ISSN: 2141-3827

CENTREPOINT JOURNAL

Humanities Edition

Volume 19 Number 2 December 2016

A JOURNAL OF INTELLECTUAL, SCIENTIFIC AND CULTURAL INTEREST

Centrepoint Journal (Humanities Edition) *VOL.19, NO.2, pp.1-155*

ISSN: 2141-3827

CENTREPOINT JOURNAL

(Humanities Edition)

Published by the
University of Ilorin Library and Publications Committee

http://www.unilorin.edu.ng/ejournals/index.php/cp

Funded by

TETfund
TERTIARY EDUCATION TRUST FUND

Volume 19 **No.2** **December 2016**

EFFECTS OF CORPORATE GOVERNANCE STRUCTURE ON FINANCIAL PERFORMANCE OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

I.B. Abdullahi
Department of Finance,
University of Ilorin, Kwara State
ibrahimabdul2008@yahoo.com; +2348033147081

A.I. Nafiu
Department of Accounting,
Federal Polytechnic Offa, Kwara State
alinafiu2003@yahoo.com; +2348033793630

Abstract

The Nigerian banking sector has witnessed dramatic growth post-consolidation. Governance weaknesses in these banks have created problems across the sector and the economy as a whole. To a large extent, this problem was the result of poor governance in the country's banking institutions and industrial groups. This study examined the effect of corporate governance on the financial performance of quoted DMBs in Nigeria. The study employed secondary data obtained from NSE fact books (audited reports of selected banks between 2007 and 2014) and analysed with panel data using both fixed and random effect models. The outcome of the study showed that board size has a negative relationship with performance of DMBs and corporate governance disclosure index has a positive effect on performance of DMBs in Nigeria. The study concludes that board size and corporate governance disclosures exert significant influence on performance of DMBs in Nigeria. The study therefore recommends among others that (i) DMBs and their regulators (CBN and NDIC) must ensure the numbers of people sitting on its board are within the range prescribed to avoid the negative effect of a large board size; (ii) regulators must ensure that operators comply with relevant codes of corporate governance as it relates to disclosures; and (iii) management should organise trainings for directors, managers and other key staff members to equip them with necessary knowledge and skills of corporate governance.

Keywords: Corporate Governance codes, Performance, Earning per share, Board Members.
JEL Code: G34

Introduction

Globalisation and technology have continuing speed which makes the financial arena to become more open to new products and services invented. However, financial regulators everywhere are scrambling to assess the changes and master the turbulence. International waves of mergers and acquisitions have also swept the banking industry. In line with these changes, the fact remains unchanged that there is the 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. Given the flurry 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 will boost public confidence and ensure efficient and effective functioning of the banking system.

Poor corporate governance was identified as one of the major factors in virtually all known instances of bank distress in the country (Adusei, 2011). Weak corporate governance was seen manifesting in form of weak internal control systems, excessive risk taking, override of internal control measures, absence of or non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices. The Central Bank of Nigeria (CBN) in May 2014 unveiled a new circular on corporate governance for banks and discount houses. This is an amendment to an existing code introduced in 2004 and amended in 2006. This was to make Nigerian banks more competitive and be able to play in the global market. Therefore, this study evaluates the effect of internal corporate governance structures on financial performance of quoted Deposit Money Banks in Nigeria. Specifically, it has the under listed objectives. To:

i. Examine the relationship between board size and financial performance of quoted deposit money banks in Nigeria.
ii. Evaluate the effect of board composition on the financial performance of quoted deposit money banks in Nigeria.
iii. Investigate the effect of the level of corporate governance disclosure on the financial performance of quoted deposit money banks in Nigeria.

The quality of information provided by banks is fundamental in promoting sound governance practices. Adequate disclosure and transparency safeguard the integrity of a bank's financial reports. CBN (2014) in the code of corporate governance and whistle blowing for banks identified industrial transparency, due process, data integrity and disclosure requirement as the core attributes of good governance practices in banks.

The study covered all 19 DMBs operating in Nigeria which includes 15 listed banks and 4 not listed on NSE. Activities (obtained from financials, fact books etc) of these 15 banks over an 8 year period (2007-2014) were considered in this study. The choice of this period allows for a significant lag period for banks to have reviewed and implemented the recommendations by the CBN post consolidation code. The rest of this study is divided into four sections. Sections II and III discuss literature review and methodology respectively. Section IV analyses results while V presents summary and conclusion of the study.

Literature Review

Conceptual Issues

What is Corporate Governance?

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Cadbury, 2012). In any organisation, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the organisation depends on the underlying soundness of its individual components and the connections between them. Organization for Economic Cooperation and Development (OECD) (2014) posits that "corporate governance is the system by which businesses are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders and other stakeholders and spell out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set and the means of attaining these objectives and monitoring performance".

Board Size and Composition

Board size plays an important role in affecting the value of a firm. The role of a board of directors is to discipline the CEO and the management of a firm so that the value of the firm can be improved on. A larger board has a range of expertise to make better decisions for a firm as the CEO cannot dominate a bigger board because the collective strength of its members is higher and can resist the irrational decisions of a CEO as suggested by Pfeffer (1972) and Zahra & Pearce (1989). On the other hand, large boards affect the value of a firm in a negative fashion as there is an agency cost among the members of a bigger board. Similarly, small boards are more efficient in decision-making because there is less agency cost among the board members as highlighted by Yermack (1996).

The CBN code for corporate governance (2014) provides that the size of the Board of any bank or discount house shall be limited to a minimum of five (5) and a maximum of twenty (20). Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime. The Board shall consist of Executive and Non-Executive Directors. The number of Non-Executive Directors shall be more than that of Executive Directors.

Elements of Corporate Governance in Banks

Different authors and management specialists have argued that corporate governance requires laid down procedures, processes, systems and codes of regulation and ethics that ensure its implementation in an organisation (Altunbas,

Evans and Molyneux, 2001). Some suggestions that have been underscored in this respect include the need for banks to set strategies which have been commonly referred to as corporate strategies for their operations and establish accountability for executing these strategies.

In addition to this, the Basel Committee on Banking and Supervision (2014) contends that transparency of information related to existing conditions, decisions and actions is integrally related to accountability in that it gives market participants sufficient information with which to judge the management of a bank. The Committee advanced further that various corporate governance structures exist in different countries hence, there is no universally correct answer to structural issues and that laws do not need to be consistent from one country to another. Sound governance therefore, can be practiced regardless of the form used by a banking organisation. The Committee therefore suggests four important forms of oversight that should be included in the organisational structure of any bank in order to ensure the appropriate checks and balances. They include:

i) Oversight by the board of directors or supervisory board;
ii) Oversight by individuals not involved in the day-to-day running of the business areas;
iii) Direct line supervision of different business areas, and;
iv) Independent risk management and audit functions.

Concept of Financial Performance

Financial performance can be defined as the results of the operations and policies of a firm in monetary terms (BusinessDictionary.com, 2013). The financial performance of companies may be influenced by internal managerial decisions (for example the financing of assets) and by external factors (such as a financial crisis). Although managers can exercise control over the internal corporate environment, they have very limited influence over changes in the external environment (Lussier, 2012).

Accounting-based Financial Performance

In line with previous corporate governance researchers (such as Alhaji, Yusoff and Alkali, 2012; Klapper & Love, 2004; Ramdani & Van Witteloostuijn, 2010), Earnings per share, Return on Asset and Return on Equity were selected as accounting-based performance measures.

Earnings per share (EPS)

An absolute measure of income does not show the real performance of companies. Therefore, shareholders are interested in how income is changing relative to other factors such as company size (Cudia & Manaligod, 2011). Earnings per share is an important measure of a company's financial performance. It evaluates economic strength relative to firm size. According to Williams (2000), earning per share is an

important ratio to analyse the historical operating performance of a firm and help to form an opinion about its potential. EPS is used as an important variable in determining a share market price. EPS is calculated with the formulae below.

$$EPS = \frac{\text{Net income available to ordinary shareholders}}{\text{Number of shares outstanding}}$$

Return on Equity (ROE)

Return on equity is also referred to as return on common shareholder equity (ROCE). The primary factor that distinguishes ROE and ROA is the company debt financing. In other words financial leverage changes ROA and ROE. In the absence of company liabilities, total assets and shareholders' equity will be the same and hence ROE and ROA would also be the same. Financial leverage gives rise to a ROE greater than ROA due to the comparatively cheaper cost of debt financing. Return on equity is a comprehensive indicator of a firm performance because it measures the percentage of profit earned on common stockholders' investment in the firm. ROE is also useful for comparing the profitability of a firm with rivals in their industry. ROE is calculated as:

$$ROE = \frac{\text{Income available to common stockholder}}{\text{Average common shareholder's equity}}$$

Corporate Governance Codes in Africa

In many developing countries, corporate governance mechanisms were practically non-existent prior to the 1990s (Shleifer & Vishny, 1997). Although a number of African countries published corporate governance codes during the past decade (2002–2014), South Africa was the only African country that published a corporate governance code in the 1990s. The country was thus a corporate governance pioneer within the African continent, as well as amongst other emerging countries (Grandori, 2014). Table 1 indicates the number of corporate governance codes that were published by specific African countries during the period 1994-2014.

Table 1: Number of Corporate Governance Codes Published in Specific African Countries (1994–2014)

Country	Number of corporate governance codes (including reports, drafts, reforms and recommendations)	Year(s) issued
Ghana	1	2010
Kenya	2	2002
Malawi	1	2010
Nigeria	4	2003,2006,2008,2011 & 2014
South Africa	4	1994,2002, 2009, 2011 &2014

Source: European Corporate Governance Institute (2014)

In the light of ongoing developments in corporate governance, and to take account of the Financial Stability Board (FSB) peer review recommendations and other recent papers addressing corporate governance issues, the Committee decided to revisit the 2010 guidance. One of the primary objectives of this revision is to explicitly reinforce the collective oversight and risk governance responsibilities of the board. Another important objective is to emphasise key components of risk governance such as risk culture, risk appetite and their relationship to a bank's risk capacity. The revised guidance also delineates the specific roles of the board, board risk committees, senior management and the control functions including the CRO and internal audit (Basel committee on banking and supervision, 2014). Another key emphasis is strengthening banks' overall checks and balances. Basel committee introduced 13 principles of corporate governance guiding corporate governance administration.

CBN Code of Corporate Governance and Whistle Blowing 2014

The Central Bank of Nigeria (CBN) in the same vein introduced the CBN Code of Corporate Governance for Banks in 2003 (amended in 2006) to guard against the re-occurrence of corporate governance failure in banks as witnessed during the period leading to the financial crisis. The crisis threw up the urgent need to have independence on boards of financial institutions, especially banks, prompting the CBN in May of 2014, to release a circular, outlining its position, on the definition and roles and responsibilities of independent directors, board size, board committees, separation of power, the various rights of shareholders and other stakeholders and also placing a limit on the tenure of directors - not to exceed four years for a three term and a ten year single tenure or broken down into periods not exceeding five (5) years at a time for CEOs. This code is similar to the principles adopted by Basel committee on banking supervision.

Theoretical Framework for Corporate Governance

Different theoretical perspectives exist on what the ultimate corporate objective should be. Sanda, Mikaila & Garba (2005) in their work titled 'Corporate Governance Mechanisms and Firm Financial Performance" in Nigeria, identified the agency theory, stakeholder theory and the stewardship theories as the three prominent theories of corporate governance. Two out of these theories are discussed below:

Agency Theory

Agency theory having its roots in economic theory was exposited by Alchian & Demsetz (1972) and further developed by Jensen & Meckling (1976). The Owner (the principal) delegates work to another (the agent), who performs that work. Agency theory is defined as "the relationship between the principals, such as shareholders and agents such as the company executives and managers". In this theory, shareholders who are the owners or principals of the company, hire the agents

to perform work. Principals delegate the running of business to the directors or managers, who are the shareholders' agents (Clarke, 2004). Agency theory suggests that employees or managers in organisations can be self-interested. In the agency theory, shareholders expect that the agents will act and make decisions in the principal's interest.

Stakeholder Theory

Stakeholders have been broadly defined as any group or individual who can affect or is affected by the achievement of the organisation's objectives (Freeman, 1984).The theory argues that corporations should serve all groups or individuals who have a stake in the corporation, typically including employees, customers, suppliers, and local communities. While the Shareholder theory espouses the "free market" doctrine, Stakeholder theory argues that the problems of free rider, moral hazards, and monopoly power inherent in the free market justify government intervention and corporate social responsibility. In the stakeholder view, corporations cannot maximise the shareholders' interests at the expense of other stakeholders because doing so is neither moral nor economically efficient (Alkhafaji, 1989). According to Ayuso, Rodríguez, García-Castro and Arino (2012), the stakeholder model proposes extending the focus of managers beyond the traditional interest group of shareholders in order to understand the needs, expectations, and values of groups previously perceived to be external to the company. In this sense, stakeholders of a firm can be defined as "individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers (Post, Preston and Sachs, 2002).

To achieve the objectives of this research, this study was built on agency and stakeholders theories as they focus on the Board of Directors as a mechanism which dominates the corporate governance literature. This is also in accordance to the studies of Al-Ghamdi & Rhodes, 2015; Fratini, & Tettamanz, 2015; Okiro, Aduda and Omoro, 2015.

Review of Empirical Studies

Many researchers have previously studied the effect of corporate governance compliance on financial performance of firms globally. Ajay (2007) found evidence for better performance of smaller boards than the larger ones. The study revealed that the ideal board size is six while board size and firm's performance are inversely related. The study also revealed that independent directors have failed to perform their monitoring role effectively and also to improve the performance of the firm. Babatunde & Olaniran (2009) investigated the relationship between governance mechanism and performance of corporate firms in Nigeria. The results showed that there is an inverse relationship between director's shareholdings and return on asset. The results further show that there is a positive relationship between board size and ROE, and a negative linkage between board independence and ROA. It was observed

that the impact of female board members depends on the nature of the tasks performed. The result shows that the ratio of female directors has a positive direct relationship with board strategic control but no direct relationship with board operational control among Norwegian firms.

Kumar & Nihalani (2014) investigated the effect of corporate governance on the performance of Indian Banks and found that board of the directors played a significant role in firm performance but the board meetings negatively impact on the financial performance. Latif, Shahid, Haq, Waqas, and Arahid (2013) found that board size and CEO duality had significant impact on firm performance while board composition had insignificant impact on performance. Aduda & Musyoka (2011) while looking at corporate governance mechanisms among commercial banks in Kenya found a negative relationship between executive compensation and bank size and this has been attributed to the diminishing influence of key owners as the bank grows in size. Performance ratios and opportunity only appear to be inversely related to big banks, as their executives appear to subordinate their immediate financial interests to that of the overall goal of the firm, which is to maximise profitability. The emphasis of the study was the banking sector in Kenya. Adusei (2011) found out the relationship between board structure and bank performance of Ghanaian firms employing panel data. The findings revealed that as board size of a bank's board of directors decreases, its profitability increases.

Research Gaps

The main gap identified which served as a motivation for conducting this study on DMBs in Nigeria, an emerging economy, is the recent review of the codes of corporate governance by CBN, OECD and BASEL and the drive to review extent of compliance and disclosures among Deposit Money Banks in Nigeria. In this study, a corporate governance disclosure index was developed using the CBN code of corporate governance and OECD code of corporate governance.

Methodology

Model Specification

This study employed a modified version of the econometric model of Miyajima, Omi and Saito (2003) as adopted by Coleman & Nicholas-Biekpe (2006). The Econometric model of Miyajima *et al.*, (2003) is given below as:

$$Y_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 SZE_t + \beta_3 BDT_t + e_t \quad \ldots\ldots(1)$$

Where:

Y_{it} represents firm performance variables which are return on capital employed, earnings per share, return on assets and return on equity for banking firms at time t.

G_{it} is a vector of corporate governance variables which include: Board Size (BDS), Board Composition (BDC) which is defined as the ratio of outside directors to total

number of directors, a dummy variable (CEO) to capture if the board chairman is the same as the CEO or otherwise, CEO's tenure of office (CET).
SZE_t is the size of the firm.
BDT_t is the debt structure of the firm.
e_t, the error term which account for other possible factors that could influence Y_{it} that are not captured in the model.
Based on the fact that the study employed different governance and performance proxies, the above model is therefore modified to determine the relationship between performance and corporate governance of Deposit Money Banks in Nigeria. In doing this, the study therefore developed two simple definitional models to guide the analyses. These models are as follows;

Model 1

ROE_{it} = f(BOSt, BCOMPt, CGDIt)……..(2)

$$ROE_{it} = \beta_0 + \beta_1 BOS_{it} + \beta_2 BCOM_{it} + \beta_3 CGDI_{it} + e_{it} \ldots\ldots\ldots\ldots (3)$$

Model 2

EPS_{it} = f(BOSt, BCOMPt, CGDIt)……..(4)

$$EPS_{it} = \beta_0 + \beta_1 BOS_{it} + \beta_2 BCOM_{it} + \beta_3 CGDI_{it} + e_{it} \ldots\ldots\ldots\ldots (5)$$

Where: ROE and EPS represents financial performance variables which are: Return on equity and Earning per share for banking firms at time t. BOS represents the Board Size; Board Composition is represented by BCOMP which is defined as the ratio of outside directors to total number of directors, while CGDI represents Corporate Governance Disclosure Index. e_t is the error term which accounts for other factors that could influence ROE_{it} and EPS_{it} not captured in the model.

The study adopted the random effect model of the panel data regression analysis in analysing the impact of the corporate governance proxies on the performance of the listed DMBs. This is because the study examined time series data across different firms. Judgmental sampling technique was used in selecting 15 listed DMBs out of the 19 DMBs licensed for commercial banking operation in Nigeria. The time frame considered for this study is 2007 to 2014. Secondary data obtained from the audited financial statements of the DMBs listed in the Nigerian Stock Exchange (NSE) within the eight (8) year period were considered for the study. The study also made use of reports and other related information especially the Central Bank of Nigeria bullions (2010, 2012 & 2013) and the Nigerian Stock Exchange Fact Books (2010/2011 and 2012/2013).

Estimation Results

Table 2: Descriptive statistics

	EPS	ROE	CGDI	BOS	BCOMP
Mean	0.012969	0.227031	30.06250	14.57813	2.230469
Maximum	0.110000	12.71000	39.00000	19.00000	3.000000
Minimum	-0.080000	-3.940000	25.00000	11.00000	1.750000
Std. Dev.	0.025615	1.693306	2.937848	1.771061	0.305845
Skewness	0.265753	6.161336	1.266956	0.310756	0.543497
Kurtosis	7.767076	48.22969	4.539043	3.163234	2.537171
Jarque-Bera	61.35338	5860.194	23.43830	1.101126	3.722046
Probability	0.000000	0.000000	0.000008	0.006625	0.005513
Observations	64	64	64	64	64

Source: Author's Computation, 2016.

To examine the characteristics of the series, table 2 shows the descriptive statistics for all the variables covering the same sample size of 64 observations. The earnings per share and return on equity for the banks considered are 0.012969 and 0.227031 respectively. In the same way, the average number of members of boards in these banks is 15 members while the average corporate governance disclosure index (CGDI) is 30.06 given average of 2.23 board composition (BCOMP). The large margins between the minimum and maximum values of all the series indicate evidence of significant variations of the trend of the series over the scope covered. The result shows that the distribution of the series of all the variables is positively skewed implying that the right tail is extreme.

Table 3: Regression results

VARIABLES	Dependent variable: EPS		Dependent variable: ROE	
	Fixed effect model (1)	Random effect model (2)	Fixed effect model (3)	Random effect model (4)
CGD Index	14.064**	14.674**	0.1789	0.1738*
	(5.2844)	(5.7785)	(0.1120)	(0.09112)
Board Size (BOS)	0.3488**	-0.3774***	-0.1029***	-0.08939***
	(0.1146)	(0.1115)	(0.01359)	(0.01306)
Board Composition (BCOMP)	-0.3424	0.04995	-0.2347	-0.1573
	(0.5386)	(0.5088)	(0.7015)	(0.7359)
Constant	25.559***	24.327***	9.7479**	9.7601***
	(2.2665)	(1.6894)	(3.8478)	(3.0346)
Observations	64	64	64	64
R-squared	0.144		0.103	

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Author's Computation, 2016.

Interpretation of coefficients of fixed effect and random effect models for EPS

Regression estimates of the coefficients of both fixed effect and random effect models employed in this study contain numerous statistics. The result of this study mainly focuses on the sign, size, and significance of coefficient (3S). The results of the regressions showing the effect of corporate governance on performance of DMBs in Nigeria measured by return on equity (ROE) and earnings per share (EPS) are presented in Table 3.

Fixed effect model presented in the column labeled 1 show that earning per share is the dependent variable which measures the performance of DMBs in Nigeria. The independent variables are corporate governance disclosure index (CGD Index), Board size (BOS) and Board Composition (BCOMP). The result shows that there is a positive relationship between earnings per share and corporate governance disclosure index. On the other hand, Board Composition and Board size are inversely related to earning per share (EPS).

This is a clear indication that the larger the board size and board composition, the lower the earning per share (EPS) of the DMBs in Nigeria. Conversely, the better the disclosure contents in financial reporting, the higher the banks' performance measured by EPS. Hence, banks with larger board sizes have reduced EPS while those with high CGD index have higher EPS.

However, the result shows that Board size and corporate governance disclosure index are the only significant determinants of the performance of DMBs in Nigeria. This is indicated by the coefficients of Board Size (BOS) and CGD Index which are 14.064 and 0.3488 with the standard errors 5.2844 and 0.1146 respectively. Since half of the coefficients of the variables are greater than their standard errors, the variables are said to be statistically significant. Thus, the variables CGD Index and Board Size (BOS) have significant impact on the performance of commercial banks in Nigeria. Contrarily, the coefficient estimate BCOMP is less than its standard error. So, the variable is statistically insignificant and does not have significant impact on the dependent variable (EPS). Hence, Board Composition does not significantly affect the performance of commercial banks in Nigeria.

By size, the estimates of the coefficients show that one unit increase in CGD index and one person increase in the board size (BOS) will respectively lead to 14.064 and 0.3488 decrease in the earnings per share. In short, one unit increase in CGD Index and a person increase in Board size (BOS) decreases the performance of commercial banks by 14.064 and 0.3488 units of earnings per share respectively.

Column 2 presents the result of random effect regression where EPS is still the dependent variable while Board Size (BOS), CGD Index and Board Composition (BCOMP) are the explanatory variables. The result is similar to that of the fixed effect model in that Board Size (BOS) and Board Composition are negatively related to earning per share (EPS). Against the result of the fixed effect however, CGD Index is positively related to earning per share (EPS).

Although the same variables (Board Size (BOS) and CGD Index) that are statistically significant in column 1 are still the ones that are statistically significant in column 2, the magnitude of the impact of the explanatory variables on the dependent variable has slightly changed. For the random effect model in column 2, 14.064 and 0.3488 unit increase in the earnings per share resulted from a unit increase in CGD Index and Board Size (BOS) respectively.

Interpretation of coefficients of fixed effect and random effect models for ROE

Column 3 and 4 display the fixed effect and random regression results for the impact of CGD Index, Board Size (BOS) and Board Composition (BCOMP) on return on Equity (ROE) as measure of bank performance in Nigeria. In column 3, the result reveals that BOS and BCOMP are negatively related to return on equity (ROE) while CGDI is positively related to ROE. This is an indication that the larger the board size and proportion of executive directors to non-executive directors, the lower the return on equity of the bank. On the other hand, a higher CGD Index would produce a better the ROE for the banks.

However, it is only the coefficient of BOS that is statistically significant given its standard error (0.01359). A person increase in board size will result to 0.1029 units decrease in the return on equity of banks in Nigeria. Therefore, the fixed effect model shows that board size is the only significant determinant of economic performance (ROE).

Meanwhile, the random effect model shown in column 4 depicts that the nature of relationship between the dependent and independent variables is the same with that of the fixed effect model. But the coefficient of CGDI becomes statistically significant at 10% while BOS remains significant at 1%. So, CGDI and BOS are the significant determinants of ROE when the random effect model is applied. This is because half of the coefficients of BOS and CGDI (0.1738/2 and 0.08939/2) are greater than their standard errors (0.09112 and 0.01306) respectively.

Generally, the regression results presented in Table 3 reveal that Board size and corporate governance disclosure index (CGDI) are the only significant determinants of bank performance in Nigeria. Board composition does not matter for the performance of the banks in Nigeria.

Table 4: Hausman test for models

```
. hausman fixed random
```

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
CGDI	14.67409	14.06389	.6101998	1.926888
BOS	.3773553	.3488039	.0285513	.
bcomp	.049951	-.3423766	.3923276	.1353962

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 4.82
Prob>chi2 = 0.1851
(V_b-V_B is not positive definite)

Source: Author's Computation, 2016

Interpretation of Hausman Test

In the case of the Hausman test results presented in Table 4 above, the chi-square statistics of the Hausman test is 4.82 and the p-value is 0.1851. Since the P-value is greater than 5% level of significance, the null hypothesis is rejected and the result of the random effect model supersedes.

Since the Hausman test concludes that the result of the random effect model supersedes that of the fixed effect model, the discussion would be based on the findings of the random effect model. The significant relationship found between larger board size and performance variables is consistent with the conclusions drawn by Al-Ghamdi & Rhodes, 2015; Fratini, & Tettamanz, 2015 and Okiro, Aduda & Omoro, 2015. They have reported a significant negative relationship between board size and the financial performance of a firm.

Conclusion and Recommendations

Based on the research findings, the study therefore concludes that board size and corporate governance disclosures have significant impact on the financial performance of deposit money banks in Nigeria. The following recommendations are therefore suggested:

i. Management of banks must always ensure the numbers of people sitting on its board are within the range recommended by regulators to avoid the negative effect of a large board size on their future operating profits.

ii. Regulatory authorities such as CBN and NDIC must take adequate steps towards ensuring mandatory compliance with the relevant codes of corporate governance as it relates to disclosure requirement. Cases of internal override of internal control at every level within the banks should not be treated with kid-gloves going forward.

iii. Finally, Management of banks should arrange trainings for directors, managers and other key staff members to equip them with necessary skills and knowledge of the correct and most efficient ways of applying the corporate governance codes. This will also ease compliance with various codes.

References

Abayay, R., & Hitesh, S. (2015). Corporate Governance and Financial Performance: An Empirical study, *Journal of Contemporary Issues and Challenges in Indian Economic Environment*, 6(1), 1-8.

Aduda, J., & Musyoka, L. (2011). The relationship between executive compensation and firm Performance in Kenyan banking industry. *Journal of Accountancy, 3* (6), 22-46.

Adusei, M. (2011). Board structure and bank performance in Ghana. *Journal of Money, Investment & Banking*, 199(2), 72-84.

Alhaji, I., Yusoff, W., & Alkali, M. (2012). Corporate governance and firm performance: A Comparative analysis of two sectors of Malaysian listed companies. *Paper presented at the 2nd International Conference on Management, 11–12 June,* Langkawi Kedah, Malaysia.

Alchian, A., & Demsetz, H. (1972). Production, Information Costs and Economic Organization. *Journal of American Economic Review, 62*, 772-795

Alkhafaji, A., (1989). *A stakeholder approach to corporate governance: Managing in a Dynamic Environment*. New York: Quorum Books.

Al-Ghamdi, M., & Rhodes, M. (2015). Family Ownership, Corporate Governance and Performance: Evidence from Saudi Arabia. *International Journal of Economics and Finance*; *7,* (2),*47-62*

Altunbas, Y., & Molyneux, P. (2001). Bank Ownership and Efficiency. *Journal of Money, Credit and Banking, Vol. 33.No. 4.* Pp. 926–954.

Al-Hawary, S. (2011). The Effect of banks governance on banking performance of the Jordanian Commercial banks' Tobin q model. *International Research Journal of Finance and Economics*, *I. 71*, 34-47.

Ajay, K. (2007). Influence of Board Size and Independence on Firm Performance: A Study of Indian Companies, *Vikalpa, Journal for Decision makers, 32* (3), 39-60.

Ayuso, S., Rodríguez, M., García-Castro, R., & Ariño, M. (2012). Maximizing Stakeholders' Interests: An Empirical Analysis of the Stakeholder Approach to Corporate Governance. *SAGE Publications*, 1-26.

Babatunde, M., & Olaniran, O. (2009). The effects of internal and external mechanism on Governance and Performance of Corporate firms in Nigeria. *Journal of Corporate Ownership and Control, 7*(2), 330-344.

Basel Committee on Banking Supervision. (2014). *Guidelines on Corporate Governance Principles for Banks*. Issued for comment on 15th January, 2015 and retrieved from http://www.bis.org/bcbs/publ/d328.htm on October 16, 2015.

Cadbury, A. (2012). *Report of the Committee on the Financial Aspects of Corporate Governance*. London, UK: Gee Publishing.

Central Bank of Nigeria. (2014). *Code of corporate governance and whistle blowing*. Retrieved from www.cbn.gov.ng on January 10, 2016.

Clark, T. (2004). *Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance*. London and New York: Routledge.

Cudia, C., & Manaligod, G. (2011). EPS as a measure of intercompany performance: Philippine Evidence. *Journal of International Business Research, 10*(1), 79-90.

Fratini, F. & Tettamanzi, P. (2015). Corporate Governance and Performance: Evidence from Italian Companies. *Open Journal of Business and Management*, 3, 199-218.

Freeman, E. (1984). *Strategic management: A stakeholder approach*. Boston, MA: Pitman.

Grandori, A. (2004). *Corporate governance and firm organization: Micro-foundations and Structural Forms*. Oxford: Oxford University Press.

Ibrahim, Q., Rehman, R., & Raoof A. (2010). Role of Corporate governance in firm Performance: A comparative study between chemical and pharmaceutical sector in Pakistan. *International Research Journal of Finance and Economics, 50*(3), 8-16.

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*, 305–360.

Klapper, L., & Love, I. (2004). Corporate governance, Investor Protection, and Performance in Emerging Markets. *Journal of Corporate Finance, 10*(5), 703–728.

Kumar, A., & Nihalani, Y. (2014). The Effect of Corporate Governance on the Performance of Indian Banks. *International Journal of Innovative Research & Development, pp. 270-285*.

Latif, M., Shahid, M., Haq, U., Waqas, M. & Arahad, A. (2013). Impact of Corporate Governance on Firm Performance: Evidence from Sugar Mills of Pakistan," *European Journal of Business and Management, 5*(1), 16-31.

Lussier, R. (2012). *Management fundamentals: Concepts, applications, skill development* (3rd Edition). Mason, OH: South-Western Cengage Learning.

Miyajima, H., Omi, Y, & Saito N. (2003). Corporate Governance and Performance in Twentieth Century Japan. *Journal of Business and Economic History, 1*, 1-26

Okiro, K., Aduda, J., & Omoro, N. (2015). The Effect of Corporate Governance and Capital Structure on Performance of Firms Listed at the East African Community Securities Exchange. *European Scientific Journal, 11*(7), 113-130.

Pfeffer, J (1972). Size, Composition, and Function of Hospital Boards of Directors, *Administrative Science Quarterly, 18*, 349-364

Ramdani, D., & Van Witteloostuijn, A. (2010). The impact of board independence and CEO Duality on firm performance: A quartile regression analysis for Indonesia, Malaysia, South Korea and Thailand. *British Journal of Management, 21*, 607–626

Sanda, A., Mukaila, A, & Garba, T. (2005). *Corporate Governance Mechanisms and Firm Financial Performance in Nigeria*, Final Report Presented to the Biannual Research Workshop of the AERC, Nairobi, Kenya, pp 24-29.

Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *The Journal of Finance, 52(2)*: 737-783.

Williams, J. (2000). *GAAP guide, college edition*. San Diego, CA: Harcourt Professional.

Yermack, D. (1996). Higher Market Valuation of Companies with a Small Board of Directors, *Journal of Financial Economics, 40*, 185–211.

Zahra, S. & Pearce, J. (1989). Boards of Directors and Corporate Financial Performance: A Review and Integrative Model, *Journal of Management, 15*(2), 291-324