IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 20, Issue 5. Ver. I (May. 2018), PP 17-24
www.iosrjournals.org

Corporate Governance and DMBs Performance in A Recessed Economy

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Abstract: *The objective of this study is to determine the effect of corporate governance on DMBs performance in Nigeria's recessed economy. This study employed two analytical tools in Pearson Moment Correlation and Multiple regression to test for both correlation and regression analysis respectively based on three aspects of corporate governance namely; Board Size (BS), Non-Executive Directors (NED) and Executive Directors (ED). Deposit Money Banks performance is measured through Return on Equity (ROE) and Return on Assets (ROA). The results revealed that all variables of corporate governance positively and significantly correlated with ROE and ROA at 5percent level of significance. However, corporate governance was all unable to individually and collectively impact DMBs performance within the study sample and framework. Hence, the study conclude that corporate governance have no significant impact on the performance of DMB in Nigeria during the period of recession and recommend that the number of BS should be improved and the number of Non-Executive directors should increase to help regulate and checkmate the activities of the executive directors in DMB in Nigeria.*

Keywords: Corporate Governance, Deposit Money Bank, Banks Performance

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Date of Submission: 18-04-2018 Date of acceptance: 05-05-2018

I. Introduction

Deposit Money Banks in Nigeria recently encountered an overwhelmed bad loan in the period of 2015 to 2016. The economic recession flawed all investment activities within the Nigerian economy to perform woefully that most investment lost invested capital and banks were unable to recover the loans granted within the period. The economic recession is said to have started long before 2016 by different economist and major reference to recession is stressed back to late 2013 and early 2014 oil prices sharp continuous fall at the international oil market. This is due to the fact that most Nigerian banks' loans and services were directly involved in oil related investments and services. The emergence of Ponzi schemes like MMM, GetHelpWorldWide and so on also reduce the holdings of funds by Deposit Money Banks for loans and investment activities in Nigeria within which the corporate governance of government regulatory agency would have help to reduce if not eliminate.

The massive fraud and fine-tuning of the statement of accounts in banks, not to mention insider dealings and compromised boards in many financial institutions as well as spineless shareholders' associations audit committees and rubber stamp Annual General Meetings suggest the collapse of corporate governance in Nigeria (Oyebode, 2009) in the wake of this recession. However, the failed loans were said to be a major deficiency of corporate governance, since the major objectives of their administrative and oversight functions were highly boycotted in the activities of the day to day running of the Nigerian Deposit Money Banks that prompted the banks to cave in easily to recession. According to Uwuigbe (2011), the fact remains unchanged that there is need for countries to have sound resilient banking systems with good corporate governance for such economic down turn. According to Amupitan and Adeoye (2015), the Nigerian banking sector witnessed dramatic growth post consolidation; but neither the industry nor the regulators were sufficiently prepared to sustain and monitor the sector's explosive growth. The poor corporate governance of both the government regulatory agency and deposit money banks allowed such growth to be withered away easily into recession by not anticipating a post growth effect and close management of the administrative activities of banks directors (Wilson (2006) in Amupitan and Adeoye (2015)). Thus, this study aims to determine the impact of corporate governance on the performance of Deposit Money Banks in a recessed Nigerian economy.

II. Research Objectives

Objectives of this study are as follows;

1. To identify the relationship between corporate governance (Board Size) and DMB performance in a recessed economy.
2. To identify the significant relationship between corporate governance (Executive and Non-Executive Directors) on DMB performance in a recessed economy.

Hypotheses Development

$H0_1$: There is no significant relationship between Board Size and ROE of DMB in a recessed economy.

$H0_2$: There is no significant relationship between Non-Executive Directors on ROA of DMB in a recessed economy.

$H0_3$: There is no significant relationship between Executive Directors on ROA of DMB in a recessed economy.

III. Literature Review

Concept and theoretical review

Major causes of economic recession in Nigeria are engineered by high inflation rates (low purchasing power), high debt structure, high interest rate, fall in wages (income) and mass unemployment which affected Deposit Money Banks activities via poor availability of (reduced) savings and leads to poor provision of loans for diversification, loan availability to manufacturing and agricultural sector. This facilitates a need for a vibrant role of corporate governance. The purpose of corporate governance is to coordinate a conflict of interests among all parties' relationship within the company and to develop a system that can reduce or eliminate the agency problems (OECD, 2004). It argues that the agency problems become more critical with weak governance and limited protection of minority shareholders in a company (Dharwadkar, George, & Brandes, 2000). OECD (2004) also outlines that sound corporate governance should be able to help the board of directors and managers to achieve the best interests of the company and shareholders. This was supported by Ciancanelli and Gonzales (2000) who state that in banking sector the regulation and regulator represent external corporate governance mechanism.

Poor regulatory and supervisory role of government regulatory agency facilitated the lacuna in poor activities of corporate governance in Deposit Money Banks in Nigeria. According to Sanusi (2004) poor corporate governance was identified as one of the major factors in virtually all known instances of bank distress in the country. Weak corporate governance was seen manifesting in form of weak internal control systems, excessive risk taking, override of internal control measures, absence of or non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system. Despite the code of governance measures by CBN, the problem of corporate governance still remains un-resolved among consolidated Nigerian banks, thereby increasing the level of fraud.

Lack of vigilant oversight functions by the boards of directors facilitated the series of widely publicized cases of accounting improprieties recorded in the Nigerian banking industry in 2009 (for example, Oceanic Bank, Intercontinental Bank, Union Bank, Afri Bank, Fin Bank and Spring Bank), the board relinquishing control to corporate managers who pursue their own self-interests and the board being remiss in its accountability to stakeholders (Uadiale, 2010) as quoted by (Uwuigbe, 2011). Akpan (2007) disclosed that data from the National Deposit Insurance Commission report (2006) shows 741 cases of attempted fraud and forgery involving N5.4 billion. In 2008, the number of fraud cases was 2007 and it increased to 2352 by 2011 with the total amount involved being N28.4 billion. However, between 2014 and 2015 over 22,900 fraud cases were recorded with the total amount involved standing at N43.628 billion in Nigeria, thereby requiring super active corporate governance in Nigerian Deposit Money Bank to reduce this alarming fraud and anomalies in a recessed Nigerian economy (NDIC, 2016).

IV. Empirical Review

Different scholars use different proxies of internal and external corporate governance mechanisms to see their impact on bank performance. Of the internal governance variables, board size and composition are frequently used. According to (Yung, 2009), the factors underpinning corporate governance mainly include shareholding structure, board composition, and senior management. The main focal point of these factors is firm performance. The relationship between corporate governance and firm performance and how the board composition may affect firm performance is embedded in the job function of its agency. Jensen and Meckling (1976) and Jensen (1986) state that corporate governance address agency problem via governance structures, capital structure (i.e., use of debt as a disciplinary device) and managerial ownership incentives. Sheifer and Vishny (1997), corporate governance deals with ways in which suppliers of finance, to corporations, assure themselves of getting a return on their investment. Wolfensohn (1999) asserts that corporate governance is about promoting corporate fairness, transparency and accountability. OECD (1999) opines that corporate governance is the system by which business corporations are directed and controlled. While, Mathiesen (2002) describes corporate governance as a field in economics that investigate how to secure or motivate efficient management of corporations by the use of incentive mechanism such as contracts, organizational design and legislation. In the word of Akinsulire (2006), corporate governance as a term covers all the general mechanism by which management are led to act in the best interest of the company owners. A perfect system of corporate governance would give management all the right incentives to make value maximizing investment and financing decision and would assure that cash is paid out to investors when the company runs out of viable projects i.e. investment with positive NPV.

Ajanthan, Balaputhiran and Nimalathashan (2013) examine the relationship between corporate governance and banking performance with the aim of determining the impact of corporate governance on banking performance. Their study focused on four aspects of corporate governance namely; Board Size (BS), Board Diversity (BD), Outside Directors Percentage (OSDP) & Board Meeting Frequency (BMF), while Banking Performance were proxied by Return on Equity (ROE) and Return on Assets (ROA). The results revealed that all variables of corporate governance are positively correlated with ROE in state banks as well as, in private banks except BD and BMF other variables have strong negative relation with ROE, which is significant at 5percent level of significance. Private Banks also show same relation except the variable BD. BD have strong negative relationship with ROA in state banks which is significant at 5 percent level of significance, but in private banks; positive relationship is denoted by BD which is not significant. Further corporate governance has a moderate impact on performance of both private and state banks.

Saad (2010) investigate the compliance level among public listed companies with the implementation of corporate governance code of best practices and the association to firm's capital structure in Malaysia for a sample of 126 companies over a period of 1998 to 2006. The study employs multiple regression analyses on board of director's facets looking at dual leadership, board size and board meeting. The preliminary results of this study reveal most of the company has complied well with the code and there is a significant association to the firm's capital structure.

Black, Jang, and Kim (2003) investigate the relationship between corporate performance and good corporate governance in Korea. They find positive relationship between corporate performance and corporate governance. Kojola (2009) examine corporate governance and firm performance in Nigeria. The result reveals that there is a significant relationship between Return on Equity (ROE) and board size as well as chief executive status. Likewise, it further reveals a positive significant relationship between Profit Margin (PM) and chief executive. Sunday (2008), also examined the effect of corporate governance on bank performance in Nigeria and found that board size as well as chief executive status has a positive effect on performance.

Shabbir Ahmad (2002) examined the relationship between corporate governance and performance of commercial banks in Pakistan, result revealed that from all variables stated in the model analyzed, market share variable has an impact on the performance of banks negatively, suggesting that banks in a less competitive environment might feel less pressure to control their costs.

Adebayo, Ibrahim, Yusuf and Omah (2014) investigate the relationship between corporate governance and the performance of organizations using both Regression analysis and Karl Pearson's correlation technique in Nigeria. Their study discovered that large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, dividend policy and annual general meeting are positively associated with the performance of organizations. Fanta, Kemal and Waka (2013) also examine corporate governance mechanisms and their impact on performance of commercial banks in the absence of organized stock exchange from 2005 to 2011 in Ethiopia. The study assessed the relationship between selected internal and external corporate governance mechanisms, and bank performance as measured by ROE and ROA. The findings of their study indicate that board size and existence of audit committee in the board had statistically significant negative effect on bank performance; whereas bank size, capital adequacy ratio (measure of external corporate governance mechanism) had statistically significant positive effect on bank performance.

Ndlovu, Bhiri, Mutambanadzo and Hlahla (2013) in their study investigate corporate governance practices by multinational banks in comparison to domestic banks in Zimbabwe using cross-sectional survey research design discovered that the awareness on the importance of sound corporate governance practices was of substandard levels for both bank categories. Domestic banks, in particular, had more shortfalls compared to multinational banks. Results further revealed that domestic banks did not represent shareholders' interests in their corporate governance practices and their levels of compliance to Reserve Bank of Zimbabwe's corporate governance requirements was still lacking.

Burki and Niazi (2004) and Patti and Hardy (2005) further examined corporate governance and performance of commercial banks in Pakistan but analysis reveal that banks with larger assets size (i.e state owned banks) give lower efficiency than the other Peer groups of banks, i.e., private bank and foreign banks as the division of banking sector stated. Their study revealed further that better liquidity management implies a better performance of the banks.

Samson and Tarila (2014) examine corporate governance and financial performance in Nigerian banks using regression analysis method. The main issues in this study are the relationship between board size, proportion of non- executive directors, disclose on corporate governance on the financial performance of banks in Nigeria? And to what extent is the corporate governance disclosure of banks in Nigeria in compliance to CBN governance code (2012)? The results of the study showed that a positive relationship exists between the corporate governance variables and the performance variables.

Afolabi and Dare (2015) examine the Issues and challenges around Corporate Governance in the Nigerian Banking Industry. The study discovered that lack of effective corporate governance results to the failure of banks in Nigeria. The study recommends that promoting the culture of whistle blowing, promoting business ethics through moral education; strengthen the financial system to encourage compliance with the code of corporate governance as well as establishing strong anti-fraud controls that would serve as deterrents to fraudsters at every level within the deposit money banks.

A more comparative corporate governance study done by Kyereboad and Coleman (2007) examined the effect of corporate governance on the performance of firms in Africa. The study collected data from 103 listed firms drawn from Ghana, Nigeria, South Africa and Kenya covering the five year period 1997-2001. Using panel data, their results indicate that the direction and the extent of impact of governance is dependent on the performance measures being examined. Specifically, the findings show that large and independent boards enhance firm value and that combining the positions of CEO and board chair has a negative impact on corporate performance. The study also discovered that CEO’s tenure in office enhances a firm’s profitability whiles board activity intensity affects profitability negatively. The size of audit committees and the frequency of their meetings have positive influence on market based performance measures and that institutional shareholding enhances market valuation of firms. Finally, the results pointed out that sector characteristics influence the impact of governance on corporate performance. For enhanced performance of corporate entities, the study recommended a clear separation of the positions of CEO and board chair and relatively independent audit committees should be maintained.

Board Size

There are major argument for a larger board size and against for better decision making and prevention of domination by powerful CEOs. Authors like Fama & Jensen (1983) advocated for smaller boards by arguing that large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to coordinate, encourages free riding and poses problems. Smaller boards however reduce the possibility of free riding, and increase the accountability of individual directors. Hence there will be a positive or negative relationship between board size and firm value.

Non-Executive and Executive Directors Percentage

Best practice recommendations on corporate governance require boards to be composed of a majority of non-executive directors (ASX Corporate Governance Council 2003; Cadbury 1992; Hampel 1998) and less executive directors. These recommendations were also incorporated in the code of best practice on corporate governance in Sri Lanka, because investors consider boards composed of non-executive directors as an important determinant of firm performance. Fama (1980) and Fama & Jensen (1983) consider the board as an important element of corporate governance and acknowledge the role of non-executive directors as monitors of management and providers of “relevant complementary knowledge”.

Firm Performance

According to Jeon and Miller (2006), bank performance is the bank profitability and productivity in banking. In the view of Melvin and Hirt (2005), they hold that performance may also refer to the development of the share price, profitability or the present valuation of a company. Velnampy and Nimalathasan (2008) examined about firm size on profitability between Bank of Ceylon and Commercial Bank of Ceylon in Sri Lanka during ten years period from 1997 to 2006 and found that there is a positive relationship between Firm size and Profitability in Commercial Bank of Ceylon Ltd, but there is no relationship between firm size and profitability in Bank of Ceylon. The existing literature on corporate governance practices has used accounting-based performance measures, such as return on equity (ROE) and return on assets (ROA) (Abdullah 2004; Bhagat & Black 2002).

V. Methodology

Research methodologies of the present study are outlined below.

Sample

The sample for this study is two Deposit Money Banks in Nigeria. For the research study the two banks in Zenith Bank and Access Bank have been selected based on convenience sampling.

Data Sources

In order to meet the objectives and hypotheses of the study, data is collected from secondary source mainly from financial report of the selected banks as the sources of samples data for the sample period from 2011 to 2016 to capture the beginning and main period of recession in Nigeria. Furthermore, this research only focuses on the directors' reports, balance sheets, and income statements in their annual reports.

Reliability and Validity of Data

Secondary data for the study is drawn from audited accounts [i.e., income statements (statement of comprehensive income) and balance sheets (statement of financial position)] of the concerned banks as fairly accurate and reliable. Therefore, these data may be considered reliable for the study. Necessary checking and cross checking were done while scanning information and data from the secondary sources. All these made in order to generate validity data for the present study. Hence, researchers satisfied content validity.

Model specification

The study used Ex Post Factor research design and collected data from the two DMB under review in a recessed Nigerian economy. The study adopted and modified the model of Ajanthan, Balaputhiran and Nimalathashan (2013) stated thus;

ROE = β_o + β1 **BS** + β2 **BD** + β3 **OSDP** + β4 **BMF** +e --- (1)

ROA = β_o + β1 **BS** + β2 **BD** + β3 **OSDP** + β4 **BMF** + e--- (2)

Hence, the following two models are posted to measure the impact of corporate governance on DMBs performance in a recessed Nigerian economy;

ROE = $\beta_o + \beta_1$ **BS** + β_2 **NED** + β_3 **ED** +e --- (1)

ROA = $\beta_o + \beta_1$ **BS** + β_2 **NED** + β_3 **ED** + e--- (2)

Where β_o = intercept; β_1, and β_2 are the coefficients of each variable of the regression where as μ represents the error term.

ROE = return on equity

ROA = return on assets

BS = board size

NED = Non- Executive Director

ED = Executive Director

e = error term

We analyze our data by employing correlation analysis and multiple regressions for the study in a panel form. A well known statistical package like 'Statistical Package for Social Sciences (SPSS 20.0) was used in order to analyze the correlation, while Eviews 9.5 statistical package was used for the multiple regression.

VI. Results and Discussion

Correlation analysis is performed to find out the relationship between variables; BS, NED, ED, ROE and ROA.

Table 1: Correlations Matrix for ROE and ROA

		Board Size	Non Executive Director	Executive Director	Return on Equity	Return on Assets
Board Size	Pearson Correlation	1	.686*	.947**	.682*	.667*
	Sig. (2-tailed)		.014	.000	.015	.018
	N	12	12	12	12	12
Non Executive Director	Pearson Correlation	.686*	1	.472	.627*	.703*
	Sig. (2-tailed)	.014		.121	.029	.011
	N	12	12	12	12	12
Executive Director	Pearson Correlation	.947**	.472	1	.548	.615*
	Sig. (2-tailed)	.000	.121		.065	.033
	N	12	12	12	12	12
Return on Equity	Pearson Correlation	.682*	.627*	.548	1	.415

	Sig. (2-tailed)	.015	.029	.065		.180
	N	12	12	12	12	12
Return on Assets	Pearson Correlation	.667*	.703*	.615*	.415	1
	Sig. (2-tailed)	.018	.011	.033	.180	
	N	12	12	12	12	12
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

Table 1 shows the correlation values of BS, NED and ED as Corporate governance positively and significantly correlate with DMBs performance in ROE and ROA in Nigeria. In this case, BS shows strong positive relationship with ROE and ROA, which are significant at 5% level of significance. NED also showed strong positive relationship with ROE and ROA, which are significant at 5% level of significance, while ED showed strong positive correlation with ROE and ROA but was not significant at 5% level of significance for ROE.
Based on the established strong and significant correlation between the corporate governance and DMBs performance in a recessed economy, a multiple regression analysis is performed to identify the predictors of DMBs performance as conceptualized in the model.

Table 2: Predictor of DMBs Performance – Model Summary

Details	ROE	ROA
BS	0.113891 (0.9125)	-1.086213 (0.3134)
NED	-0.317166 (0.7604)	1.450582 (0.1902)
ED	-0.062206 (0.9521)	0.969706 (0.3645)
C	0.370299 (0.7221)	-1.174249 (0.2787)
R-squared	0.022057	0.234195
Adjusted R-squared	-0.397062	-0.094008
F-statistics (Prob.)	0.052626 (0.982786)	0.713568 (0.574304)
Durbin-Watson stat	1.6916	1.8493

Note: Figure in the Parentheses indicate P- value

The specification of the three variables such as BS, NED and ED in the above model reveals the ability to predict performance (R2 = 0.022 & 0.234 respectively). In this model R2 value of above two performance ratios denote that 2.2% & 23.4% to the observed variability in performance can be explained by the differences in the three independent variables, namely BS, NEC and ED. The remaining 97.8% & 76.6% are not explained, because the remaining part of the variance in performance is related to other variables which are not depicted in the model.

An examination of the model summary in conjunction with ANOVA (F–value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables. For model (1), F value is 0.053 and respective P value is 0.982 which is statistically not significant.

Again considering model (2), F value is 0.714 (P=0.574) which is statistically not significant. However, it should be noted here that there may be some other variables which can have an impact on performance of DMB which need to be studied in a recessed economy like Nigeria.

Based on the summarized findings of the correlation and regression results above the following summarized findings and hypothesized result are shown for the study

Table 3: Hypotheses Testing

		Decision based on tools employed	
Hypotheses	Hypotheses statement (Null)	Correlation	Regression
Ho_1	There is no significant relationship between Board Size and ROE of DMB in a recessed economy.	Reject Null +v	Accept Null -v
Ho_2	There is no significant relationship between Non-Executive Directors on ROA of DMB in a recessed economy.	Reject Null +v	Accept Null -v
Ho_3	There is no significant relationship between Executive Directors on ROA of DMB in a recessed economy.	Reject Null +v	Accept Null -v
	Overall Implication of findings	Correlate significantly	No significant impact

Researchers Compilation

VII. Concluding Remarks

This study examined corporate governance and its impact on DMBs performance in a recessed Nigerian economy. The study did a comparative analysis results to show all variables of corporate governance are positively and significantly correlated with ROE and ROA at 5% level of significance. However, the regression results show that regardless of how corporate governance correlate with DMBs performance functions, the findings shows that corporate governance does not impact the performance of the DMBs within the banks under consideration in a recessed Nigerian economy. The study's findings was supported by the provision and findings of Ajanthan, Balaputhiran and Nimalathashan (2013) in their study of corporate governance on banks performance in Sri Lanka by showing that there was no significant impact of corporate governance on banks performance but the function of corporate governance correlate significantly. Hence, the study conclude that corporate governance have no significant impact on the performance of DMB in Nigeria during the period of recession and recommend that the number of BS should be improved and the number of Non-Executive directors should increase to help regulate and checkmate the activities of the executive directors in DMB in Nigeria. The number of Independent Non-executive Directors should increase beyond the 1 or 2 in the board of DMBs to help reduce the executive biasness of both the Executive and Non-Executive directors in Nigeria.

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IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with Sl. No. 4481, Journal no. 46879.

Chidinma Martha "Corporate Governance And Dmbs Performance In A Recessed Economy Biometric System for Authenticationofinternet Bankingsystem in India- A Review." IOSR Journal of Business and Management (IOSR-JBM) 20.5 (2018): 17-24.