Sub-Sahara African Academic Research Publications
December, 2022 Editions

JHSPR
Journal of Human, Social & Political Science Research. Vol.26, No.6, ISSN:2416-7999

THE IMPACT OF CORPORATE GOVERNANCE ON NIGERIAN BANKS PERFORMANCE (A CASE OF LISTED BANKS ON THE NIGERIAN STOCK EXCHANGE)

DR. ADAMU, DANIEL K.
Faculty of Management Sciences, Actuarial Science Department, University of Jos, Plateau State, Nigeria.

ABSTRACT

There have been a lot of cases of failures and collapse of banks across various countries economy must especially in the developing economies. For a country like Nigeria, poor corporate governance amidst other factors has been the core cause of the recorded crisis in the Nigerian banking system. This research empirically investigates the impact of corporate governance on Nigerian banks performance. The effect of the board size and the relative size of the non-executive director on return on investment (ROA) of a sample of nine (9)selected banks were investigated. Secondary data were sourced from the Nigeria Stock Exchange fact for the years 2007 to 2016; data also from various banks publication such as their annual reports were also employed for the course of this research and also Corporate Governance Brief, 2018. The pooled OLS was employed to estimate the relationship between the variables. The study revealed that the relationship between corporate governance and banks performance in Nigeria is quite significant as a unit the board size and the relative size of non-executive directors increases the return on asset. The study concluded that proper structuring of the stakeholders in the corporate governance team will reduce and possibly prevent bank failure or collapse in Nigeria. Amongst other recommendations, it is advised that banks should engage in proper strategic training of board members and senior bank managers especially in areas that are promote internal control effectiveness, board structure and independence and in ethical bank practices.

Keywords: Corporate Governance, Strategic Training, Collapse, Performance, Internal Control, Governance, Returns, Investment.

Introduction

The conception of corporate governance for over a decade now of banks, firms and organizations has been of great importance on the policy agenda in the developing economics. And according to ISO FDIS 26000, corporate governance is the most crucial factor in enabling an organization to take responsibility for the impact of its decisions and activities and to integrate social responsibility throughout the organization and its relationships.

The origin of corporate governance in accordance to Thomson and Jain(2006) is virtually as old as capitalism itself with the first recorded dispute in 1622 in the Netherlands, and Whilst Adams Smith understood the issues of corporate governance. In most recent times the term “corporate governance” first surfaced in the 1970s in the USA to describe the role, functions and responsibilities of the board and management but did not appear in the print till 1983(Earl, 1983). The history of corporate governance in Nigeria is a product of its environment, politically, legally and economically. The nature of Nigerian corporate governance cannot be completely detached from political and governance antecedence.The colonial rules and dominance for the period preceding 1960 has its political underscore on the direction of the corporate governance activities. Other major determinants are the nature of Nigerian business activities and the economic environment.

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interest of a company’s many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. According to Sanusi Lamido Sanusi the former CBN governor, corporate governance refers to the extent to which companies are run in an open and honest manner.

This implies rules and regulations that ensure that a company is governed in a transparent and accountable manner such that the enterprises survive and meet the expectation of its shareholders, creditors and stakeholders of which society forms large part of the banking industry. Woodward, Bird and Sievers (2004,498) define corporate governance as a “catch all phrase used to refer to the management issues, incorporations and mechanism by which corporate management can be supervised and made accountable to kits members, employees, creditors and community”

In the Nigerian economies, the banking sector among other sectors has witness several financial crises which has led to the failure or collapse of many banks. And this failure has been put on the corporate governance. Some of these Nigerian banks include: Savannah Bank Plc, Society General Bank Ltd and recently Oceanic Bank, Bank of the North, Afribank, Mainstream Bank. The failure in Nigerian banks and the activities of some of the bank operators, there are concerns on the need to strengthen corporate governance in banks. This will boost public confidence and ensure efficient and effective functioning of the banking system (Soludo, 2004). If good corporate governance is not in place Banking supervision cannot function properly (Heidi and Marten, 2003). According to Sanusi Lamido Sanusi, former CBN governor (2010), "weak corporate governance has been the core of resent episode of crisis in the banking system.This challenge had manifested in many ways including overbearing influence of key officers on the operation of banks, weak and sometimes ineffective boards, and regulatory shortfall."

Corporate governance effectiveness does not only depend on rules and their enforcement, but also on ethics and culture within the firm (Guido Ferrarini). It is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster great corporate performance.

METHODOLOGY

The study selected nine banks out of the eighteen listed banks on Nigerian Stock Exchangeas at 2017 using the judgmental approach. The time frame consider for this study is 2007 to 2016.

This research made use of the corporate annual reports of the eighteen listed banks in Nigeria of which nine were selected to find out the relationship existing between corporate governance variables and bank performance. The random effect model of the panel data regression analysis in analyzing the impact of corporate governance proxies on the listed banks performance was adopted.

Pearson correlation was used also so as to measure the degree of association between variables under consideration and the t-test statistics was computed using the profitability of the healthy banks and the rescued banks to find if out there is any statistically significant difference between the two groups.

The population of the study consists of eighteen (18) banks in Nigeria listed on the Nigerian Stock Exchange as at 2017. The time frame considered for the

research is 2007 to 2016. The period of ten (10) years allowed for a significant period for the banks to have made necessary reviews and implementations recommended by the CBN post consolidation code. Secondary data sourced from the different publications by the various listed banks in Nigeria and also by the Nigerian stock exchange were regressed using the OLS statistical package and multivariate analysis was employed to process the various stated corporate governance mechanisms in the study; board size and board composition, testing their level of relationship with the dependent variable ROA which is a measure of financial performance.

STATEMENT OF THE PROBLEM

It is of a fact that a lot of organizations in the financial sector like the banks have witnessed and it's still witnessing multitude occurrences of fraud, conflicts of agency and so on. This financial crisis could be said to be a direct consequence of lack of good corporate governance in the banks; invariably one of the sources of instability in the banking sectors is lack or inadequate practice of good corporate governance. This in recent times, have increase concern over corporate governance by many country leaders globally due to the increase of reported cases of fraud, agency conflicts among other corporations' saga (Enobakhare, 2010). Corporate failure is not only peculiar to developing countries alone but also in developed countries with cases such as the collapse of Enron in 2001 and WorldCom in 2002.

In the Nigerian banking sector, governance is placed in the hands of the board of directors who are expected to be in charge of the running of the organization's activities and leading its members towards achieving corporate goals and objectives. Therefore, the effectiveness and efficiency of the board of directors is fundamental to the success or failure of any bank. These challenges that are due to lack of proper corporate governance are both face by the private and public institution. According to Yakasai (2001) at various points in time, the boards of state owed and private banks in Nigeria became wrestling arenas for government and shareholders to control the banking institutions. In the case of government-owned institutions, the experiences were by fiat dissolution of boards through the ministry of finance incorporated (MOF) which held the share in trust for the federal government. In the case of private banks, some scenario had been that of open punches and throwing of chairs at board meetings or annual general meetings. If at the end there is no good and active system of corporate

governance, then the impact of the system of governance wouldn't be felt and expected objectives won't be achieved.

Theoretical Review

There are a number of theories on the corporate governance concept and which is as a result of the various perspectives on the subject. Some of these important theories include:

Agency theory

Agency theory is defined as "the relationshipbetween the principals, such as shareholders and agents such as the company executives andmanagers". In this theory, shareholders who are the owners or principals of the company, hires thegents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004)

The theory reduces the corporation to two participants of managers and shareholders due to its simplicity and the interest of both parties are assumed to be clearly stated. Agency theory proposes that employees or managers in organizations can be self-interested or selfish, but never the less, the agents are expected to act and make decisions in the principal's best interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals.Thistheory advocates that people or employees are held accountable in their tasks and responsibilities.In agency theory, the agent may be succumbed to self-interest, opportunistic behavior andfalling short of congruence between the aspirations of the principal and the agent's pursuits.

Stewardship theory

Davis, Schoorman & Donaldson (1997) define stewardship theory as "the protection and maximization of shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximized". A steward here can be seen as an executive or a manager of an organization who is duly charged with the responsibility of protecting shareholders interest. And unlike the agency theory, the stewardship theory is not based on individualism or selfishness but it proposes the integration of management goals and with that of the organization.

Resource dependence theory

This theory primarily defines the board of directors as providers of resources to the firm. Directors are regarded as an important resource to the firm. The

resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment (Hillman, Canella and Paetzold (2000)). Some of these resources include information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. The provision of these resources enhances organizational functioning, firm performance and its survival. Therefore, when directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and so on in other to achieve the goals and objectives ahead.

Stakeholder theory

Stakeholder theory can be defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives". The theory proposes that all stakeholders be considered when the organization is making decisions. The theory is of the reason that it is the ethical and moral thing to do, it also benefits the shareholders and it reflects what happens actually in the organization. Unlike agency theory in which the managers are working and serving for the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners.

Conclusion, Recommendation and Suggestions for Further Study

Conclusion

The research focus on finding out the initiators of performance of the banking sector of which corporate governance proved to be an important subject for many commercial banks. It has been established in selected literatures that corporate governance affects the stakeholders and the banks as a whole, corporate governance affect the potential and ability of banks to reach their market share both domestically and globally, corporate governance also determines the banks' ability to fulfill its social objectives with its client and society at large. The research has established a measurable effect of corporate governance practices on the banks operational performances. The study therefore concludes that poor corporate governance structure is a contributor in the crisis experienced in the Nigerian banking sector.

Recommendation

I. Strategic training for Board members and senior bank managers should be developed by the banks so as to improve the Board members and senior bank managers' skills and knowledge. This strategic training should be carried out with special emphasis on corporate governance disclosure and banking ethics. The banks should regulate the Board size that wouldn't be too large or too small of highly skilled and competent professionals to enable the smooth running of the bank.

II. The legislature should develop an effective legal framework and specify the right and obligation of a bank, its Directors and shareholders. Also such laws and obligations should specify disclosure requirement and enhancement transparency and accountability.

Suggestions for Further Study

This study has successfully filled some of the gaps in the existing literature and corporate governance and its impact on bank performance and there are still many areas that the study does not cover as a result, the following areas are being recommended for further studies.

I. Due to the fact that the study only covers a single country and one sector (Nigerian banking sector), It is recommended that other research be carried out using data from two or more countries and in other sub-sectors of the financial sector.

II. Further research is also required on non-financial aspect of firms. Research on data comparing financial and non- financial aspect of a firm or bank may most likely result in a variation in the relationship between corporate governance and the value of the firm.

III. Finally, further studies can be carried out on other factors of corporate governance aside board size and board composition that affect bank performance.

REFERENCE

Abu-Tapanjeh. M. A. (2008) "Corporate Governance from Islamic Perspective: A Comparative Analysis with OECD Principles". Elsevier ltd.

Adams R and Mehran H (2005): Corporate Performance, Board Structure and their Determinants in the Banking Industry. Federal Reserve Bank of NY Staff Report No 330.

Adeusi S, Akele N, Aribaba F, and Adebisi O. (2013). Corporate Governance and Firm Financial Performance: Do Ownership and Board Size Matter. Academic Journal of Interdisciplinary Studies 2: 251-258.

Ajala, O. A. And Amuda, T. And Arulogun, L. (2012). Evaluating the Effects of Corporate Governance on the Performance of Nigerian Banking Sector. Review of Contemporary Business research, Vol. 1, No. 1. Pp 32-42.

Ajala, O. A. And Amuda, T. And Arulogun, L. (2012). Evaluating the Effects of Corporate Governance on the Performance of Nigerian Banking Sector. Review of Contemporary Business research, Vol. 1, No. 1. Pp 32-42.

AkingunolaR.OAdedipeOluseyi.A, and AdekunleOlusegunA. Corporate Governance and Banks Performance in Nigeria (Post – Bank's Consolidation)
Al-Baidhani, A.M. (2014). Review of Corporate Governance Bundle
Armstrong, A & Sweeney, M (2002). Corporate governance disclosure: Demonstrating corporate social responsibility through social reporting, New Academy Review, 1(2), 51-69.
Bebeji A, Mohammed A, and Tanko M. (2015). The effect of Board Size and Composition on the financial performance of Nigerian Banks. African Journal of Business Management, Vol. 9(16), Pp. 590-598.
CBN (2010): Banking Sector: The Turmoil, The Crisis. Retrieved from www.Nigerialatestnews.com on 25th February, 2010.
Clark, T. (2004) "Theories of Corporate Governance: The Philosophical Foundations of Corporate Directors: Strategic Adaptation of Board Composition in Response to Corporate Governance" London and New York: Routledge, Corporate Ownership & Control, 11(2), p178-191.
Dahya, J. Mcconnel, J.J &Travlos, N. (2002). "The Cadbury Committee, Corporate Performance, and Top Management Turnover". Journal of Finance, 57, 461-483.
David Crowther &ShahlaSeifi (2011). Corporate Governance and International Business.
Davis, J.H., Schoorman, F.D. and Donaldson, L. (1997) "Toward a Stewardship Theory of Corporate Governance.
Enobakhare, A. (2010). Corporate Governance and Bank Performance in Nigeria. Diss. Stellenbosch: University of Stellenbosch.
Guido Ferrarini: understanding the Role of Corporate Governance in Financial Institutions: a research agenda.
Heidi V.B & Marten, W (2003): voluntary disclosure of corporate governance in the European Union. University of London Press.
Hermalin, B. E., &Weisbach, M. S. (2003). Boards of directors as an endogenously determined institution: A survey of the economic literature. Economic Policy Review – Federal Reserve Bank of New York, 9 (1), 7–26.
Kyereboah-Coleman, A. And Nicholas-Biekpe, N. (2006): Corporate Governance and The Performance of Microfinance Institutions (MFis) in Ghana", Working Paper 4330-05, UGBS, Legon.
Lipton, M., &Lorsch, J. W. (1992). A Modest Proposal for Improved Corporate Governance. Business lawyer, 1 (1), 59–77.
Maimako, S.S. (2010). Principles of Corporate Governance. Abuja, Nigeria: Eriba publishing company.
Mork, R.; shleifer, A. And Vishny, R. (1989): Alternative Mechanism for Corporate Control. American Economic Review. Vol. 79, Pp.41-56.
OECD (1999): OECD Principles of Corporate Governance. Ad-hoc Task Force on Corporate Governance, OECD, Paris.
Owolabi, Sunday Ajao, Phd, Owolabi, Titlayo Joy and OlotuAyooluwa. Historical Review and Tax anomy of International Corporate Governance.
Pi, L. and Timme S.G. (1993): Corporate Control and Bank Efficiency, Journal of Finance Vol.21, No.7 Pp 515-530.
Prowse, S. (1997), "Corporate Control in Commercial Banks", Journal of Financial Research, Vol.20, Pp. 509-527.
Sanusi L.S. (2010): The Nigerian Banking industry: What Went Wrong and the Way Forward. A Convocation Lecture Delivered at Convocation Square, Bayero University, Kano.
Solomon, J. F. (2010). Corporate Governance and Accountability. 3rd ed. Australia: John Wiley & Sons Ltd.
Soludo, C.C. (2004): Consolidating the Nigerian banking industry to meet the development challenges of the 21st century. Being an address to special meeting of bank committee, held on July 6.
Summer, S.W. and Webb E. (2005). "Does Corporate Governance Determine Bank Loan Portfolio Choice?" Journal of the Academy of Business and Economics, 2005.
Thomson, D &Jani, A. (2006). Corporate governance Failure and its Impact on National Australia Bank's performance. Journal of business vol. 3. PP41.
Uwuibe, O. R. (2011): Corporate Governance and Financial Performance of Banks: A Study of Listed Banks in Nigeria. Covenant University, Otaz
Uwuigbe, O.R. (2011): Corporate Governance and Financial Performance of Banks: a study of listed banks in Nigeria. Covenant University Ota.
Yakasai, G.A. (2001), "Corporate Governance in A Third World Country with particular Reference to Nigeria", Corporate Governance 9(3), 238-253.