

**IMPACT OF CORPORATE GOVERNANCE MECHANISMS ON THE
FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN
NIGERIA**

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MTFM/ACC/17/1303

DECEMBER, 2019

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FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN
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BY

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MTFM/ACC/17/1303

**BEING A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY,
MODIBBO ADAMA UNIVERSITY OF TECHNOLOGY, YOLA ADAMAWA
STATE. IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
AWARD OF MASTER DEGREE IN TREASURY AND FINANCIAL
MANAGEMENT**

DECEMBER, 2019

DECLARATION PAGE

I hereby declare that this thesis was written by me and it is a record of my own research work. It has not been presented before in any previous application for a higher degree. All references cited have been duly acknowledged.

MOHAMMED, Buba

MTFM/ACC/17/1303

Date

DEDICATION PAGE

This work is dedicated to Allah (SWT), the giver of wisdom and the source of my strength and knowledge and for making it possible for me to complete this programme.

APPROVAL PAGE

This thesis titled “**Impact of Corporate Governance Mechanism on the Financial Performance of Listed Deposit Money Banks in Nigeria**” meets the regulation governing the award of Master Degree Treasury and Financial Management (MTFM) of Modibbo Adama University of Technology, Yola and approved for its contribution to knowledge and literacy presentation.

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ABSTRACT

This study investigated the impact of corporate governance Mechanism on Financial Performance of listed deposit money banks in Nigeria. The study has considered three specific objectives which are to determine how board size, CEO duality, board composition affect financial performance of listed deposit money banks in Nigeria. The study adopted a ex-post facto research design which assisted to examine the impact of corporate governance mechanism on financial performance of listed deposit money banks. The population of the study was 15 listed deposit money banks operating in Nigeria Stock Exchange; and the sample size was 11 banks from the 15 listed deposit money banks in Nigeria Stock Exchange. This study used secondary data derived from the audited financial statements of the sampled banks in Nigeria from 2013 to 2017. Multiple regressions analysis was used to find out the impact of corporate governance mechanism variables on banks' financial performance. The key findings for this research showed that board size and board composition has significant and positive effect on return on asset of listed deposit money banks in Nigeria while CEO Duality positive but insignificant impact on return on asset of listed deposit money banks in Nigeria. This research has concluded that there is significant effect of corporate governance using considering board size and board composition are good predictors of financial performance of listed deposit money banks in Nigeria and recommended that the size of the board (membership) should be increased but not exceeding the maximum number specified by the code of corporate governance for bank. It also revealed that it is necessary for the banking sector to maintain high level of corporate governance practice in terms of board size and board composition, as it affect the financial performance of deposit money banks as shown in the result of the analysis obtained from the data collected on the use of corporate governance mechanism which may have positively significant impact on the financial performance of listed deposit money banks in Nigeria.

TABLE OF CONTENT

COVER PAGE	-	-	-	-	-	-	-	-	i
TITLE PAGE	-	-	-	-	-	-	-	-	ii
DECLARATION PAGE	-	-	-	-	-	-	-	-	iii
DEDICATION PAGE	-	-	-	-	-	-	-	-	iv
APPROVAL PAGE	-	-	-	-	-	-	-	-	v
ACKNOWLEDGEMENT	-	-	-	-	-	-	-	-	vi
ABSTRACT	-	-	-	-	-	-	-	-	vii
TABLE OF CONTENT	-	-	-	-	-	-	-	-	viii
 CHAPTER ONE: INTRODUCTION									
1.1 Background to the Study	-	-	-	-	-	-	-	-	1
1.2 Statement of the Research Problem	-	-	-	-	-	-	-	-	6
1.3 Objectives of the Study	-	-	-	-	-	-	-	-	7
1.4 Research Questions	-	-	-	-	-	-	-	-	7
1.5 Hypotheses of the Study	-	-	-	-	-	-	-	-	7
1.6 Significance of the study	-	-	-	-	-	-	-	-	8
1.7 Scope of the Study	-	-	-	-	-	-	-	-	8
1.8 Operational Definition of Terms	-	-	-	-	-	-	-	-	9
 CHAPTER TWO: LITERATURE REVIEW									
2.1 Introduction	-	-	-	-	-	-	-	-	11
2.2 Conceptual Framework-	-	-	-	-	-	-	-	-	11
2.2.1 <i>Corporate Governance</i>	-	-	-	-	-	-	-	-	11
2.2.2 <i>Corporate Governance and Economic Development</i>	-	-	-	-	-	-	-	-	12
2.2.3 <i>State of Corporate Governance in Nigerian Deposit Money Banks</i>	-	-	-	-	-	-	-	-	14
2.2.4 <i>Board Size</i>	-	-	-	-	-	-	-	-	14
2.2.5 <i>CEO Duality</i>	-	-	-	-	-	-	-	-	15
2.2.6 <i>Board Composition</i>	-	-	-	-	-	-	-	-	16
2.2.7 <i>Financial Performance</i>	-	-	-	-	-	-	-	-	17
2.2.8 <i>Financial Performance and Financial Institutions</i>	-	-	-	-	-	-	-	-	19

2.2.9 Challenges in Financial Performance of LDMBs in Nigeria	-	-	-	-	-	-	-	20
2.2.10 Conceptual Framework	-	-	-	-	-	-	-	20
2.3 Review of Empirical Studies-	-	-	-	-	-	-	-	21
2.3.1 Board Size and Financial Performance-	-	-	-	-	-	-	-	21
2.3.2 CEO Duality and Financial Performance -	-	-	-	-	-	-	-	23
2.3.3 Board Composition and Financial Performance	-	-	-	-	-	-	-	24
2.4 Theoretical Framework-	-	-	-	-	-	-	-	27
2.4.1 Agency Theory -	-	-	-	-	-	-	-	27
2.4.2 Stakeholders' Theory	-	-	-	-	-	-	-	29
2.4.3 Stewardship Theory	-	-	-	-	-	-	-	31
2.4.4 Resource Dependency Theory	-	-	-	-	-	-	-	32
2.5 Summary of Literature Review	-	-	-	-	-	-	-	34
CHAPTER THREE: STATEMENT OF METHODOLOGY								
3.1 Introduction	-	-	-	-	-	-	-	35
3.2 Research Design	-	-	-	-	-	-	-	35
3.3 Population of the Study	-	-	-	-	-	-	-	35
3.4 Sample Size of the Study	-	-	-	-	-	-	-	36
3.5 Sources and Method of Data Collection	-	-	-	-	-	-	-	37
3.6 Techniques for Data Analysis	-	-	-	-	-	-	-	38
3.6.1 Descriptive Statistics-	-	-	-	-	-	-	-	38
3.6.2 Correlation	-	-	-	-	-	-	-	38
3.6.3 Multiple Regression	-	-	-	-	-	-	-	38
3.7 The Variables of the Study and their Measurement	-	-	-	-	-	-	-	39
3.7.1 The dependent variable	-	-	-	-	-	-	-	39
3.7.2 The independent variable	-	-	-	-	-	-	-	39
3.8 Model Specification	-	-	-	-	-	-	-	40
3.9 Summary of the Study	-	-	-	-	-	-	-	41

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction	-	-	-	-	-	-	-	-	42
4.2 Descriptive Statistics	-	-	-	-	-	-	-	-	42
4.3 Correlation Analysis	-	-	-	-	-	-	-	-	43
4.4 VIF/Tolerance Values	-	-	-	-	-	-	-	-	44
4.5 Regression Analysis	-	-	-	-	-	-	-	-	45
4.6 Summary of Findings	-	-	-	-	-	-	-	-	47

CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Introduction	-	-	-	-	-	-	-	-	49
5.2 Summary	-	-	-	-	-	-	-	-	49
5.3 Conclusion	-	-	-	-	-	-	-	-	51
5.4 Recommendations-	-	-	-	-	-	-	-	-	52
5.5 Suggestion for Further Studies	-	-	-	-	-	-	-	-	53
REFERENCE	-	-	-	-	-	-	-	-	55
APPENDICES	-	-	-	-	-	-	-	-	64

LIST OF TABLES

Table	Title of Table	Page
3.1	Population of the Study - - - - -	36
3.2	Sample Size of the Study - - - - -	37
3.3	Variable Definitions and Measurement - - - - -	40
4.1	Descriptive Statistics - - - - -	42
4.2	Correlation Matrix of the Dependent and Independent Variables-	44
4.3	Table for VIF/Tolerance Values - - - - -	45
4.4	Regression Result - - - - -	46

LIST OF APPENDICES

Appendix	Title of Appendix	Page
I	Result from STATA 13	64
II	Correlation Matrix	65
III	Collinearity Test	65
IV	Heteroscedasticity Test	65
V	Pool Ordinary Regression Analysis Result	66
VI	Fixed Effect and Random Effect Estimation	67
VII	Normality Test (Bar Chart)	68
VIII	Normality Test (Histogram)	69
IX	Normal P-P Plot of Regression Standardized Residual	70

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate governance can be described as the government of corporation, entity or an organisation. It is the set of processes, customs, policies, laws and institutions affecting the way a corporation or company is directed, administered or controlled (Wikipedia, 2009). The role of corporate governance in reshaping the system of internal control in an organisation cannot be under-estimated as control is one of the main arms of corporate governance. Since companies are the entities that create economic value, the place of corporate governance in promoting economic efficiency, transparency and accountability within an organisation cannot be underrated most especially in the banking industry considering the essential roles that banks play in the financial systems of developing economies and the widespread banking reforms that these economies have implemented. Internal control has been described as the systematic measures instituted by an organisation to conduct its business in an orderly and efficient manner, safeguard its assets and resources, deter and detect errors, fraud and theft, ensure accuracy and completeness of its accounting data, produce reliable and timely financial and management information, and ensure adherence to its policies and plans (Edem & Noor, 2014). Before the advent of the code of best practice on corporate governance, establishment of a sound system of internal control by management has been the major means of achieving the company's goals and objectives. Where you have a sound system of internal control system the organisation is most likely to achieve its goals and objectives but this has not been realizable in the banking industry, where a severe banking crisis has been the experience in most Nigeria banks.

A banking crisis occurs when there is systemic crisis, that is, a fairly reasonable proportion of banks in the system are unable to meet their obligations to customers, owners and the economy as a result of weaknesses in their financial, operational and managerial conditions, which rendered them either illiquid and /or insolvent. Alashi (2002) states that bank crisis becomes severe when a bank shows most or all of the

following conditions: gross under-capitalization in relation to the level and character of business; a high level of non-performing loans to total loans; illiquidity as reflected in banks inability to meet customers' cash withdrawals and/ or a persistent overdrawn position with the Central Bank; weak management as reflected by poor asset quality; insider abuse; inadequate internal controls and fraud among others. This has been the condition in most Nigeria banks. Accordingly, Alawiye (2006) opined that the Nigeria banking system has suffered very significant setbacks and acute systemic deterioration which resulted in the distress syndrome that caused a near total collapse of the public confidence in the system. Between 1990 and 2004 more than 50 percent of the institutions comprising 130 commercial banks and 68 merchant banks were suspected to be plagued by the distress cankerworm. This bad situation was warranted by directors and the senior management staff of banks disregard for standard procedures and deliberate breaking of operating rules. The summary of the problem with the banking system is lack of corporate governance that has resulted in total deterioration in the management system of the banking industry.

Recent crisis in the banking industry confirms other outrageous practices of managing directors whereby the managing directors of eight banks were removed and replaced (Sanusi, 2009). Importantly, the quality of management can make a very big difference to the health of a bank, hence, the role of good corporate governance in promoting effective internal control system that will reduce ineffectiveness and distress in the banking industry. Similarly, the Central Bank of Nigeria (CBN) (2006) identifies some of these prevalent problems in the banking industry to include ineffective board oversight functions; fraudulent and self-serving practices among members of the board, and management staff; weak internal control and non-compliance with rules and laws guiding banking business. The situation in the governance of banks was so bad that the 'Soludo agenda' prescribed as part of its proactive measures, the enforcement of the principle of corporate governance in the new post-consolidated banking system, and there was a radical embrace of the principles of good governance by every surviving bank. Thus, the overall aim of this study is to evaluate the impact of corporate governance in promoting effective internal control system that will reduce ineffectiveness and distress in the banking industry. It will be of great importance to future promoters, companies and

shareholders as it will serve as a sure foundation for the basis of operation. Moreover, it will help managements and directors of companies to cultivate and value the culture of promoting effective internal control system in organisations.

The Board of directors of an organization is a key mechanism to monitor manager's behavior and to advise them. The largely shared wisdom regarding the optimal board size is that the higher the number of directors sitting on the board the less is performance, though there is a convergence of agreement on the argument that board size is associated with bank financial performance. This leans on the idea that communication, coordination of tasks, and decision making effectiveness among a large group of people is harder and costlier than it is in smaller groups, (Oyerogba, *et al.*, 2016). Limiting board size to a particular level is widely believed to improve the performance of the firm at all levels. Benefits arising from increased monitoring by larger boards are outweighed by poorer communication and cumbersome decision making. Empirical studies on board size seem to provide the same conclusion: A big board is likely to be less effective in substantive discussions of major issues among themselves in monitoring management. Large boards are less effective and are easier for CEO to control (Lipton & Lorsch, 1992). In this case, Board size plays a major role on the performance of every prospering organization.

CEO duality, the practice of one person serving as both the CEO and chairperson of the board of directors, has been at the center of great interest to both academic researchers and practitioners for the last two decades. CEO duality refers to the situation when the CEO also holds the position of the chairman of the board. The board of directors is set up to monitor managers such as the CEO on behalf of the shareholders. They design compensation contracts and hire and fire CEOs. A dual CEO benefits the firm if he or she works closely with the board to create value. The proponents of CEO non-duality criticized such duality arguing that there is a problem of monitoring the management by the board if the board Chair and CEO is the same person. CEO duality gives enormous power to the CEO which tends to fail the internal control system (Jensen, 1993; Goyal & Park, 2002); reduces the check and balances as CEO may be motivated by self-interest ignoring the interest of the various other stakeholders (Tricker, 1994). Such a powerful

CEO can influence the board activities by forming board committees in pursuant to his personal interest and manipulate the board meetings by not raising an important agenda. The CEO may not want a capable board as the capable board may challenge their power and authority (Zahra, 1990).

Board composition is a measure of the proportion of independent non-executive directors to the total number of directors in a company (Abu, Okpeh & Okpe, 2016). Non-executive directors are outside directors who are independent of the company. They are called independent directors because they have neither personal nor business relationships with the company (Ogbechie & Koufopoulos, 2010). In other words, non-executive is any director who is not a representative or member of the immediate family of a shareholder and who has no business relationship with the company for the past three years or more and who has the ability to control or significantly influence the board or management of the company. Non-executive directors are usually chosen because they have appropriate caliber, skills and personal qualities, and breadth of experience.

Financial performance is measuring the firm's policies and operations in monetary terms. It's also a measure of a firm's financial health over a given period of time (Abu, *et al.*, 2010). Performance refers to the extent to which an organization's goals and objectives are achieved effectively and efficiently while financial performance is a general measure of a firm's overall financial health status over a given period of time. Financial performance is therefore a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It involves measuring the results of a firm's policies and operations in monetary terms based on allocated resources to most viable investment projects that can generate returns towards maximizations of its owner's value of investments. According to Ali, (2015), corporate performance can be measured by variables which involve productivity, profitability, growth or even customers' satisfaction. Organization's performance (OP) is partly dependent on its technology, processes, systems and employees. Performance of an organization can be considered through Returns on assets (ROA) which show the profitability of the company's assets in generating profits.

The banking sector is central to the economic growth of any country's economy, since it influences the level of money stocks through the ability to create deposits and liabilities. The financial systems have been recognize to play an important role in economic development, and this can be traced back to the era of Goldsmith (McKinnon 1973; & Shaw 1973), which shows that the financial sector of the economy would be a catalyst of economic growth if developed. The benefits derived from a healthy and developed financial system would be accruable to savings mobilization and efficient financial intermediation roles (Gibson & Tsakalotos 1994). Therefore, the failure of this sector affects the entire economy of any nation.

In the banking industry, corporate governance involves the way banking institutions' business and affairs are managed by the board of administration and the top management, which affects how the bank works out the bank's objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and interests of recognized stakeholders (shareholders and depositors), companies' commitment to sound and safe professional behaviors and practices which are in conformity with regulations and legislations, (Linyiru, 2006).

The banking sector is central to the economic growth of any country's economy, since it influences the level of money stocks through the ability to create deposits and liabilities (Abdulazeez, Ndibe & Mercy, 2016). The financial systems have been recognize to play an important role in economic development, and this can be traced back to the era of Goldsmith (McKinnon 1973; and Shaw 1973), which shows that the financial sector of the economy would be a catalyst of economic growth if developed. The benefits derived from a healthy and developed financial system would be accruable to savings mobilization and efficient financial intermediation roles (Gibson & Tsakalotos 1994). Therefore, the failure of this sector affects the entire economy of any nation. The current financial crisis in the banking sector of Nigerian economy which has been credited to the abuse of corporate governance practices is identified as one of the factors responsible for the failure of many banks in Nigeria. The financial health and performance of banks are important for the economic growth of Nigeria. This instigates the study to examine the

impact of corporate governance mechanisms on the financial performance of listed deposit money banks in Nigeria.

1.2 Statement of the Research Problem

Although there is a growing literature linking corporate governance to company performance, there is equally a growing diversity of results. The diversity of results has been partly explained by differences in the theoretical perspectives applied, selected research methodologies, measurement of performance and conflicting views on board involvement in decision making and, in part, to the contextual nature of the individual firm. For a sustainable performance and growth, there is dire need for good corporate practices in any organization.

The subject of corporate governance is not well emphasized in most organization, this has attracted worldwide attention because of its apparent importance for strategic health of organizations and society in general (Kihumba, 2000). Corporate governance should be enriched by expanding the framework of analysis beyond the conventional criteria to incorporate the norms and values, such considerations can improve our understanding of boardroom dynamics and the characteristics of the decision management and decision control, (Wainaina, 2003).

Since the issuance of the code of corporate governance by the CBN, efforts have been made to evaluate its impact on the performance of banks. From empirical perspective, efforts aimed at studying the impact of corporate governance among scholars have yielded varying outcome where a consensus is yet to be reached. This led to continuous study in the area of corporate governance and the performance of banks in the post consolidation era. Most of the recent post consolidation studies on corporate governance and bank performance covered less than five years period with some of them using primary data. Majority of those that used secondary data have either used statistical package for social sciences (SPSS) as analytical software or covered less than the listed banks, example of studies in this category are (Adegbemi, Donald & Ismail, 2012; Ajola, Amuda & Arulogum, 2012; Akpan & Roman, 2012; Lubabah & Bawa, 2013). There is therefore the need to increase the number of years of study, the sample size and to use

different statistical software so as to increase the reliability of findings. It is based on this vacuum created by previous studies that this study intends to fill.

The thrust of this study therefore is to examine the impact of corporate governance on the financial performance of Nigerian listed deposit money banks after consolidation.

1.3 Objectives of Study

The main objective of this study is to examine the impact of corporate governance mechanism on financial performance of Listed Deposit Money Banks (LDMB's) in Nigeria. Other specific objectives of the study are to:

- i. Examine the impact of Board Size on financial performance of Listed Deposit Money Banks in Nigeria.
- ii. Examine the impact of CEO Duality on financial performance of Listed Deposit Money Banks in Nigeria.
- iii. Evaluate the impact of Board Composition on financial performance of Listed Deposit Money Banks in Nigeria.

1.4 Research Questions

This study seeks to address the following questions in line with the objectives:

- i. To what extent does Board Size affect financial performance of Listed Deposit Money Banks in Nigeria?
- ii. To what extent does CEO Duality affect financial performance of Listed Deposit Money Banks in Nigeria?
- iii. How does Board Composition affect financial performance of Listed Deposit Money Banks in Nigeria?

1.5 Hypotheses of the Study

To achieve the objectives of the study, the following hypotheses were formulated in null form to guide the study.

- i. Board Size has no significant impact on financial performance of Listed Deposit Money Banks in Nigeria.

- ii. CEO Duality has no significant impact on financial performance of Listed Deposit Money Banks in Nigeria.
- iii. Board Composition has no significant impact on financial performance of Listed Deposit Money Banks Nigeria.

1.6 Significance of the Study

The findings of this research project would contribute to improving understanding about corporate governance practices in Nigerian banking, and in what ways the banks can implement good corporate governance that aligns with bank performance. Many Deposit Banks in Nigeria will find the study very valuable to their operations and more so a benchmark to decisions to improve on corporate governance in the banking industry.

The policy makers in the banking business will find the study useful as a basis of formulating policies, which can be effectively implemented for better and easier regulation of the banking sector. The government will use the study so as to come up with policies and ways of promoting corporate governance of financial institutions in the country.

The empirical results would also provide general indicators of corporate governance useful for both regulator and business people in making policies and decisions as well as in rewarding or punishing the banks that have great or little intention to improve their corporate governance aligning with managers-owners risk-taking behaviour and bank performance. Other researchers and academic community will use this study as a basis for further studies on corporate governance in Nigerian banks.

1.7 Scope of the Study

This study will empirically examine the impact of corporate governance mechanism on financial performance of banks. The study will cover only listed Deposit Money Banks (DMBs) in Nigeria. The focus on banks was in part, hinged on the role of banks as financial intermediaries in the economy. This role therefore means that banks tend to enhance activities in the corporate sector. There are also assertions that banks structure transactions both for customers and themselves that are likely to facilitate financial performance (OECD, 2009). Corporate governance being the independent variable will

be proxied by board size, CEO duality and board composition while financial performance as the dependent variable will be proxied by return on assets (ROA). The study will cover eleven (11) listed deposit money banks in Nigerian Stock Exchange for the period of five (5) from 2013 to 2017. The eleven (11) banks chosen are those banks listed on the Nigerian Stock Exchange and existed for twelve (12) years and above and are still listed as at 31st December, 2017, and the period 2013 to 2017 is chosen because it is the recent period and will be easy to have all the required information for better and proper analyses. Also changes within the business system that may affect the validity of data to be drawn will be minimized.

1.8 Operational Definition of Terms

Corporate Governance: Corporate Governance can be described as a system that tries to provide guidelines and principles to the board of directors in order to execute their responsibilities appropriately and to satisfy shareholders eliminating moral hazard problems, (Muriithi, 2011).

Board Size: Board size is the number of individuals serving on the board of a firm.

Board Composition: this is the proportion of inside directors (Executive directors) versus outside directors (Non-executive directors) also has strong implications on corporate governance.

CEO duality: It indicates that CEO of a firm also serves as chairman of the board of directors. From an agency theory, for board of directors to be an effective monitoring function, the separation of the positions of CEO and chairman of board of directors is essential in terms of an effective internal corporate governance mechanism (Cohen *et al.* 2002).

Financial Performance: financial performance is accounting-based measures that is used to measure return on asset and return on equity.

Return on Equity (ROE): return on equity is a measure that shows investors the profit generated from the money invested by the shareholders.

Return on Assets (ROA): is a measure which shows the amount of earnings that have been generated from invested capital. It is an indication of the number of kobo earned on each naira worth of assets.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents the review of some related literature on the premise of impact of corporate governance on financial performance of listed deposit money banks in Nigeria Stock Exchange. It covers the impact of board size, CEO Duality and board composition on Return on Asset (ROA). The review is equally done in relation to the objectives as well as the problem of the study, starting with the conceptual framework, the review of some empirical studies and the theoretical framework.

2.2 Conceptual Issues

The concept of corporate governance is defined in several ways, because it covers a whole range of activities. As a result, different authors have come up with different definitions which reflect their special interest in the field.

2.2.1 Corporate Governance

Corporate governance has been looked at and defined variedly by different scholars and practitioners. However they all have pointed to the same end, hence giving more of a consensus in the definition. For example, Coleman and Biekpe (2005) defined corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. However, Mayer (1999) also offers a definition and contends that it means the sum of the processes, structures and information used for directing and overseeing the management of an organization. The Organization for Economic Corporation and Development (1999) on the other hand, has defined corporate governance as a system on the basis of which companies are directed and managed. It is upon this system that specifications are given for the division of competencies and responsibilities between the parties included (board of directors, the supervisory board, the management and shareholders) and formulate rules and procedures for adopting decisions on corporate matters.

Similarly, Arun and Turner (2002) contend that there exist narrow approaches to corporate governance, which views the subject as the mechanism through which shareholders are assured that managers will act in their interests. However, Shleifer & Vishny (1997), Vives (2000) and Oman (2001) observed that there is a broader approach which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be mismanaged and that they earn a return on their investment. There is a consensus, however that the broader view of corporate governance should be adopted in the case of banking institutions because of the peculiar contractual form of banking which demands that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders (Macey & O'Hara, 2001). Arun and Turner (2002) joined the consensus by arguing that the special nature of banking requires not only a broader view of corporate governance, but also government intervention in order to restrain the behaviour of bank management. They further argued that, the unique nature of the banking firm, whether in the developed or developing world, requires that a broad view of corporate governance, which encapsulates both shareholders and depositors, be adopted for banks. They opined that, in particular, the nature of the banking firm is such that regulation is necessary to protect depositors as well as the overall financial system.

This study therefore adopts the broader view and defines corporate governance in the context of banking as the manner in which systems, procedures, processes and practices of a bank are managed so as to allow positive relationships and the exercise of power in the management of assets and resources with an aim of advancing shareholder value and shareholder satisfaction together with improved accountability, resource use and transparent administration.

2.2.2 Corporate Governance and Economic Development

The extant literature has identified several channels through which corporate governance affects the financial performance of firms, markets and whole economies:

Increased Access to Financing: In countries with strict legal foundations of corporate governance, the financial and capital markets are better developed. Corporations have

therefore better access to financing. Data provided by La Porta, *et.al* (1997) propose first, that the stronger the creditors' rights, the greater the depth of the financing and second, the better the quality of shareholders protection, the larger the country's stock market. Strong regimes of property rights seem to be very important for both credit and stock market financing.

Better Operational Performance: Confirmation from the US and other countries suggests strongly that at the firm level, better corporate governance leads not only to improved rates of return on equity and higher valuation, but also to higher profits and stronger sales growth (Gompers & Metrick, 2001).

Klapper and Love (2002) have also found that good governance is positively correlated with operating performance and that this relationship is stronger in countries with weaker legal system. Firms with better governance tend to have less need to depend on the legal system to resolve governance conflicts. This result is quite important for firms operating in countries with weak shareholder protection and poor judicial efficiency like the MENA countries.

Reduced Risk of Financial Crises: According to Claessens (2003) the quality of corporate governance can affect firm's behavior in times of economic shocks and actually contribute to the occurrence of financial distress, with economy-wide impacts. In his survey, he concluded that sound governance can be associated with improved risk management, a reduced risk of financial distress and thus an avoidance of the costs of bankruptcy.

Higher Firm Valuation: Other than access to external financing, the quality of the corporate governance framework affects the costs of capital and firm valuation; the issues of access and costs are, of course, related. Outsiders are less enthusiastic to provide financing and are more likely to charge higher rates if they are less assured that they will get a sufficient rate of return. There is an empirical evidence for these effects; La Porta, *et.al* (2000) has shown that the costs of capital seem to be higher and valuation lower in weaker property rights countries; this finding has been confirmed by Dyck and Zingales (2002).

Using recent firm-level data, Klapper and Love, (2002) have found that better corporate governance is highly correlated with market valuation. Their results suggest that firms can partially compensate for ineffective laws and enforcement mechanisms by forming good corporate governance.

Better Relations with other Stakeholders: Good corporate governance can mean generally better relationships with all the stakeholders; including banks, bondholders, labor, local and national governments. It helps with social and labor relationships and aspects such as the environment (Soliman, 2013). Soliman (2013) argue that, equally important are the potential benefits of improved corporate governance for overcoming barriers, including the actions of all interests groups, who operate simultaneously in the marketplace, notably as corporate insiders and in the sphere of domestic politics.

2.2.3 State of Corporate Governance in Nigerian Deposit Money Banks

Owing to the unique nature of banking, there are adequate corporate governance laws and regulations in place to promote good corporate governance in Nigeria. Some of the most important ones include: the Nigeria Deposit Insurance Corporation (NDIC) Act of 1988, the Company and Allied Matters Act (CAMA) of 1990, the Prudential Guidelines, the Statement of Accounting Standards (SAS 10), the Banks and Other Financial Institutions (BOFI) Act of 1991, Central Bank of Nigeria (CBN) Act of 1991, CBN Circulars and Guidelines, among others (Adenikinju & Ayorinde, 2001). Also, there are some government agencies and non-governmental associations that are in the vanguard of promoting good corporate governance practices in the Nigerian banking sector. These organizations, apart from the CBN and NDIC, include the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE), Corporate Affairs Commission (CAC), Chartered Institute of Bankers of Nigeria (CIBN), Institute of Chartered Accountants of Nigeria (ICAN), Financial Institutions Training Centre (FITC) among others (Umoh, 2002).

2.2.4 Board Size

The Board of directors of an organization is a key mechanism to monitor manager's behavior and to advise them. The largely shared wisdom regarding the optimal board size is that the higher the number of directors sitting on the board the less is performance.

This leans on the idea that communication, coordination of tasks, and decision making effectiveness among a large group of people is harder and costlier than it is in smaller groups, (Belkhir, 2006).

Board size is an indication of both monitoring role and advisory role (Hermalin and Weisbach, 1988; Adam and Mehran, 2003; Coles, *et.al*, 2008). The size of the board is also found to increase with firm age and firm size (Coles *et.al*, 2008). To examine its effect, various studies measure board size by the number of directors on the board of directors of a firm (Yermack, 1996; Bhagat and Black, 2002; Adam and Mehran, 2003; Coles, *et.al*, 2008). Lipton & Lorsch (1992) and Jensen (1993) suggested that larger boards are less effective than smaller boards due to co-ordination problems in larger boards. They recommended limiting the membership of boards to ten people, with a preferred size of eight or nine. They further opined that even if boards' capacities for monitoring increases with board size, the benefits are outweighed by such costs as slower decision-making, less candid discussions of managerial performance, and bias against risk-taking. Jensen (1993) took this theme and stated that 'when boards get beyond seven or eight people, they are less likely to function effectively and are not easy for the CEO to control'. Yermack (1996) and Eisenberg, Sundgren, and Martins, (1998) provided evidence that smaller boards are associated with higher firm value. Limiting board size to a particular level is widely believed to improve the performance of the firm at all levels. Benefits arising from increased monitoring by larger boards are outweighed by poorer communication and cumbersome decision making. Empirical studies on board size seem to provide the same conclusion: A big board is likely to be less effective in substantive discussions of major issues among themselves in monitoring management. Large boards are less effective and are easier for CEO to control (Lipton & Lorsch, 1992). In this case, Board size plays major role on the performance of every prospering organization.

2.2.5 CEO Duality

CEO Duality refers to a situation where the same person serves the role of the CEO of the firm as well as the chairman of the board. CEO duality is supported on the ground of unified leadership (Boyd, 1995), but it is also found to promote entrenchment and weaken board monitoring effectiveness (Carlsson, 2001). Some studies refer to absence

of CEO duality as ‘Independent Chairman’ such studies as (Coles & Hesterly, 2000; Boyd, 1995; Muth & Donaldson, 1998; Weir, *et.al*, 2002; Abdullah, 2004; and McIntyre, *et.al*, 2007). One aspect of corporate governance, which has given rise to concern, is the dominant personality phenomenon that includes role duality.

Theoretically, the agency theory argues that in favor of the separation of the CEO and chairman within the organization as it is imperative to establish efficient and effective check and balance by the board and CEO. There are several empirical studies which have examined the relationship between CEO duality and firm’s performance, but the results still lacks the consistency. Duality is seen to give too much power to the individual and therefore reduces the checks and balances in top management (Jensen, 1993). This can make it easier to abuse power and engage in activities that are not in the best interests of shareholders. A study by Bai *et.al*, (2004); Cheng, (2005); Ehikoya (2007); Coleman, *et al.*, (2007); and AlFarooque, *et.al*, (2007) found a significant negative association of CEO duality with firm financial performance. On the other hand, Donaldson and Davis (1994) study the relationship between CEO duality and firm’s performance by using a sample of US companies. Their findings supported the positive relationship between CEO duality and performance and they concluded that companies with CEO duality demonstrated a greater return on equity (ROE) and shareholder wealth when compared to other companies. Moreover, Sanda, *et.al*, (2003) did a study on the performance of Nigerian companies and revealed a positive correlation between combining the functions of the CEO and Chairman and firm performance.

CEO Duality is examined using a dummy variable, which takes a value of "0" if the CEO and the chairman are the same person and "1" otherwise.

2.2.6 Board Composition

Board composition is a measure of the proportion of independent non-executive directors to the total number of directors in a company (Abu, Okpeh & Okpe, 2016). Non-executive directors are outside directors who are independent of the company. They are called independent directors because they have neither personal nor business relationships with the company (Ogbechie & Koufopoulos, 2010). In other words, non-executive is any director who is not a representative or member of the immediate family

of a shareholder and who has no business relationship with the company for the past three years or more and who has the ability to control or significantly influence the board or management of the company.

Non-executive directors are usually chosen because they have appropriate caliber, skills and personal qualities, and breadth of experience. More so, non-executive directors may have some specialist knowledge that will help in provide the board with valuable insights or, key contacts in related industries that may contributed in improving the financial performance of such industries. In addition, one of the utmost importance's of non-executive directors is that they are independence of the management of the company and any of its interested parties. This means they can bring a degree of objectivity to the board's deliberations, and play a valuable role in monitoring executive management. Furthermore, the presence of non-executive directors is generally believed to have provided better governance, effective monitoring, and quality performance. However, the empirical results of the previous studies regarding the relationship between non-executive directors and firm performance are still inconclusive.

2.2.7 Financial Performance

Financial performance which assesses the fulfillment of a firm's economic goals has long being an issue of interest in managerial researches. Firm financial performance relates to the various subjective measures of how well a firm can use its given assets from primary mode of operation to generate profit. Kothari (2001) defined the value of a firm as the present value of the expected future cash flows after adjusting for risk at an appropriate rate of return. To (Eyenubo 2013) it is the success in meeting pre-defined objectives, targets and goal within a specified time target.

Qureshi, (2007), put forward four different approaches in which the value of a firm has been identified in corporate finance literature. These are: the *financial management approach* which focus on the evaluation of cash flows and investment levels before identifying and assessing the impact of financing sources on firm value; the *capital structure approach* which studies the impact of capital structure changes on the value of firm and how different factors impact directly or inversely the debt and equity component of the firm capital structure; the *resource based approach* which explains the value of

firm as an outcome of firm's resources; and finally, the *sustainable growth approach* which is a summary of the above three approaches to firm value, taking into account the firm's operating performance, its investment and financing needs, the financing sources, and its financing and dividend policies for sustainable development of firm's resources and maximization of firm value. This study examines two key accounting measures of firms' financial performance which are Return on Equity and Return on Assets.

Return on Equity (ROE)

One accounting based measure of performance in corporate governance research is return on equity (ROE). (Baysinger & Butler 1985; Dehaene, De Vuyst & Ooghe 2001). The primary aim of an organization's operation is to generate profits for the benefit of the investors. Therefore, return on equity is a measure that shows investors the profit generated from the money invested by the shareholders (Epps & Cereola 2008). It measures the profitability of shareholders' investment and shows the net income as a percentage of shareholders' equity. It is calculated as:

$$\text{ROE} = \frac{\text{Profit after tax}}{\text{Stockholders' equity}}$$

Return on Assets (ROA)

One of the widely used accounting based measures of corporate governance in literature is the Return on Asset (ROA) (Finkelstein & D'Aveni 1994; Weir & Laing 1999). It assesses the effectiveness of capital employed and provides a basis in which investors can measure the earnings generated by the firm from its investment in capital assets (Epps & Cereola 2008). The return on assets (ROA) is a measure which shows the amount of earnings that have been generated from invested capital. It is an indication of the number of kobo earned on each naira worth of assets. It allows users, stakeholders and monitoring agencies to assess how well a firm's corporate governance mechanism is in securing and motivating efficient management of the firm (Chagbadari 2011). The ROA is the ratio of annual net income to average total assets of a business during a financial year. It is measured thus:

$$\text{ROA} = \frac{\text{Profit After Tax}}{\text{Total Assets}}$$

2.2.8 Financial Performance and financial institutions

Financial soundness is a situation where depositor's funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another (BOU, 2002). External factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause bank failure. Some useful measures of financial performance which is the alternative term as financial soundness are coined into what is referred to as CAMEL as elaborated below:

Capital Adequacy: This ultimately determines how well financial institutions can cope with shocks to their balance sheets. The bank monitors the adequacy of its capital using ratios established by The Bank for International Settlements. Capital adequacy in commercial banks is measured in relation to the relative risk weights assigned to the different category of assets held both on and off the balance sheet items (Awino, 2011).

Asset Quality: The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non- performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement, (Bank of Uganda, 2002).

Earnings: The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remain competitive in the market and replenish and /or increase its capital (Juliana, 2006).

Liquidity: Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. An unmatched position potentially enhances profitability but also increases the risk of losses (Linyiru, 2006).

2.2.9 Challenges in financial performance of DMBs in Nigeria.

As observed in CBN Publication (2006), it is quite unfortunate; there have been various challenges in the process of implementing these codes. This is evident worldwide and the Nigerian experience. The challenges identified are not, as observed limited to the banking sector alone. They cut across other financial institutions and business corporations in general. Some of these challenges are: technical incompetence of board and management, relationship among directors, squabbles arising from knowledge gaps and relationship between management and staff, increased level of risks, ineffective integration of entities, poor integration and development of Information Technology Systems, accounting systems and records.

Similarly, other challenges are: inadequate management capacity, insider-related lending/abuse, rendition of false returns, continued concealments, ineffective board/statutory audit committee, inadequate operational and financial controls, absence of a robust risk management system, discriminatory disposal of surplus assets, and non-transparency as well as inadequate disclosure of information (CBN, 2006).

Aside the structural challenges that confront the Nigerian business environment like epileptic power supply, expensive and ineffective communication system, bad road network, general insecurity, unstable polity and ineffective / ill-informed policies, ethnic bigotry and so on; these challenges are more internal.

2.2.10 Conceptual Framework

It has a whole lot of sub-concepts to be considered as the framework illustrates the relationship between the independent variable and the dependent variable. It shows the relationship between board size, CEO Duality and board composition with Return on Asset (ROA).

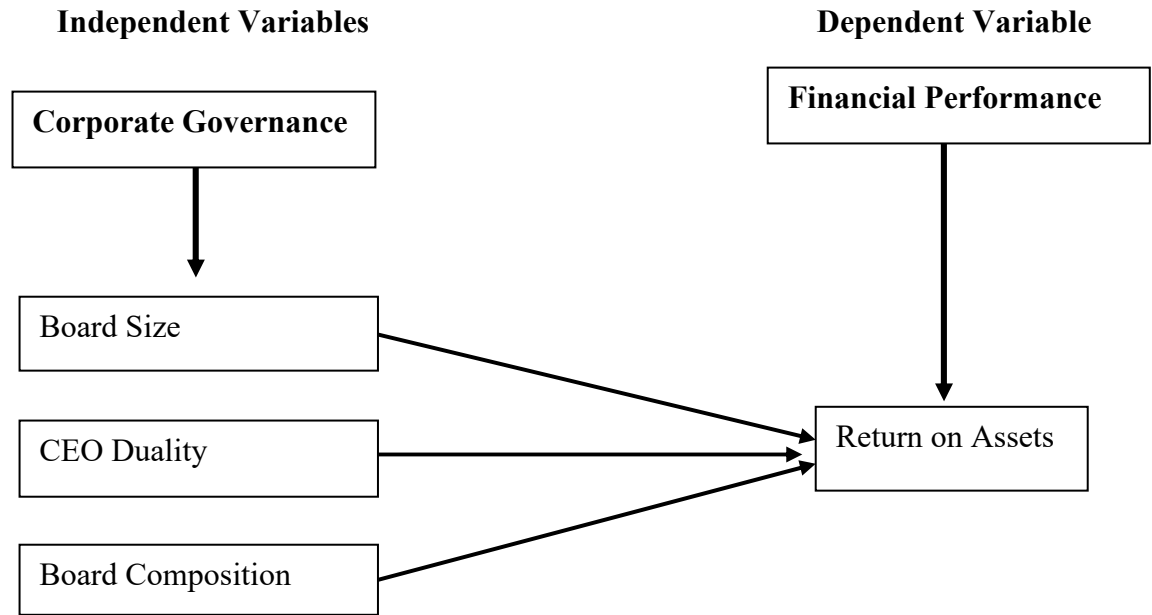


Figure 2.1: Conceptual framework, 2019

2.3 Review of Empirical Studies

Previous studies related to this study have been reviewed to help the researcher to compare his result to the outcome of other researchers on same topic of study.

2.3.1 Board Size and Financial Performance

Kyereboah (2007) did a study on the relationship between corporate governance and firm performance from an African perspective. The study considered 103 listed companies drawn from Ghana, Nigeria, Kenya and South Africa and 52 Microfinance institutions from Ghana. The findings of the study indicated that large and independent boards enhance firm value and that when a CEO serves as board chair, it has negative effect on performance. The findings also revealed that a CEO’s tenure in office enhances firms’ profitability while board activity intensity has a negative effect on firm profitability.

Ahmad and Mensur (2012) examined corporate governance and financial performance of banks in the post-consolidation era in Nigeria. Data were sought from sixty annual reports of 12 banks for the period of 2006 – 2010. The independent samples t-test was employed to analyze data gathered for the study. Multiple regressions (Analysis of Variance) were used to further analyze hypotheses two and three. Findings revealed that Dispersed equity holding does have an impact on the earnings and dividend of banks.

Also, board size does not have an impact on profitability of banks. The existence of a chief compliance does not significantly enhance profitability of healthy banks in Nigeria. Lubabah and Bawa (2013) examined corporate governance and financial performance of banks on twelve banks in Nigeria covering a period of five years (2006-2010) and found negative relationship between board size and profitability of banks.

A study on board size by Eyenubo (2013) examine the impact of bigger board size on financial performance for firms: the Nigerian experience using regression analysis for 50 firms quoted on the Nigerian Stock Exchange during the period 201-2010 showed that bigger board size had a significant negative relationship with the indicator of firm financial performance. Adeusi *et al.*, (2013) who also examined the effect of board size on the performance of ten selected banks for a period of six years (2005-2010) using econometric model of linear regression and found that increasing number of board size increases the performance of banks.

Edem and Noor, (2014) examines the relationship between board characteristics and company performance (measured by turnover) in Nigeria. The study uses multiple regression technique on 90 sampled firms from the main board of Nigerian Stock Exchange from 2010 to 2012. The empirical evidence shows that board size and board education are positively and significantly related to company performance. While there is no relationship between boards equity, board independence, and board age. Also, the study evidences a negative significant between board women and turnover.

George and Karibo, (2014) examine empirically the impact of corporate governance mechanisms on firm financial performance using listed firms in Nigeria as case study for two years 2010 and 2011. The study adopted a content analytical approach to obtain data through the corporate website of the respective firms and website of the Securities and Exchange Commission. A total of 33 firms were selected for the study cutting across three sectors: manufacturing, financial and oil and gas. The result of the study showed that most of the corporate governance items were disclosed by the case study firms. The result also showed that the banking sector has the highest level of corporate governance disclosure compared to the other two sectors. The result thus indicates that the nature of control over the sector have an impact on companies' decision to disclose online

information about their corporate governance in Nigeria; and that there were no significant differences among firms with low corporate governance quotient and those with higher corporate governance in terms of their financial performance. The result also suggests an existence of variations between sectors with respect to their corporate governance reporting.

Abdulazeez, Ndibe and Mercy, (2016) examined the impact of corporate governance on the financial performance of all listed deposit money banks in Nigeria for a period of seven (7) years from 2006 to 2012 has been explored using data collected from the financial statements of all the fifteen listed (15) deposit money banks in the Nigerian stock exchange (after consolidation). Data for the study were quantitatively retrieved from the annual reports and accounts of the studied banks. Multicollinearity test was conducted via Pearson correlation and further confirmed through VIF test. Regression was used to analyze the data and it was found that larger board size contributes positively and significantly to the financial performance of deposit money banks in Nigeria.

2.3.2 CEO Duality and Financial Performance

Liech (2011) did a study on the relationship between corporate governance practices and financial performance of all the 30 local airlines operating in the Kenya as at that time. He explained how corporate governance practices are measured using corporate governance index and used return on assets (ROA) as a measure of financial performance. The study found that there is a significant relationship between corporate governance practices and financial performance of airlines.

Kimosop (2011) studied the relationship between corporate governance and financial performance on all the 41 insurance companies licensed by IRA in Kenya during the year 2006 to 2009. The study found out that there is significant influence of board size, non-executive directorships, insider shareholding, board meeting frequency and CEO-Chairman duality on the financial performance of insurance companies. Board size and non-executive directorships had a negative relationship with ROA whereas insider shareholding and board meeting frequency had a positive relationship with ROA. However, board size, non-executive directorships, insider shareholding and board meeting frequency had a positive relationship with ROE.

Al-Matari, Al-Swidi, Bt Fadzil and Al-Matari (2012) had their study on board characteristics and firm performance, To achieve the objectives of the study, the data were collected from a sample of 136 companies for the financial year 2009. Variables such as CEO duality, COE tenure, audit committee size, board size and board composition were considered as predictors of the firm performance that was measured employing the return on assets (ROA). By contrast, the effects of CEO tenure and leverage on firm performance were found to be negative and significant at the chosen level of significance. To test the hypotheses of the study, multiple linear regression analysis using SPSS 18.0 was utilized. Using the firm size and leverage as a control variable, the findings of the study support the positive effects of CEO duality and audit committee size on ROA.

Marwa, Amon, Xiahui and Hadia (2017), shows that Firm size is found to be statistically significant with ROA. The age of the firm is found to be statistically significant with the market-based performance measure Tobin's Q. The coefficient on CEO duality (Leadership structure) shows negative association with ROA; this association is statistically significant and correctly signed.

Hong Vu and Nguyen, (2017) their study investigates the relationship between corporate governance and financial performance of listed Singaporean companies. Data were collect from 137 listed companies for the period of four years from 2013 to 2016. In the research, corporate governance was driven by a wide range of variables, which include the dual role CEO, board size and board independence. Besides, the financial performance was measured by three different methods, which include return on asset, return on equity and Tobin's Q. their findings show that there was an inverse association between board size and firm performance, however, the study do not find any significant relationships between board dependence, CEO duality and company financial performance.

2.3.3 Board Composition and Financial Performance

Kajola (2008) examines the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and profit margin, PM), of a sample of

twenty Nigerian listed firms between 2000 and 2006. The findings show that significant relationship exists between corporate governance and firm's performance.

George, Johnson and Freddie (2014) in their study focused on examining the relationship between corporate governance and financial performance of savings, credit and corporative societies in Uganda. A cross sectional research design was used for the research study. The population included 69 savings, credit and corporative societies from which a sample of 59 savings, credit and corporative societies was obtained. A simple random sampling technique was used. Primary data was obtained from 51 savings, credit and corporative societies, providing a response rate of 86%. The data were collected using a self administered questionnaire with perceptions and beliefs sought to a five point Likert scale. The data obtained were analyzed using factor, correlation and regression analyses. From the analyses, it was established that, corporate governance has no significant effect on the financial performance of these savings, credit and corporative societies. In reference to the findings of the Study, the researcher concluded that there is no relationship between Corporate Governance and the Financial Performance.

Gadi, Emesuanwu and Shammah, (2015) assesses the impact of corporate governance (CG) on microfinance bank's financial performance in Nigeria. It utilizes secondary data which were obtained from the annual reports and accounts of the twenty three microfinance banks for the period of three years (i.e. 2011 to 2013). The data generated for the study were analyzed using Pearson correlation coefficient, ordinary least square regression. The analysis of data determined whether the following corporate governance functions – Board Composition (BC) and the Composition of Board Committees (CBC) have significant relationship with banks financial performance. Earnings per share (EPS) and return on assets (ROA) were used as proxies for financial performance. The Pearson correlation shows that significant relationship exists between Earnings per share (EPS) and corporate governance (Board Composition and Composition of Board Committees) while the regression analysis shows that no significant relationship exists between corporate governance and bank's financial performance.

Mugisha, Jaya, Joseph and Mbabazi, (2015) investigated the effect of corporate governance on Financial Performance of commercial banks in Rwanda. The study has

four objectives which determined how board size, CEO duality, institutional ownership, board composition affect financial performance of commercial banks in Rwanda. The study adopted a descriptive research design which assisted to examine the effect of corporate governance on financial performance of commercial banks. The population of the study was 120 composed by the senior managers of the commercial banks operating in Rwanda; and the sample size was 92 but only 76 responded to the questions asked which represent 84%. The key findings for this research were showing that board independence, board composition, institution ownership do not have an effect on financial performance since the majority of respondent have disagreed the effect of corporate governance variables on the financial performance of commercial banks.

Adigwe, Nwanna and John, (2016) examined the effect of corporate governance mechanisms on the financial performance of banks in Nigeria. This study used secondary data derived from the audited financial statements of the sampled banks in Nigeria from 2006 to 2014. Ordinary Least Square (OLS) regression was used to find out the effect of corporate governance variables on banks' performance. Gretl econometric software was used for the analysis. The study observed that board audit committee and directors' equity interest have a positive and significant effect on financial performance of banks; while board composition has a negative but significant effect on banks' financial performance.

Abu, Okpeh and Okpe, (2016) investigate the influence of board characteristics and financial performance of deposit money banks in Nigeria for the period of 2005-2014. The study adopted multiple regression technique as a tool for analysis and the findings show that foreign director is significantly and positively correlated or influenced the Performance of deposit money bank, while the grey director have negative significant effect on the Performance of deposit money banks in Nigeria. Other variables such as executive director, independent non-executive director and women director have no significant impact on banks performance in Nigeria.

From the above empirical studies reviewed, it should be noted that most of the studies were conducted in other countries and also very few has been conducted within the present year. As such this project tends to look at what happens in Nigeria as compared to

other places. Also, it will consider what is happening in the current year, to check whether there are changes that took place over time.

2.4 Theoretical Framework

Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010).

According to Imam and Malik (2007) the corporate governance theoretical framework is the widest control mechanism of corporate factors to support the efficient use of corporate resources. The challenge of corporate governance could help to align the interests of individuals, corporations and society through a fundamental ethical basis and it fulfills the long term strategic goal of the owners. It will certainly not be the same for all organizations, but will take into account the expectations of all the key stakeholders (Imam & Malik, 2007). So maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities is also achieved by good practice of corporate governance mechanisms. There are a number of theoretical perspectives which are used in explaining the impact of corporate governance mechanisms on firms' financial performance. The most important theories are the agency theory, stakeholders' theory, stewardship theory and resource dependency theory (Maher & Andersson, 1999).

2.4.1 Agency Theory

Agency theory is a theory that has been applied to many fields in the social and management sciences: politics, economics, sociology, management, marketing, accounting and administration. The agency theory a neoclassical economic theory (Ping & Wing 2011) and is usually the starting point for any debate on the corporate governance. The theory is based on the idea of separation of ownership (principal) and management (agent). It states that "in the presence of information asymmetry the agent is likely to pursue interest that may hurt the principal (Sanda, Mikailu & Garba 2005).

The Agency theory was advanced by Jensen and Meckling (1976) and rests on the assumption that the role of organizations is to maximize the wealth of the shareholders (Blair, 1995). Further the Agency theory explains a fundamental problem for absent or distant owners who employ professional executives to act on their behalf. Eisenhardt (1989) observes that most businesses operate under conditions of incomplete information and uncertainty which exposes them to two agency problems: adverse selection and moral hazard. Adverse selection occurs when owners cannot ascertain whether an agent accurately represents his ability to do the work for which he is paid to do while moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort. The conflicting demands justify actions that may be criticized as immoral or unethical depending on the stakeholder group and this study focuses on how such conflict affects the financial performance of the firm. These professionals may be more interested in their personal welfare than in the welfare of the firm's shareholders (Berle & Means, 1967) and by the fact that superior information is available to them; they take the advantage over owners of firms. The agency theory is then adopted for this study because according to Eisenhardt (1989) agency theory is concerned with analysing and resolving problems that occur in the relationship between shareholders and their professional agents. Further it tries to understand how to best organize relationships between the principal (owners) and the agents (Professionals) and determines the work, which the agent should undertake and the measures the owners should put in place to maximize their returns (Eisenhardt, 1989).

Donaldson and Davis (1991) argue that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented to safeguard the interests of shareholders. According to Wheelen and Hunger (2002) the problems arises because agents (professional) are not willing to bear responsibility for their decisions since they don't own a substantial amount of stock in the firms and hence don't stand to benefit by perusing wealth maximizing objective. Mallin (2004) advocates that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management. However Australian Stock

Justifying importance of understanding how ownership structure affects corporate governance and performance of the firm which is the focus of this study, we consider views of Jensen and Meckling (1976) who argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns and that the firm's top management becomes more powerful when the firm's stock is widely held (Diverse ownership) especially when the board of directors is composed of people who know little of the firm. Sanda *et al.*, (2005) points out that the problem can also be observed within Government owned firms where it involves the citizens (principals) and bureaucrats (agents appointed politically). The problem is worsened by the fact that, the citizens perceive their individual voice to be insignificant in initiating change and are usually unwilling to monitor as it may involve seeking costly information and therefore disincline and opt to internalize part of the government failures.

However Donaldson and Davis (1991) argues that the demands of private firms such as foreign or institutions owned are different as they are ready to seek costly information and put stringent measures to monitor the actions of the top management. According to Eisenhardt (1989) agency theory is concerned with analyzing and resolving problems that occur in the relationship between shareholders and their professional agents. Agency theory is therefore adopted in this study because the study focuses on relationship between shareholders and their professional agents existing in different corporate governance mechanisms and how they affects the financial performance of listed deposit money banks in Nigeria Stock Exchange.

2.4.2 Stakeholder Theory

The stakeholders' theory was adopted to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity. Within the framework of the stakeholders' theory the problem of agency has been widened to include multiple principals (Sand, Garba & Mikailu 2011). Stakeholders' theory challenges the primacy assumption of shareholder interests and advocates that a company should be managed in the interests of all its stakeholder (Freeman, 1994). The theory is based on the assumption that values are necessarily and

explicitly a part of doing business and that managers need to articulate the shared sense of value they create to bring its key stakeholders together. When stakeholders get what they want from a firm, they return to the firm for more (Freeman, 1994; Freeman & McVea, 2001). Ulrich *et al.*, (2008) argues that stakeholders can be instrumental to corporate success and therefore, corporate leaders have to consider the claims of stakeholders when making decisions and conduct business responsibly towards the interests of all stakeholders. The stakeholder theory argues that managers should make decisions so as to take account of the interests of all stakeholders in a firm including not only financial claimants, but also employees, customers, communities and governmental officials (Manville & Ober, 2003; White, 2009).

Freeman (1994) argues that advocates of stakeholder theory refuse to specify how to make the necessary trade-offs among these competing interests, they leave managers with a theory that makes it impossible for them to make purposeful decisions. According to Kaptein and Van Tulder (2003) with no way of keeping a balanced score, stakeholder theory makes managers unaccountable for their actions making them adopt a reactive approach which does not integrate stakeholders into corporate decision making processes. This results into a misalignment of organizational goals and stakeholder demands (Mackenzie, 2007). Turnbull (2002) and Watkins (2003) attribute scandals such as those of Enron and WorldCom to the failure of the managers to consider stakeholder concerns in decision making. Following these scandals, Adams (2002) observes that some governments set up new regulations to align the interests of stakeholders with corporate conduct giving example of the Sarbanes-Oxley Act (SOX) which was passed as a result of the collapse of Enron and WorldCom. Cornett *et al.*, (2007) advocates that a proactive approach should be used by corporations to integrate stakeholders' concerns into their decision-making processes and to the necessary governance structures and recommends that the stewardship theory remains the theoretical foundation for much regulation and legislation. Rothman & Friedman (2001) argues that involving participation of stakeholders in corporate decision-making can enhance efficiency and reduce conflicts.

Wheelen and Hunger, (2002) argues that the choice of value maximization as the corporate scorecard must be complemented by a corporate vision, strategy and tactics that

unite participants in the organization in its struggle for dominance in a competitive arena. Freeman (1994) concludes that a firm cannot maximize market value if it ignores the interest of its stakeholders in the long-run. Clarke (2004) over time, a firm's board of directors and its CEO, acting as stewards, are more motivated to act in the best interests of the firm rather than for their own selfish interests as they tend to view a firm as an extension of themselves. Mallin,(2004) argues that compared to agency theory, enlightened stakeholders theory which utilizes much of the structure of shareholders theory advocates that, a firm's top management cares more about the firm's long run success and accepts maximization of the long run value of the firm as the criterion for making the requisite trade-offs among its stakeholders.

Stakeholders' theory is therefore adopted in this study to help in analysing and understanding how different corporate governance mechanisms adopts a proactive approach to integrate all stakeholders' concerns into their decision-making processes and to lay the necessary governance structures to maximize firms financial performance in the long- run.

2.4.3 Stewardship Theory

Donaldson and Davis (1991) advanced this theory as an alternative to the agency theory. He argued from the view of managerial motivation by stating that management far from being an opportunistic shirker essentially wants to do a good job, to be a good steward of the corporate assets. The basic idea behind the stewardship theory is that it states humans to be in greater needs than the neo classical view in the sense of them to be opportunistic, untrustworthy and focused on personal gains. Therefore, it is considered that the manager's behaviour is organization centered, whose main aim is to improve the organizations performance by satisfying its principals. The theory tries to identify the situation where both the principal and the steward are aligned. Its utility is maximized when the stewards' goals are coordinated with the principals' (Arthurs & Busenitz, 2003). The theory accepts that agents are opportunistic but that human motives are more than just self-actualization. Therefore agents that are driven by organizational and collectivistic motives have a higher utility by aiming for goals that are the best for the

business which often align with the interest of its principal (Bender, 2011). This situation is attained more readily where the CEO is also chair of the board.

Furthermore, the stewardship theory states that monitoring and controls that are proposed by the agency theory interfere with the motivation of the steward. This could lead to a loss of productivity and incite opportunistic behaviour. Since there is no conflict between the principal and the steward the theory suggests that the agents receive empowerment and autonomy from their principals. This leads to an increase in productivity, and in this form they can create an environment where the agents could proceed effectively (Bender, 2011). If both parties decide for a stewardship relationship, this would be a true stewardship relationship. Here no agency costs occur because the stewards act in the interest of its principal (Bender, 2011) Thus, stewardship theory focuses on facilitating, empowering structures, and holds that fusion of the incumbency of the roles of chair and CEO will enhance effectiveness and produce, as a result, superior returns to shareholders than separation of the roles of chair and CEO.

Stewardship theory was adopted in this study to enable analyse how different corporate governance mechanisms have been put in place, facilitating and empowering structures rather than monitoring and controls, that are proposed by the agency theory which interferes with the motivation of the steward instead of ensuring that both the principal and the steward interests are aligned to enhance effectiveness of agent in pursuit of improved firms financial performance in the long-run.

2.4.4 Resource Dependence Theory

Resource dependence theory by Barney and Delwyn (1986), proposition is based on the premises that a firm's board, and in particular the constitution of the non-executive element of a board, can provide the firm with a vital set of resources. Although agency theory is the predominant theory used in the research on boards of directors (Dalton *et al.*, 2007; Ellstrand & Daily, 1996; Zahra & Pearce, 1992), this is the area of RDT's greatest research influence. Pfeffer and Salancik, (1978) asserts that boards enable firms to minimize dependence or gain resources. RDT is less commonly used to study boards

than agency theory but empirical evidence to date suggests that it is a more successful lens for understanding boards (Zahra & Pearce, 1992).

Pfeffer and Salancik (1978) suggest that directors bring four benefits to organizations: information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources, and legitimacy. Significant empirical evidence supports these proposed benefits and suggests that “resource-rich” directors should be the focus of board composition. Thus, it’s not just the number, but the type of directors on the board that matters. Early studies using RDT to examine boards focus on board size and composition as indicators of the board’s ability to provide critical resources to the firm. Pfeffer and Salancik, (1978) finds that board size relates to the firm’s environmental needs and those with greater interdependence require a higher ratio of outside directors. He concludes “that board size and composition are not random or independent factors, but are, rather, rational organizational responses to the conditions of the external environment”.

Zahra and Pearce (1992) advocates that board composition and size are contingent not only on the external environment but also on the firm’s current strategy and prior financial performance. Eisenhardt (1989) found a positive relationship between board size and firm financial performance. However, many scholars are quick to question the simplistic answer provided by board size, suggesting that a more complex understanding is necessary.

In summary, Resource dependence theory is therefore adopted in this study to creates a background used as basis for analysing and giving an insight on how different corporate governance mechanisms creates governance structures that enable their management to provide the firm with a vital set of resources in terms of; information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources, and legitimacy which in the long-run enhances firms financial performance. Both agency and stakeholders’ theories stand as the study underpinning theories.

2.5 Summary of Literature Review

Although different studies have been done locally and outside the country to establish whether there is a relationship between corporate governance and financial performance there still exists knowledge gap as few of the studies has examined the impact of corporate governance on the financial performance of listed deposit money banks in Nigeria. Further, the studies have yielded mixed results due to lack of standardization, country focus, and choice of corporate governance mechanism, data sources as well as the statistical methodology.

It is evident from the literature review that there is a relationship between corporate governance practices and the financial performance of any organization. However the level of the relationship varies from one organization / industry to the other. Companies should therefore be encouraged to practice corporate governance in order to improve on their financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used for the study; it covers research design, population of the study, sample size, sampling technique and sources and methods of data collection. It also presents techniques of data analysis and the presentation as well as variables and their measurements that were used for the study.

3.2 Research Design

For the purpose of this study, the ex-post factor research design was adopted; this is because this is the type of research undertaken after an event has taken place and the data are already in existence. This research design is believed to be appropriate for the study as it involves the use of secondary sources of data which can be obtained from annual report accounts of the sampled deposit money banks. The study will consider the period of five (5) years covering 2013 to 2017. The choice for this period will enable the researcher to obtain current information considering the economic situation of Nigeria, and the panel data methodology will be used.

3.3 Population of the Study

The target population of the study comprised of listed deposit money banks in Nigeria, the study population consist of all the sixteen (16) listed deposit money banks on the Nigerian Stock Exchange (NSE) as at December, 2017 as shown in Table 3.1. The study considers listed deposit money banks because it is an industry that has the corporate goals, committed to enhancing the quality of national economic development through the provision of financial assistance to other sectors needed for any other activity for economic development.

Table 3.1 Population of the Study

S/N	Deposit Money Banks	Code	Year of Listing on NSE
1	Access Bank, Nigeria Plc	ABN	1998
2	Diamond Bank Nigeria Plc	DBN	2005
3	Eco-Bank Nigeria Plc	EBN	2004
4	Fidelity Bank Nigeria Plc	FIBN	2005
5	First Bank Nigeria Plc	FBN	1971
6	First City Monument Bank Plc	FCMB	2004
7	Guaranty Trust Bank Plc	GTB	1996
8	Jaiz Bank	JB	2011
9	Skye Bank Plc	SBN	2006
10	Stanbic IBTC Plc	IBTC	2005
11	Sterling Bank Plc	STRBN	1992
12	Union Bank Nigeria Plc	UBN	1970
13	United Bank for Africa Plc	UBA	1971
14	Wema Bank Nigeria Plc	WBN	1990
15	Unity Bank Plc	UNBN	2006
16	Zenith Bank Nigeria Plc	ZBN	2004

Source: Generated From NSE Factbook (2017)

3.4 Sample Size of the Study

For the purpose of this study, Sample of eleven (11) listed deposit money banks were selected from a total of sixteen (16) listed deposit money banks representing 80% of the entire population. A filter that was employed to select the sample banks were those banks listed on the Nigerian Stock Exchange and existed for twelve (12) years and above and are still listed as at 31st December, 2017.

The study considered the period of five (5) years covering the years 2013 to 2017. The basis for selecting the year 2013 is that, the recent year of listing of the companies of the study is 2011. Hence, 2013 will enable the study to have access to the annual financial

statement of all the sample size from the Nigerian stock exchange. Table 3.1 below shows the list of the sampled companies of the study.

Table 3.1 Sample Size of the Study

S/N	Deposit Money Banks	Code	Year of Listing on NSE
1	Access Bank, Nigeria Plc	ABN	1998
2	Eco-Bank Nigeria Plc	EBN	2004
3	Fidelity Bank Nigeria Plc	FIBN	2005
4	First Bank Nigeria Plc	FBN	1971
5	First City Monument Bank Plc	FCMB	2004
6	Guaranty Trust Bank Plc	GTB	1996
7	Stanbic IBTC Plc	IBTC	2005
8	Sterling Bank Plc	STRBN	1992
9	Union Bank Nigeria Plc	UBN	1970
10	United Bank for Africa Plc	UBA	1971
11	Zenith Bank Nigeria Plc	ZBN	2004

Source: Generated from table 3.1

3.5 Sources and Method of Data Collection

For the purpose of this study, secondary data was used, while data were collected from published annual financial statement of the sampled deposit banks. The data were extracted and downloaded from the annual report which comprise of the board size, CEO Duality, board composition, profit after tax and total asset. The companies' website and other online financial information were employed to collect data for the purpose of this study.

3.6 Techniques of Data Analysis

The study is set to examine the impact of capital structure on profitability of listed deposit money banks in Nigeria. To that effect three techniques were used to analyze the data of the study.

3.6.1 Descriptive Statistics

Descriptive statistics summarizes data in a clear and understandable way using numerical approach and is found suitable for the evaluation of the research variables using statistical tools such as mean, standard deviation, minimum and maximum values.

3.6.2 Correlation

Correlation as a technique was used to measure the of impact between variables adopted in order to establish the extent of the impact cause by the independent variable (corporate governance proxied by board size, CEO Duality and board composition) on the dependent variable (financial performance proxied by ROA).

3.6.3 Multiple Regressions

Multiple regressions explain the variation in dependent variable due to the variation of any of the independent variables. Hence to determine the variation in the dependent variable (Return on Asset) due to the variation of any of the independent variables which are the board size, CEO Duality and board composition, and the multiple regressions was used. There are many multiple regression statistical tools and the selection of the appropriate technique is very important. This however depends on the measurement of the study. The multiple regression technique using panel data methodology was employed for data analysis of the study. This is because of the panel character of the data which make the technique suitable for this study hence; it will be use to test the study hypotheses.

Data analysis is a process of analyzing all the information and evaluating the relevant information that can be helpful in better decision making. The data collected were analyzed using descriptive statistics which covers the mean, maximum, minimum and

standard deviation, Pearson coefficient correlation and the regression analyses will be conducted. The statistical techniques will be carried out using *STATA 13*.

3.7 Variables of the Study and their Measurement

Two sets of research variables are covered by this study; they are the dependent variable and the independent variable.

3.7.1 Dependent Variable

The dependent variable of the study is financial performance proxied by Return on Asset as considered in some studies carried out by Liech (2011); Kimosop (2011); Al-Matari, Al-Swidi, Bt Fadzil and Al-Matari (2012); George and Karibo, (2014); Gadi, Emesuanwu and Shammah, (2015); Abdulazeez, Ndibe and Mercy, (2016); Hong Vu and Nguyen, (2017), prior studies conducted by different researchers used it to measure financial performance as will be seen in this study. It is characterized by profit after tax divided by total assets of the sampled listed deposit money banks in Nigeria. The study will use Return on Asset to maintain consistency with the previous studies.

3.7.2 Independent Variable

The independent variable of this study is corporate governance proxied by Board Size (BS), CEO Duality (CEOD) and Board Composition (EQT). Board Size (BS) is measured as proportion of total number of board members CEO Duality (CEOD) is measured as the proportion of a dichotomous variable equals to 0 if the firm is separated between the role of CEO and Chairman, and 1 otherwise and Board Composition (BC) is measured as proportion of insider directors to outsider directors.

The summary of variables of the study and their measurement of the research are presented in table 3.3 below.

Table 3.3: Variable Definitions and Measurement

Variables	Proxies	Measurement	Reference
Independent Variable: Corporate Governance	Board Size (BS)	Proportion of total number of board members.	Yermack, 1996; Bhagat and Black, 2002; Adam and Mehran, 2003; Coles, <i>et.al</i> , 2008
	CEO Duality (CEOD)	Proportion of a dichotomous variable equals to 0 if the firm is separated between the role of CEO and Chairman, and 1 otherwise.	Bai <i>et.al</i> , (2004); Cheng, (2005); Ehikoya (2007); Coleman, <i>et al.</i> , (2007)
	Board Composition (BC)	Proportion of insider directors to outsider directors.	Ogbechie & Koufopoulos, 2010; Abu, Okpeh & Okpe, 2016
Dependent Variable: Financial Performance	Return on Asset (ROA)	Profit after tax to total asset	Finkelstein & D'Aveni 1994; Epps & Cereola 2008; Chagbadari 2011

Source: Author's computation (2019)

3.8 Model Specification

A multiple regression model was used for establishing the impact of corporate governance on financial performance. The model adopted consist of two variables, the independent variable which is corporate governance while the dependent variable is financial performance of listed deposit money banks in Nigeria.

$$ROA_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 CEOD_{it} + \beta_3 BC_{it} + e_{it}$$

Where:

ROA = Return on Assets

BS = Board Size

CEOD = CEO Duality

BC = Board Composition

β_0 = is the constant variable of the model

$\beta_1, \beta_2, \beta_3,$ = are parameters; the coefficients of the independent variables

e_{it} = is the random error term.

The study used multiple regressions model to show the impact of corporate governance on financial performance of listed deposit money banks in Nigeria.

3.9 Summary of the Section

This section discusses the methodology of the study. The data to be used is secondary in nature and the ex-post factor research design is adopted. The samples of the study are drawn from the population and, the variables, both dependent and independent and there measurement is clearly stated in statement form. The model specifications representing the variables as well as the techniques for data analysis are all stated.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results and findings of the study based on the research objectives. The results are presented in the form of summary tables of descriptive statistics; correlation and Regression analysis are used to analyze the data to answer the research question. The results were presented on the bases of effect of corporate governance on financial performance of listed Deposit Money Banks (DMBs) in Nigeria.

4.2 Descriptive Statistics

The descriptive statistics for each of the variables collected is presented and discussed in this chapter, where Minimum, Maximum, Mean and Standard deviation of the data result for the variables used in the study are described. The summary of the descriptive statistics are presented in Table 4.1 as follows:

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Minimum	Maximum
ROA	55	.0812855	.0723825	.002621	.3768328
BS	55	.2115185	.1558863	.0008524	.7296177
CEOD	55	.8909091	.3146266	0	1
BC	55	.142425	.1047258	.0023302	.4863072

Source: STATA Descriptive Statistics Result (2019)

Table 4.1 present the detail account of descriptive statistic for the dependent and independent variable. From the Table, Return on Asset has minimum and maximum values of 0.002621 and 0.3768328 respectively and the mean and standard deviation of 0.0812855 and 0.0723825 respectively. This indicate that the data deviate from the mean

value from both side by 7% which implies that there is no wide dispersion of the data from the mean because the standard deviation is less than the mean value.

The Table also shows that the minimum and maximum values for board size are 0.0008524 and 0.7296177 respectively. The mean and standard deviation are 0.2115185 and 0.1558863 respectively. This indicates that deposit money banks in Nigeria are sensitive regarding the maintenance of board size as it suggests that banks in Nigeria have relatively moderate board sizes as the mean value 0.2115185 is greater than the average of the maximum number of board size of 0.7296177. Also, with a maximum board size of 0.7296177 and standard deviation of 0.1558863, it implies that banks in Nigeria have relatively similar board sizes.

The Table also shows that the minimum and maximum values for CEO Duality are 0 and 1 respectively and the mean is 0.8909091 and 0.3146266 as the standard deviation. The mean value of CEO Duality indicates that, 89% is in excess of the minimum. The CEO Duality is deemed adequate to drive management decisions as relating to Return on Asset (ROA).

Board composition has the minimum and maximum values of 0.0023302 and 0.4863072 respectively and has mean and standard deviation of 0.142425 and 0.1047258 respectively, indicating that the mean of 0.142425 can influence the firm's financial performance by 14% which will definitely boost the total performance of the organization. The mean description for board composition is moderate compare to the maximum board composition suggesting that the ratio of outside directors to the total number of directors in Nigerian banks is moderate. Generally, the summary for the standard deviation reveals that factors that influence performance are evenly distributed across all the banks.

4.3 Correlation analysis

To evaluate the relationship between the variables, the data collected was analyzed to generate the Pearson correlation coefficient which gives tests the presence of association between the variables. The significance level was set at 5% with a 2-tailed test. The results are therefore as presented in table 4.2 below.

Table 4.2 Correlations Matrix of the Dependent and Independent Variables

Variables	ROA	BS	CEOD	BC
ROA	1.0000			
BS	0.5118	1.0000		
CEOD	0.0819	0.0257	1.0000	
BC	0.4386	0.2776	-0.0389	1.0000

Source: correlation matrix – STATA

Table 4.3 shows the relationship that exists among variables. Correlation analysis is used to assess the nature of relationship between the dependent and independent variables and to determine whether multicollinearity exist amongst the variables of the study. The table shows a positive relationship of board size and return on asset (ROA) with correlation coefficient of 0.5118 which is relevant to the study. This implies that as board size increases, return on asset (ROA) will consequently be affected. However, CEO Duality has a positive and weak relationship with return on asset, the correlation coefficient of CEO Duality and return on asset was 0.0819 which is positively weak, this show that as CEO duality is maintained, it will not have reasonable effect on return on asset (ROA) of the firm. Considering board composition, the result point out that the ratio has positive and moderate association with return on asset as the result shows a correlation coefficient of 0.4386. Testing the significance of the association at 5% level with a 2-tailed test, all the independent variables had a positive relationship with the dependent variable as revealed by the statistical result in the correlation table.

4.4 VIF/Tolerance Values:

The tolerant value and the variance inflation factor (VIF) are two good measures generally concerned by various research scholars as being good measures for determining multicollinearity between the explanatory variables of a study. If the VIF of all the explanatory variables are more than one (1) and less than ten (10), multicollinearity does not exist and the model is said to fit otherwise. Another measure for determining the presence or absence of multicollinearity is the tolerance value. A tolerance value of 1 or

above signifies the presence of multicollinearity, while tolerance values of less than 1.00 in all the observed variables signifies the absence of multicollinearity.

4.3: Table for VIF/Tolerance Values

Variable	VIF	1/VIF
BC	1.09	0.920805
BS	1.09	0.921595
CEOD	1.00	0.997041
Mean VIF	1.06	

Table 4.3 shows that there is no multicollinearity among variables as the computed variance inflation factor value is more than one (1) and less than ten (10) and the tolerance value is also less than one (1). The variable inflation factor measures the persistence of multicollinearity among regressors.

Value inflation factor VIF ($1.09 < 10$, $1.09 < 10$ and $1.00 < 10$). In addition, the tolerance values are less than 1.00 which is another yardstick for determining multicollinearity ($0.920805 < 1.00$, $0.921595 < 1.00$ and $0.997041 < 1.00$), this shows the appropriateness of fitting the model of this study with three independent variables of the study. It also shows the complete absence of multicollinearity between the independent variables of the study.

4.5 Regression Analysis

The effect of corporate governance on the financial performance of listed deposit money banks (LDMBs) in Nigeria was evaluated through the regression analysis. The results presents the regression model summary in table 4.4 which gives the coefficient of determination showing the extent to which the predictor variables influences the dependent variable, the analysis in table 4.4 which determines the reliability of the model developed in explaining the effect and the regression coefficients in table 4.4 which gives the coefficient explaining the extent at which the independent variables influence the dependent variable.

Table 4.4 Regression Result

ROA	Coefficient	Std. Err.	T	P> t 	[95% Conf. Interval]	
BS	.1946707	.0540067	3.60	0.001	.0862478	.3030936
CEOD	.0192886	.0257261	0.75	0.457	-.0323586	.0709359
BC	.2249318	.0804244	2.80	0.007	.0634731	.3863905
Cons	-.0091112	.0279898	-0.33	0.746	-.065303	.0470805
Number of obs						55
F(3, 51)						9.74
Prob > F						0.0000
R-squared						0.3642
Adj R-squared						0.3267
Root MSE						.05939

Source: Result output from STATA 13 (2019)

From the regression table, board size has a regression coefficient value of 0.1946707 and t-value of 3.60 with p-value of 0.001 which is significant at 1%. The positive value of the coefficient (0.1946707) signifying any 1% increase in board size will result to an increase in financial performance by 19%. This provides an evidence for rejecting the null hypothesis which states that, board size has no significant effect on financial performance. This is in line with the study that argues that board size will affect the business efficiency and business performance (Uwuigbe, 2011; Edem & Noor, 2014; Oyerogba, Memba & Riro, 2016) who found out that the large number of board size has a significant positive impact on firms' financial performance and disagree with that of (Ahmad & Mansur, 2012; Sangeetha & Sofi 2014), which shows that board size is very important in the life of business operation, even though their result shows insignificant effect on financial performance of firms.

The table also revealed that CEO duality has a positive coefficient of 0.0192886 and t-value of 0.75 with p-value of 0.457 which is insignificant, meaning that there is a positive and insignificant impact of CEO duality on ROA, resulting to failure to reject the null hypothesis which states that CEO duality has no significant impact on firm financial performance of listed deposit money banks. This corresponds with the study of (Love &

Rachinsky 2008; Marwa, Amon, Xiahui & Hadia 2016) and is contrary with the argument that non CEO Duality will highly contribute to the success of a business (Victor, 2013; Mugisha, Jaya, Joseph & Mbabazi, 2015). From the model, it is clear that, all the variables are positively related to the dependent variable but only board size and board composition have significant impact. The model also shows that holding the predictor variables constant at zero (0), the financial performance (ROA) would be 0.0192886 or 2%.

Further, the results show that, board composition has a positive and significant impact on financial performance of LDMB, where a unit increase in board composition would result to 0.2249318 times increase in financial performance of the LDMB as the result of the regression analysis revealed the regression coefficient of .2249318 and a p-value of 0.007 which is significant at 1%. This corresponds with the study of (Adigwe, Nwanna & John, 2016; Gadi, Emesuanwu & Shammah 2015) and is contrary with the argument presented by (Abu, Okpeh & Okpe, 2016; Mugisha, Jaya, Joseph & Mbabazi, 2015).

4.6 Summary of Findings

The following findings were made from the analyses conducted;

- i. The result revealed that the board size and financial performance of listed deposit money banks in Nigeria are positively and statistically significant. The findings implies that as board size increase financial performance of listed deposit money banks will increases significantly in a direct proportion, this indicates that the null hypothesis is rejected.
- ii. The hypothesis which states that CEO duality has no significant effect on financial performance of listed deposit money banks in Nigeria was tested and the result from the analyses reveals that CEO duality has a positive but insignificant impact on the financial performance of listed deposit money banks in Nigeria as the p-value of 0.457 was attained to. This shows that as CEO duality is maintained, financial performance will increase insignificantly. In that the null hypothesis fails to be rejected. It therefore means that the null hypothesis stands.

iii. The study also found out that board composition has significant positive impact on financial performance of listed deposit money banks in Nigeria as the result reveals a p-value of 0.007 which is positively significant at 1%. This means that when board composition of listed deposit money banks in Nigeria increase it will lead to the increase of financial performance. The result therefore provide an evidence of rejecting the null hypothesis three which states that board composition has no significant effect on the financial performance of listed deposit money banks in Nigeria thereby accepting the alternate hypothesis.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings to the study, and in the process, draws conclusions based on the finding of the study. The chapter subsequently, makes recommendations arising from the conclusions of the study. Finally the chapter makes suggestions for further research in connection with certain specific areas of this study.

5.2 Summary

The study was undertaken with the aim of evaluating the effect of corporate governance on the financial performance of listed deposit money banks in Nigeria. Secondary data was used in the analysis to study the variables. Five (5) years data was collected from the publications of the listed deposit money banks in Nigeria, the Central Bank of Nigeria as well as from other statistical publications from Nigerian Stock Exchange. To address the aim of the study, inferential statistics were conducted where correlation analysis was used to study the association between the variables and regression analysis undertaken to study the relationship between the variables. A multiple regression analysis was conducted to develop the regression model relating the study variables. The significance of the results was tested at 5% level in a 2-tailed test.

Chapter one of the study comprise the background to the study which captured corporate governance and financial performance of listed deposit money banks in Nigeria, statement of the research problem as encountered by the organization, objective of the study which comprise board size, CEO Duality and board composition as they affect financial performance of listed deposit money banks (LDMB) in Nigeria, this was used for research question as well as research hypotheses. It also considers significance as well as scope of the study.

Chapter two considered literature review of previous study, it consist of conceptual, empirical and theoretical framework of the study.

Chapter three of the study has to do with research design which considers the adoption ex-post factor research design as secondary data was used to access the objective of the study. It covers fifteen (15) LDDBs stand as population of the study, while the sample size was eleven (11) LDDBs as the sampled organisations. Descriptive statistics, Pearson correlation model and multiple regression models were adopted as techniques for analysing the data collected.

Chapter four of the study consists of data presentation analyses and interpretation through the use of STATA 13 software. The data were analysed and interpreted in this chapter and findings were made where board size, CEO Duality and board composition has significant impact on the operation of listed deposit money banks in Nigeria.

The study also recommends that strategies to facilitate increased corporate governance of LDDBs should be adopted by the banks for their efficiency in financial operations.

From the analysis, the study found out that all the studied factors have a positive correlation with the financial performance of the LDDB. Therefore corporate governance of LDDB has a positive association with financial performance. CEO Duality of the LDDB and their financial performance has a correlation coefficient of 0.0819 which is a weak positive coefficient. Also, the findings indicated that, CEO Duality and financial performance of LDDB has a positive regression coefficient of 0.0192886. Board size and financial performance were found to have a correlation coefficient of 0.5118 which is a strong positive correlation. Board composition which was also found to have positive and moderate correlation with financial performance as given by the correlation coefficients of 0.4386, the regression analysis results indicated that the variability in the financial performance of LDDB is 36% explained by the CEO Duality, board size and board composition. The study results were found to be 33% reliable and therefore giving significant model in explaining the influence of the corporate governance on financial performance. The model developed indicated that, there is positive relationship between corporate governance and financial performance of LDDB as all of the variables studied were found to have positive coefficients in the model.

From the analysis, the study found out that board size and board composition of the studied factors has a positive and significant impact on financial performance of the LDMB. Therefore corporate governance of LDMB has a positive association with their financial performance.

5.3 Conclusions

The relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company. Corporate governance brings new outlook and enhances a firm's corporate competitiveness. The study examined the effect of corporate governance on the performance of listed deposit money banks in Nigeria by using ROA based performance measures. Indeed, corporate governance plays a vital role in the success and prosperity of the banks and other business firms. The regression results show further that the direction and the extent of firm's performance is dependent on the predictors being examined. Results show that large corporate practices, policies and rights of shareholders enhance corporate performance and that when such factors are capitalized, it enhances firm value.

The results of the study may be taken as a sign that good governance structure is important in the young and immature financial institutions as it has an effect on the institution performance. The observations of the study do not only aim at fine-tuning governance in listed deposit money banks in terms of policy direction, but equally important to ensure collapse of banks as a result of governance is forestalled so as not to dent the critical process of poverty reduction and development.

The impact of corporate governance on financial performance of listed deposit money banks in Nigeria from 2013 to 2017 has been explored using data collected from the financial statements of all the eleven listed (11) deposit money banks in the Nigerian stock exchange and it was discovered that bigger board size contributes more to performance than smaller board size. Also, when a board size is large, it will be difficult for a person (may be CEO) to dominate the board and decisions reached by the board are seen to have emanated from sound and constructive arguments. The result of the summary statistics revealed that the proportion of non-executive directors serving in the

boards of banks are high and this is in compliance with the specification of corporate governance code which specifies that the number of non-executive directors should be higher than the executive directors.

There is also a statistically significant impact between the LDMBs' corporate governance variables (board size, CEO Duality and board composition) and their financial performance. This is because more returns are expected to be obtained where board size and board composition has been considered holding other factors constant. Therefore, corporate governance as well as other inputs invested by LDMBs determines their efficiency in financial performance. Board size of LDMBs determines their financial performance as the institutions are in a position to make better decisions within a short duration of time thereby meeting more client needs. The customers in turn are motivated with the services thereby encouraging them to bank with these institutions. This brings about increased financial growth and performance of these institutions. Thus, there is a statistically significant relationship between board size and the financial performance of LDMBs.

Going by the result, the study conclude that board size and board composition are major drivers of banks' financial performance. The study concludes that banks should focus on maintaining high level of corporate governance mechanism to enhance their performance.

5.4 Recommendations

The following recommendations were made:

- i. Sequel to the findings of this study, it is recommended that the size of the board (membership) should be increased but not exceeding the maximum number specified by the code of corporate governance for banks. As the findings illustrated, financial performance of LDMBs in Nigeria is highly dependent on the level of the banks' corporate governance practice. To facilitate favorable financial performance of these banks, strategies to facilitate increased corporate governance practice of LDMBs should be adopted by the banks for their efficiency in financial operations.

- ii. The findings also revealed that it is necessary for the banking sector to maintain high level of corporate governance practice in terms of board size and board composition, as it affect the financial performance of deposit money banks shown from the result of the analysis obtained from the data collected. However, the CEO Duality has a negative and significant influence on the financial performance of listed deposit money banks.
- iii. The result signifies the importance of corporate governance mechanisms (board composition) in enhancing the quality of financial reporting process. Thus, these results should be considered by regulators in Nigeria in order to begin the necessary actions for legally pending the Nigerian Code of Corporate Governance issued to enable it maintain a better board composition.

5.5 Suggestion for Further Studies

As discussed above, various limitations were encountered in the study. This therefore calls for future researchers to undertake numerous studies on efforts to understand the financial performance of the LDMBs as well as other sectors in Nigeria. The following are the suggested areas that are suggested in this study for future research;

A more detailed study should be undertaken that takes into consideration various factors influencing financial performance of financial institutions. Considering other factors in research would give the extent of each factor's influence and determination of the significantly influencing factor. This would also involve measuring financial performance with the profitability of the institutions.

Further research should also be undertaken which would include firms in various sectors of the economy and compare the different experiences created to these institutions due to the influence of the studied factors. This would aid in making general recommendations that would be employed by relevant authorities to ensure efficiency in financial performance of firms.

Future studies should also consider employing primary sources of data to collect data for their studies. This would be time saving and would also facilitate detailed information

collected from original sources which would as well give reliable and accurate results that explain the details of the subject.

Studies should also be undertaken on areas of the determinants of the LDMBs' growth as well as the factors affecting its efficiency in service delivery and operations.

Also future researchers should consider evaluating the relationship between different macroeconomic policies made and the financial performance of the banking sector.

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APPNDIX (I)

Result From Stata 13

```
_____ (R)
 /_ / ___/ / ___/
 ___/ / /___/ / /___/ 13.0 Copyright 1985-2013 StataCorp LP
 Statistics/Data Analysis      StataCorp
                               4905 Lakeway Drive
 Special Edition                College Station, Texas 77845 USA
                               800-STATATA-PC      http://www.stata.com
                               979-696-4600      stata@stata.com
                               979-696-4601 (fax)
```

3-user Stata network perpetual license:

Serial number: 501306208483

Licensed to: BUBA MOHAMMED

MODIBBO ADAMA UNIVERSITY OF TECHNOLOGY YOLA

Notes:

1. (/v# option or -set maxvar-) 5000 maximum variables

. edit

APPENDIX (II)

CORRELATION MATRIX TABLE

```
. summarize roa bs ceod bc
```

Variable	Obs	Mean	Std. Dev.	Min	Max
roa	55	.0812855	.0723825	.002621	.3768328
bs	55	.2115185	.1558863	.0008524	.7296177
ceod	55	.8909091	.3146266	0	1
bc	55	.142425	.1047258	.0023302	.4863072

APPENDIX (III)

COLLINEARITY TEST

```
. vif
```

Variable	VIF	1/VIF
bc	1.09	0.920805
bs	1.09	0.921595
ceod	1.00	0.997041
Mean VIF	1.06	

APPENDIX (IV)

HETEROSCEDASTICITY TEST (NPM)

```
. hettest
```

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of roa

chi2(1) = 11.32

Prob > chi2 = 0.0008

APPENDIX (V)

POOLED ORDINARY REGRESSION ANALYSIS RESULT

```
. regress roa bs ceod bc
```

Source	SS	df	MS	Number of obs =	55
Model	.103024692	3	.034341564	F(3, 51) =	9.74
Residual	.179893145	51	.003527317	Prob > F	= 0.0000
				R-squared	= 0.3642
				Adj R-squared	= 0.3267
Total	.282917837	54	.005239219	Root MSE	= .05939

roa	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
bs	.1946707	.0540067	3.60	0.001	.0862478 .3030936
ceod	.0192886	.0257261	0.75	0.457	-.0323586 .0709359
bc	.2249318	.0804244	2.80	0.007	.0634731 .3863905
_cons	-.0091112	.0279898	-0.33	0.746	-.065303 .0470805

APPENDIX (VI)

FIXED EFFECT AND RANDOM EFFECT ESTIMATION

```
. xtset coy year, yearly
      panel variable:  coy (strongly balanced)
      time variable:  year, 2013 to 2017
      delta: 1 year

.
. xtreg roa bs ceod bc, re

Random-effects GLS regression           Number of obs   =       55
Group variable: coy                     Number of groups =       11

R-sq:  within = 0.3218                   Obs per group:  min =       5
      between = 0.5029                               avg  =       5.0
      overall  = 0.3641                               max  =       5

Wald chi2(3)           =       28.42
Prob > chi2            =       0.0000

corr(u_i, X) = 0 (assumed)                Wald chi2(3)           =       28.42
                                           Prob > chi2            =       0.0000
```

roa	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
bs	.1995789	.054911	3.63	0.000	.0919554	.3072024
ceod	.0187729	.025498	0.74	0.462	-.0312023	.0687482
bc	.2208171	.080752	2.73	0.006	.062546	.3790881
_cons	-.009104	.0281474	-0.32	0.746	-.0642719	.0460639
sigma_u	.01247348					
sigma_e	.05927861					
rho	.04239976	(fraction of variance due to u_i)				

```
. xtreg roa bs ceod bc, fe

Fixed-effects (within) regression       Number of obs   =       55
Group variable: coy                     Number of groups =       11

R-sq:  within = 0.3254                   Obs per group:  min =       5
      between = 0.4814                               avg  =       5.0
      overall  = 0.3601                               max  =       5

F(3,41)           =       6.59
Prob > F           =       0.0010

corr(u_i, Xb) = -0.1398                F(3,41)           =       6.59
                                           Prob > F           =       0.0010
```

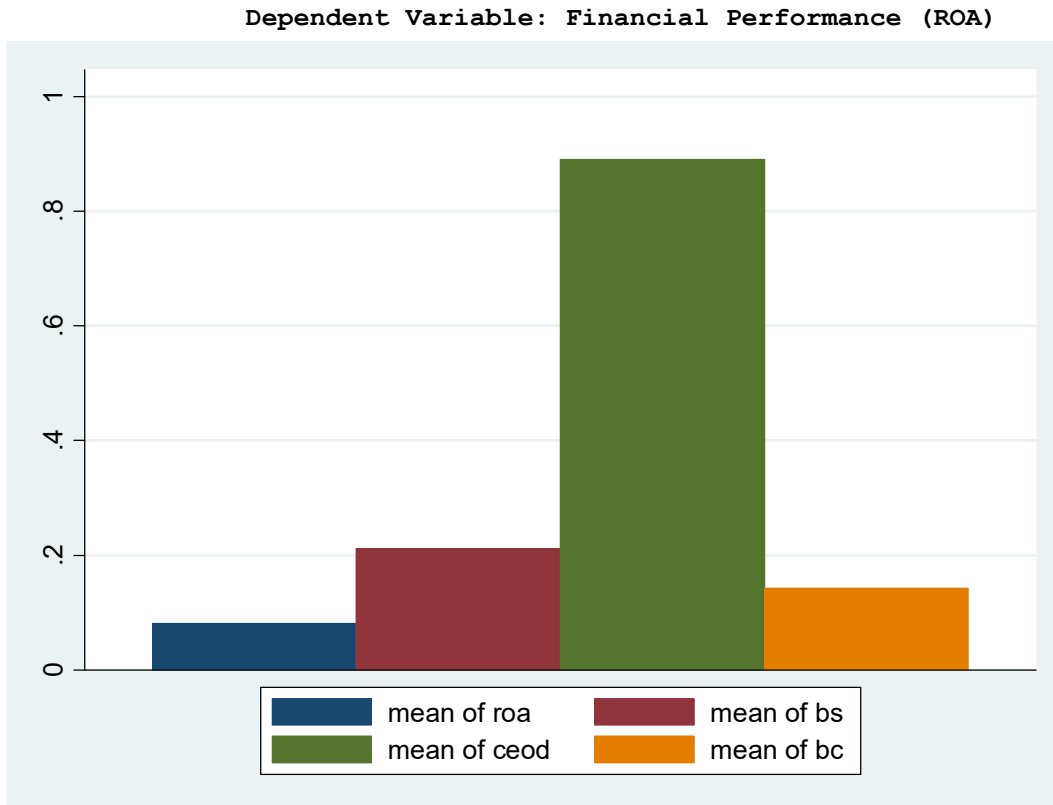
roa	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
bs	.2336671	.0684041	3.42	0.001	.0955222	.3718119
ceod	.0167717	.0270569	0.62	0.539	-.0378708	.0714142
bc	.2004184	.092263	2.17	0.036	.0140896	.3867473
_cons	-.011626	.0310307	-0.37	0.710	-.0742939	.0510418
sigma_u	.02746507					
sigma_e	.05927861					
rho	.17672914	(fraction of variance due to u_i)				

```
F test that all u_i=0:      F(10, 41) =      1.02          Prob > F = 0.4444
```

APPENDIX (VII)

NORMALITY TEST

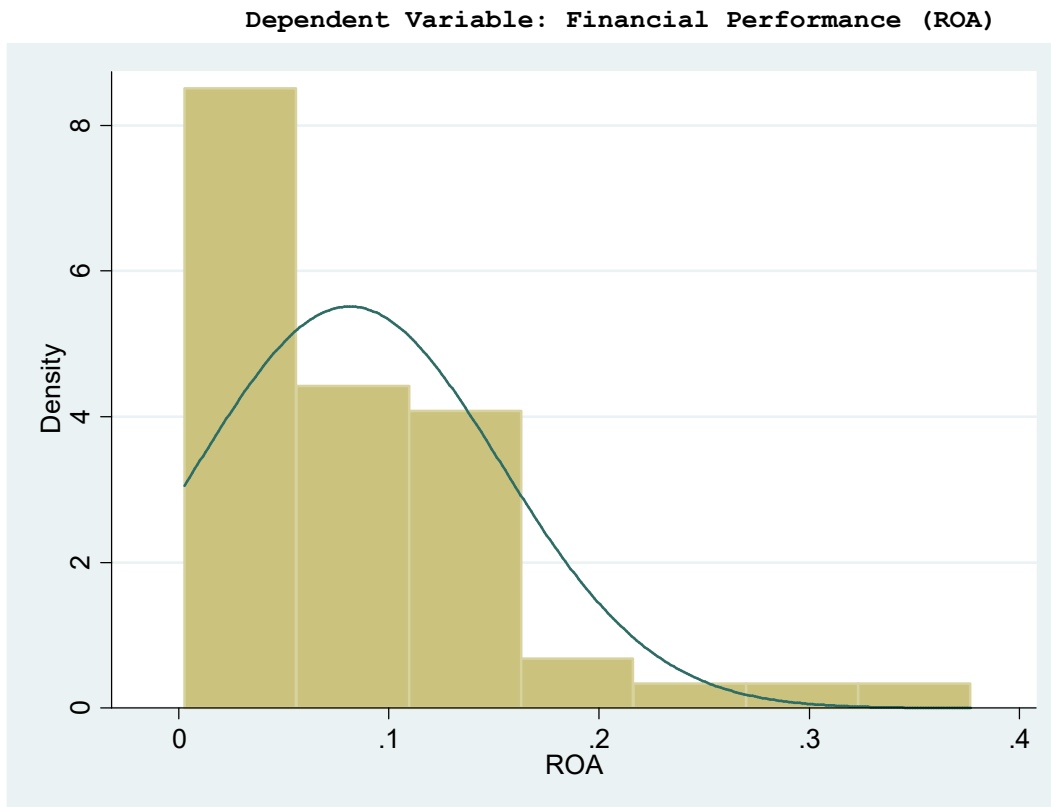
Figure 1: Bar Chart



APPENDIX (VIII)

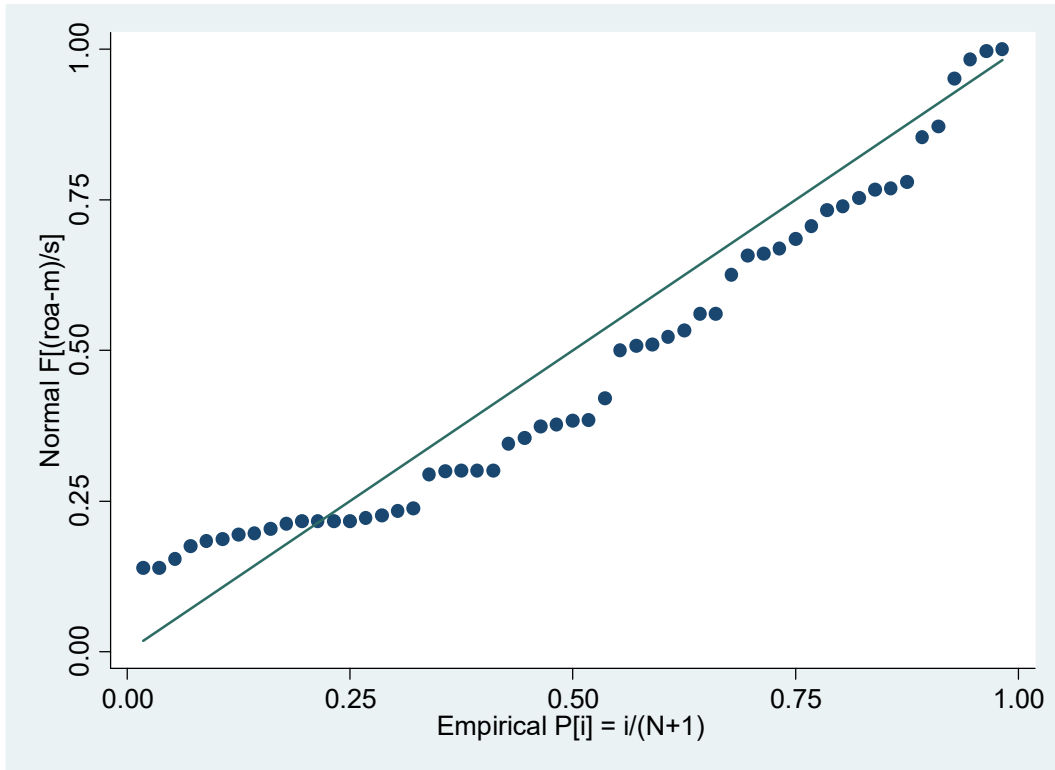
NORMALITY TEST

Figure 2: Histogram



APPENDIX (IX)

NORMAL P-P PLOT OF REGRESSION STANDARDIZED RESIDUAL



APPENDIX (XI)**SAMPLED LISTED DEPOSIT MONEY BANKS ATTRIBUTABLE DATA**

COY	YEAR	ROA	BS	CEOD	BC
1	2013	0.134062	0.383555	1	0.135082
1	2014	0.376833	0.454283	1	0.128399
1	2015	0.026802	0.327542	1	0.139544
1	2016	0.112968	0.371126	1	0.143301
1	2017	0.137029	0.365157	1	0.486307
2	2013	0.092346	0.250634	0	0.117043
2	2014	0.058613	0.275017	1	0.064998
2	2015	0.120604	0.425913	1	0.271096
2	2016	0.081303	0.06724	1	0.180673
2	2017	0.042194	0.264551	1	0.052159
3	2013	0.043408	0.300511	1	0.139902
3	2014	0.043386	0.262643	1	0.128921
3	2015	0.057896	0.262643	1	0.172425
3	2016	0.066702	0.262643	0	0.172994
3	2017	0.059838	0.262345	1	0.139104
4	2013	0.054331	0.236266	1	0.146598
4	2014	0.019566	0.077922	1	0.067587
4	2015	0.02452	0.031558	1	0.039943
4	2016	0.02452	0.001335	1	0.065456
4	2017	0.02452	0.001276	1	0.232343
5	2013	0.025849	0.000852	1	0.038
5	2014	0.01702	0.000893	1	0.029925
5	2015	0.052377	0.05854	0	0.05085
5	2016	0.085408	0.001164	1	0.059988
5	2017	0.104527	0.011074	1	0.111858
6	2013	0.013706	0.128742	1	0.115085
6	2014	0.111281	0.729618	1	0.054745
6	2015	0.127645	0.312663	1	0.204789
6	2016	0.082697	0.331266	1	0.023994
6	2017	0.007521	0.024034	1	0.00233
7	2013	0.201743	0.228761	1	0.262038
7	2014	0.01608	0.024032	0	0.130635
7	2015	0.029538	0.02261	1	0.134093
7	2016	0.286437	0.37104	1	0.374551
7	2017	0.134447	0.368436	1	0.36966
8	2013	0.028629	0.02389	1	0.211521
8	2014	0.236153	0.440494	1	0.239556
8	2015	0.087361	0.356827	1	0.016379

8	2016	0.024623	0.177102	1	0.019573
8	2017	0.126303	0.157714	1	0.257846
9	2013	0.157362	0.141963	1	0.218738
9	2014	0.060098	0.087671	1	0.053188
9	2015	0.002948	0.210668	1	0.031718
9	2016	0.018956	0.113329	1	0.039238
9	2017	0.110681	0.142268	1	0.12911
10	2013	0.023636	0.105402	1	0.058451
10	2014	0.163415	0.157186	1	0.024034
10	2015	0.002621	0.158295	1	0.122876
10	2016	0.116059	0.451951	0	0.240315
10	2017	0.130853	0.253084	1	0.226098
11	2013	0.08304	0.258538	1	0.02371
11	2014	0.021317	0.237803	1	0.236844
11	2015	0.043123	0.398502	1	0.138902
11	2016	0.043385	0.153295	0	0.21199
11	2017	0.092426	0.109654	1	0.346873
