RECAPITALISATION AND EARNINGS QUALITY OF NIGERIAN DEPOSIT MONEY BANKS

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Abstract

The issue of earnings quality of Nigerian Deposit Money banks has been brought to the front burner in the wake of the special audit of the banks by the Apex regulatory body, Central Bank of Nigeria (CBN) and consequent bailout of many banks barely five years after the policy driven consolidation exercise. This study examines the impact of the banking consolidation on the earnings quality of Nigerian Deposit Money Banks. The population of the study consists of twenty one banks that survived the consolidation and quoted on the Nigerian stock exchange. The sample size of the study is eight banks drawn from the population of the study based on the sampling filters adopted. Independent t-test is adopted as statistical tool in testing the hypotheses of the study. The study establishes that the consolidation exercise has no significant impact on two of the three hypotheses tested i.e earnings variability and earning surprise. But it revealed significant impact on the third hypothesis, ratio of cash flow from operations to net income of Nigerian deposit money banks. The study

therefore, concludes that the earnings quality of Nigerian deposit money banks after the consolidation exercise is questionable in view of the inconsistencies of the results. The study recommends among others that Nigerian banks should adopt international financial reporting standards in order to check earning management, engagement of only specialized auditors and the

1.1 Introduction

The development of financial sectors of every economy is influenced by challenges it faced at various times of its history. In July 2004, the CBN announced an upward review of minimum paid - up capital of banks to N25 Billion from N2 Billion, popularly tagged as consolidation. The driving forces of bank consolidation include better risk control through the creation of critical mass and economies of scale, advancement of marketing and product initiatives, improvements in overall credit risk and technology exploitation in order to increase returns.

The spade of consolidation globally increased in the 1990s, largely due to the fact that before 1990s many corporations operated in a protected competitive environment. Communication barriers and geographical distance and sometimes-protected markets limited the ability of foreign corporations to compete in domestic markets. There were also little incentives for corporations to maximize efficiency and improve management practices or minimize costs. However, all these have changed with privatization of government-controlled companies and deregulations completely changed the competitive environment in which companies operated. Competitive and pricing restrictions were virtually eliminated. Deregulations, intensive competition and expanded product range created the need for financial institutions to focus on cost management systems and profitability.

Consolidation through mergers and acquisitions especially in the banking industry is now a global phenomenon. In the United States of America, there had been over 7,000 cases of bank mergers since 1980, while the same trend occurred in the United Kingdom and other European countries. Specifically, in the period 1997-1998, two hundred and three (203) bank mergers and acquisitions took place in the Euro area. Cross-country mergers are also taking hold. In 1998 a merger in France resulted in a new bank with a capital base of US$688 billion, while the

merger of two banks in Germany in the same year created the second largest bank in Germany with a capital base of US$541 billion. In many emerging markets, including Argentina, Brazil and South Korea, consolidation has also become prominent, as banks strive to become more competitive and resilient to shocks as well as reposition their operations to cope with the challenges of the increasingly globalized banking systems (Soludo, 2007). The economic rationale for Nigerian banking sector consolidation cannot be disputed. Prior to the consolidation, the banking system was characterized as having low capital base, large number of small banks, poor corporate governance among other things (Soludo, 2004).

The Central Bank of Nigeria (CBN), in 2004 announced banking policy reform in order to assure the strengthening and consolidation of the banking system. The reform was designed to ensure a diversified, strong and reliable banking sector, which will ensure the safety of depositors' money, play active developmental roles in the Nigerian economy, and be competent and competitive player in the African regional and global financial system. The recent bailout of some banks by the apex regulatory body barely five years after the conclusion of the consolidation exercise; pose some doubts as to whether the consolidation has actually achieved its intended objectives. It also raises questions on the quality of the reported earnings of the consolidated banks.

Consolidation is expected to improve the capacity of the consolidated banks in terms of financial resources to hire competent personnel (Accountants, Auditors etc) who possessed the necessary skills and expertise in interpreting economic substance of transactions and choice of appropriate accounting method of reflecting them properly in the financial records of the banks, but is this the case in the Nigerian banking consolidation?

Earnings quality is an important aspect of evaluating an entity's financial health, yet investors, creditors, and other financial statement users often overlook it. Earnings quality evaluation will indicate the ability of reported earnings to reflect the company's true earnings, as well as the usefulness of the reported earnings to predict future earnings, but is this the case in the Nigerian banking sector?

Earnings quality has to with the ability of reported earnings to reflect the company's true earnings, as well as the usefulness of the reported earnings to predict future earnings. Faithful reporting can be influenced by personal interest of managers to achieve set targets as well as the opportunity provided by GAAP. There is no generally acceptable approach of measuring earnings quality.

However, Abdulghany (2006) suggested three (3) basic approaches to measure quality of earnings based on three dimensions of earning management these being earnings variability, earnings surprise and ratio of cash flow from operations to net income. Hence, the three approaches are used in measuring earnings quality in this study.

Furthermore, earnings variability is a measure of risk. The absence or low variability of earnings implies higher predictability of earnings which is one of the characteristics of high earnings quality (Leuz, Nanda & Wysocki, 2003). However, standard deviations of historical earnings of a bank with steadily increasing earnings could be same as that of another with highly erratic earnings. Therefore, this implies that earnings variability may not be relied upon alone in determining earnings quality.

On the other hand, earnings surprise to banks indicates meeting or beating their earnings annual forecast (MBE). Managers have incentives to ensure that their performance either meet or exceed annual earnings forecast. These incentives include obtaining market premium and maximization of the present value of their compensations (Barton & Simko, 2002). These may be signalling earnings quality problem. However, conclusion on earnings quality should not be drawn on that basis alone, because the earnings surprise could be as a result of normal market factors.

Cash flow from operations to net income is expected to determine the extent to which cash flow differs from reported income (Penman, 2001). Under the GAAP a company can report healthy income figures even when their cash resources are poor. Though, the ratio is indicative of earnings quality of a company, it cannot be used solely as basis for arriving at a conclusion about quality of earnings of a company because accruals may or may not be realistic.

Since none of the three models of measures of earnings quality can adequately report earnings quality, the combination of them became inevitable. Consequently, Nigerian Money Deposit Banks may not be labeled as having low or high quality of earnings based on adopting only one technique of measuring earnings (Abdulghany, 2006). This implies that unless and until the three techniques are combined and adopted and results show consistency the banking sector should not be labeled as having low or high earnings quality.

Studies conducted on the banking consolidation were mostly centered on performance. To the best of our knowledge none of the studies on banking consolidation were on earnings quality. Studies such as Adeyemi (2006), Patrick (2006), Somoye (2006), Dogarawa (2006), Adegbaju and Olokoyo (2008) have been carried out on the recent consolidation in the Nigerian financial sector. On the other hand, studies have been carried out by Francis, Michas and Seavey (2010), Li,Stokes, Taylor and Wong (2009), Bhattacharya, Desai and Venkataraman (2009), Chen(2008), Fainha and Moreina (2007) on earnings quality. None of these studies connected consolidation with earnings quality. The uniqueness of this study is investigating the changes in earnings quality as a result of the consolidation from the perspective of their variability, surprise and cash flow as a result of the recapitalization of the Nigerian Money Deposit Banks within the study period (2001-2008).

Therefore, the focus of this paper is to investigate the impact of the banking consolidation on the quality of earnings of Nigerian deposit money banks using earnings variability, earnings surprise and ratio of cash flow from operations to income as proxies of earnings quality. The main objective of the study is to examine the impact of bank consolidation on the earnings quality of Nigerian deposit money banks (DMB).

2. Review of Literature

Barragato and Marklevich (2003) use the corporate acquisition setting to examine earnings quality during the post-acquisition period. He used the stock market's reaction at the acquisition announcement to infer merger motives and hypothesize that synergy-motivated acquisitions will produce higher quality earnings than agency-motivated acquisitions. His findings are consistent with the notion that incentives for earnings management are greater following agency-motivated acquisitions when compared to those of synergy-motivated acquisitions. This study though focuses on post-acquisitions and earnings quality, the findings will not apply in Nigeria as the banking reform was neither synergy nor agency motivated. The reform was policy induced.

Chen (2008) analyzed the complex relations between accruals, operating cash-flow and subsequent returns using semi parametric and nonparametric regression approaches. He un-covered a highly nonlinear and non-monotonic relationship between accruals and operating cash-flows, indicating that one cannot just incorporate the impact of cash-flows on abnormal future returns and ignore accruals. In particular, in the long run, accruals contain more information about

future abnormal returns, while in the short run, cash-flow "is king", and have more predictive power about future abnormal returns. He also investigated the underlying mechanism of the accruals anomaly by determining whether and how sophisticated information intermediaries such as financial analysts use of the information contained in accruals and cash flows in their earnings forecasting process. He found that analysts are over-optimistic about firms reporting high accruals and do not correctly assess the quality of earnings. These results favor a behavioral explanation for accrual anomaly. The result of the study could have different if similar study is conducted in Nigeria.

Jensen and Meckling (1976) argue that security analysis activities reduce the agency costs associated with the separation of ownership and control, they are indeed socially productive. Healy and Palepu (2001) opined that information intermediaries, such as analysts and rating agencies, engage in private information production that help to detect managers' misbehavior. Chung and Jo (1996) found that the level of analyst coverage is positively related to Tobin's q. Irvine (2003) shows that firms' liquidity increases after the initiation of analyst coverage. A number of studies examine the relation between traditional governance devices and earnings management. Healy (1994), Bergstresser and Philippon (2003), Kedia (2003) and Safdar (2003)) show that high-powered executive compensation structures create incentives for managers to conduct more earnings management. Non- parametric studies were carried out by many researchers on consolidation, earnings management and earnings quality. These Studies were mainly centered on issues/challenges of the reform, developmental impact of the reform on the performance of the Banking Industry as a whole as well as earnings management and earnings quality.

Adeyemi, (2005) in his study with the objective of examining the issues and challenges posed by the consolidation, found that post consolidated Banks are likely to face information communication technology (ICT), human resource management, corporate governance, securitization of non-permanent assets and integration challenges in view of the policy induced nature and time limit of the reform. Brown (2006) observed that consolidation reduced the number of Banks from 89 to 25 on 31st December, 2005. He stated that about N360 billion new funds were injected into the banking industry within one   year and nearly N60 billion was in the form of Foreign Direct Investment (DFI). He also stated that the reform has increased liquidity, lending to private sector and increased growth in the non-oil sector. The reform has also improved the International credit rating of Nigerian Banks. All these studies apart from their timing, concentrated on

consolidation and its challenges mainly. They did not look at the quality of earnings of the post- consolidated banks.

Abdulkadir and Liman (2007) in their study with the objective of assessing the challenges of consolidation environment, especially the challenges posed by the consolidation to supervisory authorities found that the consolidation created diversified and complex institutions, which increased the operating risk.   A part from the regulatory challenges, consolidation is costly with cost ranging from 12% to 45% of GDP in Malaysia and Indonesia respectively (Uchendu, 2005). Tela (2007) in a study with an objective of highlighting the gains, successes, and problems of consolidation found that out of the 25 banks that survived only six banks survived on their own, while the rest merged with other banks. He also stated that the reform has improved liquidity, facilitated the consolidation of automatic teller machines (ATM) and partnership with foreign Banks. Ihemeje (2005) in a survey based on Primary Source in which 2000 questioners were administered with an objective of investigating the challenges of the bank consolidation to the banking sector in particular and the National Economy in general, found that economic development depends to a great extent on the bank consolidation option of the federal government.   The studies focuses on the problems and challenges of consolidated banks not earnings quality which this study is investigating.

Ningi and Dutse (2008), in their paper which explores the impact of the banking reform on the Nigerian economy, found that, the CBN decision has changed the market structure of the banking sector, increased the efficiency and reliability of the banks, created opportunities for financial institutions and market participants, and raised their intermediation potentials. It also became evident that for such strategy to be effective, Central Bank of Nigeria needs to make banks recapitalization a continuous exercise at interval of 5-10 years to catch up with inflation and happenings in other parts of the world. It is equally important to establish branches by mega banks in the rural areas of the country so as to ensure adequate access to credit facilities and other services. The study does not look at the impact of consolidation on earnings quality of deposit money banks.

Dogarawa (2006) argued that the recent consolidation poses new challenges to the regulatory authority, particularly in the area of financial system stability. The study therefore, opined that CBN's policies aimed at providing financial system stability and efficiency should take into consideration the process of banking consolidation and increasing globalization of financial transactions. Although, the

study focuses on consolidation it did not consider its impact on earnings quality of the banks.

Nelson, Elliot and Tarpley (2002) surveyed 253 audit partners on their experience with 515 attempts at earnings management by their clients and found a positive association between the precision of accounting rules and the structuring of transactions by managers. The structuring of transactions allows managers to avoid infringement of specific provisions in the accounting standards, and ensures its acceptance by auditors. Dye (2002) provides support for Nelson, Elliot and Tarpley (2002) that stringent accounting standards will increase managers' ability to manipulate financial reporting outcomes opportunistically, and thus weaken the effectiveness of the rigid standard. Another survey paper by Graham, Harvey and Rajgopal (2005) supports the notion that managers will sacrifice real economic earnings in order to meet their reporting objectives. Under stringent accounting regulations, managers are overly concerned with accounting-based earnings management. That is, managers emphasize that firms now go out of their way to assure shareholders that there is no accounting-based earnings management in their books. Managers also express a corporate fear that even an appropriate accounting choice runs the risk of an overzealous regulator concluding ex post that accounting treatment is driven by an attempt to manage earnings (Graham, Harvey & Rajgopal, 2005).

Demski (2004) sketches a model with substitution between accounting and real earnings management. He assumed that tighter standards reduce accounting earnings management, but increases real earnings management. Along a similar line, Ewert and Wagenhofer (2005) examine the substitution effect between accounting earnings management and real manipulation. Their model distinguishes between accounting and real earnings management and assume that a standard setter can only influence accounting earnings management by the tightness of standards. They predict that managers increase costly real earnings management because the higher earnings quality increases the marginal benefit of real earnings management. The result of this study could be different if the domain of the study is the Nigerian banking consolidation. Cohen, Deys and Lys (2008) support this conjecture. They document that the time period with more flexible accounting standards (i.e., pre-SOX period) was characterized by high accounting-based earnings management and low real activities manipulation. Following the passage of SOX (accounting standards becoming more stringent), accounting-based earnings management decline significantly, while real earnings management increased significantly. Consistent with the results of other studies,

this evidence suggests that firms switched to managing earnings using real methods, possibly because these techniques, while more costly, are likely to be harder to be detected. All these studies apart from being carried out outside the country, most of them were not focused on consolidation and earnings quality.

Studies on the effects of consolidation or concentration and its relevant theories are well captured in accounting and finance literature. For the purpose of this study, the proportionate effects theory is used as theoretical framework to anchor recapitalization and earnings quality of DMBs in Nigeria. The proportionate effect theory also known as the Gibrat's law (1931) states that size is independent of the firm's growth rate. According to Mansfield (1962) the Gibrat's law is characterized as the probability of a given proportionate change in size during a specific period is the same for all firms in a given industry irrespective of their sizes at the beginning of the period. Studies by many researchers supported the Gibrat's law such as Hymer and Pashigian (1962) and Mansfield (1962). Firm's growth rate is related to their rate of return or their profitability and/or soundness. However, performance and survival of firms can only be ensured when managers earn and report faithfully their earnings.

3. Methodology and Data
A Pre and Post research design is used in this study to enable the researchers analyze relevant financial reports of two equal periods. The financial reports of the sampled banks for the period 2001 to 2004 represent pre consolidation while financial reports for period 2005 to 2008 represent post consolidation period. The population of this study was 25 banks that met the capitalization base as at December, 2005. The survival of these banks from the consolidation exercise and the ability to meet the requirement of listing on the Nigerian Stock Exchange (NSE) indicate their deep commitment towards banking business in Nigeria. The study used the entire population as sample size. Only secondary data is utilized. The data extracted from the financial statements of the sampled banks is used to compute earnings quality under the three (3) approaches (Leuz et al, 2003; Barton & Simko, 2002; Penman, 2001) for both pre and post banking consolidation periods. In addition, independent t–test is used as a tool of analysis.
The formulae used in computing each of the approaches are:

i)	Leuz et al (2003)	=	SD. Of .EFOPS/SD. Of. CFFOPS
ii)	Barton & Simko (2002)	=	BBONOA/Sales or Turnover
iii)	Penman (2001)	=	CFFOPS/NI

Where:
SD   =   standard deviation
EFOPS   =   Earnings from operations
CFFOPS   =   Cash flow from operations
BBONOA   =   Beginning Balance of Net Operating Assets
NI   =   Net income

The following decision keys as adopted from the work of Abdulghany (2006) are used in the interpretation of the results of the computations under each of the model approaches:

Table 1: Earnings Quality Decision Creteria

APPROACH	DECISION CRETERIA	
	Measure	Earnings Quality
LEUZ *et al* (2003)	Up to 0.95	Low
	Above 0.95	High
BARTON & SIMKO (2002)	Up to 1.3	High
	Above 1.3	Low
PENMAN(2001)	Up to 2.65	High
	Above	Low

Source: Abdulghany (2006)

Table 1 presented the earnings quality assessment decision criteria that was used in determining the earnings quality of the sampled banks for both pre and post consolidation periods under each of the models/approaches.

Furthermore, if the results of the three (3) approaches are consistent then, it can be inferred that the earnings quality of the Nigerian Deposit Money banks is either high or low. However, where the results of the approaches showed inconsistency, then the earnings quality of the Nigerian Deposit Money banks will be regarded as questionable.

4. Result and Discussion

The assessment of earning quality is required in order to compliment the hypothesis tested. This is done based on the earnings quality models of Leuz el al (2003), Barton and Simko (2002) and Penman (2001). It is necessary in order to

establish the consistency or otherwise of the three approaches used to represent dimensions of earning management.

Below is the analysis of the earning quality of Nigerian Deposit Money banks computed under the three (3) approaches for both pre and post banking consolidation periods.

Table 2: Earnings Quality Assessment

YEAR	EARNINGS QUALITY ASSESSMENT						RESULT
	Leuz et al approach		Barton & Simko approach		Penman Approach		
	Measure	Earnings Quality	Measure	Earnings Quality	Measure	Earnings Quality	
2001	1.9525	High	0.5761	High	2.622	High	High
2002	1.7321	High	0.5761	High	2.622	High	High
2003	1.6431	High	0.5679	High	1.4817	High	High
2004	1.5652	High	0.5930	High	1.3613	High	High
2005	0.7350	Low	0.9105	High	1.4764	High	Questionable
2006	0.7261	Low	0.9243	High	1.3781	High	Questionable
2007	0.7011	Low	0.6869	High	1.4465	High	Questionable
2008	0.6831	Low	1.4345	Low	1.4070	High	Questionable

Source: Assessment result by the researcher (2010)

Table 2 reports earnings quality assessment results based on the aggregate computed values of sampled variables on table 1 using earnings quality assessment decision criteria under each model as under:
Leuz et al approach   =   Above 0.95 High:
Barton & Simko approach = Up to 0.95 Low up to 1.3 High and Above 1.3 Low
Penman approach   =   up to 2.65 High and Above 2.65 Low

The study hypothesized that the bank consolidation has no significant impact on the earnings variability, earnings surprise and ratio of cash flow from operation to net income of the Nigerian Deposit money banks. T- Test for independent sample is used to determine the impact by comparing the mean values of the variables under pre and post bank consolidation period. The result is presented in table 3 below.

STATISTIC	EARNING VARIABILITY	EARNING SURPRISE	RATIO OF CASHFLOW TO NET INCOME
MEAN(PRE) MEAN(POST)	1.722 0.6862	0.5545 0.9891	1.8465 1.4270
MEAN DIFFERENCE	1.03703	-.43453	.41950
F	1.738	4.001	7.211
SIGNIFICANCE	0.236	0.092	0.036

Table 3: Bank Consolidation and the Earnings Quality of Nigerian DMBs
Source: SPSS OUTPUT, 2010

Table 3 clearly shows that consolidation has not impacted on the earnings variability of Nigerian deposit money banks. The mean of the pre-consolidation period is 0.6862 while that of post-consolidation period is 1.722.   It reveals that deposit money banks earnings variability lessens after the consolidation exercise by the mean difference of 1.03703. The implication is that consolidation has not impact on the earnings quality of the Nigerian banks. However, the result also shows that consolidation has not impacted on the earnings quality of the Nigerian banks. It has significance value of 0.236 showing statistically insignificant at 5%. The result in respect of bank consolidation and earning surprise of Nigerian Deposit money banks reveals that the mean of the pre-consolidation period (0.5545) is less than that of post-consolidation (0.9891). This position is also expressed by the mean difference of -0.43453. It reveals that deposit money banks showed more earnings surprises after consolidation than in pre-consolidation period. The implication is that bank consolidation has not impacted on the earnings surprise of the Nigerian deposit money banks. In addition, the result also shows that consolidation has not impacted significantly on the earnings surprise of the Nigerian Deposit Money banks. It has a significant value of 0.092 showing insignificance at the five percent level.

The empirical result showed that consolidation has also impacted on the ratio of cash flow from operation to net income of Nigerian deposit money banks as the mean of the pre-consolidation period (1.8465) is more than that of post-consolidation (1.4270). This position is also expressed by the mean difference of 0.41950. It reveals that deposit money banks showed better ratio of cash flows from operation to net income after consolidation than pre-consolidation period. The implication is that bank consolidation has positive impact on the ratio of cash flow from operation to net income of the Nigerian deposit money banks. The result also shows that the impact of consolidation on the ratio of cash flow from

operation to net income of the Nigerian deposit money banks, is not only positive but significant at the five percent level. This is for the fact that the significant value 0.036 is less than 5 percent (Sig<0.05).

The result of the independent t-test showed that the banking consolidation has not made significant impact on the earnings variability of the Nigerian deposit money banks. This result has also been corroborated by the result of the earning quality assessment which showed that earnings variability of Nigerian deposit money banks worsened after the introduction of bank consolidation. The mean values of the post consolidation period also reduced by 1.03703 implying reduction in earnings quality. In tandem with this findings, during this period the Nigerian banking sector witnessed explosive growth of a monumental proportions which created a bubble in the shares values of banks in the capital market (Sanusi,2010). The result of the special audit carried by the Apex regulatory body after the bubble burst led to the bailout of many banks and sanctioning and or prosecution of many bank chief executives. As a policy implication, the Apex regulatory authority in order to address income smoothening in the banking sector should ensure that the Board of directors of Nigerian deposit money banks adopt the International Financial Reporting Standard (IFRS) immediately as well as making sure that competent and skillful accountants are hired and/or trained to interpret financial transactions of banks in a professionally manner. Specialized auditors should be appointed to audit the accounts of banks based on the current Nigerian Auditing standards.

With respect to the second variable (earnings surprise), the independent t-test result also revealed that the bank consolidation has no significant impact on the earnings surprise of Nigerian deposit money banks. The earnings quality assessment using the Barton and Simko (2002) approach confirmed that position as the earnings quality measure after the introduction of consolidation showed decreasing quality. The mean value of post consolidation period showed an increase, indicative of an increase in earnings surprise by bank management after the consolidation exercise as compared to pre consolidation period. This finding of earnings surprise was well recognized by the rating agencies/analyst during the period (2005 to 2008) and rewarded by the capital market. This led to rapid rise in share prices and over concentration of bank shares in the market without commensurate improvement in the fundamentals of the real sector (Sanusi, 2010). The policy implication is that the regulatory authorities (CBN/NDIC/SEC) should ensure that banks comply with the code of corporate governance. They should

also discourage banks connecting executives' compensation to only performance factors instead earnings quality assessment should also be considered.

Based on the third variable (Penman, 2001) it shows that the consolidation exercise has significantly impacted on the ratio of cashflow from operations to net income of Nigerian deposit money banks. This result also conforms to earnings quality assessment result as well as the mean value of the post consolidation period. This finding is supported by the excess liquidity during the period. Oil prices increased steadily between 2004 and 2008 and government spending mirrored such increases. Oil related inflows as well as foreign direct investment (FDI) increased liquidity in the banking sector which in turn insulated the consolidation weaknesses, governance malpractices in the banks, inadequate disclosure, lack of transparency as well as gaps in regulatory framework and regulations at least for a while. However, the fragile financial system was put into crisis by the global financial recession, which brought the financial sector to the brink of collapse (Sanusi, 2010).

It can therefore be seen from the results of the earnings quality assessment above that the post consolidation earning quality of Nigeria deposit money banks under the three (3) approaches of earnings quality adopted showed inconsistent results compared to pre consolidation period. The result of the independent t-test also revealed inconsistencies. Therefore, this leads to the conclusion that the post bank consolidation earnings quality of Nigeria deposit money banks is questionable. This questionable earnings quality of the Nigerian deposit money banks is confirmed by the result of the CBN's special audit of the banks and subsequent bailout of some banks in early 2010.

The finding that consolidation did not significantly impacted on the earnings variability of the Nigeria deposit money banks (NDMB) implies that the banking sector engaged in more earnings management by way of income smoothening in the post consolidation period. This may be motivated by the need to show less vulnerability of earnings of the banks. Adoption of international financial reporting standard (IFRS) will lead to improvement in the financial reporting of NDMBs because it addresses most things that destroy earnings, mandated more disclosures and reduces accounting risks. The use of specialised auditors and mandating them to report also on earnings quality of Nigerian DMBs will also go a long way in improving reporting quality.

The second finding that consolidation did not have significant impact on earnings surprise of NDMBs means that banks engaged in more earnings management in order to meet or beat analyst expectations. If the regulatory authorities and shareholders alike ensure that all banks comply fully with the banking sector code of corporate governance it will ensure that management actions are consistent with the interest of the stakeholders.

The third finding that consolidation impacted significantly on the ratio of cashflow from operations to net income of the NDMBs contradicts the other findings above and therefore leads to the conclusion that the earnings quality of the NDMB is questionable during the post consolidation period. Inclusion of earnings quality assessment results as part of management performance evaluation factors will help in discouraging NDMB managers from involving in earnings management. Also, encouragement and protection of whistle blowers will discourage managers of NDMB's from engaging in earnings management.

5. Conclusion and Recommendations
The following are conclusions that are drawn from the findings of the study:
  i.   The study concludes that bank consolidation had no significant impact on earnings variability of Nigerian Deposit money banks. This implies that as a result of the banking consolidation more banks engaged in earnings management in order to smooth their incomes to achieve managements' desired profit levels.
  ii.   The study also concludes that banking consolidation had no significant impact on the earnings surprise of the Nigerian deposit money banks. This means that the bank consolidation had increased incidences of managers engaging in earnings surprises.
  iii. The study concludes that banking consolidation had significant impact on the ratio of cash flow from operations to net income of Nigerian deposit money banks. The result reveals that the consolidation exercise has improved the ratio of cashflow from operations to net income of the Nigerian deposit money banks.

Predicated on the findings and conclusions of the study, the following recommendations are made:

  i.   In order to check the income smoothening in the Nigerian banks, the Apex regulatory authority (CBN) and shareholders of deposit money banks should ensure that their boards of directors adopt the International

Financial Reporting Standard (IFRS) immediately and competent and skillful accountants are hired and/or trained to interpret financial transactions of banks in a professionally manner. Specialized auditors appointed by the shareholders to audit the accounts of banks based on the current Nigerian Auditing standards.

ii. The regulatory authorities (CBN/NDIC/SEC) in order to address the earnings surprise in the banking sector after consolidation should ensure that banks fully comply with the code of corporate governance. Board of directors of deposit money banks should not in order to align the goal of managers and stakeholders tie compensation of managers to only performance factors, but rather a mix of factors including earnings quality assessment results. This will discourage managers from having incentive to select accounting methods and exercise excessive discretion over accounting estimates in order to improve their compensations. Also the shareholders of the banks should ensure that a system of whistle blowing is encouraged and the blowers should be given adequate protection by the law

iii. In order improve liquidity position of the banks, the shareholders of deposit money banks should ensure that there is adequate manual that document credit processes, accounting and administration procedures. They should also ensure the existence of a robust internal control mechanism that should guarantee the workings of the system. The regulatory authorities (CBN,SEC & NDIC) should step up monitoring of the banking sector by reviewing its regulatory framework in line with the earnings management challenge and strengthened its capacity in ensuring banks operate by the rules.

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