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DOES CORPORATE GOVERNANCE INFLUENCE BANKING SECTOR PERFORMANCE IN NIGERIA?

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Abstract

This study examines the effect of corporate governance on the performance of commercial banks in Nigeria from 2006-2014. The study selected 10 out of the population of 21 consolidated commercial banks in Nigeria using stratified and proportional sampling technique and the data were analyzed using the ordinary least square estimation method. Return on Equity (ROE) was used as proxy for banking sector performance, while Board Independence (BI), Board Size (BS), Director Shareholding (DSH) and Audit Committee Meetings (ACM) are the proxies for corporate governance. The findings of the research revealed that Board Independence, Directors' Shareholding and Audit Committee Meetings had positive and significant effects on banking sector's performance while Board Size showed negative and also significant effect on the performance of the banking sector in Nigeria. The study recommends *effective monitoring and implementation of both the internal and external corporate governance code already formulated in other to boost the confidence of the shareholders and improve performance of the banking sector.*

Keywords: Corporate governance code, Commercial banks performance, Return on equity, stakeholders, social and environmental responsibility

INTRODUCTION

Corporate governance has been an issue of global concern long before now. However, it came to the fore in the 1980's as a result of the fallout of the Cadbury report in the United Kingdom, which concentrated on the financial aspects of corporate governance. Immediately following the suit, the subject of corporate governance reverberated round developed and developing countries – (King Report) South Africa, (Dey Report) Canada, (Bosch Report) Australia, (Armstrong 1997). Boateng (2004) stated that proper governance of companies would become as crucial to the world economy as the proper governance of countries and will converge in associated issues of corporate citizenship, competitiveness, social and environmental responsibility. Ato (2002) defined corporate governance as a system by which firms, institutions and corporate organizations relate to their stakeholders and communities in order to improve their quality of life. Corporate governance is therefore important to ensure transparency, accountability and fairness in corporate reporting. Corporate governance is not only concerned with corporate efficiency and effectiveness, but relates to company's strategies and life cycle development. It is concerned with the ways parties interested in the wellbeing of firms (stakeholders) ensure that managers and other insiders adopt mechanism to safeguard the interest of the shareholders (Ahmadu and Tukur, 2005). Corporate governance is based on the level of corporate social responsibility a company exhibits with respect to accountability, transparency, ethical values and social norms.

According to Morck, Shleifer and Vishny (2006), the main factors that support the stability of any country's financial system include: good corporate governance; accurate and reliable accounting financial reporting systems; effective marketing discipline; a sound disclosure regimes; an appropriate savings deposit protection system and strong prudential regulation and supervision.

Corporate governance by banks is crucial considering the role of financial intermediation in developing economies. Commercial banks are the main providers of funds to enterprises and where there is thin or absent capital market, their failure becomes the failure of the system.

Simpson (2004) opined that, the impact of failure of the banking system can have immense cost, as it has repeatedly been seen that bank failure costs developing countries up to 15% of their GDP and losses that far outstripped aids received from outside sources and foreign donors.

Corporate governance is a global financial management concern with emphasis on the need to balance the various interest groups and goals that stakeholders pursue. This concern is as a result of the new awakening to the fact that the goals of a business transcend that of profit maximization. Corporate governance includes the relationships among the many stakeholders involving external stakeholders and internal stakeholders. In contemporary business corporations like commercial banks, the main external stakeholders are shareholders, debt holders, trade creditors, suppliers, community and customers. Internal stakeholders are the board of directors, executives, and other employees, (Akpan and Riman, 2012). Good and proper corporate governance is considered imperative for the effective performance of any organization. This is true in the sense that it outlines the goals and objectives of each business contract. The rate of return, length of the contract, individuals who can approve contracts and other obligations are usually included in the corporate governance framework, (Ranti 2011). Corporate governance also creates checks and balances system to govern internal business departments. This system ensures no one individual or department dominates business decisions or operates outside the company's mission and values.

Corporate governance aims at promoting firms competition, while allowing customers the option of making choice. This concerns deregulation as reform measures that guarantees lower rates, provide customer choice and offer reliable services so that no one is literally left in the dark (Ogbechie, 2011). Corporate governance arrangement and institutions however, vary from place to place, with the promotion of corporate fairness, transparency and accountability the focus.

Corporate governance therefore specifies the ways by which corporations are directed and controlled. The governance structure also specifies the distribution of rights and responsibilities among different participants. It is a broad term that has to do with the manner in which right and responsibility are shared amongst owners, managers and shareholders of a given institution (Awoyemi, 2009). In essence, the exact structure of the corporate governance of any given institutions will determine what right, responsibility and privileges that are extended to each of the corporate stake holders, and to what degree each stakeholder may enjoy and/or exercise their right Corporate governance issues are receiving greater attention in both developing and developed countries as the result of increasing recognition that a firm's corporate governance affect both its economic performance and its ability to access long term, low cost investment capital (OCED, 2004). Corporate governance is a multi-dimensional construct comprised of company leadership, board size and independence, brand rules, balance of power, disclosure and compliance with laws and the best practices (Larker and Richardson, 2007).

In Nigeria, among the few empirically studies on corporate governance are the studies by Ranti (2011) and Akpan and Riman (2012) that studied corporate governance mechanisms and firms' performance. They investigated the effects of corporate governance on commercial banks, in other to examine its significance on the commercial banks profitability in Nigeria. This was done in line with the empirical studies carried out by Coleman and Biekpe (2006) in Ghana, who found that corporate governance, has an impact on the performance of firms. Corporate governance proponents have prominently cited this study as evidence that good governance has a positive impact on corporate performance. Laeven and Levine (2009) on the other hand, argued that corporate governance might not capture the true relationship with corporate performance unless other specific aspects of governance are controlled. The researcher's increased interest over this gray area is to find out if corporate governance has a significant effect on the profitability of banks in Nigeria after the 2005 post consolidation exercise that introduces several governance codes. These contrasting results necessitated this study to investigate the effects of internal corporate governance mechanisms on Nigeria's commercial banks performance. By taking it a step further, board independence was used as the proxy for corporate governance since directors are the one who influences the bank management and operations activities. The researcher believed that this topic has created a gray area among stakeholders by leaving them with mountain of questions. The study is hoped to resolve the lingering controversy by making deep research and analysis on the major key drivers of good corporate governance in the banking sector in Nigeria during the period 2006 to 2014. Corporate governance proxied by board structure (board size, board Independence, audit committee meeting and director shareholding) and commercial bank performance was measured using return on equity ratio (ROE).

This study therefore seeks to examine: *1) the effect of board independence on the performance of the Nigerian banks, 2) the effect of directors' shareholding on banks' performance.* The following research questions were addressed. *1) To what extent does board independence influence the performance of Nigerian banks? 2) What is the effect of directors' shareholdings on the performance of Nigerian banks?* In line with the objectives of this study and in search of answers to the research questions, the following hypotheses were postulated and tested: *$H0_1$: Board independence has no positive and significant effect on the performance* *of Nigerian banks. $H0_2$: Directors' shareholding does not have any significant effect on the performance of banking sector in Nigeria.*

The study is organized for the purpose of clarity and logical sequence as follows, section one is introduction followed by review of related literature in section two, while section three is methodology followed by results and discussion in section four and section five is conclusion and recommendations.

REVIEW OF RELATED LITERATURE

Conceptual Framework

According to the Basel Committee on Banking Supervision (1999), corporate governance involves the manner in which the business and affairs of banking are governed by their boards of directors and senior management. The committee enumerated basic components of good corporate governance to include:

a) Strong internal control systems, including internal and external audit functions, risk management functions independent of business lines and other checks and balances;
b) The corporate values, codes of conduct and other standards of appropriate behaviour and the system used to ensure compliance with them;
c) The clear assignment of responsibilities and decision making authorities, incorporating hierarchy of required approvals from individuals to the board of directors;
d) Special monitoring of risk exposures where conflict to interests are likely to be particularly great, including business relationships with borrowers affiliated with the bank, large shareholders, senior management or key decisions makers within the firm (e.g. trader);
e) A well-articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured;
f) The financial and managerial incentives to act in an appropriate manner, offered to senior management, business line management and employees in the form of compensation, promotion and other recognition;
g) Establishment of mechanisms for the interaction and cooperation among the board of directors, senior management and auditors; and
h) Appropriate information flows internally and to the public.

The Basel Committee on Banking Supervision (1999) contends that transparency of information related to existing conditions, decisions and actions are related to accountability in that they give market participants sufficient information with which to judge the management of a bank. The committee further stated that, different countries operate different corporate governance structures. Hence there is no universally accepted guide to structural issues, rules and regulations across countries. Sound governance therefore, can be practiced regardless of the structural form used by a banking sector. The committee therefore suggests four important forms that should be included in the organizational structure of any bank in other to ensure appropriate checks and balances. They include:

1) Independent risk management and audit functions.
2) Oversight by the board of directors or supervisory committee.
3) Direct line supervision of different business units; and
4) Oversight by individuals not involved in the day-to-day running of the business.

The concept of good governance in banking industry empirically implies total quality management, which includes six parameters, capital adequacy, assets quality, management, earnings, liquidity, and sensitivity risk. Klapper and Love (2002) contends that the level of adherence to these performance areas determines the quality rating of an organization.

Corporate Governance

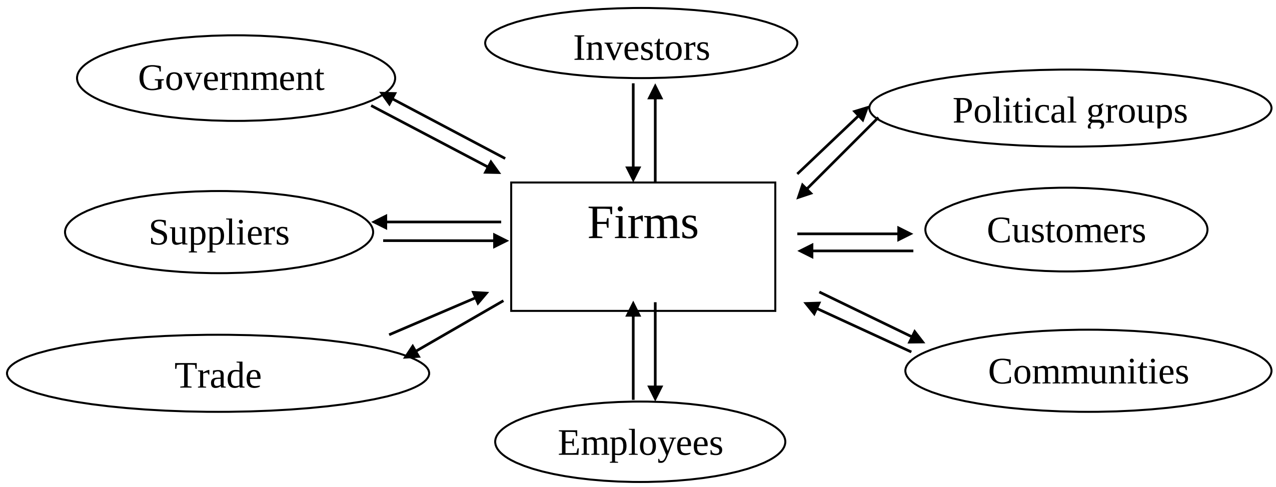
Sanda, Mikaila and Garba (2005) researched on corporate governance mechanism and firm financial performance in Nigeria. The study identified agency theory, stakeholder theory and the stewardship theories as the three prominent theories of corporate governance. These are discussed below:

i. Stakeholder Theory

Freeman (1984), one of the original advocates of stakeholder theory, identified the emergence of stakeholder groups as important elements to an organization. Freeman (1984) contends that, for organizations to be effective, they will pay attention to all the stakeholders that can affect or be affected by the achievement of the organization's purpose. That is, stakeholder management is fundamental to the corporate existence of an organization. Regardless of the content of the purpose of the firm, effective firm will manage the relationships that are important to corporate existence of the firm. Freeman suggested a re-engineering of theoretical perspective that extends beyond the owner-manager-employee relationship and recognizes the numerous stakeholder groups that characterized organizations.

Donaldson and Preston (1995) provides a diagrammatical representation of the stakeholder model, which is reproduced in figure 1 below. Figure 1 depicts the number of groups with interest in (or relationship with) the firm. Based on this model, *'all person or groups with legitimate interests participating in any enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another'* (Donaldson and Preston, 1995). Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognizant of the different participants who seek multiple and sometimes diverging goals (Donaldson and Preston, 1995).

Figure 1: The Stakeholders Model



Source: Donaldson and Preston (1995)

ii. Stewardship Theory

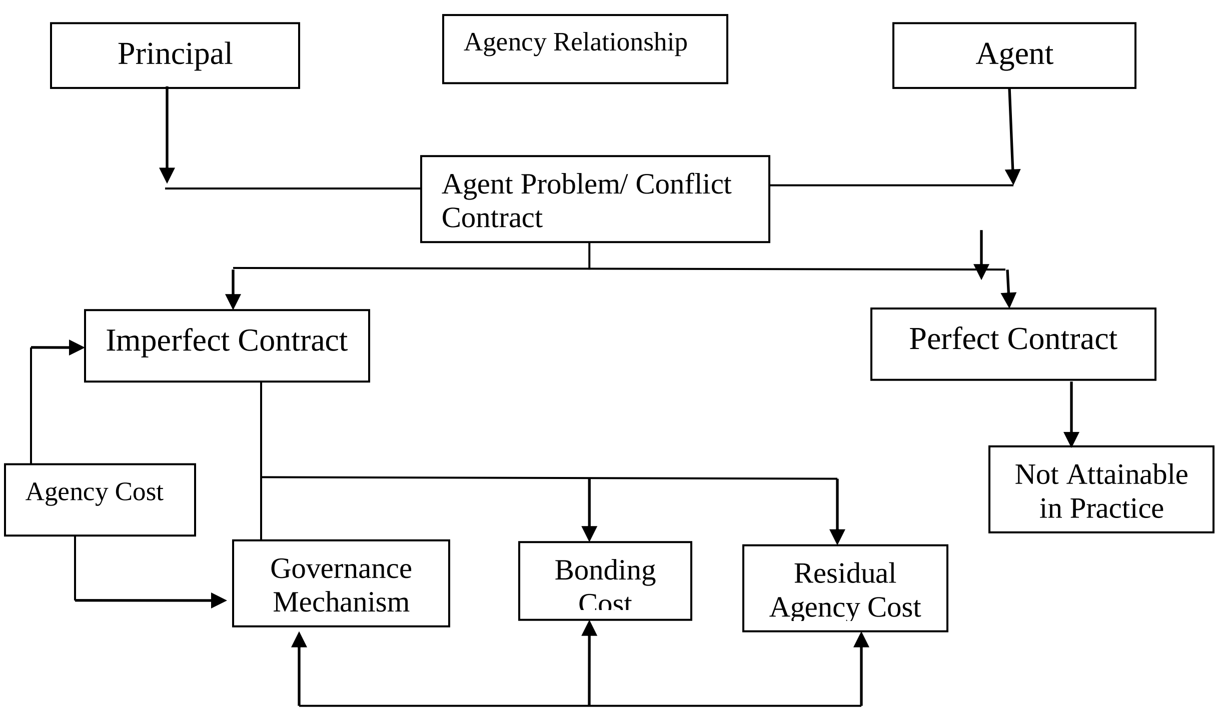
Stewardship theorists suggest that directors have interests that are consistent with those of stakeholders. According to Donaldson and Davis (1991) *"organizational role-holders are conceived as being motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses"*. They contend that where managers have served an organization for a number of years, there is a *"merging of individual ego and the corporation*". Managers may carry out their role from a sense of duty and responsibility. Psychological and situational review of the theory holds that there is no inherent, general problem of executive motivation. This suggests that extrinsic incentive contracts are less important where managers gain intrinsic satisfaction from performing their duties Ranti (2011).

"A steward protects and maximizes shareholders wealth through firm performance, because, by doing so, the steward's utility functions are maximized" (Davis, Schoorman and Donaldson, 1997). The steward identifies greater utility accruing from satisfying organizational goals than through self-serving behaviour. This suggests that the attainment of organizational success also satisfies the personal needs of the steward. Stewardship theory recognizes the importance of welfare structures that empower the steward which in the long run provides maximum autonomy built upon believe and trust in the organization. This in effect reduces the cost of mechanisms aimed at monitoring and controlling behaviours (Davis, Schoorman and Donaldson, 1997).

iii. Agency Theory

Agency theory is a conceptually simple one and reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self- serving is a generally accepted idea (Daily, Dalton, Canella and Johnson, 2003). Agency theory explains the problems arising from the separation of ownership and control. It provides a useful way of explaining relationships where the parties interests are at variance and the divergence can be streamlined through proper monitoring and a well-planned compensation system (Ranti, 2011). Jensen and Meckling (1976) define the agency relationship in terms of “a contract under which one or more persons the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to agents”. Agency theory supports the delegation authority and the concentration of control on the board of directors and use of compensation incentives as a means of motivation to in the work place. The board of directors monitors agents through communication and reporting, review and audit and the implementation of codes and policies. Cullen, Kirwan and Brenan (2006) provides a diagrammatical representation of a principal / agent relationship reproduced in figure 2 below.

Figure 2: Agency Theoretical Perspective



Source: Adapted from Cullen, Kirwan and Brenan (2006)

As shown in figure 2, the survival of organizations is characterized by the separation of ownership and control and the identification of the factors that facilitate this survival (Jensen and Meckling, 1976; Fama and Jensen, 1983 and Akpan and Riman, 2012). Their study was concerned with the survival of organization in which important decisions are taken by agents who do not bear a substantial share of the effects of their decisions.

Agency theorists argue that the control function of an organization is a primary function exercised by the board of directors. According to Biserka (2007), the issues that appear most prominent in the literature with reference to the board of directors as a governance mechanism, are board composition (board size, inside versus outside directors and the separation of CEO and chairman positions) and the role and responsibilities of the board directors. In relation to the stated objectives, this study adopted the agency theory because it focused on the board of directors as a mechanism. The theory, further explain the relationship that exist between the providers of corporate financial resources and those that manage the affairs of the organization.

Empirical Literature

There exist literature on corporate governance and firm performance but their empirical results are mixed and inconclusive. Gadi, Emesuanwu and Yakubu (2015) assessed the impact of corporate governance (CG) on the financial performance of microfinance banks in Nigeria. It utilizes secondary data which were obtained from the annual reports and accounts of twenty three microfinance banks. The data generated for the study were analyzed using Pearson correlation coefficient and ordinary least square regression. The analysis of data determined whether the following corporate governance functions – Board Composition (BC) and the Composition of Board Committees (CBC) have significant relationship with banks financial performance. Earnings per share (EPS) and return on assets (ROA) were used as proxies for financial performance. The Pearson correlation shows that significant relationship exists between Earnings per share (EPS) and corporate governance (Board Composition and Composition of Board Committees) while the regression analysis shows that no significant relationship exists between corporate governance and bank's financial performance.

Ghaffar (2014) investigated the impact of board size and board independence on the profitability of Islamic bank and found a positive relationship between corporate governance and banks performance.

Amarneh (2014) examined the effect of ownership structure and corporate governance on banks performance and found that large board size increases banks performance. The study also shows that CEO duality is not important for Jordanian banks. Foreign ownership was also found to positively affect bank performance, thus suggesting that good corporate governance standards are imperative to every bank and important to investors and other stakeholders. Akram, Ameen and Omair (2014) in their study titled 'Variables affecting corporate governance in the profitability of banks in Pakistan' found that good corporate governance is necessary for the profitability of banks. Owolabi, Titilayo and Olanrewaju (2014) in their study investigated corporate governance and banks' profitability using panel regression analysis method. They found that composition, Capital adequacy, Director Shareholding, Board Size and Audit committee demonstrated significance effect on banks' profitability.

Obeten and Ocheni (2014) investigated the effect of corporate governance on the performance of commercial banks in Nigeria and the determination of governance effect on profitability of banks. Four research hypotheses were formulated based on capital adequacy, asset base, policy shift, investment, liquidity ratio, inflation and their relationship with profitability. Ordinary Least Square (OLS) technique was used to estimate the variables using multiple linear regression models. The result of the analysis revealed that capital adequacy, asset base, policy shift, investment, liquidity ratio and inflation are prime determinants of corporate governance. The findings revealed that the profitability of banks increased within the years under review as assets base of the banks increased. It further shows that as policy shift and investment increases profitability of banks also increases. 219

Jegede , Akinlabi and Soyebo (2013) examined the corporate governance implication for banks performance in Nigeria. Secondary source was used in gathering the data required for the research work. A regression analysis of the latent variables was adopted to examine the impact of corporate governance on bank performance. The results of the study showed that board size is statistically significant to bank performance while bank age and board committee have negative effect on bank performance.

Omoniyi, Ajayi and Kekereowo (2013) assessed the impact of corporate governance on bank performance in Nigeria .The study which used15 banks as case study covers period 2006-2010. Capital adequacy ratio (CAR) and loan deposit ratio (LDR) were used as proxies for corporate governance while earning per share (EPS), return on capital employed (ROCE) and return on equity (ROE) were used as proxies for bank performance. The study adopted ordinary least square estimation techniques as its method of analysis. Findings from the empirical result showed that high (CAR) has the tendency of improving bank performance while high (LDR) has the tendency of reducing bank performance. The overall test of statistical significance showed that corporate governance does not have significant impact on bank performance in Nigeria.

Akpan and Riman (2012) in their study investigated the relationship between corporate governance and banks' profitability in the Nigerian banking industry and discovered that good corporate governance mechanisms and not assets' value determines the profitability of Nigerian banks.

Mohammed (2012) considered the impact of corporate governance on the performance of banks in Nigeria. The study made use of secondary data obtained from the financial reports of nine (9) banks for a period of ten (10) years (2001- 2010). Data were analyzed using multiple regression analysis. The study supported the hypothesis that corporate governance positively affects performance of banks. In conclusion, the study shows that poor asset quality (defined as the ratio of non-performing loan to credit) and loan deposit ratios negatively affect financial performance and vice visa.

Younas, Mahmood and Saeed (2012) using board size, CEO-Chairman combined structure and Audit expenditure as Corporate governance proxies found that prior year firm's performance has positive relationship with board size but negative relationship with audit expenditure.

Onakoya, Ofoegbu and Fasanya (2012) examined the impact of corporate governance on banks performance in Nigeria and found that lack of good corporate governance has resulted in the lack of confidence by investors which has negatively impacted the performance of these banks.

Mohammed (2011) considered the impact of corporate governance on the performance of banks in Nigeria. This study made use of both primary and secondary data in ensuring that data obtained are sufficient for a reasonable conclusion. The secondary data obtained from the annual financial statement of the banks for a period of five accounting years was used in analyzing the financial ratios for the study. 158 questionnaires were retrieved from respondents out of the 200 questionnaires distributed. The primary data was analyzed through the chi-square analytical method. The study concludes that corporate governance significantly contributes to positive performance in the banking sector.

Nworji, Adebayo and Adeyanju (2011) investigated issues, challenges and opportunities associated with corporate governance and bank failure in Nigeria and to see if a significant relationship exists between corporate governance and Banks failure. Relevant data were collected from the staff of eleven randomly selected commercial banks based in Lagos, using a well structured questionnaire. The statistical technique for data analysis and test of hypothetical proposition was Pearson product coefficient of correlation (r). The results of the findings revealed that the new code of corporate governance for Banks is adequate to curtail bank distress and that improper risk management, corruption of Bank officials and over expansion of Banks are the key issues why banks fail.

Ranti (2011) in her study on corporate governance and financial performance of Nigerian banks observed a negative and significant relationship exist between board size, board composition and financial performance. A positive and significant relationship was also observed between directors' equity interest, level of information disclosure and banks' performance.

METHODOLOGY

Model Specification

The model for this study followed the model specification employed by Akpan and Riman (2012) stated below:

$Perf._{it} = f\,(Gov._{it}\ Cont._{it})$ …. ………………………………………………………….eqn. 3.1

Where: Perf., Indicates the performance variables, Gov. is the governance variables, Cont. are the control variables and the subscript $_{it}$, represent the i^{th} bank at time t. The above could be further represented linearly as;

$Perf._{i}t, = \beta_0 + \beta_1 t + \beta_2 t + ƌ_1 t + ƌ_2 t$……………………………………………………eqn. 3.2

Where: $\beta_1 t$ and $\beta_2 t$ represents Size of the Board of Director (SBD) and number of shareholders (SHD). $ƌ_1 t$ and $ƌ_2 t$ represent total assets (TA) and total equity (TE) of the banks.

Drawing from the equation 3.2 above, the model employed for this study is given as;

$ROE = f(BI_1, DSH_2, BS_3, ACM_4,)$ ……………………………………………………...eqn. 3.3

Expressing the functional notation in equation 3.3 mathematically gives;

$ROE_{it} = b_0 + b_1 BI_{it} + b_2 DSH_{it} + b_3 BS_{it} + b_4 ACM_{it}$ …………………………………......eqn. 3.4

This can further be expressed econometrically as;

$ROE_{it} = b_0 + b_1 BI_{it} + b_2 DSH_{it} + b_3 BS_{it} + b_4 ACM_{it} + U_{it}$ ……… ……………………….eqn. 3.5

Where: ROE is the dependent variable which measures the return on the equity employed by the banks. It is derived by net income divided by average total equity. BI is Board Independence which is the number of outside non-executive directors present in the board of the bank. DSH is Directors' Shareholding which is the total number of shares owned by directors of banks as a percentage of total outstanding shares of the bank. BS is Board Size which is the total number of directors that sits in the board of a bank.

ACM is the Audit Committee Meetings that enhances control and improve integrity of operations and disclosures. i's are for the individual banks, t's denotes time while U_{it} is the error term or residuals.

Expressing the model in logarithm form; thus, taking accounts of the variable in ratios, gives

$InROE = \beta_0 + \beta_1 InBI_{it} + \beta_2 InDSH_{it} + \beta_3 InBS_{it} + \beta_4 InACM_{it} ++ U_{it}$…………………..eqn. 3.6

Equation 3.6 was estimated with ordinary least square estimation techniques to determine the parameter estimates of the models.

The *a priori* expectation is that b_1, b_2, b_3, and b_4 >0. The implication of this is that positive effects are expected between explanatory variables and the dependent variable ROE. The size of the coefficients of correlation explains various levels of relationship between the explanatory variables. This study employed secondary data that was derived from the audited financial statements of the listed banks on the Nigerian Stock Exchange (NSE), Central Bank of Nigeria statistical bulletin and the Nigerian Stock Exchange Fact Book (2014) in analyzing the relationship between the dependent and independent variables. Annual reports were also collected from the area offices of the concerned banks. The secondary data collection period 2006 – 2014 is to capture the period following the banking sector's consolidation exercise in 2005 that introduced several corporate governance codes in Nigeria.

RESULTS AND DISCUSSION

Descriptive statistics

Table 1 presents the descriptive statistics for the variables in the study based on pool data of the banks from the year 2006 to 2014. The table presents the mean, and standard deviation including minimum values of regression variables.

Table 1: Descriptive Statistics for Variables of the Study

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	90	-03	.41	.1832	.042071
BS	90	.6	.23	14.23551	1.25732
BI	90	.43	.86	.65863	.05335
DSH	90	.14	.39	.2880	.07070
ACM	90	2.00	.11	5.1	.68772
VALID N (list wise)	90				

The results on Table 1 shows on the average, about 18% return on equity (ROE) generated by the banks with a standard deviation of 4%. This indicates that the value of ROE can deviate from the mean to both sides by 4%. The maximum and minimum values of ROE are 41% and -3% respectively. The average board size of the selected banks used in this study was 14, while the proportion of outside directors sitting on the board was about 66%. This implies that the Board of Directors of Nigerian banks are relatively independent. The average audit committee meetings of the sampled banks are 5. This indicates that the average number of meetings held by the audit committee of the sampled banks in a year was 5 times.

Table 2: Pearson Correlation Coefficient Matrix

		ROE	BS	BI	DSH	ACM
	Pearson Correlation	1	-.315	.887**	.186	.624*
ROE	Sig. (2-tailed)		.274	.677	.002	.703
	N	90	90	90	90	90
	Pearson Correlation	-315	1	-.284	-.437	.383
BS	Sig. (2-tailed)	.274		.261	.143	.236
	N	90	90	90	90	90
	Pearson Correlation	.887**	-.284	1	.211	.382
BI	Sig. (2-tailed)	.677	.261		.559	.276
	N	90	90	90	90	90
	Pearson Correlation	.186	-.437	.211	1	-.195
DSH	Sig. (2-tailed)	.002	.143	.559		.568
	N	90	90	90	90	90
	Pearson Correlation	.624*	.383	.382	-.195	1
ACM	Sig. (2-tailed)	.805	.236	.276	.568	
MT	N	90	90	90	90	90

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

Table 2, revealed the nature of the relationship existing between the internal corporate governance and the performance of banks in Nigeria by highlighting the signs, sizes and significance of the relationship. Based on the correlation matrix in the above table, a relatively negative and insignificant relationship between return on equity and board size (-0.315) is reported, this implies that an increase in board size will lead to a decrease in the return on equity and vice versa. This is true because as the number of board members increases, they will tend to be unproductive as there may not be effective and efficient communication amongst them. There is a positive and significant relationship between return on equity and board independence (0.887), this implies that an increase in board independence will lead to increase in return on equity and vice versa. A positive but insignificant relationship between return on equity and directors shareholding (0.186) was also observed, this means that an increase in directors shareholding will not increase banks performance. A positive and significant relationship is observed between audit committee meetings and return on equity (.624). This implies that the regularity of these meetings will ensure transparency and improve profitability. The correlation matrix results highlighted seem to be true from theoretical standpoint based on the 5% level significance.

Regression Result

The multiple regression results of the study are presented in the Table 3. The regression output was obtained using a pooled time series data of the ten banks for the nine years period under review from 2006 to 2014. Taking ROE as a dependent variable and corporate governance variables as regressors, the regression output reveals that the dependent variable was well explained by the explanatory variables in the model with R-square of 0.874 and 0.793 respectively. The F-statistics of 4.257 was also significant with P-value of zero, suggesting that variations in the dependent variable were adequately explained by the regressors in the model.

Table 3: Result of the OLS-based regressions

Dependent Variable: (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LnBI	0.2124	0.02294	9.25894	0.0000
LnDSH	0.2812	0.1244	2.26041	0.0021
LnBS	-1.46998	0.53605	-2.7420	0.0128
LnACM	1.0573	0.16120	6.55893	0.0000
C	34.213	12.4395	2.75035	0.0124

R-squared	0.874	Mean dependent var.	10.54593
Adjusted R-squared	0.793	S.D. dependent var.	6.832530
S.E. of regression	0.404561	Akaike info Criterion	1.086098
Sum squared resid.	7.692489	Schwarz criterion	1.200820
Log likelihood	-24.15246	Durbin-Watson Stat.	2.0000
F-statistic	38.457		
Prob (F-statistic)	0.000000		

Source: Results of Regression Analysis using E-view 8.0

Regression Equation

ROE = 34.213 + 0.2124BI + 0.2812DSH – 1.46998BS + 1.0573ACM.

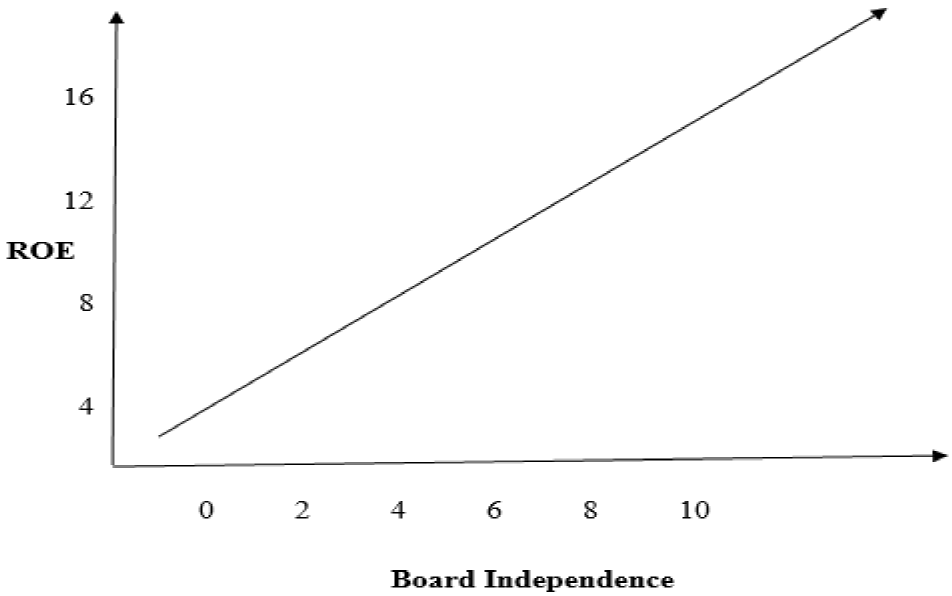
The intercept of the regression is 34.21 implying that if the various independent variables are held constant at zero, the return on equity for Nigerian banks will be 34.2%. The value of F-statistics is calculated as 38.457 with Prob (F-statistic) value of 0.0000 at 5% level of significance as shown in table above implying that the overall model is significant. The Durbin-Watson statistic value of 2.0000 suggests absence of serial auto-correlation in the series.

Discussion of Findings

This study is aimed at examining the effects of internal corporate governance structure on the performance of the Nigerian banking industry. Corporate governance as a system by which firms are directed and controlled, ensures proper accountability, improves investors' confidence, increase competition which enhances performance of the organization thereby enabling banks to perform their statutory role of funds mobilization in the economy. A detailed discussion of the results of the various independent variables is presented below.

Board Independence: The regression result in table 3 demonstrates that board independence has a positive effect on return on equity. Thus, a positive change in the board independence of banks will influence performance positively. Thus, board independence if changed by 1% will yield a significant increase of about 21% in the performance of banks' (ROE). This finding is consistent with the findings of Akpan and Rilman (2012), where they discovered positive relationship between non-executive directors and bank performance. On the contrary, Agrawal and Knoeber (1996) argued in their work titled Firm Performance and Mechanism of Agency Problems between Managers and Shareholders, that a negative relationship exist between outside director and firm performance.

Figure 2: ROE and Board Independence

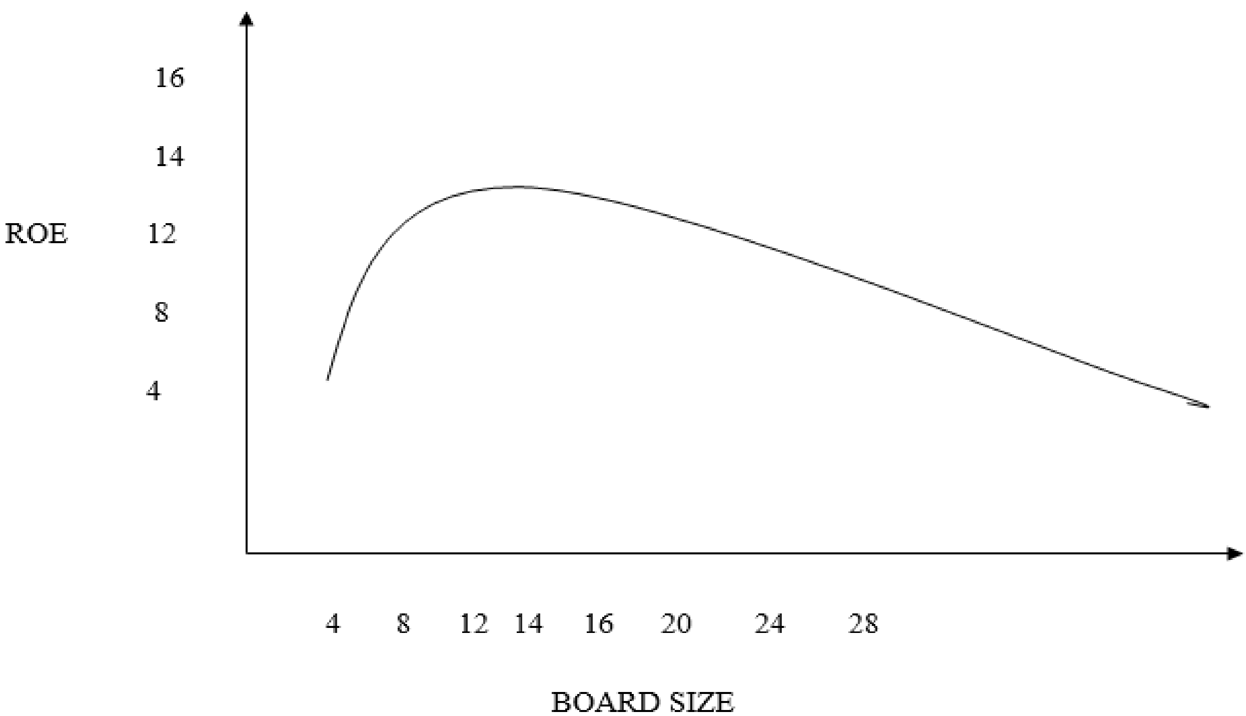


The figure 2 shows the relationship between board independence and return on equity. As the number of non-executive directors present in the board of bank increases, so does the performance of the bank. This goes to show that independence of board of directors do affect the performance of banks as they can make rational decisions without fear or favour.

Directors' Shareholding: Directors' shareholding has a positive coefficient on return on equity from the regression result. This implies that an increase in the directors' shareholding will translate to better banks' performance. This is in line with the findings of Ani et al (2014) and Ranti (2011). The factors responsible for this may be associated with reducing agency costs and also directors' interest to protect the shareholders since they own part of the shares. It is also relevant to consider the optimal level of directors' shareholding because of increased agency cost that may arise from the conflicts that may emanate between large and small shareholders. In contrast with the findings of this work, Bhaggat and Bolton (2009) found a negative relationship between directors' shareholding and performance.

Board Size: The results of the regression result in the table revealed that board size has a negative and significant effect on performance with coefficient of -1.46998 and a probability value 0.0128, suggesting that banks with larger boards tend to be ineffective as they may not be able to make good and informed decision due to the fact that too many directors may be unproductive as effective communication may pose a serious challenge among members. This is consistent with the findings of Cheema (2013) in which a negative relationship between board size and bank performance was revealed, though it contradicts the findings of Ghaffar (2014) who found a positive relationship between board size and bank performance.

Figure 3: ROE and BOARD SIZE



The figure 3 shows that return on equity increases until it reaches a maximum of 12 directors before stabilizing until board size is 14 and decreasing almost abruptly afterwards. This pattern is similar with works of Yermark (1986) who illustrated the relationship between performance and board size using Tobin's Q as proxy for performance.

Audit Committee Meetings: The effect of existence of audit committee (ACM) meetings on bank performance (ROE) is positive, suggesting that the regular meetings of an audit committee to deliberate important issues regarding transparency and information disclosure enhances the profitability of these banks. This finding is also in line with the works of Ngirande et al (2014).

CONCLUSION AND RECOMMENDATIONS

The study investigated the effect of corporate governance on the performance of banking sector in Nigeria. The study revealed that independence of board of directors that can bring their wealth of experience helped in increasing the value of the firm. Directors' shareholdings and audit committee meetings similarly contributed positively to the performance of the banking sector in Nigeria. Board size on the other hand had negative but also significant effect on return on equity of the banks. This could be attributed to the large size which most of these banks board are tending to and may be creating free rider problem where some of them has nothing to contribute. Thus average board size of fourteen should be encouraged for improved performance. In other to strengthen the banking sector and position them to carry out their roles and at the same time have the confidence of the investing and banking public, this study recommends;

That government should increase the monitoring and implementation of both internal and external corporate governance codes already formulated and should establish an independent body to see to the effective compliance of the codes. This body should comprise of experts from regulatory agencies like the Nigerian Stock Exchange, National Deposit Insurance Commission (NDIC) among others.

The study revealed that board size has significant effect on performance of banks. The study therefore recommends that the Central Bank of Nigeria should encourage banks to have optimal boards to remove the danger of free rider problem found in large boards in other to enable the board to perform its supervision activities properly. Commercial banks should increase their branches as well as their size in other to improve performance due to economies of scale.

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