Effects of Corporate Governance on Corporate Performance of Deposit Money Banks in Nigeria

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Abstract
This study examines the gaps between principle based and rule based of corporate governance and its effects on the corporate performance of Deposit Money Banks in Nigeria (NDMBs). The population for this study consisted of all the listed sixteen NDMBs. Secondary data used for this study were derived from the annual financial statements of NDMBs listed in Nigerian Stock Exchange (NSE) covering a period of ten (10) years (2006-2017). Panel analysis (pool regression, fixed and random effect) were used in interpreting the variables; Board Structure (BOS), Audit Committee Independence (ACI) and Durability of Chairman and Executive Director (CEOD). The coefficient estimated at .0647115, -.2464618, -.0299811 for BOS, ACI, CEOD) with R^2 = 0.7272, connotes that BOS has a positive relationship on corporate performance (CP) of NDMBs, ACI and CEOD had negative relationship on the CP of NDMBs, CG has 72% positive effect on CP of NDMBs. The study recommended that NDMBs should change from principle based to rule based due to low level of corporate governance compliance in Nigeria. Government should discredit the activities of durability of executive directors of a company.
Keywords: Corporate governance, Corporate performance, Deposit money banks, Board structure
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1. Introduction

Organization of Economic Cooperation and Development (OECD) explained that corporate governance is of immense importance because of checks and balances it builds into the running of a corporate organization (OECD, 2015). This goes a long way to prevent corporate failure arising from the weak internal control associated with a company which hitherto operates without corporate governance. Dabo (2012) argued that corporate governance is represented by the structures and processes laid down by a corporate entity to minimize the extent of agency problems as a result of separation between ownership and control. Simply put, corporate governance in an organizational context is the totality of the control, monitoring and directing mechanism utilized by strategic management to bring about improved performance to the best interest of its stakeholders. Performance can be measured financially and non-financially which represent the major indicators normally used in monitoring strategy implementation throughout the organization and whether strategic goals are being achieved or not (CBN, 2012).

Globally, many companies have failed in the past as a result of poor corporate governance practices and inappropriate mix of capital structure within the organization, which has led to poor corporate governance. Corporate governance practices can be viewed as an atmosphere of trust, ethics, moral principles and as a synergistic effort of all constituent parts such as stakeholders, including government, the general public, practitioners, service providers and the corporate sector (David and Shahla, 2014)

2. Statement of the Problem

This work intends to fill a gap between principle based and rule based of corporate governance and its effects on the corporate performance of Deposit Money Banks in Nigeria (NDMBs). However, loss of confidence by investors in the banking industry is a strong indicator of poor implementation of Nigerian code of corporate governance. Regrettably, most banks in Nigeria do not comply fully with Nigeria code of corporate governance. For the sake of efficiency and effectiveness, organizations are expected to have a minimum number of people (size) with diverse background and experience make up the board, this will enable for pooling of intellectual capabilities of the members of the board. Cadbury Committee (1992) reported that corporate governance is the system by which companies are governed and managed. Governing implies rules, action and laws that protect the strategies and performance of an organization. Unfortunately, recurring governance scandals, coupled with tales of fraudulent business behaviors, have been the scourge of 21st century corporations. These scandals ranging from Enron to Tyco to WorldCom to Parmalat (Italy) to Satyam (India) to Cadbury Plc. (Nigeria) and

the underpinnings of a worldwide financial crisis have prompted considerable government regulation (e.g., Sarbanes-Oxley Act 2002). Furthermore, the accompanying environment and subsequent public disdain and regulatory response have led to a persistent need for enhanced governance, particularly regarding control of managerial actions. This research evidently examines the components of corporate governance on the performance of deposit money banks in Nigeria.

3. Objectives of Study

This study examines the gaps of corporate governance and its effect on the corporate performance of deposit money banks in Nigeria. Other related objective is to examine the variances of relationship between board size, audit committee independence and durability of chairman and executive on the performance of deposit money banks in Nigeria.

4. Hypotheses of the Study

The following hypotheses are stated as below;

H_0: There is no significant relationship between corporate governance and performances of deposit money banks in Nigeria.

H_1: There is relationship between corporate governance and performances of deposit money banks in Nigeria.

5. Literature Review

OECD (2015) asserted that corporate governance framework is established to encourage efficient use of resources and equally to require accountability for the stewardship of those resources to stakeholders (Cadbury, 2000). OECD guidelines further emphasized that “the corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders”

5.1.1 The Position of Corporate Governance in Nigeria.

In Nigeria, corporate governance is not totally a new concept as the Companies and Allied Matters Act, CAMA (1990) as amended in 2004 primarily provides the legal framework for running the affairs of public listed companies. This legal framework follows the Anglo-Saxon model of corporate governance due to the country’s history. However, integrated with global events in financial reporting cycle and activities of some recognized institutional bodies, there is an extended emphasis for an effective corporate governance practice. Corporate governance emerged as a “distinct concept” (Ofo, 2012). Nigeria Securities and Exchange Commission (SEC) issue the first Nigerian Code of Corporate Governance (NCCG) in 2003, So far, most of the provisions contained in the NCCG, regulations and requirements currently in practice in Nigeria originate from key provisions of the OECD on principles of corporate governance and other international corporate governance reports. Institutional challenges, Corruption, multiplicity of codes on corporate governance, Weak Regulatory Mechanism and Protection for Whistle blowers, Poor or non-prosecution of offenders, and low campaign against unethical practices are amongst the problem faced on Corporate governance in Nigeria.

5.1.2 Ownership Structure

Ownership structure is vital to the firm’s wealth maximization. It is believed that there is danger in concentration of equity ownership with certain group of shareholders because they will then possess a considerable discretionary power to use the firm’s resources for personal gain at the expense of other shareholders. (Claessens & Fan 2002).

5.1.3 Board of Directors

Hassan (2015) stressed that shareholders can wield influence on the behavior of managers through a second mechanism which are the board of directors to ensure that the company is run in their interest. When the board is overshadowed by members of the management team, the productive monitoring and management is denied. The composition of board members is also proposed to help reduce the agency problem (Hermalin and Weisbach 2003).

5.1.4 Executive Compensation

Jamil and Mohamed (2013) emphasized that potent device to govern and control the behavior of managers is by providing the executives with a boost in thier pay. They stated that the interest of the top managers can be better aligned with that of the shareholders if they have a big stake in the organization. This may be measured by the percentage of shares that these top executives hold as a measure of their pecuniary interest in the organization.

5.1.5 Financial Disclosure

Financial transparency and sufficient financial information disclosure are vital in developing world. The adequacy, accuracy and timely information as regards the firm’s activities, its financial status and the external environment is imperative for shareholders to be able to monitor the firm, to make investment decisions that affects the firm, and to carry out control over the firm by other means. (Beck, Cull and Jerome 2005).

Figure 1. Modified Corporate Governance Mechanisms(See Appendix)

6. Theoretical Frameworks

This research reviewed three major theories in relations to the concept of this work, the theories are; Agency theory, Stakeholder theory and Stewardship theory

6.1 Agency Theory

Several theories have been postulated by different scholars in time past upon which organization performance and corporate governance rest. These theories try to explain the relationships that exist between the aforementioned parameters as each affect the other. The agencys theory helps to link the interest of managers and owners with the promise that there is no conflict of interest between the management and the form owners (Fama and Jensen 2018).

In the past, classical economics considered that corporations were not only owned but also managed and controlled by the shareholders. With the industrialization and development of markets, the ownership and control of corporations has been started to separate. Agency relationship was first pointed out by Jensen and Meckling (1976). They opined that an agency relationship as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. They also add that if both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal. In this theory, shareholders (owners or principals) of the company hire the agents to perform the company. Principals charge the running of the business to the managers (Clarke, 2004). Managers might have more information about the company than the principles and they might not be controlled. In this situation, managers might be hard-nosed or self-interested and only think their utility while managing company. The goals or expect of agency and principal might be different and this conflict brings to agency problem. . Moreover, agency problem rises either when the principle cannot control or know what the agent is doing in details. So, agency theory aims to prevent and provide necessary monitoring to reduce agency problems between agent and principle.

6.2. Stakeholder theory

Stakeholder theory was first introduced in Strategic Management: A Stakeholder Approach by Freeman (1984) states that a company holds corporate accountability to a wide range of stakeholders. The basic definition of stakeholder theory is any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman, 1984). The general perspective of this theory is that the big companies which can affect the society pervasively should be accountable to all parts of society, not only to their shareholders. Stakeholders are not only being affected by companies but also they are effective on companies by holding a stake in the company rather than simply a share. Friedman states that main groups of stakeholders are customers, employees, local communities, suppliers and distributors, shareholders. In addition other individuals are also considered to be stakeholders in the study of Friedman (2006): media, the public in general, business partners, future generations, past generations, academics, competitors, NGOs or activists – considered individually, stakeholder representatives, financiers other than stakeholders (debt holders, bondholders, creditors), government, regulators and policymakers. The analysts of the theory state that all parties with legitimate interests in the company shall get benefits and there is no priority in terms of these interests and benefits (Donalds and Preston, 1995).

All participants who share the risk and make profits for the firms are stakeholders and they should obtain a balance share of the riches created by join efforts (Clarkson 2002). According to Charron (2007), it is compulsory for managers to observe following principles: monitor and respond to concerns and interests of all legitimate stakeholders; communicate with stakeholders about their concerns, contributions, and risks; act with sensitivity to each stakeholder group; attempt to achieve a fair distribution of benefits and burdens; insure that risks are minimized and harms are compensated; never jeopardize "inalienable human rights" or deceive concerning risks; deal with the conflicts of its self-interest and the interest of stakeholders through public institutions, public reports, incentive systems, and third-party review. The difference between agency and stakeholder theory is that stakeholder theory focuses on the interest of all parties in corporation; agency theory only focuses on the interests of shareholders. Stakeholder theory is a theory of organizational management and ethics. Under this theory, managers should care not only shareholders value, but also benefit the profits of stakeholders.

6.3 Stewardship theory

Stewardship theory is defined by Davis *et al*. (1997) as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized". In this theory, company executives and managers working for shareholders are called as stewards. Unlike agency theory, stewards protect company and make profit for the shareholders. It is not on the perspective of Individualism as agency theory (Donaldson and Davis, 1991), they aim to achieve firms' targets and integrate their goals as the

top of management. Stewardship perspective comes up with that stewards are satisfied and motivated when organization achieves its targets.

The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire. Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. The issue becomes whether or not the organization structure helps the executive to formulate and implement plans for high corporate performance" (Donaldson, 1995). According to the theory, managers have propensity and devotion for success of firm. Thus, managers perform the company under company goals and satisfaction of shareholders and other participants. It is apperceived by the theory that managers perform actions as stewards for the shareholders' benefits (Tricker, 2009).

7. Corporate governance and performance

From a banking industry perspective, good corporate governance demands that banks operate in a safe and sound manner, and will comply with applicable laws and regulations and will protect the interests of depositors. Interestingly, not many Nigerian banks are noted for their strict observance of corporate governance, best practices and high ethical standards in their operations. In the context of this study however, corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and the satisfaction of other stakeholders in the context of its corporate mission.

The governance mechanism of banks establishes a set of relationships between stakeholders and the bank. In fact, Greuning and Bratanovic (2004) defined corporate governance as the set of relationships between a bank's management, its board, its shareholders and other stakeholders. Clearly, the governance mechanisms must have a bearing on bank risk management, for it is often said that banks are in the business of managing risks. The governance mechanisms can be categorized in two: endogenous systems and exogenous systems. Endogenous corporate governance mechanisms include internal corporate governance which is about mechanisms for the accountability, monitoring, and control of a firm's management with respect to the use of resources and risk taking (Llewellyn and Sinha, 2000). Internal corporate governance starts with the board of directors. The board of directors is the supreme governing body of bank. The board is responsible for setting the strategic direction of the bank and overseeing the risk management policies of the bank. The board of directors is appointed by the shareholders of the company. The board has the ultimate responsibility for the manner in which the operations/business of a bank is conducted. Among its responsibilities are: appointing senior management, establishing operational policies and, above all, taking responsibility for ensuring the soundness of a bank.

A board must be strong, independent and actively involved in the activities of a bank. Although a bank's directors may not be experts in banking, it is important that they have the skills, knowledge, and experience to enable them to perform their duties effectively. During bad times, a board that is active and involved can help a bank survive if it is able to evaluate problems, take corrective actions, and when necessary, keep the institution on track (Greuning and Bratanovic, 2003). Bank regulation represents the existence of interests different from the private interests of the firm. As a governance force, regulation aims to serve the public interests, particularly the interests of the customers of the banking services. The regulator does not have a contractual relationship either with the firm's principal or with the banking organizations because of differing interests from those of the principals. ln the banking sector, external corporate governance mechanisms are the regulation and regulators. (Ciancanelli and Gonzales, 2000) The role of bank regulators and supervisors in the corporate governance process is mainly seen through the laws and legislations that are promulgated. Such laws pertain to capital adequacy requirements, reserve requirements and others. The lessons learnt from financial crisis are to open awareness of the government and businesses people on the important role of implementing good corporate governance in banks. Based on the assumption that owners are more concerned about return on investment of the bank (bank performance); they will attempt to moderate the effects of the external corporate governance on bank performance.

8. Methodology

8.1 Population and Data Collection

The population for this study consists of all the listed 16 deposit money banks in Nigeria. The sampling frame for this study comprised of all listed deposit money banks that are in existence during the period under review. The data used for this study was secondary data derived from the annual financial statements of the deposit money banks listed in the Nigerian Stock Exchange (NSE) during twelve years period of 2006 and 2017. This study in addition utilized other materials especially the National Insurance Commission (NAICOM) and the

Nigerian Stock Exchange Fact Books. Annual reports were obtained from the corporate offices and websites of concerned banks.

8.2 Model Specification

This study used adapted econometric model of Miyajima *et al* (2003) stated as follows;

$$Y_{it} = \beta_o + \beta_1 G_{it} + \beta_2 SZE_t + \beta_3 ACI_t + \beta_3 CEOD_t + e_t \quad (3.1)$$

Where: Y_{it} *is* firm performance variables which are: return on capital employed, earnings per share, return on assets and return on equity for firms at time t. G_{it} is a vector of corporate governance variables which include: Board Size (BOS), SZE_t is the size of the bank ACI_t is the audit committee independence. $CEOD_t$ is the durability of chairman and executive director. e_t, the error term which account for other possible factors that could influence .Y_{it} that are not captured in the model

9. Results and Discussion

9.1 Fixed Effect Estimation

Two-way fixed effect estimation model was used. Table 4.1 results revealed that BOS, ACI exert positive impact on CP of NDMBs measured in terms of ROE, while durability of chairman and executive has negative impact on CP measured in terms of ROE. The result revealed that BOS, ACI have significant impact on CP of NDMBs. The adjusted R^2 = 0.6711 implies that CG has 67.11% effect on CP of NDMBs. The cross sectional and period specific effects were factored into the model to measure the level of corporate governance compliance by the banks.

Table 1. Fixed Effect Parameter Estimates Cross Section and Period Specific Model

Series: ROE, BOS, ACI & CEOD

Variables	Coefficient	Standard Error	T-Test Values	Probability
C	177.6845	74.41652	2.39	0.018
BOS	.1509185	.4832596	0.31	0.005
ACI	-.4921255	.3569504	-1.38	0.170
CEOD	-.0127035	.0492581	-0.26	0.797
Cross Sectional Effects				
Jaiz Bank plc	-6.347808	18.9881	-0.33	0.739
Sky Bank plc.	-40.30397	25.82047	-1.56	0.121
United Bank for Africa	-8.451724	19.45724	-0.43	0.665
Access Bank plc.	-15.21019	18.34604	-0.83	0.408
Wema Bank plc.	-45.91557	25.97114	-1.77	0.079
Diamond Bank plc.	37.21974	21.3552	1.74	0.083
Eco bank plc.	-30.09911	19.79605	-1.52	0.131
Union Bank of Nigeria	-12.85822	18.92066	-0.68	0.498
Fidelity Bank plc.	-4.524601	18.29457	-0.25	0.805
Stanbic IBTC	-16.45853	21.47061	-0.77	0.445
Zenith bank plc.	10.38045	22.62046	0.46	0.647
First city monument Bank	-26.82131	21.5021	-1.25	0.214
First Bank of Nigeria plc.	44.74836	20.13473	2.22	0.028
Sterling Bank plc.	-67.38762	25.81271	-2.61	0.010
R^2 = 0.6711 *F-statistics= 2.93*		*Adjusted R^2 = 0.6445* *Prob. (F-stat) = 0.0000*		

Source: *Author's Computation (2022)*

The Adjusted R^2 = 0.5337 with P = 0.0002 implies that 53% of the systematic variation in the value of ROE of the sampled NDMBs can be explained by variation in the CG surrogate variables including BOS, ACI and CEOD. The probability values confirmed that BOS has significant effect on the CP of NMDBs. The result p = 0.012, 0.006, 0.050 indicated that FBN, EB and DB complied with good corporate governance than other others banks in Nigeria.

Table 2. Fixed Effect Parameter Estimate (Cross Sectional Specific)
Series: ***ROE, BOS, ACI & CEOD***

Variables	Coefficient	Standard Error	T-Test Values	Probability
C	205.8333	77.34986	2.66	0.009
BOS	.4900071	.4203631	1.17	0.029
ACI	-.178973	.3526796	-0.51	0.613
CEOD	-.0254083	.0495462	-0.51	0.609
Cross Sectional Effects				
Jaiz Bank plc	6.310816	19.47338	0.32	0.746
First Bank of Nigeria plc.	-20.90314	26.16617	-0.80	0.426
United Bank for Africa	6.687196	19.85066	0.34	0.737
Access Bank plc.	-23.0162	19.13552	-1.20	0.231
Wema Bank plc.	-26.48198	26.25716	-1.01	0.315
Diamond Bank plc.	58.53071	21.1358	2.77	0.006
Eco bank plc.	-13.60629	20.10937	-0.68	0.500
Union Bank of Nigeria	-.2783071	19.47521	-0.01	0.989
Fidelity Bank plc.	.3890362	19.03662	0.02	0.984
Stanbic IBTC	5.614589	21.29425	0.26	0.792
Zenith bank plc.	35.71109	22.11165	1.62	0.108
First city monument Bank	-10.27098	21.86027	-0.47	0.639
First Bank of Nigeria plc	52.37013	20.65383	2.54	0.012
Sterling Bank plc.	-46.87254	26.0857	-1.80	0.074
R-square= 0.5524 *F-statistics=22.84*		*Adjusted R-square= 0.5337* *Prob. (F-stat) =0.0002*		

Source: *Author's Computation (2022)*

9.2 Random Effect Estimation

Random effect assumes that the heterogeneity is random rather than fixed and the random effect is incorporated into the error term thus forming a composite error term. The result revealed that all the explanatory variables except BOS exert negative impact on ROE. Coefficient estimates with .0647115, -.2464618, -.0299811 for BOS, ACI, CEOD at R^2 = 0.7272, which connotes that 73% systematic variation in ROE as a performance measured can be explained by all the explanatory variables combined.

Table 3. Random Effect Estimation Model
Series: ROE, BOS, ACI & CEOD

Variables	Coefficient	Standard Error	Z-Test Values	Probability
C	97.4346	53.28751	1.83	0.067
BOS	.0647115	.3520766	0.18	0.854
ACI	-.2464618	.3170079	-0.78	0.437
CEOD	-.0299811	.0494355	-0.61	0.544
R-square = 0.7272		*Wald chi2 (5) = 43.51, Prob. > chi2 = 0.0005*		

Source: *Author's Computation (2022)*

10. Conclusion and Recommendations

The results of the findings showed that there is a cordial relationship between CG and CP of deposit money banks in Nigeria. Fixed effect estimated with adjusted R^2 = 0.5337 at p = 0.000 and fixed effect parameter estimate with adjusted R^2 =0.6711 at p = 0.0002 which implies that CG have 53% and 67% effect on CP of NDMBs. The coefficient estimates with .0647115, -.2464618, -.0299811 for BOS, ACI, CEOD at R^2 = 0.7272, which also connotes that BOS has a positive relationship on CP of NDMBs, while ACI and CEOD have negative relationship on the CP of NDMBs, CG has 73% effect on CP of NDMBs, The study recommended that NDMBs should change from principle based to rule based for Nigeria economic structure due to the policy of explain why for non-compliance Government should discredit the activities of durability of executive directors of a company.

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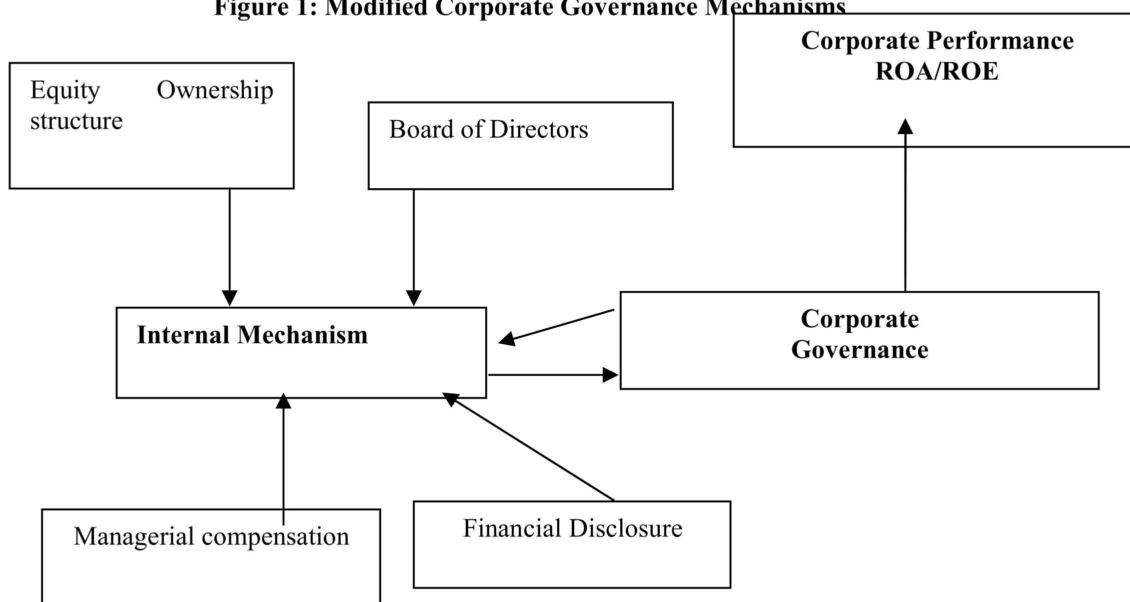
APPENDIX

Figure 1: Modified Corporate Governance Mechanisms



Source: Homayara *et al* (2008)

Table 4. Summary of Nigerian Deposit Money Banks (NDMBs)

S/N	***Nigerian Deposit Money Banks***	***Quoted/ Unquoted***
1	Access Bank Plc	Quoted
2	Citibank Nigeria Limited	Unquoted
3	Diamond Bank Plc	Quoted
4	EcoBank Nigeria Plc	Quoted
5	Enterprise Bank	Unquoted
6	Fidelity Bank Plc	Quoted
7	First Bank Nigeria Limited	Quoted
8	First City Monument Bank Plc	Quoted
9	Guaranty Trust Bank Plc	Quoted
10	Heritage Banking Company Limited	Unquoted
11	KeyStone Bank	Unquoted
12	Mainstreet Bank	Unquoted
13	Skye Bank Plc	Quoted
14	Stanbic IBTC Bank Limited	Quoted
15	Standard Chartered Bank Nigeria Limited	Unquoted
16	Sterling Bank Plc	Quoted
17	SunTrust Bank Nigeria Limited	Unquoted
18	Union Bank of Nigeria Plc	Quoted
19	United Bank for Africa	Quoted
20	Unity Bank of Nigeria Plc	Quoted
21	Wema Bank Plc	Quoted
22	Zenith Bank Plc	Quoted

Source: Nigerian Stock Exchange (NSE, 2017)

Table 5. Summary of Variables Used for the Study

Variables	**Measurement**
Firm size (FS)	Measured as the natural log of Total Asset.
Profitability (Profit)	Measured using Annual Profit after tax (PAT)
Board size (BDsize)	Measured as numbers of individual on the board
Audit committee independence (AUDind)	Measured as the ratio of non-executive directors to the total members of the board
Return on Asset (ROA)	Measured as Net Profit after Tax divided by Total Asset.
Return on Equity (ROE)	Measured as Net Profit after Tax divided by Equity
Leverage (LEV)	Measured as Total Assets divided by Total Liabilities
CEO-duality (CEOdu)	A dichotomous value ‘1’, for banks with one person occupying the positions of Board Chairman and CEO and ‘0’ if otherwise. Measured as the number of branches maintained.

Source: Researcher’s Compilation (2022)