



# REVIEW OF INNOVATION AND COMPETITIVENESS

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# CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF MONEY DEPOSIT BANKS IN NIGERIA

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## ABSTRACT

**Purpose.** *The main cause of distress in the majority of Nigerian banks is poor corporate governance in the country. Corporate governance (CG) is a contemporary subject attracting the consideration of the corporate world, practitioners, consultants, academia and society at large. As a result, this study explores the financial performance (FP) of money deposit banks (MDBs) in Nigeria as a result of corporate governance put in. It went on to investigate the impact of board size and composition, as well as the audit committee, on bank financial performance.*

**Methodology.** *A descriptive design method was adopted, while secondary data in the form of yearly financial reports of banks selected for the study were obtained and relevant documents via electronic search of databases. Descriptive statistics were used in analyzing the data and an econometric model of panel least square (PLS) regression test was employed for the study.*

**Findings and Implication.** *The findings affirmed that the correlation between size of board of directors and bank performance was significant, however negative. The results of the study show that the board of directors (BOD) composition significantly influences the FP of MDBs. The study results further reveal that the correlation between size of the audit committee (AC) and FP of MDBs is significant and also a negative one. As a result, based on the empirical findings of the study, it is concluded that CG has a statistically significant influence on the FP of Nigeria's listed money deposit banks. Mechanisms such as the large size and composition of the board as well as the size of the audit committee encourage a negative impact on the FP. In line with the foregoing, the study recommended that an effort be made to improve CG, in the sense that the number of directors on board should be kept to a desirable level, and that the ratio of executive directors to non-executive directors, as well as the size of the audit committee, is kept at an optimal level.*

## 1. INTRODUCTION

The customary way of operation of corporate governance (CG) around the world has been identified as vital in all economic dealings, particularly in developing economies like Nigeria that are coming to maturity (Alashi, 2005). Globalisation versus technological advancement has made the financial domain in Nigeria to respond to fresh products or services; and as such, those regulating the financial sectors are eager to evaluate and control the shifts in the upheaval (Sandeep, Patel and Lilicare, 2002; Mansur and Tangl, 2018). Not to mention the rise in mergers and acquisitions in the banking sector. Regardless of these activities, there is a call for Nigeria to foster a healthy financial system, particularly in the banking sector, along with effective corporate governance. This affirms that a sound CG implies that effective utilisation of collective available wealth by controlling shareholders, translates into a more effective allotment of resources and efficient FPs. This is because stakeholders will want to reinvest their resources in that bank with clear CG practices, which ensures that the cost of capital is minimal and hence service as a determinant of firm financial performance (Qi et al., 2002).

According to Hanrahan, Ramsay and Stapledon (2001), one of the crucial parts in ameliorating corporate governance and firm value, is the ratio of executive directors to non-executive directors of the firm. In the sense that the firm's value can be made better, due to the fiduciary roles carried out by the board, and this includes overseeing the activities of management and recruiting employees for the firm. In addition, the board appoints and monitors the operation of both internal and external auditors to increase the organisational value. Furthermore, the directors are able to settle disputes that might arise within the firm and, as such, help trim down the firm's agency costs. The board of directors plays a crucial function by ensuring an increase in the firm's value in the sense that they not only oversee the firm but also compel the firm's manager to choose indifferent conclusions (Tomasic, Pentony and Bottomley, 2003; Paniagua, Rivelles, and Sapena, 2018).

In addition, the widely accepted belief regarding the desirable size of a board is that there is an inverse relationship in terms of the numbers of directors sitting and the firm's general performance. This is based on the fact that the activities such as coordination and communication of tasks, as well as the potency of the decision-making among the prominent directors is difficult and expensive when compared to the smaller numbers of directors (Belkhir, 2006; Mohan and Chandramohan, 2018). Reducing the number of board directors to a specific number has been shown to improve the organization's operations in all aspects. Notwithstanding, the advantages of large numbers of directors in a firm carrying out oversight functions are outweighed by more inadequate communication and irregularities in making decisions. A review of literature has shown that the number of board size tends to give the same decision: A large board is probably not being efficient in essential matters of impor-

tant subjects among themselves, in overseeing operations of the firm. According to Lipton and Lorsh, (1992), big board size is usually not effective and simple for CEOs to manage. And as such, this study considers the size in terms of number of directors on a firm's board to be of major importance in the operation of every successful firm.

Furthermore, the concept of audit committees differs consistent with the goals, functions, and tasks assigned to them (audit committee). The conception is that the audit committee serves as a committee composed of non-executive directors in the establishment and the major reason behind having or forming the audit committee is to increase the level of auditing quality and monitoring the activities of the board of directors (Al-Thuneibat, 2006). According to Arun and Turner (2009), the audit committee serves as a group of individual/persons from the board of directors' members, and is responsible for retaining the independence of the auditor. Hence, this study is explored as a value added (eye opener) to the continuing discussion on the consideration of the existence of an association between corporate governance and FP of MDBs in Nigeria. Diverse and debatable findings as well as results have come up from prior studies, particularly those in the developed economies such as China, the United Kingdom, United States of America (USA), Australia, Italy, Korea, Germany, Sweden, Japan, Switzerland, Finland, the Netherlands and France amid many other economies.

### 1.1. Problem Analysis

In Nigeria, underprivileged corporate governance is recognized as one of the core elements in virtually recognized situations of bank distress in Nigeria. According to Soludo (2004), weak corporate governance is defined as excessive risk taking, feeble internal control structures, overriding of internal control measures, ignoring of prudent lending rules, and nonexistence of risk management functions, absence/non adherence to authority limits, fraudulent practices, and insider ill-treatments. In line with this assertion, the Nigeria Security and Exchange Commission (SEC) reported that "corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place" (Central Bank of Nigeria, 2006). As a result, there is a breach in public (people) trust, particularly in commercial banks, especially if the criteria put in place are not checked by financial regulators.

Corporate governance has received increased attention because of high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers. Despite the fact that Code of Corporate Governance for Banks in Nigeria was issued to enhance the practices within the banking industry, during the implementation of the code; it was observed that certain provisions could not be implemented by banks in view of their ambiguity and/or conflict with the provisions of the Companies and Allied Matters Act (CAMA) 1990. Furthermore,

in 2009, a joint CBN/NDIC examination that led to the removal of 5 CEOs of banks in the country revealed, amongst others, poor corporate governance practices in the institutions. There was also the need to update the code in order to align it with contemporary developments and international best practices. (Central Bank of Nigeria, 2014).

Moreover, in tandem with the view of Sanusi (2010) where he asserted that “banking sector problems in Nigeria have been associated with corporate governance abuses within the amalgamated banks, which have therefore become a way of life in many areas of the sector”. Furthermore, Sanusi (2010) emphasized that corporate governance in the financial sectors failed due to the fact that boards of directors in these financial sectors failed to adopt these practices on the basis that they are being misled by top management and involving themselves in securing un-assured loans, the majority of which come from depositors, and not providing moral justifications for impossibility. The vast number of CG studies focused on Nigeria, as well as the diversity of corporate governance codes within the poor institutional climate plagued by corruption, makes the case for Nigeria especially compelling. In certain cases, specific codes clash with one another, which would have ramifications for regulatory enforcement by Nigerian public companies (Adegbite 2013). Hence due to the above problem analysis, this paper set out to investigate corporate governance and financial performance (FP) of MDBs in Nigeria. The following research questions guided the study: board size effect on FP of MDBs in Nigeria; board composition influence on FP of MDBs in Nigeria; and the extent to which audit committees affect FP of MDBs in Nigeria.

**Hypotheses Formulation.** Based on the problem analysis above, the study formulated the following hypotheses:

**Ho1:** The size of the board of directors will not have a significant relationship with FP of MDBs in Nigeria

**Ho2:** The composition of board of directions in MDBs will not have significant association with FP of MDBs in Nigeria

**Ho3:** The size of the audit committee will not have a significant relationship with FP of MDBs in Nigeria.

## 1.2. Study Scope and Delimitation

The study centered on six (6) selected quoted banks in the Nigerian stock exchange (NSE): Union Bank of Nigeria Plc (UBN), Guaranty Trust Bank Plc (GTB), United Bank for Africa Plc (UBA), First Bank of Nigeria Plc (FBN), Zenith Bank International Limited (ZB) and WEMA Bank Plc (WB) from 2007-2016. These banks were chosen using convenient sampling techniques based on the fact that the researcher could only access the annual reports of the aforementioned banks as at the time of study. This is due to the fact that the issues concerning the transparency as

well as corporate governance are crucial in our banking sector today. In addition, the study covers three (3) vital components of corporate governance: Size of the board and their composition and as well as the size of the audit committee; Return on Assets was proxy as measures of the banks' performance, while bank size and bank leverages serves as control variables. The data gotten were extracted the audited financial statements of the banks i.e. GTB, FBN, UBA, ZB, UBN and WB, for a 10-year period that is, within the period of 2007-2016 which were downloaded from the banks respective corporate websites.

## **2. REVIEW OF LITERATURE AND THEORETICAL FRAMEWORK**

### **2.1. Theoretical Review of Corporate Governance**

There are numerous theories that are relevant to corporate governance in understanding the relationships between different aspects of corporate governance. However, because of the tenets of these theories, the basic disciplines in which it lays on Economics, Management, Psychology, and Sociology, which are currently being practiced in Nigerian banks, the theoretical review embedded in this paper revolves around the three theories. These theories are Agency theory, Stakeholder theory and Stewardship theory (Yap, Selah, and Abessi, 2011).

#### **2.1.1. Agency Theory**

The theory's central premise is that large companies have separate ownership and power. In such companies, managers (agents) are employed to work for the owners (principals) and make decisions on their behalf in order to optimize shareholder returns (Jensen and Meckling, 1976). This theory tries to address the specific issues between the principal (shareholders) of a company and agents (managers). On the other hand, the agency theory of corporate governance views shareholders as the principals and management as their agents. Agents, on the other hand, will behave in their own best interests: as employee directors of a corporation, they will aim to optimize their cash compensation, work security, and other benefits, and will do nothing more than satisfy shareholders. Instead, they must be supervised and regulated to ensure that the interests of the principals are preserved. The bulk of today's corporate governance practice in Nigeria is based on this principle, especially in the Nigeria Banking Industry.

In relation to this extant theory, Habbash (2010) noted that "corporate governance enhances corporate performance by resolving agency problems through monitoring management activities, controlling self-centered behaviors of management and inspecting the financial reporting process". On the other hand, in order to trim down the agency cost by positioning the disputing claims from the officials as well as



their shareholders via overseeing the operations and as well as using various corporate governance processes. Hence, these processes, which include board compositions as well as audit committees, enable the shareholders to intimately oversee the operations of the top level of officials. Also, when the audit committees as well as the boards are not performing up to the task, the top official may take advantage of the situation to engage their personal interests. On the other hand, they are effective in their oversight functions. They tend to reduce the not too good attitude of the top officials by discovering the fraudulent activities they usually engage in (Sanda, Mukaila and Garba, 2005). In addition, Habbash (2010) noted that “the assumptions of agency theory, CG processes affect financial performance”. Consequently, the financial performance of banks can be improved by their improvement and transparency in the corporate governance processes. Board structure has to some great extent banked on the principles of agency theory, centering on the controlling roles played by the board. Hence, the corporate governance processes that are been centered upon in this paper consist of the size of the board and audit committee size.

### 2.1.2. Stakeholder Theory

This is an annex of the theory of agency that anticipates the board of directors (BOD) to represent the concerns of the shareholders. According to this theory, the main goal of the firm is to dish out and organize stakeholders’ interests, that is the shareholders, government, suppliers, creditors, employees, customers, and the community. Furthermore, CG stakeholders can improve the outside environment, which contributes to the achievement of corporate goals. On the other hand, stakeholders in corporate governance enable firms to consider not only the satisfaction of customers, but also the community and social organizations, resulting in a stable environment for long-term growth. In addition, Maher and Andersson (1999) posited that “the benefit of the stakeholder model lays emphasis on overcoming problems of underinvestment associated with opportunistic managerial behaviour and in encouraging active co-operation amongst stakeholders to ensure the long-term profitability of the business firm”.

Stakeholder theory, as proclaimed by Kyereboah-Coleman, (2007), affirmed that “the best firms are the ones with committed suppliers, customers, employees and management. Recently, the stakeholder theory has received greater attention than earlier because researchers have recognized that the activities of a corporate entity impact on the external environment, requiring accountability of the organization to a wider audience than simply its shareholders”. As such, companies are no longer the instruments to satisfy the shareholders alone but exist within society. It has responsibilities to the stakeholders. However, most researchers argue that it is an unrealistic task for the managers (Sundaram and Inkpen, 2004; Sanda et al., 2005). More so, the stakeholder theory precisely has not been subjected to extant/

much prior empirical study. The common criticism of the stakeholder theory in the previous studies was its challenge to alignment of the stakeholders' conflicting interests as the difficulties have to do with accommodating different stakeholders with various needs and demands.

### **2.1.3. Stewardship Theory**

This theory was developed by Donaldson and Davis (1989) as a normative complement to the agency theory of corporate governance. On the other hand, the stewardship theory is based on sociology and psychology. Managers, according to the stewardship principle, are not guided by personal agendas, but rather are stewards whose motivations are aligned with the goals of their principals' shareholders (Davis, Schoorman, and Donaldson, 1997). When the firm's espoused principles are consistent with the enacted values, this article argues that managers' stewardship behavior results in outstanding corporate governance practices (Subramanian, 2018). According to the stewardship viewpoint, stewards (managers) are fulfilled and inspired when organizational performance is achieved, even if it means sacrificing personal objectives (Abdullah and Valentine, 2009). Furthermore, although the agency theory indicates that separating the roles of board chair and CEO would protect shareholder interests, according to the stewardship principle, appointing the same person to the positions of board chair and CEO maximizes shareholder interests by giving the CEO more responsibility and autonomy as a steward in the company (Donaldson and Davis 1991).

## **2.2. Empirical Review of the Past Literature**

Ozili (2021) conducted a recent literature review of recent corporate governance research in Nigeria. It identifies the recent advances and challenges in the literature and suggests some directions for future research. The findings from the literature review reveal that the board of directors is the most explored corporate governance determinant in the Nigerian corporate governance literature. Most studies focus on some corporate governance determinants, and ignore other corporate governance determinants in firms.

According to Asogwu (2016), Nigeria's banking sector has seen corporate failures in the past due to lack of corporate governance structure. Rather than analytical views, his study offers a theoretical context and a model for understanding the principle of corporate governance. This was accomplished by defining corporate governance theory, corporate governance model, corporate governance processes, and legal structures. The study concluded that the key setback to corporate governance in Nigerian banks is non-adherence to principles.

In the works done by Fanta, Kemal and Waka (2013), their study assessed the

relationship between selected internal and external corporate governance mechanisms and bank performance as measured by ROE and ROA. The study used a structured review of documents, and commercial banks' financial data were collected covering the period 2005 to 2011. Board size and the existence of audit committees on the board had a statistically significant negative effect on bank performance.

Ajola, Amuda and Arulogun (2012) explored the influence of corporate governance on bank's performance in Nigeria within a five-year period and using correlation and regression analyses. They discovered that the size of the board and their firm's financial performance exhibit significant but negative relationship. Bawa and Lubabah (2012) critically looked into the role of corporate governance and FP in Nigeria using 12 selected banks within the period of 5 years, i.e. 2006-2010. In their study, they also discovered that there exists a substantial but negative link between the size of the board of directors and their company profitability. Meanwhile, the research conducted by Akpan and Roman (2012) using selected 11 banks in Nigeria with the aid of regression analysis came to a conclusion that is consistent with what Asuagwu (2013) discovered in his study, noting that "smaller board sizes positively and significantly enhance performance." Furthermore, Yoshikawa and Phan (2003) in their study findings affirmed that "larger board sizes increase agency costs."

Anderson, Mansi and Reeb (2004) reasoned that "a larger board is better than a smaller board size in that larger board sizes have the ability to push the managers to track lower costs of debt because creditors believe that such firms are more effective monitors of the accounting process". This assertion corroborates the results of Adeusi, Akeke, Aribaba, and Adebisi (2013), where they noted that "an increased number of board sizes increases the performance of banks". Uzma, Ummara, Sundas, Farhat, and Rabia, (2018) empirical study on the internal corporate governance and financial performance nexus using banks of Pakistan affirmed that Pakistan as a country has a comprehensive code of corporate governance. However, banks don't make best use of proper implementation.

Kajola (2008) studied the role of corporate governance and its influences on the performance of organizations in the country (Nigeria). He did so by using listed banks within the period of 2000 and 2006. His findings show that the connection between the banks' performance and their board composition is not significant. This finding is in tandem with the view of some studies such as Bhagat and Black, (2002), Sanda et al, (2005); Adeusi et al, (2013); Bawa and Lubabah (2013). In addition, Kajola (2008) asserted that "the performance of banks tends to be worse when there are more external board members". Nonetheless, Prakash and Martin (2001) found that a well-balanced ratio between executive directors and non-executive directors had a significant influence on the performance of these banks in their study of twenty-nine Nepalese banks from 2005 to 2011. Similarly, this view is in tandem with the view of Bawa and Lubabah (2013), Kamau (2018), as well as Ezzamel and

Watson (1993).

The corporate governance code emphasizes the composition of the board which should include members with qualitative, qualified, experienced and as well as proven integrity (Bawa and Lubabah, 2013). Sanda, et al, (2005) reasoned that "the proposition of board composition is to help reduce agency problems. From this position, a positive relationship is expected between firm performance and the proportion of outside directors sitting on the board". Klein (2002) and Benerd, Chraoune and Courteau (2004) reasoned that "the ability of the board of directors to monitor and advise a firm, depends on their influence, competence and experience as this will reduce fraud and increase performance."

Furthermore, Poudel and Hovey (2012) noted that "shareholders' interests are protected through the activities of audit committees because management may not always act in the interest of a corporation's owners". In addition to the aforementioned, larger audit committees assert that increasing the number of people involved in overseeing the operations of top officials brings or reduces any fraudulent act that might want to occur, and thus improves performance. However, other scholars such as Kajola, (2008), Hardwick, Adams and Zou (2003) documented that there exists no significant correlation between firm performance and their audit committee size. The focus of Prakash and Martin's research is that it provided a reasonable intuition that both the interests of shareholders and financiers are protected by individuals who are difficult to control, particularly when they are large in number.

### **2.3. The Nexus between Corporate Governance and Financial Performance of Money Deposits Banks in Nigeria**

One of the significant changes in the corporate governance history of Nigeria is the current treatment of the country's apex bank, the Central Bank of Nigeria (CBN). Similarly, the constant fall that has been undergone in the sector is as a result of ineffective corporate governance and the merger and acquisitions of banks compelled the CBN to enact new corporate governance outlines to the banks operating (in service) in Nigeria precisely in February 2006. According to CBN (2006), the framework known as the "Central Bank of Nigeria Code for Corporate Governance for Banks' in Nigeria Post Consolidation" was created to "challenge the issue of poor corporate governance and create a sound banking system in the country." The code has introduced more stringent requirements in the area of industry transparency, equity ownership, criteria for the appointment of directors, board structure and composition, accounting and auditing, risk management and financial reporting".

According to Tandelilin, Kaaro, Mahadwartha and Supriyatna, (2007), the fundamental focus in most prior literature and discussion analysis in studies around the globe on corporate governance has been majorly focused on the structure of ownership and its processing. They further noted that "whether the kind of ownership

structure matters and what its effects on corporate governance are areas that raise concerns.” Corporate governance has been enlightened as that process which links them with among investors, financiers, board of directors, shareholders, and the top officials in knowing the direction and performance of the corporation (Wheelen and Hunger, 2006; Kamau, 2018).

In addition, the main reason for bringing about a corporate governance system in Nigeria came via the functions of the Nigeria Securities and Exchange Commission (SEC). A Code of Best Practices for public firms in Nigeria was adopted by the Securities and Exchange Commission (SEC, 2003). It was noted that the code was done by choice and is considered to dig into business practices that are good, and of criteria for auditors, directors, and as well as the members of the boards.

#### **2.4. The role of Corporate Governance in managing the challenges in the Nigerian Banking Industry**

Though the merger and acquisition process in the banking sector in Nigeria has led to a lot of benefits, it failed to surmount the main disadvantage according to the corporate governance of these banks. This is exemplified by the vast rush in capital availability at a time when banks have no or little implementation of corporate governance touchstones.

In the words of Sanusi (2010), “it is well known in the industry that since consolidation, some banks have been engaging in unethical and potentially fraudulent business practices and the scope and depth of these activities are documented in recent CBN examinations.” Governance missteps among the amalgamated banks have thus become the norm in the sector, enriching a few at the expense of investors/depositors. Sanusi (2010) showed that “corporate governance in many banks failed because boards ignored these practices for reasons, including being misled by executive management, participating themselves in obtaining un-secured loans at the expense of depositors and not having the moral justification to enforce good governance on bank management.” Also, the audit processes in most of the banks do not look fully into the fast declination of the growth and development of the nation’s economy and, as such, there is a need for promoting fast-growing provision against risk to assets.

As banks’ assets and modes of operation continue to grow, the boards of banks have mostly failed to fulfill their roles and have been lulled into a sense of eudemonia by the apparent yearly increases in their profits and size. In retrospect, the board of directors in some major banks did not have the necessary equipment to oversee their firms. While most CEOs of banks expect unquestioning obedience on the board, and as such, do not have the independence, hence, lack to make substantial decisions to protect the success of the bank.

The Central Bank of Nigeria (2010) revealed details on the extent of insider abuse in many countries’ banks, revealing that “CEOs set up Special Purpose Vehi-

cles (SPVs) to lend money to themselves for stock price manipulations or the purchase of estates all over the world.” For instance, one bank borrowed money and purchased private jets which the Apex bank later discovered were registered in the name of the CEO’s son. In another bank, the management set up 100 fake companies for the purpose of perpetrating fraud.” Sanusi (2010) also revealed that “thirty percent (30%) of the share capital of Intercontinental bank was purchased with customer deposits. Afribank used depositors’ funds to purchase 80% of its initial public offering (IPO). It paid N25 per share when the shares were trading at N11 on the NSE and these shares later collapsed to under N3.” Furthermore, according to CBN (2017), “the CEO of Oceanic bank controlled over 35% of the bank through special purpose vehicles/entities (SPVs) borrowing customer deposits.” As a result of the stock market’s decline, withdraw these customer deposits totaling N300 billion. As a result, the capital amassed by the so-called “mega banks” was fictitious capital, or run money deposits in short.

### 3. RESEARCH METHODS

The study adopted a descriptive research design method. The time series data was gathered from the financial annual reports of chosen MDBs. The data used consists of three major corporate governance constructs: board size, composition, and Audit committee, while ROA was used as a measure of bank performance because it measures how efficiently a company can manage its assets to produce profits. Bank size and bank leverages were used as control variables from 2007 to 2016. The sample size for this study was six (6) selected quoted MDBs on the Nigeria stock exchange, and it included: GTBank Plc, FBN Plc, UBA Plc, Zenith Bank Ltd, UBN Plc and WEMA Bank Plc, within the period of 2007-2016 (Appendix 1.). These banks were chosen using convenient sampling techniques based on the fact that the researcher could only access the annual reports of the aforementioned banks at the time of study. The data was collected mainly from published annual reports of these banks, i.e. downloaded from their corporate websites over the period of 2007-2016.

This study embedded in this paper an improved form in terms of the econometric exemplary of work done by Miyajima, Omi and Saito (2003). The model can be symbolized as:

Model (1)

$$ROA = f(BSize, BCom, AudSize, FSize, FLev\mu) \quad (1a)$$

The explicit form of equation (1a) is written as

$$ROA = \beta_0 + BSize\beta_1 + BCom\beta_2 + AudSize\beta_3 + FSize\beta_4 + FLev\beta_5 + \mu \quad (1b)$$

log linearize equation (1b) we have

$$\log ROA = \beta_0 + \log BSize\beta_1 + \log BCom\beta_2 + \log AudSize\beta_3 + \log FSize\beta_4 + \log FLev\beta_5 + \mu \quad (1c)$$

where

ROA = Return on Assets (used as proxy for bank performance)

“BSize” = “Board Size of Banks”

BCom = Board Composition

AudSize = Audit Committee Size of Banks

Fsize = Bank Size (Use as Control variable)

Fleverage = Bank Leverage (Use as Control variable)

$\mu$  = Error Term

$\beta_0$  = the  $y$ -intercept of the model

$\beta_1, \beta_2, \dots, \beta_5$  = Coefficient of the independents constructs.

#### 4. RESULTS AND ANALYSIS

This part of the study shows the results analysis of panel least square and it has two parts. The first part is the descriptive statistics which summarizes the core features of the study variables such as mean, median, min. and max. Standard deviation while the second section gives the regression results report of PLS estimation output of the regression model.

**Table 1.:** Descriptive Statistics

	LOGROA	LOGBSIZE	LOGBCOMP	LOGAUDSIZE	LOGFSIZE	LOGFLEV
Mean	-2.627445	2.524365	-0.450552	1.468538	7.685203	2.527502
Median	-2.743000	2.564900	-0.385700	1.386300	7.619500	2.590800
Maximum	-1.452000	2.708100	-0.211500	1.791800	8.638200	2.901400
Minimum	-4.106800	2.184900	-0.891600	1.098600	6.930700	1.957300
Std. Dev”.	0.729028	0.127799	0.152902	0.207299	0.469710	0.207917
Skewness”	-0.029789	-0.921215	-0.927842	-0.332480	0.272210	-0.771034
Kurtosis”	1.592365	3.242794	3.080533	2.373759	2.297612	3.239822
Jarque-Bera	4.962467	8.633748	8.625115	2.085870	1.974355	6.088728
Probability	0.083640	0.013342	0.013399	0.352419	0.372627	0.047627
Sum	-157.6467	151.4619	-27.03310	88.11230	461.1122	151.6501
Sum Sq. Dev.	31.35742	0.963627	1.379363	2.535411	13.01704	2.550545
Observations	60	60	60	60	60	60

Source: Authors' Eview Output, 2017.

Looking at the Table 1., it shows the descriptive statistics indicating all the mean values for the construct are positive. The mean value for dependent variable Return on Asset (ROA) is 2.627445, while the mean values for the independent variables Board Size (BSize), Board Composition, (BCom), Audit committee Size (Aud-

Size), Bank size (FSize) and Bank leverages (BLev) were computed to be 2.524365, -0.450552, 1.468538, 7.685203 and 2.527502. Also, the standard deviation of Return on Assets, (ROA), Board Size (BSize), Board Composition, (BComp), Audit committee Size (AudSize), Bank size (FSize) and Bank leverages (FLev) were calculated to be: 0.729028, 0.127799, 0.152902, 0.207299, 0.469710, 0.207917.

The minimum values indicate the lowest point of the variables throughout the study period. The minimum values for ROA were -4.106800, while the minimum values for independent variables i.e. Board Size (BSize), Board Composition, (BCom), Audit committee Size (AudSize), Bank size (FSize) and Bank leverages (BLev) were: 2.184900, -0.891600, 1.09860, 6.930700 and 1.957300 respectively. The maximum values also indicate the highest point of the variables throughout the study period. The maximum values for ROA was 1.452000, while the maximum values for independent variables i.e. Board Size (BSize), Board Composition (BCom), Audit committee Size (AudSize), Bank size (FSize) and Bank leverages (BLev) were: 2.708100, -0.211500, 1.791800, 8.638200 and 2.901400 respectively. Skewness shows the asymmetry of the likelihood distribution of a real random variable about its mean. From the Table 1., the skewness of all variables excluding FSize is Negative, which means that all the variables except FSize are skewed to the left.

#### 4.1. Empirical results

The study critically looked into the relationship between corporate governance and bank performance in Nigeria, within the period of 2010-2016. In an attempt to capture the essence of this study, Panel Least Square (PLS) was employed in this study. The significance of the t-statistics are the p-values highlighted by the predictive software used as the basis for decision making.

$$\log ROA = \beta_0 + \log BSize\beta_1 + \log BCom\beta_2 + \log AudSize\beta_3 + \log FSize\beta_4 + \log FLev\beta_5 + \mu \quad (1c)$$

$$\log ROA = -5.33 - 0.73BSize - 0.14BCom - 0.32AudSize + 0.064FSize + 0.19FLev \quad (2)$$

Where

ROA = Return on Assets proxied for bank performance

BSize = Board Size of Banks

BCom = Board Composition

AudSize = Audit Committee Size of Banks

Fsize = Bank Size (Use as Control variable)

Fleverage = Bank Leverage (Use as Control variable)

$\mu$  = Error Term

$\beta_0$  = the  $\gamma$ -intercept of the model

$\beta_1, \beta_2, \dots, \beta_5$  = Coefficient of the independents construct.



**Table 2.:** Panel Least Square Estimation

Variables	Coefficients	Std. Error of the Estimate	t-Statistic	Probability
LOGFSIZE	0.064385	0.070193	0.917258	0.3635
LOGBCOMP	-0.141051	0.073977	-1.906687	0.0277
LOGAUDSIZE	-0.316954	0.162062	-1.955757	0.0239
LOGFLEV	0.195341	0.156091	1.251455	0.2167
LOGBSIZE	-0.733039	0.295741	-2.478649	0.0167
C	-5.358236	0.826308	-6.484554	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.920473		Mean dependent var	-2.627445
Adjusted R-squared	0.904243		S.D. dependent var	0.729028
S.E. of regression	0.225595		Akaike info criterion	0.023991
Sum squared resid	2.493762		Schwarz criterion	0.407955
Log likelihood	10.28026		Hannan-Quinn criter.	0.174181
F-statistic	56.71428		Durbin-Watson stat	1.986094
Prob(F-statistic)	0.000000			

Notes: Dependent Variable: LOGROA; Method: Panel Least Squares.

Source: Authors Computation, 2017.

The Table 2. displays the panel least square results, the R-Square value, which is the ratio of changes in the dependent variable Return on Asset (ROA), which can be predicted from the constructs, size of boards (BSize), composition of boards, (BCom), size of the Audit committee (AudSize), Bank size (FSize) and Bank leverages (BLev) of the six selected banks. This value indicates that 92.1% of the changes in Return on Assets (ROA) scores can be predicted from Board Size (BSize), Board Composition, (BCom), Audit committee Size (AudSize), Bank size (FSize) and Bank leverage (BLev). The adjusted R-square, on the other hand, attempts to provide a close value to the estimate; thus, the adjusted R<sup>2</sup> value of 90.4% shows the actual changes in the Return on Assets (ROA), which is due to the change in construct understandings; Board Size (BSize), Board Composition (BCom), Audit Committee Size (AudSize), Bank Size (FSize), and Bank Levers (BLev).

Also, the estimate of the standard error, which can also be called the root mean square (RMS) error, is 0.060939. It indicates the existence of other variables and factors that can significantly influence the Return on Asset when not taking account of Board Size (BSize), Bank size (FSize) and Bank leverages (BLev). Furthermore, the Durbin-Watson statistics of 2.0 will show the absence of serial correlations or autocorrelation. As such, the DW value of 1.986094 is close to the benchmark, and this indicates that there is no serial correlation or autocorrelation problem of regression in the models. The F-statistic (56.71428) is significant at 5% level since the probability of its value (0.0000) is less than the 0.05 significance level. This simply

implies that the test is statistically significant and the model can be used for further speculation.

**Ho1:** The size of the board of directors will not have a significant relationship with FP of MDBs in Nigeria

In the first proposition, without verification, it is presumed that the size of the board of directors will not have a significant relationship with FP of MDBs in Nigeria. In relation to the data analysis, the t-statistics of Board Size is negative (-2.478649), with a p-value of 0.0167 which is significant at only 5%. This suggests that there exists an inverse correlation between the size of the board of directors (SBOD) and the FP of the selected MDBs. Based on these results, Ho1 was not supported and, as such, its alternate hypothesis, which states that the size of the board of directors has a significant relationship with FP of MDBs in Nigeria, was supported. This means that when making financial decisions, the size of the board should not be considered, even if the size of the board is a desirable number.

**Ho2:** The compositions of board of directors in MDBs will not have a significant relationship with FP of MDBs in Nigeria

In the second proposition, it is assumed that the composition of board of directors in MDBs will not have a significant relationship with FP of MDBs in Nigeria. From the analysis, the t-statistics of board composition is negative (-1.906687), with a p-value of 0.0277, which is significant at only 5%. This indicates that there is also an inverse but significant correlation between the composition of board of directors of MDBs and their FP. Consequently, Ho2 was hence not supported while an alternate hypothesis which states that the composition of board of directors in MDBs has a significant relationship with FP of MDBs in Nigeria was held. This by extrapolation means that board composition must be put into consideration while taking financial decisions as it affects the performance of MDBs.

**Ho3:** The size of the audit committee will not have a significant relationship with FP of MDBs in Nigeria

Lastly, it is anticipated that the size of the audit committee will not have a significant relationship with FP of MDBs in Nigeria. From the analysis, the t-statistics of audit committee size is negative (-1.955757), with a p-value of 0.0239 which is significant at only 5%. This affirmed a significant negative relationship between audit committee size and the FP of the selected MDBs. As a result, Ho3 was not supported by the alternate hypothesis which states that the size of the audit committee has a significant relationship with FP of MDBs in Nigeria.

## 4.2. Discussion of Findings

The study assessed corporate governance and FP of MDBs, with particular reference to some MDBs in Nigeria. In line with the paper results, a significant negative relationship was found between board size and ROA was in line with the findings as reported by Loderer and Peyer (2002), and Muhammad (2018). They reported that there was a significant negative (-) link between board size and the performance of a firm. The findings of Conyon and Peck (1998) asserted that "a large board size leads to the free-rider problem where most of the board members play a passive role in monitoring the firm." More so, the members of the board become affected in no adaptive disputes in the sense that the board is not in tune with board members and, as such, not achieving desirable goals, which in turn affects the development of the firm (Pathan, Skully and Wickramanayake, 2007). Meanwhile, the findings contradict Kyereboah-Coleman and Biekpe (2005), as they asserted that there is "a positive relationship between a bank's value and board size". Similarly, the result above contradicts the view of Zahra and Pearce (1989) who maintained that "a large board size brings more management skills and makes it challenging for the CEO to manipulate the board."

Moreover, the study affirmed that there was a significant bond between board composition and FP of MDBs in Nigeria. This ultimately shows that the composition of the board should be taken into account or recognized in the process of executing financial decisions, whereas in the third result, it was acknowledged that there was a significant link between audit committee size and FP of MDBs. The result was in accordance with empirical studies conducted previously (Aldamen, et al., 2011). Kyereboah-Coleman (2007) points out that "the size of the audit committee negatively influences the performance of Ghanaian banks." This study corroborated the view, which asserted that the optimal size of an audit committee is efficient or adequate for the quality of financial reporting as well as to increase banks' performance.

## 5. CONCLUSION AND RECOMMENDATIONS

This study examines corporate governance and FP of MDBs in Nigeria, with specific reference to six (6) selected MDBs: GTB Plc, WB Plc, FBN Plc, UBN Plc, UBA Plc, as well as ZB Plc. Based on the panel least square results, the study concluded that there is a significant relationship between the size of the board of directors and the FP of MDBs in Nigeria. It was also clear that there was a significant relationship between the nature of the board of directors' composition and the FP of MDBs in Nigeria, and that there was a statistical relationship between audit size and the FP of MDBs in Nigeria. Conclusively, corporate governance has a significant effect on the FP of enumerated MDBs in Nigeria. As a result, machineries such as the size of the board of directors, the ratio of executive directors to non-executive directors, and

the audit size committee, both individually and collectively, have a significant impact on the FP. The key policy implication of these findings is that regulatory authorities in Nigeria can spasmodically use corporate governance mechanisms as a policy gear to fix and regulate the going concern of the MDBs in the banking sectors in Nigeria.

The study made the following recommendations, which are in tandem with the empirical findings:

1. There is a need to concentrate on the stock ownership value of the members of the boards in order to enhance corporate governance, since empirical findings assert that it has a positive connection to both the performance and the likelihood of correcting the management in banks that are not doing well.

2. People who advocate for board independence should put into consideration that there exists a negative (-) link between high board independence and FP. As such, when clamoring for board independence in order to enhance performance, then the put in place might be a misleading effort. On the other hand, if the creation of the board independence is to discipline and carry out oversight functions on the bank managers that are not performing, then board independence creation is for a good and reliable cause.

3. In addition, independent directors can deliver an effective oversight function, if the financial regulatory bodies ensure that banks present extra disclosure of financial ties between directors and banks' CEOs. Furthermore, banks may be permitted to experiment with minor variations from the usual "super-majority independent" board to having only 1 or 2 inside directors.

4. Necessary moves should be taken for banks to have compulsory abidance with the code of CG. And that an efficient legal structure that assigns the rights and duties of banks must be developed.

5. Finally, a unified corporate body should be set up. This body should be given the functions of gathering and ordering corporate governance information with proper indices to enable and foster research on corporate governance in the country.

This study has gone some way in researching the role in which corporate governance played in influencing FPs of banks. Since this study concentrates on the banking sector in Nigeria, further studies could inquire into how to get a lighter understanding of the roles of corporate governance (CG) in other sectors in the country and how it affects their financial performance. Such studies could deal with the resemblances and departures of the roles of corporate governance in other sectors of the country.

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**Appendix 1: Time Series Data of variables in Money Deposit Banks (2007-2016)**

Bank	YEAR	LogROA	LogBComp	LogBSize	LogAudSize	LogFSize	LogFLev
GTB	2007	-3.3116	-0.3711	2.5649	1.3863	7.3904	2.5908
GTB	2008	-3.3123	-0.3425	2.6391	1.6094	7.5519	2.7298
GTB	2009	-3.1341	-0.3567	2.6391	1.3863	7.6623	2.6123
GTB	2010	-3.3496	-0.3711	2.5649	1.0986	6.9878	2.4186
GTB	2011	-3.3873	-0.4155	2.4849	1.0986	7.3288	2.1078
GTB	2012	-2.8771	-0.3711	2.5649	1.0986	7.3904	2.0643
GTB	2013	-3.1033	-0.3857	2.6391	1.3863	7.5519	2.5908
GTB	2014	-3.1281	-0.3711	2.6391	1.3863	7.6623	2.7298
GTB	2015	-3.1917	-0.4005	2.6391	1.6094	8.3871	2.6123
GTB	2016	-2.9337	-0.3011	2.7081	1.3863	8.6382	2.5915
Wema	2007	-2.0084	-0.5440	2.5649	1.6094	7.8417	2.3795
Wema	2008	-1.7585	-0.6162	2.6391	1.3863	8.0235	2.6741
Wema	2009	-1.8819	-0.6162	2.5649	1.6094	8.1772	2.9014
Wema	2010	-1.7841	-0.8916	2.4849	1.6094	6.9307	1.9573
Wema	2011	-2.1866	-0.7765	2.5649	1.3863	7.3333	2.3795
Wema	2012	-2.1029	-0.8440	2.5649	1.6094	7.6195	2.6741
Wema	2013	-2.0084	-0.6162	2.6391	1.3863	7.8417	2.9014
Wema	2014	-1.7585	-0.6162	2.5649	1.3863	8.0235	2.5471
Wema	2015	-1.8819	-0.6539	2.6391	1.6094	8.1772	2.7160
Wema	2016	-1.4520	-0.6349	2.6391	1.3863	8.3104	2.7305
FBN	2007	-3.4013	-0.3567	2.3026	1.3863	7.5519	2.6101
FBN	2008	-3.1800	-0.3425	2.3026	1.3863	7.6623	2.6603
FBN	2009	-3.1370	-0.3425	2.4849	1.6094	8.2030	2.5177
FBN	2010	-3.2249	-0.3711	2.4849	1.7918	7.1929	2.5787
FBN	2011	-3.4673	-0.3425	2.4849	1.6094	7.2631	2.8214
FBN	2012	-3.7854	-0.3567	2.3026	1.7918	7.3288	2.6101
FBN	2013	-3.5370	-0.3425	2.3026	1.3863	7.3904	2.6603
FBN	2014	-3.3382	-0.3425	2.4849	1.3863	7.5519	2.5177
FBN	2015	-3.1725	-0.3425	2.6391	1.6094	7.6623	2.4114
FBN	2016	-3.0303	-0.3857	2.4849	1.6094	8.2030	2.2925
UBA	2007	-3.7247	-0.5978	2.4849	1.3863	6.9307	2.2976
UBA	2008	-3.4489	-0.6349	2.5649	1.6094	7.3333	2.4186
UBA	2009	-3.2330	-0.6349	2.5649	1.6094	7.6195	2.5265
UBA	2010	-4.1068	-0.3011	2.4849	1.7918	8.3871	2.1576
UBA	2011	-3.7247	-0.5978	2.5649	1.3863	8.6382	2.2976
UBA	2012	-3.4489	-0.6349	2.5649	1.6094	6.9307	2.4186
UBA	2013	-3.2330	-0.6349	2.7081	1.6094	7.3333	2.5265
UBA	2014	-3.0555	-0.6349	2.4849	1.7918	7.6195	2.6239
UBA	2015	-2.9048	-0.4943	2.7081	1.6094	7.8417	2.7127
UBA	2016	-2.7739	-0.5276	2.6391	1.6094	8.3871	2.7942
Zenith	2007	-1.7513	-0.3425	2.4849	1.7918	6.9307	2.5455

Zenith	2008	-1.7196	-0.3857	2.3026	1.0986	7.3333	2.6005
Zenith	2009	-1.6888	-0.3011	2.4849	1.0986	7.6195	2.6525
Zenith	2010	-1.8181	-0.3567	2.4849	1.7918	8.6382	2.4257
Zenith	2011	-1.7841	-0.3425	2.4849	1.0986	6.9307	2.4874
Zenith	2012	-1.7513	-0.3857	2.3026	1.6094	7.3333	2.5455
Zenith	2013	-1.7196	-0.3425	2.4849	1.7918	7.6195	2.6005
Zenith	2014	-1.6888	-0.3857	2.3979	1.0986	7.8417	2.6525
Zenith	2015	-1.6589	-0.3011	2.4849	1.0986	8.0235	2.7020
Zenith	2016	-1.6299	-0.5978	2.6391	1.3863	8.1772	2.7492
UNION	2007	-2.1123	-0.2124	2.5649	1.0986	7.3904	2.0643
UNION	2008	-2.1211	-0.3857	2.6391	1.3863	7.5519	2.5908
UNION	2009	-2.1202	-0.3711	2.6391	1.3863	7.6123	2.7298
UNION	2010	-2.1901	-0.2115	2.6391	1.6094	8.3871	2.6123
UNION	2011	-2.5370	-0.3425	2.3026	1.3863	7.3904	2.6603
UNION	2012	-2.3012	-0.3425	2.4849	1.3863	7.5519	2.5177
UNION	2013	-2.1195	-0.3425	2.6391	1.6094	7.6623	2.4114
UNION	2014	-2.1303	-0.3857	2.1849	1.6094	8.2030	2.2925
UNION	2015	-2.7121	-0.3857	2.1849	1.3863	6.9307	2.2976
UNION	2016	-2.6124	-0.5978	2.6391	1.3863	8.1241	2.1492

Source: Authors Computation.



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