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Research Paper

Corporate Governance and Bank Performance in Nigeria: A Study of Selected Banks

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Abstract
The study carried out an empirical analysis of corporate governance and bank performance in Nigeria: with selected 10 most performing commercial banks listed in the Nigeria Stock Exchange using annual data from 2009 to 2016. The study made use of "Hausman specification test" also known as Indirect Least Square (ILS) with panel data. The techniques tested for the appropriateness between fixed and random effects, and the method is consistent and efficient in wiping out the property of un-biasedness. The coefficient of determination R^2 which is approximated to 70% is high and indicates that about 70% of the systematic variation in the financial performance of the Nigeria banks is accounted for by the explanatory variables. The overall test of statistical significance which is F-statistis value as shown in the model passed the test at 5 percent level of significance. The Durbin-Watson statistics of 1.8467 suggest that there is no first order series positive correlation in the model.

Keywords; *Corporate governance, Bank performance, Capital structure, Board size, Hausman test*

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I. Introduction

Financial institutions have become more open to new inventions in products and services as a result of globalization and increase in technology and innovation. The banking industry in Nigeria has witnessed wave of mergers and acquisitions in the last two decades. In line with these developments, the fact remains unchanged that there is need for countries to have sound resilient banking systems with good corporate governance. This will strengthen and upgrade the institution to survive in an increasingly open environment (Köke and Renneboog, 2002 and Kashif, 2008).

Given the fury of activities that have affected the efforts of banks to comply with the various consolidation policies and the antecedents of some operators in the system, there are concerns on the need to strengthen corporate governance in banks. This is expected to boost public confidence and ensure efficient and effective functioning of the banking system (Soludo, 2004).

According to Heidi and Marleen (2003), banking supervision cannot function well if sound corporate governance is not in place. Consequently, banking supervisors have strong interest in ensuring that there is effective corporate governance in banking organizations. As opined by Mayes, Halme and Aarno (2001), changes in bank ownership during the 1990s and early 2000s substantially altered governance in the world's banking industries. These changes in the corporate governance of banks raised very important policy research questions. The fundamental question is how do these changes affect bank performance?

It is therefore obligatory to point out that the concept of corporate governance of banks and very large firms have been a priority on the policy agenda in developed market economies for over a decade. Further to that, the concept is gradually becoming a priority in the African continent. Indeed, it is believed that the Asian crisis and the relative poor performance of the corporate sector in Africa have made the issue of corporate governance attract attention in the development debate (Berglof and Von -Thadden, 1999).

Several events are therefore responsible for the heightened interest in corporate governance especially in both developed and developing countries. The subject of corporate governance became prominent in global business after a string of collapses of high profile companies. In developing economies, the banking sector among other sectors has witnessed several cases of collapses. More so, the agency and the associated free-rider problem has also been the one of the reasons for the adoption of corporate governance mechanisms to ameliorate the bearer of the cost of monitoring managers between individual investor and other stakeholders.

The Alpha Merchant Bank Ltd., Savannah Bank Plc and Societe Generale Bank Ltd are some examples in the Nigerian banking industry. In Kenya are the Continental Bank of Kenya Ltd., Capital Finance Ltd., Consolidated Bank of Kenya Ltd. and Trust Bank of Kenya (Akpan, 2007).

In Nigeria, the issue of corporate governance has been given the front burner status by all sectors of the economy. For instance, the Securities and Exchange Commission (SEC) set up the Peterside Committee on corporate governance in public companies. The Bankers' Committee also set up a sub-committee on corporate governance for banks and other financial institutions in Nigeria. This is in recognition of the critical role of corporate governance in the success or failure of companies (Ogbechie, 2006).

Jenkinson and Mayer, (1992) and Adegbite, (2015), sees corporate governance to be the processes and structures by which the business and affairs of institutions are directed and managed, in order to improve long term shareholder' value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders. Corporate governance is therefore, about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate performance. Jensen and Meckling (1976) acknowledged that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance. A number of corporate governance mechanisms have been proposed to ameliorate the principal-agent problem between managers and their shareholders. These governance mechanisms as identified in agency theory include board size, board composition, CEO pay performance sensitivity, directors' ownership and shareholder rights Gomper, Ishii and Metrick, (2003), further suggest that changing these governance mechanisms would cause managers to better align their interests with that of the shareholders thereby resulting in higher firm value.

In developing economies, corporate governance has recently received a lot of attention in the literature, yet corporate governance of banks in developing economies as it relates to their financial performance has almost been ignored by researchers (Caprio and Levine (2002); Ntim (2009)). Even in developed economies, the corporate governance of banks and their financial performance has only been discussed (Macey and O‟Hara, 2001).

The few studies on bank corporate governance narrowly focused on a single aspect of governance, such as the role of directors or that of stock holders, board independence, while omitting other factors and interactions that may be important within the governance framework (Adams and Mehran, 2002; Amadu, 2011) for example US companies, where they examined the effects of board size and composition on value. Another weakness is that such research is often limited to the largest, actively traded organizations many of which show little variation in their ownership, management and board structure and also measure performance as market value.

In Nigeria, among the few empirically feasible studies on corporate governance are the studies by Sanda, Mukailu and Garba, (2005) and Ogbechie, (2006) that studied the corporate governance mechanisms and firms' performance. In order to address these deficiencies, this study shall examine the role of corporate governance in the financial performance of selected Nigerian banks. Unlike other prior studies, this study would not be restricted to the framework of the Organization for Economic Cooperation and Development principles, which is based primarily on shareholder sovereignty. It seeks to analyze the level of compliance of code of corporate governance in Nigerian banks with the Central Bank's post-consolidation code of corporate governance.

The broad objective of this study is to empirically investigate the relationship between corporate governance and firm financial performance in the Nigeria banking industry. The specific examined the relationship between board size, the proportion of firm size, capital structure and as measure of corporate governance and financial performance of banks in Nigeria.

II. Literature Review

Corporate Governance

The Organization for Economic Corporation and Development (OECD) (1999), see corporate governance as a system at which an organization objectives were set upon, and the decision to attain those objectives and monitor the performance are determined. It also involves the interactions among company's stakeholders such as company's management, its board, its shareholders and employees. Corporate governance is only part of the larger economic context in which firms operate, which includes, macroeconomic policies and the degree of competition in product and factor markets. It further stress that corporate governance framework depends on the legal, regulatory, and institutional environment. At side these, it itemize some fundamental factor to includes business ethics and corporate awareness of the environmental and societal interests of the communities in which it operates that can dictate the reputation and the long-term success of a company. Prachi (2021), define corporate governance as a healthy interaction among various participants of corporation (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. This interaction determines the effective strategic decisions and allocates authority and responsibilities to the stakeholders of the corporation. According to Ahmed, Alam, Jafar, and Zaman, (2008), corporate governance is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is directed, administered or controlled. It ensures the effective management companies assets towards achieving the shareholders interest. Following the assertion of Prachi (2021), Ahmed, *et, al,* (2008) itemized the principal actors in the corporate governance to be board of directors, shareholders, management, others included employees, suppliers, customers, creditors, regulators, the environment and the community at large. Gabrielle (2003), cited in Ahmed, *et, al,* (2008) see corporate governance as 'an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity. Corporate governance depends on the commitment of management integrity and administrative framework set by the government of the country at which firm's operate (Bhandari, 2018). Therefore, corporate governance is a propelling force driving corporate organization towards achieving financial supplier's returns on their investment, good and sound corporate governance mechanisms speak volume in the performance of firms.

Performance

The term performance means different things to different people depending on individual dimension, impression, or perspective, desire, and operation. To some organizations, it comes in terms of profit over capital investment, financial performance, ratio of output over input, growth and survival of the firm. According to Richard, Devinney, Yip, and Johnson (2009), performance in an organization encompasses three specific areas of firm outcomes; financial performance, product market performance and shareholder return. Financial performance includes profits, return on assets, return on investment, etc.) While product market performance encapsulate sales, market share, etc.); and shareholder return are total shareholder return, economic value added, etc. Luo, Huang, Lu Wang, (2012), Suggested that organization performance can be defined in terms of economic performance (financial and market outcome) through profit, sales, return on investment for shareholder and other financial metrices and operational performance which focuses and includes customer satisfaction and royalty, the firms social capital, and competitive advantage derived from capabilities and resources (cited in Sumbul, 2020). Oloniluyi and Ogunleye (2016), claimed that industry's performance can be measured in term of its technical efficiency, allocative efficiency, and the size of selling costs in relations to sales revenue. Economically, performance is an appraisal of how much the economic results of an industry's market behaviour deviate from the best possible contribution it could make to achieve some specified goals of the economy.

Empirical Literature

Ndiwalana, Ssekakubo, & Lwanga, (2014) examined the relationship between Corporate Governance and Financial Performance of Savings, Credit and Corporative Societies in Uganda. The study established that, Corporate Governance has no significant effect on the financial performance of the Savings institutions, Credit and Corporative Societies. Adeusi, Akeke, Aribaba, & Adebisi, (2013), examined the relationship between corporate governance and performance in Nigeria banking sector, with 10 selected banks covering 2005-2010, Based on their model, there is negative relationship between corporate governance and performance in the sector, the report indicates that improved performance of the banking sector is not dependent on increasing number of executive directors and board composition. Najeeb, Nabila, & Nadeem (2015), discussed the influence and relationship between corporate governance practices and firm financial performance in Islamic banking sector. The study revealed a positive relationship between corporate governance and financial performance of Islamic banking sectors. The most outstanding results of this study have considerable and strong positive relationship in large board size and firm financial performance in developing countries as Pakistani circumstances. Odili, Ikenna, and Orikara, (2015), found mixed reactions between the components of corporate governance and banking sectors performance, the research revealed that Board Independence, Directors' Shareholding and Audit Committee Meetings had positive and significant effects while Board Size showed negative significant effect on the performance of the banking sector in Nigeria. Yasser (2011), study revealed that corporate governance structure has significant influences on both family and non-family controlled companies' performance. The significant variables differ between family and non-family controlled companies. Uremadu, and Onyekachi, (2018), in their study found a negative and insignificant interaction between capital structure and corporate performance of the consumer goods firm sector of Nigeria. Which implies that long-term debt ratio to total asset and total debt ratio to equity has an inversely proportionate relations to the returns on assets. Olaniyi, Elelu, and Abdulsalam, (2015), found mixed results based on the periodic examination of capital structure on corporate performance in US. Their results were influenced by the type of performance indicators employed. The study showed that a higher levels of gearing have negative significant relationship with ROA (-0.362) and (-1.13) before and after the crisis respectively or (-0391) using the pooled data, but a positive significant relationship exist between DE and ROA in the post crisis period other variables shows insignificant relationship. More precisely, a percentage increase in the level of debt brings 46% changes in ROA. According to Olokoyo, (2013), firm's leverage as a measure of capital structure was found to have a significant negative impact on the firm's performance measure (ROA).

III. Methodology

Types and sources of data

Considering the year 2006 as the year of post consolidation governance codes for the Nigerian banking sector, this study investigates the relationship between corporate governance and financial performance in the Nigerian banking industry. The choice of this sector is based on the fact that the banking sector's stability has a large positive externality and banks are the key institutions maintaining the payment system of an economy that are essential for the stability of the financial sector.

Financial sector stability, in turn has a profound externality on the economy as a whole. To this end, the study basically covers the best ten listed banks out of the 24 commercial banks operating in Nigeria till date that met the N25 billion capitalization dead-line and merger and acquisition of 2010. The study covers these banks‟ activities during the post consolidation period (2011-2016). The choice of this period base on stability of the sector, availability of useful and reliable data and allows for a significant lag period for banks to have reviewed and implemented the recommendations of the CBN post consolidation code. Given the nature of this research work, the data are purely secondary. The data covers the period of 2011 to 2016 with ten (10) firms investigated (top ten banks in Nigeria banking industry). The main data sources were basically on statement of accounts for the financial institutions and CBN statistical bulletin.

Model Specification and Description of variables

The work of Adams, and Mehran, (2002) were adopted for this research work with modifications. Financial performance is a function of good corporate governance. Therefore, performance is measured using return on equity while corporate governance are proxy by: firms size, board size, capital structure and bank uncertainty.

$$ROE = \beta_0 + \beta_1 FIMS + \beta_2 BDS + \beta_3\ CAPST + \beta_4\ UNT + \mu_t \dots\dots\dots (1)$$

μ_t is Stochastic Error term

$\beta_1, \beta_2, \beta_3, \beta_4$ Are parameter estimate

	Variable	Description	Measurement	A priory expectation
1	Firms Size (FIMS) Or Financial control variables	The size of a company in a given industry at a given time which results in the lowest production costs per unit of output.	Measuring apparatus are Capital Invested; Value of the Product; the number of wage-earners employed; power used; amount of raw materials consumed; volume of output and productive capacity of the plan (Sindhuja, 2016). For this research work firm size is measure in term of book value of assets (net assets).	size is expected to have positive relationship with firm's performance
2	**Board Size (BDS)**	Is an integral part of internal governance mechanisms through which decisions and actions of managers can be monitored (Fama, 1980).	the size composited member of the highest decision body in a formal organization	Board size is expected to have positive effects on firm's performance.
3	Capital Structure (CAPST)	The capital structure is an adopted pattern by firm in financing its overall operations and growth by using different sources of funds. It could be in form of debt or equity. (corporate financial institute, 2021)	Debt (bond issued or long-term note payable Equity (common stock, preferred stock or retained earnings. Short-term debt such as working capital). For this research work capital structure is proxy by capital ratio.	Capital Structure (CAPST) expected to have positive effects on firm's performance.

Estimating Technique;

For the purpose of this research work two different techniques were adopted: they are; "Hausman specification test" which is also known as Indirect Least Squares (ILS) (Gujarati, 2007). The choice of this estimation technique is to determine the appropriateness between two similar econometrics methods (fixed and random effect) to evaluate the relationship between corporate governance and financial performance in the selected Nigeria banks. Moreover, Durbin-Watson test was also employed to detect the degree of autocorrelation among the variables under consideration.

IV. Findings

Table 1.1 Descriptive Statistics of Data

	Profit After Tax	TA	GE	Board Size
Mean	16462702	9.13E+08	95755674	16.88750
Median	77022.50	4017032.	425730.5	16.00000
Maximum	1.61E+08	6.86E+09	7.64E+08	36.00000
Minimum	-52600893	270977.0	1.000000	10.00000
Std. Dev.	33696034	1.46E+09	1.52E+08	3.676796
Skewness	1.965620	2.019832	2.106372	3.337532
Kurtosis	7.507567	7.268159	8.200771	19.22084
Jarque-Bera	119.2427	115.1202	149.3174	1025.574
Probability	0.000000	0.000000	0.000000	0.000000
Sum	1.32E+09	7.30E+10	7.66E+09	1351.000
Sum Sq. Dev.	8.97E+16	1.67E+20	1.83E+18	1067.988
Observations	80	80	80	80

Source: Author computation

Table 1.1 reports that all the variables have positive average values mean. On the mean, gross earning and profit after tax has the highest mean followed by board size while total asset has the minimum value of mean. Also, the minimal deviation of the variables from their means was shown in the table. Again, it can also be observed that board size has the highest maximum value in the table while profit after tax is relatively low compared to others.

Table 1.2a

	IPS unit root test			ADF unit root test			Levin-lin-chu unit-root		
Variable	t*	Prob.	order	t*	Prob.	Order	t*	Prob.	order
Profit After Tax	-4.8643	0.0000	1(0)	64.3254	0.0000	1(0)	-11.812	0.0000	1(0)
Gross Earning	-2.9872	0.0014	1(0)	32.8325	0.0352	1(0)	-25.823	0.0000	1(0)
Total Assets	-1.5699	0.0542	1(0)	39.2578	0.0062	1(0)	-5.6157	0.0000	1(0)
Board Size	-8.7113	0.0000	1(0)	48.8332	0.0000	1(0)	-33.322	0.0000	1(0)

Source: Author's computation 2018

Table 1.2b

	IPS unit root test			ADF unit root test			Levin-lin-chu unit-root		
Variable	t*	Prob	Order	t*	Prob	order	t*	Prob	order
Profit After Tax	-3.8701	0.0001	1(1)	56.9337	0.0000	1(1)	-10.581	0.0000	1(1)
Gross Earning	-1.6932	0.0452	1(1)	35.7653	0.0164	1(1)	-6.1119	0.0000	1(1)
Total Assets	-2.1065	0.0176	1(1)	37.4365	0.0104	1(1)	-7.2785	0.0000	1(1)
Board Size	-2.1939	0.0141	1(1)	33.3846	0.0066	1(1)	-7.3547	0.0000	1(1)

Source: Author's computation 2018.

The table above presents the summary of the unit root result for the series in their levels and first differences. The Levin, Lin & Chu t*, Im, Pesaran and Shin W-stat and ADF - Fisher Chi-square ADF lag length was automatically selected by the Akaike Information Criteria (AIC). Given the decision rule above, all the variables achieved their stationarity at both level and first difference.

1.3 Correlated Random Effects- Hausman Test

Test Summary	**Chi-Sq Statistic**	**Chi-Sq d.f.**	**Prob.**
Cross-section random	**0.943831**	**3**	**0.8148**

Null hypothesis: Fixes effect is the most appropriate for this model
Alternative hypothesis: Random effect is the most appropriate for this model
Judging from table, 1.3, the Chi-Square statistic is (0.94) and P-value (0.81). By definition, Hausman specification state that if the probability value is greater than 5%, the study is said to reject the null hypothesis and accepted the alternative hypothesis. Therefore, based on this outcome, the study concludes that random effect is the most appropriate and reliable method to assert the relationship between cooperate governance and bank financial performance in Nigeria with the data set.

Table 1.4 Random Effects Test with Profit After Tax (PAT) Dependent Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Total Assets	0.019351	0.011990	1.613981	0.1112
Gross Earning	-0.109413	0.110671	-0.988625	0.3264
Board Size	-549174.8	665599.4	-0.825083	0.4123
C	18548353	11704721	1.584690	0.1177
R-squared	0.742192	Adjusted Rsquared	0.696017	

Source: Author's Computation, 2018.

The table 1.4, revealed the outcome of the panel regression on random effect model where Profit After Tax (PTA) was regressed as dependent variable on Gross Earning (GE), Total Asset (TA) and Board Size (BS). Here the result of R^2 from the empirical study indicates that 0.74% variation in profit after tax were jointly captured by the independent variables (GE, TA, BS). This is also re-affirmed by the adjusted R^2 result (0.69), explaining 0.69 % of the variations in profit after tax. The entire model is also statistically significant (F* =16.07) while the Durbin Watson statistics reveals little or no autocorrelation among the variables.

Hypothesis: There is a significant effect of firm size on the financial performance of banks in Nigeria.

Judging from the result, the firm size proxy by total assets of individual firms showed insignificant positive relationship with financial performance of these banks. This result is in line with a priory expectation but does not fulfill the stated statistical hypothesis. As showed in some studies that firm size is an important performance determinant, size has an ambiguous effect on firm performance. Larger firms are usually more diversified, they benefit from economies of scale, have more capacities and resources (Frank and Goyal, 2003). Larger firms may also have economies of scale in monitoring top management (Himmelberg et al, 1999). Anne, K'obonyo, and Muindi, (2019), asserts that firm size strengthened organization performance and CEO'S compensations. On the other hands, a large firm could be less efficient because it becomes harder for managers to control the efficiency of operational activities with the firm growth (Himmelberg et al, 1999; Sarkar and Sarkar, 2000). Besides, small firms are more likely to be managed by owners, and in this case there is no conflict of interest, and associated agency costs.

Hypothesis: capital structure impact significantly to the financial performance of Nigerian banking industry. In the same vein capital structure (proxy by gross earning) showed insignificant negative relationship with financial performance of the banks. The results provide strong evidence in support of the traditional theory of capital structure which asserts that leverage is a significant determinant of firms' performance. This result is in consonant with Olokoyo, (2013), Uremadu, and Onyekachi, (2018) findings that long-term debt ratio to total asset and total debt ratio to equity as components of capital structure has an inversely proportionate relationship to the returns on assets.

Hypothesis: There is no significant relationship between board size and financial performance of banks in Nigeria. From Table 1.4 the result reveals that, there is insignificant negative relationship between board size and bank performance in Nigeria with -545(p-0.41) which is against a- priory expectation and in tandem stated hypothesis also in line with the finding of (Adeusi, et. al., 2013; & Ndiwalana, Ssekakubo, & Lwanga, 2014).

V. Discussion of the findings

The empirical evidence from this study reveals that firm size (proxy with Total Asset) (TA) is positively related to profit after tax as an indicator of organizational performance. This therefore, suggests the vital importance of valuable assets in achieving a bank objective (profit maximization). The result further reveals an indirect relation between board size and profit after tax which is in line with Adeusi, *et. al.* (2013) and Ndiwalana, Ssekakubo, & Lwanga, (2014). The result shows the negative relationship between profit after tax and board size; the result suggest that, an increase in the number of board member will have an adverse effect on the bank profitability. In addition, gross earning exhibit indirect and insignificant relationship with the performance of the selected firms in the banking industry. In this case, the gross earnings could be seen as the necessary condition for bank performance but not a sufficient condition.

Furthermore, it was revealed that some of the objectives were against the a-priory expectation as stated in the hypothesis. Board size as a measure of corporate governance hypothesized that there is a significant relationship between board size and financial performance in the Nigeria banking industry. From result, it was revealed that, there is insignificant negative relationship between board size and bank performance in with -545(p-0.41) which is against a priory expectation and in tandem with stated hypothesis. It was seen as affirmation to the findings and assertion of Sanusi (2010), Adeusi, *et. al.* (2013) and Ndiwalana, Ssekakubo, & Lwanga, (2014). The inverse interactions between board size and financial performance of banks in Nigeria is attributed to the assertions that banking crises in Nigeria was linked with governance malpractice within the consolidated banks which became a way of life in large parts of the sector and opined that corporate governance in many banks failed because boards ignored these practices for reasons including being misled by executive management, their participation in obtaining un-secured loans at the expense of depositors and not having the qualifications to enforce good governance on bank management.

V. Conclusion and Policy Recommendations

Judging from the findings of this study, it is observed that corporate governance indicators used exhibits insignificant relationship with bank performance. This call for the re-examination of internal strategies of these banks like corporate governance, structure, conduct and performance and other logistics. It therefore, concludes that, size or composition of board members is not the only yardstick for bank performance but includes both financial and operational factors. In view of these, this study recommends that adequate measures should be taken to enhance efficiency and effectiveness of governance frameworks in the banking sector.

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Appendix 1

Cross-section random effects test equation:
Dependent Variable: PAT
Method: Panel Least Squares
Date: 10/21/18 Time: 10:46
Sample: 2010 2017
Periods included: 8
Cross-sections included: 10
Total panel (balanced) observations: 80

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Totat Assets	0.019351	0.011990	1.613981	0.1112
Gross Earning	-0.109413	0.110671	-0.988625	0.3264
Board Size	-549174.8	665599.4	-0.825083	0.4123
C	18548353	11704721	1.584690	0.1177

R-squared	0.742192	Mean dependent var	16462702
Adjusted Rsquared	0.696017	S.D. dependent var	33696034
S.E. of regression	18578193	Akaike info criterion	36.46054
Sum squared resid	2.31E+16	Schwarz criterion	36.84762
Log likelihood	-1445.422	Hannan-Quinn criter.	36.61573
F-statistic	16.07358	Durbin-Watson stat	1.846728
Prob(F-statistic)	0.000000		