



Managerial Entrenchment, Earnings Quality, and Corporate Performance of Nigerian Banks

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Abstract. This study examines the impact of managerial entrenchment on the corporate performance and earnings quality of Nigerian banks given the recent evidential managerial excesses in the country's banking industry. Bank-level and corporate governance data are analysed using instrumental variables (IV) regressions. The results show that managerial entrenchment is largely positively related to bank earnings quality and financial performance contrary to the entrenchment hypothesis. Further results reveal that earnings quality does not favourably moderate the nexus between managerial entrenchment and bank performance. In contrast, better bank performance tends to improve the relationship between managerial entrenchment and earnings quality regardless of measures of performance. Though the favourable moderation of bank performance suggests that the entrenched officers in the Nigerian banks' boards are benevolent, the situation may be attributed to the established below average entrenchment index and, in particular, to the palpable overriding influence of the resource dependence and human capital perspectives over entrenchment tendencies.

Keywords: entrenchment index, discretionary loan loss model, financial returns, human capital theory, resource dependence theory, deposit money banks

JEL Classifications: C33, G21, G34, L25, M40

1. Introduction

Despite the managers-owners' interest alignment put in place by agency theory to reduce principal-agent conflicts in a corporate entity, it appears that managers often manoeuvre themselves into untouchable positions. This untouchability makes the probability of their removal very low because of the level of power they have amassed. This somewhat excessive managerial power which makes managers become entrenched arises from the lack of corporate managerial discipline imposed by the failure and/or manipulation of assigned codes of corporate governance. Managerial entrenchment, as the term implies, is often associated in the literature with several corporate decisions owing to its probable pervasive influence on firms' financial standing and corporate governance practices (Antounian et al., 2021; Hammad et al., 2024; Salehi et al., 2022). The relationship of managerial entrenchment with corporate decisions may be unfavourable to the firm's owners, especially concerning firm performance (Antounian et al., 2021), earnings quality (García-Sánchez et al., 2020), earnings value relevance (Ng et al., 2007), cash holdings (Tawfik et al., 2024), capital structure (Ji et al., 2020), and analyst's behaviour (Ulupinar, 2018) if the propositions of "entrenchment hypothesis" are taken into consideration. The entrenchment hypothesis suggests that officers charged with the responsibility for the day-to-day management of a firm, upon amassing seemingly uncontested authority, appropriate private benefits at the expense of the owners in their corporate strategic decisions (Ji et al., 2020; Salehi et al., 2021; Tawfik et al., 2024; Ulupinar, 2018). Thus, managerial entrenchment is a corporate governance conundrum particularly encountered upon the difficult and costly removal of the head of a corporate entity's management team or the chief executive officer (CEO) (Salehi et al., 2021). Based on the arguments of Morck et al. (1988), pronounced entrenchment provides the concerned officers with opportunity of acting in contrary to the interest of the firm's owners. Basically, managerial entrenchment, according to the theory, gives room for corporate business practices, policies, and decision-making processes that are of low quality and seldom focused on practical value creation (Bloom et al., 2021). However, managerial entrenchment, regardless of its degree, appears favourable if overshadowed by resource dependence, resource-based and human capital perspectives of sound corporate governance practices. Resource dependence and resource-based hypotheses assume that those charged with governance are resources with mandate to ensure the entity's continued existence and competitive advantage (Hart, 1995; Muchemwa et al., 2016). Similarly, human capital theory posits that human capital represents human resources, including abilities, knowledge, efforts, and time used for the entity's value creation (Wuttaphan, 2017).

Some of the issues that degenerated into the 2009 banking crisis in Nigeria may be traced back to managerial entrenchment practices as unveiled by the Central Bank of Nigeria (CBN) and reflected in corporate governance failure in Nigerian banks

(Sanusi, 2010). The overwhelming influence of board chairmen and/or CEOs of the majority of the banks sanctioned by the CBN (Sanusi, 2010), which resulted in the reckless granting of loans, without collateral and to their cronies is well documented in the literature (Otusanya et al., 2013; Otusanya and Uadiale, 2014). Other cases include fraudulent purchases of banks' shares intending to subsequently raise the price and induce inexperienced investors to buy, inappropriate classification of loans and unavailability of paper trail for loan notes, non-disclosure of contingent liability, undue transfer of depositors' funds into foreign accounts, and insider trading practices – allegedly these have been committed by a number bank CEOs who went unchecked by their respective boards until CBN imposed sanctions (Otusanya and Uadiale, 2014). The failure of these boards to apply any corporate disciplinary measures (Otusanya and Uadiale, 2014) might be attributed to the affected CEOs extent of shareholding, seniority, longer tenure, age, and level of their compensation, which can individually or jointly prompt managerial entrenchment practices (Mohamed, 2021; Salehi, Dashtbayaz et al., 2021). Though some of these banks have been acquired by other banks or ceased to operate under their brand names upon CBN intervention, their case informed some corporate governance reforms. These include fixing the tenure of bank CEOs as embedded in revised Prudential Guidelines (CBN, 2010) and subsequent adjustments to the industry codes of corporate governance (CBN, 2014, 2018).

The power of substantial shareholdings was reflected in the FBN Holdings (now First HoldCo) Plc board decision to unanimously remove the CEO of one of its subsidiaries (First Bank of Nigeria Limited) from his position without recourse to the CBN, the regulator, as required by relevant statutory provisions (Adamolekun, 2021). The huge loan facility (which subsequently became non-performing) provided by the First Bank to Honeywell Flour Mills Plc – whose board was chaired by its former chairman and erstwhile chairman when it transformed into bank holding company – became an issue. While the bank management insisted on repayment of the loan facility, according to CBN directives (Olowogboyega, 2021), the board of the parent, chaired by the person affected by the loan, considered it an affront (Chima and Emejo, 2021). In short, the overwhelming influence of the chairman of FBN Holdings considered by the CBN a gross corporate governance failure and insider abuse by the shareholders (Ujah and Komolafe, 2021) is at least commensurate with their level of entrenchment associated with their substantial shareholdings. Similar corporate governance failures, which are unlikely to occur in the absence of managerial entrenchment practices, were evident before the CBN recently dissolved the boards of three banks in the country (Proshare, 2024). Since managerial entrenchment practices of corporate governance inconsistencies have the potential to wreak havoc on firms' financial standing when they become excessive (Antounian et al., 2021), the significance of this study exploring the nexus of managerial entrenchment, bank performance, and earnings quality in Nigeria cannot be overemphasized.

This study takes into consideration the interest of capital providers with non-controlling shareholding investors and depositors whose funds are held in the fiduciary capacity in the deposit money banks (DMBs), as they are called in Nigeria. Non-controlling investors and depositors require updated information on corporate governance practices in order to report to appropriate authorities if infractions are noticeable. This study has the potential to keep these groups of stakeholders informed to guarantee the security of their stakes. In the Nigerian context, this study primarily looks into managerial entrenchment in a holistic manner unlike previous studies, which rely on but a small number of individual measures (Aniukwu and Ofor, 2024; Ehikioya et al., 2021; Fagbemi et al., 2020; Farouk and Ahmed, 2023; Ogundele et al., 2024). Among these Nigerian studies, only Farouk and Ahmed (2023) and Ogundele et al. (2024) focused on DMBs. While Farouk and Ahmed (2023) tested the influence of only two measures of managerial entrenchment individually on earnings management, Ogundele et al. (2024) considered few managerial entrenchment attributes of banks' CEOs together with other traits in relation to earnings management. Testing the influence of managerial entrenchment on both bank performance and earnings quality in a single study is another way of this study's contribution to the literature, as separate tests were previously reported (Antounian et al., 2021; Bouaziz and Jarboui, 2024; Di Meo et al., 2017; Elhabashy, 2023; Farouk and Ahmed, 2023; Mohamed, 2021; Waseem et al., 2023). Further advancement in the literature, as exhibited in this study, is the test of moderating influence of bank performance and earnings quality when these are outcome variables. As to our knowledge, no previous studies have adopted this approach in the literature (Berger et al., 1997; Mselmi and Regaieg, 2017; Salehi et al., 2022). Given the continued resurgence of corporate reporting and governance inadequacies in the Nigerian banking sector (Chima and Emejo, 2021; Olowogboyega, 2021; Otusanya et al., 2013; Otusanya and Uadiale, 2014; Proshare, 2024; Sanusi, 2010; Ujah and Komolafe, 2021), the findings of this study provide additional inputs to the regulatory efforts towards resolving governance reporting inconsistencies. The findings of this study are also complementary to the annual mandated corporate governance audit of banks in Nigeria and may point to the publication of full reports in banks' annual reports rather than the current practice of publishing only excerpts.

The introductory section is followed by four other sections. Section 2 contains a review of previous empirical studies, which forms the premise of the study's hypothesis development. Section 3 focuses on the materials and methods adopted, including model specification and methods of estimation and data analysis. The presentation of results and discussion of findings subsequent to data analysis are the focus of Section 4. The final part (Section 5) draws conclusions, identifies implications, and makes recommendations based on the study's findings.

2. Literature Review and Hypothesis Development

2.1. Managerial Entrenchment and Firm Performance

Literature on the nexus between managerial entrenchment and firm performance appears somewhat scanty regarding the banking sector. For this reason, this paper relies on the works of Mselmi and Regaieg (2017), as well as Hirschey (1999) and Moudud-Ul-Huq et al. (2020) as reference points in the banking literature. Thus, to develop the study's hypothesis, reference is made to previous empirical findings regardless of the sector of focus. First, in the banking literature, Mselmi and Regaieg (2017) postulated that the influence of managerial entrenchment on the performance of Tunisian banks depended on the measures of entrenchment and performance adopted. In terms of volatility of stock prices, the majority of the adopted measures of managerial entrenchment (managerial tenure in years, the renewal of CEO positions upon expiration of their term, being in the position of CEO beyond legally allowed retirement age, and more than 10 years of seniority on the board) show no significant effect on stock price volatility except for the age of the CEO. The age factor, which is significant, is inversely related to stock price volatility, indicating that the stability of stock market variability is a function of CEOs' age compared to other measures. Similar behaviour is also noticeable when performance is measured by stock returns, as only the manager's age is significant but negative, suggesting that managerial entrenchment is at variance with Tunisian banks' performance. Some improvements were, however, observed when Tobin's Q was made the outcome variable as found by Mselmi and Regaieg (2017). With Tobin's Q as a measure of performance, the age of the CEO and their continued role in the capacity as CEO beyond legally-permitted retirement age are positively related to Tunisian banks' value, but only the former one is significant. In contrast, the coefficients of managerial compensation, CEO tenure, and more than 10 years of seniority in the bank as measures of managerial entrenchment were also significant but inversely related to bank value.

The managerial entrenchment effect of managerial ownership on bank value is positive for Bangladesh Islamic and conventional banks (Moudud-Ul-Huq et al., 2020) but negative for United States (US) bank holding companies based on evidence provided by Hirschey (1999), who also reported similar findings concerning return on assets (ROA) as a measure of bank performance, regardless of bank size (small, medium-size, and large). Entrenchment index calculated for the United Kingdom (UK) insurance industry is inversely related to insurance firms' performance measured by the proportion of dividends paid in net income (Adams et al., 2024).

In the non-financial sector, quite a number of studies have reported inverse relationship between managerial entrenchment and firm performance (Chang and Zhang, 2015; Florackis and Ozkan, 2009; Hu and Kumar, 2004; Lin et al., 2014; Moussa et al., 2013; Surroca and Tribó, 2008) when entrenchment index and/or one or more of its components are adopted. This is with regard to dividend payment, ROA and Tobin's Q, firm's asset turnover, accounting and market returns, internal control quality, and firm value as measures of performance. Similar evidence can also be obtained from the findings of Ulupinar (2018) as shown by increased analyst bias, of Martins (2019) in relation to firm's cash holdings, where entrenchment is indicated by managerial ownership rather than CEO duality, and of Antounian et al. (2021) in relation to stock returns and Tobin's Q. The decline in profitability as indicated by ROA was noticeable when related to managerial entrenchment in corporate Iran (Salehi and Moghadam, 2019). The impact of CEO shareholding as a measure of managerial entrenchment on ROA and Tobin's Q was found to be negative (Waseem et al., 2023), while increased managerial entrenchment index was found to cause a decrease in firm value (Hammad et al., 2024). In the French context, the impact of managerial entrenchment index on firm performance (ROA and market-to-book ratio) as found by Jaouadi and Feidi (2026) is negative.

Studies reporting a positive association with firm performance include those of Hu and Kumar (2004), who employed compensation- and tenure-related measures, Farinha (2003), who identified positive effects at entrenchment levels above 30%, and Kesten (2010), particularly in relation to stock returns during periods of financial crisis. Others are those of John and Litov (2010) and Ji et al. (2020) in relation to better financing terms, except that Ji et al's (2020) conclusions apply to diversified firms rather than focused ones. The increased level of managerial entrenchment leads to increased firm innovation (Salehi et al., 2018), growth in ROA and Tobin's Q (Salehi et al., 2021), and better return on equity (ROE) and ROA as individually indicated by CEO ownership, tenure, and age other than duality (Mohamed, 2021). The reduction in agency problem, as effected by managerial entrenchment power, is derived from Ehikioya et al's (2021) evidence regarding CEO tenure and executive ownership being inversely related to firm leverage, while improved performance is associated with an inverse relationship between managerial entrenchment index and stock price crash risk (Elhabashy, 2023). Only ROA is favourably explained by managerial entrenchment (Hammad et al., 2024) when compared with ROE and Tobin's Q as measures of performance, according to the findings of Hanna et al. (2024). The impact of managerial entrenchment on firm performance in the context of cash holdings is subject to the adopted measures of entrenchment (CEO duality, board independence, CEO tenure, and managerial ownership), the nature of firm liquidity (relative liquidity, illiquidity, or high liquidity), the measures of performance (ROA and ROE), and the regression

model types (Tawfik et al., 2024). The mixed evidence in the literature suggests that the propositions of entrenchment hypothesis can still hold, not having been completely negated hitherto. Thus, it is proposed that:

H1: The level of managerial entrenchment is significantly and inversely related to the performance of Nigerian banks.

2.2. Managerial Entrenchment and Earnings Quality

From a discretionary accounting perspective, there is abundant evidence in the literature that managerial entrenchment leads to a reduction in earnings quality. First, Brochet and Gao (2004) suggested that managerial entrenchment index is incidental to increased earnings smoothing pointing to reduced earnings quality, but mixed results were obtained from the components. The positive impact of anti-entrenchment mechanisms on the value relevance of earnings during the Enron scandal, as found by Ng et al. (2007), is synonymous to managerial entrenchment being incidental to reduction in earnings quality. Further evidence in this category include Fagbemi et al. (2020) with the results that CEO tenure as a measure of managerial entrenchment is positively related to earnings management. Managerial entrenchment does not only increase earnings management practices (García-Sánchez et al., 2020; Salehi, Dashtbayaz et al., 2021; Waseem et al., 2023), but it also reverses the negative relationship between corporate social responsibility (CSR) and earnings management (García-Sánchez et al., 2020; Kouba et al., 2024). The findings of García-Sánchez et al. (2020) are related to real and accrual-based earnings management, while those of Salehi, Dashtbayaz et al. (2021) concern predictive and accrual-based earnings management, with the latter not statistically significant. Kouba et al. (2024) opted for managerial ownership as a measure of managerial entrenchment. For Farouk and Ahmed (2023), CEO emolument affects positively the earnings management practices of Nigerian banks except when moderated by CEO share ownership, but chairman compensation is inversely related to earnings management, which, however, worsens when moderated by chairman shareholdings. Another Nigerian study, with its focus on listed consumer goods firms, found that managerial entrenchment practices had a positive influence on earnings management as measured by staggered boards, manager's tenure, and managerial emoluments, with only managerial emoluments being significant (Aniukwu and Ofor, 2024). According to Bouaziz and Jarbou (2024), CEO duality, ownership, and turnover (though not significant) as measures of managerial entrenchment are positively related to earnings management (indicating the low quality of financial communication), but for CEO age, as another measure of managerial entrenchment, the opposite is established. The evidence of reduced earnings quality can be inferred from Ogundele et al's (2024) findings suggesting the positive impact of CEO ownership on earnings management among Nigerian DMBs.

From the perspective of improved earnings quality, findings of Di Meo (2017) for firms domiciled in Delaware show that entrenchment has a negative impact on both real and accrual-based earnings management, providing supporting evidence. Even more can be deduced from the evidence pointing to managerial entrenchment index being negatively related to earnings management practices of Iranian-listed firms (Salehi et al., 2018) and the negative relationship existing between managerial entrenchment and real earnings management, rather than predictive and accrual-based earnings management (Salehi, Dashtbayaz et al., 2021). In Mari et al. (2017), whose conception of entrenchment is linked to majority shareholding, their analysis of banks from 35 countries showed that ownership concentration was positively related to earnings quality. The managerial entrenchment attribute that improved the quality of Nigerian banks' earnings, as found by Ogundele et al. (2024), was CEO tenure, albeit it was not found to be statistically significant. If entrenchment is measured in terms of the age of the CEOs, US evidence provided by Huang et al. (2012) showed that firms with older CEOs had no tendency to meet analysts' earnings forecast and were more likely to restate their financial reports. Notwithstanding the mixed evidence in the previous studies, considerable empirical evidence also aligns with the propositions of entrenchment hypothesis; thus, it is proposed that:

H2: The level of managerial entrenchment is significantly and inversely related to the earnings quality of Nigerian banks.

2.3. Moderating Effect

The separate moderating effect of firm performance and earnings quality as conceptualized in this study is limited as per the literature. However, some deductions can be made from the findings of Di Meo et al. (2017), Hammad et al. (2024), and Hanna et al. (2024) though none focused on the banking sector. According to Di Meo et al. (2017), the interaction of profitability level with entrenchment results in the reduction of earnings management though profitability as a standalone factor causes increased earnings smoothing. In the Egyptian context, while Hanna et al. (2024) provided empirical evidence that free cash flow as a measure of firm performance positively moderates the relationship between managerial entrenchment and ROE (another measure of performance), Hammad et al. (2024) found that the level of profitability failed to mediate the entrenchment–firm value nexus, given that the relationship is insignificant and negative. The previous findings support the present hypotheses that:

H3: Improved earnings quality positively moderates the relationship between the managerial entrenchment and performance of Nigerian banks.

H4: The level of bank profitability positively moderates the relationship between the managerial entrenchment and earnings quality of Nigerian banks.

3. Materials and Methods

3.1. Models and Variables

To attain the objective of this study, the procedures of the previous studies are followed. First, to derive the managerial entrenchment index (Entrenchment), deductions are made from the procedures adopted by Adams et al. (2024), Antounian et al. (2021), Elhabashy (2023), Hammad et al. (2024), Hanna et al. (2024), and Salehi et al. (2018). This results in the use of eight (8) different managerial and corporate governance attributes. These attributes are CEO shareholdings, managerial shareholdings, executive compensation, board independence (which incorporates the proportion of independent and non-executive directors), CEO seniority, tenure, and age.

As argued in the literature, managers/directors with substantial shareholding have the power to neutralize various control mechanisms put in place by the board and tend to be guided by their own desires (Berger et al., 1997; Salehi et al., 2018). Two arguments were brought up regarding the nexus between directors' compensation and firms' financial standing in the literature (Florackis and Ozkan, 2009; Salehi et al., 2018). While some studies consider executive compensation as a corporate governance attribute with a potential to mitigate agency conflicts (Core et al., 2003; Lin et al., 2014; Surroca and Tribó, 2008), a host of others suggest that executive compensation worsens the principal-agent problem when observed in an entity (Bebchuk and Fried, 2003; Florackis and Ozkan, 2009). It is also argued that other managerial entrenchment attributes like age, tenure, seniority, and ownership, which inform the extent of managerial power, are often used to provide justifications for higher executive pay in compensation negotiations (Shi and Pham, 2024). Thus, following the latter argument, higher-pay executives are likely to be highly entrenched, in line with assumptions of the entrenchment hypothesis (Berger et al., 1997).

CEOs with longer terms of office also tend to be more entrenched given their ability to form alliances that can weaken the entities' internal control mechanisms (Salehi et al., 2018). Managerial entrenchment tends to increase with longer terms of office, given the accumulation of relevant knowledge over time (Onali et al., 2016). Although two arguments emerge using CEO age as a measure of managerial entrenchment (Shi and Pham, 2024), this study aligns with the argument that an entity's performance and/or financial propriety are influenced by CEOs' aging (Mohamed, 2021) and that older managers/CEOs are seldom malleable (Moussa et al., 2013). The higher probability of being replaced (Goyal and Park, 2002) and/or being less attractive in the labour market (Mohamed, 2021) as the CEOs advance in age increase their level of entrenchment, making them implement decisions in their favour but at the expense of their principal. The theoretical argument shows that CEOs' ageing brings about firms' increased risk propensity and

prioritize short-term planning at the expense of long-range objectives (Hambrick and Mason, 1984). CEO seniority being a component of managerial entrenchment, there is an argument in the literature that seniority is the best measure of the level of entrenchment (Salas, 2010). This is because entrenchment tendencies can be associated with senior managers (Salas, 2010). Thus, the length of managerial seniority in the banking industry prior to being appointed as a CEO has a role to play in their level of entrenchment (Mselmi and Regaieg, 2017). With regard to board independence, improving board oversight functions and facilitating an increased level of CEO compliance with board's decisions inform the call for preponderance of independent/non-executive directors on corporate boards (Hu and Kumar, 2004). This suggests that managers tend to become more entrenched if the monitoring level is weak, as indicated by the lower proportion of independent and/or non-executive directors (Florackis and Ozkan, 2009). Upon establishing the rationale for the inclusion of the foregoing variables in the construction of the Entrenchment index, the measurements that facilitate the construction of the study's Entrenchment index are presented in *Table 1*.

Table 1. *Measurement of components of the Managerial Entrenchment Index*

S/N	Component	Component Name	Component Measurements
1	CEOSHR	CEO shareholdings	"1" if the proportion of CEO shareholdings in the total shareholdings of a bank is higher than the average for the sample period, otherwise "0"
2	DIRSHR	Managerial shareholdings	"1" if the proportion of directors' shareholdings in the total outstanding equity shares of a bank is higher than the average for the sample period, otherwise "0"
3	EXCOM	Executive compensation	"1" if the proportion of executive compensation in the total directors' emoluments of a bank is higher than the mean executive compensation for the sample period, otherwise "0"
4	NEXDIR	Non-executive Directors (Board Independence)	"1" if the proportion of non-executive directors on a bank board is lower than the average for the sample period, otherwise "0"
5	INDIR	Independent Directors (Board Independence)	"1" if the proportion of independent directors on a bank board is lower than the average for the sample period, otherwise "0"
6	CSEN	CEO Seniority	"1" if the number of years of banking experience of the CEO of a bank while serving his/her tenure is higher than the average for the sample period, otherwise "0"
7	CTEN	CEO Tenure	"1" if the duration of time for which a CEO holds their position is above 3 years, otherwise "0"
8	CAGE	CEO Age	"1" if the age of a bank CEO in years is higher than the average for the sample period, otherwise "0"

Source: authors' compilation (2025)

Based on *Table 1*, Entrenchment is derived using the specification in equation (1). From equation (1), it is evident that Entrenchment ranges between 0 and 1. While “0” indicates evidence of no entrenchment, “1” represents a full-scale managerial entrenchment.

$$Entrenchment_{it} = \left(\frac{CEOSHR_{it} + DIRSHR_{it} + EXCOM_{it} + NEXDIR_{it} + INDIR_{it} + CSEN_{it} + CTEN_{it} + CAGE_{it}}{8} \right) \quad (1)$$

In line with the study’s objective, this study has two dependent variables (which equally serve as moderating variables): bank performance (BPERF) and earnings quality (BEQT). Using the approach of Salami and Uthman (2018), three measures of bank performance: ROA, ROE, and net interest margin (NIM) are adopted. While ROA and ROE are commonly used regardless of industry (Mohamed, 2021; Moussa et al., 2013), NIM is peculiar to the banking industry (Salami et al., 2021). In the relevant banking literature, discretionary loan loss provisions (DLPV) is a measure of discretionary accruals used to proxy earnings smoothing/management (Salami, 2024; Salami and Uthman, 2024; Salami et al., 2022; Salami et al., 2020). To derive discretionary accruals, loan loss models are often estimated (Kanagaretnam et al., 2003). The non-discretionary loan loss model of Kanagaretnam et al. (2003) with components explicitly derivable from the financial statements of Nigerian banks is adopted, having been previously validated by studies with a similar geographical focus (Salami, 2024; Salami and Uthman, 2024; Salami et al., 2020). This non-discretionary loan loss model from which discretionary accruals are derived is specified in equation (2) as follows:

$$LLPS_{it} = \beta_0 + \beta_1 NPLOAN_{it-1} + \beta_2 CNPLOAN_{it} + \beta_3 CLOAN_{it} + \mu_{it} \quad (2)$$

The non-discretionary components of equation (2) are NPLOAN, CNPLOAN, and CLOAN, while the residual μ stands for DLPV. A product of DLPV and -1 amounts to earnings quality (BEQT) following the approach of previous studies (Bose and Yu, 2023; Kanagaretnam et al., 2014; Perotti and Wagenhofer, 2014) and based on the argument that earnings management is an inverse of earnings quality (Olagunju et al., 2024). The definitions and measurements of variables in equation (2) are presented in *Table 2*.

Table 2. *Definitions of non-discretionary loan loss model variables*

S/N	Variable	Variable Name	Measurements
1	LLPS	Loan Loss Provisions	Loan loss provisions in year t divided by bank total loans in year t-1
2	NPLOAN	Non-performing loans	Non-performing loans of the previous period scaled by gross loans of the previous period

S/N	Variable	Variable Name	Measurements
3	CNPLOAN	Change in non-performing loans	Difference between current and previous periods' non-performing loans scaled by the previous period's non-performing loans
4	CLOAN	Change in gross loans	Difference between current and previous periods' gross loans scaled by the previous period gross loans

Source: authors' compilation (2025)

There are other firm-specific and corporate governance variables often controlled for in studies focused on the nexus between managerial entrenchment and firm financial standing. At the firm level, relevant variables include firm size, revenue growth, leverage, and firm age (Adams et al., 2024; Antounian et al., 2021; Bouaziz and Jarboui, 2024; Elhabashy, 2023; Hammad et al., 2024). The most common corporate governance variables are board size and institutional ownership (Hanna et al., 2024; Salehi and Moghadam, 2019). Given the key role played by capital adequacy in the going concern of banking institutions and its level of regulation (Salami, 2018; Salami and Uthman, 2018), the empirical explanation of bank financial standing is not complete without controlling for capitalization (Salami et al., 2024). To test the study's first hypothesis, therefore, bank corporate performance (BPERF) is made a function of managerial entrenchment (Entrenchment) as specified in equation (3).

$$BPERF_{it} = \delta_0 + \delta_1 BPERF_{it-1} + \delta_2 Entrenchment_{it} + \delta_3 CONTROL_{it} + \epsilon_{it} \quad (3)$$

The second hypothesis, which seeks to outline the nexus between managerial entrenchment and bank earnings quality (BEQT), calls for the specification of equation (4), while the moderating influence of bank earnings quality and corporate performance is tested using the specifications provided in equations (5) and (6) respectively.

$$BEQT_{it} = \delta_0 + \delta_1 BEQT_{it-1} + \delta_2 Entrenchment_{it} + \delta_3 CONTROL_{it} + \epsilon_{it} \quad (4)$$

$$BPERF_{it} = \delta_0 + \delta_1 BPERF_{it-1} + \delta_2 Entrenchment_{it} + \delta_3 BEQT_{it} + \delta_4 (Entrenchment \times BEQT)_{it} + \delta_5 CONTROL_{it} + \epsilon_{it} \quad (5)$$

$$BEQT_{it} = \delta_0 + \delta_1 BEQT_{it-1} + \delta_2 Entrenchment_{it} + \delta_3 BPERF_{it} + \delta_4 (Entrenchment \times BPERF)_{it} + \delta_5 CONTROL_{it} + \epsilon_{it} \quad (6)$$

In equations (3), (4), (5), and (6), BPERF and CONTROL are vector variables of the 3 and 7 standalone variables respectively. These variables and other ones overtly specified in equations (3), (4), (5), and (6) have their measurements presented in Table 3.

Table 3. *Measurement of the studied variables for hypotheses testing*

S/N	Variable	Variable Name	Measurements
1	ROA	Return on Asset	After-tax earnings scaled by bank total assets
2	ROE	Return on Equity	After-tax earnings scaled by bank total equity
3	NIM	Net Interest Margin	Net interest income scaled by total assets
4	BEQT	Earnings Quality	A product of -1 and DLPV derived from equation (2)
5	Entrenchment	Managerial Entrenchment Index	Entrenchment index as derived from equation (1)
6	Entrenchment x BEQT	Entrenchment and earnings quality	Interactions of bank managerial entrenchment with earnings quality
7	Entrenchment x ROA	Entrenchment and bank performance	Interactions of bank managerial entrenchment with returns on asset
8	Entrenchment x ROE	Entrenchment and bank performance	Interactions of bank managerial entrenchment with returns on equity
9	Entrenchment x NIM	Entrenchment and bank performance	Interactions of bank managerial entrenchment with interest margin
10	Bank Size	Firm Size	Natural logarithm of bank total assets
11	Revenue Growth	Bank Gross Earnings Growth	Change in bank gross earnings between year t and year t-1 scaled by gross earnings of year t-1
12	Leverage	Bank Leverage	Ratio of bank total liabilities to total assets
13	Bank Age	Bank Age in years	Natural logarithm of bank age in years since incorporation
14	Capital Adequacy	Regulatory Capital Adequacy Ratio	Total regulatory capital ratio as reported in the banks' annual reports
15	Board Size	Bank Board Size	Natural logarithm of number of directors on bank boards
16	Institutional Owner	Institutional Ownership	Proportion of shares owned by the institutional investors of the bank

Source: authors' compilation (2025)

3.2. Data and Estimation Techniques

Two sets of variables, bank-specific and corporate governance, used for this study can be obtained from the sampled banks' annual reports. While bank-specific ones are fully included in the published annual reports and accounts, some further corporate governance variables, especially those related to bank CEOs' age (CAGE) and seniority (CSEN) – which are part of Entrenchment components –, are obtained from other online sources, including Biographical Legacy and Research Foundation Nigeria, LinkedIn, RocketReach, as well as newspaper and magazine reports –

when not available in the published annual reports. Data are obtained for a period spanning 14 years (2010–2023) from the annual reports of 16 DMBs, including bank holding companies, commercial and merchant banks, based on accessibility to relevant data. Although there was a total of 36 DMBs, consisting of 26 commercial, 6 merchant, and 4 non-interest banks in Nigeria as at 26 April 2024, only 16 of them could provide sufficient financial information required for the study. Non-interest banks have different corporate reporting practices, while 4 of the merchant banks and 12 of the commercial banks are either newly established or do not have their financial information publicly available. While 2010 was significant in terms of the regulatory reforms of banks' activities and governance in Nigeria by the CBN, 2023 was the closing year for our data collection aimed at banks' relevant annual financial information. Although 14 years of data for 16 sampled banks would yield 224 bank-year observations, only 213 bank-year observations are used in the analysis due to missing annual audited financial statements for some banks.

Panel regression model is applied to data analysis given the study's level of data collection, which is longitudinal. A basic static panel model, which requires the choice between random-effects (RE) and fixed-effects (FE) models, is first proposed following the approach of previous studies (Dahal et al., 2025; Popov, 2024; Pu, 2025; Salami et al., 2024; Singhanian, 2024). However, as a number of issues – while estimating bank financial condition, including unobserved heterogeneity, autocorrelation, persistence of bank margin, and in particular endogeneity – are statistically examined using dynamic panel models (Batten and Vo, 2019), Baltagi's panel two-stage least squares random-effects instrumental variables (IV) regression (EC2SLS) is applied. The choice of EC2SLS over the panel-generalized method of moments (GMM) is premised on the higher probability of instruments in excess of cross-sections when GMM is applied and study sample size is small (Roodman, 2009). To validate the results of the panel regression analyses performed, various diagnostic tests, including the test of endogeneity and Hansen's J test of overidentifying restrictions (overid) in relation to dynamic panel model, are carried out. Further ones are variance inflation factor (VIF) and correlation analysis for multi-collinearity diagnostics. To summarize the study data, basic descriptive statistics of frequency, percentage, mean, standard deviation, and range are also performed.

4. Results and Discussion

4.1. Derivation of Bank Earnings Quality

To derive bank earnings quality (BEQT), Kanagaretnam et al's (2003) loan loss model is estimated using the study's data to obtain the discretionary loan loss provisions (DLPV). The results of this estimation using the Cochrane–Orcutt regression (Corc-Reg) following the approach of previous studies (Salami and

Uthman, 2022; Salami et al., 2022) are presented in *Table 4*. As evident from *Table 4*, NPLOAN and CNPLOAN have significantly positive coefficients, while CLOAN's coefficient, which is also statistically significant, is negative. The positive coefficients for the two non-discretionary components show that increase in non-performing loans and upward growth in non-performing loans result in increased loan loss provisions (LLPV). However, positive growth in gross loans leads to decreased LLPV. This is an indication that an increased LLPV is driven more by a higher proportion of non-performing loans and growth in non-performing loans than by positive credit growth. These findings are broadly consistent with the earliest propositions of Kanagaretnam et al. (2003) and support Nigerian evidence as reported by Salami et al. (2022) and Salami and Uthman (2022) except for the coefficient of CLOAN. The residuals from the estimates presented in *Table 4* are considered DLPV, while the results of their multiplication by -1 represent earnings quality (BEQT).

Table 4. *Kanagaretnam et al's (2003) Loan Loss Model*

Variable	Coef.	Std. Err.	t	P > t
NPLOAN	0.249**	0.031	8.03	0.000
CNPLOAN	0.013***	0.002	8.35	0.000
CLOAN	-0.006**	0.002	-2.52	0.012
cons	0.005**	0.003	1.98	0.049
R ²	0.351			
Adjusted R ²	0.341			
F-stat	34.74(0.000)***			
Root MSE	0.019			
Observations	197			
Model Type	Corc-Reg			

Source: authors' computations (2025)

4.2. Descriptive Statistics of Entrenchment Components

The descriptive statistics of 8 corporate governance measures used to construct the Entrenchment index are presented in *Table 5*, but in categorical form, as defined in *Table 1*. The descriptive statistics are frequency and percentage. Based on the metrics in *Table 5*, managerial entrenchment can be prompted by higher executive compensation, higher banking experience of CEOs, older CEO age, and low board independence rather than CEO shareholdings, directors' shareholdings, and CEO tenure. This is reflected by the more of category "1" in the frequencies of EXCOM, CSEN, CAGE, NEXDIR, and INDIR against the less of category "1" of CEOSHR, DIRSHR, and CTEN. Though, as displayed in *Table 5*, there are more

managerial entrenchment components with higher frequencies of category “1”, little difference in the categories of the entrenchment components with higher category “1” against the great difference in the categories of the entrenchment components with higher category “0” is suggestive of the low level of managerial entrenchment (Entrenchment) in the Nigerian banking industry. It is also noted that the shorter tenure of bank CEOs in Nigeria based on the preponderance of category “0” for the CTEN component might be attributed to the fallout of 2010 prudential guidelines reform, which pegged the tenure of Nigerian bank CEOs at a maximum of 10 years, comprising two terms of 5 years each.

Table 5. *Descriptive statistics of components (in dichotomous form) of the Managerial Entrenchment Index*

Variables	Category	Frequency	Percentage
CEOSHR	0	188	88.26
	1	25	11.74
	Total	213	100
DIRSHR	0	158	74.18
	1	55	25.82
	Total	213	100
NEXDIR	0	88	41.31
	1	125	58.69
	Total	213	100
INDIR	0	92	43.19
	1	121	56.81
	Total	213	100
EXCOM	0	104	48.83
	1	109	51.17
	Total	213	100
CSEN	0	104	48.83
	1	109	51.17
	Total	213	100
CTEN	0	112	52.58
	1	101	47.42
	Total	213	100
CAGE	0	98	46.01
	1	115	53.99
	Total	213	100

Source: authors' computations (2025)

4.3. Summary Statistics of the Study Variables

The descriptive statistics of all study variables, especially those with no interaction terms, is presented in *tables 6A–B*. As presented in *Table 6A*, banks in Nigeria are profitable over the sampled period, as indicated by the positive mean values of all bank performance measures adopted in the study. Notwithstanding satisfactory performance, there are concerns regarding the negative minimum values for each of the measures. In fact, the negative minimum values are in excess of the positive mean values, except for the NIM value. For DLPV, which is the source of BEQT, there is evidence of income-increasing earnings smoothing when positive mean value is considered. However, both income-reducing and income-increasing earnings smoothing practices are evident if negative minimum value is also taken into consideration. The excess positive DLPV values are reflected in the negative mean values of BEQT, which is a product of -1 and DLPV.

This negative mean value of BEQT and its closeness to zero question the quality of earnings of Nigerian banks. The low level of managerial entrenchment reported in *Table 5* is further evidenced in *Table 6A*, as the mean value of Entrenchment appears not to be close to 1 (0.446). Nonetheless, cases of full managerial entrenchment with a maximum value of “1” and no entrenchment with a minimum value of “0” are evident. Without prejudice towards the negative minimum value of bank earnings growth, the positive mean value for Revenue Growth over the sampled period is good for Nigerian banks’ resilience and sustainability. A similar finding can be mentioned for the positive mean value of capital adequacy ratio despite an excessive negative minimum value of 202%. The high level of deposit mobilization of Nigerian banks can be deduced from the high proportion of bank liabilities in the assets given a mean value of 89.6%. There is also an appreciable level of institutional investment in the Nigerian banking industry if a mean value of 43% for INST is taken into consideration. The high level of variability of 6 (ROA, ROE, DLPV, BEQT, Revenue Growth, and Capital Adequacy) out of the 13 variables presented in *Table 6A* is noticeable given that their standard deviations exceed the mean values.

As obtained from *Table 6A*, a number of variables yield questionable extreme descriptive values. These outliers can be associated with capital adequacy ratio (minimum and maximum values), leverage (maximum value), ROE (minimum and maximum values), ROA (minimum value), BEQT (mean value), and NIM (minimum value). To address these outliers, the variables are winsorized at 94th and 6th percentiles. Upon winsorization, the descriptive statistics of the affected variables displaying their normalization is presented in *Table 6B*. Also included in *Table 6B* is the summary statistics of the alternative managerial entrenchment index (Entrenchment2) derived using principal components analysis (PCA) following the approach of previous studies (Salehi and Arianpoor, 2022; Seifzadeh et al., 2022).

Table 6A. *Descriptive statistics of the study variables*

Variable	Observations	Mean	Std. Dev.	Min	Max
ROA	213	0.017	0.020	-0.095	0.106
ROE	213	0.100	0.340	-3.943	1.107
NIM	213	0.049	0.038	-0.0130	0.327
DLPV	213	9.60E-12	0.027	-0.227	0.097
BEQT	213	-9.60E-12	0.027	-0.097	0.227
Entrenchment	213	0.446	0.179	0.000	1.000
Revenue Growth	213	0.179	0.265	-0.585	1.433
Board Size	213	2.517	0.241	1.792	2.996
Institutional Owner	213	0.433	0.327	0.000	1.000
Leverage	213	0.896	0.182	0.714	2.548
Capital Adequacy	213	0.154	0.308	-2.016	0.773
Bank Age	213	3.650	0.530	2.944	4.860
Bank Size	213	21.035	1.201	18.176	24.000

Source: authors' computations (2025)

Table 6B. *Descriptive statistics of winsorized variables and Entrenchment2*

Variable	Observations	Mean	Std. Dev.	Min	Max
ROA	213	0.018	0.012	0.003	0.042
ROE	213	0.133	0.084	-0.005	0.291
NIM	213	0.045	0.015	0.019	0.071
BEQT	213	-0.0003	0.019	-0.047	0.023
Capital Adequacy	213	0.200	0.061	0.103	0.320
Leverage	213	0.870	0.043	0.780	0.940
Entrenchment2	213	10.067	0.813	7.355	11.862

Source: authors' computations (2025)

4.4. Multicollinearity Diagnostics and Correlation Analysis

The results presented in *Table 7* for the correlation matrix serve the dual purpose of pairwise correlation analysis and multi-collinearity problem diagnostics. However, the results of VIF in *Table 8* are intended exclusively for the detection of the multicollinearity problem. In *Table 7*, it is evident that Entrenchment (the study's main explanatory variable) is positively related to all dependent variables. This shows that managerial entrenchment is positively related to bank corporate performance and earnings quality in Nigeria. However, the positive relationship is statistically significant only for ROE and BEQT. Another explanatory variable with a similar sign of coefficient with all the study's dependent variables is bank age, but

in this case the negative coefficient is statistically significant with ROA and ROE alone. All other explanatory variables' relationship with the study's dependent variables is mixed in terms of the sign of coefficients, but only capital adequacy ratio has a negative coefficient, all coefficients being statistically significant.

With regard to the multicollinearity problem, there is only one pair of variables with a correlation coefficient > 0.80 . This pair of variables is Capital Adequacy Ratio and Leverage, with a correlation coefficient of -0.93 . This questions the joint specification of both variables in a model. However, based on *Table 8*, the VIF and tolerance values fall below 10 and exceed 0.10 respectively. VIF and tolerance values below benchmarks for both variables in *Table 8* invalidate the evidence of the multicollinearity problem established in *Table 7* given the fact that VIF is superior to correlation matrix in multicollinearity diagnostics. This is because the correlation coefficient in a model involving more than two explanatory variables is not a reliable indicator of the multicollinearity problem (Gujarati and Porter, 2009). Better still, the mean VIF for each of the models presented in *Table 8* is below the benchmark of 10, with the highest being 3.01.

Table 7. *The study's correlation matrix*

Variables	ROA	ROE	NIM	BEQT	Entrenchment	Revenue Growth	Board Size	Institutional Owner	Leverage	Capital Adequacy	Bank Age	Bank Size
ROA	1.000											
ROE	0.419*	1.000										
	(0.000)											
NIM	-0.191*	-0.025	1.000									
	(0.005)	(0.713)										
BEQT	0.399*	0.342*	-0.201*	1.000								
	(0.000)	(0.000)	(0.003)									
Entrenchment	0.021	0.169*	0.098	0.167*	1.000							
	(0.763)	(0.014)	(0.152)	(0.015)								
Revenue Growth	0.136*	0.097	-0.102	-0.088	-0.068	1.000						
	(0.048)	(0.159)	(0.136)	(0.201)	(0.327)							
Board Size	-0.088	-0.050	0.010	-0.096	0.198*	-0.009	1.000					
	(0.200)	(0.471)	(0.884)	(0.163)	(0.004)	(0.895)						
Institutional Owner	-0.065	-0.001	-0.057	0.012	0.050	-0.146*	-0.132	1.000				
	(0.348)	(0.984)	(0.405)	(0.866)	(0.466)	(0.033)	(0.054)					
Leverage	-0.354*	-0.112	0.291*	-0.044	0.177*	-0.090	-0.242*	0.061	1.000			
	(0.000)	(0.103)	(0.000)	(0.523)	(0.010)	(0.193)	(0.000)	(0.377)				

Variables	ROA	ROE	NIM	BEQT	Entrenchment	Revenue Growth	Board Size	Institutional Owner	Leverage	Capital Adequacy	Bank Age	Bank Size
Capital adequacy	0.359*	0.165*	-0.280*	0.146*	-0.204*	0.140*	0.183*	-0.113	-0.933*	1.000		
	(0.000)	(0.016)	(0.000)	(0.033)	(0.003)	(0.041)	(0.007)	(0.101)	(0.000)			
Bank Age	-0.209*	-0.141*	-0.018	-0.055	-0.140*	-0.025	-0.004	0.094	0.028	-0.022	1.000	
	(0.002)	(0.040)	(0.797)	(0.425)	(0.041)	(0.722)	(0.957)	(0.173)	(0.682)	(0.748)		
Bank Size	0.0898	0.182*	-0.041	-0.110	-0.148*	0.227*	0.203*	-0.469*	-0.115	0.156*	0.276*	1.000
	(0.1918)	(0.008)	(0.554)	(0.111)	(0.031)	(0.001)	(0.003)	(0.000)	(0.095)	(0.023)	(0.000)	

Source: authors' computations (2025)

Note: * stands for statistical significance at 5%, while p-values are in parenthesis.

Table 8. Variance Inflation Factor (VIF)

Model	No Moderation		ROA Moderation		ROE Moderation		NIM Moderation		BEQT Moderation	
Variable	VIF	Tolerance	VIF	Tolerance	VIF	Tolerance	VIF	Tolerance	VIF	Tolerance
Entrenchment	1.16	0.863	1.18	0.844	1.25	0.803	1.16	0.863	1.22	0.819
ROA			1.32	0.760						
ROE					1.22	0.817				
NIM							1.12	0.894		
BEQT									1.21	0.828
Revenue Growth	1.09	0.916	1.10	0.912	1.09	0.916	1.10	0.911	1.11	0.902
Board Size	1.22	0.817	1.30	0.769	1.26	0.794	1.23	0.814	1.24	0.806
Institutional Owner	1.30	0.767	1.30	0.767	1.33	0.755	1.31	0.761	1.30	0.767
Leverage	8.36	0.120	8.49	0.118	8.42	0.119	8.45	0.118	9.00	0.111
Capital Adequacy	8.33	0.120	8.34	0.120	8.54	0.117	8.33	0.120	9.35	0.107
Bank Age	1.11	0.898	1.18	0.849	1.15	0.868	1.11	0.897	1.11	0.898
Bank Size	1.52	0.658	1.55	0.646	1.65	0.606	1.52	0.657	1.53	0.654
Mean VIF	3.01		2.86		2.88		2.81		3.01	

Source: authors' computations (2025)

4.5. Regression Estimates and Test of Hypotheses

The results of the test of the first and second hypotheses related to how managerial entrenchment influences bank performance (ROA, ROE, and NIM) and earnings quality (BEQT) are presented in *Table 9*. In *Table 10*, the results of the third and fourth hypotheses are presented in columns 5, 6, and 7, including the results of moderating influence of earnings quality on the Entrenchment–bank performance nexus, while columns 8, 9, and 10 show the results of moderating influence of bank performance on the Entrenchment–earnings quality nexus.

4.5.1. The First and Second Hypotheses

The results of these two hypotheses are presented in *Table 9*, alongside a total of four models, three of which related to bank performance. The estimates in the first three columns test the first while the ones in the fourth column test the second hypothesis. All the models are based on the EC2SLS estimates. As revealed by the results of diagnostic tests, the problem of endogeneity is not evident given the fact that none of the chi-squared statistics are statistically significant at $p < 5\%$. This attests to the fact that all study variables are exogenous. Similar results can be obtained from Hansen's J tests of overidentifying restrictions (Overid), as the non-significant chi-squared statistics at the 5% level of significance indicate that the instruments are not correlated with all the disturbance terms across all models. This confirms the validity of all models' instruments, leading us to the conclusion that the studied models' specifications are statistically correct (Carrasco and Doukali, 2022). The appropriateness of all the models presented in *Table 9* can also be confirmed from the statistical significance of the Wald tests at $p < 0.05$.

Table 9. Managerial entrenchment with bank performance and earnings quality (without moderation)

Model	(1)	(2)	(3)	(4)
VARIABLES	ROA	ROE	NIM	BEQT
Lagged Dep. Var.	0.473*** (7.706)	0.536*** (9.136)	0.640*** (10.39)	0.340*** (4.771)
Entrenchment	0.007** (2.323)	0.036* (1.770)	0.003 (0.600)	0.018** (2.502)
Revenue Growth	0.007*** (3.559)	0.069*** (4.791)	0.008*** (2.610)	-0.016*** (-3.330)
Board Size	-0.007*** (-2.918)	-0.030* (-1.933)	0.0003 (0.0947)	-0.005 (-0.897)

Model	(1)	(2)	(3)	(4)
VARIABLES	ROA	ROE	NIM	BEQT
Institutional Owner	0.003*	0.021*	-0.004	0.005
	(1.896)	(1.698)	(-1.616)	(1.101)
Leverage	-0.044***	0.063	-0.091***	0.100**
	(-2.694)	(0.530)	(-3.343)	(2.396)
Capital Adequacy	0.068***	0.524***	-0.040*	0.090**
	(3.985)	(4.361)	(-1.727)	(2.506)
Bank Age	-0.002**	-0.004	0.001	-0.001
	(-1.961)	(-0.547)	(0.286)	(-0.349)
Bank Size	0.002***	0.017***	-0.001	0.0003
	(3.975)	(4.394)	(-1.181)	(0.254)
Constant	0.008	-0.403***	0.119***	-0.104**
	(0.412)	(-2.864)	(3.687)	(-2.174)
R²: within	0.241	0.236	0.371	0.151
between	0.950	0.966	0.874	0.680
overall	0.695	0.674	0.496	0.247
Wald	437.1***	401.5***	186.2***	67.74***
Endogeneity	0.44(0.509)	0.07(0.786)	2.57(0.109)	0.55(0.460)
Overid	1.77(0.184)	2.35(0.125)	1.11(0.292)	0.25(0.616)
Observations	197	197	197	197
Number of Group	16	16	16	16
Model Type	EC2SLS	EC2SLS	EC2SLS	EC2SLS

Source: authors' computations (2025)

Note: z-statistics in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Only statistics are reported for the results of Wald statistics, while chi-squared statistics with the p-values in parentheses are reported for tests of endogeneity and overidentifying restrictions (overid). Lagged Dep. Var. represents one-year lag of each of the study's outcome variables (ROA, ROE, NIM, and BEQT).

The proposition of entrenchment theory appears not to be valid based on the coefficients of Entrenchment in *Table 9*. As evident, the coefficients of Entrenchment in the ROA, ROE, NIM, and BEQT models are all positive and statistically significant except in the NIM model. This shows that entrenched managers have tendencies to use their entrenched position to improve the performance and earnings quality of Nigerian banks. The case of managerial entrenchment not having negative influence on the success and going concern of a bank is suggestive of the fact that managerial substantial shareholdings, compensation received by managers, higher banking experience of the CEOs, their longer tenure and older age are

likely to be used in favour of the owners to ensure the maximization of their wealth and eventual sustainability. These findings suggest that the first and second hypotheses, which propose the inverse relationship of managerial entrenchment with bank performance and earnings quality, have to be rejected. This rejection is substantially valid when bank performance is measured by ROA and ROE, but when indicated by NIM, a certain degree of caution is necessary because the coefficient of Entrenchment in the NIM model is not statistically significant, though positive. Similarly, the inverse nexus hypothesis between entrenchment and earnings quality is also rejected, given the statistically significant and positive coefficient of entrenchment in the BEQT model, as in the ROA and ROE models.

The findings of this study are not isolated in the literature. In the banking literature, Moudud-Ul-Huq et al. (2020) and Mselmi and Regaieg (2017) have established similar findings pointing to the positive nexus between managerial entrenchment and performance for the Jordanian as well as the Tunisian banking sector, albeit opposite findings were reported by Adams et al. (2024) and Hirschey (1999) for the UK insurance industry and the US banking sector respectively. In the non-financial sector, reference can be made to the findings of Elhabashy (2023), Hammad et al. (2024), Hanna et al. (2024), Mohamed (2021), and Salehi et al. (2021), while contrary evidence was obtained by Hammad et al. (2024), Salehi and Maghadam (2019), Waseem et al. (2023), and Jaouadi and Feidi (2026). Regarding the Entrenchment–BEQT positive nexus, the present findings are somehow a confirmation of those of Huang et al. (2012) in terms of CEO age, of Salehi, Dashtbayaz et al. (2021) and Salehi et al. (2018) when linked to real earnings management, and of Mari et al. (2017) and Ogundele et al. (2024) in terms of CEO tenure. The present findings, however, contradict those of a number of previous studies (Aniukwu and Ofor, 2024; Brochet and Gao, 2004; Fagbemi et al., 2020; García-Sánchez et al., 2020; Salehi, Dashtbayaz et al., 2021).

For other explanatory variables controlled for, there is not any variable with a similar sign of coefficient like Entrenchment, the main explanatory variable, other than the lag of dependent variables, which has statistically significant and positive coefficients across all models. The statistical significance of this variable is an indication that the study's outcome variables are a function of their lags confirming the appropriateness of the adopted dynamic models. However, more positive coefficients are evident with Capital Adequacy, Revenue Growth, Institutional Owner, and Bank Size, as explanatory variables indicating their importance in explaining bank corporate performance and earnings quality. Bank performance as measured by ROA and ROE is positively and significantly explained by all four variables, while BEQT is positively explained by Capital Adequacy, Institutional Owner, and Bank Size, though only Capital Adequacy is statistically significant. For NIM, both Revenue Growth and Capital Adequacy have a significant impact based on the level of significance of their coefficients, but only the coefficient of

Revenue Growth is positive. However, an excess of negative coefficients is exhibited by other variables, except for Leverage, which displays an equal distribution of positive and negative coefficient signs. The impact of Board Size and Bank Age on bank performance is negative across all measures, with the exception of NIM, but is statistically significant only in the ROA model. The negative impact of both variables on BEQT is not statistically significant. The effect of Leverage on bank performance is negative, except for ROE, but not statistically significant, while the impact on earnings quality is positive and statistically significant. In terms of models, more statistically significant estimates are obtained from the ROA and ROE models when compared to the NIM and BEQT models.

4.5.2. The Third and Fourth Hypotheses

Test results for the third and fourth hypotheses are presented in *Table 10* following similar estimation techniques (EC2SLS) as presented in *Table 9*. Similar evidence indicates that the instruments used in the study models' are not correlated with the error terms based on the non-significance of Overid at $p < 5\%$ across all models presented in *Table 10*. It is likewise observable that the case of endogeneity not being pronounced indicates that the study's variables are exogenous. As Overid validates the correctness of the study models' specifications, the statistical significance of the Wald test at $p < 5\%$ serves as yet another confirmation.

Based on the estimates presented in *Table 10*, there is sufficient statistical evidence to reject the third hypothesis, but there is substantial evidence to accept the fourth hypothesis. According to the estimates presented in models 5, 6, and 7, there is no evidence of improvement in the Entrenchment–bank performance relationship following moderation by bank earnings quality. This reflects in the negative coefficients of Entrenchment $\times$ BEQT in all the models in columns 5, 6, and 7 except for the NIM model.

Table 10. Managerial entrenchment with bank performance and earnings quality (with moderation)

Model	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	ROA	ROE	NIM	BEQT	BEQT	BEQT
Lagged Dep. Var.	0.481*** (7.980)	0.528*** (9.165)	0.595*** (9.488)	0.358*** (5.128)	0.358*** (5.174)	0.273*** (3.851)
Entrenchment	0.005* (1.724)	0.025 (1.189)	0.006 (1.231)	0.024** (1.991)	0.035*** (2.890)	-0.006 (-0.237)
BEQT	0.156** (2.384)	1.248*** (2.655)	-0.209** (-2.057)			
Entrenchment $\times$ BEQT	-0.239 (-1.613)	-2.081** (-1.967)	0.204 (0.895)			

Model	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	ROA	ROE	NIM	BEQT	BEQT	BEQT
ROA				0.627** (2.066)		
Entrenchment× ROA				0.615* (1.947)		
ROE					0.125*** (2.995)	
Entrenchment× ROE					0.183** (2.020)	
NIM						-0.557** (-2.316)
Entrenchment× NIM						0.531** (2.042)
Revenue Growth	0.008*** (3.940)	0.073*** (5.045)	0.006* (1.839)	-0.017*** (-3.654)	-0.019*** (-3.989)	-0.015*** (-3.360)
Board Size	-0.006*** (-2.813)	-0.029* (-1.886)	-0.0003 (-0.087)	-0.0003 (-0.058)	-0.0003 (-0.0500)	-0.005 (-0.996)
Institutional Owner	0.003 (1.629)	0.017 (1.419)	-0.004 (-1.533)	0.003 (0.735)	0.004 (0.849)	0.001 (0.140)
Leverage	-0.050*** (-3.049)	0.020 (0.165)	-0.081*** (-3.016)	0.116*** (2.816)	0.0858** (2.108)	0.0441 (1.030)
Capital Adequacy	0.060*** (3.554)	0.493*** (4.054)	-0.031 (-1.348)	0.041 (0.936)	0.048 (1.086)	0.069* (1.848)
Bank Age	-0.002 (-1.483)	-0.001 (-0.0619)	-0.0002 (-0.120)	0.0005 (0.225)	0.0003 (0.106)	-0.001 (-0.400)
Bank Size	0.002*** (3.611)	0.016*** (4.078)	-0.001 (-0.935)	-0.001 (-0.502)	-0.001 (-0.581)	-1.25e-05 (-0.0101)
Constant	0.017 (0.917)	-0.339** (-2.414)	0.110*** (3.463)	-0.112** (-2.406)	-0.088* (-1.733)	-0.0162 (-0.310)
R ² : within between overall	0.275 0.941 0.710	0.278 0.958 0.690	0.397 0.892 0.521	0.214 0.603 0.293	0.229 0.590 0.304	0.202 0.779 0.307
Wald	462.1***	425.1***	202.7***	79.39***	84.27***	86.89***
Endogeneity	0.41(0.520)	0.07(0.796)	2.19(0.139)	0.24(0.621)	0.65(0.421)	0.16(0.687)
Overid	1.77(0.183)	2.41(0.121)	0.89(0.344)	0.32(0.570)	0.40(0.528)	0.07(0.785)
Observations	197	197	197	197	197	197
Number of Groups	16	16	16	16	16	16
Model Type	EC2SLS	EC2SLS	EC2SLS	EC2SLS	EC2SLS	EC2SLS

Source: authors' computations (2025)

Note: z-statistics in parentheses; *** p < 0.01, ** p < 0.05, * p < 0.1. Only statistics are reported for the results of the Wald statistics, while chi-squared statistics with p-value in parentheses are reported for tests of endogeneity and overidentifying restrictions (overid). Lagged Dep. Var. represents one-year lag of each of the study's outcome variables (ROA, ROE, NIM, and BEQT).

For emphasis, although the positive coefficient of Entrenchment $\times$ BEQT may suggest improvement in the Entrenchment–NIM nexus upon moderation by earnings quality, it is not statistically significant. This is against the separate positive impact of Entrenchment and earnings quality (except in the NIM model) on the performance of Nigerian banks. Thus, the interaction between Entrenchment and BEQT could not explain favourably the performance of Nigerian banks. While clear-cut conclusion may not be drawn regarding ROA and NIM as measures of bank performance, there is enough evidence to infer that bank earnings quality does not favourably moderate the relationship between managerial entrenchment and bank performance in Nigeria when indicated by ROE, given the statistical significance and negative coefficient of Entrenchment $\times$ BEQT.

What the estimates presented in models 8, 9, and 10 show is that, in terms of higher profitability and interest margin, improved bank performance has the tendency to strengthen the nexus between managerial entrenchment and earnings quality. This is reflected in the positive and statistically significant coefficients of Entrenchment $\times$ ROA, Entrenchment $\times$ ROE, and Entrenchment $\times$ NIM in models 8, 9, and 10 respectively. While positive coefficients obtained from Entrenchment $\times$ ROA and Entrenchment $\times$ ROE appear to be reinforced by separate positive coefficients of Entrenchment and the respective measures of performance (ROA and ROE), the significantly positive coefficient of Entrenchment $\times$ NIM is obtained despite the separate negative coefficients of Entrenchment and NIM. Thus, there is a greater tendency towards better financial performance, as indicated by ROA, ROE, and NIM, improving favourably the explanatory power of managerial entrenchment in relation to the bank's financial communication quality via its earnings. In addition to what can be inferred from *Table 9*, there is also sufficient evidence to conclude that the study's dependent variables are a function of their lags, as the coefficients of the lags in models 5–10 are statistically significant.

Though the interaction terms (Entrenchment $\times$ ROA, Entrenchment $\times$ ROE, Entrenchment $\times$ NIM, and Entrenchment $\times$ BEQT) conceptualized in this study are unique in the managerial entrenchment literature, the present findings are comparable to those of a number of previous studies. For the moderating influence of bank performance, the findings of Di Meo et al. (2017) and Hanna et al. (2024) reinforce the positive role of free cash flows and the level of profitability in the entrenchment and firm financial condition nexus. However, the moderating role of the measures of performance established in this study is in conflict with the negative mediating role found by Hammad et al. (2024). Though evidence provided in this study regarding Entrenchment $\times$ BEQT is contrary to the “a priori expectation”, this evidence remains unique in the relevant literature.

Comparatively, it is evident that less statistically significant results are obtained from the control variables in *Table 10* when reference is made to similar results in *Table 9*. Notwithstanding this, more statistically significant coefficients can be

associated with Revenue Growth and Leverage. For Revenue Growth, a positive relationship can be noticed in the bank performance models in contrast to the inverse relationship reported in the earnings quality models, with all results being statistically significant. This shows that revenue growth aimed at improving bank financial performance is achieved through earnings manipulation, consequently reducing earnings quality. In contrast, the level of bank leverage as measured by the relationship between bank total liabilities and assets is more strongly reflected in the improved earnings quality than in bank performance. The more positive coefficients of Capital Adequacy are evident from *Table 10*, but statistically significant results are manifested in the ROA, ROE, and BEQT (when NIM is a moderating variable) models. Bank Size is also a reflection of better bank performance, but only when measured by ROA or ROE. More positive estimates associated with Institutional Owner are not statistically significant, with most of the coefficients not being different from zero.

4.6. Robustness Checks

The study's robustness checks are performed using the instrumental variables generalized method of moments (IV-GMM), which shares similar characteristics with Baltagi's extended control function two-stage least squares panel random-effects instrumental variables (IV) regression (EC2SLS) previously applied (Baum et al., 2003, 2007). Both approaches address the problems of endogeneity, overidentifying restrictions, and heteroscedasticity (Ullah et al., 2021). However, prior to the application of IV-GMM, an alternative managerial entrenchment index (Entrenchment2) was constructed using PCA (Salehi and Arianpoor, 2022; Seifzadeh et al., 2022). The construction of Entrenchment2 in addition to the corporate disclosure index using categorical approach followed by simple average previously applied for constructing Entrenchment is premised on the fact that both approaches are still relevant in the literature (Antounian et al., 2021; Elhabashy, 2023; García-Sánchez et al., 2020; Hammad et al., 2024; Hanna et al., 2024; Salehi et al., 2018; Seifzadeh et al., 2022).

The results of the first stage of the construction of this index using PCA, which involves the computation of principal component eigenvalue and factor loadings, are presented in *tables 11–12*.

Table 11: *Eigenvalue of the principal component for Entrenchment2*

Component	Eigenvalue	Difference	Proportion	Cumulative
Comp1	1.736	0.436	0.217	0.217
Comp2	1.301	0.037	0.163	0.380
Comp3	1.264	0.188	0.158	0.538

Component	Eigenvalue	Difference	Proportion	Cumulative
Comp4	1.076	0.145	0.135	0.672
Comp5	0.931	0.248	0.116	0.788
Comp6	0.683	0.087	0.085	0.874
Comp7	0.596	0.182	0.075	0.948
Comp8	0.414		0.052	1.000

Source: authors' computations (2025)

Table 12: Principal components eigenvectors for Entrenchment2

Variable	Comp1	Comp2	Comp3	Comp4	Comp5	Comp6	Comp7	Comp8	Unexplained
CEOSHR	0.032	-0.088	0.005	0.767	0.576	-0.222	0.150	0.005	0
DIRSHR	0.090	-0.684	-0.022	-0.082	0.269	0.663	-0.054	0.048	0
NEXDIR	0.172	0.257	-0.728	0.116	-0.084	0.249	0.220	0.494	0
INDIR	0.510	0.382	-0.144	0.018	0.234	0.214	-0.547	-0.416	0
EXCOM	0.021	0.511	0.533	-0.033	0.194	0.482	0.409	0.129	0
CSEN	0.589	-0.182	-0.057	-0.084	-0.160	-0.134	0.628	-0.414	0
CTEN	0.161	-0.072	0.244	0.598	-0.680	0.246	-0.167	0.036	0
CAGE	0.573	-0.116	0.320	-0.162	0.090	-0.305	-0.194	0.626	0

Source: authors' computations (2025)

Out of the eigenvalues presented in *Table 11*, there are four components with eigenvalue > 1 . These are components 1, 2, 3, and 4 with eigenvalues 1.74, 1.30, 1.26, and 1.08 respectively. These eigenvalues explain 21.7%, 16.3%, 15.8%, and 13.5% of the total variance, respectively, which jointly account for 67% of the total variance. Following the practice in the literature, the eigenvectors (*Table 12*) of the first principal component with the highest eigenvalue should be used to construct Entrenchment2 (Salami, 2024). However, the proportion of total variance explained by component 1, which is 21.7%, is somehow low. This requires the use of factor loadings of all components with eigenvalue > 1 and then finding the average to compute Entrenchment2. The Entrenchment2 derived is subsequently used as an independent variable in the estimates presented in *tables 13–14* as robustness checks.

Except for the low level of significance of the control variable coefficients, as presented in *Table 13*, the results in *Table 13* are consistent with those presented in *Table 9*. These can be observed in the positive and statistical significance of the lags of dependent variables. This is also evident in the positive coefficient of Entrenchment2 across all models presented in *Table 13*. As a matter of fact, Entrenchment2 is statistically significant in all models compared to the Entrenchment in *Table 9*, which is not statistically significant in the NIM model. A similar scenario can be noticed in the case of Revenue Growth in both *Table 9*

and Table 13. Overall, except for differences in the statistical significance of the estimates, the behaviour of other variables is largely consistent. Thus, the rejection of the first and second hypotheses is confirmed.

Table 13. *Managerial entrenchment with bank performance and earnings quality: Without moderation (robustness checks)*

Model	(1)	(2)	(3)	(4)
VARIABLES	ROA	ROE	NIM	BEQT
Lagged Dep. Var.	0.526*** (5.059)	0.663*** (9.485)	0.569*** (7.134)	0.411*** (4.514)
Entrenchment2	0.0002* (1.949)	0.007* (1.770)	0.003*** (2.715)	0.0002* (1.734)
Revenue Growth	0.008*** (4.139)	0.080*** (6.032)	0.008*** (2.714)	-0.017*** (-3.937)
Board Size	-0.005** (-2.261)	-0.015 (-1.075)	-0.001 (-0.165)	0.0004 (0.0731)
Institutional Owner	0.003 (1.592)	0.011 (0.938)	-0.005 (-1.378)	0.002 (0.384)
Leverage	-0.047* (-1.817)	0.080 (0.606)	-0.103*** (-2.825)	0.092* (1.887)
Capital Adequacy	0.044 (1.516)	0.338** (2.341)	-0.070** (-2.393)	0.098** (2.446)
Bank Age	-0.003* (-1.820)	-0.004 (-0.546)	-0.0003 (-0.128)	0.001 (0.405)
Bank Size	0.002*** (3.155)	0.009*** (2.688)	-0.001 (-0.603)	-0.002 (-1.343)
Constant	0.021 (0.961)	-0.166 (-1.096)	0.162*** (3.888)	-0.065 (-1.399)
R ²	0.696	0.739	0.492	0.308
Wald	592.9***	708.2***	268.3***	71.15***
Root MSE	0.006	0.042	0.010	0.015
Endogeneity	0.14(0.712)	0.003(0.954)	3.39(0.066)	0.24(0.622)
Overid	2.44(0.118)	2.99(0.084)	1.63(0.202)	0.15(0.703)
Observations	197	197	197	197
Model Type	IV-GMM	IV-GMM	IV-GMM	IV-GMM

Source: authors' computations (2025)

Note: z-statistics in parentheses; *** p < 0.01, ** p < 0.05, * p < 0.1. Only statistics are reported for the results of Wald statistics, while chi-squared statistics with p-values in parentheses are reported for tests of endogeneity and overidentifying restrictions (overid). Lagged Dep. Var. represents one-year lag of each of the study's outcome variables (ROA, ROE, NIM, and BEQT).

Table 14. *Managerial entrenchment with bank performance and earnings quality: With moderation (robustness checks)*

Model	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	ROA	ROE	NIM	BEQT	BEQT	BEQT
Lagged Dep. Var.	0.499*** (5.159)	0.662*** (8.813)	0.527*** (6.433)	0.380*** (4.302)	0.364*** (4.197)	0.355*** (4.000)
Entrenchment2	-0.001 (-1.034)	-0.008* (-1.798)	-0.002*** (-2.617)	0.008** (2.553)	0.010*** (3.257)	-0.007 (-1.211)
BEQT	0.786* (1.878)	-0.640 (-0.189)	0.022 (0.0558)			
Entrenchment2× BEQT	-0.071* (-1.769)	0.077 (0.235)	-0.012 (-0.319)			
ROA				3.514** (2.358)		
Entrenchment2× ROA				0.311** (2.149)		
ROE					0.657*** (3.197)	
Entrenchment2× ROE					0.061*** (3.039)	
NIM						-1.689 (-1.161)
Entrenchment2× NIM						0.127* (1.912)
Revenue Growth	0.008*** (3.787)	0.0832*** (5.468)	0.005* (1.703)	-0.016*** (-3.799)	-0.015*** (-3.829)	-0.016*** (-4.054)
Board Size	-0.005** (-2.355)	-0.015 (-1.082)	-0.001 (-0.169)	0.002 (0.406)	0.001 (0.299)	0.0004 (0.089)
Institutional Owner	0.003 (1.634)	0.010 (0.909)	-0.005 (-1.432)	0.001 (0.194)	0.001 (0.205)	-0.002 (-0.469)
Leverage	-0.056** (-2.175)	0.052 (0.391)	-0.095*** (-2.651)	0.094* (1.745)	0.062 (1.156)	0.021 (0.393)
Capital Adequacy	0.042 (1.466)	0.313** (2.106)	-0.063** (-2.179)	0.022 (0.365)	0.03 (0.675)	0.038 (0.902)
Bank Age	-0.002* (-1.799)	-0.004 (-0.603)	-0.001 (-0.309)	3.75e-05 (0.0139)	-2.97e-05 (-0.0110)	-0.0003 (-0.0994)
Bank Size	0.002*** (3.251)	0.010*** (2.792)	-0.001 (-0.720)	-0.001 (-0.749)	-0.001 (-0.884)	-0.001 (-1.092)
Constant	0.035 (1.530)	-0.145 (-0.984)	0.157*** (3.860)	-0.150*** (-2.612)	-0.149** (-2.337)	0.101 (1.214)

Model	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	ROA	ROE	NIM	BEQT	BEQT	BEQT
R ²	0.716	0.740	0.511	0.305	0.321	0.374
Wald	592.8***	693.9***	287.0***	63.83***	71.07***	80.98***
Root MSE	0.006	0.042	0.010	0.016	0.015	0.014
Endogeneity	0.15(0.702)	0.09(0.763)	2.93(0.086)*	0.12(0.728)	0.46(0.497)	0.01(0.920)
Overid	2.47(0.116)	3.08(0.080)*	1.49(0.223)	0.23(0.632)	0.35(0.555)	0.005(0.942)
Observations	197	197	197	197	197	197
Model Type	IV-GMM	IV-GMM	IV-GMM	IV-GMM	IV-GMM	IV-GMM

Source: authors' computations (2025)

Note: z-statistics in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Only statistics are reported for the results of Wald statistics, while chi-squared statistics with p-values in parentheses are reported for tests of endogeneity and overidentifying restrictions (overid). Lagged Dep. Var. represents one-year lag of each of the study's outcome variables (ROA, ROE, NIM, and BEQT).

Comparatively, not only the results of regression estimates are consistent, as those of diagnostic tests also agree, as shown in *tables 9* and *13*. The results of endogeneity, overidentifying restrictions, and Wald tests as presented in *Table 13* are in line with those outlined in *Table 9*. In addition, the closeness of the Root MSE to zero indicates the adequacy of the fit of all the study's models.

In relation to the test of third and fourth hypotheses, the estimates in *Table 14* substantially agree with the fact that the third hypothesis stands rejected, while the fourth hypothesis is accepted, as earlier established in *Table 10*. This is despite using alternative managerial entrenchment index (Entrenchment2) and statistical technique (IV-GMM). However, exceptions can be observed in the change in the coefficient signs of Entrenchment $\times$ BEQT in the ROE and NIM models but without undermining the conclusion that earnings quality does not favourably moderate the relationship between managerial entrenchment and bank performance in Nigeria. The coefficient signs of Entrenchment $\times$ ROA, Entrenchment $\times$ ROE, and Entrenchment $\times$ NIM are also consistent, although an improved significance level associated with Entrenchment2 $\times$ ROA and Entrenchment2 $\times$ ROE is also observed. The consistency of results can also be noticed in the behaviour of control variables, except for the minor changes in the coefficient signs. Similar observations can also be made with regard to the results of diagnostic tests. The only noticeable exception is the reversal in the coefficient sign of the entrenchment index measure. In *Table 14*, it is all negative against all positive in *Table 10*, but only in the bank performance models.

5. Conclusions

The few cases of unnecessary extensive use of managerial power in the Nigerian banks' boardrooms, as unveiled by the fallout of CBN's regulatory activities, and the apparent threat posed by these excesses to these banks' going concern in recent years raise plenty of concerns. To put this into empirical perspective, this study investigates the connection of managerial entrenchment to bank corporate performance and earnings quality individually. The study further examines how the effect of this corporate governance conundrum is moderated by bank performance and earnings quality respectively. The study uses eight (8) different corporate governance characteristics of the board members and chief executive officers (CEOs) to construct a managerial entrenchment index (Entrenchment) using simple average and, subsequently, PCA (Entrenchment2) as a form of robustness check. These corporate governance characteristics are CEO shareholdings (CEOSHR), directors' shareholdings (DIRSHR), executive compensation (EXCOM), non-executive directorship (NEXDIR), independent directorship (INDIR), CEO seniority (CSEN), CEO tenure (CTEN), and CEO age (CAGE). While three (3) measures of bank performance (ROA, ROE, and NIM) are adopted, bank earnings quality (BEQT) is derived from the non-discretionary loan loss provision model of Kanagaretnam et al. (2003). Four hypotheses, two testing the direct influence of Entrenchment and another two examining the moderating influence of bank performance and earnings quality, are formulated and tested. The corporate governance and bank-specific data relevant to the variables of the study are manually extracted from the annual reports of 16 Nigerian DMBs and other sources, including LinkedIn, RocketReach, and newspaper and magazine reports – especially the biographical information of the relevant board members. Though some descriptive statistics are also applied, the data are subject to analysis using instrumental variables regression (EC2SLS and IV-GMM) for hypotheses testing.

The results largely invalidate the “entrenchment hypothesis” assumptions by revealing that managerial entrenchment has positive impact on bank performance and earnings quality. This positive impact is statistically significant for earnings quality and for two (2) of the measures of bank performance (ROA and ROE) with EC2SLS estimates; however, all were found to be statistically significant using IV-GMM estimates, especially in the models without interaction terms. The results also suggested that the improved bank performance is a favourable moderator of the Entrenchment–earnings quality nexus via the positive coefficients of Entrenchment $\times$ ROA, Entrenchment $\times$ ROE, and Entrenchment $\times$ NIM. These are statistically significant in both EC2SLS and IV-GMM estimates. Additional results reveal that bank earnings quality reverses the positive impact of Entrenchment when moderated by it. These findings suggest first of all that managerial entrenchment does not impede the better financial condition of Nigerian banks, possibly owing

to the low level of Entrenchment found. It might also be subject to the fact that the entrenchment tendencies of bank executives in Nigeria are overshadowed by resource dependence, resource-based and human capital perspectives. The expectation of a corporate entity from an individual appointed to serve in a corporate board is the individual's total support for the entity, commitment to resolving its problems, seeking others' assistance in the process of the resolution and doing everything humanly possible to advance the interests of the entity, consistent with the propositions of dependence theory (Muchemwa et al., 2016; Pfeffer and Salancik, 1978). The main focus of resource-based theory (RBT) is that an entity's internal resources and capabilities, which include those charged with governance, are instruments sustaining its competitive advantage (Hart and Dowell, 2011). As an addendum to RBT, the natural-resource-based view of an entity by Hart (1995) posits that a firm's resources and capabilities are a source of sustainable development, with due cognizance given to environmental, social, and economic concerns (Hart and Dowell, 2011). Since the relevant corporate governance code requires that individual corporate board members should have requisite knowledge, skills, and competence (CBN, 2014; Financial Reporting Council of Nigeria, 2018), the skills, knowledge, and abilities of those charged with governance are key components of an entity's values according to the human capital theory (Wuttaphan, 2017). This suggests that entrenchment tendencies are unlikely to flourish where the propositions of the resource dependence, resource-based, and human capital theories are empirically supported.

The inability of earnings quality to become a favourable moderator draws attention to the need for an improved level of financial reporting on the part of Nigerian banks. It is also important to note that corporate governance factors contributing to a higher entrenchment index, which include low board independence, older CEO age, CEO seniority, and higher executive compensation, warrant some regulatory guidelines to prevent their continued exploitation. The low level of board independence reflected in a greater number of banks having lower proportion of non-executive and independent directors than the average in the sampled period signals the possibility of a higher level of managerial entrenchment. The above-average executive compensation observed in many Nigerian banks during the sampled period may partly account for their low profitability and may incentivize earnings smoothing, thereby diminishing earnings quality. Thus, there is need for regulatory interventions to curb practices that promote excessive managerial entrenchment. It is also to be noted that a corporate governance regulation has been harmonized with the Financial Reporting Council of Nigeria (FRCN) as the sole regulator in the country. This is a sign that bank regulators need to seek the understanding of FRCN for adjustments in the corporate governance rule applicable to banks. This becomes pressing when FRCN disregards the necessity of the adjustments for all corporate firms in the country. It is also important to mandate the publication of full report of

external consultants' annual evaluation of banks' corporate governance practices in the annual reports of Nigerian banks, rather than the current practice of disclosing only excerpts. Notwithstanding the somewhat low level of managerial entrenchment associated with banks in Nigeria, these banks should be encouraged to adopt, in addition to the Nigerian codes, corporate governance guidelines developed by global financial institutions, including the Basel Committee on Banking Supervision and the International Finance Corporation. It is also necessary to institute periodic adjustments to the code of corporate governance to curb the misuse of corporate governance mechanisms for managerial entrenchment. More components capable of increasing the robustness of entrenchment index should be included by future studies. Also, the development of an entrenchment index for the entire Nigerian financial services industry, rather than a mere sample of 16 Nigerian DMBs, is envisaged in future studies.

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