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The Effect of Corporate Governance on Financial Performance of Selected Nigerian Listed Deposit Money Banks

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Abstract:
This study is set to examine the impact of corporate governance, firm attributes on financial Performance of selected commercial banks in Nigeria. The primary objective is to examine how corporate governance, firm attributes influence financial Performance of banks. In other to achieve the objective, secondary data were collected from the annual report of eleven banks (11). Data collected was analysed using panel regression. Based on the analysis the research found that there is no significant relationship between board size and firm performance (ROA), that there is no significant relationship between board independence and firm performance (ROA), also that there is no significant relationship between board gender diversity and firm performance (ROA), the study also reveals that there is no significant relationship between board meetings and firm performance (ROA), also that there is no significant relationship between director's shareholding, firm size and firm performance (ROA). However, based on the findings, the research recommended that board independence should be truly enhanced by appointing professional outside directors who are truly independent of the management and the activities of the firm, as this is the only way that the board can bring meaningful impact to bear on their monitoring role of management with purposeful objectivity and finally, optimal board size of six (6) based on our descriptive statistics results to banks in Nigeria. This supports the argument that spending on large board is a major decreasing factor to earnings and firm value.

Keywords: Corporate governance, Stakeholder's theory, agency problem and firm performance

1. Introduction

The rules and norms that guide corporate practices have been of interest to various stakeholders like shareholders, managers and regulators just to mention a few especially since after the fall of large firms in Nigeria and around the world (Mahmood and Islam, 2015). For example in Nigeria organisations like Intercontinental bank, Oceanic bank, Bank PHB, Africank, Enterprise bank just to mention a few have gone through the problem of inadequate compliance to the corporate practices in the industry which have made them loss value and goodwill and today they are nowhere to be found. Corporate governance is a set of rules and lay down regulations that the corporation are expected to follow during the cause of their activities to various stakeholders (Mahmood and Islam, 2015). It describes the best practices that enables the management avoid the problem of agency cost since the interest of the stakeholders are place forward as a priority to the management (Honore, Munari and De La Potterie, 2015). The concept of corporate governance has come to stay especially in this recent economic environment where individual and corporate organisation cannot predict the outcome of their investment decision.

In practice today, no organisation can operate in the financial industry without adequate compliance to the corporate governance rules and practices so as to ensure a smooth relationship between the management, shareholders, employees and other external stakeholders that interact with the organisation. As stated by Osundina, Olayinka and Chukwuma (2016), compliance to the rule and regulation of a given entity create a future for the organisation and increase their growth potential since local and foreign bodies will be willing to invest or grant them access to funds for investment that can lead to high growth. Importantly some of the attributes of firms are likely affected by their level of compliance to rule, practices, ethic and norms that the organisation is framed on.

After the global financial crises in 2008, the issue of corporate governance practices becomes a key drive of organisation growth in the local and international financial market (Ogbechie and Koufopoulos, 2010), since it reveals the extent management of the organisation are shows commitment to effectiveness, transparency and accountability in their operational activity overtime. Importantly, the rule of corporate governance practice in the financial institution around

the world is that the management of the organisation must uphold the interest of the shareholders first before their individual interest as such the problem of agency will be eliminated.

In Nigeria, the financial sector specifically the banking sector is a major driver of growth and development in the economy as such there is need to ensure that they adhere to the lay down principles and practices of the operations in the banking sector. Furthermore, since the banking sector in Nigeria has undergone several reforms since 2005, it became important to implement corporate governance practices that will ensure accountability, transparency and equity in the dealings of the directors on behalf of the shareholders, thus banks in Nigeria became financial large with good reputation and thus increase the level of investment in the sector (Ogbechie and Koufopoulos, 2010).However, in 2008 when the financial crises struck, the secret of the Nigeria banking sector became so obvious as most of them that fails to imbibe the international best practices of banking failed and lost to the few banks that constantly implement the rules and practices of corporate governance in the banking sector. Therefore the research study seek to examine the role corporate governance, firm attributes has on financial performance of selected Nigerian listed Deposit Money Banks across eleven banks over the period of 2008 to 2016 which capture the period of the global crises but before the global pandemic in 2020.

1.1. Objectives of the Study

The major objective of the study is an attempt to examine how corporate governance, firm attributes influence the financial Performance of selected DMBs in Nigeria. Specific Objectives are as follows to:

- Examine the determinants of board size on commercial banks performance in Nigeria.
- Evaluate the role of board independent on commercial banks performance in Nigeria.
- Assess the impact board gender diversity on commercial banks performance in Nigeria.
- Examine the effect of board meeting on commercial banks performance in Nigeria.
- Investigate the impact of director shareholdings on commercial banks performance in Nigeria.
- Analyzed the effect of firm size on commercial banks performance in Nigeria.

2. Literature Review and Theoretical Framework

2.1. Empirical Review

In recent study conducted by Olayiwola, (2018), on the influence of influence of corporate governance (CG) on the performance of companies in Nigeria, panel data were collected from 2010 to 2016 and the hypotheses was tested using panel regression test. The study adopted several indicators of corporate governance indicators which includes board size, board composition and audit committee size on corporate performance (CP) on the performance indicator net profit margin (NPM). Based on the estimation, it was found that board size is negative and statistically significant with the performance indicator net profit margin, while the board composition was found to have a positive and statistically significant relationship with the net profit margin. Also it was discovered based on the individual effect that audit committee size has no significant effect with the profitability measure. Importantly, based on the joint effect, it was found that all the indicators of the corporate governance has a significant relationship with the profitability of the companies in Nigeria

According to Ahmed and Hamdan (2015), in their study of the impact of corporate governance on firm performance in Bahrain, collected data across the listed firms on the stock market, a sample of forty two (42) firms were selected over 2007 to 2011. In the study, return on equity was adopted as a measure of firm performance, while the independent variables were indicators of corporate governance. In other to achieve the objective of the study, panel regression was adopted and the study found that the indicators of corporate governance are statistically significantly with the performance of firms in the Bahrain stock exchange. The findings her implies that firm with strict compliance with the lay down rule and practices of corporate governance will increase the level at which their shareholders wealth is maximized and will eliminate any cost of agency.

Also, in the study of Ebeling (2015),on the degree of implementation of corporate governance code effect on the value of the firm, utilizes firms in the real estate industry in Germany. The study utilizes fifty four (54), companies listed on the German Real Estate Index (DIMAX) for just a period of one year (2010). The cross sectional data were initially analyzed using the descriptive statistics to ascertain the nature of the data. The study found that firms in the sample do not accept the code of corporate governance implemented in the industry. The limitation of this study was the fact that the method of examining the degree of compliance was not statistically justified.

In the study of Zabri, Ahmad and Wah (2015) on the influence of the practice of corporate governance on the performance of firms, descriptive statistics and correlation test was conducted to examine the nexus between the dependent and independent variables. The study utilized return on assets and equity as a proxy of performance while the size of the board and its independence are measure of corporate governance. However, based on the statistical test of significance, it was found that board size has significantly weak negative relationship with ROA and was also found to have no significant relationship with ROE. Also, the study found that board independence has no influence on the both performance indicators examined in the study.

Moreso, in the study of Onakoya, Fasanya and Ikenna (2014), where they examined the effect of corporate governance characteristics on bank performance in Nigeria, utilized a sample of nine (9) banks over the period of 2006 to 2010. The study adopted return on equity as a proxy to the performance of the banking firms and some corporate governance indicators like discovered that the size of the board and the structure of ownership. The study found that all the indicators of corporate governance used in the model have a positive and statistically significant relationship with the

performance indicator. Further findings from the study also reveal that the practices of corporate governance will affect the company's assets negatively.

2.2. Theoretical Framework

The agency theory and stakeholders' theory are the major theory that this study was anchored on. Also the study of Sanda, Mikaila and Garba (2005) adopted these models to examine the nexus between the mechanism of corporate governance and the performance of the firm in Nigeria.

2.2.1. Agency Theory

The theory of agency cost was advocated by Jensen and Meckling (1976) they stated that agency cost arise as a result of the disagreement of interest between the management of the business and the shareholders. Usually it has been observed that the owners of business expect that management act in line with those operations that maximizes their interest without making them worse-off. Thus failure to achieve this will create the issue of agency cost which is the major reason for regulator to implement the code of corporate governance. As stated by Jensen and Meckling (1976) the theory is in support of the fact that shareholders should delegate the responsibility of the business to individuals that has the skill set to achieve their goals. However, in other to ensure that they work in line with the stated goals, shareholders appoint members of board to monitor the action of the agents and communicate them to the shareholders and thereafter, audit their performance regularly to ensure that all lay down rules are complied with by the management.

2.2.2. Stakeholder Theory

The stakeholder was defined by Freeman (1984) as a set of individual that interact with the company directly or indirectly to enable them achieve their objective. These individual will likely be affected when the company fails to achieve their objective. In the statement of Freeman (1993), organization that have the interest of the stakeholders at heart will first ensure they comply to any policy that will help them satisfy their interest and also make decision that will increase their wealth directly or indirectly.   As stated by Sundaram and Inkpen (2004), the theory aim at analyzing the various stakeholders that management should pay close attention so as they could increase their value. Graphically, Donaldson and Preston (1995), provided evidence of various stakeholders that affects an organizations' decisions. Figure 2.1 describe the stakeholder within an organization environment.
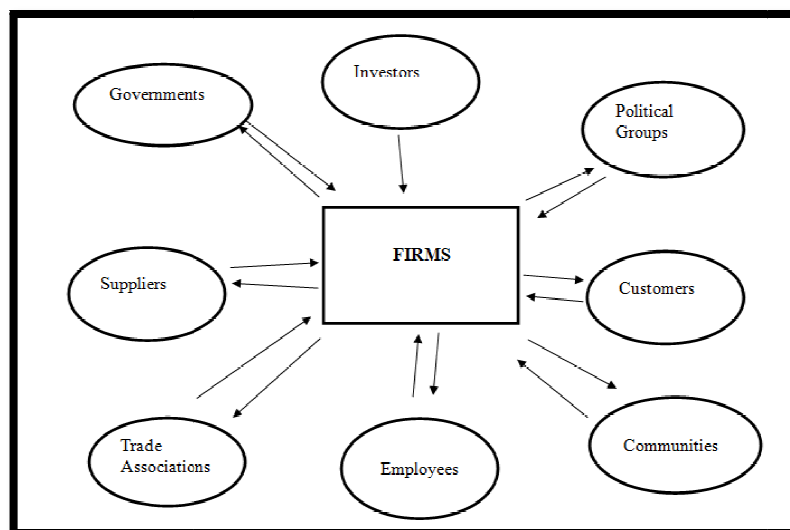

Figure 1: The Stakeholder Model
Source: Donaldson and Preston (1995)

3. Methodology

3.1. Introduction

A study of this nature helps to describe the behavior of the firm performance as a result of the several changes in the explanatory variable corporate governance indicators in the banking sector of Nigeria. The study adopted the descriptive research design to allow the researcher gain understanding of the indicators used and to enhance the ability to predict the effect of corporate governance on the performance of banks in Nigeria. Panel data was collected from the selected eleven (11) banks in Nigeria between 2008 and 2016.

3.1.1. Model Specification

A multifactor model was developed to assess the various effects of the corporate governance indicators that affect the performance of banks in Nigeria.

3.1.1.1. ROA Model

$$ROA_{it} = \beta_0 + \beta_1 BSZ_{it} + \beta_2 BI_{it} + \beta_3 BM_{it} + \beta_4 BGD_{it} + \beta_6 DIRHOD_{it} + \beta_7 SIZE_{it} + \varepsilon_{it} \dots\dots(4)$$

Where: ROA_{it} = Return on assets proxy of firm performance *i* at time *t*

BSZ   = Board size of firm *i* at time *t*

BI   = Board independence of firm *i* at time *t*

BGD   = Board gender diversity

BM   = Board Meetings

DIRHOD = Directors shareholding of firm *i* at time *t*

SIZE   = Log of total asset of firm *i* at time

a,β   = Parameters to be estimated

ε   = error term

3.1.1.2. Apriori Expectation

The sign of β_1 is negative as literature suggests a negative relationship between firm performance and a bigger board. β_2 being the coefficient of board independence has a negative relationship with firm performance. β_3, β_4, β_5, β_6, and β_7 are positive as board gender diversity, Board meetings, and managerial shareholding did not harm firm performance. Similarly β_7; is has a positive relationship with firm performance for the sampled firms.

3.2. Method of Data Analysis

The study adopted multiple panel regression techniques to test the hypotheses and a preliminary test known as the descriptive statistics was also conducted to examine the nature of the data collected across different banks over a period of time between 2008 and 2016. The panel regression provides sufficient result to test the hypotheses since it helps us cater for the problem of heterogeneity among the banks selected in the study. importantly, the study conducted the fixed and panel regression and the Hausman to enable the researcher choose between both regression the best to test the hypotheses of the study.

4. Presentation and Analysis of Results

4.1. Introduction

Descriptive statistics was carried out to examine the nature of the variables of interest. Fixed and Random effect panel data regression and the Hausman test were also conducted to select between fixed and random effect models to enable us test the hypotheses.

The below is the descriptive statistics of the sampled 11 Nigeria banks over a nine year period (2008 to 2016).

	Mean	Median	Maximum	Minimum	Jarque-Bera	Probability
ROA	1.196465	1.52	9.54	-20.23	2157.398	0
BS	14.73737	15	20	6	8.32394	0.01
BI	0.562525	0.55	0.88	0.21	23.72574	0.000007
BGD	0.136364	0.14	0.38	0	1.535778	0
BM	5.737374	5	13	3	38.02634	0
DSH	11.97465	4.17	92.87	0.02	325.1056	0
LOGTA	9.063838	9.07	9.68	8.26	2.278698	0

Table 1: Descriptive Statistics
Source: Author computation, (2014)

Table 1 shows the mean (average) for each of the variable, their maximum values, minimum values and Jarque-Bera (JB) statistics (normality test). The results in table 1 provided some insight into the nature of the selected banks that were used in this study. Firstly, the small difference between the maximum and minimum values of total asset (SIZE) which implies that the banks considered are large. We also observed that the board size in banks is usually high with an average of 14.7. This implies that banks in Nigeria have a large board composition with a maximum of 20. Based on the data of the maximum and minimum value of board independence, we observed that on the average banks have a high ratio of independence in their board. A look at bank performance indicators shows that on the average over the nine-year period the return on assets (ROA) of the sampled banks was 1.196465%, while it maximum and minimum values where 9.54 and -20.23 respectively. This implies that over the period, shareholders wealth is unstable and with a wide dispersion among different banks in Nigeria. Lastly, the Jarque-Bera(JB) statistics in table 1 shows that all the variables are normally distributed at 1% level of significance. This mean that the data collected was free from outlier and is reliable for drawing generalization in the banking industry.

4.2. Regression Results

The panel data regression results obtained decomposed into two are ROA and ROE models and the results are presented and discussed below.

4.2.1. ROA Model

The Return on assets model (ROA) panel data regression results examines how the corporate governance indicators affect the performance of banks' and their ability to generate statistically significant positive return on assets (ROA). The results obtained are presented in table

	Expected Sign	ROA (Fixed Effect)	ROA (Random Effect)
C		65.02424 (1.913029) [0.0596]	-7.35313 (-0.525641) [0.6004]
BS	-	0.126255 (0.877379) [0.3521]	0.129454 (0.990927) [0.3243]
BI	-	-3.27038 (-0.936441) [0.8695]	-3.142784 (-1.023373) [0.3088]
BGD	+	-2.191555 (-0.442312) [0.6596]	-3.569006 (-0.844374) [0.4007]
BM	+	-0.279282 (-1.702167) [0.0929]	-0.260457 (-1.766105) [0.0807]
DSH		-0.009138 (-0.446443) [0.6566]	-0.011312 (-0.626637) [0.5324]
Log(TOA)	+	-6.822512 (-1.828179) [0.0716]	1.161335 (0.790842) [0.4311]
	+		
R-Squared		0.484738	0.079949
Adj-R-Squared		0.317626	0.019946
F-Statistic		2.900676 (0.0)	1.33242 (0.25)
Hausman Test		-	4.96 (0.5487)
N(n)		11(9)	11(9)
DW		3.18	2.68

Table 2: ROA Panel Regression Results
Note: (1) Parentheses ( ) Are T-Statistic While Bracket [ ] Are P-Values
*(2) * Is 5% Level of Significance Respectively*

The fixed and random panel regression was estimated in the above able to enable the researcher assess the impact and the statistical significance of the various indicators. We present the result in tables 4.1. The results revealed difference in their coefficients magnitude signs but did not necessary change the number of insignificant variables. In selecting from the two panel data models the Hausman test was conducted and the result shows that we should adopt the random effect regression. In Table 2, we observed that the random effect results shows that the R-squared and adjusted R-squared values were (0.485) and (0.317). This indicates that all the independent variables jointly explains about 31.7 % of the systematic variations in the performance of return on assets (ROA) across the 11 quoted banks sampled in this study and over the nine-years period (2008-2016). This means that any model that includes the various corporate governance indicators may be appropriate in explaining bank performance. The F-statistics (2.900676) and its p-value (0.0) show that the ROA panel random regression model generally significant at 1% levels. The Durbin-Watson statistics (DW) of 2.68 also confirms the validity of the model and indicates the model is free from autocorrelation problems.

4.3. Hypothesis Testing

4.3.1. Hypothesis One
- Ho: That there is no significant relationship between board size and firm performance

Following the above, it should be noted that random effect panel regression models provided the following results; BOARD SIZE (BI)based on the slope coefficient (0.1294) appears to have a positive influence on banks Return on Assets (ROA) performance and was statistically insignificant at 5 percent, since the probability value of 0.3243 is greater than the significant level at 5%. This result accepts null hypothesis (Ho), which suggests that there is no significant relationship between board size and firm performance. We can therefore conclude that there is a positive and no significant relationship between the size of the board and the firm performance.

4.3.2. Hypothesis Two

- Ho: That there is no significant relationship between board independence and firm performance

BOARD INDEPENDENCE(BI)based on the slope coefficient of (-3.142784) was found to be a negatively impacting on bank return on assets (ROA) but it was also statistically insignificant since the probability value of 0.3243 is greater than the significant level at 5% in driving the ROA of the sampled bank in Nigeria. This result accepts the null hypothesis (H0), which suggests that there is no significant relationship between board independence and firm performance. We can therefore conclude that there is a negative and no significant relationship between the independence of the board and the firm performance

4.3.3. Hypothesis Three

- Ho:That there is no significant relationship between board gender diversity and firm performance

In the case of BOARD GENDER DIVERSITY(BGD)the slope coefficient was (-3.569) and appeared to have had a negative influence on banks return on assets performance, but it was also statistically insignificant since the probability value of 0.3243 is greater than the significant level at 5% and 10% respectively. However, this result accepts the null hypothesis which suggests that there is no significant relationship between board gender diversity and firm performance. We can therefore conclude that there is a negative and no significant relationship between board gender diversity and the firm performance of banks in Nigeria

4.3.4. Hypothesis Four

- Ho: That there is no significant relationship between board meetings and firm performance

In the case of BOARD MEETINGS(BM)the slope coefficient was (-0.260) and appeared to have had a positive influence on banks return on assets performance, but it was found to be statistically significant since the probability value of 0.0807 is greater than the significant level at 5% respectively. However, this result accepts the Null Hypothesis (H0), which suggests that there is no significant relationship between board meetings and firm performance. We can therefore conclude that there is a negative and no significant relationship between board meetings and the firm performance of banks in Nigeria

4.3.5. Hypothesis Five

- Ho: That there is no significant relationship between director's shareholding and firm performance

In the case of DIRECTOR'S SHAREHOLDING(DSH)the slope coefficient was (-0.0113) and appeared to have had a negative influence on banks return on assets performance, but it was found to be statistically insignificant since the probability value of 0.532 is greater than the significant level at 5% respectively. However, this result accepts the Null Hypothesis (H0), which suggests that there is no significant relationship between director's shareholding and firm performance. We can therefore conclude that there is a negative and no significant relationship between director's shareholding and the firm performance of banks in Nigeria.

4.3.6. Hypothesis Six

- Ho: That there is no significant relationship between firm size and firm performance

In the case of firm size (LOG TA) the slope coefficient was (1.1613) and appeared to have had a positive influence on banks return on assets performance, but it was found to be statistically insignificant since the probability value of 0.4317 is greater than the significant level at 10% respectively. However, this result accepts the Null Hypothesis (H0), which suggests that there is no significant relationship between firm size and firm performance. We can therefore conclude that there is a positive and no significant relationship between the size of the firm and the firm performance of banks in Nigeria.

5. Conclusion and Recommendations

This research has examined the impact of corporate governance; firm attributes influence the financial Performance of selected commercial banks in Nigeria over the period of 2008 to 2016. The measures of corporate governance used in the study are: board independence, board size, director's shareholding, board meeting and gender diversity. Firm size was used as a control variable on the dependent variable return on assets (ROA). Panel regression analysis was used to test the hypotheses; however, the study reveals that generally, corporate governance has no significant relationship with the performance of banks. The implication is that banks in Nigeria tends to incur huge cost of implementing corporate governance for example high cost of directors compensation, cost incur in ensuring board independence, cost of issuing share to directors below the market value of the company tends to affect the profitability of the banks negatively even though not significant. Finally, we conclude that predicting firm value of banking sector in Nigeria with corporate governance variables may not yield any reliable statistical conclusion due to the fact that corporate governance is only a small subset of the problems most banks face in Nigeria.

We therefore recommended that banks should adopt a more cost reduction corporate governance system that also allow for more independent professional board members, optimal board size, frequent board meetings, integrate more women in the boards (gender diversity) and allocate shares to only directors that have interest that are conflicting with shareholders interest and also operate the business in a manner that would prevent internal diseconomies of scale (too large).

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