CORPORATE GOVERNANCE AND PERFORMANCE OF DEPOSIT MONEY BANKSIN NIGERIA

BY

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Abstract

The impact of corporate governance on the financial performance of Nigerian deposit money banks was explored in this study. The study employed an ex-post facto research design, with secondary data obtained from annual reports of six (6) listed deposit money banks in Nigeria and *the Nigerian Stock Exchange (NSE) fact book covering the years 2010 to 2019. Six banks listed on the NSE were chosen using a targeted sampling technique. For data analysis and interpretation, descriptive and inferential statistics were used. The panel regression study found that the audit committee, board size, and separation of the chief executive director's dual roles all had a substantial impact on the financial performance of deposit money banks in Nigeria, both individually and collectively. As a result, the study came to the conclusion that the corporate governance of Nigeria's publicly traded deposit money banks had a considerable positive impact on their financial performance. Recommendations were made in accordance with the study's findings. The report concluded, among other things, that audit committees should ensure that credit terms and conditions are clearly disclosed before giving credit to clients. Deposit money banks should have reasonable board size that will be capable of piloting the affairs of the bank effectively and efficiently. Finally, banks should make sure that the duties of Chairman of the Board of Directors and Chief Executive Officer are clearly defined (CEO-duality).*

Keywords: Corporate Governance, Deposit Money Banks, Financial Performance

Introduction

The financial system's stability has become a more prominent goal of economic policy in both developed and developing countries. This is a result of globalization and technological innovation, which is accelerating at a breakneck pace around the world, posing new problems, particularly in countries' financial sectors. The expansion of the financial service sector, according to financial practitioners and economists, is critical for a country's economic development and the economic well-being of its people since it allows people to smooth their income and improve their investment prospects. It has a significant impact on the country's social, political, and economic climate (Anwaar, Aslam, Ullah & Yasin, 2020). As a result, a country's financial systems should be strong in order to provide individuals with proper access to money and so improve their living standards. The importance of corporate governance in any company, particularly financial institutions, cannot be overstated, particularly in terms of development, welfare, social justice, and economic well-being for its people. Good corporate governance ensures that all participants have access to health and education, which helps the country's development sector grow both directly and indirectly.

The subject of corporate governance is not new to business or economic literature, but it has received more attention since the early 1990s as a result of the expanding wave of globalization, heightened financial reporting requirements, and rising instances of corporate failures. Corporate governance is the performance of administrative tasks in corporate entities in order to increase shareholder profit without jeopardizing the legitimate expectations of other stakeholders, hence supporting firm sustainability (Okoye, Olokoyo, Okoh, Ezeji, & Uzohue, 2020).

Practically every company's ultimate purpose is to maximize shareholder wealth, it can't be denied that good corporate governance is a requirement for achieving that goal. As a result, a large number of thinkers and researchers have been influenced by corporate governance in general and bank corporate governance in particular. In reality, these fascinating concerns have received a lot of attention at both the national and international levels. The issuer of the Nigerian code of corporate governance expects it to be followed to the letter. Unfortunately, most Nigerian banks have failed to do so. Organizations are expected to have a minimum number of persons (size) with a diversified background and experience make up the board for the sake of efficiency and effectiveness. This will tend to allow the board members' intellectual capabilities to be pooled. The intent of the Nigerian code of corporate governance's issuer is that when the board of directors is large and diverse, it will aid in the contribution of meaningful ideas that will improve the overall performance of Nigerian banks; however, this has not been the case in the Nigerian banking industry.

Statement of the Problem

Poor corporate governance is a cankerworm that infects enterprises, causing private and governmental institutions to fail in a range of economic sectors, reducing overall economic performance. It manifests itself in inefficient resource allocation within an organization, which has negative macroeconomic implications. According to Sanusi (2010), despite the successful recapitalization of Nigerian banks in 2006, poor governance resulted in systemic capital inadequacy and illiquidity just three years later, prompting the Central Bank of Nigeria (CBN) to take control of eight banks and inject a 620 billion naira bailout fund into the distressed banks. Only PHB Bank (now Keystone Bank) and Union Bank survived out of eight institutions, demonstrating how mismanagement and divert of resources away from beneficial purposes.Sound and effective corporate governance, on the other hand, is dependent on a number of elements. Audit committee, board size, and separation of chief executive officer (CEO) and board chairman's role (separation of CEO-duality tasks) duality are all significant factors. Researchers and practitioners have recognized a reasonably big board of directors as well as an audit committee as critical aspects in achieving turnaround in any business organization (Abdulai, Abere & Olowo, 2020; Okoye et al.,2020).

Most financial institutions around the world, notably those in Nigeria, have been hit by a succession of setbacks that have led to their demise. Even those who managed to escape such an odious tendency had to be bailed out by the CBN. The main reason for this is due to poor corporate governance practices, which allowed most banks to be run by a single person, who was able to cause tremendous pain to a financial organization. However, as many scholars' attention has shifted to the relationship between corporate governance and financial performance manufacturing industries, corporate governance measurement and extensive study of the link between corporate governance and performance of deposit money banks in Nigeria has been notably neglected in recent years. As a result, the literature in the fields of corporate governance and deposit money bank performance has been streamlined. Thus, examining the impact of corporate governance on the financial performance of Nigerian deposit money institutions is necessary.

Objective of the Study

The broad objective of the study is to examine the impact of corporate governance onfinancial performance of deposit money banks in Nigeria, while the specific objectives are to:

i. Investigate the impact of audit committee on financial performance of deposit money banks in Nigeria.
ii. Examine the significance of board size financial performance of deposit money banks in Nigeria.
iii. Determine the impact of CEO-duality functions financial performance of deposit money banks in Nigeria.

Research Hypotheses

The following hypotheses were stated in null form and tested empirically in order to achieve the objective of the research.

$H0_1$: Audit committee has no significant impact on financial performance of deposit money banks in Nigeria.

$H0_2$: Board size has no significant impact on financial performance of deposit money banks in Nigeria.

$H0_3$: CEO-duality function has no significant impact on financial performance of deposit money banks in Nigeria.

Literature Review

Corporate Governance

Corporate governance is the activity of executing administrative activities in corporations in order to maximize shareholder value while also meeting the legitimate expectations of other stakeholders, ensuring the firm's long-term existence. The primary assumption is to resolve the agency conundrum that many firms are confronted with (Oyarzun, 2011). According to Aliu and Gakure (2014), corporate governance is a framework through which financial companies, such as microfinance banks, interact with their customers and stakeholders to improve their quality of life. As a result, excellent corporate governance ensures that financial transactions and reporting are open, transparent, and fair (Oyewole, Olusanmi & Owolabi, 2015). Corporate governance encompasses the relationships between the many participants (stakeholders) as well as the goals for which the organization is managed (Wanjau, 2007).

Financial Performance

According to Olaoye and Adeyemi (2021), financial performance is a company's ability to generate income that exceeds costs in relation to its capital base. A profit-to-investment relationship exists between a company's profits and the investments that backed up the company's profits, according to Ongore and Kusa (2013). They went on to say that profitability ratios are used to measure how well a company converts business activity into profits. Profit margins are used to determine a company's ability to convert revenue into profit. Return on assets is a metric that measures a company's ability to use assets to generate net income. Furthermore, research has demonstrated that there is a lack of trust in the banking sector's operating activities. harmful to performance, Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Profit after Tax (PAT) are all metrics used to evaluate performance (Adigwe, Nwanna & John, 2016; Pitambar, 2017). Return on Assets (ROA), which focuses on a company's ability to create income through asset optimization, can be used to gauge financial success in the Deposit Money Banks industry in general.

Theoretical Framework

Agency and Information Asymmetry Theories underpin the research. Jensen and Meckling (1976) proposed the Agency theory, which holds that both the principal and the agent are motivated by self-interest. Because of this self-interest premise, agency theory is doomed to intrinsic conflicts. When both parties are driven by self-interest, agents are more likely to pursue self-interested goals that diverge from or even clash with the principal's interests. Agents, on the other hand, are required to act only in the best interests of their clients. On the other hand, Akerlofs' (1970) information asymmetry theory is essential to this study because it clarifies the basic information that both lenders and business owners need to know in terms of prospective risks and rewards associated with investment projects for which funds have been set aside. The use of these theories is justified by the fact that better delinquency management performance of Nigerian microfinance banks can only be achieved when bank agents (managers) have detailed information about the business owner in order to avoid or minimize risks, thereby making the lender efficient and effective in their duties.

Empirical Review

Corporate governance and performance of Nigerian Deposit Money Banks were investigated by Olaoye and Adeyemi (2021). Secondary data was acquired for this study from the audited financial statements of ten Deposit Money Banks listed on the Nigerian Stock Exchange (NSE) over a ten-year period, from 2008 to 2017. Mean analysis, standard deviation analysis, minimum and maximum analysis are among the descriptive analyses performed in the study.Correlation analysis, panel estimations such as Pooled Ordinary Least Square (OLS), fixed effect and random effect estimation, as well as post estimation tests like the restricted F-test, Hausman test, Wald test of heterogeneity, Wooldridge autocorrelation test, and Pes aran test of cross-sectional dependence, were used. The findings revealed that board size has a negative and significant impact on the performance of Deposit Money Banks in Nigeria (p=0.0090.05), board composition has a negative and significant impact on the return on assets of Deposit Money Banks in Nigeria (p=0.0010.05), and board composition has a negative and significant impact on the return on assets of Deposit Money Banks in Nigeria (p=0.0010.05).The board audit committee has a positive but insignificant effect on return on assets of 1.3748($p=0.515>0.05$), CEO duality has a positive but insignificant effect on the performance of return on assets of Deposit Money Banks in Nigeria of 2.4951($p=0.227>0.05$), and gender diversity has a positive but insignificant effect on the performance of As a result, it has been demonstrated that corporate governance has a major impact on the performance of Nigerian Deposit Money Banks.

The relationship between corporate governance and financial performance for MFIs in Vietnam was investigated by Nguyen, Pham, Nguyen, Tran, and Vu (2020). The study created a corporate governance index using seven criteria, including board size and composition, CEO traits, and ownership type. The two-way association between this index and five different financial performance metrics is then estimated. We use a two-stage least squares estimate approach using instrumental variables to address the potential simultaneity between corporate governance and financial performance. The findings support the notion that corporate governance and financial performance are endogenous. We find that excellent governance practices improve MFI profitability and sustainability, and that more lucrative and sustainable MFIs have better governance systems.

The implications of corporate governance on delinquent management of microfinance banks in Nigeria were researched by Abdulai, Abere, and Olowo (2020), with the goal of examining the influence of board size and board composition on delinquency management. The major estimation technique used in the study was the Static panel regression estimate, which included pooled regression, fixed effect estimate, random effect estimate, and Hausman test. Data on corporate governance (proxied by board size and composition) and delinquency management (proxied by default rate) were acquired from various microfinance banks' Annual Financial Statements over a seven-year period (2012-2018). The findings revealed that board size has a negative and significant impact on default rate, while board composition has a negative and minor impact. According to the findings, corporate governance has a detrimental impact on microfinance banks' delinquency management in Nigeria. According to the report, microfinance bank management should limit the size of the board of directors, which should not be too large and should be made up of highly trained and competent people who are familiar with the supervision function.

Anwaar, Aslam, Ullah, and Yasin (2020) used primary data to study the impact of corporate governance on the performance of microfinance institutions in Sialkot. A stratified random sampling technique was used to select a representative sample of 80 respondents from top-level management, including board of directors, chief executive officers, managing directors, and all related staff who are responsible for the growth and progress of microfinance institutions. The study's findings found that CEO duality, board independence, and ownership structure were the most important variables influencing firm performance, whereas board size and audit committee independence had little effect. According to the findings of the study, microfinance institutions should have a competent and solid governance framework in place to improve decision-making and reduce the risk of management failures, resulting in an improvement in the firm's performance.

Methodology

The study uses an ex-post facto research strategy, which is appropriate when the researcher does not intend to control any of the factors under inquiry and instead relies on previously collected information. The population of this study consists of six (6) banks with a greater capital base that are listed on the Nigerian Stock Exchange. Access Bank, First Bank, Guarantee Trust Bank, United Bank for Africa, Union Bank, and Zenith Bank are the banks in question. Between 2010 and 2019, data was collected. The data on corporate governance reported in deposit money bank annual reports was analyzed using the content analysis method. Descriptive statistics, correlation analysis, and a panel least square regression technique were utilized to analyze the data.

Model Specification
The model specification for the study is mathematical presented as;
Y= β0 + β1x1 + β2x2 + µ0………………………………………………….(1)
Hence;
ROA= βo+β1SDR + β2LDR + β3TDR + µ0……………...………………………….(2)
Where: ROA = Return on Asset
AC= Audit Committee
BS= Board Size
CEO-DUAL=Separation of CEO-Duality functions
µ0 = Error term
β0 = Constant
Y = dependent variable
Decision rule: Null hypothesis should be rejected if the p-value is < 5% significance level, otherwise it should be accepted.

Results and Discussions
Table 1: Regression Analysis Result

Dependent Variable			
Explanatory Variables	Coefficient	t- statistics	Prob.
AC	0.097746	2.786451	0.0082
BS	0.148595	2.898979	0.0061
CEO-DUAL	0.084297	2.267809	0.0305
C	0.216193	2.268723	0.0000
R- Squared	0.7988		
Adjusted R- Squared	0.7470		
F- statistic	15.4370		0.0000
Durbin Watson stat	1.8729		

Source: Reseracher's Computation (2021)
The audit committee had a positive coefficient of (0.0977) and was significant at the 1% level, according to the regression results in table 1. This suggests that an increase of one unit in the audit committee as a measure of corporate governance will result in a 9.7% rise in deposit money bank financial performance. This finding is in line with Ojeka, Iyoha, and Ikpefan (2014), who found audit committees to be an important aspect of corporate governance principles for preventing and decreasing nonperforming loans. As a result, the audit committee was deemed to be the most germane (relevant) type of corporate governance in terms of credit risk management and financial performance of Nigerian deposit money institutions.

Another proxy for corporate governance (board size) exhibited a positive coefficient of (0.1486) and was statistically significant at the 1% level. This meant that increasing the board size of deposit money institutions by one unit would result in a 14.9% boost in financial performance. This finding is consistent with Okoye, et al., (2020) and Abdulai, et al., (2020), who found that board size had a significant impact on financial performance. CEO-DUAL, on the other hand, had a positive coefficient of (0.0842) and was significant at the 5% level. As a result, if the separation of CEO-duality functions as a proxy for corporate governance increases by one unit, deposit money institutions' financial performance will improve by 8.4 percent. This finding is in line with the findings of Olatokunbo, et al., (2020) and Anwaar, et al., (2020), who found CEO duality to be one of the most important factors impacting business financial success.

Table 1 shows the results of the panel regression that was performed. The R-squared indicated that around 79 percent (adjusted R Squared 74 percent) of the fluctuations in the dependent variable, which is the financial performance of deposit money institutions as evaluated by the combined influence of corporate governance proxies, were explained by the study model (AC, BS AND CEO-DUAL). Other variables that were not included in the model accounted for the remaining 21%. The Durbin Watson statistic determines if the variables are serially correlated. The Durbin Watson test yielded a value of 1.87. Because the number is near to 2, it is assumed that the successive values of the variables in the model have no autocorrelation. Similarly, the F-statistics p-value of 0.0000 is significant at the 1% level of significance. This indicated that the study's model is well-fitting.

Conclusion

Corporate governance is critical for ensuring that the financial industry's actions are transparent and open. By studying data from six deposit money banks in Nigeria with the greatest capital base from 2010 to 2019, this study aims to determine how corporate governance structures affect financial performance of deposit money banks in Nigeria. Three proxies were used to assess corporate governance as an integrated method in connection to deposit money bank financial performance (audit committee, board size and separation of CEO duality functions). Corporate governance has an unquantified impact on the financial performance of Nigerian deposit money institutions, according to the research.

Recommendations

In line with the findings, the following recommendations were proffered;

i. Before extending credit to clients, audit committees should ensure that credit terms and conditions are clearly described.

ii. Deposit money banks should have reasonable board size (neither too small nor too large) that will be capable of piloting the affairs of the bank effectively and efficiently

iii. Nigerian deposit money banks should ensure that the separation of the positions of board chairman and chief executive officer (CEO-duality) is not only visible but also enforced.

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