CORPORATE GOVERNANCE; ITS IMPACT ON STAKEHOLDERS AND EFFICIENT BANK MANAGEMENT IN NIGERIA.

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ABSTRACT

The purpose of this study was to assess the impact of corporate governance on banks stakeholders and efficient bank management in Nigeria. The corporate governance variable employed in this study was that of board of directors. The two proxies selected for this research as independent variables are Board size and Board composition. Whilst the proxy for the dependent variable employed was earnings per share since regression only depicts the relationship that exist between two variables (x and y). This study made use of secondary data obtained from the financial reports of five (5) banks for a period of eight (8) years (2005-2012). Secondary data was analysed using Regression while chi-square was used to analyse the primary data from bank operators through administered questionnaire. The results generated were found to be similar to that of other previous scholars who have carried out a research on the issue of corporate governance and banks profitability. This study makes a significant contribution to research by exposing the importance of corporate governance in the Nigerian Banking System. The study supported the hypothesis that corporate governance positively affects not only stakeholders but also efficient Bank management.

KEYWORDS; CORPORATE GOVERNACE, STAKEHOLDERS, EFFICENT, BANK MANAGEMENT AND NIGERIA.

INTRODUCTION

It is no news that the world has become a global village with continuing speed in technology, making the financial sector more open to new products and services in the financial system. To ensure conformity with these changes, financial system operators strive to make available banking technological gadgets that will enhance operations in the system. Aside the above change, the existence of consolidation has a far reaching effect on the banking systems. In line with these changes, there is the need for countries to have resilient banking system and strong corporate governance. However, lack of compliance with the laid down codes of corporate governance by the operators due to some mechanisms in the banking environment, has resulted to operational inefficiencies and gross misconduct both at the top management level and the lower management level. Also, Weak corporate governance arising from the Board size and its composition, weak internal control systems, excessive risk taking, non-adherence to limits of authority, disregard for cannons of prudent lending, insider abuses and fraudulent practices among others remain a worrisome feature in the management of banking operations in Nigeria.

Financial scandals around the world and the recent collapse of major corporate institutions in the USA (Enron and WorldCom which is associated with the U.S. federal government passing the Sarbanes-Oxley Act in 2002, intending to restore public confidence in corporate governance) and Europe has brought to the fore, once again, the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder's value and meeting the expectations of other stakeholders. Also, in developing economies, the banking sector among other sectors has also witnessed several cases of collapse, some of which include the Savannah Bank PLC of Nigeria, the Continental Bank of Kenya Ltd and Consolidated Bank of Kenya Ltd (Akpan, 2007).

Given the series of activities that have resulted essentially due to non-compliance with the various consolidation policy requirements and the antecedent of disobedience to laws and regulation by some of the operators in the financial system, there are concerns on the need to strengthen corporate governance in banks.

In Nigeria, the issue of corporate governance should have been given the front burner status by all stakeholders of organisations in the economy. Particularly after the Securities and Exchange Commission (SEC) set up the Peterside Committee in June, 2000 on corporate governance in public companies and the Bankers' Committees' sub-committee report on corporate governance for banks and other financial institutions in Nigeria. This is in recognition of the critical role of corporate governance in the success or failure of companies (Ogbechie, 2006:6) and the above actions was suppose to boost public confidence and ensure efficient and effective functioning of the banking system (Soludo, 2004a).

STATEMENT OF THE PROBLEM

The main statements of the problems for this paper are; one: How have the inadequate monitoring and supervisions of financial institutions ensured non-compliance with the provisions of the code of corporate governance by the regulatory authorities.

Also, the negligence on the part of board of Directors and audit committee to ensure conformity within their area of professional competence, and the performance of their responsibilities to the organisations have contributed to poor corporate governance vis-à-vis, bank performance.

Lastly, how has the Consolidation of the financial sector in 2005 posed additional corporate governance challenges for institutional integration processes, information technology and cultural harmonization in Nigeria? These and other burning questions have necessitated answers and hence the need for this write up.

OBJECTIVES OF THE STUDY

Generally, the study seeks to explore the relationship between corporate governance structures and financial performance in the Nigerian banking industry. However, it was set to achieve the following specific objectives:

1. To investigate the various issues of operational strategies that constitute corporate governance challenges, bearing on the performance of Nigerian banks.
2. To examine how monitoring and supervision of code of corporate governance by the regulatory authorities has affected bank management in Nigeria.
3. To explore the rate at which directors and audit committees have neglected their professional jurisdiction in the performance of their responsibilities to the stakeholders in ensuring conformity with requirements for accountability and efficiency in the performance of banks and
4. Lastly, find out how the 2005 consolidation exercise pose additional corporate governance challenges arising from integration process, information technology and cultural harmonization.

RESEARCH QUESTIONS

In view of the above, the questions this study is expected to answer include the following:

1. To what extent has weak corporate governance in all its ramifications remained a constraint to efficient management of banks in Nigeria?
2. How efficient has the monitoring and supervision by regulatory authorities of code of corporate governance ensure compliance by board and management of banks?
3. To what extent has board of directors and audit committees neglected their duties of ensuring conformity with the code of corporate governance through the application of their professional competence in the performance of their responsibilities and what effect has it on bank performance?
4. What impact does consolidation have on corporate governance and bank performance arising from the challenges of institutional integration processes, information technology and cultural harmonization in Nigeria?

RESEARCH HYPOTHESIS

Hypothesis 1

H_0: Weak corporate governance in all its ramifications has no effect on bank performance

H_1: Weak corporate governance in all its ramifications has effect on bank performance

Hypothesis 2

H_0: Monitoring and supervision of code of corporate governance to ensure compliance by regulatory authorities has no effect on efficient bank management.

H_1: Monitoring and supervision of code of corporate governance to ensure compliance by regulatory authorities has effect on efficient bank management.

Hypothesis 3

H_0: Negligence by the board of directors and audit committees in performing their duties has no effect on Bank performance.

H_1: Negligence by the board of directors and audit committees in performing their duties has effect on Bank performance.

Hypothesis 4

H_0: Consolidation exercise has no impact on the performance of Banks.

H_1: Consolidation exercise has impact on the performance of Banks.

REVIEW OF LITERATURE

Scholars from different part of the world have different perspectives of what corporate governance is or should be. According to Obi (2009), "corporate governance is a term that refers broadly to the rules, processes, or laws by which business are operated, regulated and controlled''. It goes further to explain that the terms can refer to internal factors as defined by the stakeholders of the company. An effective and efficient corporate governance that is put in place will assist the organisation in achieving its' objectives, easing operations and impacting positively on the market value of the company.

However, what is more representative of the concept is the statement that "corporate governance refers to a set of rules and incentives by which the management of a company is directed and controlled".

Corporate Governance as a concept advocates the constitution of a set of encoded laws, procedures and rules entrenched to guide the management of organisations for an equitable maintenance of balance in the practice and management of the rights and privileges of all stakeholders involved in the corporate organisation, including the supervisory roles, powers and privileges of the Board of Directors, management and staff, investors; (including the rights, roles and interests of monitory stakeholders), regulatory and governmental control organs toward effective performance and achievement of the objectives of the firm in the interest of all stakeholders and in compliance with acceptable international standards of practice.

According to Kajola (2012), corporate performance is an important concept that relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization, it keeps the organization in business and creates a greater prospect for future opportunities.

Also, the OECD in 1999 defined corporate governance principles as the system by which business corporations are directed and controlled. The pillars of good corporate governance have been known to shareholder rights, transparency and board accountability. Corporate governance is therefore, about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate performance.

There has been no shortage of other crises, such as the secondary banking crisis of the 1970s in the United Kingdom, the U.S. savings and loan debacle of the 1980s, East- Asian economic and financial crisis in the second half of 1990s (Flannery, 1996). In addition to these crises, the history of corporate governance has also been identified from known series of well-known company failures: the collapse of the Bank of Credit and Commerce International, Baring Bank and in recent times global corporations like Enron, WorldCom, Parmalat, Global Crossing and the international accountants, Andersen (La Porta, Lopez and Shleifer 1999).

Most of these crisis or major corporate failures, which were as a result of incompetence, fraud, and abuse, were blamed on lack of business ethics, shady accountancy practices and weak regulations. These practices were curbed with new elements of an improved system of corporate governance (Iskander and Chamlou, 2000).

BASIC PRINCIPLES OF CORPORATE GOVERNANCE

For a good and successful practice of corporate governance the world over, its basic and commonly accepted principles must be adhered to. These principles include:

Rights and Equitable Treatment of Shareholders: This implies that there are certain fundamental rights of the shareholders which organisations must respect and strictly uphold. Shareholders should equally be allowed to exercise their rights without fear or favour. Organisations are duty bound to give clear interpretation of these rights for better understanding by the shareholders as well as ensuring shareholders' participation in the affairs of the corporation through general meetings.

Interest of Stakeholders: Corporations are obliged to recognise, in their policies and other aspect of operations, their legitimate stakeholders as having legal and other obligations which should be fulfilled at all time.

Role and Responsibility of the Board of Directors: As a matter of fact, board members should be constituted by people and expertise with the required knowledge. Put differently, technocrats of excellent skills and comprehensive understanding should form the board to be able to deal with various business issues in order to review and challenge management performance. The size of the board should be sufficient enough with appropriate level of commitment to fulfil its responsibilities and duties.

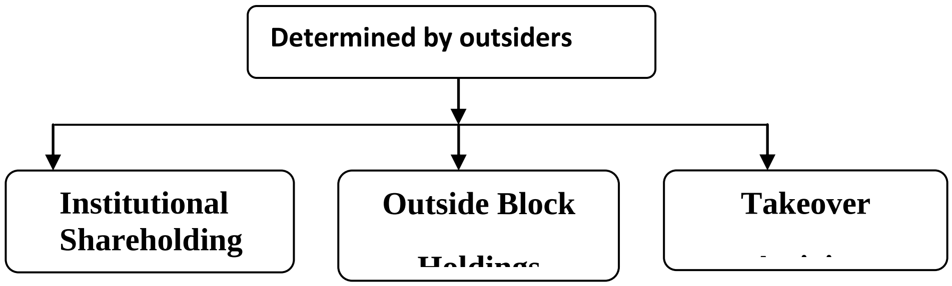
Disclosure and Transparency: Corporate governance requires high level of accountability, hence organisations should make concerted efforts to publicise the roles and responsibilities of board and management in order to make them accountable to the shareholders and other stakeholders. Also, there should be a set of procedures to ensure independent verification of the company's financial reporting to safeguard the integrity of the organisation. All investors should equally have access to timely and balanced disclosure of materials and factual information concerning the organisation. However, to make these principles very effective, certain mechanisms have been designed by experts to control and reduce the inefficiencies that could arise from moral hazard and adverse selection in relation to corporate governance. For instance, the behaviour of managers can be monitored and checked by an independent third party in the name of external auditor who attests to the accuracy of the information provided by the management to investors. Other mechanisms of control for the effectiveness of these principles include: monitoring by the board of directors, internal control procedures and internal auditors, balance of power, standard remuneration, competition, takeovers, media pressure and surveillance, government regulations and so on.

Integrity and Ethical Behaviour: This is quite central to the practice of good governance. It involves ethical and responsible decisions making which is necessary in managing risk and avoiding lawsuits. Corporate organisations should evolve a clear cut code of conduct to guide the conduct of their directors and executives. This enhances their sense of duty and consciousness of the interest of all stakeholders.

CORPORATE GOVERNANCE MECHANISMS

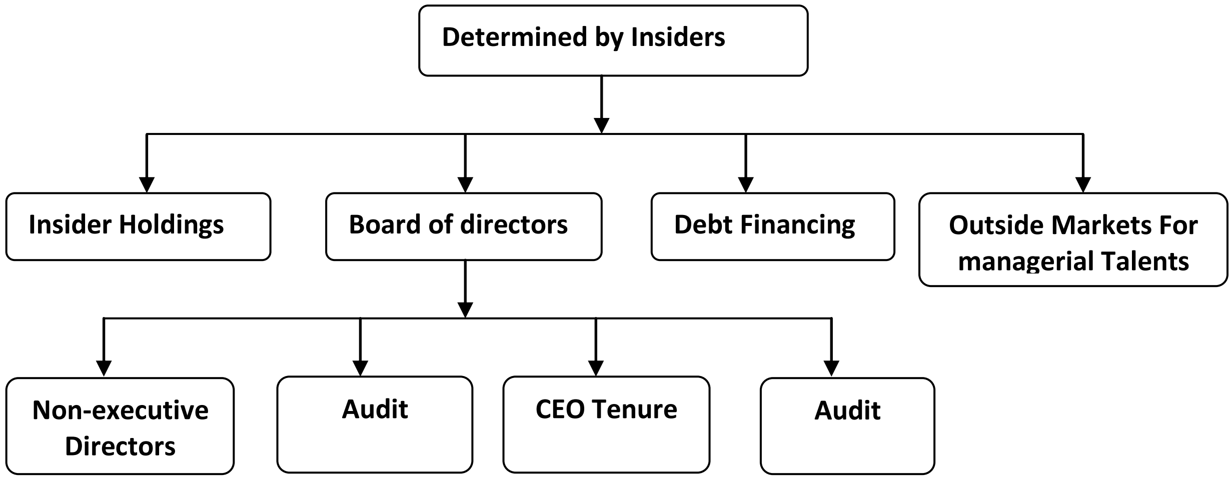
Corporate governance mechanisms include a system of controls intended to help align managers' incentives with those of shareholders. According to Oman (2001), corporate governance mechanisms including accounting and auditing standards designed to monitor managers and improve corporate transparency. Furthermore, a number of corporate governance mechanisms have been identified analytically and empirically. These, according to Agrawal and Knoeber (1996), may be broadly classified as internal and external mechanisms as summarized in Figure 1 and 2 below:

Figure 1: Corporate Governance Mechanisms by outsiders



Adapted from Agrawal and Knoeber (199)

Figure 2: Corporate Governance Mechanisms by insiders



Adapted from Agrawal and Knoeber (1996)

Davis, Schoolman and Donaldson (1997, p.23) suggest that governance mechanisms "protect shareholders' interest, minimise agency costs and ensure agent-principal interest alignment". They further opined that agency theory assumptions are based on delegation and control, where controls "minimise the potential abuse of the delegation". This control function is primarily exercised by the board of directors. However, in other to address the specific objectives of this research, this study will focus on the internal/ insider mechanisms of corporate governance as they relate to banking operations.

THE ROLE OF INTERNAL CORPORATE GOVERNANCE MECHANISMS IN BANKS PERFORMANCE

According to the Asian Development Bank (1997), Dallas (2004) and Nam (2004) cited in Kashif (2008), various instruments are used in financial markets to improve corporate governance and the value of a firm. Economic and financial theory suggests that the instruments mentioned below affect the value of a firm in developing and developed financial markets. These instruments and their role are as follows:

Debt Holders: Debt factors provide finance in return for a promised stream of payments and a variety of other covenants relating to corporate behaviour, such as the value and risk of corporate assets. If the corporation violates these covenants or default on the payments, debt holders typically could obtain the rights to repossess collateral, throw the corporation into bankruptcy proceedings, vote in the decision to reorganize, and remove managers.

However, there could be barriers to diffuse debt holders to effectively exert corporate governance as envisaged. Small debt holders may be unable to monitor complex organization and could face the free-rider incentives, as small equity holders. Also, the effective exertion of corporate control with diffuse debts depends largely on the efficiency of the legal and bankruptcy systems. Large debt holders, like large equity holders, due to their large investment, they are more likely to have the ability and the incentives to exert control over the firm by monitoring managers.

Large creditors obtain various control rights in the case of default or violation of covenants. In terms of cash flow, they can renegotiate the terms of the loans, which may avoid inefficient bankruptcies. The effectiveness of large creditors however, relies importantly on effective and efficient legal and bankruptcy systems. If the legal system does not efficiently identify the violation of contracts and provide the means to bankrupt and reorganize firms, then creditors could lose a crucial mechanism for exerting corporate governance. Also, large creditors, like large shareholders, may attempt to influence the AGM voting of the bank by appointing new directors to reflect their own preferences.

Role of Auditor: The role of auditor is important in implementing corporate governance principles and improving the value of a firm. The principles of corporate governance suggest that auditors should work independently and perform their duties with professional care. In case of any financial manipulation, the auditors are held accountable for their actions as the availability of transparent financial information reduces the information asymmetry and improves the value of a firm (Bhagat and Jefferis, 2002).

However, in developing markets auditors do not improve the value of a firm. They manipulate the financial reports of the firms and serve the interests of the majority shareholders further disadvantaging the minority shareholders. The weak corporate law and different accounting standards also deteriorate the performance of the auditors and create financial instability in the developing market.

Role of Chief Executive Officer: The Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders. The CEO can follow and incorporate governance provisions in a firm to improve its value (Brian, 1997; Defond and Hung, 2004).

The decisions of the board about hiring and firing a CEO and their proper remuneration have an important bearing on the value of a firm as argued by Holmstrom and Milgrom (1994). The board usually terminates the services of an underperforming CEO who fails to create value for shareholders. The turnover of CEO is negatively associated with firm performance especially in developed markets because the shareholders lost confidence in these firms and stop making more investments. It is the responsibility of the board to determine the salary of the CEO and give him proper remuneration for his efforts (Monks and Minow, 2001).

The tenure of a CEO is also an important determinant of the firm’s performance. CEOs are hired on short-term contracts and are more concerned about the performance of the firm during their own tenure causing them to lay emphasis on short and medium-term goals. This tendency of the CEO limits the usefulness of stock price as a proxy for corporate performance (Bhagat and

Jefferis, 2002). The management of a firm can overcome this problem by linking some incentives for the CEO with the long-term performance of the firm (Heinrich, 2002).

Role of CEO Duality: Similar to the other corporate governance instruments, CEO duality plays an important role in affecting the value of a firm. A single person holding both the Chairman and CEO role improves the value of a firm as the agency cost between the two is eliminated (Alexander, Fennell and Halpern, 1993). However, on the negative side, CEO duality may lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his own interest at the cost of the shareholders (White and Ingrassia, 1992).

Role of Managers: Managers can play an important role in improving the value of a firm. They can reduce the agency cost in a firm by decreasing the information asymmetry, which results in improving the value of a firm (Monks and Minow, 2001). Managers in the developed market create agency cost by under and over investment of the free cash flow. Shareholders are disadvantaged in this case as they pay more residual, bonding and monitoring costs in these firms.

Role of Board of Directors: The board of directors is an important corporate governance mechanism and regarded as the institution where the managers of a company are accountable before the law of a company's activities (Coleman, 2008: 6). Further research has shown that the board of directors is effective in monitoring managers. Amongst other functions of the board is to select, evaluate and, if necessary, replace the CEO based on performance. Hence, the board of directors is the "apex" of decision making in an institution and directors are being held responsible for the success and failures of the companies they govern.

Board Characteristics and Structure; There are many factors or variables that may constitute yardsticks by which corporate governance can be measured in an organization. Some of these mechanisms under board of directors are briefly discussed below.

Board of Directors' Composition: The composition of board members is also proposed to help reduce the agency problem (Weisbach, 1988; Hermalin and Weisbach, 1991). The board consists of two types of directors; outsider (non executive directors) and insider directors (executive directors). The majority of directors in a board should be independent to make rational decisions and create value for the shareholders. The role of independent directors is important to improve the value of a firm as they can monitor the firm and can force the managers to take unbiased decisions. Independent directors can also play a role of a referee and implement the principles of corporate governance that protect the rights of shareholders (Bhagat and Jefferis, 2002; Tomasic, Pentony and Bottomley, 2003).

Board Size: Board size plays an important role in affecting the value of a firm. The role of a board of directors is to discipline the CEO and the management of a firm so that the value of a firm can be improved. Limiting board size to a particular level to ensure coordination and tackling of strategic problems among directors in their supervision of management is generally believed to improve the performance of a firm, because, the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups.

Board leadership: This is another key component of the board structure as the leadership tells the direction of board meetings, hence the outcomes. In the Nigerian corporate world, an independent structure exists where two different individuals serve in the roles of CEO and board chairman. A scenario where these two roles are held by an individual brings about the theory of CEO duality. CEO duality can lead to accumulation of power in one person thereby vesting all powers on a single individual even if the outcome will be negative. However, another school of thought does not accept the superiority of the separation of power. From their own perspective they see it as a crisis measure for distressed companies. This was shown in a study by Dobrzynski (1991). Also, stewardship theory proposes that joint structure leadership provides cohesive company lea company leadership that eliminates doubt of the individual leading the organisation (Ogbechie & Koufopoulos, 2009)

Board diversity: In the global marketplace a company that employs a diverse workforce is better positioned to understand the market in which it does business and hence has the capability to thrive in such environments. The term diversity refers to a mixture of men and women, people from different age brackets, people with different ethnic groups and racial backgrounds.

THEORETICAL FRAMEWORK FOR CORPORATE GOVERNANCE

This paper also attempts to examine some theoretical framework for understanding corporate governance issues.

Sanda and Mikaila and Garba (2005) in their work titled corporate governance mechanisms and firm financial performance in Nigeria identified the agency theory, stakeholder theory and the stewardship theories as the three prominent theories of corporate governance which are discussed below:

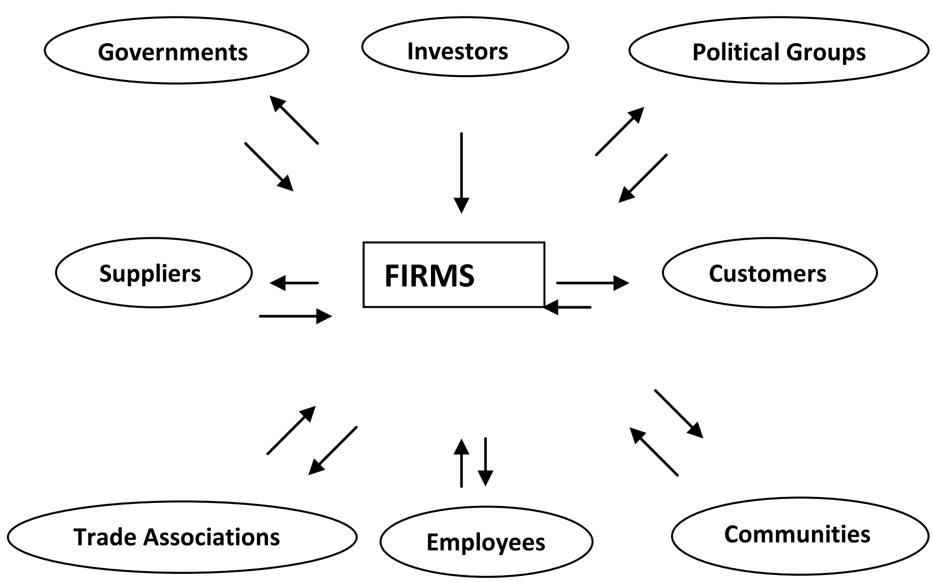
1. STAKEHOLDER THEORY; One of the original advocates of stakeholder theory, Freeman (1984), identified the emergence of stakeholder groups as important elements to the organization requiring consideration. Freeman further suggests a re-engineering of theoretical perspectives that extends beyond the owner-manager-employee position and recognizes the numerous stakeholder groups. This theory focuses on the issues of stakeholders in an institution. It stipulates that a corporate entity finds procedures or means of ensuring that the interest of the shareholders or stakeholders is kept in the balance with those of the bank. However, there is an argument that the theory is narrow (Coleman, 2008: 4) because it identifies the shareholders as the only interest group of a corporate entity whereas they are other factors like those interested in the affairs of such an organisation.

The Stakeholders' Model

This model is regarded as the most fundamental challenge to the principal-agent model since it emphasizes that the purpose of firm should be defined broader than the mere maximization of shareholder welfare. Thus, corporate governance should refer to the design of institutions to make managers internalize all stakeholders' welfare (Vives, 2000). Other parties, who have interests in the firm's long-term success, should also be taken into account when a firm's objective function is defined. These stakeholders include employees, suppliers and customers. Supporters of this model believe that this stakeholder approach is more equitable and socially efficient (Keasey et al., 1997).

Donaldson and Preston (1995) provide a diagrammatical representation of the stakeholder model, which is reproduced in Figure 3. This diagram reflects the number of groups with interests in (or relationships with) the firm. They explained that under this model, all person or groups with legitimate interests participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another.

Figure 3: The Stakeholder Model



Source: Donaldson and Preston (1995: 69)

Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognisant of the myriad participants who seek multiple and sometimes diverging goals (Donaldson and Preston 1995). Nevertheless, Sundaram and Inkpen (2004a) posit that wide-ranging definitions of the stakeholder are problematic. In addition, the authors argue that empirical evidence supporting a link between stakeholder theory and firm performance is lacking. Finally, identifying a myriad of stakeholders and their core values is an unrealistic task for managers (Sundaram and Inkpen, 2004b).

2. STEWARDSHIP THEORY

This theory links the success of firms with that of the managers. It tends to argue against the agency theory which says that managerial opportunism is not relevant. This theory stipulates that a manager's objective is first to maximise the firm's value because, a manager's need of achievement and success are met when the firm is doing well (Coleman, 2008: 4). This theory addresses the issue of trust which the agency theory refers with respect for authority and inclination to ethical behaviour.

A fall out of this theory is that, it attacks the following areas for effective corporate governance in an organisation. The areas include board of directors and leadership issues in a firm. Under the board of directors, it is believed that the involvement of the non executive directors is important in enhancing the board activities. This is so, because the executive directors have complete knowledge of the firm's operations. Complete participation of non executive directors enhances decision making and ensure sustainability of the business. Under leadership, this theory is contrary to that of the agency theory.

Stewardship theory supports the idea that CEO and board chair should be the same individual. This is to ensure that decisions are quickly and promptly taken which will surely have impact on the firm. Finally, this theory stipulates that small board sizes should be encouraged to enhance effective communication and decision making. Nevertheless, the theory does not stipulate how an optimal board size should be determined.

3. AGENCY THEORY; The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily, Dalton and Canella (2003), point to two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea.

In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It "provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system" (Davis, Schoorman and Donaldson, 1997:24). In her assessment and review of agency theory, Eisenhardt (1989) outlines two streams of agency theory that have developed over time: Principal-agent and positivist. Principal-agent research is concerned with a general theory of the principal-agent relationship, a theory that can be applied to any agency relationship while a positivist perspective focus on identifying circumstances in which the principal and agent are likely to have conflicting goals and then describe the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt, 1989).

The fundamental problem of this theory is how the managers follow the interest of the shareholders to ensure that agency cost is reduced. Also, the principals are confronted with how to select the most capable manager and how to ensure that managers are given the right incentive to take decisions that are aligned with shareholders' interest. Also, the challenge that the managers might extract prerequisites (or perks) out of other sources leading them to be less concerned about the overall welfare of the firm.

The principal-agent or finance model

The agency relationship explains the association between providers of corporate finances and those entrusted to manage the affairs of the firm. The principal-agent model is probably the most important model of the corporate governance theory. The underlying premise of this model is that shareholders' residual voting rights should ultimately commit the corporate resources to value maximization.

PRE-REQUISITES FOR EFFECTIVE CORPORATE GOVERNANCE IN NIGERIA

To state categorically, the factors that will ensure good corporate governance in the Nigerian banking system will be a huge task. However, given the present operating environment, it is essential to explore some factors that are capable of affecting the governance environment.

In a research by Yakasai (2001) it was agreed that the board is the ultimate governing body responsible for the growth of the bank. In view of this, given the level of importance required from this body; it goes without saying that there are some qualities which should be inherent in board members (Yakasai, 2001: 247). These factors should include the following: knowledge, information, strong management, power, independence and time.

1. Knowledge: Considering the complexity of our financial system which has made the banking industry more complicated, it is important to have people of high qualities at the helm of affairs. These directors should be from diverse and complementary backgrounds, have knowledge and experience, and should network. It is advisable that each board member should have expertise in more than one area of specialisation so that the membership will not be unskilled. This will ensure that knowledge from board members is broad and deep enough to match the demands facing the industry (Yakasai, 2001: 247).

2. Motivation: Similar to other spheres of business, motivation has remained a key factor in the deliverables and outputs of employees. This is the case with board of directors of banks. The right incentives and perks should be in place to align bank directors' interest with those of stakeholders they represent. These stakeholders include shareholders, employees and customers (Yakasai, 2001: 249).

The reward system is an effective means that can be used to influence the performance and motivation of bank directors. Although the reward system usually extends beyond the amount of money paid, it should also include share options for board members. A downside to this exists where intending board members turn their focus to the monetary benefits they will get from being nominated. In view of this, it is important that after an attractive package has been offered, the nominating committee should have suitable nominees who will be concerned about the challenges and not the financial gains. Similar to other spheres of business, motivation has remained a key factor in the deliverables and outputs of employees. This is the case with board of directors of banks. The right incentives and perks should be in place to align bank directors' interest with those of stakeholders they represent. These stakeholders include shareholders, employees and customers (Yakasai, 2001: 249).

3. **Time:** This issue relates to two options, one of which is the utilisation of time in board meetings and tenures associated with board members. Regarding the issue of tenures of board members, it is essential to have staggered retirements which will ensure the presence of knowledgeable and experienced directors at any point in time. This adds to the credibility and efficiency of the board in duly executing its functions. The other issue of time is more delicate,

as it deals with the importance for board members to be very intelligent and experienced people, as stated above. However, it is also important that board members prepare properly for meetings so that meetings focus on crafting and execution of corporate strategies (Yakasai, 2001: 249).

4. Information: Information is without doubt the key for board members to be able to work effectively and timely, given the spate of events in this present day financial system. Board members should have an open door policy to ensure information is received from employees, shareholders, customers, regulators and fellow colleagues. The sources of this information should be well processed to ensure that boards are not acting on rumours which will inadvertently go against the initial intention.

5. Strong management team: It is imperative to have a management team with relevant knowledge and entrepreneurial spirit, core cultures and values for the organisation. However, the board should create an enabling environment for this management team to exhibit entrepreneurial traits. It is these managers that provide a clear sense of direction for the entire organisation since they have a perfect understanding of the internal structures of the bank.

6. Auditors: In the Nigerian banking landscape, internal auditors as well as external auditors exist. The internal auditors are staff members with the entire unit reporting to the chief executive officer. The essence of internal auditors is to review internal audit trails and ensure the level of exceptions are reduced, depending on when external auditors come to audit the bank. They also help to reduce fraud and keep an eye on staff in up country branches, ensuring that the bank's culture is preserved and adhered to.

DATA ANALYSIS METHOD

In analyzing the relationship between corporate governance and financial performance of listed banks in Nigeria, regression, chi-square (χ^2) and graphical representation will be used by the researcher for analysis. This is because the study combined both time series and cross sectional data.

TOOLS OF ANALYSIS

The following methods of analysis were employed after the required information was gathered. The data that were collected from the administered questionnaires and secondary source were processed as follows:

1. Chi-square (χ^2)
2. Regression analysis
3. Graphical

Chi-square (χ^2) test

Chi-square test is one of the consistent statistical tools used in hypothesis testing. It defines the differences between the definite outcome and a priori expectation.

Also, chi-square distribution formula is adopted because it is by nature non-negative i.e. χ^2 =>/O. The formula also tends to be positively skewed and very useful for social and management science research. The chi-square formula is given as:

$$\chi^2 = \sum \frac{(0 - E)^2}{E}$$

Where:

χ^2	=	Chi-square
$\sum$	=	Summation or sigma
fo	=	Observed distribution
fe	=	Expected distribution

To calculate the expected value, the formula is also given as:

$$\sum rc = \frac{Row\ Total\ x\ Column\ Total}{Grand\ Total}$$

The methods modified to examine data collected were less labour-intensive and more of computer aided methods.

MODEL SPECIFICATION FOR VARIABLES

The study employs a modified version of the econometric model of Miyajima et al (2003) as adopted by Coleman and Nicholas- Biekpe (2006). The Econometric model of Miyajima et al (2003) is therefore seen below as;

$Y_{it} = \beta_o + \beta_1 G_{it} + \beta_2 SIZE_t + \beta_3 BCOM_t + e_t$

Where:

Y_{it} represents firm performance variables which is earnings per share for banking firms at time t.

β_o represents the constant factor

G_{it} is a vector of corporate governance variables which include: Board Size (BSIZE), Board Composition (BCOM) which is defined as the ratio of outside directors to total number of directors.

$BSIZE_t$ is the board size of the firm

$BCOM_t$ is board composition of the firm

e_t, the error term which account for other possible factors that could influence.

Based on the fact that we employed different governance and performance proxies, the above model is therefore modified to determine the relationship between bank management performance and corporate governance of banks in Nigeria.

The a priori is such that:

$\beta_1 BOS_{t;}\ \beta_2 BCOMP_t > 0$. The implication of this is that a positive relationship is expected between explanatory variables ($\beta_1 BOS_{t;}\ \beta_2 BCOMP_t$) and the dependent variable (EPS). The size of the coefficient of correlation will help explain various levels of relationship between the explanatory variables.

Where: EPS represents banks management performance variable which is: Earnings per share for banking firms at time t which will be based on the secondary data obtained from the annual report of all sampled banks. BSIZE represents the Board Size; Board Composition is represented by BCOMP which is defined as the ratio of outside directors to total number of directors.

e_t, the error term which account for other possible factors that could influence EPS_{it} that are not captured in the model.

The primary data obtained from bank operators were used in testing the hypothesis and the tool of analysis is chi square produced through Statistical Package for Social Sciences (SPSS). The data used for the secondary analysis was pooled from the selected five banks' annual report.

CHI-SQUARE TEST

Table 1: Testing hypothesis one**:** This is tested base on the associated questions in the questionnaire on the outlook of weak corporate governance in all its ramifications and bank performance. The questions are basically on the issues of weak internal control, board size and board functions. The depicted chi-square values in the table below are analysed in the conclusion and summary.

Test Statistics

	A	B	C	d	E	F
Chi-Square	12.120[a]	20.588[b]	17.447[c]	65.529[b]	110.941[b]	63.882[b]
Df	4	4	3	4	4	4
Asymp. Sig.	.016	.000	.001	.000	.000	.000

Source: Research Data 2013

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.6.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.0.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 21.3.

Table 2: Testing hypothesis two**:** This is tested base on the related questions in the questionnaire on the outlook of monitoring and supervision of code of corporate governance to ensure compliance by regulatory authorities' and efficient bank management. The questions are basically on uncoordinated multiplicity of codes, inadequate sanction interpretation and the issue of inadequate monitoring. The depicted chi-square values are analysed and conclusion is on the summary. **Test Statistics**

	a	b	C	d	e	f	g	h
Chi-Square	51.294a	36.518b	30.059c	87.882a	14.471a	67.765a	63.847c	60.647c
Df	4	2	3	4	4	4	3	3
Asymp. Sig.	.000	.000	.000	.000	.006	.000	.000	.000

Source: Research Data 2013

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 28.3.

CHI-SQUARE TEST

Table 1: Testing hypothesis one**:** This is tested base on the associated questions in the questionnaire on the outlook of weak corporate governance in all its ramifications and bank performance. The questions are basically on the issues of weak internal control, board size and board functions. The depicted chi-square values in the table below are analysed in the conclusion and summary.

Test Statistics

	A	B	C	d	E	F
Chi-Square	12.120[a]	20.588[b]	17.447[c]	65.529[b]	110.941[b]	63.882[b]
Df	4	4	3	4	4	4
Asymp. Sig.	.016	.000	.001	.000	.000	.000

Source: Research Data 2013

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.6.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.0.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 21.3.

Table 3: Testing hypothesis three**:** This is tested base on the related questions in the questionnaire on the outlook of negligence by the board of directors and audit committees in performing their duties and Bank performance. The questions are basically on post consolidation issues and its effects on banks performance. The depicted chi-square values are in table 4. and conclusions are analysed on the summary.

Test Statistics

	a	B	C	D	e
Chi-Square	15.529[a]	1.259[b]	18.941[a]	20.706[a]	12.824[a]
Df	4	3	4	4	4
Asymp. Sig.	.004	.739	.001	.000	.012

Source: Research Data 2013

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 21.3.

Table 4: Testing Hypothesis four: This is tested base on the related questions in the questionnaire on the viewpoint of negligence by the board of directors and audit committees in performing their duties and Bank performance. The questions are basically on board negligence and its effects on banks performance. The depicted chi-square values in the table below are analysed in the conclusion and summary.

Test Statistics

	A	B	C	d	e	F	f
Chi-Square	21.647[a]	44.494[b]	66.671[c]	34.000[a]	65.541[c]	114.471[a]	39.376[c]
Df	4	2	3	4	3	4	3
Asymp. Sig.	.000	.000	.000	.000	.000	.000	.000

Source: Research Data 2013

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 28.3.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 21.3.

Test Statistics

	E	I	J	K
Chi-Square	114.471[a]	39.694[b]	36.729[b]	64.224[c]
Df	4	2	2	3
Asymp. Sig.	.000	.000	.000	.000

Source: Research Data 2013

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 17.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 28.3.

c. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 21.3.

Based on the above report from table 4.8 of the chi-square analysis done through (SPSS) computer analytic package, however, before the hypothesis related to the objectives of this research is tested, the derived evidence will be specified and analysis will be done through the non- parametric test of Chi-square on the tables above;

Probability Value (p- Value) = 0.000

Level of Significance (α) = 0.05 or 95%

The χ^2 test is an important extension of hypothesis testing and is used when it is wish to compare an actual/observed distribution with a hypothesized or expected distribution.

From the table above, the χ^2 is calculated based on the following assumption:

Confidence interval of 95%.

Significance level of 5%

Degree of freedom (r-1) (c-1)

Where r = number of rows

c = number of columns

:. Degree of freedom = (r-1) (c-1)

The test by the probability distribution P-value (0.00) confirmed that the research hypothesis (H_0) should be rejected at 5% level of significance based on the fact that p-value 0.000< 0.05(α). Therefore the null hypothesis H_0 (research hypothesis) will be rejected while we accept the alternative hypothesis H_1, that there is significant impact of corporate governance on banks management performance. **Regression Analysis**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.220[a]	.048	-.003	110.80718

Source: Research Data 2013

a. Predictors: (Constant), BCOM, BSIZE

Regression coefficient was used to test if there is any significant relationship between earnings per share (criterion/dependent variable) and board of Directors (predictor/independent variables). The ordinary least square regression analysis was used. The result from the analysis shows that a low relationship exists between board of directors and earnings per share. This is depicted by the R value of 0.97. The coefficient of determination (R^2) is 0.048 which shows that only 4.9% per cent of the variations in the performance of banks selected were explained by the independent variable.

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23007.758	2	11503.879	.937	.401[a]
	Residual	454294.582	37	12278.232		
	Total	477302.339	39			

Source: Research Data 2013

a. Predictors: (Constant), BCOM, BSIZE

b. Dependent Variable: EPS

From the above table**,** the significant value (p value) is 0.401, which shows that the regression model derived could not be relied upon for prediction over and above 99 per cent confidence level. However, using 5% level of significance (alpha α) and since alpha is less than p value (table above 0.401) we conclude that the board size and composition has positive weak effect on the banks performance. The p value (0.401) above the level of significance (α) indicates that the model fails to explain a lot of variation in earnings per share.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-27.562	86.618		-.318	.752
	BOARD SIZE	7.400	5.782	.206	1.280	.209
	BOARD COMPOSITION	-19.936	33.572	-.096	-.594	.556

Source: Research Data 2013

a. Dependent Variable: EPS

From the table above, the sig.value is 0.209 and 0.556 for BSIZE and BCOM respectively this shows that board size and board composition of bank has positive weak relationship on banks management performance (EPS). A change in board size will bring change in EPS by 7.4 while composition is -19.936

Conclusion

Regression Equation termed as the specification model i.e. $Y = \alpha + B_1x_1 + B_1X_2$

$Y = -19.936 - 27.562\ X_1 + 7.400\ X_2$

Therefore, a change of 1 in x (i.e. BSIZE and BCOM) means a change of $7.4X_1$ and $-19.936X_2$ in Y (i.e. EPS). Also, $R^2 = 0.048$

It shows that Y can explain about 48% of the variation in independent variable X and

R = 0.22 which shows that there is a positive weak relationship between board size, board composition and earnings per share. This weak relationship is justified by the large size of the boards of the relative banks in the study. The larger the sizes of the boards of directors the more the possibility of the weakness and ineffectiveness of their policies and decisions.

FINDINGS OF THE STUDY

The analysis above was carried out using secondary data obtained from annual accounts of selected banks (First Bank of Nigeria, Access, United Bank for Arica, Diamond and Eco Bank) and the administered questionnaire. The obtained secondary data was analysed using the model specified above. EPS were used in the study as the dependent variable while Board size and Board composition were used as the independent variables.

From the regression analysis, we have 5% level of significance, that is 100(1-a) %.

Where a =0.05

Alpha level = 0.95

Since the $F_{cal} > F_{tab}$ (i.e. F calculated and F tabulated respectively) we therefore reject the null hypothesis H0 and accept the alternative hypothesis H1 and conclude that there is weak positive impact of corporate governance on banks performance. Basing our conclusion on the used dependent and independent variables we conclude that BSIZE and BCOM has weak positive impact on EPS of which is in line with other research works in this area of study.

The chi-square analysis carried out on the administered questionnaires to bank operators, H_0 was rejected while H_1 was accepted since the Xtab > the Xcal. Hence, we conclude that corporate governance has weak positive impact on banks' performance.

However, results of primary data analysis can be concluded as follows:

1. Weak corporate governance in all its ramifications has effect on bank performance. This is in conformity with the first hypothesis and it accepts the alternative hypothesis that Weak corporate governance in all its ramifications has effect on bank performance.

2. Monitoring and supervision of code of corporate governance to ensure compliance by regulatory authorities has effect on bank performance. This finding supports the alternative hypothesis that states that inadequate monitoring and supervision of code of corporate governance to ensure compliance by regulatory authorities has effect on bank performance.

3. Negligence by the board of directors and audit committees in performing their duties has effect on Bank performance. This result supports the third hypothesis by accepting the alternative hypothesis that Negligence by the board of directors and audit committees in performing their duties has effect on Bank performance.

4. Consolidation exercise has impact on the performance of Banks. This supports the fourth hypothesis and accepts the null hypothesis that it has Consolidation exercise has impact on the performance of Banks

SUMMARY

The survival and stability of any institution of the financial sector depend on the quality of its compliance with the codes of corporate governance. In spite of several reforms initiated to strengthen this sector, banks are still prone to failure. This is because both the board and management of banks have always been resistant to policy provisions and regulatory guidelines.

The loss associated with this failure is enormous on their reputation, efficiency and industrial growth. Hence, the strong need for increased enforcement of compliance of corporate bodies with the provisions of the ethics of corporate governance codes becomes imperative. Corporate governance is considered to involve a set of complex indicators, which face substantial measurement error due to the complex nature of the interaction between governance variables (such as board size, board composition, etc.) and firm performance indicators. Nevertheless, previous empirical studies have provided the link between corporate governance and firm performance. However, despite the volume of the empirical work, there is no consensus on the impact of corporate governance on bank performance. Consequently, this lack of consensus has produced a variety of ideas (or mechanisms) on how corporate governance influence bank performance.

CONCLUSION

The essence of this study was to determine the impact of corporate governance on banks' performance in Nigeria between 2005 and 2012. The study has been able to show that the Nigerian banking sector is affected by the level of corporate governance culture being embraced. Two broad classes of board were used, namely board composition and board size. Hypothesis was set up against return on assets and earnings per share based on the secondary data obtained from the annual report of banks. Also, primary data obtained from a number of randomly selected banks through administered questionnaire were used and hypotheses were tested using chi-square.

From the study base on the result of the analysis, it showed that corporate governance variables such as board directors have impact on the performance of banks. However, the study established a weak relationship between EPS and board composition. Board composition equally showed a weak positive relationship with earning per share which means there is a decrease in the performance of the banks whenever there is an increase in the number of independent directors on the list of board of directors. The board size shows a weak positive relationship with earnings per share which means that there is an increase in the performance of the bank when the board size is at minimal, and increase in the performance of bank will increase the level of their service delivery to customers.

Furthermore, the hypothesis tested from the administered questionnaire which is basically set towards solving the research problems and the result of the analysis indicated that corporate governance has significant impact on banks performance in Nigeria just as identified by the secondary data analysed. Generally, the result showed that the banks are relatively better in implementing the corporate governance practices.

RECOMMENDATIONS

From the findings, the following recommendations are to be considered to address the observed issues;

i. The board size of banks in Nigeria should not be too large (since it is part of the code of corporate governance requirement by both CBN and NDIC) and must be made up of qualified professionals who are conversant with oversight function and the issue of transparency, accountability and disclosure by banks should be taken more seriously.

ii. Through the administered questionnaires, banks acknowledge the practice of corporate governance and compliance with its codes in their establishment. However, based on the findings, it is necessary that banks should set up more committees that will improve or facilitate good corporate governance in order to checkmate corruptions in banking system in Nigeria.

iii. Most of the operators in banks have little or no knowledge of corporate governance; this was discovered during the researcher's data sourcing period. Hence, awareness creation among banks should be conducted to ensure compliance with code of corporate governance.

iv. Harmonization of the various codes of corporate governance has become urgently very necessary in the system and should be encouraged to ensure single reporting authority and a unified corporate body saddled with the responsibility of collecting and collating corporate governance related data and constructing the relevant indices to facilitate corporate governance research in Nigeria should be set up.

v. Based on the review of related literature, efforts to improve corporate governance should focus on the value of the stock ownership of board members, since it is positively related to both future operating performance and to the probability of disciplinary management turnover in poorly performing banks.

vi. Steps should also be taken for mandatory compliance with the code of corporate governance. Also, an effective legal framework should be developed that specifies the rights and obligations of a bank, its directors, shareholders, specific disclosure requirements and provide for effective enforcement of the law.

vii. Finally, In order to address failures of corporate governance in the industry, the CBN should establish a specialist function focusing on governance issues to ensure governance best practices are embedded in the industry also, the reform programme should be able to strengthen corporate governance in both banks and financial institutions and they should have an embedding culture across the industry that good governance is good business.

AREAS OF FURTHER RESEARCH

Due to the importance of corporate governance on organisational management, recent trend has revealed that to achieve corporate success and economic growth, it can no longer be ignored or underestimated. To further explore the relationship between corporate governance and a bank's management and economic performance, the following have been identified as areas for further research.

i. Analysing the impact of uncoordinated multiplicity of codes from regulatory authorities on the bank's profitability, will help to determine whether it should be encouraged in the system or not and will equally depict whether it has been a contributing factor to neglecting corporate governance by banks in Nigeria.

ii. Banks are generally hesitant to release data of their operational activities , research results accuracy are not guaranteed; hence it will be imperative to confirm if board composition has any correlation on profitability of banks in Nigeria.

Finally, analysing the impact of board activity and audit committee, intensity on the banks' profitability will also be helpful to further studies into the performance of the Nigerian banking sector.

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