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EVALUATION OF THE EFFECT OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF BANKING SECTOR IN NIGERIA.

[1]Abubakar Audu Usman; [2]John Thankgod U. & [3]Yahaya Alhassan

[1]Based Account and Budget Officer,
Nigeria Navy Secondary School, Okura.

[2,3]Department of Business,
Nigeria Navy Secondary School, Okura, Nigeria.

Abstracts

The research study considered the effect of corporate governance on performance of banking sector in Nigeria. The increased incidence of bank failure in the recent period generated the current literature on qualityof bank assets and also emphasized good governance as means of achieving banks objectives. This study made use of secondary data obtained from the financial reports of nine (7) banks for a period of ten (10) years (2008-2017). Data were analyzed using multiple regression analysis. The study supported the hypothesis that corporate governance positively affects performance of banks. In conclusionthe study found that a strong relationship exist between the Corporate Governance practices under study and the banks' financial performance. Board size was found to negatively affect the financial performance of banks. There was a positive relationship between board composition and banks financial performance. However, the most critical aspect of board composition was the experience, skills and expertise of the board members as opposed to whether they were executive or non-executive directors. Similarly, CEO Duality was found to positively affect financial performance of banks. On CEO duality, the study found that separation of the role of CEO and Chair positively influenced the financial performance of listed banks in Nigeria.

INTRODUCTION

The consequences of ineffective governance systems leading to corporate failure will not only affect the shareholders but also, the employees, suppliers, consumers and the nation as a whole. Thus, a governance system that will promote ethical value, professionalism and transparent application of best practices is desirable. Corporate governance involves a system by which governing institutions and all other organizations relate to their communities and stakeholders to improve their quality of life. (Ato, 2002). It is therefore important that good corporate governance ensures transparency, accountability and fairness in reporting. In this regard, corporate governance is not only concerned with corporate efficiency, it relates to a much wider range of company strategies

and life cycle development. (Mayer, 2007). It is also concerned with the ways parties (stake holders) interested in the wellbeing of firms ensure that managers and other insiders adopt mechanism to safeguard the interest of the shareholders. (Ahmadu and Tukur, 2005). Corporate governance is based on the level of corporate responsibility a company exhibits with regard to accountability, transparency and ethical values. The management has multiple objective functions to optimize which might conflict with those of the shareholders. In the search for a set of socially legitimate objective functions that would resolve these conflicts, management may focus on short term outcomes and loses sight of ethical issues such as efficient corporate management, professionalism, transparency, accountability, compliance with regulatory requirements and adequate supervision. Inadequate consideration for ethical values and good governance hinders banks' performance as experienced in the failures of Lead Bank Plc, , Trade Bank Plc, Metropolitan Bank Limited, City Express Bank Limited, Hallmark Bank Plc, African Express Bank Plc. Assurance Bank Nigeria Limited and so many more. Whose licenses were revoked by the Central Bank of Nigeria (CBN) in 2006 and recently failures of Oceanic Bank Ltd, Intercontinental Bank Plc, Bank PHB in 2011 also took place.. This view was supported by Gompers (2003), Klapper and Love (2004). The banking distress of the last decades has posed many challenges to corporate governance in banking industry. Bank distress can be associated to lack or avoidance of code of ethics and professionalism. Odozi (2007) expound this posting that, "Ethics, like, corporate governance, transparency and accountability, etc, is a cliché that has been abused and misused". The failure of banks in Nigeria, as elsewhere, has been largely due, not merely to inadequate corporate governance or leadership, but to a failure of professional ethics as manifested in numerous instances of creative accounting practices, professionals insensitive internal control and risk management position being seriously compromised or even colluding with fraudster. Financial scandals around the world and the recent collapse of major corporate institution in the USA has brought to the fore, once again the need for the practice of good corporate governance, which is a system of managing the affairs of corporations with a view to increasing shareholders' value and meeting the expectations of other stake - holders. Universally, there is a grounds well of interest in corporate governance. Particularly, the need to implement good corporate governance in the banking sector becomes more apparent after the Asian financial crisis. This has been largely event- driven in the sense that it is in response to scandals and unexpected crisis, which in some cases abruptly terminated the existence of large corporate entities. The failure of Johnson Matheys Bank, Bank of Credit and Commerce International, Polly Peck, world com and Enron Incorporation are cases in point. The failure of these institutions has been traced to several lapses associated with poor corporate governance including conflicts of interest of corporate governors. Corporate governance has in recent time's assumed heightened importance requiring that boards and management of companies' exhibit greater transparency and accountability in their business conduct. The just concluded consolidation of the Nigeria banking industry makes the institution of

corporate governance a sine qua non in the industry. With twenty- five, now twenty- four as at today banks that emerged from the ashes of the erstwhile eighty- nine banks being publicly quoted, corporate governance should in fact take the centre stage in the management of these banks. Hence, effective corporate governance requires a clear understanding of the respective role of the board and of senior management and their relationships with others in the corporate structure. The relationships of the board of management with stockholder should be characterized by candour; their relationships with employees should be characterized by fairness; their relationships with the communities in which they operate should be characterized by good citizenship, and their relationships with government should be characterized by commitment to compliance and good corporate citizenship. Anya (2003).

Statement of the Problem

The subject of corporate governance is not well emphasized in most organization, Kihumba, (2000) this has attracted worldwide attention because of its apparent importance for strategic health of organizations and society in general. Corporate governance should be enriched by expanding the framework of analysis beyond the conventional criteria to incorporate the norms and values, such considerations can improve our understanding of boardroom dynamics and the characteristics of the decision management and decision control, (Wainaina, 2003). Locally, there are a few studies in corporate governance though none has focused on commercial Banks. For instance, Jebet (2001) focuses on the listed companies; Macuvi, (2002) focuses on the motor vehicle industry while Mwangi, (2002) focuses on insurance companies. From the published annual financial reports, commercial banks in Nigeria recorded unpleasant performance in the early 2000 but there has been significant improvement since 2007 and this study is therefore, is designed to establish the effect if any of corporate governance on financial performance of Commercial Banks in Nigeria. Many other researchers have examined the relationship between variety of governance mechanisms and firm performance. However, the results are mixed. Some examine only the impact of one governance mechanism on performance, while others investigate the influence of several mechanisms together on performance. A number of studies have also been carried out in the area of corporate governance and financial performance in state corporations, in cooperative societies, in companies listed in the Nairobi Stock Exchange in Nigeria, examples; Njoka, (2010); Linyiru, (2006); Maina, (2006); Awino, (2011); Muriiti, (2011) and Ooko, (2011). There is a yawning gap that exists since none of them covers effects of ownership structure on corporate governance and performance specifically in the commercial banking sector in Kenya. The only study done in Nigeria by the Centre for Corporate

Governance focused on governance practices in the commercial banking sector in Nigeria More so, the many unpublished work done in Kenya followed suit by focusing corporate governance in general with only one study among them focusing on the relationship between implementation level of Capital Markets Authority guidelines on

corporate governance and profitability of companies listed atthe Nairobi Stock Exchange (NSE). It was against this background that the researcher found it necessary to carry out a study on ownership structure and corporate governance and its effects on performance in the Nigeria commercial Banking sector to bridge the gap that existed.

Objectives of the Study

The main objective of this study is to examine the relationship between corporate governance and financial performance of banking sector in Nigeria. Moreover, the following are the specific objectives of this study:

i. To identify the dimensions that represent the corporate governance and banking performance.
ii. To identify the relationship between corporate governance and banking performance
iii. To identify the impact of corporate governance on banking performance

Statement of hypothesis

Based on the objective above, the following null hypotheses were formulated for testing;

H_{01}: There is no significant effect between Board size and Return on Equity of the banks

H_{o2}: There is no significant effect of Chief executive officer (CEO) on Return on Equity of the banks

H_{o3}: Board composition has no significant effect on Return on Equity of the banks

Significance of the Study

This study will be of immense significance to the following categories of people:Policy makers in the banking industry will benefit immensely from the study as it will redirects and refocuses their attention to the significance of corporate governance in the financial service industry. Government at all levels (federal, state and local government) will find this work very interesting as it reveals the extent of corporate governance code in Nigeria in relation to banking business. Corporate governance code was designed to ensure that banks operating within the shores of Nigeria have at the back of their mind, the interest of fund providers as well as militating against the agency problem. Shareholders and all other stakeholders in the industry will be willing to commit their hard earnings into a conducive environment where it is safe and promises desirable return. Hence, this study will reposition the confidence of all the parties in the banking industry against their investment. By extension, the potential investors will in no small way benefit as well. Finally, scholars, researchers and students will find the work useful as it adds to existing literature.

Scope of the Study

This study examines effects of corporate governance on financial performance of banking sector in Nigeria. It is therefore restricted to three independent variables proxies by Board size, board composition and **Chief Executive Officer (CEO) duality,** while the financial performance (proxy by return on assets). The study covers the period of ten years (2008-2017).

LITERATURE REVIEW

Concept of Corporate Governance

Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. Adams & Mehran, (2003) define corporate governance as "the mechanism through which stakeholders (shareholders, creditors, employees, clients, suppliers, the government and the society, in general) monitor the management and insiders to safeguard their own interests." Morin and Jarrel (2001) define it as follows: "It is a framework through which monitors and safeguards the concerned actors in the market (managers, staff, clients, shareholders, suppliers and the board of administration." It is management through which the company is guided and monitored for the purpose of striking a balance between its interests, on the one hand, and the interests of other related parties such as investors, lenders, suppliers and clients in addition to the environment and society." In the banking industry, corporate governance involves the way banking institutions' business and affairs are managed by the board of administration and the top management, which affects how the bank works out the bank's objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and interests of recognized stakeholders (shareholders and depositors), companies' commitment to sound and safe professional behaviors and practices whichare in conformity with regulations and legislations, (Linyiru, 2006). Corporate governance is a multi-faceted subject. An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of guidelines and mechanisms to ensure good behavior and protect shareholders. Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders welfare. There are yet other sides to the corporate governance subject, such as the stake holder's view, which calls for more attention and accountability to players other than the shareholders e.g. the employees or the environment, (Awino, 2011). Recently there has been considerable

interest in the corporate governance practices of modern corporations, particularly since the high-profile collapses of large U.S. firms such as Enron Corporation and WorldCom (Nambiro, 2007).

Concept of Financial Performance

The word 'Performance is derived from the word 'parfourmen', which means 'to do', 'to carry out' or 'to render'. It refers the act of performing; execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar "The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance. Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Performance may be defined as the reflection of the way in which the resources of a company (bank) are used in the form which enables it to achieve its objectives. According to Heremans, (2007), financial performance is the employment of financial indicators to measure the extent of objective achievement, contribution to making available financial resources and support of the bank with investment opportunities. Rutagi, (1997) defines financial performance as to how well an organization is performing. Other researchers define performance of the organization as the extent to which an organization achieves its intended outcome Namisi, (2002).The general assumption among both researchers and practitionersis that effective boards lead to effective organization. From either an internal long-term profitability or external shareholder perspective, there is an indication that good boards may be able to add value to the organization, Epstein et al., (2003).

Determinants of Financial Performance in Commercial Banks

These are factors which play a role in shaping the financial status of a company. Most studies divide the determinants of commercial banks' financial performance into two categories, namely internal and external factors. Internal determinants of profitability, which are within the control of bank management, can be broadly classified into two categories, i.e. financial statement variables and nonfinancial statement variables, (Linyiru, 2006). While financial statement variables relate to the decisions which directly involve items in the balance sheet and income statement; non-financial statement variables involve

factors that have no direct relation to the financial statements. The examples of non-financial variables within the this category are number of branches, status of the branch (e.g. limited or full-service branch, unit branch or multiple branches), location and size of the bank, Sudin (2004). External factors are those factors that are considered to be beyond the control of the management of a bank. Among the widely discussed external variables are competition, regulation, concentration, market share, ownership,scarcity of capital, money supply, inflation and size. Sudin (2004). The government owned bank for instance, suffers incessant/frequent changes in board membership and many appointments were made based on political affiliation rather than expertise consideration. Consequent upon this, board members saw themselves as representative, of political parties in sharing the national cake emanating thereof and thus, ascribed their loyalty to the party members rather than the proper running of the bank itself. On the side of the privately-owned banks, shareholders constituted a problem. As a result of the insiders abuse of recruiting inexperienced and incompetent personnel to hold key positions in the bank, deterioration of management culture and weak internal control system instigated by the squabbles among the high rank management decision making team, and non- compliance with laws and prudential standards, mismanagement seemed to play a major role in bank failure in Nigeria Bank losses increased and Management resorted to hiding the losses in order to buy time and remain in control, (Ogumu, 2006). The banking industry being the nerve centre of the economy is invariably affected by economic and political environment/condition of the country. For instance the Structural Adjustment Programme (SAP) introduced in 1986 led to a wide range of economic reforms that affected the banking system.

Also political situation like the political crisis like the disputed election in 2008, led to massive withdrawal of funds that affected banks (especially) those around affected regions, (CBK, 2008). The regulatory and supervisory measures of the CBK are unable to keep pace with the rapid changes in the banking industry. The CBK brief (2007) noted that the ability of the CBK to perform its regulatory role had in the past been affected by political leadership and corruption in the former regime. Ogumu, (2006) in discussing the challenges of bank liquidation and deposit payoff, noted that closing a bank is a specialized job requiring services of technically skilled people in banking, accounting, legal, quantity surveying, estate management, information management and technology as well as facility support and also noted that political instability constituted a problem to its supervisory function.

Relationship between Corporate Governance and financial performance

Two broadly defined theories co- exist in the corporate governance literature. One stresses the discipline of the market, claiming that threat of hostile takeovers and leveraged buyouts in firms was sufficient to ensure full efficiency. Where managers neglect to invest in those projects that add value to the firm and its shareholders but divert recourses to their own benefit, the financial markets act to restore good governance. A number of mechanisms have been suggested, such as removing senior managers in poorly performing

firms, (George, 2011); demanding cash flow payments in the form of debt service; and linking executive compensation to performance, including equity and options Jensen, (1986). Matama, (2005) in the study of Corporate Governance and financial performance on selected commercial banks, obtained a positive relationship between Corporate Governance and financial performance. Masibo, (2005) researched on Board Governance and firm performance of selected state owned corporations and in listed organizations on Uganda Securities Exchange, obtained a positive direct and indirect link between Board Governance and Firm financial Performance through Board Effectiveness. Piesses, (2005), carried out empirical research on Corporate Governance and firm performance in an international perspective and obtained conflicting results on the link between Corporate Governance and Firm performance.

Codes of Corporate

Governance Codes of good governance are a set of best practices recommendations issued to address deficiencies in a country's governance systems by recommending a set of norms aimed at improving transparency and accountability among top managers and directors. (Hamid, 2009). In most legal systems, codes of good governance have no specific legal basis, and are not legally binding (Wymeersch, 2006). Thus, enforcement is generally left to the board of directors and external market forces. It is only in a few countries (e.g. Nigeria- in the case of the corporate governance for banks, Germany and the Netherlands in Europe) that the law attaches explicit legal consequences to the codes. Even if, compliance with code recommendations is traditionally voluntary (i.e. based on the "complyor explain" rule), empirical evidence shows that publicly quoted companies tend to comply with the codes more than non-quoted firms (Comyon, Mallin 1997; and Gregory, Simmelkjaer, 2002). Consequently, Fernandez- Rodriquez et al. (2004)" study suggests that the market reacts positively to announcements of compliance with the codes.

The content of codes has been strongly influenced by corporate governance studies and practices.

This is because, they touch fundamental governance issues such as fairness to all shareholders, accountability by directors and managers, transparency in financial and non-financial reporting, the composition and structure of boards, the responsibility for stakeholders‟ interests, and compliance with the law (Gregory, Simmelkjaer, 2002). Since, the core of codes of good governance lies in the recommendations on the board of directors. However, following the dominant agency theory (Fama, Jensen, 1983) governance codes encourage the board of directors to play an active and independent role in controlling the behavior of top management. In particular, scholars and practitioners (Lorsch, Maclver, 1989; Demb, Neubauer, 1992; Charan 1998; and Conger, Lawler III,Finegold, 2001) recommend for increasing number of non-executive and independent directors; the splitting of Chairman and CEO roles; the creation of board committees (audit, credit and risk management, financial and general committees) made up of non-executive

independent directors; and the development an evolution procedure for the board. The introduction of these practices is considered necessary factors in order to avoid governance problems, and to increase board and firm performance. In the next section, effort is made to explain the state of corporate governance in the Nigerian banking industry with a view to highlighting the efforts made by the regulatory authorities to ensure that best practice prevails in the industry.

Board size and financial performance

Board size restriction to a particular level is generally believed to improve the performance of a bank because the benefits by larger boards which lead to increased monitoring are outweighed by the poorer communication and decision making of larger groups. Empirical studies on board size seem to provide the same conclusion; a fairly clear negative relationship appears to exist between board size and bank value. Too big a board is likely to be less effective in substance discussion of major issues among directors in their supervision of management. It is on this premise Olayinka (2010) argue that large boards are less effective and are easier for the CEO to control. When board get too big, it becomes difficult to coordinate and for it to process and tackle strategic problems in the organization. Yermack (1996) using data from Ireland also find a negative correlation between board size and profitability as a financial performance measure. Eisenberg, Sundren and Wells (1998) also reported that small size boards are positively related to high firm performance. Mak and Kusnadi (2003) using sample of firms from Malaysia and Singapore, find that firm valuation is highest when board has five (5) directors, a number considered relatively small in those markets. In Nigeria, a study by Sanda (2008) asserted that firm performance is positively correlated with small board size as opposed to firms with large boards. Ajola studied the effect of corporate governance on the performance of Nigerian banking sector using the Pearson Correlation and Regression to analyze the relationship between corporate governance variables and banks' performance and found that a negative but significant relationship exist between board size and the financial performance of the selected banks covering a period of five years. Bawa and Lubabah examined corporate governance and financial performance of banks on twelve banks in Nigeria covering a period of five years (2006-2010) and found negative relationship between board size and profitability of banks. However, the study carried out by Akpan and Rima on eleven (11) selected banks in Nigeria using linear regression analysis arrived at a conclusion which also tallies with the finding of Asuagwu], that smaller board size positively and significantly enhance performance and Yoshikawa and Phan added that larger board size increases agency cost. Mansi and Reeb argued that larger board is better than smaller board size in that larger board size have the ability to push the managers to track lower cost of debt because creditors believe that such firms are more effective monitors of accounting process. This position is in consonance with the findings of Adeusi who also examined the effect of board size on the performance of ten selected banks for a period of six years (2005-2010) using econometric model of linear regression and found that increasing

number of board size increases the performance of banks. The findings of Prakash and Martin (ND) on a study of corporate governance and efficiency in Nepalese commercial banks revealed that bigger board size lead to efficiency in commercial banks.

Board composition and financial performance

Weisbach, Hermalin and Weisbach, posited that the proposition of board composition is to help reduce agency problem. From this position, a positive relationship is expected between firm performance and the proportion of outside directors sitting on the board. Conflicting empirical evidence has evolved with respect to board composition in the recent past. There exist mixed results from empirical studies on the effects of board composition and performance. Kajola examined corporate governance and firm performance on some Nigerian listed banks between 2000 and 2006 and found no significant relationship between board composition and firm performance. This outcome has also, the support of who further added that the performance of banks tends to be worse when there are more external board members.

However, the findings of Prakash and Martin on twenty-nine (29) Nepalese banks for a period of six (6) via the use of regression analysis, shows that outside directors have positive and significant effect on the bank performance. This is also the position taken by Bawa and Lubabah and Ezzamel and Watson. The code of corporate governance emphasizes board composition that has qualitative, qualified, experienced members and people of proven integrity. Benerd.Argued that the board of directors' ability to monitor and advise a firm depends on their influence, competence and experience. This will reduce fraud and increase performance. Enhanced director independence is basically appealing because a director closely related in any form to the CEO would find it more difficult to out rightly reject an abnormal pay package, challenge the rationale behind a propose and unfruitful takeover, merger plan or being unnecessarily afraid for effective monitoring. Empirical studies on the effect of board membership and structure on firm performance generally shows either mixed or opposite result. Some studies find better performances for firms with boards of directors dominated by outsiders (Weisbach 1998, and Olayinka 2010), while Forsberg (1989) finds no relationship between the proportion of outsider, directors and various performance measures. In the same vein, Ross (1973) found no correlation between the degree of board independence and four measures of firm performance using varieties of other Corporate Governance variables including ownership characteristics, firms' characteristics, board size and industry. They found that a firm that performs poorly was more likely to increase their board independency. La Porta (2000) find that firm performance is insignificantly related to a higher proportion of outsiders on the board. Thus, the relation between the proportion of outside directors and firm performance is mixed.

Chief Executive Officer (CEO) duality and financial performance

When an organization is structured in a way that the Chief Executive Officer (CEO) also serves as the Chairman of the board of directors of the same firm, then there is duality in the function of the CEO .Orwall and Gentile cited in Mansur and Bawa posited that CEO duality does not encourage effective communication between the CEO and the board. In order to enhance performance therefore, CEO duality should be discouraged in its totality. Though there is evidence that having independent Chairman still does not prevent misconduct and malpractices. Studies which examined the relationship between CEO duality and performance include Daily and Dalton, cited in Mansur and Bawa and Calligham and they found significant relationship between CEO duality and firm performance while Rhoades, Rechner and Murthy found no significant relationship in firms having executive duality and performance. Also, in the work of Yermeela, cited in Kajola evidence from 452 sampled USA public firms revealed that agency problems are higher when the same person occupies the position of CEO as well as that of the Chairman of the board. From the reviewed empirical studies on the effect of corporate governance on the performance of banks in Nigeria, scholars appear to have varying conclusions. The position of scholars that posited that larger board size influences performance makes logical sense. This is because when more individuals are brought into the board, it increases the managerial ability of the bank as divergent views that will lead to proper positioning of bank are brought to bear thereby contributing meaningfully to the organization. This study also takes side with scholars' position on increased non-executive members on the board but the level of competence and experience of these non-executives is also of utmost important.The significant positive relationship between audit committee and performance is also logical as that will protect the interest of the owner since manipulations will be difficult without collusion. Also CEO duality appears the best way for managing the activities of an organization because decision taken by one person can be challenged by another person thereby propelling the organization towards better performance.

EMPIRICAL REVIEWS

Similarly, Kajola, (2008) in his research on corporate governance and firm performance: the case study of Nigerian listed firms examined the relationship between four corporate governance mechanisms which included BS,BC, CEO status and Audit Committee (AC) to firm performances. Measure ROE and Profit Margin (PM) were used to assess performance of the firm. A sample of 20 Nigerian listed firms from 2000 to 2006 was selected, while panel methodology and Ordinary Least Square method of estimation were used. The results provided evidence of positive significant relationship between ROE and BS as wellas Chief Executive Staff. However, the study could not provide a significant relationship between the two performance measures and BC and AC. The data used for the study were derived from audited financial statements of firms listed on the Nigerian stock exchange (NSE). A total of 20 non-financial firms were selected using the combination of non-probability sampling and stratified random sampling techniques.

Samiu and Temitope, (2005), in their study – Audit Quality (AQ), Corporate Governance and firm characteristics in Nigeria used the population of the study to compose the companies listed on the floor of the Nigerian Stock Exchange. Samples of 58 audited financial reports of quoted companies for the period of2007 were used. The data collected were analyzed using both descriptive and inferential statistics, of which descriptive method described information relating to AC and CEO duality. The study used frequency count, mean, standard deviation, minimum and maximum values variables, while information relating to the composition of outside director, members of the boards, audit committee composition was collected from the companies' annual reports. Results from the study conclude that non-executive directors, ownership, size and leverage significantly have relationship with audit quality.

Tanko and Kolawole (2010), in their study"Corporate Governance and firms performance in Nigeria, used Secondary data based on financial statements of companies from chosen samples, which were randomly selected from companies registered in the stock exchange list. ROE, Net Profit Margin (NPM), Sales Growth (SG), Dividend Yield (DY) and Stock Prices as key variables were used to define the performance of the firm. On the other hand, Corporate Governance was measured based on board independence, board size, and audit independence, ownership of the company and progressive practices of the company. The study found that averages of 30 percent of board members are outsiders which suggest that these boards are relatively not independent. They therefore show weak relationship in that direction.

THEORETICAL REVIEW

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. First, the theory is a conceptually simple one that reduces the corporation to two participants' managers and shareholders. Second, 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, & Donaldson, 1997, p. 24). In her assessment and review of agency theory, Abubarka (2011) outlines two streams of agency theory that have developed overtime: 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 behavior (Abubarka,

2011). 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.

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 maximize value because, a manager's need of achievement and success is met when the firm is doing well (Coleman & Nicholas, 2006). This theory addresses the issue of trust which the agency theory refers with respect for authority and inclination to ethical behaviour. A fallout of this theory is that, it attacks the areas of 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. Under leadership, this theory is contrary to that of the agency theory. Stewardship theory supports the idea that Chief Executive Officer and board chair should be the same individual 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.

Stakeholder's Theory

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 & Nicholas, 2006) 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 organization. One of the original advocates of stakeholder theory, (Freeman, 1984), identified the emergence of stakeholder groups as important elements to the organization requiring consideration. This theory focuses on the issues of stakeholders in an institution. Under stakeholder theory, it is believed that managers have a multiplicity of objective functions to optimize, something that Jensen sees as an important weakness of the stakeholder theory "because it violates the proposition that a single-valued objective is a prerequisite for purposeful or rational behavior by any organization"(Jensen & Meckling, 1976, p. 305).

METHODOLOGY

The target population for this study consists of 15 commercial banks in Nigeria representing both old and new generation banks. The sample study consisted of 7 banks selected based on accessibility to data. The time frame considered for this study is 2008 to 2017. This 10 years period is long enough for banks to have reviewed and implemented the recommendations by the CBN post consolidation code. This study used secondary data

derived from the audited financial statements of the sample banks in Nigeria between the ten years period from 2008 to 2017. The proxies that were used for corporate governance are: **Board size, Board composition, Chief Executive Officer (CEO).** Proxy for the financial performance of the banks is Return on Assets (ROA). Ordinary Least Square (OLS) was used to measure the effect of the predictors on the dependent variable. The analysis was done with the use of Stata statistical software.

Mode Specification

The analytical model considered in this study took elements of corporate governance (Board size, Board composition and **Chief Executive Officer (CEO) duality**) as predictor variables and earnings proxied by return on assets as criterion variable. The study specified model, on attempt to ascertain the influence of corporate governance and financial performance in banking sector in Nigeria as follows:

ROA =f (BOS, BOC, CEOD,)....................................... (i)

$PAT= \beta 0+ \beta_1 BOS + \beta_2 BOC + \beta_3 CEOD + \Sigma$.................. (ii)

Where:

ROE= Return on Equity

β_0 = Intercept

$\beta_1 - \beta_3$ = Coefficient of predictor variables

BOS = Boars size

BOC = Board composition

CEOD = Chief Executive Officer (CEO) duality

Σ =Error term/rand

Variable Measurement and Definition

Explanatory Variables	**Definition and measurement**	**Authors**
Independent		
Board Size (BSIZE)	The total number of directors available on the board each accounting year	Abidin, Kamal and Jusoff (2013)
Board composition	To ensure that there is a proper balance between public and corporate interests whilst having	T. Adokoye (2016)

	sufficient diversity in a number of aspects gender, experts etc.	
Chief Executive Officer (CEO) duality (CEOD)	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, 2010
Dependent Return on asset (ROA)	Measures the amount of profit the company generates as a percentage of the value of its total assets. A company's *return on assets (ROA)* is calculated as the ratio of its net income in a given period to the total value of its assets.	M. (2008)

FINDING AND DISCUSSIONS

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
BOS	70	14.08571	2.400138	6	19
BOD	70	9.228571	9.810038	3	88
CEOD	69	17.56522	6.8438	9	34
ROE	70	27.82857	9.67886	12	73

The section begins with the descriptive statistics of the data, the table show that the sampled deposit money during the period has an average financial performance (ROE) of 27% with standard deviation of 9.6, and minimum value of 12% and 73% as the maximum value. The standard deviation of27.8 implies that the data deviate from the mean value from both sides by 27.8%, implying that the data is dispersed from the mean because the standard deviation is lower than the mean. The table also shows that the average board size (BOS) of the sampled banks is 14 members, with standard deviation of 2.4, and the minimum and maximum BOS of 6 and 19 members respectively. The standard deviation implies that the data deviate from the mean value from both sides by 2.6%, implying that the data is dispersed from the mean. The results also show that on average 9.2% of the board composition of sample banks during the period of the study, from the mean value of 9.22 with standard deviation of 9.6. The minimum and maximum BOC are 6% and 88% respectively. This implies on average deposit money banks comply with the requirement of the CBN code of corporate governance during the period under review, because the results indicated that outside/independent board composition are more than the executive/inside board in the boards.. The table also indicates that our measure of chief executive officer duality has an average value of 17.6 with standard deviation of 6.8. While the minimum and maximum values which are dichotomous are 9 and 35 respectively the data did not follow the normal distribution assumption.

Regression Results

Source	SS	df	MS
Model	766.555025	3	255.518342
Residual	3627.35802	65	55.805508
Total	4393.91304	68	64.6163683

Number of obs	= 69
F(3, 65)	= 4.58
Prob > F	= 0.0057
R-squared	= 0.1745
Adj R-squared	= 0.1364
Root MSE	= 7.4703

ROE	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
BOS	-.3149267	.3798302	-0.83	0.410	-1.0735	.4436466
BOD	.2719778	.0926472	2.94	0.005	.0869486	.457007
CEOD	.3366283	.133791	2.52	0.014	.0694292	.6038274
_cons	23.18645	5.648533	4.10	0.000	11.90556	34.46735

The results from the above table show that, board size (BOS) has a negative effect on the financial performance of sampled deposit money banks in Nigeria, from the coefficient of -0.314 with t-value of -0.83 which is not statistically significant at all levels of significance 5% This suggests that, as board size decrease by 1 member, financial performance decrease by 42%, but the result is not statistically significant at all levels. Based on this, the study failed to reject the null hypothesis one (H01) which states that, board size has a significant effect on the financial performance of deposit money banks in Nigeria.

The study therefore infers that size of the board of banks in Nigeria has not significantly influenced financial performance during the period under review. The results from table show that, board composition (BOC) has a significant positive effect on the financial performance of sampled deposit money banks in Nigeria, from the coefficient of 0.271 with t-value of 0.005 which is statistically significant at 5% level of significance (p-value of 0.05). This suggests that, as the composition of outside/independent directors increases by 1 member, financial performance decreases by 27%. The study therefore infers that the composition of outside/independent directors in the board of banks in Nigeria has significantly influenced financial performance during the period under review.

Lastly, the above results also show that, chief executive officer duality (CEOD) has a significant positive effect on the financial performance of sampled deposit money banks in Nigeria, from the coefficient of 0.336 with t-value of 0.014 which is statistically significant at 5% level of significance (0.05). This suggests that, as board increases by a member with functional background, financial performance increases by 33%. The study therefore infers that chief executive officer duality in the Nigerian banks significantly influenced financial performance positively during the period under review. The implication of this findings are that, if banks regulators in Nigeria do not improve the attributes of the board of deposit money banks in Nigeria, there could be problem that may likely be thread to the financial performance of the banks.

CONCLUSION

In the last decade, investor confidence in corporations was shaken particularly the outbreak of corporate scandals. Throughout the 1990s, many banks overstated their company's ability to take advantage of the 'Internet Revolution', creating an over-investment problem at the expense of the interest of investors. As corporate scandals such as Enron became public, investors found that managers manipulated financial statements in order to cheat investors while enriching themselves through various avenues.This paper analyzed Deposit Money Banks performance amidst the corporate governance structure in Nigeria. It does this by determination of effective corporate governance in Deposit Money Bank, the extent of corporate governance mechanism and ascertainment of its application in Nigeria. The paper took a giant stride to examine critiques in the theoretical and literature issues.

Recommendations

It is obvious that trust has a significant impact on financial performance; given that transparency and disclosure boosts the trustworthiness of Deposit Money Banks. Deposit Money Banks should enforce full disclosure practices and transparency practices of corporate governance thereby enhancing trust in order to survive in the competitive financial landscape. Also, the existing banking ethics, rules and regulations need to be strengthened in order to develop sound, reliable and dependable banking systems as well as carrying out real banking business in Nigeria.

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