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EARNINGS QUALITY AND FINANCIAL PERFORMANCE: EVIDENCE FROM QUOTED MULTINATIONAL DEPOSIT MONEY BANKS IN NIGERIA

***Peter Chukutem Chegwe, Dr. Evans Nwaba, Dr. Esther Ejemen Okosun
Ime Isaiah Udoh**

Department of Accountancy, Faculty of Management Science, Ignatius Ajuru University of
Education, Port Harcourt.

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***Corresponding Author: Peter Chukutem Chegwe**

Department of Accountancy, Faculty of Management Science, Ignatius Ajuru University
of Education, Port Harcourt.

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ABSTRACT

The study examined earnings quality and financial performance of quoted multinational deposit money banks in Nigeria for the period 2016 to 2025. The objective of the study was to determine the effect of earnings quality on the financial performance of the listed multinational deposit money banks. The causal-comparative (ex-post-facto) research design was employed. The study population comprised the entire seven listed multinational Deposit Money Banks in Nigeria, from which five banks were purposively sampled. Four research questions and four hypotheses guided the study. The study used secondary data, which was sourced through the annual published reports and accounts of the banks. The data were analysed using descriptive and inferential statistical tools. Findings revealed there is significant negative effect of earnings smoothing on return on assets (ROA) of the listed multinational deposit money banks in Nigeria ($\beta = -2.947$; $p\text{-value} = 0.0025 < 0.05$); there is insignificant positive effect of earnings persistence on return on assets (ROA) of the listed multinational deposit money banks in Nigeria ($\beta = 0.0890$; $p\text{-value} = 0.941 > 0.05$); there is insignificant negative effect of earnings smoothing on return on equity (ROE) of the listed multinational deposit money banks in Nigeria ($\beta = -10.677$; $p\text{-value} = 0.189 > 0.05$); and there is significant positive effect of earnings persistence on return on equity (ROE) of the listed multinational deposit money banks in Nigeria ($\beta = 30.323$; $p\text{-value} = 0.011 < 0.05$). In view of the foregoing findings, the study concludes that earnings quality does not enhance the financial performance of the listed multinational deposit money banks in Nigeria. Based on

the preceding findings and conclusions thereof, the following recommendations were made: managements of the listed multinational deposit money banks in Nigeria should jettison earnings quality practices, or significantly limit it if considered indispensable; the regulatory authorities should increase scrutiny over accounting loopholes and flexibility that would enable them curtail accounting discretions—both systematic/deliberate; and there should be stricter compliance measures and continuous monitoring of the listed multinational deposit money banks for improved financial efficiency, long-term financial health and resilience.

KEYWORDS: Earnings Quality, Earnings Smoothing, Earnings Persistence, Financial Performance.

1. INTRODUCTION

The global financial landscape relies significantly on the transparency, integrity and stability of the banking industry to drive economic growth and maintain investor confidence. Commercial banks function as the principal agents in an economy, mobilizing savings and appropriating capital to productive sectors. In appraising the strength of these entities stakeholders—encompassing depositors, shareholders, market analysts, creditors, regulatory authorities, and other interest groups primarily depend on published financial statements to evaluate their financial performance (Ode, 2025). Financial performance represents the quantification of how efficiently a business employs its resources to generate revenues over time (Alfred, 2007). It is scaled through profitability metrics such as Return on Assets (ROA) and Return on Equity (ROE), among others—signaling a bank's operational efficiency as well as long-term viability. However, reliance on these raw profitability indices could be extremely deceptive if the underlying accounting figures fail to reflect genuine economic reality. Hence, the concept of earnings quality has become a critical focal point in contemporary accounting and corporate finance literature.

Earnings quality defines the degree to which reported income captures economic reality, in order to appropriately assess a firm's financial performance (Krishan & Parsons, 2008), offer a reliable basis for forecasting future earnings, and supported by real cash flows, rather than fictitious accounting adjustments. High quality earnings are characterized by consistency, predictability, persistence, and low levels of discretionary managerial interference. On the other hand, low-quality earnings are usually the product of aggressive earnings management, in which management leverage on accounting frameworks, such as the international financial reporting standards (IFRS) and generally accepted accounting principle (GAAP), to

artificially inflate profits, smooth income or defer losses, thereby masking the real economic standing of the entity. When financial performance is separated from earnings quality it results in severe information asymmetry—obscuring structural vulnerabilities within the banking system, and exposing investors to catastrophic capital losses.

In Nigeria, the issue of earnings quality in the banking sector has significant macroeconomic implications. Over the past twenty years, the Nigerian banking sector has gone through immense structural metamorphosis, driven by sweeping regulatory interventions by the apex bank (Central Bank of Nigeria). Despite reports of strong asset growth and multi-billion Naira earnings by listed Deposit Money Banks (DMBs), the industry has long struggled with undercurrent corporate governance failures (Mordi, 2010), liquidity bottlenecks and high Non-Performing Loans (NPLs). The systemic shock of previous banking distress episodes despite the stringent capitalization requirements imposed by the Central Bank of Nigeria, highlights a recurring paradox - banks often report impressive accounting profits even when their structural liquidity and asset quality are severely stretched. This paradox indicates reported financial performance might sometimes be influenced by opportunistic accounting accruals and fair value adjustments rather than sustainable core banking operations.

Furthermore, Nigeria's commercial banks operate in a volatile environment, characterized by shifting monetary policy rates, rising inflation, and fluctuating foreign exchange values. These macroeconomic pressures encourage bank executives to engage in earnings smoothing to portray stability to the market and safeguard managerial compensation. While conventional financial analysis places a strong emphasis on nominal profitability, a more diagnostic approach necessitates evaluating how the quality of these earnings impacts or connects to sustained financial performance. If profits are driven mainly by short-term, non-operating accruals rather than persistent cash-generating activities, the bank's performance is unsustainable. Consequently, an empirical enquiry into the correlation between earnings quality—scaled by earnings smoothing and persistence—and the financial performance of multinational Deposit Money Banks in Nigeria is not only timely, but also critical for sustaining systemic financial stability. A number of extant literature reviewed in the area yielded conflicting and ambiguous results (Tirimisiyu, et al., (2025); Kabiru & Aliyu (2019); Umobong & Ogbonna (2017); Flourien (2019); Kabiru and Aliyu (2019); Aliyu (2024); Tirimisiyu, et al., (2025); Norani (2002), Aguguom and Salawu (2021). Given the foregoing

knowledge gap, this study seeks to critically investigate earnings quality and financial performance of quoted multinational deposit money banks in Nigeria.

1.1 Statement of the problem

The primary goal of public financial statements is to provide stakeholders reliable, high quality and transparent financial information to enable them make informed financial decisions. However, there is a persistent and disturbing paradox in Nigerian banking sector—quoted commercial banks routinely post historic profits of billions of Naira while also facing serious structural vulnerabilities. The frequent cycles of banking distress, large volumes of non-performing loans (NPLs), and abrupt liquidity crises indicate reported financial performance metrics like Return on Equity (ROE) and Return on Assets (ROA), frequently fall short of capturing the true underlying economic health of these institutions. This separation of reported profitability from real financial stability suggest a potentially serious compromise in the quality of reported earnings.

The widespread application of accounting discretion is the core of this problem. While frameworks such as the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principle (GAAP) offer flexibility to fairly portray complex financial instruments, they have equally given bank management a great deal of leeway to falsify financial records. The market puts tremendous pressure on bank executives to maintain stock prices on the Nigerian Exchange (NGX), fulfill profit projections, and safeguard their own performance-based rewards (Adams, 2023). As a result, managers are encouraged to engage in aggressive earnings management. They falsely inflate or smooth out reported earnings, employ opportunistic discretionary accruals, and subjective "fair value" estimates. When profits are driven by fraudulent accounting changes rather than long-term, cash-generating core banking operations, the predictability and permanence of those earnings are significantly reduced.

The problem is further exacerbated by Nigeria's extremely unstable macroeconomic environment. Sharp foreign exchange swings, rising inflation, and abrupt regulatory changes often made by the Central Bank of Nigeria (CBN), such as the continuing bank recapitalization mandates create an atmosphere of immense operational stress. To project impression of stability and durability to foreign investors, depositors, and other stakeholders banks may rely heavily on loan loss provision manipulations, deferred tax assets, non-operating gains or other earning management practices. For instance, in the face of chronic

macroeconomic challenges in 2024, six major Nigerian banks reported a combined ₦3.41 trillion in post-tax profits—representing more than sixty percent increase over 2023 (Tirimisiyu, et al., 2025), eliciting serious questions about the quality and sustainability of the reported earnings. Indeed such behavior is highly fishy. Consequently, stakeholders are left with a skewed perception of performance and unable to discern between a bank that is actually profitable and one that is using deceptive accounting to conceal systematic asset degradation.

A clear empirical gap in local literature aggravates this practical problem. Although there is a wealth of foreign research on earnings quality, domestic studies conducted in the Nigerian banking context have yielded very contradictory and ambiguous findings. Also, a number of existing local studies depend on out-of-date datasets, or ignore the structural implications of more recent reporting standards — such as IFRS 9's expected credit loss model. This lack of empirical consensus leaves Nigerian authorities, especially the CBN and the Nigeria Deposit Insurance Corporation (NDIC) without a conclusive, data-driven framework to keep an eye on earnings manipulations. Thus, this study seeks to address these critical gaps, by examining how particular aspects of earnings quality—such as earnings smoothing and persistence—affect the real, long-term financial performance of multinational Deposit Money Banks in Nigeria (2016-2025).

1.2 Conceptual Model

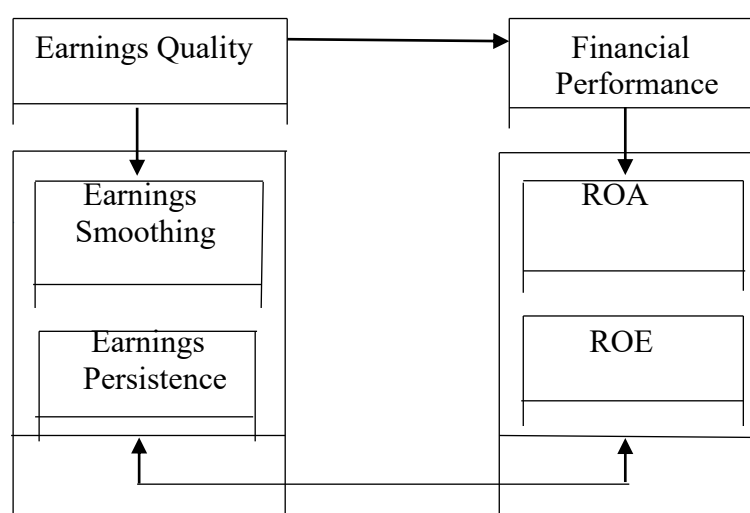


Figure 1: Conceptual model of the relationship between Earnings Quality and Financial Performance of multinational DMBs in Nigeria.

Source: Conceptualized by the author

1.3 Aim and Objectives of the study

The aim of this study is to examine the effect of earning quality on financial performance of listed multinational deposit money banks in Nigeria. The objectives of the study is to:

1. Examine the effect of earnings smoothing on Return on Equity (ROE) of listed multinational deposit money banks in Nigeria;
2. Explore the effect of earnings persistence on Return on Equity (ROE) of listed multinational deposit money banks in Nigeria;
3. Ascertain the effect of earnings smoothing on Return on Assets (ROA) of listed multinational deposit money banks in Nigeria;
4. Determine the effect of earnings persistence on Return on Assets (ROA) of listed multinational deposit money banks in Nigeria;

1.4 Research Questions

1. What is the effect of earnings smoothing on Return on Equity (ROE) of listed multinational Deposit Money Banks in Nigeria?
2. What is the effect of earnings persistence on Return on Equity (ROE) of listed multinational Deposit Money Banks in Nigeria?
3. What is the effect of earnings smoothing on Return on Assets (ROA) of listed multinational deposit money banks in Nigeria?
4. What is the effect of earnings persistence on Return on Assets (ROA) of listed multinational deposit money banks in Nigeria?

1.5 Hypotheses

HO₁. There is no significant effect of earnings smoothing on Return on Equity (ROE) of listed multinational Deposit Money Banks in Nigeria;

HO₂. There is no significant effect of earnings persistence on Return on Equity (ROE) of listed multinational Deposit Money Banks in Nigeria.

HO₃. There is no significant effect of earnings smoothing on Return on Assets (ROA) of listed multinational Deposit Money Banks in Nigeria;

HO₄. There is no significant effect of earnings persistence on Return on Assets (ROA) of listed multinational Deposit Money Banks in Nigeria.

1.6 Earnings Quality

The quality of earnings is explained by how transparent a firm's reported profit reflect its true economics, and whether those profits are sustainable. Strong earnings quality refers to profits

that emanate from core business operations, relying on sound accounting, and will likely persist, while a weak income quality usually signals inflated profits coming from one-off event, unsustainable gains, or aggressive accounting — all of which obscures financial weakness. In such context, earnings offer little or no help in forecasting the future. Krishan and Parsons (2008) regards earnings quality as the degree to which reported earnings captures a firm's economic reality, in order to appropriately assess its financial performance. Earnings quality is related to earnings management. While the former is an abstract property assessing how exactly a firm's reported accounting profit reflects its true, underlying economic reality, the latter represents the specific, deliberate or otherwise actions taken by executives to manipulate those reported figures to hit a desired thresholds.

Thus, earnings quality is the supposed true structural health of a firm's financial statements, while earnings management is the cosmetic adjustment used to tilt how that health is perceived. One of the main goals of financial reporting in the capital market, according to Francis, Olsson, and Schipper (2006), is to help participants make judgments and informed investment decisions. Certainly, it is anticipated that high-quality financial data would help stakeholders make trustworthy and superior investment decisions (Ewert & Wagenhofer, 2012). For analysts, investors, and market participants to make logical investment projections and decisions, low-quality earnings, opportunistic earnings, and biased financial reports typically raise questions and concerns about the reliability of such reports. Therefore, earnings quality matters most for investors, as it shapes risk assessment, and helps them in making precise investment decisions. Companies which possess high earnings quality look safer because their profits are steady and reliable; while reverse is the case for firms with low quality earnings. Low-quality earnings covers financial weaknesses and often leads to surprise drops in profits or stock value. Earnings quality drives valuation. Studies have shown investors often apply lower multiple in estimating intrinsic value of companies' stocks whenever they perceive low earnings quality. Numerous warning signals indicate weak earnings quality, such as inconsistent revenue recognition, gaps between incomes and cash flow, heavy use of one-off items to project earnings, strange spikes in inventory, and overly optimistic accounting predictions.

1.7 Earning Smoothing

Earnings smoothing—a dimension of accounting-based earnings quality, explains a number of strategies and approaches employed by financial analysts, managements, accountants, and other stakeholders in limiting or controlling the impact of fluctuations in reported corporate

incomes. It also involves the deliberate manipulation of earnings, benefits; innovative accounting methods, and exploitation of accounting frameworks to deceptively portray the entity's financial performance and economic standing in a good light. It embraces all the methodologies/strategies employed by managements/managers to project a company's performance.

Karzan and Rizgar (2023) sees earnings smoothing as a type of earnings management corporate managers use across several periods to display a consistent level of profit flow. Chen et al., (2016) argues that management often deploy income smoothing technique in order to attain the level of earnings expected by the market or financial analysts, and to lesson income volatility over a given period of time. They explained further that the approach enables management to set aside a proportion of their income during times of booms, and increase reported profits when it falls short of expectations, in a bid to check the volatility of reported income. Asuquo et al (2024) describes earnings smoothing as efforts by the firm's management to limit unusual fluctuations in earnings to the extent permitted by good accounting and management practices.

In the same vein, DeFond and Park (2017) regards the concept as the process of reducing the volatility in reported incomes that would have otherwise occurred in the absence of any intervention—maintaining that the tactics is only used by the policy makers of an enterprise, to legitimately manage earnings with a view to improving financial statements. In order to portray an organization as having steady earnings, income smoothing lessens the variation in earnings across periods. It is designed to balance out times of high and low incomes, or periods of high and low expenditures. To accomplish this, managements could advance or postpone the recognition of certain income and expenses. Managements engage in earning smoothing for a number of reasons, including advancing the interest of shareholders or owners, attracting investors and for strategic business management. Management also smooth out incomes to lower tax burden and/or boost stock prices or corporate value to fulfill the objectives of the firm (Chen et al., 2016).

1.8 Earnings Persistence

Schipper and Vincent (2003) argue that earnings persistence is an aspect of earnings quality that discloses the sustainability of a firm's reported income. Dechow and Schrand (2004) define earnings persistence as a regression of future value of income on the present one. They contend that earnings quality should reflect the underlying economic realities of an entity's overall performance. This means earnings has the trait of quality only when it is sustained in

the future, because investors want a repeat or stability of performance. Prapaporn (2008) argue that earnings without the property of persistence, or low earnings persistence may lack appropriate performance measure for chief executive officers (CEOs) because it may not reflect their genuine efforts.

Kothari (2021) considers earnings persistence as the tendency of a company's earnings to endure or continue over time. It is a measure of the stability and sustainability of a firm's earnings, and is often used by analysts and investors to evaluate the quality and reliability of a firm's income (Sloan, 2016). Earnings persistence is a crucial concept in finance because it can help investors and analysts to distinguish between firms with high quality earnings and those with low quality earnings (Dechow et al., 2010). The firm's industry, business model, and management team are some of the variables that can affect earnings persistence (Fama & French, 2020). Businesses in sectors with high entry barriers and steady demand typically have higher earnings persistence, whereas businesses in sectors with low entry barriers and erratic demand typically have lower earnings persistence. Furthermore, firms with successful business models and strong management teams typically have higher earnings persistence, whereas firms with ineffective business models and poor management teams typically have lower earnings persistence (Jensen & Meckling, 1976).

A number of statistical models, such as vector auto regression (VAR) and autoregressive integrated moving average (ARIMA) models, can be used to quantify earnings persistence (Box & Jenkins, 1976). These models can offer insights into a company's earnings persistence as well as assist in identifying underlying patterns and trends in its earnings (Hamilton, 2024). Additionally, researchers have created a number of metrics to assess earnings persistence, such as the earnings stability ratio (ESR) and the earnings persistence ratio (EPR) (Kothari, 2021). The ESR is computed as the ratio of the standard deviation of earnings to the mean earnings, whereas the EPR is computed as the ratio of the current year's earnings to the prior year's earnings (Sloan, 2016).

Investors and analysts can assess the quality and dependability of a company's earnings by using these measurements, which can also reveal information about the company's earnings persistence. Assuming that consistent results are more valuable when assessing investments, earnings persistence is a quality of accounting data linked to contributing to future firm income estimates. According to Dechow et al. (2010), the reasoning behind persistence is simple: if Firm A consistently produces higher earnings than Firm B, then Firm A's earnings

are a better synthetic indicator of future performance, and annualizing its current earnings will reduce evaluation errors.

1.9 Financial Performance

Financial performance is a crucial indicator of a firm's efficiency in generating returns for its shareholders. The term is often used as a measure of a firm's overall financial health over a specific period of time, and could also be engaged in comparing similar firms from same industry, or in outright comparison of industries' efficiency/effectiveness in an economy. A firm's financial performance is basically explained by the increase in its profit over a certain period of time. Alfred (2007), as reported in Aliyu (2024), views the concept of financial performance in a similar light—as simply the quantification of efficiency a business obtained through deploying its resources over time. Asimokopoulos et al (2009) argues that financial performance is a measure of a firms earnings, profits, appreciation in value as evidenced by the increase in the entity's worthiness. Obviously, financial Performance portrays how efficiently/effectively a firm could use assets from its primary mode of operation to generate revenues, often depicted in the entity's financial statements. As in similar industries, Deposit Money Banks (DMBs) use financial performance and profitability interchangeably, for measuring the degree of operational outcome and efficiency, or otherwise. According to Ganag et al., (2015), measures of financial performance include liquidity, solvency, profitability, debt repayment capacity, financial efficiency, and rate of return on investment.

Similarly, Brigham and Gapenski (1999) opined that the measure of financial performance can be based on book value or market value of equity—contending that accounting ratios such as return on equity, return on sales and return on assets guages a firm's financial performance satisfactorily. Ebrahim et al. (2014) advanced a number of financial performance proxies, some of which are forward-based metrics, while others are backward-based performance dimensions—encompassing: return on revenue, Tobin-Q, profit margin, market-to-book value, earnings per share; stock repurchases, price-earnings ratio, return on sales, expense to assets; cash to assets, sales to assets, expenses to sale, abnormal returns; annual stock return, divided yield, operating cash flow, return on capital employed; cost of capital, market value added, operation profit, return on investment, return on equity and return on assets. From the foregoing therefore, this study conceptualizes financial performance as the potency with which a firm generates income/revenue through the deployment of assets in its core business operations over a defined period of time.

1.10 Return on Equity (ROE)

Return on Equity is adopted generally to gauge financial performance - as it objectively discloses how efficient a firm utilizes shareholders' fund to generate earnings (Bello & Ahmed, 2022). As posited by Mesquita and Lara (2003), ROE evaluates a firm's shareholders' returns, including both common and preferred stockholders, adding that it has evolved into one of the variables investors employ in evaluating a firm's stock price—as it directly influence a firm's intrinsic worth (Abdullah & Tursoy, 2023). Sadiq and Abdullah (2022) contend that where a firm does not have debts, its ROE equals the ROA—that is the similarity shared by both financial indices. Nevertheless, ROE surpasses ROA where the firm has financial leverage. Yusuf and Salisu (2023) stated that ROE could be computed by dividing Profit before tax by total equity, providing a comprehensive measure of profitability in firm operations. Okafor et al. (2023) argue that sustained reasonable ROE indicates a firm's capacity to maintain long-term growth, and efficient capital utilization, boosting investors' confidence. Investors' desire sustained return on their fund, to justify the opportunity cost of such investments. But the reality remains that the ability of a firm to generate fair and sustained earnings depends largely on the quality of their assets, ability to take risk and prevailing economic situation. However, entities must strive to improve their returns on equity as often as possible, since it mirrors effective operational efficiency. This study adopts Yusuf and Salisu (2023) measurements of return on equity as net income divided by total equity.

1.11 Return on Assets (ROA)

Return on assets is one of commonest financial performance dimensions used by corporate entities in assessing financial returns, relative to the total amount of assets employed, or capital invested. Assets, usually classed mainly as current and fixed, are employed in carrying out the entity's operations, with the goal of yielding profits/returns—thereby increasing shareholders' wealth. The capacity of the enterprise to extract profit from sales, own capital or total assets is known as profitability. Users of financial statements must be well familiar with profitability ratio since they provide information on a firm's potency to create profit. A higher profitability ratio suggests better management of the entity (Angelia & Toni, 2020). The return on assets (ROA) is computed by dividing profit after tax by total assets. The figures of net assets can be directly obtained from the financial statement. Return on assets remains a critical measure of core operational efficiency of corporate organizations, including DMBs globally. Return on Assets is mathematically measured, according to Takon and Ugwu

(2013), as profit after tax divided by total assets. The above profit measurement metric is adopted in this study in determining the values of the entities' return on equity.

1.12 Earnings Quality and Financial Performance

The relationship between earnings quality and financial performance is one of the most crucial dynamics in accounting and corporate finance. At its core, this relationship determines whether a company's reported accounting profits mirror real, sustainable economic success or are mere, simply, the products of temporary accounting adjustments. Earnings quality is proposed to exert significant positive effect on long term financial performance and enterprise value in financial literature. But it is claimed to exhibit a complex, inverse relationship with short term accounting ratios. Michelson et al (2000) studied the relationship between income smoothing (earnings quality) and return of companies by considering a sample of 358 firms for the period 1980 to 1991 in Pakistan. They concluded that smoother firms reported more abnormal return on capital employed in comparison to the non-smoother firms—implying income smoothing/earning quality influences financial performance appreciably.

Norani (2002) studied the effect of income smoothing (earnings quality) on return on assets of firms listed on the Tehran Stock Exchange and concluded that the income smoothing has no significant effect on the performance of the selected firms. Hassan and Farouk (2014) investigated firm attributes and earnings quality of seven listed oil and gas companies in Nigeria, employing Dechow et al. (1995) model in proxing earnings quality. The result showed that profitability had a significant but negative influence on earnings quality as a result of income smoothing. Isoso and Okee (2022) looked into the relationship between shareholder wealth in Nigeria's deposit money banks and creative accounting practices from 2008 to 2020 and found a robust, favourable, and steady correlation between income smoothing (earnings quality) and shareholder wealth as measured by ROE. Aguguom and Salawu (2021) examined the impact of earnings smoothing on the market share prices of publicly traded Nigerian firms between 2009 and 2020. The findings showed earnings smoothing (earnings quality) had a substantial favourable influence on market share prices. Umobong and Ibanichuka (2016) examined accounting manipulations using timing of assets (TATs) (independent variable) and firm's financial performance (dependent variable)—return on assets, return on equity and earnings per share. The result showed TATs has a negative relationship with ROE, confirming that a decrease in TATs increases ROE and vice versa.

Kabiru and Aliyu (2019) also examined the impact of income smoothing (earnings quality) on the financial performance of Nigeria's authorized deposit money banks, spanning eight years—2012 to 2017. The result revealed income smoothing has a minor and detrimental effect on Nigerian DMBs' financial stability.

2. Theoretical Reviews

Theoretical Framework

Two relevant theories were used to explain this study—agency and information asymmetry theories. But the study is anchored on the former, as it offers more direct and practical explanations why entities engage in earnings quality practices.

2.1 Agency Theory

The intellectual foundation of this theory was laid by Adam Smith (1776), but was formally developed by Michael, Jensen and Meckling (1976). Other proponents of the theory who also made appreciable inputs in its development include Eugene (1980) and Kathleen (1989). Agency theory is built on the fundamental premise of a contract in which one party—the Principal or Shareholder engages another party—the agent or executive manager, to perform a service on their behalf, which involves delegating decision-making authority. In other words, the 'party' (the principal or shareholder), is the owner of the enterprise, while the agent (the executive manager) is an employee, engaged by the former to run the affairs of the enterprise, creating physical separation between the parties. However, this separation of corporate ownership and management creates significant conflicts of interest, as the principal prioritizes high long-term returns on investment/shareholders wealth, firm value, and persistent dividend yields; while the agent pursues near-term personal gain—encompassing higher executive bonuses, status, job security, and corporate power, among others. These divergent goals accounts for the information imbalance (information asymmetry) inherent in agency relationship, which inevitably generates agency costs—monitoring, bonding, and residual loss costs—incurred by the principal as he seeks to align the agent's priority with that of his. This theory explains the motivation or rationale behind managers' adoption of earnings quality in DMBs, and firms in general—as a direct reflection of the level of opportunistic behavior or tendencies of bank managers. When agency costs are high, bank managers employ accounting discretion to distort financial reports, systematically undermining earnings quality. Furthermore, bank executives usually have compensations tied directly to short-term accounting thresholds—such as meeting specific profit targets or boosting stock options. To secure these bonuses, however, bank managers engage in earnings

management—employing tools like discretionary loan loss provisions (DLLP), among others to artificially smooth incomes and present a favourable financial performance.

2.2 Information Asymmetry Theory

Information Asymmetry Theory was jointly propounded by three American economists—George Akerlof, Michael Spence, and Joseph Stiglitz (1970). The bottom line of the theory as argued by the proponents is that in any given economic transaction, one party possesses better or more information than the other. This imbalance creates a structural information gap which distorts choices, misprices assets, and could result in total market failure. Rather than assuming markets operate with perfect, equal access to information, the theory outlines how insiders leverage their hidden knowledge and how outsiders correspondingly adjust (to insufficient information) to protect themselves. This theory can be used to explain why earnings quality is practiced in banks. In the banking industry, this structural information gap is wider than in any other sector. Bank executives (insiders) have first-class (real-time) access to the exact risk profiles of loan books, off-balance sheet exposures and derivative assets; while regulators, shareholders and depositors (outsiders) must rely mainly on published financial reports to judge financial health and make investment decisions. This superior access to information (information gap) enjoyed by bank executives explains the reasons behind their engagement in earnings quality to protect/project banks' financial performance, and prevent eventual market collapse.

2.3 Empirical Reviews

Tirimisiyu, et al., (2025) investigated the impact of earnings quality on the value of five quoted multinational deposit money banks in Nigeria between 2014 and 2023. The aim was to ascertain the relationship between earnings quality and firm value, as well as how corporate governance metrics influence the correlations. Accrual ratio, cash conversion ratio and board size were used as explanatory variables, while Tobin's Q firm valuation served as response variable. The study employed descriptive research design. Seven DMBs constitute the population from which five banks were purposively selected. The study used secondary data sourced from the Nigerian Exchange Group (NGX) website, Central Bank of Nigeria (CBN) statistical bulletins as well as banking supervision reports. The descriptive and inferential statistical techniques (ordinary least square regression and correlation) analytical tools were used for data analysis, at 5% level of significance. Findings showed that earnings quality alone does not determine firms' valuation robustness. It was therefore concluded that

earnings quality has a limited insignificant influence (F-statistic $p_v = 0.053$) on the valuation of the multinational DMBs in Nigeria. It was therefore recommended that regulatory authorities and policymakers should strengthen financial reporting practices and corporate governance in order to enhance the credibility of earnings information and improve the firm's valuation.

Aliyu (2024) examined accounting information quality and financial performance of quoted deposit money banks in Nigeria (2019-2023). The objective of the study was to analyze the relationship between accounting information quality and financial performance of quoted deposit money banks. Audit report lag, value relevance and accruals quality were used as predictor variables for accounting information quality, while return on assets was employed as proxy for financial performance. The ex-post facto research design was adopted. The study's population was made up of all quoted deposit money banks trading on the floor of the Nigerian Exchange Group (NEG) during the period under review, from which a sample of ten DMBs were drawn using simple random sampling technique. Secondary data sourced from Nigeria stock exchange and the firms' websites were used. The data was analyzed using Pearson Product Moment Correlation and multivariate linear regression technique, with the aid of SPSS 27. Findings showed all the explanatory variables were significantly related to financial performance. Hence, the study concluded that accounting information quality significantly enhance return on assets of the quoted deposit money banks in Nigeria, and recommended that regulatory authorities should intensify scrutiny on accounting flexibility and loopholes, curtail deliberate accounting discretion and systematic manipulations of accounting information in financial statements, so as to faithfully represent the phenomena they purport to represent and to prevent future corporate scandals of deposit money banks in Nigeria and corporate entities globally.

Wang and Wu (2018) evaluated the connection between the financial performance of listed mining firms in Johannesburg, South Africa, and the quality of accounting information. The mentioned companies' annual reports from 2010 to 2014 provided secondary data. The study used a content analysis methodology and multiple regression analysis to assess the hypotheses. The quality of accounting information and the financial performance of the mining companies were found to be negatively correlated in one of the empirical investigations. The other findings indicated a favorable correlation between the variables.

Hence, it was suggested that since it forecasts the financial returns, high-quality information should be promoted.

Flourien (2019) explored effect of financial performance on income Smoothing practice in property and real estate Companies listed on Indonesia stock exchange from 2014 to 2017. The objective of the study was to examine the influence of income smoothing practices on financial performance of the studied firms. The indicators of income smoothing practices were measured using Eckel index. The population of the study constituted property and real estate firms at Indonesia Stock Exchange, from which thirty two companies were mechanically sampled—selected using purposive sampling technique—yielding one hundred and twenty eight firm year observation. Inferential statistical technique through SPSS version 22 software was employed for data analysis. Findings showed income smoothing practices significantly influence financial performance.

Kabiru and Aliyu (2019) assessed income smoothing and financial performance of listed deposit money banks in Nigeria (2012-2017). The aim of the study was to examine the impact of income smoothing on the financial performance of the listed deposit money banks. The study used ex-post facto research design. The population comprised sixteen Deposit Money Banks listed on the floor of Nigerian stock exchange, as at 31st December, 2017, from which eight banks were sampled through purposive sampling technique. Secondary data was sourced from the annual report and accounts of the sampled banks. The study employed ordinary least square for data analysis. Findings revealed that income smoothing (an arm of earnings quality) has negative and insignificant impacts on financial performance (ROA, ROE) of the banks. Based on these findings, it was recommended that deposit money banks in Nigeria should operate in a low risky environment, and engage experts to control their lending, as those banks that operate in more risky environments without the services of experts to control their lending operations will most likely result in higher loan-loss provision ratio to cover this risk.

The impact of income smoothing and profits quality on the performance of companies listed on the Tehran Stock Exchange was examined by Hejazi et al. (2004). Eighty-six companies listed between 1999 and 2003 were used in the study. The study's findings showed that neither income smoothing nor earnings quality had an impact on the enterprises' performance. Put it differently, there was no discernible difference between the performance mean of

companies that were smoother and those that weren't, as well as between companies with high and low earnings quality.

Umobong and Ibanichuka (2016) examined accounting manipulations using timing of assets (TATs) (independent variable) and firm's financial performance (dependent variable)—return on assets, return on equity and earnings per share. The study employed secondary data sourced from Nigeria stock exchange, and ascertained whether companies utilize TATs to alter financial outcomes. TATs were regressed against performance variables and subjected to Hausmann test. The results showed that TATs have strong correlations with ROA, ROE, and EPS—suggesting that they could be utilized for accounting fraud. Also, the positive correlation between TATs, ROA and EPS imply higher TATs could lead to higher ROA and EPS. Conversely, the study found that TATs has a negative relationship with ROE confirming that a decrease in TATs increases ROE and vice versa.

Isoso and Okee (2022) looked into the relationship between shareholder wealth in Nigeria's deposit money banks and creative accounting practices from 2008 to 2020. They employed a cross-sectional survey methodology and questionnaires for data collection, and used SPSS for statistical modelling as well as regression analysis. Findings disclosed a robust, favourable, and steady correlation between income smoothing and shareholder wealth as measured by ROE.

The impact of earnings smoothing on the market share prices of publicly traded Nigerian firms were examined by Aguguom and Salawu (2021), covering between 2009 and 2020. An ex post facto research approach was adopted. A panel data analysis with the Unobserved Effects Model and the Hausman test were utilized. Findings demonstrates earnings smoothing has a substantial favourable influence on market share prices.

Umobong and Ogbonna (2017) carried out a study on the effect of Income smoothing and earnings quality on performance of pharmaceutical firms Quoted on Nigeria Stock Exchange from 2006 to 2014. The study adopted longitudinal and cross sectional research design. The population was made up of all Manufacturing firms listed on the Nigeria stock exchange during the study period, which also constituted the sample as the study adopted census method that does not require sampling and considered Pharmaceutical firms only. Secondary data was used—obtained from the Nigerian stock exchange and the website of the firms studied. Inferential statistical technique via SPSS was used for data analysis. Findings

indicate weak, insignificant and non-linear relationship between earnings quality and Price Earnings Ratio (financial performance), implying earnings quality does not influence price of shares. Based on the findings the study concluded that there is no significant relationship between earnings quality and price earnings ratio—earnings quality does not affect market price of shares of the Pharmaceutical firms.

Hamzeh et al., (2026) examined interaction effect of earnings persistence and financial statement comparability on earnings predictability and pricing efficiency of accruals of firms on Tehran Stock Exchange in Iran, from 2012-2020. The study used descriptive-causal research design. The population consists of all the firms listed on the Tehran Stock Exchange during the studied period, from which 105 companies were sampled. Secondary data was used—sourced from the published financial statements of the studied firms. The multiple regression model was employed for data analysis. Findings showed earnings persistence (earnings quality) has a positive and significant effect on the pricing efficiency of accruals. Also, earnings persistence insignificantly affect earnings predictability. Further, the interaction term of earnings persistence and comparability revealed a positive effect on the pricing efficiency of accruals, but the interaction term of earnings persistence and comparability has no significant effect on the earnings predictability.

Anaekenwa et al., (2019) investigated earnings Persistence and Firm Performance: Implications of Analysts Accurate Forecast Ability from the Emerging Market of Nigeria between 2000 and 2016. The study adopted expo facto research design. The population consisted of 173 listed firms from which 51 firms were sampled through stratified random sampling technique. Secondary data was used—sourced from published financial statements of the firms. Descriptive and inferential statistical tools were used for data analysis. Findings revealed earnings persistence (EPERS) has a negative and no significant effect on firm performance (Tobin's Q).

Okoro et al., (2026) conducted a study on earnings persistence and financial performance of listed firms in Nigeria from 2015 to 2024. The study adopted ex-post facto research design. Population of the study comprised all the one hundred and forty-nine firms listed in Nigeria exchange group as at 2025, from which seventy firms were sampled through purposive sampling technique. The study used secondary data— extracted from the annual reports of the sampled firms. The data was analyzed using Panel GMM analysis. Findings revealed

discretionary accruals, earnings persistence and earnings volatility have no significant effect on net profit margin.

Imagbe and Okoughenu (2021) studied income smoothing and financial performance of firms listed on the Nigerian stock exchange: Post-IFRS adoption in perspective, from 2013 to 2017. The objective of the study was to examine the relationship between income smoothing and financial performance of the firms listed on the Nigerian Stock Exchange after the adoption of IFRSs. The study employed a cross-sectional and time series research design. Sixty two (62) listed firms were randomly sampled, from a population of one-hundred and eighty-six (186) firms as at 31st December, 2017. Secondary data was sourced from the annual reports and accounts of the studied firms. Pearson correlation and regression were used to analyze the data. Findings revealed income smoothing had a positive and significant relationship with financial performance (ROA). The control variable (board independence) had a positive and significant relationship with the firms' financial performance (ROA). In view of the preceding findings, it was concluded that income smoothing has a positive and significant relationship with firms' financial performance in Nigeria. Hence, the study recommended that financial statement users should know that managers could engage in income smoothing practices to manipulate the financial performance of the firms. Hence, they should not base their decisions on the financial performance of the firms, except stronger corporate governance mechanisms are maintained. Furthermore, the management should maintain optimum number of outside directors (non-executive directors) on the board, so as to continually optimize the best return on investments.

2.4 Gap in Literature

Previous studies provided extensive analyses on related areas such as the impact of income smoothing, earnings persistence, earnings management, creative accounting, aggressive accounting, etc on financial performance in Nigeria's financial services industry—with mixed and ambiguous evidences. Furthermore, with limit to reviewed literature, no study has examined the effects of earnings quality on financial performance in this sector beyond 2024. Therefore, these voids/gaps present an opportunity to explore this area further. It seeks to expand current understanding by investigating the correlation between earnings quality (as measured by earnings smoothing and earnings persistence) and financial performance (as proxied by return on equity and return on assets)—with emphasis on listed multinational

deposit money banks (DMBs) in Nigeria—owing to their critical roles in the nation's economy.

3. METHODOLOGY

The ex-post facto research design was adopted for this study due to its back-ward looking nature of performance—as past events were being examined—the effect of earnings quality on financial performance of listed multinational Deposit Money Banks in Nigeria. Ex-post facto research method—research after the facts have been known (Anyanwu, 2000), is appropriate for such study. The entire listed multinational DMBs in Nigeria, comprising seven banks constituted the population, from which five banks were purposively selected on the basis of uninterrupted availability of data over the studied period, and a minimum of eighty billion naira threshold from the Nigeria Stock Exchange. The five selected banks were studied over ten years period (2016-2025)—yielding a sample size of fifty (firm-year observations). Secondary data was used—sourced through the published annual reports of the studied banks, and the Nigerian Stock Exchange (NSE) website. The descriptive and inferential statistical techniques were employed for data analysis, at 5% level of significance.

3.1 Model Specification

To model the relationship between earnings quality and financial performance econometrically, two predictors and two response variables were used, resulting in two separate equations as follows:

$$ROA = f(ESMTH + EPERS) + \mu$$

$$ROE = f(ESMTH + EPERS) + \mu$$

Model 1: Return on Assets (ROA)

$$ROA = \beta_0 + \beta_1 ESMTH_{it} + \beta_2 EPERS_{it} + \varepsilon_{it}$$

-----Equ. (1)

Model 2: Return on Equity (ROE)

$$ROE = \alpha_0 + \alpha_1 ESMTH + \alpha_2 EPERS_{it} + \varepsilon_{it}$$

----- Equ. (2)

Where:

RAO = Return on Assets

ROE = Return on Equity

ESMTH = Earnings Smoothing

EPERS = Earnings Persistence

β_0, α_0 = Intercepts

$\beta_{1-3}; \alpha_{1-3}$ = Coefficients

ε_{it} = Error terms

i = Firm of interest

t = Period of interest

Table 1: Operationalization of variables.

Variable Type	Variable Name	Proxy/Measurement Metric	Source Literature
Dependent	Return on Equity (ROE)	Net Income / Total Equity	Yusuf & Salisu (2023)
Dependent	Return on Assets (ROA)	Net Income / Total Assets	Nai-Chiek & Peck-Ling (2019); Takon & Ugwu (2013).
Independent	Earnings Persistence (EPERS)	Slope coefficient (β) from regressing current earnings on prior earnings.	Deis & Giroux (1992)
Independent	Earnings Smoothness (ESMTH)	Standard Deviation of Operating Income / SD of Cash Flows	Leuz et al. (2003)

Source: Author's Compilation, 2026.

4. RESULTS AND DISCUSSION

This section presents the results of the study—structured into descriptive statistics, correlation analysis, pre-estimation tests, regression analyses, hypotheses testing, discussion of findings and post-estimation tests. The results disclosed insights into how earnings smoothing and earnings persistence (earnings quality) impact the financial performance of the listed multinational deposit money banks in Nigeria.

4.1 Descriptive Statistics.

The analysis of data begins with descriptive statistics, which reveals the distribution, stability, and structure of the banking data for the period (2016-2025), before the estimation is carried out. The result is presented below:

Table 2: Descriptive Statistics.

	EPERS	ESMTH	ROA	ROE
Mean	0.667000	0.566400	2.444200	19.00640
Median	0.705000	0.580000	1.925000	17.65000
Maximum	0.910000	0.890000	5.440000	44.11000
Minimum	0.280000	0.220000	0.310000	2.500000
Std. Dev.	0.145100	0.165613	1.344167	8.271297
Skewness	-0.559713	-0.326429	0.559610	0.597242
Kurtosis	2.818087	2.552786	2.140835	3.849162
Jarque-Bera	2.679594	1.304635	4.147536	4.474727
Probability	0.261899	0.520837	0.125711	0.106740
Sum	33.35000	28.32000	122.2100	950.3200
Sum Sq. Dev.	1.031650	1.343952	88.53242	3352.304
Observations	50	50	50	50

Source: Author's Computation from E-View 10

Table 2 presents the mean, median, standard deviation, skewness, kurtosis and Jarque-Bera values for EPERS, ESMTH, ROA and ROE of the listed multinational DMBs in Nigeria. The mean values of the explanatory variables are less than the medians. This indicates the data is pulled downward by negative outliers. The mean values of the response variables are higher than the medians. This indicates the data is pulled upward by extreme positive outliers. The standard deviation (dispersion) is lower than the mean, which indicates low volatility. The data points cluster tightly around the average. This represents a highly stable, homogeneous banking environment. The skewness indicates the data is symmetrical. The kurtosis disclosed flat peakness with thin tails. The Jarque-Bera (JB) indicates the data is normally distributed. This is ideal for conventional parametric regression models.

Table 3: Unit Root Results.

variables	Test Type	Level At Level I(0) (p-value)	Level At First Difference I(1) (p-value)	Order of Integration	Status
ROA	ADF	0.0062*	—	I(0)	Stationary at Level
ROE	ADF	0.0000*	—	I(0)	Stationary at Level
EPERS	ADF	0.1282	0.0119*	I(1)	Stationary at 1 st Diff
ESMTH	ADF	0.0212*	—	I(0)	Stationary at Level

Source: Generated by the Author using E-view 10

The stationarity properties of the data were examined using Augmented Dickey-fuller (ADF). Table 3 above showed three variables—ROA, ROE and ESMTH were stationary at

levels, while EPERS was stationary at 1st difference, implying the variables are mixed integratedly. This calls for further diagnosis—co-integration test.

Table 4: Co-integration Result (Engle-Granger Test)

Dependent	tau-statistic	Prob.*	z-statistic	Prob.*
ROE	-7.159651	0.0000	-50.48314	0.0000
ESMTH	-1.984387	0.8748	44.05159	0.9999
EPERS	-4.489912	0.0354	-23.75788	0.0980
ROA	-4.938600	0.0125	-33.09830	0.0095
Source: Generated by the Researcher using			E-view 10	

Table 4 above shows conflicting p-value results of the variables. According to Pesaran (2001), the conflicting p-values points to a localized integration boundary issue, or small sample sensitivity, which would be resolved by the adoption of ARDL regression model.

Table 5: Correlation Matrix.

	ESMTH	EPERS	ROA	ROE
ESMTH	1	-0.600	-0.304	-0.430
EPERS	-0.600	1	0.571	0.690
ROA	-0.304	0.571	1	0.818
ROE	-0.430	0.690	0.818	1

Source: Generated by the Researcher using SPSS 25

The correlation matrix above reveals the absence of multicollinearity between the explanatory variables. The correlation is below the commonly accepted multicollinearity threshold of 0.90 (Kasozi, 2017). This indicates multicollinearity is unlikely to distort the regression estimates.

Regression Analyses and Hypotheses Testing

Multiple regression analyses were conducted to examine the impact of earnings quality on the financial performance of the listed multinational deposit money banks. The results are summarized below.

Table 6: Dependent Variable.**ROASelected Model: ARDL****Multiple Regression Results (for Model One)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
ESMTH	-2.947232	0.916962	-3.214124	0.0025
EPERS	0.089082	1.196126	0.074475	0.9410
C	0.819456	1.167225	0.702055	0.4863
R-squared	0.754363	Mean dependent var		2.487755
Adjusted R-squared	0.732032	S.D. dependent var		1.321967
S.E. of regression	0.684324	Akaike info criterion		2.175680
Sum squared resid	20.60517	Schwarz criterion		2.368723
Log likelihood	-48.30417	Hannan-Quinn criter.		2.248920
F-statistic	33.78154	Durbin-Watson stat		1.832356
Prob(F-statistic)	0.000000			
Source: Generated by the Researcher using E-view 10				

The regression result shows earnings smoothing has significant negative effect on return on assets (ROA) of the listed multinational deposit money banks, with a coefficient (β) value of -2.947 and a p-value of 0.0025. Suggesting strong negative impact on financial performance. In essence, an increase in earnings smoothing would trigger approximately triple reduction in financial performance (ROA). Conversely, the regression result reveals earnings persistence has insignificant positive effect on ROA of the listed multinational deposit money banks, with a coefficient (β) value of 0.0890 and a p-value of 0.941, suggesting weak positive impact on financial performance (ROA).

The model's R^2 value of 0.754 indicates that 75.4% of the variation in ROA is explained by the predictor, highlighting the model's robustness. The F-statistic (33.781, p-value of 0.0000), further confirms the model is statistically significant as a whole.

Based on the foregoing findings, the null hypothesis (H_{O3}) which states there is no significant effect of earnings smoothing on Return on Assets (ROA) of the listed multinational Deposit Money Banks in Nigeria is therefore rejected. There is significant negative effect of earnings smoothing on ROA of the multinational deposit money banks. This implies all management' efforts at projecting the entities' performance systematically/deliberately—leveraging every loophole in accounting framework, actually exert inverse effect on financial performance on the long run! This finding align with previous studies (Anaekenwa et al., 2019; Hassan & Farouk, 2014; Wang & Wu 2018; and Kabiru & Aliyu, 2019), who emphasize that accounting information and the financial performance of mining companies were negatively correlated; and income smoothing has

negative and insignificant impacts on financial performance respectively. On the other hand, the findings also showed earnings persistence has positive insignificant impact on ROA. Hence the null hypothesis (H_{04}) which states there is no significant effect of earnings persistence on Return on Assets (ROA) of the listed multinational DMBs in Nigeria is hereby accepted. Hence, there is no significant effect of earnings persistence on ROA of the listed multinational DMBs. This indicates managements' efforts at ensuring entities' positive performance endures in the future for as long as possible robs off insignificantly on the real actual financial performance. This finding is in tandem with that of Hamzeh et al., (2026), who established that earnings persistence insignificantly affect earnings predictability.

Table 7: Dependent Variable: ROE.

Selected Model: ARDL

Multiple Regression Results (for Model Two)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
ESMTH	-10.67763	8.005301	-1.333820	0.1895
EPERS	30.32324	11.39514	2.661069	0.0110
C	4.392379	10.49902	0.418361	0.6778
R-squared	0.566650	Mean dependent var		19.59833
Adjusted R-squared	0.515061	S.D. dependent var		7.883812
S.E. of regression	5.490095	Akaike info criterion		6.360237
Sum squared resid	1265.928	Schwarz criterion		6.594137
Log likelihood	-146.6457	Hannan-Quinn criter.		6.448628
F-statistic	10.98388	Durbin-Watson stat		2.084836
Prob(F-statistic)	0.000001			

Source: Generated by the Researcher using E-view 10x

The regression result reveals earnings smoothing has negative and insignificant effect on return on equity (ROE) of the listed multinational deposit money banks, with a coefficient (β) value of -10.677 and a p-value of 0.189. Indicating weak negative impact on financial performance. In other words, an increase in earnings smoothing would spark off an insignificant negative reduction in financial performance (ROE) of the listed DMBs. On the contrary, the regression result shows earnings persistence has positive and significant effect on financial performance (ROE), boasting a coefficient (β) value of 30.323 and a p-value of 0.011, suggesting a strong impact on financial performance (ROE).

The model's R^2 value of 0.5666 indicates that 56.6% of the variation in ROE is explained by the predictor, highlighting the model's robustness. The F-statistic (10.983, p-value of 0.0000) further confirms the model is statistically significant generally.

In the light of the above findings, the null hypothesis (H_{01}) which states there is no significant effect of earnings smoothing on Return on Equity (ROE) of the listed Deposit Money Banks in Nigeria is accepted. Indeed, earnings smoothing exerts negative and insignificant effect on the financial performance (ROE) of the DMBs in Nigeria. On the contrary, the findings also shows earnings persistence has positive and significant effect on financial performance (ROE). Hence, the null hypothesis (H_{02}) which states there is no significant effect of earnings persistence on Return on Equity (ROE) of the listed Deposit Money Banks in Nigeria is rejected. Earnings persistence disclosed positive and significant effect on financial performance (ROE). This finding aligns with previous studies (Aliyu, 2024—who submitted that accounting information quality significantly enhance the financial performance of the quoted deposit money banks in Nigeria; Flourien, 2019—who found that earnings quality practices significantly influence the financial performance of listed property and real estate Companies in Indonesia; and Umobong & Ibanichuka, 2016)—who documented similar evidence.

Table 8: Post-Estimation Diagnosis Results.

Variables	Centered VIF	Heteroscedasticity (p-value)	Serial correlation (p-value)	Jarque-Bera (JB) (p-value)
ROA	—	0.4790	—	0.5778
ROE	—	0.1649	—	0.0000
ESMTH	2.383762	0.396	0.9380	0.57758
EPERS	2.684927	0.3657	0.8256	0.5778

Source: Generated by the Researcher using E-view 10

The variance inflation factor (VIF) checks the degree of multicollinearity that exist between the explanatory variables. If the explanatory variables are significantly correlated making it difficult to isolate the individual impact of the variables, it points to a problem—the predictor variables cannot give a dependable and reliable results. The criterion is that any time the centered VIF have values between 5 and 10, it implies there is a sign of multicollinearity. From the result, the centered VIF have values less than 5 which implies the independent variables are clean and free from multicollinearity. The Heteroscedasticity result shows the models' residual errors are constant, as the p-values are greater than 0.05 criterion. This proves the statistical significance of the models are valid. The Autocorrelation was also diagnosed through Serial Correlation LM test. The results are positives—suggesting strong predictive validity—of the explanatory variables (as p-values are within the threshold). The Autocorrelation status is also confirmed by the Durbin-Watson results reported in tables 6

and 7 above. The normality test through Jarque-Bera (JB) reported normal residual errors—as p-values are all within the benchmark ($p\text{-value} < 0.05$).

5. SUMMARY, CONCLUSION, AND RECOMMENDATIONS

The study examined earnings quality and financial performance of quoted multinational deposit money banks (DMBs) in Nigeria. Findings revealed negative significant effect of earnings smoothing on return on assets (ROA), negative and insignificant effect of earnings smoothing on return on equity (ROE), insignificant effect of earnings persistence on return on assets (ROA), as well as positive significant effect of earnings persistence on return on equity (ROE) of the listed multinational deposit money banks. This shows all the efforts of bank managements to project and convey impressions of better performance to stakeholders—mostly investors, using a plethora of strategies—exploitation of accounting frameworks, innovative accounting, earnings management, deliberate manipulation of earnings, deceptive sustainability of reported incomes, and the likes, does not foster financial performance on the long run. In fact, findings disclosed the tactics have ended up harming the financial performance of the listed multinational deposit money banks in some instances.

CONCLUSION

On the basis of the findings, the study concludes that earnings quality does not enhance the financial performance of the listed multinational deposit money banks in Nigeria—reinforcing the positions of sections of financial experts and other stakeholders in the literature—who have long attributed the sudden collapse of “sound deposit money banks and other enterprises” to earnings quality practices. Hence, the study supports the argument that corporate entities must reduce earnings quality to the barest minimum—if it cannot be completely eradicated.

Recommendations

In view of the foregoing findings and conclusion thereof, the following recommendations were made to further improve the quality of financial performance of the quoted multinational deposit money banks in Nigeria:

1. Managements of listed multinational deposit money banks in Nigeria should jettison earnings quality practices, or reduce it to the lowest minimum if they consider it indispensable. This will motivate their policy makers to work harder in a bid to constantly improve performance, as there is no longer ‘immunity’ for poor performance. It will also increase transparency in financial reporting thereby earning investors’ confidence.

2. The regulatory authorities (Financial Reporting Council of Nigeria, Central Bank of Nigeria, SEC among others) should increase scrutiny over accounting loopholes and flexibility that would enable them curtail accounting discretions—both systematic and deliberate, so that accounting information in financial statements will faithfully represent the phenomena they purport to represent, and prevent listed multinational deposit money banks from future collapse/scandals.

3. There should be stricter compliance measures and continuous monitoring of the listed multinational deposit money banks for improved financial efficiency, long-term financial health and resilience.

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