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Corporate Governance Principles Application and the Financial Performance of Deposit Money Banks in Nigeria: An Impact Assessment

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Abstract
Corporate Governance entails designing systems, procedures, structures and taking transparent decisions on ways of improving firms' value to promote accountability. Poor application of Corporate Governance principles was identified as a major possible factor in firms' failure globally. Despite the focus on the subject matter, little attention is paid on Corporate Governance application and the financial performance of Deposit Money Banks in Nigeria. This motivated the paper to assess the impact of Corporate Governance application on the financial performance of some Deposit Money Banks in Nigeria. A hypothesis was formulated and tested in line with the main objective of the study. The study used both descriptive and historical research methods, while the sample size was determined using judgmental sampling technique. Method used in data collection was secondary source. The t-test analysis technique was adopted to estimate the relationship between the application of Corporate Governance principles and financial performance. Findings proved that there is no significant relationship between board structure and banks' financial performance. The paper suggests that other Corporate Governance indices must also be considered in measuring the financial performance of Deposit Money Banks in Nigeria for value improvement and accountability.
Key Words: board structure, corporate governance, deposit money banks, financial performance, principles

1. Introduction

Development, growth and lasting corporate performance in financial and operational terms cannot occur in the absence of accountability and transparency. Corporate Governance has received considerable attention worldwide in recent times. It is the key to the global integrity of corporate institutions especially financial institutions and other sectors. For this reason, the quality of corporate governance principles in place affects the performance of individual institution and that of the economy as a whole in term of growth and development.

In the recent content of Nigeria, the quest for good application of corporate governance principles is further strengthened by the desire to attract investments and support rapid economic growth, which constitutes a good reward to both local and international investors. Most business failures in recent times is attributed to failure in the application of corporate governance principles; the initial collapse of banks in Nigeria in the early 1990's and onwards was because of inadequate application of corporate governance principles resulting to insider-related practices such as credit-related abuses, poor risks management techniques and failure of internal control system.

Corporate Governance implies the management of company affairs with diligence, transparency, responsibility and accountability that would maximize shareholders wealth. Hence, it requires designing systems, processes, procedures, structures and taking decisions on ways to improve her financial performance and stakeholders' value in the end (Pandey, 2006). Corporate governance also focused on the accountability mechanism that governs the relationship among shareholders, the board of directors, senior management, the workers and other stakeholders (Hassan, 2010). An important theme of corporate governance is to adequately ensure the accountability of certain individuals in an organization through the mechanism that help reduces or eliminates the principal agent relationship problem, which the board size is not an exception (Wikipedia 2009).

Accountability and Transparency are another mechanism that is imperative in respect to the application of corporate governance principles in the crucial task of financial information reporting in order to maintain the confidence of investors and consumers. Adequate accountable disclosure and financial transparency help to highlight weaknesses inherent in corporate governance as poor risk diversification, inadequate loan evaluation and fraudulent insiders related malpractices. Such highlights on weaknesses inherent in corporate governance set off a detailed control measures that can help prevent collapse. This was the case with Enron as financial transparency and accountability was weak and disclosure was inadequate (Olayinka, 2010).

According to Ayininuola, (2009), the leadership within an organization has to maintain corporate culture that integrates ethical decision making approaches sticking to corporate governance principles. A number of professional and regulatory organizations recommend reforms that will improve transparency in financial reporting thereby increasing corporate practices. The current emphasis on sound application of the principles of corporate governance is associated to the failure of known, giant and sound firms around the world. This led to the collapse of corporate giants like John Matheys Bank, Bank of Credit and Commerce International, Long Term Capital Management, Enron and others. The recent episode of distress syndrome signs among banks in Nigeria which resulted to the Nationalization of some banks raised more concern over the sanctity of the sector and including other corporate scandals was attributed to non-adherence of corporate governance principles.

Banks play a crucial role in propelling the entire economy of any nation by channeling surplus funds to the deficit units, of which there is dire need for repositioning to achieve efficient financial performance through a reform process geared towards forestalling bank collapse. In Nigeria, the reform process of the banking sector is part and parcel of the government strategic agenda aimed at repositioning and integrating the Nigerian banking sector into the African regional and global financial system. To make the Nigerian banking sector sound according to Akpan (2007), the sector has undergone remarkable changes over the years in terms of the number of institutions, structure of ownership, as well as depth and breadth of operations. These changes have been influenced mostly by the challenges posed by deregulation of the financial sector, operations globalization, technological innovations, and implementation of supervisory and prudential requirements that conform to international regulations and standards, which Corporate Governance is inclusive. It is this change in 2001 that led to the adoption of universal banking system where both commercial and merchant banking functions in Nigeria is jointly performed by a reclassified Deposit Money Banks (DMBs) in Nigeria, while the Corporate Governance Code was re issued and made mandatory on 1st March, 2006.

The weakness inherent in the application of Corporate Governance principles is perhaps the most important factor responsible for most corporate failures. The most recent is high profile corporate frauds resulting to failures in the Nigerian banking sector. This brought the need for the practice of good corporate governance not only in the banking sector but also in other sectors of the economy, which the Deposit Money Banks in Nigeria is inclusive. Poor application of corporate governance mechanism was identified as one of the major possible factor in virtually all known instance of financial institutions failure in the country due to firms' noncompliance to corporate governance principles. It is in view of this that the paper focused on assessing the impact of Corporate Governance principles application on the financial performance of Deposit Money Banks in Nigeria.

The main objective of this paper focused on impact assessment of Corporate Governance principles application on the financial performance of Deposit Money Banks in Nigeria, with emphasis on the level of good corporate governance compliance aimed towards promoting accountability and transparency as it examined the relationship between board composition and Deposit Money Banks financial performance.

To achieve the objectives of the study, the following hypothesis below were formulated and tested.

> H_{01}: Application of Corporate Governance principles has no significant impact on the financial performance of Deposit Money Banks in Nigeria in terms of gross earnings, profit after tax and net assets
>
> H_{A1}: Application of Corporate Governance principles has a significant impact on the financial performance of Deposit Money Banks in Nigeria in terms of gross earnings, profit after tax and net assets.

The study primarily focused on Deposit Money Banks in Nigeria using Access Bank Plc., First Bank of Nigeria Plc., and Wema Bank Plc. covering the years from 2002 to 2008 as the study period which coincided with the pre and post recapitalization period in the Nigerian banking sector, and the period Corporate Governance Code was made mandatory. The study primarily revolved round the board structures towards promoting efficiently and effective management. This is because board members in Nigeria are the major decision taker, have influence and more respected. However, the result from this paper is applicable to all Deposit Money Banks in Nigeria, since the system of Corporate Governance application in Nigeria is still at its developmental stage.

2 Literature Review and Conceptual Framework

2.1 Concept of Corporate Governance

Corporate Governance is largely concerned with governing the relationship between shareholders and directors. The concept of Corporate Governance is primarily concerned with the process of customs, policies, system, laws and regulations as been applied in organizations (Alo, 2007). In this regard, it is defined as the structure of relationships within the entity for making decisions and implementation.

Corporate Governance also refers to how organization is run, that is, how the resources of an organization are employed in pursuance of the set goals of the organization (Chienjien, 2010). According to the Organization for Economic Co-operation and Development (OECD), Corporate Governance structure specifies the distribution of rights and responsibilities among different participants such as the shareholders, boards, managers and other stakeholders in the corporation and spells out the rules and procedure for making decisions on corporate affairs. Corporate Governance includes corporate discipline, transparency, independence, accountability, fairness, social responsibility, timely and accurate disclosure of all material matters relating to a company including the situation of financial performance, ownership and governance arrangements (Hassan, 2010).

Good corporate governance regulates the relationship between organizations stakeholders, their boards' members and management team (Hassan 2010). According to Oladejo (2008), Corporate Governance would include the

relationship between stakeholders, creditors and corporations; between financial markets, institutions and corporations; and between employees and corporations. Corporate Governance would also encompass the issue of social responsibility, including such as aspects as the dealings of firms with respect to culture and the environment.

The Federal Reserve Bank of Richmond defines the concept of Corporate Governance as the framework by which a company's board of directors and senior management established and pursues objectives while providing effective separation of ownership and control. It includes the establishment and maintenance of independent validation mechanisms within the organization that ensures the reliability of the system of controls used by the board of directors to monitor compliance with the adopted strategies to risk tolerance. Corporate Governance is concerned with various systems adopted in which all parties interested in the continued survival of firm attempt to ensure that managers and other insiders take adopt strategies that safeguard the interest of the stake holders with regards to accountability and transparency. Such measures are necessitated by the separation of ownership from management which forms a vital feature of the modern firm.

2.2. Application of Corporate Governance Principles in Nigeria

Good Corporate Governance principles applications has become an acceptable international practice, which every country is embracing, realizing the need to align with international best practices. The Nigerian Securities and Exchange Commission (SEC) in collaboration with Corporate Affairs Commission (CAC) inaugurated a seventeen (17) member committee in June 2000. The committee was mandated to identify weaknesses in the current Corporate Governance practices in Nigeria and fashion out necessary ways that would bring about improvements. Membership of the committee was carefully selected to cut across all sectors of the economy including members of professional organizations, the organized private sector and regulatory agencies. The terms of reference of the committee are to;

a) Identify weakness in the current Corporate Governance practices with Nigeria in respect to public companies.
b) Examine practices in other jurisdictions with a view to the adoption of international best practices in Corporate Governance in Nigeria.
c) Make recommendations on necessary changes in current practices; and
d) Examine any other issue relating to application of Corporate Governance principles in Nigeria.

The committee submitted a draft code of corporate governance for further review at three locations namely; Lagos, Abuja and Port-Harcourt of which comments and contributions were made from various stakeholders of whom a good number of them were accepted and subsequently incorporated in the committees' final report. The committees final report which centered on code of best practices on application of Corporate Governance principles in Nigeria was approved by the boards of the Securities and Exchange Commission (SEC), being the regulatory authority of the capital market and Corporate Affairs Commission, being the regulatory authority of companies in Nigeria. The main target of code is the Board of directors as leaders of corporate organization as well as the responsibilities of other stakeholders including shareholders and profession bodies. (Audit and Assurance: ICAN 2008).

2.3. Empirical Review of Major Studies on Corporate Governance and Firms' Financial Performance

There are various dimension of empirical studies on corporate governance and financial performance, of which Chienjien (2010) in his study identified four Board Characteristics (BC), such as Board Composition (BC), Board Size (BS), Board Ownership (BO), Chief Executive Officer (CEO) duality as possibly having an impact on corporate financial performance and these characteristic are said to be independent variables. The Ordinary Least Square test (OLS) regression was used to estimate the relationship between corporate performance measures and the independent variables. Findings from the study showed a strong positive association between director's stock holding and firms' performance in Corporate Governance principles application. However, a negative association was observed between Return On Equity (ROE) and CEO duality. The study suggest that large board size should be encouraged and the composition of outside directors as members of the board should be sustained and improved

upon to enhance corporate financial performance. The study used a survey research design; population of the study is made up of companies listed on the floor of the Nigerian stock exchange. A sample of 30 quoted companies for the period of 2007 year end was used. The information relating to firm performance based on ROE, Return On Capital Employed (ROCE) and BC was collected from the company's annual reports.

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

In another view Samiu and Temitope, (2005), in their study – Audit Quality (AQ), Corporate Governance and firm characteristics in Nigeria used the population of the study to compose the companies listed on the floor of the Nigerian Stock Exchange. Samples of 58 audited financial reports of quoted companies for the period of 2007 were used. The data collected were analyzed using both descriptive and inferential statistics, of which descriptive method described information relating to AC and CEO duality. The study used frequency count, mean, standard deviation, minimum and maximum values variables, while information relating to the composition of outside director, members of the boards, audit committee composition was collected from the companies' annual reports. Results from the study conclude that non-executive directors, ownership, size and leverage significantly have relationship with audit quality.

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

The study concludes that more the outsiders there are on a company's board, the better the performance in terms of Return on equity. The study also recommends the composition of directors to be more of outsiders as there is a relationship between the compositions of directors to the performance of firm. To avoid duality issues, the study suggested that the positions of CEO and the Board Chairman be separated. These are methods employed by a firm to solve Corporate Governance problems based on political power, economic might and legal institutions operational in a country.

In furtherance to the main objective of this study, it is pertinent to review some indices, factors or variables that are frequently used by most authors as yardsticks by which Corporate Governance can be measured in an organization. Such as:

i. *Board Size*

Limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits by larger boards which lead to increased monitoring are outweighed by the poorer communication and decision making of larger groups. Empirical studies on board size seem to provide the same conclusion; a fairly clear negative relationship appears to exist between board size and firm value. Too big a board is likely to be less effective in substance discussion of major issues among directors in their supervision of management.

It is on this premise Olayinka (2010) argue that large boards are less effective and are easier for the CEO to control. When board get too big, it becomes difficult to coordinate and for it to process and tackle strategic problems in the organization. Yermack (1996) using data from Ireland also find a negative correlation between board size and profitability as a financial performance measure. Eisenberg, Sundren and Wells (1998) also reported that small size boards are positively related to high firm performance. Mak and Kusnadi (2003) using sample of firms from Malaysia and Singapore, find that firm valuation is highest when board has five (5) directors, a number considered relatively small in those markets. In Nigeria, a study by Sanda (2008) asserted that firm performance is positively correlated with small board size as opposed to firms with large boards.

ii. *Board Composition*

Enhanced director independence is basically appealing because a director closely related in any form to the CEO would find it more difficult to out rightly reject an abnormal pay package, challenge the rationale behind a propose and unfruitful takeover, merger plan or being unnecessarily afraid for effective monitoring. Empirical studies on the effect of board membership and structure on firm performance generally shows either mixed or opposite result. Some studies find better performances for firms with boards of directors dominated by outsiders (Weisbach 1998, and Olayinka 2010), while Forsberg (1989) finds no relationship between the proportion of outsider, directors and various performance measures.

In the same vein, Ross (1973) found no correlation between the degree of board independence and four measures of firm performance using varieties of other Corporate Governance variables including ownership characteristics, firms' characteristics, board size and industry. They found that a firm that performs poorly was more likely to increase their board independency. La Porta (2000) find that firm performance is insignificantly related to a higher proportion of outsiders on the board. Thus, the relation between the proportion of outside directors and firm performance is mixed.

iii. *Audit Quality*

It is said that, independent audit report increase investors' confidence, lower cost of capital and boost firms' value. Klein (2002) reports a negative correlation between earnings management and audit independence. Jeffrey (2004) found that an entirely independent audit committee is fashioned towards lowering cost associated with debt financing.

On dividend payout and insiders' shareholding, high dividend payouts oblige managers to raise additional capital via stock exchange more regularly and hence, closer monitoring and scrutiny. While it is argued that ownership by directors' increase their level of commitment in creating long term value because they stand to benefit in dividend and bonuses if the company prospers in terms of financial performance.

3. Methodology

The methodology of research adopted to achieve the main objective of this paper is both descriptive and historical. All the twenty one (21) Deposit Money Banks officially quoted in the daily lists of the Nigerian Stock Exchange (NSE) market as at 31st December, 2008 form the population. A judgmental technique of sample selection was used

to select three banks namely; Access Bank Plc, First Bank of Nigeria Plc and Wema Bank Plc. To be selected as a sample, the banks met the following criteria:

---They must retain their identities prior to and after the consolidation exercise that is still ongoing in the Nigerian banking sector.

--- They must have a maximum of twenty (20) directors on the board.

--- Their board structure must have more non-executive directors than executive directors.

---Their accounting year end must be 31st March, which made their published annual reports and accounts available.

---Their Managing Directors were never sacked by the CBN governor under the ongoing reform process in the Nigerian banking sector.

The paper made use of secondary data obtained and computed from the banks' published annual reports and accounts covering the periods of eight (8) years, from years 2002 to 2008. The collected data were analyzed using t – test statistic at 5% level of significant with the aids of Statistical Package for Social Sciences (SPSS) which is an improvement on the ordinary student t-test as used by Adereti and Sanni (2007). The t – test statistic formula is given as:

$$t = \frac{\sum (\bar{X} - \mu)}{SE\ \bar{X}} \sim t_{n1-2}$$

Where:

$\bar{X}$ = Sample mean

μ = Hypothesized mean

SE = Standard Error

n_1 = Sample size

Decision Rule: Reject Ho if the t – calculated value is greater than the t – tabulated value at 5% level of significance.

4. Discussion of Results

For the results analysis and discussions, gross earnings, profits after tax, and net assets was extracted from the published annual reports and accounts of the three sampled banks in order to test the formulated hypotheses and make analyses for interpretation of the results.

Table I: Access Bank Plc. extracted financial performance indices (2002-2008).

Years	2002	2003	2004	2005	2006	2007	2008
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Gross earnings	2,604,378	4,367,887	5,515,086	7,494,855	13,360,358	27,881,451	57,627,098
Profit after tax	(55,245)	556,573	637,473	501,515	737,149	6,083,439	16,056,464
Net assets	1,943,784	2,365,357	2,702,830	14,071,924	28,893,886	28,384,891	171,002,026

Source: Researchers' fieldwork, 2011

Table II: First Bank of Nigeria Plc. extracted financial performance indices (2002-2008).

Years	2002	2003	2004	2005	2006	2007	2008
	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M	₦'M
Gross earnings	46,267	50,597	51,318	49,475	61,243	79,299	130,600
Profit after tax	4,776	11,010	11,483	12,184	16,053	18,355	30,473
Net assets	19,406	27,006	41,605	48,726	64,277	83,627	351,854

Source: Researchers' fieldwork, 2011

Table III: Wema Bank Plc. extracted financial performance indices (2002-2008).

Years	2002	2003	2004	2005	2006	2007	2008
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Gross earnings	7,919,749	9,716,374	12,856,096	15,287,866	14,836,623	26,430,982	51,279,366
Profit after tax	1,481,667	1,477,775	967,148	844,285	(6,601,961)	2,554,098	4,217,641
Net assets	3,768,119	7,215,393	8,040,348	24,258,860	20,540,001	25,182,705	31,061,406

Source: Researchers' fieldwork, 2011

The figures in tables I, II and III above clearly depicted the financial performance indices of the three selected banks in terms of gross earnings, profit after tax and net assets which were extracted from their annual reports and accounts. From the tables, all the selected banks witnessed improved financial performance from the date corporate governance was re issued and made mandatory as a result of compliance to corporate governance principles. To test the stated hypotheses, we applied the t-test statistic which produced results as shown in tables IV and V below.

Table IV: t-test descriptive measures of corporate governance principles application and the financial performance indices

VAR00014	N	Mean	Std. Deviation	Std. Error Mean
VAR00015	9	18799494	41524345.054	13841448
	9	21291086	21600435.453	7200145.2
VAR00016	9	590321.44	626797.62666	208932.54
	9	2569043.2	6163011.3543	2054337.1
VAR00017	9	13603679	23468095.032	7822698.3
	9	33913089	53094556.803	17698186

Source: SPSS Output.

TABLE V: t – value statistic of the corporate governance principles application and financial performance indices measures.

	N	Means	Std. deviation	T – value	Prob.	Remarks
Gross Earnings	9	18799493.6	41524345.1	-01.60	0.875	NS
	9	21291086	21291086			
Profit after tax	9	590321.4	590321.4	-0.958	0.352	NS
	9	2569043.2	2569043.2			
Net Assets	9	13603679	13603679	-1.050	0.310	NS
	9	33913088.7	33913088.7			

Source: SPSS Output.

The above tables IV and V show the computed t-test from the SPSS output of the sampled banks financial performance measure due to Corporate Governance principles application. It clearly depicted the combined means, standard deviations and the calculated t-value of the three banks for gross earnings increased and that of profit after tax declined as a result of high tax charges and increased depreciation charges while the net assets recorded a tremendous increase due to investment in more fixed assets as a result of strong board composition that try to enforce the application of corporate governance principles.

Looking critically at the results of the t-test, one is made to conclude that board composition which is one of the major players in adhering to Corporate Governance principles has no significant impact on the financial performance of the selected Deposit Money Banks in Nigeria. This arose from the fact that, the calculated t-values is less than the t-critical value at 5% level of significance; hence, application of Corporate Governance principles has no significant impact on the financial performance of Deposit Money Banks in Nigeria in terms of gross earnings, profit after tax and net assets. Based on the above, the null hypothesis is accepted.

5. Conclusion and Recommendations

This paper has made an impact assessment of Corporate Governance principles application on the performance of Deposit Money Banks in Nigeria, using gross earnings, profit after tax and net assets to measure Corporate Governance compliance in Access Bank Plc., First Bank Plc. and Wema Bank Plc. This paper was based on effective corporate governance compliance in relation to board structure and how it affects the financial performance of firms, especially Nigerian Deposit Money Banks. The concept of corporate governance, firm financial performance, its importance, principles and codes of Corporate Governance application and other relevant literatures were reviewed. Firm performance measures and other organizational goals that enhance the Corporate Governance compliance were also highlighted.

Literatures suggest that there is little knowledge of corporate governance principles application and its compliance among staff members of most firms. The paper found that application of Corporate Governance principles has no significant impact on the financial performance of Deposit Money Banks in Nigeria in terms of gross earnings, profit after tax and net assets; hence, there is no significant relationship between board structure and financial performance of firms. The t-test results show insignificant impact relationship between board structure and financial performance of selected Nigerian Deposit Money Banks. Therefore the null hypothesis is accepted and the alternative is rejected. The finding suggests that other corporate governance mechanism in addition to board structure be combined to determine significant result. The paper therefore recommends that other corporate governance mechanism should be considered in measuring the financial performance of firms for better testing of the other variables.

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