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CORPORATE GOVERNANCE AND PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The efforts in implementing sound corporate governance practices in banks across the world after the financial scandals in 2008 has been overwhelming. However, Nigerian banking institutions still suffers from massive financial misappropriation despite effort in entrenching sound corporate governance in the sector. Hence, this study investigated corporate governance and performance of Nigerian deposit money banks. This study employed both primary data and secondary data. The primary data was obtained through questionnaire administration while the secondary data were sourced from the financial reports of thirteen selected listed deposit money banks in Nigeria. The population of the study is all listed deposit money banks in Nigeria. However, one hundred and fifty (150) copies of questionnaire were administered to managers and staff of this selected Nigerian deposit money banks. Ordered logit and panel least square method of multiple regression analysis were used to achieve the objectives of the study. The findings of random effect model showed that board independence is a significant determinant of performance of deposit money banks in Nigeria with coefficient values of 2.891 at 5%. Thus, the study concludes that corporate governance impact significantly on performance of deposit money banks in Nigeria. The study recommends that regulators should ensure that board of directors are independent from shareholders' control when making decisions on critical issues that affect the banks' performance.

Keywords: Corporate Governance, Deposit Money Banks, Performance

1.0 INTRODUCTION

The importance of corporate governance principles in the management of banking institutions cannot be disparaged. In the acknowledgment of important roles played by banks in the economic advancement of any country and the need to ensure good corporate governance has prompted worldwide upsurge in activities that encourages corporate governance standards for the effective management of these banks. The majority of these drives and initiatives have featured obviously in the developed countries such as the United States of America (US), Canada, United Kingdom (UK) Germany, Japan, among others (Elshandidy & Neri, 2015). As a result, corporate governance has turned into a vital subject in Nigerian banking sector. Owners, directors, and corporate supervisors and managers have begun to understand the importance of corporate governance which has prompted different measures such as the establishment of Nigerian Securities and Exchange Commission (NSEC) code in 2003 and revised in 2011 (Ado, 2016).

The Nigerian Securities and Exchange Commission upgraded the provision of the 2011 code from voluntary to mandatory code in 2014 to strengthen the board and reduces the extent of financial misappropriation. Despite these codes, many financial scandals were still recorded in Nigeria's capital market that led to sequence of bank distress and failures in the country (Joshua, Udemeobong, Efiong & Imong, 2019). It is bewildering that Nigerian Bank CEOs has continuously remained in their positions despite the massive management challenges affecting the banks and it was becoming to look as if succession plan for majority of the commercial banks lacks direction except for few banks such as First Bank, United Bank of Africa and Union Bank. Similarly, the recruitment processes are faulty where juicy positions are given to unqualified persons which often times result to gross misapplication and misappropriation of funds.

These poor corporate governance practices have diminished the performance of employees which in turn affect the profitability of the bank. Furthermore, non-performing loans in the Nigerian banking system also skyrocketed by 50 percent in 2017 amounting to over two trillion naira (Nigeria Deposit Insurance Corporation, 2017). The poor performance of banks in Nigeria has been a burning issue because it is said that banks occupy a strategic position in the stability of the nation's economy. Corporate governance mechanisms such as board size, independence and financial expertise are generally recognized as important mechanisms for monitoring and controlling financial performance practices (Miko & Kamardin, 2016). While neglecting other important corporate governance variables such as Chief Executive Officer ownership (CEOS) and Chief Executive Officer expertise (CEOE). Furthermore, the previous studies (Such as Hsu & Wen, 2015; Al-Thuneibat, Al-Angari, & Al-saad, 2016 and Susanto & Pradipta, 2016) on financial performance concentrated on Return on Assets, Return on Capital Employed and Profit after Tax neglecting Return on Equity (ROE) as financial performance metric. Furthermore, the previous studies (such as Aggarwal, 2013; Adegbite, et al., 2019) focused entirely on financial performance while neglecting the non-financial performance variables such as employee performance. The next section is literature review. This is followed by methodology and discussions of findings. The last section covers the conclusion and recommendations of the study.

2.0 Literature Review

2.1 Corporate governance

Corporate governance involves a framework by which governing institutions and any remaining organizations which relate to all stakeholders so as to improve their quality of life (Ato, 2002). Corporate governance is substantially significant to accountability, transparency and fairness in corporate reporting. In such manner, corporate governance isn't just concerned about corporate governance efficiency, it identifies with organization technique and life cycle improvement. It is also concerned with the ways parties interested in the wellbeing of firms (stake holders) ensure that managers and other insiders adopt mechanism to safeguard the interest of the shareholders (Ahmad & Tukur, 2005).

Sele (2009) sees as the all-encompassing framework and process that oversees any institution in a manner by which rules and guidelines are properly followed. Governance is required to address institutional framework and provides guidance and direction to the authority and management that are saddled with responsibility. In the view of Chenuos, Mohammed, Bitok (2014) corporate governance is the means in which authority of an organization is exercised through the blend of an organization's total portfolio with the determination of maximizing shareholders' value. The essence of corporate governance is the alignment of different interests such as individual, corporation and society in order to achieve the organization's objective.

2.2 Concept of Performance

It has been known from the previous studies that the performance of banking institutions has been one of the major concerns of management investors, experts and as well as researchers. In view of this, financial performance is one of the most important indicators as it gives a broad indicator of the ability of companies to raise their income level. This therefore makes the financial performance to be one of the most important objectives of financial management because one of the goals of financial management is to maximize the owner's wealth. According to Felix and Glaudine (2008), there are diverse financial indicators for estimating the financial performance of banks and they are Return on Asset (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Tobin Q.

Return on equity is the major estimations of performance of banks. The return on equity is the most important of all financial ratios to investors in bank (Harelimana, 2017) because it measures how well a bank utilized reinvested earnings to generate additional earnings. However, employees' performance is the most important of all operational performance because it measures what each employee contributes to the revenue of the firm. These poor corporate governance practices in Nigerian banks have become an obstructive and unsupportive actions towards the productivity level of banks.

2.2 Empirical Review

Kamal and Saadi (2013); Ahmed and Hamdan (2015); Akinyomi and Olutoye (2015); Nwonyuku (2016); Bishawjit, ArupaSarker and Fahimul (2017) investigated the influence of corporate governance on profitability of firms. It was revealed from the study that corporate governance is positively related with profitability. Salim, Arjomandi, Seufert (2016) study provides empirical evidence of the relationship that exist between corporate governance and the efficiency of banks in Australia, using the two-stage double-bootstrap data envelopment analysis. It was revealed from the study that corporate governance variables considered such as board size and committee meetings impact significantly on efficiency of Australian banks between 1999 and 2013.

However, Aebi, Sabato, Schmid (2011) in their study on risk management, corporate governance and bank performance revealed that the corporate governance variables are often not insignificant or even relate negatively to banks' performance during the 2007 and 2008 financial crisis. Furthermore, Aswathy and Chandramohan (2018) examined the impact of corporate governance on firm performance. Using, panel data analysis, the result shows that the corporate governance have significant impact but negative relationship with performance of firms.

On the other hand, Kumar (2019) in their investigation on corporate governance and performance of banks, considered the intervening variables of risk governance such as risk committee and the risk committee size as well as the percentage of independent directors in the risk committee. The study considered thirty-one (31) banks in Italy during the period of 2008 to 2017. The study revealed that the board size is significant and positively related to the presence of a risk committee and to the number of meetings. Finally, banks with wider boards of directors have better risk management-related corporate governance mechanisms which positively influence the performance of Italian banks.

Iswaissi and Falahati (2017) examined corporate governance practices in Libyan Commercial Banks so as to find out the major problems hindering the adoption of corporate governance in the Libyan Commercial Banks. The study employed semi-structured interviews to collect the data used. The study revealed that poor supervision, absence of staff training, lack of knowledge and political instability are the main challenges to compliance of banks with good and standard corporate governance practices.

From the empirical findings, it is evident that the question of ideal governance mechanism is highly debatable. Moreover, the corporate governance impacts on firm performance may vary from one industry to another. The majority of the reviewed studies considered board characteristics such as board size, board independent and board financial expertise. However, these studies neglected the Chief Executive Officer (CEO) Characteristics such as CEO ownership (CEOA); CEO expertise (CEOE) and CEO Tenure (CEOT). This study also uniquely considered some control variables such as banks' size and leverage. Theories assume that these omitted control variables affect the performance of financial sector of deposit money banks. The previous results may also not be conclusive, as the inclusion of corporate governance on non-financial performance variable such as employees' performance is yet to be considered.

3.0 Methodology

This study examined the impact of corporate governance on performance of deposit money banks in Nigeria. Primary and secondary data were used in this study. The primary data were obtained through copies of questionnaire administered to managers and staff of deposit money banks in Ilorin metropolis. One hundred and fifty copies of questionnaire were distributed and used for the analysis of the study. The secondary data was obtained from audited annual reports of thirteen quoted Nigerian deposit money banks covering ten years (2009-2018).

The (13) banks selected were: Access Bank, Ecobank, First Bank PLC, First City Monument Bank (FCMB), Fidelity Bank, Guaranty Trust Bank (GTB), Sterling Bank, Stanbic IBTC Bank, United

Bank of Africa (UBA), Unity Bank, Union Bank, Zenith Bank and Wema Bank. The choice of these selected banks was because it represents over 60 percent of the total assets of Nigerian deposit money banks. Balanced panel data analysis was used to analyse the secondary data related to the impact of corporate governance on financial performance of Nigerian deposit money banks. While, ordered logit regression was used to analyse the impact of corporate governance on non-financial performance of Nigerian deposit money banks.

Model Specification 1

The model used established a relationship between corporate governance and financial performance of Nigerian deposit money banks. Thus, our model is presented as follows:

ROEit= *f*(BDS, BDI, BDE, CEOS, CEOE, CEOT, BS, LEV)……………………equation (3.1)

Econometrically, it will be written thus:

$ROEit = \beta_0 + \beta_1 BDSit + \beta_2 BDIit + \beta_3 BDEit + \beta_4 CEOSit + \beta_5 CEOEit + \beta_6 CEOTit + \beta_7 BSit + \beta_8 LEVit + \mu$ ……………………………… equation (3.2)

Where:

ROE= Return on Equity

β_0 = Constant;

BDS= Board Size;

BDI= Board Independent;

BDE= Board financial expertise;

CEOS= CEO ownership;

CEOE= CEO expertise;

CEOT= CEO Tenure.

BS= Bank Size;

Lev= Leverage;

μ = Error term

Model Specification 2

The study went ahead to analyse the effects of corporate governance on non-financial performance of deposit money banks using employees' performance as a proxy for banks' non-financial performance. The model is stated in its functional form as:

EMP= *f*(BDS, BDI, BDE, CEOS, CEOE, CEOT, BS, LEV)…………………..equation (3.5)

Econometrically, it will be written thus:

$EMPit = \beta_0 + \beta_1 BDS + \beta_2 BDI + \beta_3 BDE + \beta_4 CEOS + \beta_5 CEOE + \beta_6 CEOT + \beta_7 BS + \beta_8 LEV + \mu$..equation(3.4)

Where:

EMP= Employees' Performance

4.0 Data Presentation and Analysis

Table 4.1: Correlation Coefficients

Correlation	ROE	BDS	BDI	BDE	CEOS	CEOT	CEOE	LEV	BS
ROE	1.00								
BDS	0.10	1.00							
BDI	0.34	-0.19	1.00						
BDE	0.00	0.13	-0.06	1.00					
CEOS	0.06	0.13	-0.03	-0.02	1.00				
CEOT	0.10	0.17	-0.00	0.16	0.24	1.00			
CEOE	-0.14	0.11	-0.02	0.43	-0.13	0.07	1.00		
LEV	-0.08	-0.07	0.03	-0.05	-0.03	-0.06	-0.08	1.00	
BS	0.22	0.18	0.23	0.22	0.02	-0.10	0.24	-0.08	1.00

Source: Author's Computation, (2021)

Multicollinearity (interdependence among independent variables) is a major problem in multiple regression models because it leads to bias estimates of coefficient and thus render the regression result unreliable. Examining the existence of multicollinearity, a pair-wise correlation test was conducted in this study. The result of the correlation analysis shows that all the correlation coefficients among the independent variables were less than 0.5. Therefore, there is no multicollinearity among them.

Table 4.2 Result of Breusch-Pagan Lagrange Multiplier (LM) Test

MODEL	TEST	Goodness of fit		Overall significance	
		Fit-Statistics	**P-value**	**F-Statistics**	**P-value**
FixROE		2.8	0.0068	268.52	0.0000
RandomROE		29.06	0.0003		

Source: Author's Computation, (2021)

Overall Significance

Breusch-Pagan Lagrange Multiplier (LM) test was used to test the overall significance of the coefficient of the panel regression model adopted in this study. When the P-Value of the statistics is less than the conventional level of significance (10%, 5% or 1%), the model is said to have a good fit otherwise the fit is bad. Table 4.2. present the results of the tests of Goodness of fit and overall significance for this study. The results shows that F-statistics of the effect models revealed that the P-values were less than 5%. Therefore, the individually significant independent variables considered jointly impact significantly on the dependent variable stated for the model. Therefore, the model stated has overall significance.

Table 4.3 Results of Random Effect Regressions for Return on Equity (ROE)

INDEPENDENT VARIABLES	Dependent variable: Return on Equity (ROE)

	Coef.	Std. Err.	Z	P-Value
BDS	0.031	0.020	1.49	0.135
BDI	2.891	0.837	3.45	0.001
BDE	0.415	0.519	0.80	0.423
CEOS	-1.426	6.478	-0.22	0.826
CEOT	0.024	0.022	1.11	0.269
CEOE	0.358	0.132	2.70	0.007
LEV	-0.001	0.001	-0.97	0.330
BS	1.125	0.081	1.98	0.015
CONSTANT	-3.502	1.614	-2.17	0.030
OBSERVATIONS			130	
NUMBER OF BANKS			13	

Source: Author's Computation, (2021)

To evaluate the impact of corporate governance on return on equity among listed Nigerian deposit money banks, the random effect regression technique was employed and the result is presented in Table 4.3. Return on equity is stated as the dependent variable while the stated independent variables include board independent, board of directors' size, board financial expertise, CEO ownership, CEO expertise, CEO tenure, leverage and bank size. The findings of the random effect model revealed that CEO ownership and leverage related negatively with Return on Equity (ROE) while all other variables related positively with Return on Equity (ROE). This implies that the higher the CEO ownership and leverage, the lower the Return on Equity (ROE). On the contrary, the higher the board independent, board size, board financial expertise, CEO expertise, CEO tenure and bank size, the higher the Return on Equity (ROE). However, the model shows that board independent, CEO expertise and bank size are statistically significant. That is, board independent, CEO expertise and bank size significantly affect Return on Equity (ROE).

The statistical significance of the variables is indicated by the robust standard errors. From the study the standard error of the coefficient (in parenthesis) is less than half of coefficients of the variables. Hence, these variables (board independent, CEO expertise and bank size) are statistically significant. By the magnitude of coefficients, the stated model indicates that a unit increase in board independent, CEO expertise and bank size increases Return on Equity (ROE) by 2.891, 0.358 and 1.125.

Table 4.4 Result of Hausman test for Return on Equity

Model	Hausman test	
	Chi-Statistics	**P-value**
ROE	6.70	0.5695

Source: Author's Computation, (2021)

Interpretation of Hausman Test

Hausman test is used to compare fixed and random effect models and also to make choice between these models. The null hypothesis for Hausman test is that the (fixed or random) effect is not correlated with other regressors (independent variables). When the null hypothesis is rejected, then the use of fixed effect model is the best; otherwise, the random effect model is the best. However, the chi-square statistics of this Hausman test is 6.70 and the p-value is 0.5695. Therefore, it shows random effect model is better for the model.

Table 4.5: Validity Tests

As regards the construct validity in term of convergent validity, confirmatory factor analysis was performed. Kaiser-Meyer-Olkin (KMO) and Bartlett's tests were performed.

Variables		Bartlett's Test of Sphericity		
	KMO	Chi-square	Df	P-value
Operational Questions	.751	1819.065	105	0.000

Source: Field Survey (2021)

Kaiser-Meyer-Olkin (KMO) measures the sampling adequacy and ranges from 0 to 1. The Barlett's test of sphericity value is significant when the Sig. or P-value is .05 or less than .05. The result of this test is shown in Table 4.5. The results shows that the measurement items of each sample are significant at level 0.01 based on the Barlett's test of sphericity. However, the Kaiser-Meyer-Olkin value of each construct is .751. Therefore, the measurement scales used in this study are valid.

Table 4.6: Ordered Logistic Regression

Regression estimates of the ordered logit regression for the evaluation of the impact of corporate governance on employee performance of listed deposit money banks in Nigeria as presented in Table 4.6. The dependent variable is employee performance while the independent variables are board independent, board size, board financial expertise,CEO ownership;CEO expertise; CEO tenure, leverage and bank size.

				Number of obs =		150
Wald chi2(10) =				196.31		
Prob > chi2 =				0.0000		
Log pseudolikelihood = -144.64258				Pseudo R2 =		0.4043
EMP	Coef.	Std. Err.	Z	P>z	[95% Conf.	Interval]
BDI	.9056	.3209	2.12	0.041	-.0123401	1.223565
BDS	-.5833	.4744	1.23	0.219	-1.744025	.210433

1.3054	.4214	2.31	0.021	-.5205549	1.131525
.3544	.3001	1.18	0.238	-.233697	.9426776
2.1369	.4480	4.77	0.000	-3.01505	-1.258818
-.5009	.4304	1.16	0.245	-1.34451	.342705
1.5552	.4255	3.65	0.000	-.7211822	2.389262
.7490	.4641	1.61	0.107	-.1605676	1.658763
1.826857	2.3229		-2.725943		6.379657
7.936102	2.341641		3.346569		12.52563
10.51912	2.404072		5.80723		15.23102

Source: Author's Computation (2021)

The ordered logistic model was employed to investigate the impact of corporate governance on employee performance of listed deposit money banks in Nigeria. The result of each of the measures were obtained from the average of responses for series of questions asked under the measure in the questionnaire. The response categories are coded from 1 to 5 for responses (strongly disagree to strongly agree) respectively. The use of this model was informed by the natural ordering of the response categories. The result of the model is presented in the Table 4.6 which displays the model as a good fit of the true relationship between the stated dependent and independent variables. This indicated by the values of the log ratio chi-statistics 196.31 whose probability value is 0.0000.

The result in the table illustrates on one hand, that board independence, board financial expertise, CEO Ownership and firm size are significant determinants of employee performance of Nigerian deposit money banks. On the other hand, board of directors' size, CEO Expertise, CEO Tenure and leverage are not significant determinants of employee performance of deposit money banks in Nigeria. All the independent variables excluding board of directors' size are negatively related to employee performance of deposit money banks in Nigeria. This implies that, the improvement in board independence, board financial expertise, CEO Ownership and bank size the more the probability that employee performance of Nigerian deposit money banks.

4.2 Discussion of Findings

Using random effect panel analysis, this study examined corporate governance and performance of deposit money banks in Nigeria. Corporate governance was classified into board of directors' characteristics and chief executive officer's characteristics while performance was proxied with return on equity. The independent variable is corporate governance while the dependent variable was performance of deposit money banks in Nigeria. However, it was revealed that the coefficient of board of directors' independence (BDI) is found to be positive and highly significant for the performance measure of return on equity (ROE). The result is consistent with previous findings such as Kamal and Saadi (2013); Ahmed and Hamdan (2015); Akinyomi and Olutoye (2015); Nwonyuku (2016) among others. Therefore, the null hypothesis that states that independence of board of directors does not have significant effect on performance of deposit money banks in Nigeria should be rejected. Similarly, it was revealed that CEO financial expertise positively and significantly affect the performance of deposit money banks in Nigeria. Therefore, the null hypothesis that states that CEO financial expertise does not have significant impact on return on equity should be rejected. This study is also consistent with stewardship theory which assumes that management frequently have interests that are consistent with those of other stakeholders such as the interest of the company. It was also revealed that the bank size has significant impact on performance of deposit money banks in Nigeria. Therefore, the null hypothesis that states that bank size does not have significant impact on return on equity should be rejected. In addition, it was consistent with the study of Aswathy, Chandramohan (2018) that revealed that bank size influenced positively the performance of deposit money banks.

Furthermore, ordered logit regression was employed to examine the impact of corporate governance on performance of deposit money banks in Nigeria. The dependent variable used is employee performance while the independent variables are board of directors' independence, board of directors' size, board of directors' financial expertise, CEO ownership, CEO expertise, CEO tenure, leverage and bank size. The result revealed that independence of board of directors is significant determinant of employee performance which is consistent with the result of Ahmed and Hamdan (2015); Akinyomi and Olutoye (2015) and Nwonyuku (2016) that shows board characteristics are determinant of performance of deposit money banks in Nigeria. Similarly, this study revealed that the financial expertise of board of directors is significant determinant of employee performance of banks in Nigeria. Therefore, the null hypothesis that states that board characteristics do not have significant effect on the performance of deposit money banks in Nigeria should not be accepted. The study revealed that CEO ownership is a significant determinant of employee performance of banks in Nigeria. In line with the stakeholder theory assumes that board should comprise representatives of all parties that are critical to a firm's success which will result in the firm's ability to build consensus among all critical stakeholders.

5.0 Conclusion and Recommendations

From the findings of this study, it was concluded that there is a positive relationship between board independence and performance of deposit money banks in Nigeria. It also concluded that there is a positive relationship between CEO financial expertise and performance of deposit money banks. The study also concluded that banks' size influences performance of deposit money banks. Finally, the study concluded that there is a significant positive relationship between corporate governance and performance of listed Nigerian deposit money banks. The study recommends that regulators should ensure board of directors are independent from shareholders' control when making decisions on critical issues that affect

...he banks' performance. The CEOs' financial expertise should be of great importance when appointing and engaging banks' CEO as CEOs' financial expertise is seen as significant determinant of performance of deposit money banks in Nigeria.

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