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Corporate Governance and Financial Performance of Banks in Nigeria

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Abstract:
This paper studied the link between the corporate governance policies and the financial performance of banks in Nigeria. The population of the study is 21 listed banks on the Nigerian stock exchange. The researcher used the whole population as sample. Secondary method of data collection was adopted. The annual report of the sampled banks was used to ascertain the financial performance, while structural interview schedule was granted to sampled bank managers for the determinance of corporate governance. The review of related literature confirms to the researcher that corporate governance variables could be measure using (tenure of the CEO, board size, audit committee size, leverage, age of the bank, and management change) and financial performance variable could also be measured by the use of (value of assets, and capital base). The study determined the degree of relationship between corporate governance and financial performance of these banks in Nigeria with the aid of multiple regression analysis. The researcher discovered that, there was a statistically positive relationship between value of assets and management change in the sampled banks, with this finding, the paper calls for implementation and improvement of best changes by management, which will be transcended in to an improvement in the value of assets of the bank, which will lead to better financial performance at the long run.

Keywords: *Corporate governance, financial performance, banks and management*

1. Introduction

Nigeria is concerned about the possibility of wide-scale financial practices by capital market operators because of the current activity involving forgeries of publicly traded corporations (Bala, 2016). Many corporations have found themselves in severe financial trouble for reasons that border on non-existent or completely ineffective corporate governance systems. In 2003, the Nigerian Security and Exchange Commission unveiled a new Code of Best Practices on Corporate Governance for Publicly Traded Companies, which was later revised in 2011 to improve efficiency and effectiveness. Affected companies must adopt the revised procures (Ofo, 2011).Nigerian financial corruption that has resulted in the recent banking crises has been traced to governance issues within the newly merged banks. According to Sanusi (2010) many Nigerian citizens have gotten used to a life of fraud. He added that corporate governance in several banks is ineffective because boards missed these practices due to their own ignorance as well as their lack of control over the executives who engaged in the practice.On account of boards of directors neglecting their oversight responsibilities, many Nigerian banks recorded several years of problematic accounting in 2009. In January 2010, a new CBN regulation set a maximum tenure for bank chief executive officer (CEO) at 10 years, and as of July 31, 2010, CEOs were legally required to step down from their positions. To prevent the 'sit-tight syndrome,' which sees the management of Nigerian banks as their own private businesses instead of publicly held organizations subject to accountability to depositors, shareholders, and government regulators, the guideline is meant to support corporate governance of banks in Nigeria. CEOs cannot serve as directors for three years after the completion of their second term as CEO. They may serve for two five-year terms (Sanusi, 2010).

A CEO stays in power longer, the more attached he becomes, the more he believes the bank is his, and the more he has the potential to make or ruin the bank's performance. This potential has not yet been fully examined in the existing body of literature on the efficiency of Nigerian banks. A trend which signifies lower standards in the corporate sector is the fact that poor-performing CEOs are able to maintain their positions as CEOs because they own large portions of their respective banks' voting shares. These CEOs are not motivated to work hard and perform well, resulting in corporate governance mechanisms losing effectiveness and serving to lower the financial performance of their banks (Aburime, 2011).A number of corporate governance reforms have chosen to focus on board structure, size, and composition as the only options that are deemed suitable for improvement (Abidin, Kamal&Jusoff, 2009).

The goal of this study is to bridge the gap by providing evidence on the relationship between corporate governance and financial performance. It also aimed at answering the following questions: Is there a relationship between the length of time a bank CEO has served and the financial performance of the bank? How does the size of the board influence the financial performance of Nigerian banks? The effect of audit committee size and bank performance, while; leverage, age of the bank, and management change, are all variables that the study intends to investigates as it relates to bank performance. The paper consists of five (5) sections; Section one presents introduction, section two entails literature review, section three presents the materials and methods used. Section four presents results and discussions, while section five is the conclusion and recommendations based on the findings of the paper.

2. Review of Related Literature

2.1. Corporate Governance Concept

When it comes to corporate governance, no two entities are exactly alike. This business model is void of a unifying or systematic theory; thus, it has a multitude of areas of study. These fields include economics, accounting, and finance, to name a few (Olannye& David, 2014). Without a comprehensive framework, an organization's accounting framework will be incomplete. Corporate governance is an important element in the overall health of an organization and in the ability to overcome financial hardships. A healthy organization is one that has strong individual components and is connected to other organizations that have sound individual components. The definition of corporate governance varies depending on who is using it. One of the ways for efficiently operating corporations in the Anglo-Saxon countries like the United Kingdom and the United States is to pursue the overall interests of shareholders (equity owners). While in other nations like France, Germany, and Japan, shareholder interests (including those of workers, clients, and the public) are considered to be a corporate stakeholder's interests; in the United States this does not always happen. Thus, many scholars have a diverse set of views about corporate governance. Al-matari, Fadzil (2011) believe those structures and procedures developed for the management and supervision of corporations fall under this category.

'A country's financial system, as well as all other market participants, will experience reduced instability and higher profits when institutional investors and corporations have strong corporate governance practices, strong prudential regulation and supervision, accurate and reliable accounting financial reporting systems, and an appropriate savings deposit system' (Shleifer and Vishny, 1997).These are some of the key factors that help support financial system stability: sound corporate governance; effective marketing discipline; effective prudential regulation and supervision; accurate and reliable accounting financial reporting systems; and a sound disclosure regime. Corporate governance revolves around an important aspect, such as the role of the board of directors, the basic structure of the board of directors, or compensation. Adding value to corporate management and making the results of the corporation available to society at large and shareholders in particular is another benefit of well-run corporate governance (Rehmans&Mangla, 2010).

2.2. Concept of Financial Performance of the Banks

Mostly, financial establishments use a mixture of financial ratios, benchmarking, and determining performance against a budget as metrics for measuring their financial health (Ashbaugh-Skaife, Collins, Kinney, &Lafond, 2009; Avkiran, 1994). In accordance with standard industry practice, commercial banks' financial statements include a variety of financial ratios intended to provide an indication of their performance. Knowing this, it is widely known in accounting that financial ratios have limitations. Regardless of this particular research, commercial banks may use ROA ratios that include premium income to assess their financial performance. The various factors that go into calculating a bank's overall financial performance, which include the bank's size, operational effectiveness, and asset management, are all put to use to search for relationships between the different factors. When stated simply, a significant portion of present bank performance literature concentrates on financial institutions' objectives, which are viewed as that of earning an acceptable return and reducing the amount of risk the institution assumes to secure this return (Bhagat& Black, 2000). A commonly held belief is that there is a correlation between risk and return. The traditional measures of bank performance have therefore been a reflection of both risk and return. Battle for the high ground in the global and national banking markets, is impeding their economic recovery. The global and national banking markets are currently growing increasingly competitive, along with the increased prospect of monetary unions, which indicates major upheavals in the banking industry, and so all banks must focus on upgrading their strategic responses so as to take advantage of the changes in the banking environment.

Ashbaugh-Skaife et al. (2009) analyzed the financial abilities of commercial banks, which depend on their total assets, the researchers employed a multi-criteria method to identify banks based on their operational and profitability parameters, as well as their efficiency, and found major differences in efficiency and profitability between small and large banks.There are earlier studies that concentrate on only operational effectiveness and operational efficiency, with the possibility that an organization may persist even if these areas are not significant. The empirical consequence of this study is that a better effectiveness in an organization does not always equate to greater efficiency. The Nigerian Bank prepares to offer a genuine image of the performance of the Nigerian banking sector in financial statements.

2.3. Review of Empirical Literature

Al-Manaseer, Al-Hindawi, Al-Dahiyat, and Sartawi (2012) contended that various aspects of corporate governance affect a bank's performance. Regression analysis was used to determine whether 15 banks that are listed on the Amman Stock Exchange have a positive or negative link to Jordanian bank performance. The study discovered a positive correlation between corporate governance aspects and Jordanian banks' performance, which supports the hypothesis that having more outside board members and more foreign ownership improves performance. Consequently, while board size and the division of the roles of CEO and chairman negatively affect performance, the size of the board and the distribution of roles are not significantly related. It was also discovered that banks gain from large size when it comes to supplying services; loans don't matter much. It's possible that additional regulation of corporate governance is required in the area of CEO compensation, board of director duties, and shareholder interests.

Rehman and Mangla (2010) conducted a study on the role of Islamic and conventional banks in the Pakistani financial sector, including a comparison of the conventional and Islamic banks. The organization's objectives are set using this study, which includes the process and mechanisms used to attain them and to assess performance. In addition, the paper elaborated on the many methods of corporate governance and why having effective corporate governance structure ensures that enterprises are run for the advantage of investors. This research was primarily based on reviewing literature and secondary sources. This study surveyed different kinds of scholarly publications, diagnostic research studies, and newspaper stories to come up with these results. Through critical analysis, it was discovered that in Pakistan's banking sector, bad governance causes low performance, and with remedial action taken across all sectors, a spectacular growth and exceptional returns ensued. Due to their more trustworthy governance structure, the Islamic banks will eventually plug any gaps left in the governance framework of the banking system in Pakistan.

A similar study carried out by Suberu and Aremu (2010), who investigated the corporate governance and merger activity in the Nigerian banking industry. Of the twenty-five (25) mergers identified, as of the time of investigation, fifteen (15) were due to regulatory demand for consolidation. The data used are the stuff we would usually throw away. Most notably, it was found that banking sector support for the import-reliant economy has had a negative impact on the overall Nigerian economy, particularly in regard to inadequate shareholder value maximization. Corporate governance can be improved by encouraging managers to follow the pursuit of shareholder value as a priority.

Kim, Rasiah, and Tasnim (2012) studied the connection between corporate governance and bank performance in Malaysia before and after the Asian financial crisis. In the study, it was discovered that the use of corporate governance in the banking sector became a concern as a result of the Asian financial crisis. In the early 1970s, Malaysia was widely viewed as a country that provided an attractive example of a ‘tiger economy’. It showed continual economic expansion and social progress. In order to uncover and comprehend the differences between the two types of bank ownership (local private owned banks and foreign owned banks) prior to and after the Asian financial crisis. This study explores corporate governance and bank performance relationships. In other words, there are two categories of variables: first, variables have a conceptual definition, and second, variables have an operational definition.

It was discovered that when the state owns more of the banking sector, the countries experience slower economic and financial growth. According to research, there are discrepancies in corporate governance and the ensuing gap in manager incentives and objectives, which are offered as a justification for the results.Also, in a study done in Nigeria by Ademola T and Adedoyin (2001), they wanted to narrow the view or perception of corporate governance to issues relating to shareholder protection, management control, and the problems in economic theory's popular principal agency. Additionally, the report examined three provisions of Nigerian corporate governance legislation from three viewpoints: shareholder and minority rights; transparency and disclosure; and oversight management. Primarily, the research is based on literature survey; secondary data and data analysis with quantitative tools are also used. It discovered that the privatization program put a tremendous strain on corporate governance structures. Therefore, it is suggested that to get the benefit of effective corporate governance in Nigeria, regulations need to be enforced.

3. Methodology

3.1. Methods and Materials

This study employed Multiple Regression Analysis to understand the relationship between corporate governance and banks' performances in Nigeria. This study aimed at 21 Nigerian banks which include; United Bank for Africa (UBA), First Bank of Nigeria Plc, Guaranty Trust Bank Plc, Access Bank Plc, Fidelity Bank Plc, First City Monument Bank Limited, Union Bank of Nigeria, Zenith Bank Plc, Citibank Nigeria Limited, Ecobank Nigeria, Heritage Bank Plc, Keystone Bank Limited, Polaris Bank Limited, Stanbic IBTC Bank Plc, Standard Chartered, Sterling Bank Plc, Unity Bank Plc, Wema Bank Plc, SunTrust Bank Nigeria Limited, Providus Bank Limited and Jaiz Bank. The annual reports (2015-2018) of the banks were used. It was found out that Corporate Governance can be measured by; CEO tenure, board size, audit committee size, firm size, leverage, age of the bank, and management change. While, bank financial performance can be measured using value of assets and capital base. The formula can be equated as follows;

$$Y = \alpha + \beta X + \varepsilon$$

‘Y’ is the dependent variable and ‘X’ is the vector of independent variables.
‘Y’= Bank financial performance and ‘X’ = Corporate Governance
where;
Y_1= Value of Assets (VA)
Y_2= Capital Base (CB)
‘X’= Corporate Governance represented with:
X_1 =CEO tenure
X_2 =Board Size
X_3 = Audit Committee Size
X_4 = Firm size
X_5 = Leverage
X_6 = Age of Bank
X_7 = Management Change

α =intercept (represents the value of the response variable when all the independent variables are set to zeros)
β=constants to be estimated (represents a unit contribution of corporate governance on the bank financial performance measures)
ε =Error term

4. Results and Discussion

The table below is a representation of descriptive statistics analysis that will aid the researcher in ascertaining the relationship between the dependent variable and the independent variable.

Variables	Mean	Std. Dev.	Minimum	Maximum
CEOTENUR	5.176	4.604	1	19
BOARDSIZE	13.676	2.476	7	20
AUDITSIZ	5.838	0.444	4	6
FRIMSIZE	19.969	0.898	18.485	21.506
LEVERAGE	13.185	16.640	0.09	72.28
BANKAGE	13.185	29.855	1	115
MCHANG	0.647	0.481	0	1
ROA	0.977	5.568	-40.77	4.72

Table 1: Summary of Descriptive Statistics
Source: Sampled Banks Annual Report 2015-2018

Keys: CEO Tenure is CEOTENUR; Board Size is BOARDSIZE; Audit committee Size is AUDITSIZ; Firm Size is FIRMSIZE; Leverage is LEVERAGE; Bank Age is BANKAGE; and Management Change is MCHANG.

The calculated mean of the 5.176 CEOs who have served in Nigerian banks over the period from table 1 is 5.176 and the minimum and maximum tenure in banks are 1 and 19 as CEO in Nigeria. As revealed in the table, the mean size of a board of directors' board in Nigerian banks is 13.676 with a minimum of 7 and a maximum of 20 members. The findings revealed that Audit Committee Size (AUDITSIZ) had a mean of 5.838 members, with the smallest number of members being 4 and the largest number of members being 6 in Nigerian financial institutions. The mean of the number of firm's size in the Table 1 is approximately 19.969 for Nigerian banks, ranging from 18.485 to 21.506. Furthermore, Patro, Lehn, and Zhao (2003) wrote that while firm size and growth are both important elements when deciding board structure and size, the latter must be greater. Additionally, firm size impacts firm performance and is therefore frequently considered as a control variable in corporate governance studies, for example, Bala (2016), De Andres, Azofra, and Lopez (2005), Cheung, Thomas Connelly, Limpaphayom, and Zhou (2007), and Ghosh (2006).

When applied to the results of Table 1, this yields a mean of 13.185 and a range of 0.09 to 72.28. Firms ought to help their monitoring costs including their increasing debt level, based on the agency theory (Jensen &Meckling, 1976). The average age of a bank in Nigeria is 13.185 years. There are banks as young as 1 year old, and as old as 115 years. Concerning management change (MCHANG), banks in the sample have seen changes in the board of director membership with a mean of 0.647 and with minimum changes ranging from 0 to 1 and maximum changes ranging from 0 to 1. These are variables that are used as placeholders in lieu of actual numbers. With a range of -40.77 to 4.72, this results in a limited spread in ROA values among the Nigerian banks in the sample. Results of the Multiple Regression Analysis can be seen as follows

	CEOT	BS	AS	FS	LEV	BA	MC
VA	-0.164	-0.102	-0.053	0.201	-0.042	1.000	**0.054
CB	-0.241*	0.053	-0.201	-0.262*	0.131	-0.118	1.000

Table 2: Results of Multiple Regression Analysis
Source: Interview Schedule with Sampled Bank Managers (2015-2018)

On the above table, you will find the Multiple Regression Analysis matrix for the control variables and independent variables that are used in the calculation of the Value on Asset (VA) and Capital Base (CB) for listed banks in the Nigerian stock exchange bulletin. It was discovered that VA has a strong relationship with Management Change (MC). Hence, FirmSize (FS) also shows some level of positive relationship. In addition, there is a positive relationship between Capital Base and Board Size (BS). However, the positive relationship transcended to MC and LEV. The remaining variables recorded negative relationship;in other words,the relationship was statistically zero. This finding is in line with the findings of Bala (2016), Abidin, Kamal, & Jusoff (2009) and Al-Manaseer, Al-Hindawi, Al-Dahiyat, & Sartawi (2012).

5. Conclusion and Recommendations

In light of these findings, the study shows that banks' financial performance is greatly affected by corporate governance in Nigeria. Since, as a result, good corporate governance has such great importance, we must ensure to have strong governance practices to generate trust and high-quality financial statements. Specifically, the change in the management will affect the financial performance through the improvement in the value of assets, while there is the existence of a positive relationship between capital base and board size. There are many good reasons for the paper to support adoption and improvement of board size and Management changes in order to the financial performance of banks.

These will lead to improved corporate governance performance and bank financial performance in almost all industries, with the greatest potential to improve business results in the banking industry.

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