EFFECT OF CORPORATE GOVERNANCE ON THE PERFORMANCE OF DEPOSITS MONEY BANKS IN NIGERIA

BY

MICHAEL DIDAM

NSU/PGD/BAM/0310/16/17

BEING A RESEARCH DISSERTATION SUMMITTED TO SCHOOL OF POST-GRADUATE STUDIES, DEPARTMENT OF BUSINESS ADMINISTRATION, FACULTY OF ADMINISTRATION, NASARAWA STATE UNIVERSITY, KEFFI

IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF POSGRADUATE DIPLOMA IN BUSINESS ADMINISTRATION (PGD)

SEPTEMBER, 2019.

DECLARATION

I hereby declare that this dissertation has been written by me and it is a report of my research work. This work has not been presented elsewhere for the award of any academic programme in any institution. All quotations are indicated and sources of information specifically acknowledged by means of bibliography.

MICHAEL DIDAM **DATE**
NSU/PGD/BAM/0310/16/17

CERTIFICATION

The dissertation, “Effect of Corporate Governance on The Performance of Deposits Money Banks in Nigeria”, meets the regulations governing the award of Postgraduate Diploma in Business Administration (PGD), of the School of Postgraduate Studies of Nasarawa State University, Keffi for its contribution to knowledge and literary presentation.

____________________________ Dr. Mahmud Mohammad Khalifa Supervisor	______________________ Date
____________________________ Prof. B.E. Barde Head of Department	______________________ Date
____________________________ Internal Examiner	______________________ Date
____________________________ Prof. B.E. Barde Dean of the Faculty	______________________ Date
____________________________ External Examiner	______________________ Date
____________________________ Prof. J.M. Ayuba Dean, School of Postgraduate Studies	______________________ Date

DEDICATION

This research work is dedicated to God.

ACKNOWLEDGEMENTS

I am indeed grateful to Almighty God who has given me the strength to prevail through my course and the wisdom to excel in life.

I am sincerely grateful to my able supervisor, Dr. Mahmud Mohammad Khalifa who despite his tight schedule and other constraint read through the research work again and again in other to have a brilliant success.

My special thanks goes to my parents, Rehab Didam, and Ayuba Didam, and my lovely brother Daniel Didam, I love you all.

Lastly, my special thanks to the department of business administration lecturers and staff for their guidance.

ABSTRACT

This study investigate *Effect of Corporate Governance on the Performance of Deposits Money Banks in Nigeria. The study adopted survey research design and the population of study was staff of Access Bank Plc and its Customer's, the Taro Yamane's formula was used to determine the sample size of 200 out of 400. The primary data were collected through structured questionnaire which was distributed to 400 management staffs of Access Bank Plc and its customers who were randomly selected. Data were analyzed using regression. The result showed that Corporate Social Responsibility has positive and significant impact on the strategic performance of banking sector in Nigeria that enhances its economic growth and development. The findings revealed that the Corporate Social Responsibility had lead to the emergence of a sounds and efficient financial system that have supported the growth and development needs, aspirations of the Nigeria economy.*

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The consequences of institutional failure considering the multiplier effect of financial institutional failure on the real sector of the economy are unacceptably costly to a developing country like Nigeria. This affects the level of confidence the public has in various corporate establishments. 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 (Amuwo, 2005).

The institutions of governance provide a framework within which the social and economic life of countries is conducted. Corporate governance concerns the exercise of power in corporate entities. Corporate Governance is the key foundation for firms to be more productive and have a long existing product life cycle. The levels of institutional collapse and firm’s failure worldwide from unforeseen circumstances, has highlighted the need to look at the structure of Government. There have been new concepts or theories on how an organization should effectively run. Through past researches it has been observed that the Management of firm and survival of companies are associated with the type of Management that is in place and the global competitive environment requires sound corporate governance (Sullivan, 2008).

Corporate Governance has become a central issue of policy debate for more than three decades now. The mechanism of corporate governance and the type of information about corporate decisions on the one hand and on the other hand, the performances of the firm and the information that the corporation should make public, constitutes major issues of discussion in the corporate governance debate. Specifically, the issue of making corporate financial reporting more transparent to the stakeholders, and the extent to which, the oversight bodies set to oversee the business becomes functional. The practice "good corporate governance" is seen as the ultimate objective of studies in this area, which the neoclassical theory of market economy defines as the maximization of shareholders' value (Rwegasira, 2007).

Corporate governance involves regulatory and market mechanisms, and the roles and relationships between a company's management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed. Lately, corporate governance has been comprehensively defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers (Sullivan, 2008).

In contemporary business corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and other employees. Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which have an impact on the way a company is controlled. An important theme of corporate governance is the nature and extent of accountability of people in the business (Ekei, 2003).

Corporate governance, as a concept, can be viewed from at least two perspectives: a narrow one in which it is viewed merely as being concerned with the structures within which a corporate entity or enterprise receives its basic orientation and direction (Rwegasira, 2007); and a broad perspective in which it is regarded as being the heart of both a market economy and a democratic society (Sullivan, 2008).

Corporate governance is a system or an arrangement that comprises of a wide range of practices (accounting standards, rules concerning financial disclosure, executive compensation, size and composition of corporate boards) and institutions (legal, economic and social) that protect the interest of corporation's owners. According to Ademola, (2003) "corporate governance is to a certain extent a set of mechanism through which outside investors protect themselves against expropriation by the insiders." Insiders are defined as both managers and controlling shareholders.

Effective corporate governance reduces the "control right" conferred on managers and increases the chances that manager's investment decisions enhance the maximization of shareholders wealth. (Kojola, 2008). This however, suggests that better corporately governed business have better operating performance. Corporate financial reporting provides fundamental information to a wide range of policy makers in both the corporate and non-corporate sectors of the economy – shareholders, management, government, creditors and society at large. This information is a vital input to effective and efficient management, and requires attention in practices. More specifically, a dynamic and competing financial institution environment calls for improved observations, measurement and transparent disclosure of operations.

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.

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. 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. It is also concerned with the ways parties (stake holders) interested in the wellbeing of business ensure that managers and other insiders adopt mechanism to safeguard the interest of the shareholders (Ademola, 2003).

The impact of good governance on a business' reputation cannot be over emphasized. Good corporate governance promotes goodwill and confidence in the financial system. Recent studies from academic researches show that good corporate governance leads to increased valuation, higher profit, higher sales growth, lower capital expenditure and over all organization performance. Sound corporate governance, therefore, enhances corporate performance, value as well as providing meaningful and reliable financial report on business operations (Ekei, 2003).

1.2 Statement of the Problem

In today's corporate world, for any organization to attain high performance it has to distinguish itself in terms of its Corporate Governance Principles and practice that meet or satisfied its stakeholders. The experience of other countries most especially the developed countries has demonstrated a positive synergy of convenience between well organized and coordinated management of its wealth and economic development. Whereas the lack of proper structure to manage the abundance wealth continues to plunge under developed countries like Nigeria into the vicious circle of poverty. Nigeria is blessed with a lot of resources being the 7th largest oil producer in the world but lack the ability to manage wealth by effectively developing and encouraging indigenous and foreign investments due to corruption. This inability has a direct relationship with the need for efficient corporate governance strategy in Nigeria for sustainable development.

The lack of effective corporate governance in Nigeria most especially in the banking sector has worked to the detriment of stakeholders, chief executives and created a class of stakeholders who have lost interest in the banking system. The corporate governance culture in Nigeria has consistently failed to be responsible to the stakeholders, accountable to the shareholders and has no deep-rooted mechanism to maintain a balance among the major players (board of directors, shareholders, and management) in corporate governance.

Therefore, this study seeks to investigate the claims by the Access bank that Corporate Governance principles are fully practiced as reported in their annual financial reports while in terms of performance these banks seem to perform below the expectation of its stakeholders, ideal ways in which Corporate Governance principles and practices are implemented, what factors are necessary for corporate governance to succeed and relationship between Corporate Governance principles and organization’s performance.

1.3 RESEARCH QUESTIONS

The research questions for this study are based on the following:-

i. What is the relationship between board size and performance of Access Bank ltd?

ii. To what extent does the proportion of non- executive directors have on the performance of Access Bank ltd?

iii. What is the relationship between directors' equity interest and the performance of the Access Bank ltd?

iv What relationship exists between the level of corporate governance disclosure and the performance Access Bank ltd?

1.4. Objectives of Study

The broad objective of the study is to examine the effects of corporate governance on the performance of the Nigerian Inter-Faith Action Association. Specific objectives are:

i. Examine the relationship between board size and performance of Access Bank Plc

ii. Examine the effect of the proportion of non- executive directors on the performance of Access Bank Plc.

iii. Determine the relationship between directors' equity interest and the performance of Access Bank Plc.

iv. Empirically determine if there is any significant relationship between the level of corporate governance disclosure and the performance of Access Bank Plc.

1.5 Statement of Hypotheses

To proffer useful answers to the research questions and realize the study objectives, the following hypotheses stated in their null forms will be tested;

H_{01}: There is no significant relationship between Board size and performance of Access Bank Plc

H_{02}: The relationship between the proportion of non-executive directors and the performance of Access Bank Plc is not significant.

H_{03}: There is no significant relationship between Directors' Equity Holding and the performance of Access Bank Plc.

H_{04}: There is no significant relationship between the level of corporate governance disclosure and the performance of Access Bank Plc.

1.6 Significance of the Study

Policy makers will find the study relevant because it will help in formulating policies on corporate governance and in advising the management of the bank in an efficient implementation process and the Government will also benefit from the study because it will guide in effective policies to implement in corporate governance and firm's performance in Nigeria, as well as the effective way by which policy formulated could be implemented. Stakeholders will find this study very relevant and important because it will assist them in their deliberations and discussions on corporate governance issues and in proffering possible policy recommendations that will help both the government and the administrators of policies.

The research is aimed at enlightening the firm involved and the public about the impact of corporate governance on performance of the banking sector. The research will again give thrust to the quest for good Corporate Governance Principles and practice by enabling management to chart a course for growth and development. Above all, it is hoped that this study would contribute to knowledge and be useful as reference material for scholars and researchers in the field of study.

1.7 Scope and Limitations of Study

The scope of this study is on effects of corporate governance principle and practice on the performance Access Bank plc during the period covering 2005 to 2014. This period is chosen because its' included in the era where managers identified some basic Corporate governance principle that where entrench in the financial sector. The period is long enough to assess the activities of Corporate Governance and the performance of the firm. The limitation of this study is the inability of the researcher to consider all the banks in Nigeria away from Access Bank Plc.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the concept of corporate governance by assessing various definitions and views of different authors. The literature review is reliably anchored on the general framework of what corporate governance is all about and on other variables that directs the focus and general direction of the research. Further, it is sectionalized into the conceptual study, empirical review, theoretical framework, and summary.

2.2 Mechanisms of Corporate Governance

The study focusing on the Mechanisms of Corporate Governance, Corporate Governance Structure, The Potential Role of Stakeholders in Corporate Governance, Board of Directors and Corporate Governance, *Board* Organization (Responsibilities), Framework of Corporate governance in Nigeria, Challenges and Failures of Corporate governance in Nigeria, Symptoms and Consequences of Bad Governance in Nigeria, Corporate governance and Firm Performance, Corporate Governance Systems in Different Countries, Quality of Corporate Governance and Firm Performance, Corporate Governance in Nigeria, Benefits of Corporate Governance.

Internal corporate governance controls

Internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals, which include:

a. Monitoring by the Board of Directors: The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Yu (2003) Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance. Different board structures are optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to information. Executive directors possess superior knowledge of the decision-making process and therefore evaluate top management on the basis of the quality of its decisions that lead to financial performance outcomes, *ex ante*. It could be argued, therefore, that executive directors look beyond the financial criteria Yermack (2010).

b. Internal Control Procedures and Internal Auditors: Adams and Mehran (2008): Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting

c. Balance of Power: The simplest balance of power is very common; require that the President be a different person from the Treasurer. This application of separation of power is further developed in companies where separate divisions check and balance each other's actions Belkhi (2006). One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

d. Remuneration: Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behavior, and can elicit myopic behavior.

External Corporate Governance Controls

External corporate governance controls encompass the controls external stakeholders exercise over the organization. These control examples are: competition, debt covenants, demand for and assessment of performance information (especially financial statements), government regulations, managerial labor market, media pressure, takeovers.

2.3 Corporate Governance Structure

2.3.1 Board Composition

According to Aniemena (2005) Board composition has been claimed as a key factor in allowing the board to act as a guardian of the principal's interests. Inside directors have access to information that is relevant to assessing managerial competence and the strategic desirability of initiatives. In that sense, they are better able to discriminate legitimate or illegitimate causes of organizational misfortune. However, insider directors usually do not make exhaustive evaluation of the strategic decision processes since they are influenced by the CEO.

Outside directors are not members of the top management team, their associates, or families; are not employees of the firm or its subsidiaries; and are not members of the immediate top management group. They normally serve as directors on several boards. Between managing their own businesses and serving on multiple boards, outside directors lack firm-specific knowledge and may not be able to understand each business and the complexities of the firm well enough to be truly effective. However it is less likely that they are controlled by the CEO. Accordingly, Baysinger and Butler (2005) outside directors could make exhaustive and profound evaluation of the strategic decision processes and the actions of managers. From the standpoint of agency theory, the interests of insiders are theorized to be aligned with those of the management, while the interests of outsiders are aligned with the principals' interests.

2.3.2 Board Leadership

Obadan (1998) CEO duality refers to board structure where one person occupies two positions – a CEO position and a chairperson position of the board of directors. Non-duality implies that the different individuals serve as the CEO and chairperson. Proponents of CEO duality argue that it should lead to superior organizational performance as it permits clear-cut leadership. However, there is a downside to it: CEO duality firmly entrenches a CEO at the top of an organization, challenging a board's ability to effectively monitor and discipline top management. CEO duality reduces the board's ability to fulfill its proper governance function as an independent body. It signals the absence of separation of decision management and decision control... the organization suffers in the competition for survival.

2.3.3 Board Size

Board size has a number of implications. On the one hand, a smaller board is manageable from the CEO's point of view. A smaller board size is viewed as an indicator of the CEO's profound influence on proceedings in board meetings. On the other hand a larger board, although potentially unmanageable, may be valuable for the breadth of its services pool of expertise and resources for the organization Pathan, Skully and Wickramanayake (2007).

From an organizational dynamic perspective, however, a larger board is more likely to develop factions and coalitions that can increase group conflicts. The first step in structuring an effective board is to shrink it, probably because a large board is more difficult to coordinate. A larger board is less likely to become involved effectively in the strategic decision-making process. A smaller board seems to be more effective than a larger board in the sense that it allows the board to support the strategic decisions of managers without frequent interruptions and to take decisive governance actions in a coordinated fashion. However from an agency theory perspective, previous research has argued that CEOs may easily exert their influence on small boards but find it difficult to influence large ones. In firms with large boards, CEOs would experience greater difficulty to influencing all board members to agree and make decisions, including a decision to implement golden parachutes, than they would in firms with small boards.

2.3.4 Executive Compensation

Nmehielle and Nwauche (2004) Relating to compensation schemes, agency theory suggests that firms can choose between behavior-based and out-come based pay, depending on the difficulties in monitoring job performance. On the one hand, firms operating in context where appropriate managerial behaviors are well understood tend to rely on the behavior-based compensation plans. Under the behavior-based compensation the scheme, the optimal contract pays the agent a fixed wage for taking well-defined actions and penalizes him or her for taking sub-optimal actions are relatively contractible, and, as a result, managerial risk associated with the behavioral-based compensation plans is relatively low.

On the other hand, firms operating in a context where appropriate managerial behaviors are not well understood rely on the outcome-based compensation plans that are designed to reward managers for their performance instead of their actions Klein (2011). That is the optimal contract gives the agent a share in the outcome. In addition because the performance, such as stock price, is affected by external factors beyond the agent's influence, tying compensation to the performance will increase the agent's exposure to risk. Since the outcome-based compensation plans create another risk for managers, higher amount of compensation would be paid to managers; otherwise managers will make overly conservative decisions. Therefore it is suggested that the outcome-based plans tend to be balanced with greater amounts of compensation.

2.3.5 Board Composition and Leadership

Andres and Vallelado (2011) Boards of directors of large publicly owned corporations vary in size from industry to industry and from corporation to corporation. In determining board size, directors should consider the nature, size, and complexity of the corporation as well as its stage of development. Smaller boards are often more cohesive and work more effectively than larger boards. It is believed that having directors with relevant business and industry experience is beneficial to the board as a whole. Directors with such backgrounds can provide a useful perspective on significant risks and competitive advantages and an understanding of the challenges facing the business. Because the corporation's need for particular backgrounds and experiences may change over time, the board should monitor the mix of skills and experience that directors bring to the board to assess, at each stage in the life of the corporation, whether the board has the necessary tools to perform its oversight function effectively.

The board of a publicly owned corporation should have a substantial degree of independence from management. Board independence depends not only on directors' individual relationships – personal, employment or business – but also on the board's overall attitude toward management. Providing objective independent judgment is at the core of the board's oversight function, and the board's composition should reflect these principles;

Board independence: A substantial majority of directors of the board of a publicly owned corporation should be independent of management, both in fact and appearance, as determined by the board.

Assessing independence: An independent director should be free of any relationship with the corporation or its management that may impair, or appear to impair, the director's ability to make independent judgments. The listing standards of the major securities markets relating to audit committees provide useful guidance in determining whether a particular director is "independent." These standards focus primarily on familial, employment and business relationships. However, boards of directors should also consider whether other kinds of relationships, such as close personal relationships between potential board members and senior management, may affect a director's actual or perceived independence.

Relationships with not-for-profit organizations: Asemota, (2005) Some observers have questioned the independence of directors who have relationships with non-affiliated not-for-profit organizations that receive support from corporations. The Business Roundtable believes that such relationships and their effect on a director's independence should be assessed by the board or its corporate governance committee on a case-by-case basis, taking into account the size of the corporation's contributions to the not-for-profit organization and the nature of the director's relationship to the organization. Independence issues are most likely to arise where a director is an employee of the not-for-profit organization and where a substantial portion of the organization's funding comes from the corporation. By contrast, where a director merely serves on the board of a not-for-profit organization with broad community representation, there may be no meaningful independence issues.

Corporations are well served by a structure in which the CEO also serves as chairman of the board. The CEO serves as a bridge between management and the board, ensuring that both act with a common purpose. Some corporations have found it useful to separate the roles of CEO and chairman of the board to provide continuity of leadership in times of transition. Each corporation should make its own determination of what leadership structure works best, given its present and anticipated circumstances. The board should have contingency plans to provide for transitional board leadership if questions arise concerning management's conduct, competence, or integrity or if the CEO dies or is incapacitated. An individual director, a small group of directors, or the chairman of a committee may be selected by the board for this purpose.

2.4 The Potential Role of Stakeholders in Corporate Governance

Lilijeblad and Svensson (2001) When a corporation is in a serious financial distress, residual claimants include not only shareholders, but also other stakeholders. Thus creditor banks and employees are likely to have particularly strong incentives to monitor firms. Given Asian enterprises' vulnerability to abuses by controlling families, their heavy dependence on banks, and the increasing importance of "knowledge workers," the scope for other stakeholders to play a corporate governance role could be considerable. The actual or potential roles of stakeholders are likely to depend on firms' characteristics in relation to their dependency on bank loans, level and type of technology, and extent of human capital. The survey attempts to evaluate the degree to which firms pay attention to the interests and potential roles of various shareholders.

Madhav (2007), corporate directors in the countries surveyed seem to view the roles of broader stakeholders rather positively. Banks have certainly strengthened their monitoring of their corporate clients since the Asian crisis, and companies are interested in having a close, long-term relationship with their creditor banks, particularly in Indonesia and Thailand. The survey results also show a relatively high prevalence of joint labor-management committees (JLMCs) in Indonesia and Korea, although they seem to play only a limited role as a potential governance mechanism. Nevertheless, employees are likely to play a substantial corporate governance role in the future given their fairly high level of education and relatively long tenure along with the prevalence of various complementary mechanisms whereby employees could play an enhanced role, including shop-floor and financial participation. Corporate directors seem to believe in the rising importance of human capital for corporate success without being overly concerned about the downside of employees having a stronger voice or participating more actively Staikouras, et al (2007).

2.5 Board of Directors and Corporate Governance

Zahra and Pearce (2009) The Board of Directors should comprise of a broad range of expertise. Each individual Director should have experience knowledge, qualifications, expertise and integrity necessary to effectively discharge the duties of the Board of Directors.

It is believed in Corporate Governance that experienced Directors with diverse company background are essential for the provision of successful and strategic direction for the Company. The composition, competencies and mix-skills are adequate for its oversight duties and the development of the corporate vision and strategy.

The Board of Directors through its Corporate Governance Committee establishes which members are independent and it also recommends the appropriate size of the board.

Directors act in good faith with due care and in the best interests of the Company and all its shareholders – and not in the interests of any particular shareholder – on the basis of relevant information. Each Director is expected to attend all Board of Directors meetings and applicable committee meetings.

A company cannot prohibit its Directors from serving on other Board of Directors. Directors are expected to ensure that other commitments do not interfere in the discharge of their duties Moran

(2013).. Directors can not divulge or use confidential or insider information about the company.

It’s the Boards duty to discharge its duties, adopt best practices and principles, some of which include:

i. The Chairman should be a non-executive Director.

ii. To maintain balance of interest and ensure transparency and impartiality, a number of Directors are independent. The independent Directors are those who have no material relationship with the Company beyond their Directorship.

iii. Directors abstain from action that may lead to conflict of interest and are to ensure they shall comply with the Company’s policy on Related Party Transaction.

The remuneration of non-executive Directors is competitive and is comprised of an annual fee and a meeting attendance allowance. The remuneration package shall, however, not jeopardize Directors independence. Executive Directors are not paid fees beyond their executive remuneration package. The Board of Directors shall through its remuneration committee, periodically review the remuneration paid to Directors.

The Board undertakes, annually, a formal and rigorous evaluation of its performance and that of its committees and individual Directors. This serves to continuously stimulate a high level of performance, identify the strengths and the weakness of the individual Directors and articulate ways to bridge identified gaps thereby leading to further strengthening of the Board. The result of the evaluation is presented to the whole Board for consideration and adoption.

Monks (2001), given the accelerated nature of change, innovation and progress in Corporate Governance it is essential to know the principles that guide Board of Directors. These principles should help to guide the continual advancement of corporate governance practices. These guiding principles include;

First, the paramount duty of the board of directors of a public corporation is to select a Chief Executive Officer and to oversee the CEO and other senior management in the competent and ethical operation of the corporation on a day-to- day basis.

Second, it is the responsibility of management to operate the corporation in an effective and ethical manner in order to produce value for stockholders. Senior management is expected to know how the corporation earns its income and what risks the corporation is undertaking in the course of carrying out its business. Management should never put personal interests ahead of or in conflict with the interests of the corporation.

Third, it is the responsibility of management, under the oversight of the board and its audit committee, to produce financial statements that fairly present the financial condition and results of operations of the corporation, and to make the timely disclosures investors need to permit them to assess the financial and business soundness and risks of the corporation.

Fourth, it is the responsibility of the board and its audit committee to engage an independent accounting firm to audit the financial statements prepared by management and to issue an opinion on those statements based on Generally Accepted Accounting Principles. The board, its audit committee and management must be vigilant to ensure that no actions are taken by the corporation or its employees that compromise the independence of the outside auditor.

Fifth, it is the responsibility of the independent accounting firm to ensure that it is in fact independent, is without conflicts of interest, employs highly competent staff, and carries out its work in accordance with Generally Accepted Auditing Standards. It is also the responsibility of the independent accounting firm to inform the board, through the audit committee, of any concerns the auditor may have about the appropriateness or quality of significant accounting treatments, business transactions that affect the fair presentation of the corporation's financial condition and results of operations, and weaknesses in internal control systems. The auditor should do so in a forthright manner and on a timely basis, whether or not management has also communicated to the board or the audit committee on these matters.

Sixth, the corporation has a responsibility to deal with its employees in a fair and equitable manner. These responsibilities, and others, are critical to the functioning of the modern public corporation and the integrity of the public markets. No law or regulation alone can be a substitute for the voluntary adherence to these principles by corporate directors and management.

Loderer and Peyer (2002), The board's oversight function carries with it a number of specific responsibilities in addition to that of selecting the CEO. These include responsibility for:

Planning for Management Succession: The board should plan for CEO and senior management succession and, when appropriate, replace the CEO or other members of senior management.

Understanding, Reviewing and Monitoring Implementation of the Corporation's Strategic plans: The board has responsibility for overseeing and understanding the corporation's strategic plans from their inception through their development and execution by management. Once the board reviews a strategic plan, the board should regularly monitor implementation of the plan to determine whether it is being implemented effectively and whether changes are needed.

Understanding and Reviewing Annual Operating Plans and Budgets: The board has responsibility for overseeing and understanding the corporation's annual operating plans and for reviewing the annual budgets presented by management. The board should monitor implementation of the annual plans to assess whether they are being implemented effectively and within the limits of approved budgets.

Focusing on the Integrity and Clarity of the Corporation's Financial Statements and Financial Reporting: While financial reports are primarily the responsibility of management, the board and its audit committee should take reasonable steps to be comfortable that the corporation's financial statements and other disclosures accurately present the corporation's financial condition and results of operations to stockholders, and that they do so in an understandable manner. In order to do this, the board, through its audit committee, should have abroad understanding of the corporation's financial statements, including why the accounting principles critical to the corporation's business were chosen, what key judgments and estimates were made by management, and how the choice of principles, and the making of such judgments and estimates, impacts the reported financial results of the corporation.

Engaging Outside Auditors and Considering Independence Issues: The board, through its audit committee, bears responsibility for engaging an outside auditor to audit the corporation's financial statements and for ongoing communications with the outside auditor. The board, through its audit committee, should periodically consider the independence and continued tenure of the auditor.

Advising Management on Significant Issues Facing The Corporation: Directors can offer management a wealth of experience and a wide range of perspectives. They provide advice and counsel to management in formal board and committee meetings and are available for informal consultation with the CEO and senior management.

Reviewing and Approving Significant Corporate Actions: As required by state corporate law, the board reviews and approves specific corporate actions, such as the election of executive officers, declaration of dividends and appropriate major transactions. The board and senior management should have a clear understanding of what level or types of decisions require specific board approval.

Nominating Directors and Committee Members and Overseeing Effective Corporate Governance: It is the responsibility of the board and its corporate governance committee to nominate directors and committee members and to oversee the composition, structure, practices and evaluation of the board and its committees.

The CEO and Management

Hermalin (2003), It is the responsibility of the CEO, and of senior management under the CEO's direction, to operate the corporation in an effective and ethical manner.

o The governance model followed by most public corporations in the United States has historically been one of individual, rather than group, leadership. U.S. corporations have traditionally vested responsibility in the CEO as the leader of management rather than diffusing high-level responsibility among several individuals.

The CEO should be aware of the major risks and issues that the corporation faces and is responsible for supervising the corporation's financial reporting processes. For example, the CEO is responsible for providing stockholders and others with information that the CEO believes is important to understanding the corporation's business. Of course, the CEO necessarily relies on the expert advice of others on technical questions and legal requirements.

Carter and Jay (2004), As part of its operational responsibility, senior management is charged with:

Operating the corporation. The CEO and senior management run the corporation's day-to-day business operations. With a thorough understanding of how the corporation operates and earns its income, they carry out the corporation's strategic objectives within the annual operating plans and budgets reviewed by the board.

Strategic planning. The CEO and senior management generally take the lead in strategic planning. They identify and develop strategic plans for the corporation; present those plans to the board; implement the plans once board review is completed; and recommend and carry out changes to the plans as necessary.

Annual operating plans and budgets. With the corporation's overall strategic plans in mind, senior management develops annual operating plans and annual budgets for the corporation, and the CEO presents those plans and budgets to the board. Once board review is completed, the management team implements the annual operating plans and budgets.

Selecting qualified management and establishing effective organizational structure. Management is responsible for selecting qualified management and for implementing an organizational structure that is efficient and appropriate for the corporation's particular circumstances.

Identifying and managing risks. *Senior Management identifies and manages the risks that the corporation undertakes in the course of carrying out its business. It also manages the corporation's overall risk profile.*

Good financial reporting. Senior management is responsible for the integrity of the corporation's financial reporting system. It is senior management's responsibility to put in place and supervise the operation of systems that allow the corporation to produce financial statements that fairly present the corporation's financial condition and thus permit investors to understand the business and financial soundness and risks of the corporation.

2.6 Board Organization (Responsibilities)

Belkhir (2006). In general, there are six (6) core areas of board responsibility; failure in any of these activities will have fundamental implications for the performance of the organization.

a. Strategic Planning/Implementation

b. Risk Management

c. Management Evaluation and Succession Planning

d. Internal Controls

e. Communications (formulating and communicating corporate policies)

f. Organizational Success

Virtually all boards of directors of large, publicly owned corporations operate using committees to assist them. A committee structure permits the board to address key areas in more depth than may be possible in a full board meeting.

Decisions about committee membership should be made by the full board, based on recommendations from a committee responsible for corporate governance issues. The board should designate the chairmen of the various committees, if this is not done by the committees themselves.

Committees should appraise the full board of their activities on a regular basis. Processes should be developed and monitored for keeping the board informed through oral or written reports.

The functions generally performed by the audit, compensation and corporate governance committees are central to effective corporate governance. A particular committee structure is essential for all corporations. What is important is that key issues be addressed effectively by the independent members of the board. Thus, the references below to the functions performed by particular committees are not intended to preclude corporations from allocating these functions differently.

Other committees, such as executive or finance committees, also may be used. Some corporations find it useful to establish additional committees to examine special problems or opportunities in greater depth than would otherwise be feasible. The responsibilities of each committee should be clearly defined and understood. A written charter approved by the board, or a board resolution establishing the committee, is appropriate.

All the committees have terms of reference which guides them in the execution of their duties. Each committee reports to the Board of Directors. Each committee provides draft recommendations to the Board on matters that fall within the Boards ambit. Every publicly owned corporation should have an audit committee comprised solely of independent directors.

Audit Committee

Al Faki (2006). Audit Committees typically consist of 3 to 5 members. The listing standards of the major securities markets require audit committees and require that an audit committee have at least 3 members and that all members of the audit committee qualify as independent.

Audit committee members should meet minimum financial literacy standards, and at least one of the committee members should have accounting or financial management expertise, as required by the listing standards of the major securities markets. However, more important than financial expertise is the ability of audit committee members, as with all directors, to understand the corporation's business and risk profile, and to apply their business experience and judgment to the issues for which the committee is responsible with an independent and critical eye. The audit committee is responsible for oversight of the corporation's financial reporting process. The primary functions of the audit committee are the following:

Risk profile: The audit committee should understand the corporation's risk profile and oversee the corporation's risk assessment and management practices.

Outside Auditors: The audit committee is responsible for supervising the corporation's relationship with its outside auditor, including recommending to the full board the firm to be engaged as the outside auditor, evaluating the auditor's performance, and considering whether it would be appropriate for the outside auditor periodically to rotate senior audit personnel or for the corporation periodically to change its outside auditor. The selection of an outside auditor should involve an annual due diligence process in which the audit committee reviews the qualifications, work product, independence and reputation of the proposed outside auditor. The audit committee should base its decisions about selecting and possibly changing the outside auditor on its assessment of what is likely to lead to more effective audits. Based on its due diligence, the audit committee should make an annual recommendation to the full board about the selection of the outside auditor.

Independence: The audit committee should consider the independence of the outside auditor and should develop policies concerning the provision of non-audit services by the outside auditor. The provision of some types of audit-related and consulting services by the outside auditor may not be inconsistent with independence.

Critical accounting judgments and estimates: The audit committee should review and discuss with management and the outside auditor the corporation's critical accounting policies and the quality of accounting judgments and estimates made by management.

Internal controls: The audit committee should understand and be familiar with the corporation's system of internal controls and on a periodic basis should review with both internal and outside auditors the adequacy of this system.

Compliance: Unless the full board or another committee does so, the audit committee should review the corporation's procedures addressing compliance with the law and important corporate policies, including the corporation's code of ethics or code of conduct.

Financial statements: The audit committee should review and discuss the corporation's annual financial statements with management and the outside auditor and, based on these discussions, recommend that the board approve the financial statements for publication and filing. Most audit committees also find it advisable to implement processes for the committee or its designee to review the corporation's quarterly financial statements prior to release.

Internal audit function: The audit committee oversees the corporation's internal audit function, including review of reports submitted by the internal audit staff, and reviews the appointment and replacement of the senior internal auditing executive.

Communication: The audit committee should provide a channel of communication to the board for the outside auditor and internal auditors and may also meet with and receive reports from finance officers, compliance officers and the general counsel.

Hiring auditor personnel: Under audit committee supervision, some corporations have implemented "revolving door" policies covering the hiring of auditor personnel. For example, these policies may impose "cooling off" periods prohibiting employment by the corporation in senior financial management positions of members of the audit engagement team for some period of time after their work as auditors for the corporation. The audit committee should consider whether to adopt such a policy. Any policy on the hiring of auditor personnel should be flexible enough to allow exceptions, but only when specifically approved by the audit committee.

Audit committee meetings should be held frequently enough to allow the committee to appropriately monitor the annual and quarterly financial reports. For many corporations, this means four or more meetings a year. Meetings should be scheduled with enough time to permit and encourage active discussions with management and the internal and outside auditors. The audit committee should meet with the internal and outside auditors, without management present, at every meeting and communicate with them between meetings as necessary. Some audit committees may decide that specific functions, such as quarterly review meetings with the outside auditor or management, can be delegated to the audit committee chairman or other members of the audit committee Andres and Vallelado (2011).

Compensation Committee

Every publicly owned corporation should have a committee comprised solely of independent directors that addresses compensation issues: Compensation committee has two interrelated responsibilities; overseeing the corporation's overall compensation programs, and setting CEO and senior management compensation.

Overall compensation structure: In addition to reviewing and setting compensation for management, a compensation committee should look more broadly at the overall compensation structure of the enterprise to determine that it establishes appropriate incentives for management and employees at all levels Mallin (2013). In doing so, the committee should understand that incentives are industry-dependent and are different for different categories of people. All incentives should further the corporation's long-term strategic plan and should be consistent with the culture of the corporation and the overall goal of enhancing enduring stockholder value.

A diverse mix of compensation for the board and management can foster the right incentives and prevent a short-term focus or a narrow emphasis on particular aspects of the corporation's business.

a. Trend toward equity compensation for directors and management: In recent years, many corporations have increasingly moved toward compensating directors and management with stock options and other equity compensation geared to the corporation's stock price. While this trend may align director and management interests with stockholder value, equity compensation should be carefully designed to avoid unintended incentives such as an undue emphasis on short-term market value changes.

b. Management Compensation: Management compensation practices will necessarily differ for different corporations. Generally, however, an appropriate compensation package for management includes a carefully determined mix of long- and short-term incentives. Management compensation packages should be designed to create a commensurate level of risk and opportunity based on business and individual performance. The structure of management compensation should directly link the interests of management, both individually and as a team, to the long-term interests of stockholders.

c. Management benefits: A compensation committee should consider whether the benefits provided to senior management, including post-employment benefits, are proportional to the contributions made by management.

Board Operations

Serving on a board requires significant time and attention on the part of directors. Directors must participate in board meetings, review relevant materials, serve on board committees, and prepare for meetings and for discussions with management Mogobe (2003). They must spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. The appropriate number of hours to be spent by a director on his or her duties and the frequency and length of board meetings depend largely on the complexity of the corporation and its operations. Longer meetings may permit directors to explore key issues in depth, whereas shorter but more frequent meetings may help directors stay up-to-date on emerging corporate trends and business and regulatory developments. When arranging a meeting schedule for the board, each corporation should consider the nature and complexity of its operations and transactions, as well as its business and regulatory environment.

Directors should be focused on long-term stockholder value. Including equity as part of directors' compensation helps align the interests of directors with those of the corporation's stockholders. Accordingly, a meaningful portion of a director's compensation should be in the form of long-term equity. Corporations may wish to consider establishing a requirement that, for as long as directors remain on the board; they acquire and hold stock in an amount that is meaningful and appropriate to each director Metrick and Ishii (2002).

Service on too many boards can interfere with an individual's ability to perform his or her responsibilities. Before accepting an additional board position, a director should consider whether the acceptance of a new directorship will compromise the ability to perform present responsibilities. It also is good practice for directors to notify each board on which they serve before accepting a seat on the board of another business corporation, in order to avoid potential conflicts. Similarly, the corporation should establish a process to review senior management service on other boards prior to acceptance. Independent directors should have the opportunity to meet outside the presence of the CEO and any other management directors.

Ogidefa, Ivor (2008).Many board responsibilities may be delegated to committees to permit directors to address key areas in more depth. Regardless of whether the board grants plenary power to its committees with respect to particular issues or prefers to take recommendations from its committees, committees should keep the full board informed of their activities. Corporations benefit greatly from the collective wisdom of the entire board acting as a deliberative body, and the interaction between committees and the full board should reflect this principle.

- Management presentations should be scheduled to allow for question-and-answer sessions and open discussion of key policies and practices. Board members should have full access to senior management. Generally, the CEO should be advised of significant contacts between board members and senior management.
- The board must have accurate, complete information to do its job; the quality of information received by the board directly affects its ability to perform its oversight function effectively. Directors should be provided with, and review, information from a variety of sources, including management, board committees, outside experts, auditor presentations, and analyst and media reports. The board should be provided with information before board and committee meetings with sufficient time to review and reflect on key issues and to request supplemental information as necessary.
- Many corporations provide new directors with materials and briefings to permit them to become familiar with the corporation's business, industry and corporate governance practices. The Business Roundtable believes that it is appropriate for corporations to provide additional educational opportunities to directors on an ongoing basis to enable them to better perform their duties and to recognize and deal appropriately with issues that arise.

- From time to time, it may be appropriate for boards and board committees to seek advice from outside advisors independent of management with respect to matters within their responsibility. For example, there may be technical aspects of the corporation's business – such as risk assessment and risk management – or conflict of interest situations for which the board or a committee determines that additional expert advice would be useful. Similarly, a compensation committee may find it useful to engage separate compensation consultants. Access to outside advisors in such cases is an important element of an effective corporate governance system.

2.7Corporate governance and Firm Performance

Corporate governance has dominated policy agendas in developed market economies for more than a decade, but it is gradually warming itself to the top of the policy agenda in the African continent. The Asian crisis and the relative poor performance of the corporate sector in Africa has made corporate governance a catchphrase in the development debate (Mankiw, 1999). McGee, (2009) finds that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more treatment of all stakeholders.

Similarly, Okpara, (2000) examine corporate governance mechanisms and firm financial performance in Nigeria. They find that firm performance is positively correlated with small, as opposed to large boards, concentrated ownership as opposed to diffused ownership, expatriate CEOs as opposed to nationals and separating the functions of CEO and Chairman.

Corporate governance has been variously defined. Sanda, (2003) define Corporate governance from the perspective of the investor as “both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment”. This implies that corporate governance has an impact on a firm’s ability to access the capital market. Metrick and Ishii argue that firm level governance may be more important in developing markets with weaker institutions as it helps to distinguish among firms. Shleifer, (1986) define Corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting a return to their investment”. Cadbury Committee (1992) defines corporate governance as “the system by which companies are directed and controlled”. Sullivan, (2000) defines a governance system as “the complex set of constraints that shape the ex post bargaining over the quasi rents generated by the firm”.

The relationship between corporate governance and performance is based on the principal-agent approach. The agency relationship is defined as a contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.

The separation of ownership and control, which occurs as a result of the introduction of external investors, bring to fore the agency problem: managers are expected to represent the interests of the external owners of the enterprise; however, it is difficult for owners to ensure that managers do so.

Sullivan, (2000) argue that managers and equity investors should be capable of entering into a binding contract, which would ensure that investors' interest are fully represented. However, it is unlikely that it will be possible to specify contracts ex-ante that accommodates all possible future contingencies.

Rwegasira, (2000) identify four dimensions of corporate governance at the level of the firm that can help to minimize the agency problem:

(a) Board of Directors

(b) Ownership structure

(c) Executive incentive contracts

(d) Charter and bylaw provisions

(a) Board of Directors: This is often considered to be one of the major sources of monitoring firm's conducts and performances. It is responsible for hiring and firing executives, setting executive compensations and making key decisions in the life of the firm. A high level of independence is important for it to perform its monitoring duties more effectively. The standard view is that the board of directors is more independent as the number of outside directors' increases.

Executive directors are not likely to self-monitor effectively the performance of the CEO because their career is closely tied to the incumbent CEO (Jensen 1999).

(b) Ownership Structure: This is another method of mitigating agency problems. The free rider problem is minimized and internal constraints on managerial discretion can probably be imposed if ownership is concentrated in the hands of shareholders who will be more likely to be able to utilize their voting power to influence managerial behaviour, although, as Rwegasira, (2000) note, this does require shareholding voting rights. This leads to the proposition that large shareholders will exercise more effective Corporate governance; a finding that has been supported by a host of studies on developed market economies. Amongst this wealth of literature, Franks and Mayer (1994), in a study of German Private Enterprises find that concentrated share ownership is associated with high rates of turnover of directors.

There is no consensus yet as to the impact of ownership concentration on performance. In some countries, such as Austria, the Netherlands and Spain, companies with dispersed ownership do worse than those with concentrated shareholdings, while in others the reverse seems to be true (Gugler 1998).

(c) A third mechanism through which shareholders can induce managers to behave efficiently is incentive contracts which tie managers' compensations to measures of corporate performance.

Klapper and Love (2002) examine corporate governance and performance in a sample of firms in 14 countries, most of which are developing economies. They find that better corporate governance is associated with better performance in the form of Tobin's q and ROA and that good governance seems to matter more when the legal environment of a country provides investors with weaker protections.

Mallin, (2013) provide a comprehensive review of the Stakeholders theory of corporate governance. The main issue raised in the theory is the presence of many parties with competing interests in the affairs of the firm. They also emphasized the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance.

Owners and Managers in corporate organizations create or destroy economic value through choices made regarding ownership and capital structure of firms and in the design and management of internal control processes. A clear structure of transparent decision-making and accountability, with independent, powerful supervision and control to hold management accountable for performance and results is therefore a primary requirement of governance.

In essence, corporate governance creates a framework of goals and policies to guide an organization's progress and forms a foundation for assessing board and management performance. There is strong evidence to suggest that corporate performance and to an extent economic stability, is directly impacted by the quality of corporate governance.

Studies by the Yale School of Management show that the quality of governance can influence a company's cost of capital, as well as the size and vibrancy of a country's capital markets. It was demonstrated that during financial crises, the exchange rates and stock markets of countries with poor governance standards crumbled, while those with higher governance standards suffered less.

The Enron/Andersen debacle is more recent and prominent examples of corporate governance failure where greed, lax oversight and outright fraud brought down two of America's largest companies.

2.9 Empirical Review

The empirical literature shows that a lot of studies try to measure the corporate governance influence on firm performance. The first group of researches in this area reported inconclusive results as their findings, for instance the works of Oyejide, (2001) in his study concludes that, studies have failed to find any convincing connection between the "best practices" in corporate governance and organizational performance. Various theories and philosophies have provided the foundation for the development of alternative forms of corporate governance systems around the world. Furthermore, as economies have evolved through time it appears that corporate executives have deviated from the sole objective of maximizing shareholders' wealth. Owners of the capital have responded to these forces for the purpose of preserving their wealth and earning a reasonable return on their invested capital. Whereas internal corporate control, external financial market forces, and institutional investors' responses have been effective in securing shareholders' wealth, legal protection needs to be provided for them.

According to Onakoya, Ofoegbu and Fasanya (2012) in their work, observe that corporate governance have been on the low side and have impacted negatively on bank performance. The study therefore contends that strategic training for board members and senior bank managers should be embarked or improved upon, especially on courses that promote corporate governance and banking ethics.

Bhagat and Black (2001) carried out a study on “non-correction between board independence and long-term firm performance” using cross sectional approach to conduct largesample, long-horizon study of 957 large American public corporations to establish whether the degree of board independence (proxy by the fraction of independent directors minus the fraction of inside directors on a company’s board) correlates with various measures of the long-term performance of large American firms (Tobin’s return on assets. Ratio of sales to assets and market adjusted stock price return). They found evidence that low profitability of firms increased the independence of their boards of directors confirming the view that directors are more effective during periods of low performance.

Another study carried out by Gompers, Ishii and Metrick, (2003) tittled “Corporate Governance and Equity Price.” The authors employed time series data expanding through the 1990’s for about 1500 firms per year. They reported a striking relationship between CG and stock returns. Their evidence shows that firms with strongest shareholder right out perform their counterpart with poor shareholder right by 8.5% in terms of share valuation.

La Portra; Lopez-de-Silanes; Shleifer and Vishmy (1998) carried out research on “Corporate wnership Around the World”. They examined the effect of corporate value of shareholder protection in the context of controlling shareholders”. They studied a sample of 539 large firms in 27 economies using Tobin’s as a dependent variable. Their results suggest that poor shareholders protection is associated with lower valuations and that high cash flow ownership by the controlling shareholder improves valuation especially where shareholder protection is poor. Though the finding of this study underscores the importance of good governance, it is cross sectional and cannot be used to generalize on specific industries such as banking.

Ekei (2003) and Agrawal (2005) identified the fact that corporate governance structures are influencing the value of the companies. Contrary, Kojola (2008) suggested the fact that the owners and the managers are choosing a variety of corporate governance structures, every of them maximising the value of the company, but none of them is not correlated with corporate performance.

While Danoshana S. and Ravivathani T. in their study on the impact of the corporate governance on firm performance affirmed that corporate governance issues have received wide attention of researchers for more than three decades due to the increasing economic crisis around the world. This research study consider the impact of corporate governance on the performance of listed financial institutions in Sri Lanka as main objective and recommend a suitable corporate governance practices for improving performance of listed financial institutions. To achieve these objectives, the researcher use Return on equity, Return on assets, as the key variables that defined the performance of the firm. On the other hand, Board size, Meeting frequency and audit committee of the company are used as variables to measure the corporate governance. Twenty five listed financial institutions were selected as sample size for the sample period of 2008-2012. The data will be collected by using the secondary sources. According to the analysis, variables of corporate governance significantly impact on firm’s performance and board size and audit committee size have positive impact on firm's performance. However, meeting frequency has negatively impact on firm's performance**.**

Sanda, Mikalu and Garba (2005) conducted a study on "Corporate Governance's Mechanism and Firm Financial Performance in Nigeria." The study investigated the impact of three CG proxies that is board compositions, the size and power separation between chairman and CEO on three banks performance measures such as returns on equity, sales growth and Tobin's Q. The study utilizes Ordinary Least Square Regression model on a sample size of 11 out 28 banks listed on the NSE as at 31st Dec, 2003. The study finds that CG variable have significant impact on ROE and Tobin's Q. However, no significant was documented in relations to sales growth. The study recommends a maximum board size of ten (10), consistent with the view that large boards are less effective, (Yermark 1996; Lipton and Lorsch 1992; Jensen 1993 and Sanda, Mikalu and Garba 2005). The study assumes a straight linear relationship between the CG variable and selected performance measures. They observed that the linearity assumption, through simplistic, could lead to misleading conclusions as shown by some scholars, (Johnson, Daily and Elstrand (1996), Daily, Johnson and Dalton (1999).

Their findings are contrary to that of Jensen (1993), who theorized that keeping boards small can help improve their performance. When boards get beyond seven or eight people, they are less likely to function effectively and are easier for the CEO to control. According to them, board sizes do not undermine performance in banking firms. In contrast, they documented evidence in favour of a positive relationship between board size and performance as measured by Tobin's Q and ROA. They conclude that size performance relationship goes from board's size to performance and that calls for the reduction in the number of directors in banks could have adverse effect on performance. Their findings also contradicted Sanda et al, (2005), whose document evidenced that board size negatively affects performance. Different methods employed by the two scholars may be responsible for the divergent results.

Main, Bruce and Buck, (1996) carried out a study on “Total Board Remuneration and Company Performances.” They used secondary data based on financial statement of all the eighteen Ghanaian banks over eleven years period (1990 to 2001) to determine the relationship between board variables (boards size, board composition. CEO duality and CEO tenure) and two performance variables (ROA and change in interest income). They found a significant relationship between dependent and independent variables.

The study by Arinze Gabriel O (2014). examines the effect of corporate governance practices and regulatory agencies on the performance of government establishments in Anambra State of Nigeria. Twenty five government establishments in Anambra State were studied using their general managers and Accountants as participants. Spearman’s rank correlation coefficient and student t-transformation were used to test for relationship and significant respectively. The results of this study reveal that corporate governance has positive and significant relationship on the performance of corporate governance regulatory agencies. Further results reveal that agreement on corporate governance has positive and significant relationship with lay down standard. The study calls for corporate governance regulatory agencies to discharge their duties without fear of favour and should shun all forms of gratification and render objective report on government organizations. This will redirect government establishment on improving their corporate governance practices, which will enhance their firm value and meet the need of the future generation.

Corporate governance is about putting in place the structure, processes and mechanism that ensure that the firm is being directed and managed in a way that enhances long term shareholder value through accountability of managers and enhancing organizational performance. Corporate governance refers to a set of rules and incentives by which the management of a company is directed and controlled. Hence good corporate governance and capital structure maximizes the profitability and long term value of the firm for shareholders. There is a great awareness among the researchers to carry out the researches in "corporate governance'. Very little researches on "corporate governance" are available in Sri Lanka and need to be empowered companies to pay a special attention on corporate governance. The main objective of this study is to examine the relationship between corporate governance practices, capital structure and firm performance in listed manufacturing firms in Sri Lanka.

In a way, the present study is initiated on "corporate governance practices, capital structure and firm performance "with the samples of 25 manufacturing companies using the data representing the periods of 2008 –2012. Leadership structure, board committee, board meeting, board size, board composition, were used as the determinants of corporate governance practices whereas debt equity ratio (DER) were used as the measures of capital structure and return on equity (ROE) and return on assets (ROA) were used as the measures of firm performance. The statistical tests were used includes: descriptive statistics, correlation and regression analyses.

The study found that determinants of corporate governance are not correlated to the capital structure and firm performance measures of the organization. Regression model showed that corporate governance don't affect companies' DER, ROE and ROA. Further recommendations are also put forwarded in the research.

The study only used data from the 2008-2012 annual reports. However, the findings have highlighted the effects of corporate governance of the performance and capital structure.

The study contributes to literature in Sri Lanka. Furthermore, the finding of the paper can be considered as helpful for managers and users that are anxious to develop financial description quality and practices of corporate governance. Example the works of Moran, (2013). In a study by Morck, (1988), he surveyed over 200 Institutional Investors and found that 80% of the respondents would pay a premium for well governed companies. The research has been able to capture a perceived interest of investors that are willing to pay premium for good corporate governance. The findings of Antunorich et al (2000) and that of Business week (2000) have further echoed the finding of Kinsey's that Investors favored companies that are perceived to be well –governed

Cubin & Leech (1983) studied the relationship between governance and performance and find that a positive relation exists between ownership concentration and profitability. Other studies that examine the CEO"s remuneration and performance relationship include the studies of Jensen and Krueger (1998), Barro (1999). These studies have identified factor such as, board composition, financial expertise of the board members, and whether the CEO is also the board chairman, as the main characteristic of Corporate governance. Furthermore, kessey et al(1997), Identified key mechanism of an effective Corporate governance framework to include ownership, directors and the board, CEO, auditing and information, directors remuneration, and the market for corporate control. Similarly, sheleifer and Vishnu (1997) supports the contribution of keasey et al (1997).

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller boards. Jensen (1993) and Lipton & Lorsch (1992) argue that large boards are less effective and are easier for a CEO to control. When a board gets too big, it becomes difficult to coordinate and becomes problematic especially in terms of the process involve indecision making. Smaller boards also reduce the possibility of free riding by individual directors, and increase their decision taking processes. Mak and Yuanto (2003), also found that firm valuation is highest when board has five directors, a number considered relatively small in their study for the markets they considered in their sample. Though the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, yet no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management if they perceive the opportunity to advance into positions held by incompetent executives.

Another aspect of the corporate governance and firm performance issue is the position of the chair and the chief executive of the firm. Researchers find mixed evidence, on which is better, between separating the position of the chair of the firm with that of the CEO. Yermack (1996) argue that, firms are more valuable when the CEO and board chair positions are separate. Furthermore, Daily & Dalton (1992) find no relationship between CEO duality and performance in entrepreneurial firms. Klapper and Love (2002) examine corporate governance and performance in a sample of firms in 14 countries, most of which are developing economies. They find that better corporate governance is associated with better performance in the form of Tobin's q and ROA and that good governance seems to matter more when the legal environment of a country provides investors with weaker protections.

Finally, Delton et al (1998) in their study using subgroup moderating analysis based on variables like the firm size, nature of the performance indicators and operationalization of board composition conclude that there is no evidence of a substantive relationship. Furthermore, another study, using Meta-analysis methodology found no meaningful relationship between board composition and the financial performance of firms. Michael et al (2002) using simultaneous equation method also concludes no significant relationship between the governance control mechanism and firm performance

2.10 Theoretical Framework

The existence of divergent and sometimes conflicting objectives between managers and shareholders has given rise to the design of many concepts and mechanisms to ensure that the cost associated with such divergent interest is minimal. One of the proposed arrangements is corporate governance and it is not surprising that agency theory has been the dominant paradigm in the corporate governance literature. However, several other theories have emerged in an attempt to highlight the objective of the firm and how it should respond to its different obligations. In the following, these theories are discussed briefly.

Agency Theory

It is an acknowledged fact that the principal-agent theory is generally considered the starting point for any debate on the issue of corporate governance emanating from the classical thesis on *The Modern Corporation and Private Property* by Berle and Means (1932). According to this thesis, the fundamental agency problem in modern firms is primarily due to the separation between finance and management. Modern firms are seen to suffer from separation of ownership and control and therefore are run by professional managers (agents) who cannot be held accountable by dispersed shareholders.

The principals are confronted with two main problems. Apart from facing an adverse selection problem in that they are faced with selecting the most capable managers, they are also confronted with a moral hazard problem: they must give agents (managers) the right incentives to make decisions aligned with shareholder interests.

Agency relationships and cost (Jensen and Meckling, 1976) describe agency relationship as a contract under which "*one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent*". In this scenario, there exists a conflict of interests between managers or controlling shareholders, and outside or minority shareholders leading to the tendency that the former may extract "*perquisites"* (or perks) out of a firm's resources and be less interested to pursue new profitable ventures. Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. To increase firm value, one must therefore reduce agency costs. The following represent the key issues towards addressing opportunistic behaviour from managers within the agency theory:

Composition of board of directors: The board of directors is expected to be made up of more non-executive directors (NEDs) for effective control. It is argued that this reduces conflict of interest and ensures a board's independence in monitoring and passing fair and unbiased judgment on management.

***CEO duality*:** It is expected also that different individuals occupy the positions of CEO and board chairperson as this reduces the concentration of power in one individual and thus greatly reduces undue influence of particular management and board members.

2.11 Summary

In conclusion, it can be said that most corporate governance failures can be traced to ineffective service provided by Board Advisors and inadequate controls on governance processes. This is true for large and small corporations alike. In climate of increased focus on corporate governance, Board themselves need to ensure that fundamental governance practices and processes are in place at their companies.

Having a sound Corporate Governance program in place is a corporate imperative in today’s regulatory climate, both from an internal as well as external perspective. The practices above are just some of the fundamental processes that directors should expect from their companies and are in use by Corporate Secretaries at many companies. Directors need to know that they are getting what they need to make their decisions, that minutes are being drafted to reflect their deliberations, and that appropriate records of those meetings are being kept. Externally, regulators expect their requirements to be met. Finally, with a strong governance program in place the company’s reputation with investors, creditors, insurers, and other stakeholders will be enhanced. Therefore companies with sound governance programs may perform better.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains in depth, the procedures followed in arriving at the inference of this research work. Research decision is the framework for investigating a research problem or in other words refers to the methods used in collecting data, which are to be used in investigating and analyzing a research problem.

3.2 Research Design

This research used descriptive research design employing the use of time series data from quoted Banks in Nigeria. Descriptive research design is useful in this study because it would analyze data got from the annual financial records or statements of the selected quoted Bank. It is believe that this research design technique is unique and effective as it helps the researcher to use statistical data in obtaining a realistic conclusion for the study.

3.3 Population and Sampling Techniques

The population of this study is made up of the entire quoted banks in the Nigerian Stock Exchange. According to Nigerian Stock Exchange as at 6th August, 2015 on Daily Trust newspaper, there are 25 quoted banks in Nigeria. The sample size is (1) Bank, that is, Access Bank Plc. The sample size is chosen using purposive sampling method. The reason for choosing this Bank is because it belongs to the new generation bank, it also one of the banks that have been able to merge and acquired other banks that could not meet up the capitalization or were distress.

Sampling techniques is a process used in statistical analysis in which a predetermined number of observations will be taken from a larger population. The methodology used to sample from a larger population will depend on the type of analysis being performed. The simple random sample was used in this study. The annual report of the Access Bank Plc was selected for the investigation

3.4 Method of Data Collection

The method of data collection for this research was through the use of secondary data. The secondary data source is useful because all the information and data needed for this research are documented in the Banks annual report and financial statements which are useful tool to collect information that reflect the positions of the banks activities on corporate governance and organizational performance. The time series data used is unique and authentic about the organization's sitting on corporate governance proxies by board size, Non-Executive Directors which represent Board Composition, Directors Equity Interest and Corporate Governance Disclosure while organizational performance proxy as Return on Equity representing firm performance.

3.5. Procedure for Data Analysis and Model Specification

$ROE_{it} = f(BOS_t, BCOMP_t, DEI_t, CGD_t)$……………………………(1)

$$ROEit = \beta_0 + \beta_1 B0Sit + \beta_2 NEDit + \beta_3 DElit + \beta_4 CGDit + \varepsilon it$$

Where:

ROE = Return on Equity representing firm performance at time t.

BOS = Board Size;

NED = Non-Executive Directors which represent Board Composition which is defined as the ratio of outside directors to total number of directors,

DEI = Directors Equity Interest

CGD = Corporate Governance Disclosure.

εt, the error term which account for other possible factors that could influence ROEit that are not captured in the model.

The apriori is such that:

β_1BOSt; β_2NEDt; β_3DEIt and β_4CGDt > 0

The implication of this is that a positive relationship is expected between explanatory variables (β_1BOSt; β_2NEDt; β_3DEIt and β_4CGDt) and the dependent variable (ROE). The size of the coefficient of correlation will help us explain various levels of relationship between the explanatory variables. The decision is based on 1%, 5% and 10% level of significance.

3.6 Justification of methods

The method of data collection that will be applied in this study will be secondary method. The method will be applied because it is a statistical process for estimating the relationships among variables. Also, regression analysis will be adopted for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables.

3.7 Summary

Methodology is about anything that has to do with procedures or techniques of investigation, that is, the set of techniques used in one piece of research. It is all about the methods used in the study of the research. Methodology is essential in gathering relevant information thereby giving effective and reliable representation.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The chapter presents the analysis of the secondary data collected from Access Bank Plc annual report. The data from these sources are therefore presented in the chapter using tables for easy understanding. Data analysis as well as testing of the hypotheses formulated in chapter one are also covered. In the chapter, we also provide two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps us to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, we used the Pearson correlation, the regression analysis and the t-test statistics. While the Pearson correlation measures the degree of association between variables under consideration, the regression estimates the impact of the corporate governance variables on performance proxied by return on equity.

4.2 Historical Background of Access Bank Nigeria

Over the past 26 years, Access Bank Plc has transformed from an obscure Nigerian Bank into a world class African financial institution. Today, Access Bank is one of the five largest banks in Nigeria in terms of assets, loans, deposits and branch network; a feat which has been achieved through strong long-term approach to client solutions – providing committed and innovative advice.

Access Bank has built its strength and success in corporate banking and is now taking that expertise and applying it to the personal and business banking platform it acquired from

Nigeria’s International Commercial bank in 2012. The last two years have been spent integrating the business, investing in the infrastructure and strengthening the product offer.

As part of its continued growth strategy, Access Bank is focused on mainstreaming sustainable business practices into its operations. The Bank strives to deliver sustainable economic growth that is profitable, environmentally responsible and socially relevant.

The Beginning (1988 – 2001)

- December 19, 1988: Access Bank was issued a banking license
- February 8, 1989: Access Bank was incorporated as a privately owned commercial bank
- May 11, 1989: Access Bank commenced operations at its Burma Road, Apapa Head Office
- March 24, 1998: Access Bank became a Public Limited Liability Company
- November 18, 1998: Access Bank listed on the Nigeria Stock Exchange
- February 5, 2001: Access Bank obtained a Universal Banking License from the Central Bank of Nigeria

The Change

In March 2002, the Board of Directors appointed Aigboje Aig-Imoukhuede as Managing Director/Chief Executive Officer and Herbert Wigwe as Deputy Managing Director. The mandate was clear: “Reposition the bank as one of Nigeria’s leading financial institutions within a five year period (March 2002 – March 2007).” This task was perceived by many as impossible given the realities of the Bank at the time. Simultaneously, Mr. Gbenga Oyebode, who brought commendable and useful board experience gathered from some of Nigeria’s leading companies, including MTN Nigeria, Okomu Oil Palm Plc, was also appointed to the Board. The new management team subsequently created a transformational agenda for Access Bank which represented a departure from all that characterized the Bank in the past and became the road map for the conversion of the bank into a world class financial institution.

The focus was to:

- Assemble a credible and high caliber management team
- Introduce a culture of excellence founded on professionalism and integrity
- Ensure Human Capital Development
- Enlarge the shareholder base
- Introduce strong procedures and processes to drive day-to-day Bank activities
- Instill a passion for customer service in all members of staff
- Establish a low cost liability generation strategy
- Expand branch network to cover all clearing zones within Nigeria
- Create a world-class brand

The impact of the transformation agenda was reflected in the first year. The bank grew its balance sheet by 100% and posted an impressive N1 billion profit before tax. The profit before tax figure was more than the cumulative profit made by the bank in the previous 12 years. This also marked the beginning of what would be a six year record triple-digit growth trend. Similarly, earnings per share had rebounded to 21 kobo from a negative 2 kobo position, leading to a declaration of a 5 kobo dividend to shareholders for the first time in three years.

In recognition of the role of an enhanced capital structure, the Bank embarked on a capital raising exercise in July 2007. The exercise was an astounding success recording an over subscription of over 300%. The public offer comprised of an Over-The-Counter GDR placement of US$250 million which was similarly oversubscribed by 700%. The Bank's shareholders' fund today stands at over N240 billion with an expanded shareholder base of over 1,000,000 domestic and foreign investors.

Access Bank is consistently seeking for ways to expand its service platform across the African continent. The bank currently operates through a network of about 366 branches across major cities and commercial centers in Nigeria, Gambia, Sierra Leone, Zambia, Rwanda and Democratic Republic of Congo.

4.3 Data Presentation and Analysis

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
return on equity	21	.02	.17	.0494	.04321
board size	21	6.67	17.00	13.2067	2.29273
corporate governance disclosure index	21	.55	.87	.6595	.08829
directors equity interest	21	.01	.28	.1095	.07560
Non-Executive Directors	21	1.00	4.00	2.2381	.83095
Valid N (list wise)	21				

From the descriptive table using 21 observations, board size has a minimum figure of 66.7% and maximum of 17. The mean performance is about 13% with standard deviation of approximately 2.3%. This means that the performance can deviate from mean to both sides by 2.3%. The table further revealed that on average, the organization generates Return on Equity (ROE) of about 5%

and a standard deviation of 4.3%. This means that the value of the ROE can deviate from mean to both sides by 4.3%. The maximum and minimum values of ROE are 2% and 17% respectively. In addition, the average proportion of the outside directors sitting on the board is 22%.

Table 4.2: Pearson Correlations

		return on equity	board size	corporate governance disclosure index	directors equity interest	Non Executive Directors
return on equity	Pearson Correlation	1	$-.844^{**}$	$.559^{**}$	$.825^{**}$	-.083
	Sig. (2-tailed)		.000	.008	.000	.719
	N	21	21	21	21	21
board size	Pearson Correlation	$-.844^{**}$	1	$-.571^{**}$	$-.768^{**}$	.078
	Sig. (2-tailed)	.000		.007	.000	.737
	N	21	21	21	21	21
corporate governance disclosure	Pearson Correlation	$.559^{**}$	$-.571^{**}$	1	.366	-.148
	Sig. (2-tailed)	.008	.007		.102	.521
	N	21	21	21	21	21
directors equity interest	Pearson Correlation	$.825^{**}$	$-.768^{**}$	.366	1	-.086
	Sig. (2-tailed)	.000	.000	.102		.712
	N	21	21	21	21	21
Non-Executive Directors	Pearson Correlation	-.083	.078	-.148	-.086	1
	Sig. (2-tailed)	.719	.737	.521	.712	
	N	21	21	21	21	21

**. Correlation is significant at the 0.01 level (2-tailed).

From the correlation result in table 4.2, board size has a strong negative correlation of -.844 with return on equity which is significant at 1%. This implies that how large the size of a board is does not have a positive effect on the level of performance in Access Bank Plc but however a negative effect. This also implies that an increase in the board size will lead to a decrease in performance (ROE).

The proportion of outside directors is another governance variable that recorded a negative correlation coefficient (r) of -.083 with a p-value of .000 which is significant at 1%. This invariably means that the more the number of outside directors who are sitting on a board, the lower the performance of Access Bank Plc in terms of ROE.

The result further showed that at 1% level of significance, directors' equity interest has a positive correlation of 0.825 with return on equity. This indicates that individuals who form part of management of Access Bank Plc in which they also have equity ownership have a compelling business interest to run them well. This invariably is expected to improve the performance of Access Bank Plc.

Among the governance variables, while BOS recorded a positive correlation with BOS has a negative correlation with both CGD and DEI. This is further explained to mean that bigger boards have more outside directors while bigger boards also disclose lesser governance information than smaller ones. Likewise, in smaller boards, the directors are more interested in the organisations' equity. A negative relationship was also noticed with DEI. Finally, a positive correlation was observed between CGD and DEI. This connotes that the more the equity owned by directors of the banks under review, the more they disclose on corporate governance issues and comply with the code of best practice.

4.4 Regression Analysis

In this section, we used regression analysis to investigate the impact of corporate governance on performance of Access Bank Plc proxied by return on equity. In doing this, we used a simple definitional model as developed in our chapter three to guide our analyses.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.898[a]	.807	.758	.02124	2.412

a. Predictors: (Constant), Non-Executive Directors, board size, corporate governance disclosure index, directors equity interest

b. Dependent Variable: return on equity

Table 4.4: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	.030	4	.008	16.692	.000[b]
1	Residual	.007	16	.000		
	Total	.037	20			

a. Dependent Variable: return on equity

b. Predictors: (Constant), Non-Executive Directors, board size, corporate governance disclosure index, directors equity interest

Table 4.5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.064	.089		.725	.479
	board size	-.007	.004	-.397	-2.018	.061
	corporate governance disclosure index	.081	.067	.166	1.219	.241
	directors equity interest	.263	.099	.460	2.649	.018
	Non-Executive Directors	.001	.006	.011	.103	.919

a. Dependent Variable: return on equity

The result from the regression equation is shown in tables above. The equation employs return on equity as its dependent variables while board size, proportion of non-executive directors, directors' equity interest and governance disclosure index are the independent variables. From the model, the F-values which are significant at 1% level indicate that our models do not suffer from specification bias. However, from model, the coefficient of determination (R^2 and R) indicates that about 80.7%and 89.8% of change in return on equity is accounted for by the explanatory variables while the adjusted R-squared of 75.8% further justifies this effect.

The regression result for the model further revealed that the relationship between the board size and the performance proxies are not in line with our stated expected result. The board composition also shows a contrary result with the apriori ($\beta_1BOS_{t;}$ $\beta_2NED < 0$). This invariably means that the return on equity goes down as board size increases. In addition, the return on equity decreases when more outside directors are introduced to the board. Additionally, it was observed that the more equity the directors own in Access Bank Plc the better their return on equity. Likewise, the more governance issues Access Bank Plc discloses the higher the ROE. These last two results conform to the apriori result (β_3DEIt and $\beta_4 CGD_t > 0$).

4.5 Hypothesis Testing

In chapter one, we formulated four principal testable hypotheses on the relationship between corporate governance and performance of Access Bank Plc, against which this study is anchored. In this section, we subject these propositions to empirical testing drawing from the results of our descriptive and inferential statistical analyses. Our decision rule is based on the significances of the t-statistics which are represented by the p- values flagged by the statistical packages used. This is based on the fact that the existence of a significant relationship can be inferred from a significant t-statistic. Based on the fact that more significant relationships are noticed between the governance variables and ROE, this implies that ROE is a better performance proxy. This study therefore based its decisions on ROE.

Hypothesis 1:

H_{01}: There is no significant relationship between Board size and performance of Access Bank Plc. In our first hypothesis, we assumed that there is no significant relationship between board size and performance of Access Bank Plc. From the analysis, the correlation between board size and ROE has a coefficient (r) of -.844, indicating an inverse correlation between the two variables. Also, the regression coefficient of the model is negative (-2.018), with a p- value of .061 significant at only 10%. This indicates a significant negative effect of board size on the performance of Access Bank Plc. On the premise of these results, since the negative effect is significant, we therefore reject the null hypothesis and accept the alternate hypothesis which states that there is a significant relationship between BOS and ROE. This invariably means that the board size must be considered while taking performance decisions. The result therefore supports the agency theory as the large board members being the agents, tend to look after their own interests.

The significant negative relationship found between bigger board size and ROE is consistent with the conclusion drawn by Loderer and Peyer (2002). They have reported a significant negative relationship between board size and the performance of a firm. We therefore argue that a large board size leads to the free rider problem where most of the board members play a passive role in monitoring the firm.

Furthermore, the board members tend to become involved in dysfunctional conflicts where the board is not cohesive (board members are not working optimally to achieve a single goal) deteriorating the value of a firm. This view is also shared by Pathan, Skully and Wickramanayake (2007). The result however, differs from Kyereboah-Coleman and Biekpe (2005) who concluded with a positive relationship between a firms' value and board size. The result of the hypothesis also differs from Zahra and Pearce (2009) who argued that a large board size brings more management skills and makes it difficult for the CEO to manipulate the board.

Hypothesis 2:

H_{02}: The relationship between the proportion of non-executive directors and the performance of Access Bank Plc is not significant.

From the hypothesis above, we assume that there is no significant relationship between the proportion of outside directors sitting on a board and the performance of Access Bank Plc. The correlation result shows a negative correlation of -.083 which entails that the more the number of outside directors, the lower the performance of Access Bank Plc. However, the regression result shows that the negative association observed between the variables is significant at only 10% with a p- value of 0.919. This also confirms that outside directors does have significant but negative impact upon performance of Access Bank Plc as measured in terms of ROE.

Based on the fact that the association is insignificant, we therefore reject our alternate hypothesis in favour of the null hypothesis. The negative effect noticed is likely to be because non-executive directors are too busy with other commitments and are only involved with the bank's business on a part-time basis. It was also pointed out that an average director spends only twenty-two days per year on his duties, which is barely enough to perform the essential functions. Indeed it may be wondered whether the directors who put in less than average effort can be discharging their duties adequately. According to Carter and Lorsch, (2004) since the average director spends a little time on the job, it is difficult to develop much more than a rudimentary understanding of their companies' workings.

In addition, as discussed above, non-executive directors are likely not to have a hands-on approach or are not necessarily well versed in the business, hence do not necessarily make the best decisions. This is in tune with the study by Belkhir (2006); Staikouras (2007) and Adams and Mehran (2008) who found a negative but significant relation between the tested variables. However, our findings disagree with Bebchuk, Cohen and Ferrell (2009) who found a positive relationship between the variables.

Hypothesis 3:

H_{03}: There is no significant relationship between Directors' Equity Holding and the performance of Access Bank Plc.

The correlation result of the hypothesis above shows a strong significant positive correlation of .825 between the directors' equity holding and the performance of Access Bank Plc. The regression result also shows that the positive correlation noticed between the studied variables is significant at 1%, 5% and 10% respectively with a p-value of 0.018. Based on this result, we therefore reject our null hypothesis and accept our alternate hypothesis. The result depicts that the more Access Bank Plc equity owned by the directors, the better Access Bank Plc performance. This implies that individuals who form part of management of Access Bank Plc in which they also have equity ownership have a compelling business interest to run them well. Further explanation for this phenomenon is that the equity ownership creates better management monitoring on the part of the board and hence improved results. It is therefore argued that one of the ways in which the board of directors could be motivated to take performance-improving measures and to protect the interests of the shareholders, is for the directors themselves to take part in the ownership of the firm.

The argument is that this will enable them have more interest in the value of shares of the firm and that they will take measures to improve bank's performance. Similar view is shared by McConnell, Servaes and Lins (2008) that within a certain range, a positive relation is predicted between director equity interest and firm performance. However, when they own a large proportion of shares of the firm, directors could pose other agency problems, especially those associated with conflicts between large and small shareholders. This finding is in line with Yu (2003) and Bolton (2006). However, Wei (2000) and Lin (2007) found that there was no significant positive relationship between the quantities of stock directors held and firm performance.

Hypothesis 4:

H_{04}: There is no significant relationship between the governance disclosures of Access Bank Plc and their performance

From this hypothesis, a positive correlation of .559 is observed between the level of governance items disclosed by the banks and ROE which is the proxy for performance. The regression result further reveals that a positive significant relationship with a p-value of 0.241 (insignificant at 10%) occurs between the dependent and the independent variables. However, based on these findings, we therefore accept our null hypothesis and reject our alternate hypothesis. This result implies that Access Bank Plc disclose less on governance issues.

4.6 Discussion of Findings

Findings from the study reveal that both board size and the proportion of outside directors are significantly but negatively related to performance in Access Bank Plc. While the directors' equity interest and the level of corporate governance items disclosed are significantly positive in relation with performance. However, there is no doubt that several studies have been conducted so far and are still on - going on the examination of the relationship between organizational performance and corporate governance.

Our findings are therefore in line with the work of Staikouras (2007) where they examined a sample of 58 out of the 100 largest, in terms of total assets, credit institutions operating in Europe for the period between 2002 and 2004. Their analysis inferred that organizational profitability - measured in terms of ROE is negatively and significantly related to the size of the

Board of Directors. Pathan et al., (2007) using a dataset of the Thai commercial banks over the period 1999-2003, also obtained a negative relation between board size and ROE. This is also seen in Eisenberg, Sundgren, and Wells (2008), where a similar pattern for a sample of small and midsize Finnish firms. Their study also revealed that board size and firm value are negatively correlated.

Our findings also agrees with Zulkafli and Samad (2007) in their study in which they analyzed a sample of 107 listed banks in the nine countries of Asian emerging markets (Malaysia, Thailand, Philippines, Indonesia, Korea, Singapore, Hong Kong, Taiwan, India). They deduced that board size is not significantly correlated with performance measures, such as ROE. Our findings on board size, differs from Kyereboah- Coleman and Biekpe (2005) who conclude a positive relationship between a firms' value and board size. The findings, also differs from Zahra and Pearce (2009) who argued that a large board size brings more management skills and makes it difficult for the CEO to manipulate the board. The result of Andres and Vallelado (2011) is also different from ours on board size and performance. After examining information on the characteristics of the boards of directors for 69 commercial banks operating in Canada, US, UK, Spain, France and Italy over the period 2000-2005, they found that the inclusion of more directors is positively associated with performance, which is measured by ROE.

However, for the proportion of non-executives, our findings is in line with Yermack (2010) who reported a significant negative correlation between proportion of independent directors and contemporaneous ROE, but no significant correlation for several other performance variables (sales/assets; operating income/assets; operating income/sales); Agrawal and Knoeber (2001) report a negative correlation between proportion of outside directors and ROE. Klein (2011) also reports a significant negative correlation between a measure of change in market value of equity and proportion of independent directors, but insignificant results for return on assets and raw stock market returns. Furthermore, Andres and Vallelado (2011) found an inverted U-shaped relation between the proportion of outsiders, defined as the number of non-executive directors, and bank performance, suggesting that an optimum combination of executive and non-executive directors would be more effective in securing value for banks than excessively independent boards.

Our findings on the proportion on non-executives, further disagree with the positive finding as noticed in Pathan et al., (2007) and Bebchuk, Cohen and Ferrell (2009). Our findings as it relate to directors' equity holding is also in line with the findings of Saunders, Strock and Travlos (2009) and also Yu (2003). They found a significant positive relationship between the stock held by directors and the performance level of firms. Our findings on governance disclosure (hypothesis 4) therefore took the same trend as in the prior studies discussed above.

From the descriptive analysis, it was revealed that on the average the board size of Access Bank Plc is 13. This result implies that on the average, a relatively moderate board size of 13 is noticed. This is in line with the suggestion of Kyereboah-Coleman and Biekpe (2005) that a board size of between 12 and 16 is appropriate. Also, board composition which is the proportion of outside directors in a board has a mean of 13%. This also reveals that on the average, about 13% of the board members are non-executive directors.

Although, the mean disclosure level of 66% indicates that the bank present a statement of their corporate governance practices, however, the extensiveness of the statement varies between across times. Directors' equity interest therefore recorded a mean of 10.9%. Furthermore, the findings revealed that on average, the bank generate Return on Equity (ROE) of about 4.9% and a standard deviation of 4.3%. This means that the value of the ROE can deviate from mean to both sides by 4.9%.

From the regression result for the relationship between board size and performance, the coefficient of the model is found out to be negative (-2.018), with a p- value of .061 significant at only 10%. This result shows that board size and performance in terms of ROE move in opposite directions. The negative relationship is also seen to be considerably important to the performance of Access Bank Plc. This indicates a significant negative effect of board size on the performance of Access Bank Plc.

The significant negative relationship found between a bigger board size and ROE is consistent with the findings of Loderer and Peyer (2002). Our findings, therefore shows that a large board size can leads to the free rider problem where most of the board members play a passive role in monitoring the firm. Furthermore, the board members will tend to be involved in dysfunctional conflicts where the board is not cohesive (board members are not working optimally to achieve a single goal) deteriorating the value of a firm. Finally, the result implies that large boards in association are likely to be less effective and easier for a CEO to control. Also, when a board gets too big, it becomes difficult to co-ordinate and process. Whereas, smaller boards will tend to reduce the possibility of free riding by individual directors and increase their decision taking processes.

The regression result also shows that a significant negative association exists between the proportion of outside directors and performance. Our findings on the relationship between proportion of outside directors and performance indicates that significant negative relationship exist between the two variables. One of the reasons why increasing board independence apparently doesn't pay off in improved performance is that having a reasonable number of inside directors could add value. A support for our view is the suggestion by Baysinger and Butler (2005) that an optimal board contains a mix of inside, independent, and perhaps also affiliated directors, who bring different skills and knowledge to the board.

Executive directors may also be better at strategic planning decision. This view is also consistent with Klein's (2011) evidence that inside director representation on investment committees of the board correlates with improved firm performance. The negative effect can also be because non-executive directors are likely to be too busy with other commitments and are only involved with the company business on a 'part-time' basis. In addition, as mentioned earlier, non-executive directors are likely not to have a hands-on approach or are not necessarily well versed in the business, hence do not necessarily make the best decisions. Our findings are in tune with the study by Belkhir (2006); Staikouras (2007) and Adams and Mehran (2008) who found a negative but significant relationship between the tested variables. However, our findings disagree with Bebchuk, Cohen and Ferrell (2009) and Pathan et al., (2007) who found a positive relationship between the variables.

Furthermore, our findings revealed that a strong positive relationship exist between the governance disclosure of the bank and the performance of an association. This disclosure will help to evaluate the objectivity in insider-related dealings and thus an evaluation of the riskiness of an association. Also, the bank disclosed directors' remuneration by amount only without an effort to disclose who receives what and for what purpose are such emoluments received. They only disclose the gross amount paid to directors. This blurs the possibility of any meaningful analysis of the directors' remuneration. These findings are therefore in line with Al-Amin, and Tareq (2006) and Ogidefa (2008).

Also, our study on directors' equity interest reported a significant positive relationship between directors' equity interest and performance. It was also noted that an average of 10% of the directors in the bank holds equity in the bank. One explanation for this phenomenon is that the equity ownership creates better management monitoring on the part of the board and hence improved results. The study further revealed that in a bank where directors held stock, the ratio of directors' stock holding is positively related to performance. This is seen to be in congruence with the findings in Bhagat, Carey and Elson (2011) and Yu (2003).

4.7 Summary of Findings

The study aims at corporate governance and performance of Access bank Plc. The study used performance variables such as BOS, CGD, DEI and NED as the group of independent variables and ROE as the dependent variable which is used to measure the performance of the association. Summary of findings from the test hypotheses reveal the following:

i. There is a significant relationship between Board size and performance of Access Bank Plc.

ii. The relationship between the proportion of non-executive directors and the performance of Access Bank Plc is not significant.

iii. There is a significant relationship between Directors' Equity Holding and the performance of Access Bank Plc.

iv. There is no significant relationship between the governance disclosures of Access Bank Plc and their performance

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The empirical literature shows that a lot of studies try to measure the corporate governance influence on banks performance. The first group of researches in this area reported inconclusive results as their findings, for instance the works of Onakoya, Ofoegbu and Fasanya (2012) observe that corporate governance have been on the low side and have impacted negatively on bank performance. The study therefore contends that strategic training for board members and senior bank managers should be embarked or improved upon, especially on courses that promote corporate governance and banking ethics. Various theories and philosophies have provided the foundation for the development of alternative forms of corporate governance systems around the world. Furthermore, as economies have evolved through time it appears that corporate executives have deviated from the sole objective of maximizing shareholders' wealth. Owners of the capital have responded to these forces for the purpose of preserving their wealth and earning a reasonable return on their invested capital. Whereas internal corporate control, external financial market forces, and institutional investors' responses have been effective in securing shareholders' wealth, legal protection needs to be provided for them.

According to Sullivan (2008), "the firm is viewed as a team whose members act from self-interest but realize that their destinies depend to some extent on the survival of the team in its competition with other teams", the productivity of each member manifesting a direct effect on the team and on the other members. Thus, through the team, every manager has stimulants in order to monitor the behaviour of the other managers, being subordinates or superiors. However, the studies regarding the relationship between corporate governance and firm performance are wide, but the results are not convergent. We distinguish streams which sustain a positive relationship between corporate governance and firm performance, while others sustain a negative relationship or a lack of association between corporate governance and firm performance.

In summary, it can be said that most corporate governance failures can be traced to ineffective service provided by Board Advisors and inadequate controls on governance processes. This is true for large and small corporations alike. In climate of increased focus on corporate governance, Board themselves need to ensure that fundamental governance practices and processes are in place at their companies. Having a sound Corporate Governance program in place is a corporate imperative in today's regulatory climate, both from an internal as well as external perspective. The practices above are just some of the fundamental processes that directors should expect from their companies and are in use by Corporate Secretaries at many companies. Directors need to know that they are getting what they need to make their decisions, that minutes are being drafted to reflect their deliberations, and that appropriate records of those meetings are being kept. Externally, regulators expect their requirements to be met. Finally, with a strong governance program in place the company's reputation with investors, creditors, insurers, and other stakeholders will be enhanced. Therefore companies with sound governance programs may perform better.

The study made use of secondary data in analysing the relationship between corporate governance and performance of Access Bank Plc. The secondary data was obtained basically from published annual reports of the Bank. The Pearson Correlation and regression analysis were used to find out whether there is a relationship between the variables to be measured (i.e. corporate governance and performance) and also to find out if the relationship is significant or not. However, the t-test statistics was used to establish if there is any significant difference between the performance variables. The proxies that were used for corporate governance are; board size, proportion of non-executive directors on board and directors' equity holdings. Accounting measure of performance (return on equity) was used as the dependent variable. A decision was taken based on return on equity.

Two types of data analysis; namely descriptive statistic and inferential statistic were used for analysis. The descriptive analysis was used to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, we used the Pearson correlation, the regression analysis and the t-test statistics. While the Pearson correlation measures the degree of association between variables under consideration, the regression estimates the impact of the corporate governance variables on performance proxied by return on equity. Finding from the analysis reveals that there is a significant relationship between Board size and Directors' Equity Holding on the performance of Access Bank Plc while there is no significant relationship between the proportions of non-executive directors and governance disclosures on the performance of Access Bank Plc.

5.2 Conclusion

From the analysis above, the study therefore conclude that there is no uniformity in the disclosure of corporate governance practices. The study concludes thus:

There is a significant relationship between Board size and performance of Access Bank Plc.

The relationship between the proportion of non-executive directors and the performance of Access Bank Plc is not significant.

There is a significant relationship between Directors' Equity Holding and the performance of Access Bank Plc.

There is no significant relationship between the governance disclosures of Access Bank Plc and their performance.

Furthermore, the study conclude that a negative relationship exist between performance, board size and proportion of non-executive directors. That is, a reasonably strong correlation exists between poor performance and subsequent increase in board size and independence. While a percentage increase in return on equity can be explained by directors' equity interest and the governance disclosure level.

5.3 Recommendations

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

i. On the findings that there is a significant relationship between Board size and performance of Access Bank Plc, it is recommended that the bank should strengthen the momentum of maintain the board size as this will encouraged extensive deliberation on policies before management implementation.

ii. On the findings that the relationship between the proportion of non-executive directors and the performance of Access Bank Plc is not significant, it is recommended that in other to have proper monitoring by independent directors, the bank regulatory bodies CBN should require additional disclosure of financial or personal ties between directors and the company or its CEO. By so doing, they will be more completely independent.

iii On the findings that there is a significant relationship between Directors' Equity Holding and the performance of Access Bank Plc, it is recommended that efforts should be made to improve corporate governance and should focus on the value of the equity ownership of board members, since it is positively related to both future operating performance and to the probability of disciplinary management turnover in poorly performing bank.

iv. On the findings that there is no significant relationship between the governance disclosures of Access Bank Plc and their performance, it is recommended that 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 the bank, its directors, shareholders, specific disclosure requirements and provide for effective enforcement of the law.

5.4 Suggestions for Further Research

The limitations of the study have prompted suggestions for further research as listed below:

This research has gone some way to exploring corporate governance and corporate performance in a broader context. Further research could explore the relationship in more specific categories for example, in not-for-profit organizations, in government organizations, and in family companies. Such research could address the similarities and differences of the roles in different organizations and consider also the legal requirements for different organizations.

Further research is also required on the behavioural aspects of boards. Researchers in developed countries have recently started examining board processes by attending actual board meetings however this also needs to be expanded by researchers in developing economies. There is therefore the need to go beyond the quantitative research, which is yielding a mixture of results, to perhaps a more qualitative approach as to how boards work. Expanding this current research into a wider study of board dynamics and decision making would be a start in developing a better understanding of corporate governance.

Finally the data used for the current study was derived from a single bank and it return on equity. A larger data set comparing financial and non-financial firms may result in a different model of the relationship between corporate governance and the value of a firm. The inclusion of new corporate governance instruments could also result in additional edge-worth combinations of the internal corporate governance mechanism while other performance measures can also be introduced.

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