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CORPORATE GOVERNANCE AND FINANCIAL FIRM PERFORMANCE IN NIGERIA  
BANKING SECTOR

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**ABSTRACT**

*The broad objective of this study is to empirically examine the impact of corporate governance and firm performance in the Nigerian financial sector. The research design adopted for this study was the ex-post facto research design. This research design helps us to examine the possible cause and effect relationship between variables that exist. The data used in the study was randomly selected fifteen (15) financial firms quoted on the Nigerian Stock Exchange from 2005-2014. This research work employed multiple regression. Specifically, the ordinary least square (OLS) regression technique was used to estimate the coefficients in the model specified.*

*The study reveals that board size has a positive and non-significant relationship with firm performance Nigeria banking sector; there exist a positive and significant relationship between director's ownership and firm performance in Nigeria banking sector; there exist a negative and insignificant relationship between audit committee independence and firm performance in Nigeria banking sector. Also the study revealed that board independence has a positive and significant relationship with firm performance in Nigeria banking sector. We therefore recommend that proponents of board independence should note with caution the positive relationship between board independence and firm performance. Hence, if the purpose of board independence is to improve performance, then such efforts might have merit.*

*Keyword: Corporate Governance, Firm Performance, ROE*

**INTRODUCTION**

Corporate governance has become the one of the main subject of discussion in academic as a result of the crisis in 1990s and early 2000. There has been much research work

on the broad topic of corporate governance in the last decade. Corporate governance received much attention again due to the recent global financial crisis that was often linked to prior weak governance in the financial institutions and corporations (Kowalewski, 2012). According to Claessens and Yurtoglu (2012), the systematic consequences, of those failures resulted in reorganization of the potential macroeconomic, distributional and long-term consequences of weak corporate governance systems by policymakers and corporate world.

Several events are responsible for the heightened interest in corporate governance in both developed and developing countries. The subject of corporate governance leads to global business limelight from relative obscurity after a string of collapses of high profile companies. Enron, the Houston, Texas based energy giant and WorldCom, the telecom behemoth, shocked the business world with the scale and age of their unethical and illegal operations. These organizations seemed to indicate only the tip of a dangerous iceberg. While corporate practices in the US companies came under attack, it appeared that the problem was far more widespread. Large and trusted companies such as Parmalat newspaper group Hollinger Inc., Adeptia Communications Company, Global Crossing Limited and Tyco International Limited, revealed significant and deep-rooted problems in their corporate governance. Even the prestigious New York Stock Exchange had to remove its Director (Dick Grasso) amidst public outcry over excessive compensation (La Porta, Lopez & Shleifer 1999). Also Cadbury and Afribank in Nigeria suffer from the problem of corporate governance.

In Nigeria, the issue of corporate governance has been given the front burner status by all sectors of the economy. For instance, the Securities and Exchange Commission (SEC) set up the Peterside Committee on corporate governance in public companies in 2003. The Bankers' Committee also set up a sub-committee 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). Corporate governance refers to the processes and structures by which the business and affairs of institutions are directed and managed, in order to improve long term share holders' value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders (Jenkinson & Mayer, 1992).

Given the fury of activities that have affected the efforts of banks to comply with the various consolidation policies and the antecedents of some operators in the system, there are concerns on the need to strengthen corporate governance in banks. The latter, will boost public confidence and ensure efficient and effective functioning of the banking system (Soludo, 2004a). According to Heidi and Marleen (2003), banking supervision cannot function well if sound corporate governance is not in place. Consequently, banking supervisors have strong interest in ensuring that there is effective corporate governance at every banking organization. As opined by Mayes, Halme and Aarno (2001), changes in bank ownership during the 1990s and early 2000s substantially altered governance of the world's banking organization. These changes in the corporate governance of banks raised very important policy research questions. The problem of corporate governance still remains un-solved among Nigerian consolidated

Banks, thereby increasing the level of fraud (Akpan, 2007). The National Deposit Insurance Commission Report (2011) shows a total of 2,352 cases of attempted fraud and forgery involving N28.40 billion with expected contingent loss of about N4.071 billion. Soludo (2004b) also opined that a good corporate governance practice in the banking industry is imperative, if the industry is to effectively play a key role in the overall development of Nigeria. The causes of the recent global financial crises have been traced to global imbalances in trade and financial sector as well as wealth and income inequalities (Goddard, 2008). In this regard, sub-optimal or outright failure of governance systems can therefore be argued to be a major contributor to the collapse of many of the well-celebrated organizations that have littered the world's corporate landscape. This failure, which translates into an inability of organizations to meet the expectations of their various stakeholders, has often been traced to weaknesses in the internal control infrastructures and operating environments, and a lack of commitment to high ethical standards.

Sanda, Mukailu and Garba (2005) looked at companies in the Nigerian Stock Exchange and concluded that the post of the CEO and the chairman should be separated, and firm should maintain a board size of ten. Unlike these prior studies, this study is not restricted to the framework of the Organization for Economic Cooperation and Development (OECD) principles, which is based primarily on shareholder sovereignty but rather on the code of corporate governance mechanism in Nigeria. To the best of the researcher's knowledge, only few studies were found in the context of Nigerian banks in this area. Due to the neglect of banking sector by other studies and with radical changes in Nigerian, banking sector in the last few years. This study aims to fill the existing gap in corporate governance literatures. The following research questions were stated below;

1. What is the relationship between board size and financial performance?
2. What is the relationship between directors' ownership and financial performance?
3. How does audit committee independence affect the financial performance of firms in Nigeria?
4. To what extent does the proportion of board independence affect the financial performance of firms in Nigeria?

## **LITERATURE REVIEW**

### **Corporate Financial Performance**

Financial performance is affected by corporate governance practices of firms, because their success or failure is dependent on the extent to which they are managed efficiently. Good corporate governance practices enhance firm financial performance through better management and prudent allocation of firms' resources. Earnings resulting from increased performance, contributes significantly to share prices. Therefore good corporate governance practices can increase the demand for shares as well as increase the price of shares of a company (Mobius 2002) as cited in Heenetigala, (2004).

A wide variety of definitions of firm performance have been proposed in the literature (Barney 2002) cited in Heenetigala, (2004). For example, both accounting and market definitions have been used to study relationships between corporate governance, corporate

Social responsibility and firm performance (Orlitzky, Schmidt & Rynes 2003) cited in Heenetigala, (2004). Conversely, stakeholders views regard firm performance as being the total wealth generated by the firm before distribution to the various stakeholders rather than the accounting profit allocated to the shareholders (Riahi-Belkaoui 2003) cited in Heenetigala, (2004).

Corporate financial reporting is fundamental to all stakeholders (shareholders, management, government, creditors and society at large). It requires vital attention in practice considering the effect on institutional failures and abuse of power. The dynamic business environment, therefore, calls for improved recognition, measurement and transparent disclosure on firm's operation.

There are many measures of firm financial performance. Financial measures of firm performance used in empirical research on corporate governance fit into both accounting-based measures and market-based measures (Kiel & Nicholson, 2003). Most commonly used accounting based-measures are return on assets (ROA) (Kiel & Nicholson, 2003), return on equity (ROE) (Baysinger & Butler, 1985) and earnings per share. The most commonly used market-based measures are market to book value ratio and Tobin's Q (Barnhart, Marr & Rosenstein, 1994). There is criticism about accounting based measures as opposed to market-based measures. Accounting based measures can be easily manipulated by the management through changes to accounting methods or accruals and are difficult to interpret across industries. They are historical and report a more backward focus on past success (Kiel & Nicholson, 2003), and exclude risks and investment requirements, and time value of money (Rappaport, 1986). Market-based measures are based on the value of company's common stock and are often affected by factors beyond the control of the leaders of the firms. They reflect risk adjusted performance and are not adversely affected by multi-industry or multinational contexts (Daily & Dalton, 1998). They are considered forward looking and reflect current plans and strategies (Kiel & Nicholson, 2003).

#### **BOARD SIZE AND CORPORATE FINANCIAL PERFORMANCE**

The number of directors constituting the board of a company can influence its performance positively or negatively. As noted by Jensen (1993) a value-relevant of corporate boards is its size. The problem, however, remains that it is difficult to determine the optimal size of boards since a lot of factors are taken into consideration in choosing directors.

Empirical studies on board size seem to provide the same conclusion: a fairly clear negative relationship appears to exist between board size and firm value. Too big a board is likely to be less effective in substantive discussion of major issues among directors in their supervision of management.

Lipton and Lorsch (1992) argue that large boards are less effective and are easier for the CEO to control. When a board gets too big on one hand, it becomes difficult to coordinate and for it to process and tackle strategic problems of the organization. On the other hand, larger boards would offer the company the opportunity of having a pool of talents and a wide range of experts to help make better decisions and difficult for powerful CEOs to dominate. However,

Jensen (1993), and Lipton and Lorsch (1992) disagreed and later suggested that larger boards are less effective and easier for powerful CEOs to control. Eisenberg, Sundgren and Wells (1998) and Mak & Kusnadi (2005) also report that small size boards are positively related to high firm performance.

Mak and Yuanto (2003) using sample of firms in Malaysia and Singapore, find that firm valuation is highest when board has 5 directors, a number considered relatively small in those markets.

Nielsen (2006) studied the relationship between board size and performance of 500 Danish firms. Their study also supported a negative relation between the two variables. Adams and Mehran (2002) accessed the relationship between banking firms' performance (represented by Tobin's Q) and board size and found a non-negative relationship between board size and Tobin's Q. They further argued that Adams and Mehran activity and features of the bank holding company organizational form might make a larger board more desirable for these firms. They further explained that the board size is significantly related to characteristics of the sample firms' structures.

Klein (1998) argued that the CEO's need for advice will increase with the complexity of the organization. Coles, Daniel and Naveen (2008) examined the relationship between board size and performance across different type of US firms. They explored the question of applicability of ideal board size with each class of firms. It was observed that Tobin's Q increases in board size for firms that have greater advising requirement. That is, Tobin's Q is positively associated with board size in diversified firms, larger firms, and in firms with higher leverage. Haniffa and Hudaib (2006) also concluded in their study that larger board size has a greater range of expertise to monitor the actions of management effectively.

#### **DIRECTORS' OWNERSHIP AND CORPORATE FINANCIAL PERFORMANCE**

There have been enough studies of director equity ownership and financial performance to merit another meta-analysis, but inconsistent findings lead Dalton, Daily, Ellstrand & Johnson (1999) to conclude that few systematic relationships exist. In cases where a significant relationship has been found, it is often attributed to moderating circumstances such as high growth or environmental dynamism. For example, Kesner (1987) examined two hundred and fifty (250) 'Fortune 500' companies and found that the percentage of shares owned by directors was strongly related to performance in high growth industries and unrelated in more mature industries. She concluded that board involvement in strategic decision-making is relatively more important in rapid growth environments, and directors who have a large stake in the company are more vigilant in decisions that drive company performance. Studying a large sample of firms in the relatively weak governance environment that existed in South Korea before the Asian financial crisis, Joh (2003) found that less concentrated board ownership was associated with lower profitability.

Additional studies suggest the relationship between ownership and performance is not strictly linear. Gedajlovic and Shapiro (1998) examined this relationship in public companies in five countries (US, Germany, Canada, France and UK) and found that in the U.S. and Germany, greater board ownership reduced ROA until ownership reached a very high percentage (43 per

Cent in the U.S. and 70 per cent in Germany) and then had a positive relationship. In Canada, France, and the U.K. they found no relationship. Other studies of U.S. firms have concluded that firm performance increases with board ownership until ownership concentration reaches a point above 25 per cent to 40 per cent where it begins to have adverse effects on financial performance (Barnhart & Rosenstein, 1998). Thomsen and Pedersen (2000) found a similar result in a study of large European firms. These studies do not address why the interests of large shareholders would differ from other owners, only that these individuals can exert more influence if they wish to pursue non-value-maximizing behaviour. Barnhart and Rosenstein (1998) suggest the causal relationship between ownership, board composition and firm performance is not entirely clear. They argued that firm financial performance may actually drive insider representation and board ownership rather than the reverse. In other words, strong performance may allow insiders to retain large ownership stakes and control of the board of directors.

Morck, Shleifer, and Vishny (1988) examined the relationship between director's ownership structure and financial performance of firms by looking at 371 of the largest US firms for 1980. The variables utilized for director ownership were combined shareholding by all members of the board in the ranges: (0-5%), (5-25%), and (25-100%). The performance variables were Tobin's Q; profit rate by net cash flow to replacement cost of capital. OLS regression was used for the data analysis. They found that profitability significantly increased for board ownership in the 0-5% range but significantly decreased in the 5-25% range, and if the founder is present on the board of the firms.

#### **AUDIT COMMITTEE INDEPENDENCE AND CORPORATE FINANCIAL PERFORMANCE**

Audit committees are sub-committees of the board of the company. It is a very important corporate governance mechanism with the objective of enhancing the credibility and integrity of financial information produced by the company and to increase public confidence in the financial statements. Audit committee is one of the committees recommended by the Cadbury Committee to have oversight responsibility over management in the preparation of the financial statements. In order to ensure the independence of the audit committee, the committee must consist of only non-executive directors and with a membership of not less than three members. The establishment of audit committee would lead to better corporate performance.

#### **BOARD INDEPENDENCE AND CORPORATE FINANCIAL PERFORMANCE**

The mix of executive and non-executive directors constituting a firm's board is very important for its performance. The proportion of the directors would to a large extent determine the quality of decisions taken since objectivity would play a crucial role and whether the board can actually monitor and control the management. A board is seen to be more independent if it has more non-executive directors (John & Senbet, 1998). Executive directors are more familiar with the activities of the organization and therefore in a better position to monitor top management particularly if they perceived the opportunity to be promoted to

Positions occupied by incompetent executives. Similarly, non-executive directors may act as “professional referees” to ensure that competition among executive directors stimulates actions consistent with shareholders’ value maximization (Fama, 1980). Indeed, evidence from empirical studies (Byrd & Hickman, 1992; Brickley, Coles & Terry, 1994; Weisbach, 1988) strongly support to the crucial role of non-executive directors in monitoring management performance, offering invaluable advice and protecting the interest of shareholders. According to Rosenstein and Wyatt (1990), financial markets usually respond positively to the announcement of the appointment of non-executive directors by showing an appreciable level of improvement in the performance of the company’s shares. Though other studies (Hermalin and Weisbach, 1991; Bhagat & Black, 2002; Fosberg, 1989; Yermack, 1996; Klein, 1998; Agrawal & Knoeber, 1996) could not establish any significant relationship between non-executive directors and firm performance. It is generally accepted that the effective performance of the board depends on having the right proportion of executive and non-executive directors on the board (Fama & Jensen, 1983; Baysinger & Hoskins, 1990; Pearce & Zahra, 1992).

Another important mechanism of board structure is the composition of the board, which refers to executive and non-executive director representation on the board. Both agency theory and stewardship theory apply to board composition. Boards dominated by non-executive directors are largely grounded in agency theory. According to agency theory, an effective board should comprise a majority of non-executive directors, who are believed to provide superior performance due to their independence from firm management (Dalton, Daily, Ellstrand & Johnson 1998). In contrast, a majority executive director representation on the board is grounded in stewardship theory, which argues that managers are good stewards of the organization and work to attain higher profits and shareholder returns (Donaldson & Davis, 1994).

An effective board should consist of a majority of non-executive directors (Dalton et al. 1998). However, executive director’s responsibility is the day-to-day operation of the business such as finance and marketing, etc. They bring specialized expertise and a wealth of knowledge to the company (Weir & Laing 2001), they are not in a position to monitor or discipline the CEO as they are, however, subordinates (Daily & Dalton, 1993b).

## **METHODOLOGY**

The study adopted an ex-post facto research design. A random effect model of cross sectional and time series data regression analysis was used in analyzing the impact of the corporate governance on the performance of the listed banks. The population of this study is made up of all commercial banks listed on the Nigerian Stock Exchange (NSE) as at December, 2014. There are a total of fifteen commercial banks listed on the stock exchange as at 31<sup>st</sup> December 2014. This study does not intend to select a sample from the population because of the smallness of the population. Consequently, the entire listed fifteen commercial banks on the Nigerian Stock Exchange (NSE) will be used for this study from 2005 to 2014.

The data used for this study were secondary data derived from the audited financial statements of the banks listed in the Nigerian Stock Exchange (NSE) for the relevant years.

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For the purpose of empirical analysis, this study uses descriptive analysis and linear Ordinary Least Square (OLS) as the underlying statistical tests.

Unlike Coles, Daniel and Naveen (2008) that examine board characteristics only, this study examines four corporate governance mechanisms together.

The regression analysis enables the researcher to assess the relationship between one dependent variable and several independent variables.

$$ROE = \beta_0 + \beta_1 BSIZE + \beta_2 EQTY + \beta_3 ACMD + \beta_4 BI + U_{it}$$

Where,

**ROE** = Return on Equity

**BSIZE** = Board Size

**EQTY** = Directors ownership

**ACMD** = Audit Committee Independence

**BI** = Board Independence

**U<sub>it</sub>** = Error Term

**TABLE 1.0: OPERATIONALIZATION OF VARIABLE**

<b>Variables</b>	<b>CODE</b>	<b>PROXIES</b>
<b>Return on Equity</b>	<b>ROE</b>	The proportion of profit after tax to total equity
<b>Board Size</b>	<b>BSIZE</b>	Total number of board members
<b>Directors Ownership</b>	<b>EQTY</b>	The proportion of directors own shares to total number of shares
<b>Audit Committee Independence</b>	<b>ACMD</b>	The proportion of non-executive director to total number of audit committee members
<b>Proportion of Independent directors</b>	<b>BI</b>	Number of independent non-executive directors to total number of board members

*Source: Researcher's Compilation (2016)*



## DISCUSSION AND FINDINGS

TABLE 1.1: DESCRIPTIVE STATISTICS OF VARIABLES

	ROE	BSIZE	EQUITY	ACMD	BI
Mean	2.332928	13.88514	2.10E-08	0.486061	0.602227
Median	0.775138	14	1.50E-10	0.5	0.588235
Maximum	149.7221	21	2.12E-06	0.5	0.916667
Minimum	-41.654	6	7.60E-12	0.167	0.285714
Std. Dev.	14.26797	2.942819	1.80E-07	0.04964	0.096998
Skewness	8.141183	-0.28875	10.87542	-3.77191	0.100624
Kurtosis	82.78561	3.11286	125.3927	17.84014	4.102722
Jarque-Bera	40890.3	2.135143	95294	1709.023	7.748395
Probability	0	0.343842	0	0	0.020771
Sum	345.2733	2055	3.11E-06	71.937	89.12963
Sum Sq. Dev.	29925.51	1273.047	4.77E-12	0.362232	1.383077
Observations	148	148	148	148	148

Source: Author's Compilation (2016)

The descriptive statistics of the variables examined is summarized in the table above. The mean value for ROE is 2.332. This shows that the average returns for shareholders for the 10 year period from the sampled banks. This value is largely different from the median (0.77) indicating that there is a wide disparity as to ROE amongst the individual banks. This is better proved by the large standard deviation of 14.26797. ACMD has a mean value and median value of 0.48 and 0.5 respectively. These suggest that most of the banks have equal number of non-executive and executive directors' representatives on the audit committee board. Board independence as captured by BI has a mean and median value of 0.60 and 0.58 respectively. These values connote that the board has more outside directors than inside directors. Thus these boards are fairly seen to be independent.

BSIZE captures the numeric strength of the board. This variable has a mean of 13.8 and a median of 14. This provides insight that on the average, the board of sampled banks has 14 members. Since this number is greater than 10, we might infer that most banks have big boards. Finally, ROE, ACMD, BI, and EQTY all have Jarque Bera probability statistics lower than 0.05. This goes to show that all these variables can be assumed to be normally distributed and not skewed to any extremes.

**TABLE 1.2. REGRESSION ANALYSIS**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-14.98218	15.61248	-0.959629	0.3389
EQUITY	12027774	5908779.	2.035577	0.0437
BSIZE	0.356312	0.492132	0.724017	0.4703
BI	26.24056	13.27089	1.977303	0.0500
ACMD	-7.518982	24.82293	-0.302905	0.7624
AR(1)	0.346761	0.080573	4.303668	0.0000
R-squared	0.161326	Mean dependent var		2.375377
Adjusted R-squared	0.131158	S.D. dependent var		14.41267
S.E. of regression	13.43429	Akaike info criterion		8.073997
Sum squared resid	25086.75	Schwarz criterion		8.197172
Log likelihood	-579.3648	Hannan-Quinn criter.		8.124047
F-statistic	5.347571	Durbin-Watson stat		1.959466
Prob(F-statistic)	0.000158			
Inverted AR Roots	.35			

Source: Author’s Compilation (2016)

The table shows the relationship between the corporate governance and firm performance. The R-squared of approximately 0.16 signals that all the independent variables taken together explain about 16% of the systematic variations in the dependent variable leaving about 84% of the systematic variation in ROE to be captured by the error term and other variables not captured in this model. As regards the significance of the model, its predictor power, and whether the relationship between the dependent and independent variables is linear, the F statistics of 5.34 and probability of 0.00 reveal that the model is strong in predicting the dependent variable. Furthermore, it connotes that the relationship between dependent variable and independent variables is most likely linear. Lastly, the DW-stat of 1.959 suggests the possible absence of autocorrelation amongst the variables.

The coefficients of the dependent variables also provide some information. ACMD has a coefficient of -7.598 which means that 1 unit change in ACMD while holding all other variables constant will cause ROE to change by -7.598. Also, BI has a coefficient of 26.24 which connotes that 1 unit change will cause ROE to change by 26.24. BSIZE has a coefficient of 0.35 which

Connotes that 1 unit change also will cause ROE to change by 0.35. Still, EQTY has a coefficient of 12027774 implying that ROE changes by 12027774 for 1 unit change in EQTY.

The individual t-statistics and probabilities indicate the individual predictor powers of these variables. ACMD has a t-stat of -0.302 and probability of 0.762. This indicates that ACMD has a negative and insignificant relationship with ROE. BSIZE similarly has a t-stat of 0.724 and probability of 0.470 indicating that it has an insignificant positive relationship with ROE at 5% significance level. Furthermore, EQTY has a t-stat of 2.035 and probability of 0.0437 connoting a significant positive relationship with ROE. Lastly, BI has a t-stat of 1.977 and probability of 0.0500. This tells us that BI has a significant positive relationship with ROE at 5% significance level.

### DIAGNOSTICS TESTS

**Table 1.3a Breusch-Godfrey Serial Correlation LM Test**

F-statistic	0.699676	Prob. F(2,137)	0.4985
Obs*R-squared	1.466090	Prob. Chi-Square(2)	0.4804

**Table 1.3b Heteroskedasticity Test: Breusch-Pagan-Godfrey**

F-statistic	3.370894	Prob. F(4,140)	0.9875
Obs*R-squared	12.73829	Prob. Chi-Square(4)	0.9867
Scaled explained SS	269.7207	Prob. Chi-Square(4)	0.0659

**Table 1.3c Variance Inflation Factor Test**

Variable	Coefficient	Uncentered	Centered
	Variance	VIF	VIF
C	243.7495	83.56537	NA
EQUITY	3.49E+13	1.024237	1.018732
BSIZE	0.242194	17.24615	1.113851
BI	176.1164	22.96023	1.079695
ACMD	616.1777	51.24702	1.029241

Source: Author's Compilation (2016)

The OLS has some underlining assumptions, which when violated renders the estimation technique unfit. Thus, to check the validity of these assumptions, three (3) diagnostics tests have been conducted. Firstly, the serial correlations test is used to test for higher order autocorrelation. The probability value of the F stat is 0.49. This is greater than 0.05 thus, the null hypothesis that there is no higher order autocorrelation is accepted. Secondly, the heteroskedasticity test is used to check for the condition of homoscedasticity. Also, since the Probability of the F stat is 0.9875 and this is greater than 0.05. Therefore, the null hypothesis that there is no heteroskedasticity (presence of homoscedasticity) is accepted. Thirdly, the variance inflation factor test is to check for multicollinearity. The rule of thumb is 10. Thus, since all the centered VIFs are lower than 10, we conclude that there is no issue of multicollinearity.

### **DISCUSSION OF FINDINGS**

Firstly, based on the first hypothesis, it is observed that board size has an insignificant positive relationship with financial performance. This finding implies that as the number of board members increase, financial performance is likely to increase also. This may be attributed to the synergy introduced whenever two or more parts combine. That is, the more the board members, the more skills and technical acumen that is gathered. And these is translated to better decision making which further leads to better performance. In other words, larger boards are seen to offer the company the opportunity of pooling talents, expertise and experience that is helpful in making better decision and posing difficulties for powerful CEOs to dominate. This finding is consistent with the findings of Haniffa and Hudaib (2006) but goes contrary to the findings of Mak and Kusnadi (2005) and Bennedsen, et al (2006).

Secondly, it is observed that directors' ownership as proxy using equity holdings has a significant positive relationship with financial performance. This connotes that the more directors have holdings in the company, the more the likely performance level. This finding is rational in that directors are likely to make decision and choices that would translate into better performance since they have stake in the business. Thus, the level of responsibility and quality decision which will in the long run boost performance is a function of the insurable interest (ownership) directors have in that business. This finding is in line with the finding of Gedajlovic and Shapiro (1998) and contrary to the findings of Barnhart and Rosenstein (1998).

Thirdly, this study finds that audit committee independence has a negative and insignificant relationship with financial performance. Corporate governance code stipulates a ratio of 3:3 between executive and non-executive directors on audit committee boards. However, this study finds that as more non-executive directors are nominated to the audit committee board, the more the financial performance of the business. This may be deduced from the oversight role played by an independent audit committee. An independent audit committee is fearless and not accountable to the board of directors as such, it is able to carry out its functions effectively and efficiently. This efficient and effectiveness of the independent audit committee is what encourages and result into improved financial performance.

Finally, the last test of hypothesis resulted to empirical evidence that connotes that board independence is significantly and positively associated with firm performance. This finding beats the eyes and runs contrary to popular findings. However, just like Byrd & Hickman, 1992; Brickley, Coles & Terry, 1994, John and Senbet (1998), Laing (2001) and Pinteris (2002) who found a positive association between board independence and firm performance, this study opines that this finding is possible because boards may appear independent in appearance (based on the ratio of non-executive directors) but may not in fact and disposition (mindset and behavior). Independence of the mind is the ultimate. Thus, this finding suggests that the boards of sampled companies are independent in appearance but not in fact. Hence, it does not have a positive effect on performance. Furthermore, non-executive directors are brought in on boards on a part-time basis and are most likely to be committed in other places, thus, this shared commitment and responsibility create inadequate time for proper monitoring which is needful to have improved performance. It must however be noted that Weir and Lang (2001) disagree with the findings.

### **CONCLUSION AND RECOMMENDATIONS**

Good corporate governance is vital to economic stability and growth in developed and developing economies. The essential point is that good corporate governance is an aid to effectiveness. It is not there to shackle enterprise but to harness it in the achievement of its goals). Nigeria seems dedicated towards promoting the development of sound corporate governance systems and practices. Indeed, considerable progress already has been achieved. Yet, as seen, even in the most advanced economies, there have been signs that some developments in markets have outpaced the development of corporate governance systems and practices. In an ever-changing world, this is nothing new, financial policy makers, supervisors, and regulators are always trying to catch up with the evolution of markets. Nigeria corporate governance systems and practices should be constantly developed to keep up with the evolution of markets. Because the investors are always concern with what they would get at the end of their investment, what would be their earning, it was believed that the companies that give highest earning per share is performing excellent in term of its business.

Based on the findings of this research, we therefore present the following recommendations which will be useful to stakeholders.

1. Steps should 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.
2. Proponents of board independence should note with caution the positive relationship between board independence and firm performance. Hence, if the purpose of board independence is to improve performance, then such efforts might have merit.
3. Finally, there is the need to set up 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.

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