

Effect of Corporate Governance on the Performance of Listed Deposit Money Banks in Nigeria

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Abstract: The study considered the implication of corporate governance on the performance of quoted deposit money banks in Nigeria. The deterioration of banks asset portfolios, largely due to distorted credit management, was one of the main structural sources of corporate governance problem. To a large extent, this problem was the result of poor corporate governance in countries' banking institutions and industrial groups. Poor corporate governance, in turn, was very much attributable to the relationships among the government, banks and big businesses as well as the organizational structure of businesses. The objective of the study is to investigate the connection between corporate governance proxy (Board size, Board composition and Firm size) and Return on Asset (ROA) of quoted deposit money banks in Nigeria for a period of 5 years (2015-2019). Data for the study was obtained from secondary sources i.e. audited annual reports of fifteen (15) listed banks on floor of the Nigeria Stock Exchange (NSE, 2017). The study employed panel data analysis using regression model. The Statistical Package used was Stata 11 version. Findings showed that there is significant relationship between board composition, board size and firm size and the ROA of deposit money banks in Nigeria. Following from the above conclusion of the study, it was recommended that to improve corporate governance issues in deposit money banks in Nigeria, focus on board composition, board and firm sizes has to be intensified as it was positively related to return on asset of Deposit Money Banks.

Keywords: Corporate Governance, Board Size, Board Composition, Nigeria Stock Exchange, Return on Assets (ROA)

1. Introduction

Corporate governance focuses on organization management and organizational systems and procedures. This involves the relationships between the control system of the company, the positions of its executives, shareholders and stakeholders. Liu et al considered corporate governance to be related to transaction costs and, in turn, to improve firm performance [1].

Furthermore, weak corporate governance reduces the confidence of investors and discourages investment from outside. Similarly, Chong, Ting, & Cheng undertook research on the endogenous connection between corporate governance and corporate performance and concluded that good corporate governance has a positive impact on corporate performance [2].

Corporate governance is a management and control system

where the share of the rights and responsibilities of different members of a company are clearly stated and the rules and regulations to be applied to the company's decisions are explained in detail [3]. Identifying the relationships between different participants that are instrumental in deciding the company's performance [4]. Corporate governance suggests that the conflicts of interest between these participants are undermined [5].

The deterioration of banks' asset portfolios was one of the key systemic causes of corporate governance problem, largely due to skewed credit management [6]. This problem was largely the result of weak corporate governance in the banking institutions and industrial groups of countries. Strike observed that, in effect, this weak corporate governance was largely attributable to the relationships between government, banks and big business as well as the organizational structure of companies. This research therefore explores the

consequence on financial performance of corporate governance by looking at the effects of organizational size, board composition, and board size [7].

1.1. Statement of Problem

Corporate governance has and will continue to gain prominence in Nigeria and the world over. The banking industry in Nigeria had experience its own share of corporate scandal post consolidation. In response to this, The Central Bank of Nigeria issued a revised code of governance in May 2014. Several research works have been done to study the relationship between corporate governance and performance of companies in Nigeria. Though the results have been mixed and most aspects examined relate to profitability. To the researchers' best knowledge, variables such as Return on Assets (ROA) have not been studied much. This research therefore hopes to provide more insight on the effect of corporate governance variables such as board composition, board size and firm size on the ROA of Nigerian deposit money banks.

1.2. Objectives of the Study

The study seeks to examine the implication of corporate governance on the performance of quoted deposit money banks in Nigeria. In determining this broad objective, the study aims to:

- i. Investigate the extent to which board composition impact on ROA of deposit money banks in Nigeria.
- ii. Examine if there is significant nexus between board size and the ROA of deposit money banks in Nigeria.
- iii. Ascertain the effect of firm Size on the ROA of deposit money banks in Nigeria.

1.3. Hypothesis of the Study

To achieve the above objectives, we hypothesized following in null form;

H₀₁: There is no substantial connection between board composition and the ROA of quoted deposit money banks in Nigeria.

H₀₂: there is no considerable relationship between board size and the ROA of quoted deposit money banks in Nigeria.

H₀₃: There is no significant relationship between firms' Size and ROA of quoted deposit money banks in Nigeria.

2. Literature Review

2.1. Concept of Performance

Performance is the sum of accomplishments achieved in an organization's goal by business or departments [8]. Among other management theorists, Ting et al. noted that there is no consensus on performance measures as scholars operationalize the principle according to their research discipline [9]. Their point of view is in line with Marinc who believed that lack of consensus on definition arises because the concept is associated with the overall well-being of a

variety of companies ranging from financial profitability, output levels to market levels [10].

2.2. Corporate Governance

Corporate governance could be seen as the relationship between management and shareholders of a corporation. It is described as "the structure that guides and regulates business companies" [11]. Corporate governance connotes a set of rules and incentives that guide and control a company's management. Good corporate governance practice maximizes profitability for company's shareholders and long-term value [12]. Kisaka et al. view corporate governance as a collection of processes by which outside owners (i.e. managers and shareholders) defend themselves from expropriation by insiders [13]. The separation of ownership and control resulting from the introduction of external investors puts the agency problem at the forefront [14].

2.3. Firm Size

Firm size is one of the main variables in corporate governance that has to do with company scale, size has been measured as the asset logarithm. Kisaka et al. show that the requirement for working capital has a major impact on the size of companies [13]. This may be due to the cost of funds invested in short-term assets declining with the size of companies, as low-level firms have large asymmetries of knowledge [15].

2.4. Board Size

A size of the board refers to the composition of members on a firm's board [16]. A debatable way is the size of the board of directors of a company. Several research work recommend the size of the board to be about seven to fifteen directors [16]. Other studies, however, argue that the board's size should be limited to 7 or 8 members [17]. The board of directors has two key functions, advising and controlling, according to [18].

2.5. Board Composition

The structure of a board is an essential feature of the company, referring to the board's autonomous and independent representation of the chairman. According to organization theory, a number of the board's independent directors are improving their productivity and generating superior performance [19]. In previous literatures, the way company's board were composed was highly debated. Previous studies investigating the connection between board composition and firm performance find mixed results, but effective boards are generally believed to contain a large proportion of independent directors.

2.6. Empirical Review

Following from 25 previous research, Siddiqui examined the effect of corporate governance characteristics on organizational performance. The investigation consists of

three explicit concerns, viz. the impact of (1) regulatory bodies, (2) governance systems and (3) measures of accounting or market efficiency. Findings indicate that the market value of business performance calculated in the marketplace by Tobin's Q and finally the study found that market-to-book ratio is the essential value of this relationship [20].

Pooja and Aarti studied the effect of corporate governance variables on firm's success in Indian and South Korean firms. Results revealed that corporate governance has minor impact both on the values of the company's share and on its financial performance. Findings also disclosed that variables in corporate governance have a significant impact on the performance of the company and the size of the board of directors and the size of the audit committee have a positive effect on the performance of the business. While frequent meetings of the board were negatively associated with the success of the companies [21].

While Du et al. carried out a study to investigate the relationship between national culture, corporate governance practices, and company results. By using a new database from Governance Metrics International Corporate Governance Measures for the 2006-2011 samples were obtained from large number of countries, it was discovered that a country's stock market-based financial system has a negative impact with open transparency and protection of minority shareholders [22].

Onakoya et al. undertook a research to explore the implication of corporate governance characteristics on bank performance in Nigeria. The sample consists of nine banks for the sample period of 2006-2010. It was discovered that board size and ownership structure positively impact on return on equity. Nevertheless, the study found that the principles of corporate governance are negatively associated with the properties of businesses [23].

Jackie et al. studied the corporate governance connection between reputation and performance of the company. The report focuses on mergers, explores the context of how, with its proposals, non-U.S. corporations follow best practice in the U.S. Based on the study's empirical analysis, it is noted that many companies are following the best practices associated with corporate governance among U.S. corporations [24].

Mohammed et al. undertook a research to examine the effects of corporate governance on bank performance on nine banks in Nigerian. The sample span ten years (2001-2010). The findings revealed that corporate governance is closely connected to the success of banks in Nigeria. It also showed that the definition of poor quality of assets and loan deposit ratios have been found to have a negative impact on business performance [25].

Richard et al. stated in his study that; the reduction in firm size is assumed to boost firm efficiency as the benefits of improved control by larger boards are outweighed by the reduced coordination and decision-making of larger groups [26]. In substantive discussion of major issues, a large board is likely to be less effective and suffer from free-rider

problems among directors in their management oversight [27].

Nguyen, T. carried out an empirical analysis of the companies listed on the Singapore Stock Exchange. He said the sign and mode of the relationship between size of a firm and output is sensitive to the method of estimation. He concluded that the board's characteristics are endogenous and failing to take into account endogeneity may result in a significant performance relationship that does not actually exist [28].

2.7. Theoretical Framework

The Stakeholder theory was used to underpin the study. One of the original advocates of stakeholder theory, Freeman, identified the emergence of stakeholder groups as important elements to the organization requiring consideration. Freeman further suggests a re-engineering of theoretical perspectives that extends beyond the owner-manager-employee position and recognizes the numerous stakeholder groups [29].

Freeman defined stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Freeman as cited in Freeman, suggests, if organizations want to be effective, they will pay attention to all and only those relationships that could affect or be affected by the attainment of the organization's purpose. That is, stakeholder management is fundamentally a practical concept. Irrespective of the content of the purpose of the firm, the effective firm will manage the relationships that are important [29-31].

3. Methodology

The study employed panel data analysis by using a regression Model. The variables form the model specified; as well as the a priori expectation about the sign and size of the parameters of the function. The Statistics/Data Analysis (Stata version 11) and EviStat software was used to transform the variables into formats suitable for analysis. The necessary descriptive statistics approach to arrive at the mean, standard variation and variance was used for the study. The ordinary least square (OLS) was used for the examination of the relationship between variables; whereas the Pearson's correlation coefficient was used to measure the strength and the importance of the variables and the p-value was observed to justify the postulated hypotheses.

The population for this study was derived from money deposit banks listed in the Nigerian Stock Exchange. Considering the list of bank in the Nigerian Stock Exchange, we have a population size of fifteen (15) deposit money banks. The study used census sampling to select the entire population as sample.

The data used for the study was obtained from secondary data sources. This includes the audited accounts of the selected deposit money banks listed on the Nigeria Stock Exchange.

To disclose the relationship between corporate governance and performance of deposit money banks, the approximation procedure used by Kuznetsov and Muravyev [32] was employed and modified as:

$$Y_{it} = \alpha_{it} + \beta_1 X_{it} + \varepsilon_{it} \quad (1)$$

Where,

- i. Y_{it} is Performance Measure (ROA)
- ii. α_i = denotes time-invariant firm-specific effects
- iii. X_{it} = independent variables
- iv. β_1 = coefficients
- v. ε_{it} = random disturbance.

Based on the model given above, the effect of corporate governance on performance of quoted deposit money banks was assessed with the help of the model outlined below.

$$ROA_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 BS_{it} + \beta_3 BC_{it} + \varepsilon_{it} \quad (2)$$

FS: Firm Size.

BS: Board Size.

BC: Board Composition.

β_0, \dots, β_n = coefficients

ε = error term

For the data analysis, panel regression technique was used. Panel data was developed and used for the research work as it increases efficiency by joining time series and cross-section data. Panel data involves the gathering observations on a cross section of units over numerous time periods. Furthermore, panel data enables identification of effects that cannot be observed with cross-section or time series data.

4. Result and Analysis

The analysis of the information collected from the audited financial account statements of the sampled listed deposit money banks

Table 1. Descriptive Statistics.

Variable	Min	Max	Mean	Std. Dev.	Obs.
ROA	-0.1241	0.22652	0.02127	0.04154	75
BC	0.35	0.9375	0.63192	0.1233	75
BS	6	20	14.3867	2.9587	75
SIZE	8.4329	12.5345	10.5590	1.3962	75

Extracted from STATA 11 Output

Table 1 reveals the value of mean for ROA as 0.02127 for banks, while Board Composition (BC) is 0.63192 showing that non-executive directors are 63.19% of board members, Board Size (BS) approximate average 14 board members and size has an average value of 10.5590.

It is observed that the BS has the highest standard deviation among the independent variables and therefore it shows that the BS has the least contribution to the dependent variable (ROA). Conversely, BC has least value for standard deviation (0.1233) and it thus signifies its highest contribution to the endogenous variable of the study.

Correlation Matrix Analysis

The correlation analysis measures the degree of association between the governance variables and performance variables i.e. whether or not the governance variables improve performance. Table 2 presents the correlation results for all the variables reviewed in this study.

Table 2. Correlation Matrix Results.

VARIABLE	ROA	BC	BS	SIZE
ROA	1.0000			
BC	0.3293	1.0000		
BS	-0.3393	-0.3273	1.0000	
SIZE	0.0052	0.2631	-0.0611	1.0000

Extracted from STATA 11 Output

The Pearson correlation Coefficients of the variables of the study are as indicated in Table 2 above, which shows that the independent variable BC is related positively to ROA while on the other hand BS is related negatively with ROA. Furthermore, Firm Size is related positively with ROA. The relationship between independent variables is weak as expected. There is negative relationship between BC and BS.

5. Summary of Regression Results

The regression results of the models of the study is as presented in Table 3 below.

This table presents the regression outcome of the Dependent Variable (ROA) and the Independent Variables of the study (BC, BS and control variable – firm Size). The presentation follows the analysis of the association and effect between the independent variables and the dependent variable of the research and also the cumulative analysis.

$$ROA_{it} = \alpha + \beta_1 BC_{it} + \beta_2 BS_{it} + \beta_3 SIZE_{it} + \varepsilon_{it} \quad (3)$$

The results of Hausman test and likelihood ratio redundant fixed effect test supported the use of fixed effect estimation method. Baltagi also supported the use of fixed effect method over random effect method of estimation when the sample was not drawn randomly from a large population. After performing the Hausman test, it suggested to reject null hypothesis and thus random effects model appeared as not suitable for this regression [33].

Table 3. Regression Result.

Variable	Coefficient	t-values	P-values
Constant (α)	0.0418053	0.87	0.386
BC	0.0897470	2.26	0.027
BS	-0.0036092	-2.25	0.027
SIZE	-0.0023978	-0.72	0.473
R ²			0.1745
Adjusted R ²			0.1396
F-Stat.			5.00
F-sig			0.0033

Extracted from STATA 11 Output

$$ROA_{it} = 0.04181 - 0.0036092BC_{it} - 0.0023978BS_{it} + 0.0418053SIZE_{it} + \varepsilon_{it} \quad (4)$$

The R^2 (0.1745) which is the multiple coefficient of determination gives the proportion of the complete disparity in the dependent variable described by the independent variables jointly. Hence, it indicates 17.45% of the total variation in performance of listed Deposit Money Banks in Nigeria is caused by Board Composition and Board Size. This indicates that the model of the study is fit and the independent variables are properly selected, combined and used. The F value is 5.00 which shows that the overall significance of the regression model.

a. Hypothesis Testing: (H_{01})

Board Composition and ROA

From the Table 3 above, Board Composite has a t-value of 2.26 and a beta value of 0.89747 which is significant at 5%. This signifies that Board Composition is positively, strongly and significantly impacting on performance of quoted Deposit Money Banks in Nigeria. It therefore implies that for every unit addition in non-executive directors (NED) of Banks, the ROA rise by 0.36%. This could be due to the fact that NEDs are more independent and their presence may serve as a monitoring factor for the banks to ensure improved performance. This provides an evidence of rejecting one of the null hypotheses of the study which state that Board Composition has no significant impact on performance of deposit money banks in Nigeria. This is divergent from the finding of Sunday and in line with the conclusions of O'Connel and Cramer [33-35].

b. Hypothesis Testing: (H_{02})

Board Size and ROA

The Table 3 above also shows that the Board Size has a t-value of -2.25 and a beta value of -0.0023978 which is significant at 5%. This signifies that Board Size is negatively, strongly and significantly contributing to the performance of quoted Deposit Money Banks in Nigeria. It therefore implies that for every one-member addition on the board of a Deposit Money Banks in Nigeria, the ROA will reduce by 0.24%. This could signify that for every increase in the board membership, decision making might be delayed and invariable performance of the bank. This may also be the reason why the corporate governance code pegged the number board members to 20. This provides an evidence of rejecting null hypothesis two of the study which states that board size has no significant effect on performance.

c. Hypothesis Testing: (H_{03})

Control Variable: Firm Size (SIZE)

The null hypothesis (H_{03}) which states that there is no significant relationship between corporate governance proxy (firm size) and the performance of quoted deposit money banks in Nigeria. In contrast to the apriori expectation, firm size has a t-value of -0.72 and a beta value of 0.473 which is not significant at all levels.

6. Conclusion and Recommendations

This research work which focuses on the effect of corporate governance on performance of quoted deposit money banks in Nigerian. The Composition and Size of the

Board are components of corporate governance, while the ROA is proxy for the dependent variable of the research work. It is therefore concluded that board composition has a positive impact on performance suggesting an increase in the number of NEDs would result in increases performance of quoted deposit money bank, while board size has a negative impact on the performance signifying an increase in board size decreases performance of quoted deposit money banks.

Based on the conclusions, this study recommends as follows:

- 1) Since the findings revealed that there is significant relationship between board composition and the ROA of Deposit Money Banks in Nigeria. Efforts at improving corporate governance should emphasize more on the board composition, as it is positively associated to return on asset of Deposit Money Banks.
- 2) More measures should be put in place to ensure mandatory compliance with the code of corporate governance, particularly the one issued by the Central Bank of Nigeria.
- 3) Finally, the National Bureau of Statistics (NBS) should be empowered or a unified independent establishment should be created to be responsible for collecting and analyzing corporate governance related data and constructing the pertinent indices to ease corporate governance research in Nigeria.

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