

CORPORATE GOVERNANCE AND PERFORMANCE IN NIGERIAN BANKING INDUSTRY

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Abstract

This paper presents the findings of the investigation of relationship between corporate governance variables and corporate performance of Nigerian banks. Profit Before Tax and Earnings Per Share were used to represent corporate performance, while corporate governance variables examined are: the Size of the Board of Directors, Independence of the Audit Committee, Independence of the Board of Directors, and the Pay of the Chief Executive Officer. Data for the study was collected from the 2009 annual reports and accounts of a sample of thirteen out of a population of twenty-two banks in the Nigerian banks. The data was analysed with multiple regression model with the use of SPSS software. The results of regression analyses show that the size of the Board Directors is not a significant determinant of corporate performance of Nigerian banks. On the other hand, Independence of the Audit Committee, Independence of the Board of Directors, and the Pay of the Chief Executive Officer were found to be significant determinants of corporate performance of Nigerian Banks.

Introduction

The value of shares of Nigerian banks plummeted by about 70% with the global economic meltdown. This has left many investors in shares of banks very disappointed, and has created loss of confidence in the share market. This development came on the heels of

distress of several banks after the banking consolidation in 2004. Specifically, ten banks failed stress test conducted by the Central Bank in 2009. Of relevance to this paper is the assertion by the CBN governor, Sanusi (2010) that poor corporate governance was one of the major factors in virtually all cases of distress in the banking sector, particularly the ten banks that had serious liquidity crisis. Five of the ten banks had their board of directors sacked by the Central Bank and their chief executive officers and some directors were detained and have been facing criminal proceedings. This short summary of the state of the Nigerian banking industry suggests that it is imperative to examine the issue of corporate governance in the Nigerian banking industry and establish if it has impact on the performance of Nigerian banks.

Corporate Governance

Corporate governance has been the subject of many definitions in management literature. Sclaifer and Vishny (1997) states that "corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". The Organization for Economic Cooperation and Development (OECD, 2004), describes in broader terms corporate governance "as a set of relationships between a company's board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the

company are set and the means of attaining those objectives, and monitoring performance, are determined".

The main purpose of corporate governance mechanisms, internal and external according to Armour et al., (2003), is to respond to the problem associated with the separation of ownership and control which essentially is the agency problem identified by Berle and Means (1932). It relates also to the problems associated with the opportunities given to managers to further their own personal goals at the expense of shareholders (Shleifer and Vishny, 1997). The fundamental concern of corporate governance therefore is to ensure the means by which a firm's managers are held accountable to capital providers for the use of their funds. Under good corporate governance, there is an effective and independent board with an independent and responsive chairman that drives the board through proper and appropriate agenda. The board embraces relevant Governance codes and conducts its business through appropriate agenda. The Board embraces relevant committees with emphasis on structure, composition, size and board processes, while accountability, integrity, efficiency, transparency and risk awareness remain its key underlying values (Mardjono, 2005; Letza, 2007). The Cadbury report defines corporate governance as the 'system by which companies are directed and controlled' (Cadbury Report 1992). In the preamble to this report, Sir Adrian Cadbury, normally referred to as the 'father' of modern corporate governance, sums up in an unmistakable manner both the concept and purpose of corporate governance in the UK in these very remarkable words:

the country's economy depends on the drive and efficiency of its companies. Thus the efficiency with which their Boards discharge their responsibilities determines Britain's competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good governance. (Cadbury Report 1992).

The subject of corporate governance has been evaluated from different dimensions since Berle and Means (1932) identified the gap created by the separation of ownership and control, and the latter

became concentrated in the hands of few individuals through the agency theoretical approach. Global initiatives to provide governance principles for the effective management and control of these corporations have originated from and featured prominently in developed economies. The Berle and Means treatise, owing to its originality, relevance and pioneering effect indeed generated a lot of very interesting management literature particularly from Baumol (1959), Penrose (1959), and Galbraith's very thoughtful 'New industrial State' (1967), and much later on Macklin's 'theory of the Firm' (1976).

These writers agreed broadly with the image of dispersed ownership and consequent loss of control identified by Berle and Means but later on, other writers reviewed and questioned the empirical validity of this notion, notably Eisenberg (1976), Demsetz (1983), Shleifer and Vishny (1986). These writers note some concentration of ownership and disagree with Berle and Means notion of the corporation and also their conclusion of a negative effect on democracy of the separation of ownership and control. The works of La Porta et al (1998), and most especially 'corporate ownership around the world' (1999), are particularly enlightening: the later treatise indicates empirically that in many countries, large corporations have large stakeholders that are active in corporate governance, and that widely-held firms as a dominant ownership structure in the world is misleading; instead, family ownership is more prevalent. From the economic theoretical angle, corporate governance concerns became significant with the perspectives of Scott (1979), and Williamson (1964).

These authors corroborate the growth potentials of corporations, market processes and firm size. Economic theoretical perspectives progressed to the transactional cost model and the complimentary agency theory which led to suggestions for 'alignment incentives' to be created so that firm managers would be in position to render proper accountability. The achievement of this objective was critical hence the suggestion by Jensen and Meckling (1976) for effective monitoring of the firm which renders imperative a plural executive and the institutionalization of the Board of Directors. The discourse on corporate governance continues to be dynamic and research reveals findings from different cultural backgrounds about governance practices and problems emanating therefore. One cannot ignore the

works of Prowse (1992); Edwards and Fischer (1994); and of course La porta et al (1999) to mention a few. These researchers x-ray several contending issues and their implications for appropriate corporate governance within different jurisdictions and sectors. The foregoing perspectives suggest that the relevance of corporate governance is universal. However, enough research appears not to have been done in developing countries particularly in Africa, despite the fact that globalization has rendered the introduction and practice of corporate governance mandatory in such economies. The dearth of literature is perhaps due to factors that characterize business environment in Africa.

Corporate Governance and Performance

Corporate governance research is pre-occupied with the performance implications of corporate governance practices. Some researchers claim that corporate governance has a direct linkage to corporate performance; others have not found such evidence (Dalton et al., 2003). Some researchers are of the view that the linkage is to larger environment within which firms operate (La Porta 1998), while others suggest that the degree of regulations and competitiveness has an interactive effect on the relationship between corporate governance and firm performance (Udayasankar and Das, 2007). Strenuous attempts have been made by various researchers to link board structure characteristics with corporate financial performance but no acceptable linkages seem to have been established, nor has any consensus emerged from such studies: Board size (Johnson et al., 1996), independent and outside directors (Westphal, 2002); board composition and structure, separation of chairman and CEO (Daily and Dalton, 1997), and Non-Executive directors (Amoako-Adu and Smith, 1995).

Corporate Governance Mechanisms

Corporate-governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Schmid and Emmons, 1999). If these mechanisms did not exist or function properly, outside investors would not lend to firms or buy their equity securities. Business firms would be forced to rely entirely on their own internally generated cash flows and accumulated financial resources to finance ongoing operations as well as profitable investment opportunities. Overall economic performance likely would suffer because many good business opportunities would be missed and temporary

financial problems at individual firms would spread quickly to other firms, employees and consumers. Some of the yardsticks or mechanisms by which corporate governance can be measured in an organization include;

Board size

Limiting board size to a particular level is generally believed to improve the performance of a firm because the benefits of larger boards of increased monitoring are outweighed by the poor 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 substantive discussion of major issues among directors in their supervision of management. When a board gets too big, it becomes too difficult to coordinate and for it to process and tackle strategic problems of the organization and hence can be an obstacle to change. Yermack (1996), using data from Finland found negative correlation between board size and profitability, and proposed an optimal board size of ten or fewer. A Nigerian study, Sanda, Mukailu, and Garba(2005) report that firm performance is positively correlated with small as opposed to large boards.

A second reason for the support for small board size is that directors rarely criticize the policies of top managers and that this problem tends to increase with the number of directors (Yermack, 1996, Lipton and Lorsch, 1992).

Also deduced in some research results is the need to maintain a board size of ten persons or less, thus the need to encourage firms to achieve a reasonable board size since overly large boards may be detrimental to the firm.

Composition of Board of Directors

Enhanced director independence, according to Young (2003) is intuitively appealing because a director with ties to a firm or its CEO would find it more difficult to turn down an excessive pay packet, challenge the rationale behind a proposed merger or bring to bear the skepticism necessary for effective monitoring.

A positive relationship is expected between firm performance and the proportion of outside directors sitting on the board. Unlike inside directors, outside directors are better able to challenge the CEOs. It is perhaps in recognition of the role of outside directors that in the UK a minimum of three outside directors is required on the board; while in the USA, the regulation requires that they constitute at least two-thirds of the board (Bhagat and Black, 2001).

Empirical studies of the effect of board membership and structure on firm value or performance generally show mixed results. Some studies found better performances for firms with boards of directors dominated by outsiders (Rosenstein and Wyatt, 1990; Mehran, 1995 and John and Senbet 1998).

Studies using financial statement data and Tobin's Q find no link between board independence and firm performance, while those that use stock returns data found a positive relationship. In the case of a sample of 228 small, private firms in China, Liang and Li (1999) report that the presence of outside directors is positively associated with higher returns on investment.

Unlike the preceding argument in support of board structures, Liang and Weir (1999) found no such relationship in terms of accounting profit or firm value; their analysis played down the importance, stressing instead the importance of business experience and entrepreneurship.

According to them, firms managed by dynamic CEOs tend to perform better than other categories of firms. On the assumption that foreign firms are managed by more experienced CEOs, Estrin et al. (2001) investigated whether foreign firms perform better than domestic ones in Bulgaria, Romania and Poland. Using panel data for the three countries for the period 1994-1998, they found that irrespective of the estimation technique, foreign firms perform better than private domestic firms. They attribute this finding to the possibility that foreign firms might have some superior knowledge, which leads them to be more efficient. A common theme running through the two studies is the important role that the experience and skills of chief executives could play as a means for improving firm performance.

Ownership concentration / Block holding

This element of governance mechanism examines

ownership concentration, which refers to the proportion of a firm's shares owned by a given number of the largest shareholders. A high concentration of shares tends to create more pressure on managers to behave in ways that are value-maximizing. In support of this argument, Gorton and Schmid (1996), Shleifer and Vishny (1997) suggest that at low levels of ownership concentration, an increase in concentration will be associated with an increase in firm value, but that beyond a certain level of concentration, the relationship might be negative. Using a set of variables suggested by Agrawal and Knoeber (1996), the study reported no evidence to support the hypothesis of a positive relationship between firm performance and ownership concentration.

Audit committee

Different studies have shown different conclusions on the relationship between performance and audit committee independence. The effect of the existence of audit committees on the firm's performance is indeterminate. Sanda, Mikailu, and Garba (2005) shows that the relationship between the audit committee and firm-performance measures is not statistically significant; while the study of Klein (2002), and Anderson, Mansi, and Reeb (2004) reported a strong positive relationship between audit committee and the performance variables they used in their studies.

Klein (2002) reports a negative correlation between earnings management and audit committee independence. Kajola (2008) however finds no significant relationship between a firm's performance and audit committees. Anderson, Mansi, and Reeb (2004) find that entirely independent audit committees have lower debt financing costs; therefore an indirect positive effect on performance.

CEO status

Several studies have examined the separation of CEO and chairman of the board, positing that agency problems are higher when the same person occupies the two positions. Using a sample of 452 firms in the annual Forbes Magazine rankings of the 500 largest USA public firms between 1984 and 1991, Yermack (1996) shows that firms are more valuable when the CEO and the chairman of the board positions are occupied by different persons. Kajola O. (2008) using 20 Nigerian firms posit a positive relationship between Returns and CEO status. However Liang

and Li (1999) do not find a positive relation between firm performance and the separation of the position of CEO and board chairman.

Apart from supporting the view that separating the posts of CEO and chairman works in favour of the firm, results in some studies implies that regulatory agencies should encourage firms that have not already done so; to separate the two posts.

The result of the relationship between the chief executive status with all the performance proxies are positive and significant. It implies that the sampled firms, in the period under study, have separate persons occupying the posts of chief executive and the board chair. This has influence on the financial performance of the sampled firms and in line with the tenet of the code of corporate governance best practices of Nigeria. This outcome is consistent with previous empirical studies (see Yemack, 1996, Brown et al 2004 and Bokpin et al 2006).

Code of Corporate Governance for Banks and Other Financial Institutions in Nigeria

The retention of public confidence through the enthronement of good corporate governance remains the utmost importance in the financial sector; given the role of the industry in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement and the implementation of monetary policy.

The strategies for addressing the challenges of corporate governance have taken various forms at both the national and international levels and have culminated in initiatives such as; the OECD code; the Cadbury report; the Basel Committee Guidelines on Corporate Governance; and the King's Report of South Africa. In Nigeria, the Securities and Exchange Commission (SEC) set up the Peterside Committee on corporate governance in public companies, which has since submitted its report, incorporating a code of best practices.

In addressing the issue of corporate governance in the financial sector, in April 2003 the Bankers' Committee set up the sub-committee on corporate governance to make recommendations and propose a draft code for adoption by financial institutions. This was in realization of the need to amplify the report of the Peterside Committee on corporate governance to address the peculiarities of the financial sector.

The code of corporate governance for banks and other financial institutions in Nigeria are explicit in its recommendations on best practice, including constituting an effective board and identifying the principal responsibilities of the board, remuneration of Directors, Board performance assessment and the Audit committee. The code also considers factors relevant to depositor and investor confidence given the importance of these stakeholders to the stability of the financial sector.

According to the Chartered Institute of Bankers of Nigeria's sub-committee on corporate governance consisting of the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NIDC), and nine other financial institutions, the code for corporate governance for banks and financial institutions in Nigeria include;

1. The responsibilities of the board of directors; both executive and non-executive
2. Structure of the board of directors
3. The roles of the chairman and the Chief Executive Officer clearly defined
4. Procedures on the appointment of new directors on the board
5. Proceedings on the board of directors
6. Policies on directors assessment
7. Board performance remuneration
8. Risk management
9. Financial accountability – degree of accountability of directors to shareholders and other stakeholders and other stakeholders of the institution and of the management of the board.
10. Relations with stakeholders
11. Establishment of Audit committees in accordance with the requirements of the provisions of the companies and allied matters act 1990.

The code was created to enhance a system that combines enterprise with integrity that will promote good corporate governance without stifling initiative and creativity or posing a threat to entrepreneurial drive and spirit.

Sound corporate governance rests ultimately with the board of directors competence and integrity, though standards of probity and fiduciary responsibility in the wider business environment is equally critical.

Corporate Governance Issues in the Nigerian Banking Industry

The saying that "recessions reveal what auditors did not" has not been truer than during the crisis in the Nigerian financial sector in 2009. The Nigerian experience was categorically that of failures and weakness in corporate governance arrangements which encouraged excessive risk taking in a number of banks.

Consolidation created bigger banks but failed to overcome the fundamental weakness in corporate governance in many of these banks. It is well known in the industry that since consolidation, some banks were engaging in unethical and potentially fraudulent business practices; but the scope and depth of these activities were documented in recent CBN examinations.

Governance malpractice within banks, unchecked at consolidation, became a way of life in large parts of the private sector, enriching a few at the expense of many depositors and investors. Governance in many banks failed because boards ignored these practices for reasons including being misled by executive management, participating themselves in obtaining un-secured loans at the expense of depositors and not having the qualifications to enforce good governance on bank management. In addition, the audit process at all banks appeared not to have taken fully into account the rapid deterioration of the economy and hence the need for aggressive provisioning against risk assets.

As banks grew in size and complexity, bank boards often did not fulfill their function and were lulled into a sense of well-being by the apparent year-over year growth in assets and profits. In hindsight, boards and executive management in some major banks were not equipped to run their institutions. The bank chairman/CEO often had an overbearing influence on the board, and some boards lacked independence; directors often failed to make meaningful contributions to safeguard the growth and development of the bank and had weak ethical standards; the board committees were also often ineffective or dormant.

The Central Bank of Nigeria in 2009 published details of the extent of insider abuse in several of the banks and dismissed the management of Eight Nigerian banks because they claimed poor corporate practices, lax credit administration processes and the absence or

non-adherence to credit risk management practices in these banks led to excessively high level of non-performing loans. The total toxic portfolio of these 8 banks was estimated at N1.2 trillion.

Some of the major weaknesses of corporate governance in banks as stated in the code of corporate governance by the Central Bank of Nigeria (2006) include:

- i. Overbearing influence of chairman or MD/CEO, especially in family-controlled banks.
- ii. Weak internal controls
- iii. Non-compliance with laid-down internal controls and operation procedures
- iv. Ignorance of and non-compliance with rules, laws and regulations guiding banking business
- v. Passive stakeholders
- vi. Poor risk management practices resulting in large quantum of non-performing credits including insider trading.
- vii. Abuses in lending, including lending in excess of single obligor limit.
- viii. Sit-tight directors-where directors fail to make meaningful contributions to the growth and development of the bank.
- ix. Succumbing to pressure from other stakeholders e.g. shareholder's appetite for high dividend and depositors quest for high interest on deposits.
- x. Technical incompetence, poor leadership and administrative ability.
- xi. Inability to plan and respond to changing business circumstances.
- xii. Ineffective management information system
- xiii. Disagreements between Board and Management giving rise to Board squabbles.
- xiv. Ineffective Board oversight functions
- xv. Fraudulent and self-serving practices among members of the board, management and staff.

Purpose of Study

The primary objectives of this study are to:

- (1) Determine the practice of corporate governance in Nigerian banking industry;
- (2) Determine the impact of corporate governance on the financial performance of Nigerian banks.

The conventional measures of corporate

performance include: Profitability measures such as Profit-Before-Tax, Profit-After-Tax, and Earnings Per Share. In this study, Profit-Before-Tax (PBT) and Earnings Per Share (EPS) will be used as measures of corporate performance. The choice of PBT is informed by the fact that it reflects the earnings performance of a company without the effect of tax. On the other hand, EPS reflects the effect of tax and the number of shares of a company.

There are several measures of Corporate Governance practices of a company. Important indices of Corporate Governance include the following: Size of the Board of Directors, the Independence of the Board of Directors in terms of the proportion of Non-executive Directors, the Independence of the Audit Committee in terms of the proportion of the Representatives of Shareholders, the Separation of the positions of the Chief Executive Officer and the Chairman of the Board of Directors, and the Tenure of the Chief Executive Officer.

Estimation Model

The determination of the effect of Corporate Governance on the Performance of companies has been done in this study with two multivariate regression models, using Profit Before Tax and Earnings Per Share, respectively as criterion variables:

$$Y_j = \beta_1 X_{1j} + \beta_2 X_{2j} + \beta_3 X_{3j} + \beta_4 X_{4j} + \epsilon_j$$

Where:

Y_j is Profit Before Tax;

X_1 is the Size of the Board of Directors,

X_2 is the Composition of the Audit Committee,

X_3 is the Composition of the Board of Directors,

X_4 is the Compensation of the Chief Executive Officer, and

ϵ_j is the Error Term.

The second model estimated used Earnings Per Share as the criterion variable:

$$Y_j = \beta_1 X_{1j} + \beta_2 X_{2j} + \beta_3 X_{3j} + \beta_4 X_{4j} + \epsilon_j$$

Where:

Y_j is Earnings Per Share;

X_1 is the Size of the Board of Directors,

X_2 is the Composition of the Audit Committee,

X_3 is the Composition of the Board of Directors,

X_4 is the Compensation of the Chief Executive Officer, and

ϵ_j is the Error Term.

The estimation of the above two regression models was done using the version 15 of the SPSS software.

Sampling

The Nigerian banking industry has twenty-two banks after the banking consolidation exercise. For the purpose of this study a stratified random sample of thirteen banks was selected. The sample consists of ten banks that passed and three banks that failed the stress test conducted by the Central Bank of Nigeria.

Sources Of Data

Data on all the variables were collected from the 2009 Financial Year Annual Report and Accounts of the sampled companies. Data were collected on the following variables:

Profit Before Tax;

Earnings Per Share;

Size of the Board of Directors;

Composition of the Audit Committee;

Composition of the Board of Directors;

Compensation of the Chief Executive Officer, and

Status of the Chief Executive Officer (Separation of CEO and Chairman positions).

Results

Two regression results were obtained. The first regression result has Profit Before Tax as explained variable and Size of the Board of Directors; Composition of the Audit Committee; Composition of the Board of Directors; Compensation of the Chief Executive Officer, and Status of the Chief Executive Officer (Separation of CEO and Chairman positions) as the explanatory variables. All the banks have different persons as Chief Executive Officer and Chairman of the Board of Directors. Hence, the explanatory variable, Status of the Chief Executive, have values that are constant. It was, therefore dropped from the model estimation by the SPSS software.

The estimated regression RESULTS are as shown below. The results of the two models (explained variable as Profit Before Tax and Earnings Per Share, respectively) are similar. Hence, only the results of the model with Profit Before Tax as explained variable is discussed.

Board Size and Profitability

The model presented below examines the effect of key corporate governance variables on the profit before tax of Nigerian banks. The corporate

governance variables examined are: the Size of the Board of Directors (X_1), Independence of the Board of Directors (X_2), Independence of the Audit Committee (X_3), and the Pay of the Chief Executive Officer (X_4). The estimated model is statistically significant (p value is 0.052). However, the coefficient of the Size of the Board of Directors (variable X_1) is not significant in the model, suggesting that it is not an important determinant of the profitability of a company. Some previous studies had evidence that a negative relationship appears to exist between the size of the board of directors and the profitability of a company (Liang and Li, 1999). In the results of this study, the regression coefficient of the size of the Board of Directors (variable X_1) has a negative sign but it is not significant. The size of the board of directors of the sample companies range from a low of Seven members to a high of Twenty members, and median value of Fifteen members.

Independence of the Audit Committee and Firm Performance

The composition of the Audit Committee to include representatives of the shareholders is enshrined in Section 359(6) of the Companies and Allied Matters Act. The Audit Committee thus serves as "guardian of public interest". The Committee's primary functions are: to review and ensure the effectiveness of accounting systems and internal controls; review the scope and planning of audit requirements; make recommendations to the board regarding the appointment, removal and remuneration of the external auditors; and to ensure that the accounting policies of the bank are in accordance with legal requirements and agreed ethical principles. (Annual Report and Accounts of Diamond Bank, 2009). Out of the thirteen banks surveyed, two banks had Audit Committee comprised of only shareholders while eleven banks had Audit Committees which had fifty per cent shareholders' representatives.

The coefficient of the proportion shareholders in the audit committee (variable X_3) is significant but has a negative value. This finding suggests that the presence of shareholders in the audit committee has negative effect on firm performance. Empirical evidence from other studies is mixed. For example, Kajola(2008), and Sanda and Garba (2005) found no significant relationship between firm performance and audit committee, while Klein(2002) and Anderson, Mansi, and Reeb (2004) found positive relationship between audit committee and firm

performance. It seems that the representation of shareholders in the audit committee is relevant to the extent that the shareholders representatives have adequate knowledge of auditing. Otherwise, it turns out to be window dressing process.

Independence of the Board of Directors and Profitability.

Independence of the Board of Directors is measured by the proportion of the Board constituted by the Non-Executive (Outside) Directors. The value ranged from a minimum proportion of 36 per cent to a maximum value of 58 per cent with a median value of 50 per cent. The coefficient of the independence of the Board of Directors (variable X_2) is significant at a p value of 0.025. This finding is consistent with the intuitive expectation that a positive relationship exists between firm performance and the proportion of outside directors on the board. Young (2003) sums up this expectation by stating that "a director with ties to a firm or its CEO would find it more difficult to turn down an excessive pay packet, challenge the rationale behind a proposed merger or bring to bear the scepticism necessary for effective monitoring". It is perhaps in recognition of the role of outside directors that in the UK a minimum of three outside directors is required on the board and in the USA, regulation requires that outside directors constitute at least two-thirds of the board (Bhagat and Black, 2001). The finding in this study emphasizes the importance of outside directors for the performance of companies. It is pertinent, however, to state that the quality of outside directors and the process of their appointment are important in the fulfilment of their role in corporate governance. In particular, if the process of appointment of the non-executive directors compromises their independence, the expected positive relationship between their presence on the board and the performance of the firm will be absent.

Ceo Pay And Firm Performance

Agency theory suggests that a strategy to mitigate the agency problem created by separation of ownership and management is to adequately remunerate management executives. This concept was examined in this study by including the pay of the Chief Executive Officer (CEO) in the regression analysis. The regression coefficient of the CEO PAY variable is marginally statistically significant (p value is 0.065). This result, therefore, appears to support the agency theory proposition.

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.896(a)	.803	.645	17.13658	1.566

Predictors: (Constant), VAR X₁, VAR X₂, VAR X₃, VAR X₄
 Dependent Variable: VAR: PBT

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5981.439	4	1495.360	5.092	0.052
	Residual	1468.311	5	293.662		
	Total	7449.750	9			

Predictors: (Constant), VAR X₁, VAR X₂, VAR X₃, VAR X₄
 Dependent Variable: VAR: PBT

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Betas		
1	(Constant)	-102.859	44.799		-2.296	.070
	VAR X ₁	-.873	2.005	-.100	-.436	.681
	VAR X ₂	-89.787	25.473	-.806	-3.525	.017
	VAR X ₃	336.379	106.397	.699	3.162	.025
	VAR X ₄	.702	.298	.537	2.353	.065

Dependent Variable: PBT

Conclusion

This paper has presented the findings of the investigation of relationship between corporate governance variables and corporate performance of Nigerian banks. Profit Before Tax and Earnings Per Share were used to represent corporate performance, while the corporate governance variables examined are: the Size of the Board of Directors (X₁), Independence of the Audit Committee (X₂), Independence of the Board of Directors (X₃), and the

Pay of the Chief Executive Officer (X₄). The results of regression analyses show that the size of the Board Directors is not a significant determinant of corporate performance of Nigerian banks. On the other hand, Independence of the Audit Committee, Independence of the Board of Directors, and the Pay of the Chief Executive Officer were found to be significant determinants of corporate performance of Nigerian Banks. These findings imply that Nigerian Banks should uphold the ideals of corporate governance

Appendix

Corporate Governance And Earnings Per Share

Anova

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	247002.46	4	61750.616	3.517	0.083
	Residual	105332.45	6	17555.408		
	Total	352334.91	10			

a. Predictors: (Constant), VAR X₁, VAR X₂, VAR X₃, VAR X₄

b. Dependent Variable: VAR: EPS

R Square = 0.701 Adjusted R Square = 0.502 Durbin-Watson = 1.808

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-818.761	345.252		-2.371	.055
	VAR X ₁	-1.929	15.496	-.032	-.124	.905
	VAR X ₂	-483.028	181.980	-.649	-2.654	.038
	VAR X ₃	2367.501	811.116	.720	2.919	.027
	VAR X ₄	2.526	2.116	.300	1.194	.278

Dependent Variable: VAR EPS

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