effects of the adoption of IFRS on conservatism, whereas Ogbebor, Ifurueze, & Nkechi (2022) have found that the size of a firm was one of the most important predictors of reporting quality.

On the other hand, governance mechanisms have also been created as being critical in matching managerial activities and shareholder interests as noted by Ajibulu *et al.*, (2021); Gbadebo (2021) and Abdulrahman (2020). Nevertheless, there are limited empirical studies on the direct association between managerial effectiveness and financial reporting quality in Nigerian banks. This research aims at filling this gap by analyzing the impact of efficiency on reporting quality and the level to which governance mechanisms moderate this relationship.

MATERIALS AND METHODS

Research Design

The method of this study was a longitudinal panel study, combining elements of cross-sectional and time-series design. The selected design was appropriate since it provided the chance to test the same variables on a few banks at the same time, thus enabling it to pinpoint the new trends, changes, and trends in the course of time. The research relied on panel longitudinal design to examine the relationship between financial reporting quality which was the dependent variable and managerial efficiency

which was the independent variable in the case of the Nigerian quoted deposit money banks. The design was particularly suitable to the study since long-term changes can be measured and the company-specific features and external impact can be managed.

Population, Sample Size and Sampling Technique

This paper comprised of 24 Nigeria deposit banks. Eleven banks were selected through purposive sampling because of the feasibility considerations and targeting institutions that have strong reporting practices.

Sources of Data

This study is based on secondary data obtained from annual reports of the sampled banks listed on the Nigerian Stock Exchange which was complemented by other publications and statistical bulletins.

Model Specifications

The relationship between managerial efficiency and financial reporting quality were estimated using two panel regression models.

The Influence of selected Firm-specific Institutional Factors on the Financial Reporting Quality of Quoted Deposit Money Banks in Nigeria

$$FRQ_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 ROA_{it} + \beta_4 LIQ_{it} + \beta_5 GROWTH_{it} + \beta_6 OWN_{it} + \beta_7 AGE_{it} + \mu_i + \epsilon_{it}$$

Where:

FRQ_{it} = financial reporting quality for bank i at time t;

SIZE = firm size;

LEV = leverage;

ROA = Profitability;

LIQ = liquidity;

GROWTH = asset growth

OWN = Ownership Structure

AGE = Firm age

μ_i = unobserved bank-specific effects

ε_{it} = stochastic error term.

Model for how Governance mechanisms moderate the relationship between managerial efficiency and financial reporting quality

$$FRQ_{it} = \gamma_0 + \gamma_1 ME_{it} + \gamma_2 CGM_{it} + \gamma_3 GROWTH_{it} + \gamma_4 LEV_{it} + \gamma_5 ROA_{it} + \epsilon_{it}$$

Where:

FRQ = Financial Reporting Quality for bank i at time t,

ME = Managerial Efficiency, measured as

$$Max_{\theta} =$$

$$\frac{\text{Operating Income}}{v_1 \text{ Customer Deposits} + v_2 \text{ Interest expenses} + v_3 \text{ Operating \& Personnel expenses} + v_4 \text{ net PPB}}$$

CGM = Corporate Governance Mechanisms,

GROWTH = Firm growth

LEV = Leverage

ROA = Return on Assets

Measurement of Variables

The variables used in the study include the dependent and independent variables together with the moderate and control variables which are operationalized as follows:

- a. **Dependent Variable:** Financial Reporting Quality (FRQ) proxied by discretionary accruals computed using the Modified Jones Model (Dechow, Sloan, & Sweeney, 1995; Kothari *et al.*, 2005).
- b. **Independent Variable:** Managerial Efficiency (ME) evaluated using Data Envelopment Analysis (DEA), to determine how banks effectively transform inputs such as deposits, expenses and fixed assets into outputs (operating income) (Demerjian, Lev, and McVay, 2012; Berger and Humphrey, 1997).
- c. **Control Variables:**
 - i Corporate Governance Mechanisms (CGM): captured in the form of board size, independence and gender diversity, which are the proxies of monitoring and effectiveness of control (Uwuigbe, 2011).
 - ii Size: Log of Total assets (Chen, Chen, & Su, 2001).
 - iii Leverage: The ratio of total liabilities to total assets (Uwuigbe, Olusanmi, & 2014).
 - iv Profitability (ROA): Net income/total assets (Barth, Landsman, and Lang, 2008).
 - v “Liquidity: measured as the ratio of current assets to current liabilities (Olatunji and Fakile, 2016).”
 - vi Growth: Percent change in the total assets (annually) (Soderstrom and Sun, 2007).
 - vii Ownership Structure: Shareholding concentration or shareholding percentage by institutional investors (Claessens and Fan, 2002).
 - viii Age: Years of incorporation (Uwuigbe *et al.*, 2017).

Data Analysis Methods

Table 1: Descriptive Analysis

Variable	FRQ	SIZE	LEV	ROA	LIQ	OWN	AGE
Mean	-0.0135	7.621	5.678	0.041	1.301	0.091	22.02
Median	-0.0127	7.652	5.719	0.013	0.734	0.074	17
Maximum	0.0721	10.5	19.21	10.5	10.372	0.382	52
Minimum	-0.1131	6.001	-1.968	-0.119	-0.999	0	7
Std. Dev.	0.0266	1.198	4.283	0.779	1.821	0.095	12.71
Skewness	0.458	-0.324	0.872	12.645	3.342	1.773	0.768
Kurtosis	4.603	2.892	3.848	165.24	16.689	5.732	2.339
Obs	121	121	121	121	121	121	121

Source: Author’s Compilation (2025)

LIQ (0.154) and ROA (0.027) while it has slight negative associations with LEV (-0.085), OWN (-0.052) and AGE (-0.064) supporting its sustainability as an independent outcome variable. Firm size is positively correlated with leverage (0.421), implying that bigger banks are more likely to use debt, and ownership concentration is correlated moderately and negatively with both size (-0.324) and leverage (-0.231). Notably, correlations are at or below the 0.8 level indicating that there is no multicollinearity issue

Data analysis was initiated by descriptive analysis of the data to summarize the important variables and then by trend analysis to trace trends of financial reporting quality across banks and as time went on. Panel regression methods were employed to test the hypotheses. Both Fixed Effects (FE) and Random Effects (RE) models were estimated and the Hausman test was applied to determine the preferred model. To be robust, heteroskedasticity, multicollinearity, serial correlation, and normality diagnostic tests were carried out (Micah *et al.*, 2022). Data Envelopment Analysis (DEA) was employed to derive managerial efficiency scores with a second-stage regression used to disaggregate managerial ability and firm-specific factors prior to introducing them into the models.

RESULTS AND DISCUSSION

Table 1 of the descriptive analysis indicates that financial reporting quality (FRQ) carries a negative mean (-0.0135), indicating that there is pressure to influence the credibility of reporting in the case of all banks, albeit with an average variance of medium. The size of firms (SIZE) is rather similar across sampled banks whereas leverage (LEV) is widely dispersed, with several banks being highly geared. With outliers, profitability (ROA) and liquidity (LIQ) have skew and kurtosis of extreme values indicating the instability of performance and liquidity positions. There is usually low ownership concentration (OWN), but firm age (AGE) is relatively widespread, with a combination of new institutions and old ones. On the whole, there is significant variation of the variables which validates their appropriateness in econometric analysis. The pairwise correlations (Table 2) indicate that FRQ shows a weak positive correlation with SIZE (0.142),

to be concerned about. Table 3 presents the results of the regression results of the first model. The results indicate that Firm size (0.0062), and Liquidity (0.0038) increase earnings manipulation, while Leverage (-0.0005) and Ownership (-0.0321) reduce it. Profitability i.e ROA (0.0011) and AGE (0.0002) are statistically insignificant predictors of financial reporting quality, implying that structural characteristics alone cannot be relied on to explain the differences in reporting

Table 2: Correlation Analysis

	FRQ	SIZE	LEV	ROA	LIQ	OWN	AGE
FRQ	1						
SIZE	0.142	1					
LEV	-0.085	0.421	1				
ROA	0.027	-0.192	-0.103	1			
LIQ	0.154	0.064	-0.039	0.021	1		
OWN	-0.052	-0.324	-0.231	0.012	-0.041	1	
AGE	-0.064	-0.201	-0.192	-0.019	-0.114	0.201	1

Source: Author's Compilation (2025)

Table 3: Regression Results for the influence of firm-specific institutional factors on financial reporting quality of quoted deposit money banks in Nigeria.

Series (Variables)	Pooled OLS (Coefficient)	Pooled OLS (P-Value)	Fixed Effect (Coefficient)	Fixed Effect (P-Value)	Random Effect (Coefficient)	Random Effect (P-Value)
C	-3.2152	0.0000	-0.1052	0.0000	-3.0100	0.0000
SIZE	1.7255	0.0015	0.0062	0.0006	1.5112	0.0020
LEV	-0.7458	0.0224	-0.0005	0.0127	-0.7984	0.0280
ROA	0.1653	0.0011	0.0011	0.4637	0.1483	0.0030
LIQ	0.0550	0.0850	0.0038	0.0006	0.0520	0.1000
OWN	-0.0418	0.0366	-0.0321	0.0352	-0.0221	0.0430
AGE	0.0061	0.5764	0.0001	0.3178	0.0043	0.8214
R-squared	0.2915		0.2876		0.2614	
Adjusted R-squared	0.2796		0.2686		0.2504	
S.E. of regression	1.523		0.478		0.462	
Sum squared resid	10.32		8.15		11.425	
Log likelihood	-21.425		-18.65		-19.845	
F-statistic	13.754	0	12.785	0	10.952	0

Source: Author's Compilation (2025)

practices in Nigerian banks.

Table 4 shows the regression results of the second model. The independent variables explain 27.1% of the variation in discretionary accruals with an Adjusted R-squared of 25.3% based on the fixed effect model. The F-statistic of 11.15 is significant at the 5% level ($p=0.0000$), confirming that the model is significant in explaining financial reporting quality. The interpretation is that efficient managers operating under strong governance align their discretion with oversight which enhances reporting credibility rather than manipulation. The implication for this study is that managerial efficiency increases earnings manipulation on its own but, when combined with governance, it strengthens financial reporting Quality. The reliability of these results was confirmed through diagnostic tests. The Hausman tests guided the decision behind selecting between fixed and random effects, and the estimates were validated using robustness

tests (heteroscedasticity, serial correlation, and multicollinearity).

Critical Discussion of Findings

Findings indicated that firm-specific characteristics, such as size, leverage, profitability, liquidity, ownership structure, and age, have little or no significant effect in explaining differences in reporting quality. Rather, the interplay between managerial efficiency and corporate governance systems influences financial reporting credibility more intensely. This contrasts with Abakasanga *et al.* (2019), who emphasized that accounting information relevance and timeliness affected performance, and Ogbekor, Ifurueze, and Nkechi (2022), who found a strong correlation between company size and FRQ. Yet it coincides with Olowokure, Tanko and Nyor (2015) that also revealed that firm specific variables were not strong predictors of reporting quality in Nigerian banks.

Table 4: Regression results for the relationship between managerial efficiency and financial reporting quality.

Series (Variables)	Pooled OLS (Coefficient)	Pooled OLS (P-Value)	Fixed Effect (Coefficient)	Fixed Effect (P-Value)	Random Effect (Coefficient)	Random Effect (P-Value)
C	-0.0015	0	-0.0025	0	-0.0131	0
ME	0.0152	0.1301	0.0129	0.0462	0.0158	0.0505
CGM	-0.0241	0.0414	-0.0847	0.0363	-0.0236	0.0042
GROWTH	0.0159	0.2182	0.0026	0.1164	0.0019	0.114
LEV	-0.0072	0.0114	-0.0019	0.0139	-0.0003	0.01342
ROA	0.0069	0.3518	0.0005	0.6803	0.0008	0.5681
R-squared	0.3022		0.2918		0.2714	
Adjusted R-squared	0.2899		0.2772		0.2532	
S.E. of regression	1.737		0.418		0.456	
Sum squared resid	17.58		8.68		16.425	
Log likelihood	-20.281		-19.31		-18.853	
F-statistic	14.563	0	13.176	0	11.154	0

Source: Author's Compilation (2025)

The observation that corporate governance strengthens the link between managerial efficiency and reporting quality aligns with the agency theory (Jensen & Meckling, 1976), which suggests that governance principles diminish agency expenses and reasonable managerial behavior in accordance with shareholders. This is in line with findings of Ajibulu *et al.*, (2021); Gbadebo (2021), who emphasized that strong board oversight and audit committee expertise play a critical role in boosting credibility. This study further extends other previous works, including Ibrahim and Abubakar (2019), who found that governance attributes produce weak and insignificant impacts when considered.

But in general, the results indicate that managerial practices that are well established in strong governance systems and not organizational structures are the stronger determinants of the quality or otherwise of financial reporting in Nigerian banks.

CONCLUSION

This paper concludes that firm-specific characteristics have limited influence on banks financial reporting quality. Rather, the high level of efficiency in managing people and strong governance mechanisms play a significant role. In general, it can be concluded that financial reporting quality is contingent upon the efficient utilization of the resources by the managers and the strong system of governance. This research recommends that regulatory agencies such as CBN and SEC ought to enhance the policies of corporate governance in order to enhance quality of financial reporting. To do this effectively, banks should strengthen their governance structures by appointing qualified and independent board members and maintain effective audit committees, and

the policymakers and shareholders ought to develop incentives that will cause the managers to act as per the long-term reporting credibility. Effective governance fosters clarity in reporting, discourages concealment of data and builds stakeholder confidence. Proper governance frameworks enhance the transparency of reports, guard against hidden data, and boost stakeholder confidence.

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