

Impact of Profitability on Earnings Quality of quoted Deposit Money Banks (DMBs) in Nigeria

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Abstract

The study examined the Impact of Profitability on Earnings Quality of Deposit Money Banks in Nigeria. The data used for this study were sourced from CBN statistical bulletin, and development indicators. The population consists of 14 deposit money banks quoted on the Nigerian stock exchange from the period of 2006 to 2019. The paper used purposeful sample to arrive at 12 deposit money banks used for the study. Loan loss provision (LLP) was used a proxy for earnings quality while return on asset (ROA) was used as a proxy for profitability by means of Ex-post factor research design, pre-estimation tests were carried out on each of the variables using Augmented Dickey Fuller (ADF) unit root test to avoid spurious regression results, Hausman test fixed and random effect was estimated to choose which model fits. The study employed random linear ordinary least square pooled OLS for which was analyzed via E-views 10. The findings from the study revealed there is a significant relationship between return on asset and loan loss provision of deposit money banks (DMBs) in Nigeria. It conclude that profitability boost earnings quality of deposit money banks (DMBs) because when banks makes more profit it increase the volume of earnings in general. It therefore recommended that proper and adequate measures should be put in place for the evaluation, examination and oversee of statement of DMBs.

Keywords: Earnings Quality, Profitability, Loan loss Provision, Return on Asset, DMBs

INTRODUCTION

Financial report is shown by an information management to assess the quality of a firm's performance and demonstrate its responsibility to investors, employees, customers, society and government. Financial report serves to present information to help investors, creditors, and other potential users in a similar decision rationally. The statements are very important because of the demonstration of quality of management performance in a period of time. One importance of financial statements is its use to measure management performance. Therefore, management will try to make a financial report in such a way that the performance of the company looks good in the financial statements. Due to the important role of financial statements in demonstrating the performance of a company, the management will try to mislead investors or the owner of the company to avoid the confidentiality of the actual condition of the

financial statement. One way that is often applied to mislead the owner of the company or investors is conducting earnings management, because the manipulation of earnings quality management is the safest and legal, and does not violate generally accepted accounting principles (GAAP) now International Financial Reporting Standards (IFRS) (Haryudanto and Yuyetta, 2011).

Loan loss provision is provisioning for credit losses on the loan portfolio and its funding which occurred impairment in economic value (Budiarti, 2012). Provisioning for losses is important so that the bank financial statements represent actual situation. Loan Loss Provision is provision established by a bank if there is objective evidence of impairment of financial asset or group of financial assets as a cause of one or more events occur after the initial recognition of the asset and impacting the estimated future cash flow. Therefore, loan loss provision is an important tool that has employed to reduce the risk of customers' failure to pay their liabilities to the bank. Beatty and Lioa (2016), opined that Loan Loss Provision is a policy that is followed by deposit money banks (DMBs) by putting some money aside (reserves) to face any potential loans default, which in turn would help to protect banks' positions in terms of profitability and capital. Bank Performance could be evaluated by bank profitability. Sustainability banks depend on bank profitability and performance because banks must generate the income needed to cover their operating costs issued in banking activities. Assessment of financial performance of banking is one of the important factors for banks to see how the bank is performing, whether the performance already good or not. Lipunga (2014) and Greuning and Bratanovic (2003), opined Profitability could be calculated using Return on Assets (ROA). The level of profitability with the ROA aims to measure the ability of bank management to manage assets controlled to generate income. Profit is the bottom line or ultimate performance result showing the net effects of banks policies and activities in a financial year. Its stability and growth trends are the best summary indicators of a bank's performance in both the past and the future Greuning and Bratanovic (2003). They insist that strong and stable net interest margins have traditionally been the primary determinants of intermediation efficiency and earnings performance. A bank panic occurs when the failure of one bank to honor its depositor's demands for payment which leads to the general public to fear that other banks will be unable to honour some demands. When this occurs depositors attempt to withdraw their deposits before their bank fails and in so doing may place it and other banks in jeopardy Jansen (2006). Bank profitability and earnings are closely related because retained earnings are undistributed profits accumulated over the years which may be subsequently used for the purpose of enhancing the capital resources of the bank (Nzotta, 2004). A bank generates a profit from the differential between the level of interest it pays for deposits and other sources of funds and the level of interest it charges in its lending operations. This difference is the spread between the cost of funds, and the loan interest rate. In recent history, banks have taken many new measures of income generation to ensure that they remain profitable while responding to increasingly changing market conditions. Taking into description above, this paper has interested to Analyzing the impact of return on asset on Loan Loss Provision of banks as an objective and the hypothesis that guide study is that;

Ho1: Profitability has no significant impact on earnings quality of quoted deposit banks (DMBs) in Nigeria.

LITERATURE REVIEW

Conceptual Framework

Concept of Earnings Quality

Earnings quality and earnings management are interchangeably used in literatures, however the degree of earnings management normally determine the earnings quality of reported figures in financial reports (Vasiliki, Stergios, Emmanouli and Stephen, 2014). This view has been variously supported by scholars as Ralf & Alfred, (2009); Chan, Jegadeesh & Lakonishok (2006). The degree of quality points to the ability of reported earnings to forecast the entity's future performance (Gregory, 2014; Mary,

2017). Since high earnings quality boosts capital market efficiency, shareholders place much importance on high quality financial accounting information in their decisions to invest or divest their investments in/from entities. Consequently, accounting standards setters attempt to create standards that boost earnings quality having in mind current contribution of information communication technology towards the developments of deposit money banks in Nigeria. Accrual quality using discretionary accrual, earning predictability and income smoothing have been the common proxies used to confirm earning qualities in financial statement.

Earnings quality can simply be referred to as the degree to which reported earnings capture a firm's economic reality of a given company. It is defined from two different perspective; decision- usefulness perspective and economic-base perspective. From the decision-usefulness perspective earnings quality is regarded to be high if the reported earnings are useful for decision making. Khairul (2014) and Dechow (2010) view earning quality from this perspective, they explained that analysts are likely to view earnings to be of high quality when the earnings numbers accurately reflect the company's current operating performance are good indicators of future operating performance and are good summary measure for assessing firm value. Therefore, it is consistent with the objective of financial analysts, which is to evaluate the performance of the company, assess the extent to which current earnings indicates future performance and determine whether the current stock price reflects intrinsic firm value. Economic based-definition of earnings quality is based on Hicksian definition of Income (Shippers and Vincent, 2003). They further define earnings quality as the extent to which reported earnings faithfully represent Hicksian income; where representational faithfulness means correspondence or consensus with a measure or description of the phenomenon that it purports to represent. This supports the view of earnings quality as numbers that reflect "true earnings" which is not based on accounting rules and standards. True earnings' is a neutral context- free benchmark, yet difficult to assess as Hicksian income (economics income) is not observable (Khairul, 2014) and they concluded that the more accurate or timely that reported earnings reflect shocks in the present value of expected future dividends, the higher the quality of earnings.

Different researchers define earnings quality using certain characteristics of earnings such as persistence or sustainability, predictive ability, smoothness, conservatism, value- relevance, timeliness, earnings management or earnings manipulation and accrual quality. In general, earnings that are considered of high quality are those with high level of persistence, predictability, less volatility, timely, lower level of earnings management and higher accrual quality (Khairul, 2014). Earnings quality refers to the ability of reported earnings to reflect the company's true earnings, as well as the usefulness of reported earnings to predict future earnings. It also refers to the stability, persistence and lack of variability in reported earnings (Roya, Kamran & Ghadiri, 2012). They further explained that earnings has more quality when it shows the real value of organization which can use to predict the future value of entity. While Mishari (2009), defined earnings quality based on earnings persistent, he defined earnings quality as the ability of past earnings to predicting future cash flows. Palepu and Healy (2008), based their definition on the ability of the accounting system to capture the firm fundamental activities, they defined earnings quality as the extent to which accounting measurement, processes and their implementation by the firms captures the firms' underlying economic fundamentals. Hence, earnings quality means financial statement must be free from all forms of bias and it is measured using (Chang, 2008) model of discretionary loan loss provision. The researcher adopted discretionary loss loan provision in this study, as He found it to be the most suitable in this instance.

Loan Loss Provision

Loan loss provision (LLP) estimates play a key role for bank stability and soundness while fulfilling their lending functions to society. Managers use loan loss provisions for their income smoothing because in general, it reduced variability is supposed to represent a reduced risk. Bushman and Williams (2012) also find banks that have smooth earnings through loan loss provision (LLP) have

less risk-taking discipline, possibly because the reduced transparency makes external monitoring more difficult, whereas banks that recognize loan loss provision (LLP) in a more timely manner which exhibit greater discipline. Shrieves and Dahl (2003) attribute income has positive association with loan loss provisions to the use of bank management discretion in determining the magnitude and the timing of those provisions. Loan loss provision is an expense on the income statement which signifies managers' assessment of expected future losses. This means that an increase in loan loss provision reduces net income, while a fall in loan losses increases net income. Since it is the result of managers' assessment of the likely loss that the company would incur when the borrower fails to repay his obligations as at when due, the provision for it is considered to have two (2) portions: non-discretionary and discretionary portions. The Non-discretionary is a function of specific quality determinants in the loan portfolio- non-accrual loans, renegotiated loans, loans past due over 90 days, specific analyses on troubled large credit, usually implying internal grading system (Grey and Clarke 2004). The non-discretionary portion, therefore, is the provision that is based on fair and objective analysis of the firm's economic conditions. Similarly, the discretionary portions are those accruals that largely depend on the outcome of the managers' future expectation of uncertain events (Mohammed, 2011). The components are both quantitative and qualitative. Grey and Clarke (2004) point that the qualitative components include political, economic, geographical and political factors, while the quantitative are "statistical analysis of loans not individually analyzed for special reserve and therefore are largely at the discretion of managers". In their review of earnings quality management, Sun and Rath (2010) opined that the arguments that support the use of specific accrual (loan loss provision) to detect earnings quality management is proffered by McNichols (2000) who summarizes its advantages into two. First, this approach enables researchers to develop intuition for the key factors that influence the behaviour of the accrual in determining earnings quality. Second, the approach can be applied in industries in which a certain type of business can result in a specific accrual being material.

Profitability

Profitability is one of the major areas investors pay attention to when analysing the viability of business organizations. Tulsian, (2014) explained that the word profitability is composed of two words - profit and ability. Profit refers to the total income earned by the enterprise during the specified period of time, while ability refers to the operating efficiency of the enterprise. It is the ability of the enterprise to make profit on sales; it is the ability of the enterprise to get sufficient return on the capital and employees used in the business operation. While profit reports just about the financial and operational efficiency of an enterprise, profitability interprets the profit in relation to other elements likely to affect profit in order to help in decision making Tulsian, (2014). Profitability is the ability of a given firm to earn profit. It indicates how well managers of an enterprise generate earnings by using their source of the business at their disposal. Dogan (2013). Simply defines it as the profit making ability of the business. It is a strong indication of ability to pay dividend and avoid bankruptcy (Tulsian, 2014). Profitability can be measured using return on asset (ROA), return on equity (ROE) and others (Iyoha, 2012). The gross profit margin considers amount made after direct cost of sale have been taken into account, return on asset (ROA) is defined as net income divided by total asset which reflects how well the company is using its real investment to generate profit (Türel & Türel, 2012). Return on asset (ROA) is often used to compare the efficiency and operating performance as it looks at the returns generated from the asset financed by the company. ROE on the other hand is indicating how effective a firm is in turning shareholder funds into net profit (Türel, 2012). For the purpose of this study, profitability is defined as net income divided by total asset.

Empirical Framework

Tortosa-Ausina, and García-Alcober (2019), carried out a study on the Profit efficiency and earnings quality: Evidence from the Spanish Banking Industry and propose an analysis of profit efficiency taking into account how the inclusion of a variety of bank risk measures might bias efficiency scores.

The researcher measures of risk are partly inspired by the literature on earnings management and earnings quality, loan loss provision was used as a proxy for earnings quality. The researchers also consider some variants of traditional models of profit efficiency where different regimes are stipulated so that financial institutions can be evaluated in different dimensions with regards to prices, quantities, or prices and quantities simultaneously. The researchers perform an analysis on the Spanish banking industry, whose institutions are deeply affected by the current International financial crisis, and where re-regulation is taking place. The researcher's results explored in multiple dimensions but, in general, they indicate that the impact of earnings management on profit efficiency is of less magnitude than what might, a priori, be expected, and that the performance of savings banks has been generally worse than that of commercial banks. they recommends that savings banks should adapt to the new regulatory scenario and rapidly catch up with commercial banks, especially in some dimensions of performance.

Saidu (2017), examine the impact of earnings quality management on the financial performance of listed deposit money banks (DMBs) in Nigeria. Data was extracted from the annual report and accounts of 5 sampled banks for the period 2011-2015. Loan loss provision was used as a proxy for earnings quality management while return on assets (ROA) was used as proxy for banks performance. The study employed linear regression of pooled ordinary least square for data analysis. Findings from the study revealed that earnings quality management exist in the Nigerian Money Deposit Banks. However, the study could not establish any statistical significant impact of earnings management on return on assets (ROA). It concludes that earnings management have impacts on the performance of deposit money banks DMBs in Nigeria. The overall findings showed that there is existence of earnings management in Nigeria's deposit money banks. It is however pertinent to note that the existence of earnings management in deposit money banks (DMBs) in Nigeria does not have significant impact on their performance as inferred from the findings of this research. It is therefore recommended that, even though the relationship between the variables is not significant, appropriate and proper measure should put in place for adequate evaluation, examination and oversee of DMBs financial statement and adequate procedures for early detection of earnings management practices should also be put in place before earnings management practices will have a great and notable negative impacts on their performance.

Uwuigbe, Adeyemo, and Ogunbajo (2016) examined the effect of corporate attributes on the profitability of companies by employing the annual reports of thirty selected companies listed on the Nigerian Stock Exchange (NSE) for a period of 5 years (2007-2011). They used Ordinary Least Square (OLS) regression to test for the effects of the selected corporate attributes on profitability. They tested for the relationship between leverage, firm size, firm age and return on assets using Pearson's product moment correlation coefficient. Of the three corporate attributes employed in the study, only firm age showed a positive statistically significant relationship with profitability measured by return on assets. It therefore concludes that older firms perform better than younger ones. The finding supports the argument that, older firms are likely to perform better than younger firms because they are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of inventiveness, and can therefore enjoy superior profitability. It recommends that companies should pay adequate attention to financial leverage, because firms that are highly leveraged are at the risk of insolvency.

Mohammed and Usman (2016), examine the impact of corporate attributes on the share price of listed pharmaceutical firms in Nigeria using a panel data of five sampled firms for a period of ten years (2004-2013). The data is extracted from the annual accounts of the selected firms. Multiple regression technique is employed to examine the influence of corporate attributes on the share price of listed pharmaceutical firms in Nigeria. The study reveals that firm size, leverage, profitability and growth have positive and significant relationship with share price implying that they have impact in increasing share price. However, the relationship between liquidity and share price is found to be negative, indicating that liquidity has no influence in enhancing share price of listed pharmaceutical firms in Nigeria. The study therefore, recommended that firm size, leverage, profitability and firm growth

should be enhanced in view of their influence in increasing the share price while liquidity should not be given any attention in an effort of raise profit.

Theoretical Framework

The theories relevant to earnings quality and profitability are reviewed below of which one is to underpin the paper.

Stewardship Theory

Stewardship Theory was propounded by Donaldson and Davis (1991) which explains the role of managers to ensure that the main goals are achieved by doing hard tasks thus their inspiration overcomes simple financial concerns. This theory emphasizes on the principals need to act harder to increase the profits of the shareholders. Also, managers need power and desire respect from their colleagues, friends and their bosses so as to perform their duties effectively. Therefore, the shareholders also need to empower the managers through governance organization systems, power and information to empower the managers' independence, trust building and to take decisions that matter in their capability to achieve their main goal objectives. In comparison with the Agency theory, Stewardship theory insists on the responsibilities of directors as the stewards who control all the activities of an organization. (Daily, 2003) contends that executives and directors ensure that the organization is effectively run so as to ensure that financial performance is well enhanced. Managers are required to increase the shareholders benefits and to create a good name to ensure they hold to their positions in the firms (Farouk and Hassan, 2014).

Resource Dependency Theory

The resource dependency theory was developed by Jeffrey Pfeffer (1973) and Gerald Salancik (1978), it highlights the responsibilities by the board of directors (BODs) in ensuring that there is easy access of resources that eventually leads to the good performance of firms. Through the easy access of resources, the boards improves organizational performance through easy access to the environment to natural resources and ensure buffers are created against hostile external changes (Daily, 2003). According to Farouq and Ngo (2014) there are four categories of directors of a company; the insiders (they are executives either former members or current members that give advice to the company directors), experts in business (they provide advice on business strategies), specialists in support systems (lawyers, farmers, insurance company representatives that provide support in their individual specialized field) and the community at large (political leaders, university faculty, members of clergy, and leaders of social or community organizations). According to (Elliott, 2014) outside directors, play a great role in the firm as they monitor and control the activities of the board. This theory emphasizes on the background of the firm's directors as their advice is highly relied upon. Large boards are favoured in this theory, as cooperation and agreements are harder to attain in large boards (Daily, 2003) although large boards do not lead to great firm value when firm risk is measured by the vitality of stock returns, board independence is affected negatively.

Stakeholders' Theory

This theory was developed by Edward Freeman (1984) he defined stakeholders as groups and individuals who benefit from, or are harmed by, and whose right are violated or respected by corporate actions. Clarkson (1995) opined that there are two category of stakeholders primary and secondary stakeholders in entities. Primary stakeholders are those who continuously in improve the going concern attributes of the entities. Those in this category are: investors, employees, customers, suppliers, government and community. Secondary stakeholders are those who Clarkson, M. B. E, 1988. Corporate social performance in Canada, 1976-86. In L. E. Preston (Ed.), Research in corporate social performance and policy, vol. 10: 241-265. Greenwich, CT: JAI Press. influence/are influenced or affect/ affected by the entities. These are neither engaged in transactions with the entities nor essential

for their survival. According to Freeman, Wicks and Farmer (2004), for organizations to be effective, they must pay attention to all those relationships that can affect or be affected by the achievement of the organization. The stakeholders' theory was adopted as a refinement of agency theory, as the latter theory only dealt with the problem between the agent and the investors, as the sole principal, but the stakeholders' theory has widened the problem of agency by including multiple principals (Sand, Garba & Mikailu 2011). The stakeholders' theory proposes that companies have a social responsibility that requires them to consider the interest of all parties affected by their actions. The original proponents of the stakeholders' theory suggested a restructuring of the theoretical perspectives that extends beyond the owner manager-employee position and recognizes the numerous interest groups.

All theories reviewed are relevant to this study in one aspect or other. However, this study was underpinned on stakeholder theory. Stakeholder theory provides natural backdrop upon which this research is based. This is because of its relevance in proffering solution to organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, and investors. It also addresses morals and values in managing an organization which help in achieving target which will boost the earnings quality.

METHODOLOGY

The study used Ex- post facto and descriptive research design. The paper used secondary data only which was extracted from the annual report and financial statements of the banks. The population consists of 14 deposit money banks quoted on the Nigerian stock exchange from the period of 2006 to 2019. The paper used purposeful sampling to arrive at 12 deposit money banks used for the study. Loan loss provision was used a proxy for earnings quality while return on asset was used as a proxy for profitability. The study employed linear of panel ordinary least square pooled OLS for which was analyzed via E-views 10.

Model Specification

The study adopted the model used by (Isa, 2017) in which he used one dependent variable discretionary loan loss provision and five independent liquidity, profitability, leverage, firm size and ICT intensity but this study is using one dependent and one independent variable. The model used to examine the study is specified below:

$$LLP = \beta_0 + \beta ROA_{it} + \varepsilon_{it}$$

Where:

LLP = Loan Loss Provision

ROA = Return on Asset

β = Coefficient of Parameter Estimate

ε = Error term

RESULT AND DISCUSSION

Table 1: Descriptive Statistics

	LLP	ROA	Source: Authors
Mean	1.664286	1.901430	
Median	0.240000	22.49500	
Maximum	0.056756	10.69001	
Minimum	12.56048	4.240000	
Std. Dev.	2.120043	4.305584	
Skewness	0.257934	4.246244	
Kurtosis	1.239807	4.266597	
Jarque-Bera	35.38353	44.96754	
Probability	0.000000	0.000000	
Sum	52.80000	6031.440	
Sum Sq. Dev.	2.406514	153886.6	
Observations	168	168	

Computation, 2020 (Eviews-10)

Table 1 above shows the mean of loan loss provision (LLP) 1.67 indicating the average level of earnings quality management practice across the sampled DMBs. The table also showed that the difference between the mean of LLP and standard deviation of LLP across the banks is 0.45. This indicates a low variability around the mean. It implies that the amount of loan loss provision is not widely dispersed among the quoted banks; thus, indication that earnings quality management practice is not common to all banks. The table also showed that the minimum and maximum LLP are 0.05 and 15.57 respectively, implying a very wide range. This means that the practice of earnings management is very high in some years and banks than in others. Thus, banks tend record a relatively high earnings quality in some years that in others. Table 1 also shows that the mean profitability (ROA) as indicated by the mean is 1.0, indicating 10% average return on asset, while the standard deviation is 4.35 representing the average variability of return on total asset among the sampled banks within the period covered by the study. This implies that the level of profitability among the banks is widely spread. Some banks tend to record relatively higher level of profitability than others do. The minimum and maximum as shown above in tables 1 with the value 10.69 and 4.24. Hence, the range is 6.45 implying that there is very wide gap between the highest profit and lowest loss. The table 1 above also shows skewness of loan loss provision (LLP) which is 0.25 and that of a kurtosis which is 1.23 which implies that the loan loss provisions (LLP) skewness is a normal because the value is 0 and it is platykurtic because it is less than 3 which implies that LLP has a flattened curve with a normal with more lower value than the sampled mean 1.66. The table also shows that skewness of profitability (ROA) 1.27 and a kurtosis of 4.27 which implies that profitability (ROA) has a long right tail positive skewness and it is leptokurtic because the value of kurtosis is greater than 3 which is the average value of normal distribution. The table also shows that LLP probability value of 0.0000 and a Jarque bera statistics 35.39 which shows that the null hypothesis is rejected it shows that the distribution is normal because the probability is less than the significance level points of 0.05. The table also shows probability value 0.0000 with Jarque bera statistics 44.97 which shows that the null hypothesis is rejected, while the alternate is accepted because the probability value is highly statistically significant and the distribution are normal.

Panel Data Properties

Overtime, the panel data properties of most financial data set are non-stationary and using non-stationary variables leads to spurious regression. Thus, the variables were investigated for their stochastic properties. Augmented Dickey-Fuller (ADF) test was used to ascertain whether the variables of the study exhibit unit root properties. The decision rule for the ADF Unit root test states that; the ADF Test statistic value must be greater than the Mackinnon Critical Value at absolute term for stationarity to be established at level and if otherwise, differencing occurs. The results of unit root test conducted for the variables are presented below.

Table 2: Unit Root Test (LLP at 1st Difference)

Null Hypothesis: Unit root (individual unit root process)

Series: D(LLP)

Date: 10/11/20 Time: 20:55

Sample: 2006 2019

Exogenous variables: Individual effects

User-specified lags: 1

Total (balanced) observations: 132

Cross-sections included: 12

Method	Statistic	Prob.**
ADF – Fisher Chi-square	39.0618	0.0269
ADF – Choi Z-stat	-2.96019	0.0015

Source: Authors Computation, 2020 (Eviews-10)

From the table above, the traditional test of Augmented Dickey-Fuller (ADF) indicated that the Probability value under the ADF is 0.0269, less than 0.05 at 1st difference. This implies that loan loss provision (dependent) variable was non-stationary at level (as attached in the Unit root test in the appendix), but became stationary at 1st difference. Similarly, the Augmented Dickey-Fuller (ADF) Z-Statistic (2.96019) with probability 0.0015 which is less than the absolute critical values 0.05 level of significance. This implies the Null Hypothesis must be rejected and it can be concluded that LLP has no unit root and the data is stationary

Table 3: Unit Root Test (ROA at Level)

Null Hypothesis: Unit root (individual unit root process)

Series: ROA

Date: 10/11/20 Time: 21:00

Sample: 2006 2019

Exogenous variables: Individual effects

User-specified lags: 1

Total (balanced) observations: 144

Cross-sections included: 12

Method	Statistic	Prob.**
ADF - Fisher Chi-square	43.9501	0.0077
ADF - Choi Z-stat	-3.44188	0.0003

Source: Authors Computation, 2020 (Eviews-10)

From the table above, the traditional test of Augmented Dickey-Fuller (ADF) indicated that the Probability value under the ADF is 0.0077, less than 0.05 at level. This implies that return on asset (ROA) (dependent) variable was stationary at level (as attached in the Unit root test in the appendix). Similarly, the Augmented Dickey-Fuller (ADF) Z-Statistic (3.44188) with probability 0.0003 which is less than the absolute critical values 0.05 level of significance. This implies the Null Hypothesis must be rejected and it can be concluded that ROA has no unit root and the data is stationary

Table 4: Hausman Test

Decision: if the probability is $PV > 0.05$ random effect model is accepted, similarly if the probability is $PV < 0.05$ fixed effect is accepted.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
ROA	0.011002	0.341102	0.330000	0.3400

Source: Authors Computation, 2020 (Eviews-10)

Due to the panel nature of the data set, both fixed effect and random effect regressions were run. Hausman specification test was then conducted to choose the preferred model between the fixed effect and random effect regression models as shown in the table above. The result shows that the random effect appropriate for the sampled databased on the probability 0.3400 which is $PV > 0.05$.

Statistical Test of Hypothesis

The decision rule: The decision rule for accepting or rejecting the null hypothesis was that the hypothesis must be based on the Probability Value (PV). If the PV is less than 5% or 0.05 (that is, $PV < 0.05$), it implies that the variable in question is statistically significant at 5% level; otherwise, it is not significant at that level.

H01: Profitability has no significant impact on the earnings quality of quoted Deposit Money Banks in Nigeria

Table 5: Pool Ordinary Least Square Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.353833	0.013842	25.56241	0.0000
ROA	-0.231102	0.000295	-3.736809	0.0003
R-squared	0.770592	Mean dependent var		0.314286
Adjusted R-squared	0.720305	S.D. dependent var		0.120043
S.E. of regression	0.115638	Akaike info criterion		-1.464866
Sum squared resid	2.219788	Schwarz criterion		-1.427676
Log likelihood	125.0487	Hannan-Quinn criter.		-1.449772
F-statistic	13.96374	Durbin-Watson stat		1.967416
Prob(F-statistic)	0.000256			

**Source:
Authors**

Computation, 2020 (Eviews-10)

The coefficient of determination (R^2) is 0.770592 and this shows that 77.05 % of variation in LLP is caused by variations in ROA while the remaining 23.95% of the variation in the model is captured by the explanatory variable and error term. This suggests that the line of best fit is fitted. The Durbin-Watson statistics is 1.967416 which shows that there is no autocorrelation in the model. However, the value of F-statistics is 13.96374 and the value of the probability 0.0000. This result implies that the overall regression is statistically significant at 5% level of significant given that probability of F-statistics is 0.000256, which is less than 0.05. This implication of this is that improving the ROA can be a further move towards encouraging the LLP. Therefore, based on the probability (F-Statistics) value of 0.000256, which is less than 0.05, the null hypothesis that Profitability (ROA) has no significant impact on the earnings quality (LLP) of quoted Deposit Money Banks in Nigeria(DMBs) is rejected..

Discussion of Findings

This study was undertaken to examine the impact of profitability on earnings quality of deposit money banks (DMBs) for 14 years ranging from 2006 to 2019 where the dependent variable earnings quality proxied by loan loss provision (LLP) and the independent profitability was proxied with return on asset (ROA). The impact of the independent variable on each dependent variable was analyzed in terms of strength and significant and the random effect Ordinary Least Square (OLS) regression shows the relationship of among the variables.

The result of hypothesis (in line with the objective of the study) return on asset (ROA) has a positive and significant impact on LLP and this implies that ROA is significantly an independent predictor of loan loss provisions (LLP). That is to say an increase in profitability will lead to an increase in earnings quality. This finding is in agreement with Saidu (2017), and Tortosa-Ausina, and García-Alcober (2019) who found that earnings quality management have impacts on the performance of deposit money banks DMBs in Nigeria. This result could be interpreted that return on asset has significant influence on loan loss provisions.

CONCLUSION AND RECOMMENDATIONS

This paper investigates the impact of profitability on earnings quality of deposit money banks in Nigeria. The profitability Return on asset (ROA) constitutes firms attributes while loan loss provision (LLP) was used to proxy Earnings Quality which represent dependent variables of the study. It was found that profitability have a positive and significant influence on earnings quality of deposit money banks. Therefore the results conclude that firm's attribute (profitability) strongly and significantly impacted on the loan loss provision of deposit money bank, the findings from the study revealed that earnings quality exist in Nigeria Deposit Money banks. It is therefore recommend that proper and adequate measures should be put in place for the evaluation, examination and oversee of statement of deposit money banks, adequate procedures for early detection of earnings quality management practices should also be put in place before earnings management practices will have a great and notable negative impacts on their performance.

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