CORPORATE GOVERNANCE SPECIFIC ATTRIBUTES AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

Raji Sadiq[1], Oke Adesoji[1], Rabiu Qozeem[1]

ABSTRACT

The study examined the impact of corporate governance specific attributes on financial performance of listed deposit money banks (DMB) in Nigeria. The data were sourced from the audited financial reports of the sampled DMB in Nigeria from 2011 to 2020. Panel regression analysis adopted to examine the impact of corporate governance specific attributes on the performance of DMB in Nigeria. It was discovered that gender diversity has a positive and significant relationship on financial performance, audit committee independence has a negative and insignificant effect on financial performance, audit committee size has a negative and insignificant effect on financial performance of DMB in Nigeria. The study concluded that composition of board and gender diversity increase performance whereas audit committee independence and audit committee size hinder financial performance of DMB. This study recommended that corporate governance should encouraged DMB to increase number of non-executive director and also place focus on appointing competent female individuals to serve on the board of directors. DMB should reduce the size of the audit committee. DMB should reduce the independent non-executive directors when formulating the audit committee and consider the provisions of the Nigerian code of corporate governance in audit committee composition.

Keywords:

Introduction

Corporate governance refers to how businesses manage their operations and relationships. The objective of corporate governance (CG) is primarily to satisfy shareholder demands (Tunay & Yuksel, 2017). CG places an crucial role in the development not to firms alone but also to country. Accoriding to Ho, Lin, and Tsai, (2015), if political and economic stability cant be achieve, foreign investors may hestitate to invest in such country. 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 upward movement of corporate failures (Lahart, 2009; Zandi, 2009 and Faber, 2009).

Poor corporate governance is to blame for the high failure rate of banks, which can lead to investors losing faith in the financial institutions capacity to effectively manage its business, thereby triggering a liquidity crisis. Financial institutions have been at the centre of the recent financial crises around the world even in Nigeria. For this, various corporate governance policy and laws have been implemented to make governance easier, with the procedures of board size, board composition, and audit committee being among the most important (Joshua, Monday, Efiong, Joel and Imong & Rapheal, 2019).

For the purpose of addressing this issue, the study analysed the impact of corporate governance specific attributes on the performance of DMB in Nigeria. The study will consider board composition, gender diversity, audit committee independence and audit committee size as measurement of corporate governance specific attribute. The study used return on assets as measurement of financial performance. This study covered a period of ten years (2011 to 2020) by considering ten (10) listed deposit money banks in Nigeria.

Literature Review

Corporate governance (CG) simple means the norms, methods, or guide by which organization operate, control, and govern, according to the Nigerian Code of Corporate Governance for Banks and Discount Houses, dated May 2014 (NCCG, 2014). Effective CG processes provide a system that benefits all participants by safeguarding that the company follows accepted moral standards, best observes, and official regulations (Solomon, 2010).

A board that is both stable and new, has a healthy balance of independent and engaged directors, and is the correct size for the organization is referred to as board composition (BCOMP). BCOMP is determined by using the proportion of non-executive directors to board size (Ogege & Boloupremo, 2014). Gender diversity (GD) is a one of the component of board diversity, according to Imade (2019). GD is refer to the disparity in the gender on business boards of directors. It is a matter of fairness and effective governance, as well as inclusive economic growth, to close the gender gap (Deloitte Global, 2017).

One of the characteristics of a good corporate governance system is audit committee independence (ACIND). The audit committee's capacity to provide better objectivity in evaluating the company's internal control and financial reporting depends on its independence. This is because independent directors

[1]Department of Accounting and Finance, Fountain University, Osogbo

have no personal or financial stake in the company, which could stifle their ability to question management (Maiyebo, Okpanachi, Nyor, Yahaya & Mohammed, 2018).
The size of the audit committee (ACSZE) is the total number of members designated by the governing bodies. This number of individuals is deciphered as a proportion of the gathering's monetary assets. Where an enormous review council part is available, all things considered, potential monetary detailing task difficulties will be uncovered and settled (Mohammed–Nor, Shafie, & Wan-Hussin, 2010).
Financial success can be measured in a variety of ways, yet, all measurements ought to be amassed. All out unit deals, as well as details like incomes from tasks, working pay, or income from activities, may be utilized (Emeka & Bello, 2016). The return on asset (ROA) is a one of the measurement of profitability ratio. The ratio shows how much profit a business may produce from its assets.

Theorectical Review

The theory considered in this study focus mainly on agency theory, stakeholder theory and resource dependency theory.

Agency theory

This theory discuss about struggles between manager and proprietors of companies. According to Berle and Means (1932), with an increase in professionalism of control, companies are probably running for the managers gain in place of that of the proprietors. Jensen and Meckling (1976) provide an explanation for the struggle of hobbies among managers and shareholders. Agency manipulate mechanisms are installed location to align the desires of managers (agents) with the ones of proprietors (principals). According to Sanda, Mukaila and Garba (2005), this theory reduce top officials negative attitudes by uncovering the fraudulent activities that they usually engaged in. Agency charges constitute the charges of all sports and working structures designed to align the aims and moves of managers with the aim of proprietors.

Stakeholder theory

This is an extension on the agency theory but the theory distributes and arrange the interest of all stakeholders which includes shareholder, government employees and any third parties including the community. Maher and Anderson (1999) explained that the partner model's accentuation on beating issues of underinvestment related with entrepreneurial administrative way of behaving.

Resource Dependency theory

This theory was developed by Pfeffer in 1978. The theory focus on various group for individual benefits (Abdullah & Valentine, 2009). Wang (2009) explained that the resource dependence theory demonstrates that the board of directors can build ties with the external environment, if allowed. The purpose of this is to assist management in achieving organizational goals.

Empirical reviews

Gwaison & Maimako (2021) investigated the effect of corporate administration on the monetary execution of Nigerian business banks. The data was assembled from the budget reports of five (5) business banks recorded on the Nigerian Stock Trade more than a fourteen-year time frame (2003-2017). The technique utilized in the review was board Least Squares Relapse Examination. The discoveries uncovered that board size essentially affected business bank monetary execution (ROA), board arrangement altogether affected business bank monetary execution (ROA), board orientation variety fundamentally affected business bank monetary execution (ROA), the review council affected business bank monetary execution (ROA), and board freedom affected business bank monetary execution (ROA).

Okoye, Olokoyo, Okoh, Ezeji & Uzohue (2020) investigates the relationship between Nigerian bank profitability and governance practices. The findings indicates that board size are significantly related to financial performance of DMB in Nigeria. Besides, the review shows that slacked return on value essentially affects present execution. As a result, the study claims that corporate governance has a significant impact on financial success and suggests that board size be kept to a minimum to avoid boardroom conflicts.

Joshua, Monday, Efiong, Joel and Imong & Rapheal (2019) investigated the corporate governance and financial performance of Nigeria's listed deposit money banks (DMBs). The research looked at listed DMBs on the Nigerian Stock Exchange (NSE) from 2007 to 2016. According to the data, board size showed a favourable and insignificant link with return on assets. Return on asset was also found to have positive and substantial connections with the audit committee, board composition, and bank size.
Eluyela, Akintimehin, Okere, Ozordi, Osuma, Ilogho, & Oladipo (2018) More frequent board meetings connect favorably with business performance. According to the study examined how profitability affect to board meetings. The authors also find a shaky positive correlation between business success and board size. The study also discovered a strong positive relationship between business size and performance.

3.0 Methodology

The study used quantitative research design to analysis the effect of corporate governance specific attributes on financial performance of listed DMB in Nigeria. All the deposit money bank were considered as the population of the study out of which the company considered 10 deposit money bank (DMB) as sample size. The purpose of selecting the 10 DMB (Access Bank Plc, First Bank Nigeria (FBN), Zenith

Bank Nigeria (ZBN), First City Monument Bank (FCMB), Stanbic IBTC, Union Bank, Sterling Bank, Fidelity Bank, United Bank for Africa (UBA), and Wema Bank Plc) was to ensure that the analysis is balanced panel and also to the existence of selected DMB for the study period. The data collected was from audited annual report and was analysed with the use of descriptive analysis and panel least square method.

The econometric model for this study is stated below;

$ROA_{it} = \beta_o + \beta_1 BCOMP_{it} + \beta_2 GD_{it} + \beta_3 ACIND_{it} + \beta_4 ACSZE_{it} + \beta_5 FSZE_{it} + \beta_6 LEV_{it} + e_t$

Where; β_o to β_6 is the slop coefficient, ROA is Return on Asset, BCOMP equals Board Composition, GD equals Gender Diversity, ACIND equals Audit Committee Independence, ACSZE equals Audit Committee Size, FSZE equals Firm Size (used as a control variable), LEV equals Leverage (used as a control variable) and e_t equals error term.

Variable Descriptions

Table 2 represent the descriptive statistic for the variables used in the study. The means measured the average of centrality. ROA, BCOMP, GD, ACIND, ACSZE FSZE, and LEV have mean values of 2.6858, 0.6039, 0.2912, 2.9500, 5.9200, 7.0276, and 0.6668 respectively.

Table 1

VARIABLES	DESCRIPTION	MEASURE
Return on Asset(ROA)	is a benefit proportion that demonstrates the way that much benefit an organization can make from its resources. It likewise evaluates how an organization's administration creates benefits from its financial assets or monetary record resources (Ogege & Boloupremo, 2014)	$\frac{Profit\ After\ Tax}{Total\ Asset} \times 100$
Board Composition(BCOMP)	Board composition (BCOMP) refers to a board that is both stable and new, has a balance of independent and motivated directors, and is the right size for the organization. Ogege and Boloupremo (2014)	Non-executive Directors / Board size
Gender Diversity	Gender diversity on the board is important. It alludes to the dissimilarity in the quantity of ladies on business sheets of chiefs (Imade, 2019)	Ratio of female board of directors to male board of directors
Audit Committee Independence (ACIND)	One of the characteristics of a good corporate governance structure is audit committee independence (ACIND). The audit committee's capacity to provide better objectivity in evaluating the company's internal control and financial reporting depends on its independence. This is because independent directors have no personal or financial stake in the company, which could stifle their ability to question management (Maiyebo, Okpanachi, Nyor, Yahaya & Mohammed, 2018).	ratio of Executive Directors against audit committee.
Audit Committee Size (ACSZE)	The size of the audit committee (ACSZE) is the total number of members designated by the governing bodies. his number of individuals is deciphered as a proportion of the gathering's monetary assets. At the point when a huge review board part is available, it is more likely that potential monetary revealing undertaking issues will be uncovered and settled (Mohammed–Nor, Shafie & Wan-Hussin, 2010).	Number of personnel in audit committee.
Firm Size (FSZE)	he amount and assortment of assembling capacities and likely moved by a firm, or the amount and variety of administrations a firm can simultaneously make open to its clients, is referred to as firm size (FSZE) (Shaheen & Malik, 2012)	Log of Total Assets
Leverage (LEV)	Leverage (LEV) refers to the use debt to operate firms (Kapil, 2011).	Total Debt / Total Assets

Source: Authors computation (2022)

Table 2: Descriptive Statistics Result

	ROA	BCOMP	GD	ACIND	ACSZE	FSZE	LEV
Mean	2.6858	0.6039	0.2912	2.9500	5.9200	7.0276	0.6668
Std. Dev.	4.8696	0.1214	0.1841	0.2190	0.3075	1.4477	0.3600

Source: Authors computation (2022)

The standard deviation measures a dispersion's outright fluctuation. The higher the scattering or fluctuation, the higher the standard deviation and the more noteworthy the extent of the worth's deviation from its mean; a low standard deviation shows that information are excessively near the mean, while an elevated requirement deviation demonstrates that information are spread over a large number of values. ROA, BCOMP, GD, ACIND, ACSZE, FSZE, and LEV have spreads of 4.8696, 0.1214, 0.1841, 0.2190, 0.3075, 1.4477, and 0.3600, respectively. Risk and uncertainty can also be measured using standard deviation.

Table 3 shows the results of a correlation analysis between the variables in order to assess the relationship between corporate governance specific attributes and deposit money bank financial performance in Nigeria. The relationship between ROA, BCOMP, GD, ACIND, ACSZE, FSZE, and LEV is shown in the table. Return on asset (ROA) is positively connected with Board composition (BCOMP) and Gender Diversity (GD), but negatively correlated with Audit committee independence (ACIND), Audit committee size (ACSZE), Firm Size (FSZE), and Leverage (LEVERAGE) (LEV). ACIND and ACSZE are positively connected with BCOMP, however GD, FSZE, and LEV are adversely correlated. ACIND and ACSZE are positively connected with GD, however FSZE and LEV are adversely correlated. ACIND has a favorable relationship with ACSZE but a negative relationship with FSZE and LEV. ACSZE has a negative relationship with FSZE and LEV. LEV and FSZE have a good relationship.

Table 3: Correlation Matrix

	ROA	BCOMP	GD	ACIND	ACSZE	FSZE	LEV
ROA	1.000000						
BCOMP	0.365647	1.000000					
GD	0.361040	-1.60E-06	1.000000				
ACIND	-0.123503	0.058553	0.040943	1.000000			
ACSZE	-0.068404	0.078726	0.038620	0.839853	1.000000		
FSZE	-0.379252	-0.223578	-0.022643	-0.028862	-0.033425	1.000000	
LEV	-0.536535	-0.752478	-0.110589	-0.008183	-0.060115	0.320859	1.000000

Source: Authors computation (2022)

Table 4: Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.998079	6	0.0884

Source: Aurthors computation (2022)

The Hausman test is used to determine whether the random effect is uncorrelated with the explanatory variables by comparing it to the fixed effect result. The level of significance used for this study is 5%. The p-value of the hausman test in table 4 indicates that the random effect specification is appropriate.

Table 5: Random Effect Regression Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	15.13696	8.074955	1.874557	0.0640
BCOMP	3.101902	4.731211	0.655625	0.5137
GD	6.748251	2.193071	3.077078	0.0027
ACIND	-2.677846	2.842471	- 0.942084	0.3486
ACSZE	-0.081940	2.029066	- 0.040383	0.9679
FSZE	-0.631914	0.372225	- 1.697667	0.0929
LEV	-5.194955	1.722029	- 3.016764	0.0033
R-squared	0.300917			
F-statistic	6.671888***			
Durbin-Watson	1.689327			

Source: Authors computation (2022)

The coefficient in table 5;the constant (α) of 15.13696 which means field all the variables (BCOMP, GD, ACIND, ACSZE, FSZE and LEV) constant, ROA will change at 15.13696. From the equation, β_1 co-efficient is 3.101902 reveals a positive relationship exist. β_2 coefficient is 6.748251 which reveals positive relationship exist. β_3 coefficient is -2.667846 reveals negative relationship exist. β_4 coefficient is -0.081940 reveals a negative relationship exist. β_5 co-efficient is -0.631914, it reveals that a negative relationship exist. β_6 co-efficient is -5.194955 which also reveals that a negative relationship exist.

The f-statistic indicate that all the independent variables are jointly significant on the dependent variables since the f-prob is less than the level of significance.

The R-squared examined the goodness of fit R-squared for the regression is 0.300917, which explain 30.09% of variation that affects financial performance.

The autocorrelation is tested using the Durbin-Watson test. It examines the upper and lower limits from the observation. As a result, the Durbin-Watson coefficient is 1.689327, which is higher than the lower and upper value using 5% significance. The lower and upper bounds are 1.528 and 1.826, respectively. Because it lies between the upper and lower values of the DW table, this shows that auto-correlation exists in the variables utilized in the study.

Conclusion

it was found that board composition (BCOMP) has a positive and immaterial effect with financial performance of DMB in Nigeria. This means that banks with smaller number of non-executive directors perform better but irrelevant. This result contradicts the findings of Adigwe, Nwanna & John (2016) which revealed a negative effect on banks' performance.

Gender diversity (GD) is positively and significantly related with the financial performance of DMB in Nigeria which contradicts the a-priori expectation of this research as well as the findings from the works of Gwaison & Maimako (2021).

Also, audit committee independence (ACIND) has a negative but insignificant relationship with financial performance of DMB in Nigeria. This suggests that when the composition of independent non-executive directors in the audit committee is increased by one member, financial performance of the deposit money banks reduces which is contrary to the findings of Zubair (2015).

Audit committee size (ACSZE) has a negative but insignificant impact on financial performance of deposit money banks in Nigeria. This finding, however, confront with the findings of Gwaison & Maimako (2021).

Recommendation

The following recommendations were drawn from the study; banks should increase the number of non-executive directors because it is observed here that there is positive relationship with the number of non-executive directors. It is advised to include competent female professionals as members of the board of directors to improve the financial performance of the firm since professional female members tend to make more consistent, fair decisions which could be a large advantage to the company. The size of Audit committee should be reduced because of negative relationship that exist between the audit committee size and the financial performance. The reason behind this is that audit committee increases the cost of the company, as it requires members who are senior persons and these are highly paid employees. While reducing the size of the audit committee, banks should also reduce the number of independent non-executive directors in the audit committee and consider the provisions of the Nigerian code of corporate governance in audit committee composition.

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