



Corporate Governance in the Nigerian Banking Sector – An Empirical Analysis

OKORO, Blessing C.

Department of Management

University of Nigeria, Enugu State, Nigeria

+234 8067958377

Chinemeokoro2001@yahoo.com

ABSTRACT

The study evaluated the extent to which the banking sector in Nigeria adhere to corporate governance principles and how the practice of corporate governance attracts investors to the sector. The survey research method was adopted and four commercial banks were selected for the study, namely: First Bank of Nigeria Plc, Eco Bank International, United Bank for Africa Plc and Diamond Bank Plc. Data for the study were obtained through a structured questionnaire. The Z-test and Chi-square statistical techniques were used to test the hypotheses. Findings from the study showed that adherence to corporate governance significantly attracts investors to the banking industry and an improvement in the sector's performance in terms of improved profitability and return on investment. Based on these findings, the study recommends that banks should continue to explore various areas that would entrench corporate governance in the industry namely; the recruitment of qualified corporate managers, decentralization of strategic decisions making centres, separation of the office of Chairman of the Board and that of Chief Executive Officer to enable the Board exercise their oversight function.

Keywords: Banking Sector, Corporate Governance, Profitability, Return on Investment, Economic Growth

INTRODUCTION

Corporate governance is the oversight mechanisms, including the processes, structures and information for directing and overseeing the management of a company. It encompasses the means by which members of the board of directors and senior managers are held accountable for their actions and the establishment and implementation of oversight functions and processes. Corporate governance is holding the balance between economic and social goals and between individuals and communal goals. It is also concerned with the appropriate structuring of corporations and enterprises, with the fundamental importance to the performance of the economies, particularly in developing and transition economies. The corporate failures in Nigeria, especially in the financial sector has once again brought to the fore the need to re-examine the issues of corporate governance practices in Nigeria. As corporate governance deals with processes, policies, laws, and regulations which ensure that the management of an organization is accountable, objective, transparent and ethical in the conduct of the business in their interaction with stakeholders and the larger society. The turmoil in the Nigerian banking industry has more than ever before, necessitated the need for the adoption of corporate governance principles by the sector.

The apex financial sector regulator in Nigeria, the Central Bank of Nigeria (CBN) on August 14, 2009, removed the Chief Executive Officer (CEOs) and the Executive Directors of five commercial banks in Nigeria on the ground of poor corporate governance in their various banks. Some of the affected banks were among the big banks in the country. The apex regulator stresses that "retention of public confidence through the enthronement of corporate *governance* remains of utmost importance, given the critical role of the banking industry in the economy (CBN (2009:23).

Transparency and disclosure of information are key attributes of good corporate governance which banks must cultivate with new zeal so as to provide stakeholders with the necessary information to judge

whether their interest are being taken care of. In line with these changes, the fact remains unchanged that there is the need for countries to have sound resilient banking systems with good corporate governance. Given the fury of activities that have affected the efforts of banks to comply with the various consolidation policies and the antecedents of some operators in the system, there are concerns on the need to strengthen corporate governance in banks. This will boost public confidence and ensure efficient and effective functioning of the banking system (Soludo, 2004).

Objectives of the Study

The broad objective of this study is to assess the level of adoption of corporate governance in the Nigerian financial sector. To achieve this, the following specific objectives will be addressed:

- a) To ascertain the extent to which adherence to corporate governance attracts investors to the banking industry in Nigeria.
- b) To assess the level of accountability to investors by corporate managers in the banking industry in Nigeria.
- c) To evaluate the extent to which principles of corporate governance are practiced in the banking industry in Nigeria.
- d) To determine the effects of corporate governance on the performance of banking industry in Nigeria.

With the above objectives in focus, the study seeks to find answers to the following questions:

- a) To what extent does adherence to corporate governance attract investors to the banking industry in Nigeria?
- b) What is the degree of accountability to investors by corporate managers in the banking industry in Nigeria?
- c) To what extent are the principles of corporate governance adopted in the banking industry in Nigeria?
- d) What are the effects of corporate governance on commercial banks?

Research Hypotheses

The following hypotheses are formulated for the study:

- a) Adherence to corporate governance principles significantly attracts investors to the banking industry in Nigeria.
- b) The degree of accountability to investors by corporate managers in the banking industry is significant.
- c) The adoption of the principles of corporate governance by banks significantly enhances the rate of return on investment in the banking industry.
- d) Corporate governance impacts positively and significantly on the performance of the banking industry in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Corporate governance refers to the manner in which organizations, particularly limited companies are managed and the nature of accountability of the managers to the owners (Pallister and Isaac, 2002). Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. To them, the most important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the problem(s) that exist(s) between principal and agent (Dignam and Lowry, 2006).

O'Donovan (2006) defines corporate governance as an internal system encompassing policies, processes, and people, which serves the needs of shareholders and other stakeholders by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. O'Donovan (2006) states that it is a system of structuring, operating and controlling a company with a view to achieve a long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and

complying with the legal and regulatory requirements, apart from meeting environmental and local community needs (social responsibility).

Atedo (2009), states that another key factor in corporate governance is accountability. The management must be accountable for its decisions and actions to the stakeholders and the society it serves. A situation, whereby an organization is run without accountability is like running a charitable organization. It is accountability that makes the stakeholders know the position of their interests in an organization - hence determining their continued stay or not in the organization.

Singh (2006) defines corporate governance as a continuous process and the company relentlessly pursues it through full regulatory compliance, transparency, efficient operational practices, strong internal control and risk management systems and operating with fairness and integrity to enhance the interest of the stakeholders.

Ways to Enhance Investment through Corporate Governance Adherence

A review of the poor adherence to corporate governance by many of the failed banks in Nigeria shows that the personality-centred management style of these banks contributed to their problems. Many of the chief executives were running the banks as if they were personal, where they can do what they like. They failed to realise that they are more or less agents of various interest groups i.e stakeholders and that the banks they are managing are “quasi public institutions” In this regard Chief Executives of corporate organisations and senior management must have a change of orientation (Atedo, 2009).

Since it has been established that accessing the adoption of corporate governance attracts investments, the issue now is how do we enhance the assessment of the adoption of corporate governance? Koontz (2006) recommends the following as ways of assessing the adoption of cooperate governance so as to improve and attract more investments.

- (a) There should be change in the accounting standards and audit regulations.
- (b) Publish ethical and corporate guidelines on the company's website.
- (c) Strengthen the role of independent directors
- (d) Make the board accountable to shareholders and involve shareholders in selecting board members.
- (e) Obtain greater involvement of institutional investors (such as pension fund managers).
- (f) Separate the job of the chairman from that of the CEO
- (g) Get the board more actively involved in selecting the CEO

Koonz (2009) stresses that recently there is a drive to publish the pay of top managers, which in the past was considered a private matter. Atedo (2009) opines that there should be an astute regulator who should remember that corporate governance should not be about "ticking boxes" and confirming that committees exist or that members meet. He says that it should be about something real, for example, the existence of meaningful and proven checks and balances that increase the probability that decent and intelligent people will achieve a favourable outcome. Singh (2006) suggests the use of whistle-blowing. In this case, employees are encouraged to blow open any suspected foul play on the part of management through the audit committee (a regulator).

According to Emekekwe (1990), investment involves a sacrifice of present consumption in exchange of future benefits. Adekanye (1986) defines investment in two ways: it can mean the deposit of savings in a bank account or it can be the acquisition of new capital assets like plant, equipment and machinery which provides the means for production of goods and/or services. From the above definitions, it could be deduced that any benefits (cash or kind) forgone presently with the intention of reaping the future benefits of it is an investment.

According to Adekanye (1986) before an investor takes investment decision, he has to know the degree of security of his funds, the rate of return, the accessibility and liquidity of such fund/organization. Also, the political, economic and social environment must be considered before such investment is made because no investor invests his money where there are political, economic or social hostilities.

Managing the Interests, Attitudes and Perception of Stakeholders through Effective Corporate Communication

While corporate governance deals with processes, policies, laws, regulations and institutions which ensure that the management of organization is accountable, objective, transparent and ethical in the conduct of the business in their interaction with stakeholders and the larger society, the issue of perception is crucial. In today's business where ownership has been separated from the management, the owners (shareholders) and other stakeholders must be made to see that those entrusted with the task and responsibility of day-to-day management of their business are doing so according to the best practices to protect and advance their interest. Public Relations, Perception Management and Corporate Social Responsibility are quite important as tools in engineering the needed social support from all stakeholders. In this context, corporate governance goes beyond laws and regulations and adherence to them to embrace how organizations manage their relationships with their various stakeholders, the manner of identifying and executing social responsibility programmes and how information is disseminated both within and outside the organization. In this age of ICTs and globalization, corporate managers face many challenges in managing the various domains of corporate communications. The ecology of communication is changing on regular basis so also is the socio-psychological environment of the people. One of the fundamental changes witnessed in the last few years is how the advent of ICTs has ushered in many media channels including the so-called social media and the potentially limitless abundance of voices and contents in these new media. Connected to this is the possibilities offered the citizens to play an active role in the creation, dissemination, reception and interpretation of media messages. Corporate control over public discourse may be eroding if the potential offered by ICTs are realized. As stakeholders, citizens either as shareholders (owner of business), community members, social advocates and activists, and governments agencies and regulatory bodies need timely and quality information to be able to assess an organization as to its performance, adherence to rules, ethical behaviour and responsiveness to social and community needs (Bowie and Freeman (1992).

Accountability and transparency in the conduct of business are partly based on and or judged by the type of information people have. People need information for decision making for example, whether to invest or not to invest in a company. From communication theory, we know that what we call social reality or as the great American journalist, Walter Lippman called it many years ago, the picture in our heads is a function of the type of information presented to us about a phenomenon. Image making, branding and such concepts are mainly perceptual. As hinted earlier, it was much easier for corporate organizations to control this perceptual process before now. Information manipulation in the form of propaganda, publicity, disinformation and such other negative activities designed to curry public support and manufacture consent is quite easy when sources of (alternative) information are either limited or non-existent. That era appears to be over. For anybody who cares to do the search, many sources of information are available and the skills to interpret and analyze such information are increasingly being made available to many people (Agrawal and Knoeber, 2006).

Companies must be conscious of various stakeholders' demands and factor them into their decision making process. The emergence of the concept and practice of corporate social responsibility which is mainly a public relations function underlines the importance of paradigm shift in the management and of companies. It expresses the shift from the emphasis in shareholders' interests to all stakeholders, a broader concept implying a network of relationships that a company must be concerned with in its operations and strategy formulation (Chide, 2007).

The stakeholder model places emphasis on seeing various interest groups that a company must relate with as partners who are also interested in the development of the company and the society at large. The stakeholder concept advocates a democratic approach to business with an emphasis on proactive engagement with various groups and interests in the society. The concept of sustainable development expresses this collective desire for a balanced and just process of development. To meet the challenges and demands expressed in this kind of relationships, it requires a system of governance which will be able to align the interests of the company to those of the various stakeholder groups. This cannot be an ad hoc arrangement but a continuous activity. Any reputable organization must be able, not only to acquire the

right knowledge and analyze it but also allow such knowledge to have a bearing on its decisions and activities. Writing on this, Rebecca Harris describes knowledge management as “the coordination of knowledge and information in business and other strategic activities”. She goes on to say that it includes capturing, transferring and accessing the right knowledge and information when needed to make better decisions, take actions and deliver results. The ongoing role of the public relations practitioners involves knowing the wants, needs, and opinions of the various publics that surround and interact with the organization. In managing both its internal and external mechanisms for corporate governance, the organization must be able to effectively and efficiently handle the interaction and relationships between the people involved in operating the architecture of the organization. This in the main, involves gathering and dissemination of information; the operation of an organizational wide system of communication. Public Relations is an essential tool in this regard, organizational climate in general. The point is that for corporate governance to have meaning and impact in any organization, its ethos must be accepted and practiced across board within the organization. This is an important task for corporate communication (Abdur, 2011).

Principles of Corporate Governance

For a given system to work very well, there must be laid down principles i.e. rules and regulations in which it will operate. Ezigbo (2011) identifies the following as the basic principles guiding corporate governance:

- a) Right and equitable treatment of shareholders.
- b) Adherence to the interest of other stakeholders.
- c) Separation of the roles and responsibilities of the board (example, Chairman should be separated from the CEO).
- d) There should be integrity and ethical behaviour in accordance with the code of conduct.
- e) Disclosure and transparency should be in place, etc.

This implies that there are certain fundamental rights of the shareholders which organizations must respect and strictly uphold.

Atedo (2009) identifies the following principles on which corporate governance must operate:

- a) Business models should not be taken as corporate governance.
- b) A "one-size all" approach should not be applied in corporate governance.
- c) People (management) should be judged individually and not collectively.
- d) A good accounting standard should be in place to avoid being misled or outsmarted.
- e) International research findings on corporate governance should be embraced for comparative analysis.

RESEARCH METHOD

The study adopted survey design. Both primary and secondary sources of data collection were used. Primary data were obtained through oral interviews and questionnaire. Secondary data used were obtained from books, internet, and journals. The population of the study comprises of staff of four commercial banks with branches within Enugu metropolis. They include Eco Bank, United Bank for Africa, Zenith and First Bank of Nigeria Plc. Since the population of the study was finite, Taro Yamani's formula was used to determine the sample size for the study. The population of the study was 450 while the sample size was 315. The copies of the questionnaires distributed were 315, out of which 270 were returned. The Chi-Square statistical tool was used to test the hypotheses.

DATA PRESENTATION AND ANALYSIS

The data generated from the field survey using the questionnaire as instrument were presented in tables and percentages. The Z-test, simple regression and Chi-square statistical techniques were used in testing the hypotheses.

Table 1 - Analysis of Questionnaire Distributed and Returned

| Organization | Number Distributed | Number Returned | % Returned | Not Returned | % Not Returned |
|--------------|--------------------|-----------------|-------------|--------------|----------------|
| Eco Bank | 74 | 68 | 92.0 | 6 | 8.0 |
| UBA | 74 | 52 | 71.0 | 22 | 19.0 |
| First Bank | 84 | 78 | 93.0 | 6 | 7.0 |
| Diamond Bank | 84 | 72 | 85.7 | 12 | 14.3 |
| Total | 316 | 270 | 85.4 | 46 | 14.6 |

Source: Field Survey, 2015

Table 1 show that a total of 316 copies of the questionnaire were distributed to respondents. 270 copies of the questionnaire representing 85.4% were returned while 46 (14.6%) were not returned.

Table 2 - Extent to which Adherence to Corporate Governance principles attract Investors in Nigerian Banking Sector

| S/N | | A | SA | D | SD | Total |
|-----|---|----------|----------|----------|----------|-------|
| 1 | The boards of Nigerian banks ensure that ethical values are entrenched and enforced in the management of the banks | 174 | 28 | 34 | 34 | 270 |
| 2 | The board ensures that bank management do not engage in unethical practices that could endanger investors interests in the bank | 100 | 102 | 34 | 34 | 270 |
| 3 | he board ensures that there is reasonable returns to investors through regular declaration of dividends | 102 | 66 | 68 | 34 | 270 |
| 4 | There is appropriate diffusion of authority through the separation of the position of the Managing Director and that of Chairman of the Board | 90 | 78 | 68 | 34 | 270 |
| 5 | Adherence to corporate governance principles does significantly attract investors to the Nigerian banking industry | 134 | 74 | 40 | 22 | 270 |
| | | 600(46%) | 348(26%) | 244(18%) | 124(10%) | 1350 |

Source: Field Survey, 2015

From Table 2, 600 (46%) indicated agreement while 244 (18%) indicated disagreement. This shows that adherence to corporate governance principles significantly attract investors to the banking in Nigeria.

Table 3 - Extent of Accountability to Investors by Corporate Managers in the Banking Industry in Nigeria

| S/N | | A | SA | D | SD | Total |
|-----|---|----------|----------|----------|---------|-------|
| 1 | Banks are transparent in disclosing information regarding investment in shares and stocks to their shareholders and other stakeholders | 170 | 24 | 62 | 14 | 270 |
| 2 | Major investment decisions that may pose considerable risk to investors are first discussed by the boards and approval given before management could commit funds | 236 | 0 | 34 | 0 | 270 |
| 3 | Investors are regularly updated on the state of affairs of the banks and the safety of their investments | 138 | 30 | 54 | 34 | 270 |
| 4 | Banks do not commit investors funds on speculative and other unapproved investments vehicles as directed by the Central Bank of Nigeria | 100 | 98 | 38 | 34 | 270 |
| 5 | The extent of accountability to investors by Corporate Managers in the Nigerian banking industry is significant | 153 | 129 | 40 | 22 | 270 |
| | | 797(59%) | 281(21%) | 228(17%) | 104(8%) | 1350 |

Source: Field Survey, 2015

From Table 3, 797 (59%) indicated agreement while 228 (17%) indicated disagreement. This shows that the extent of accountability to investors by corporate managers in the banking industry in Nigeria is significant.

Table 4 - Extent of Adoption of the Principles of Corporate Governance in the Nigerian Banking Industry

| S/N | | A | SA | D | SD | Total |
|-----|---|-----|----|----|----|-------|
| 1 | The banks are committed to the Code of Corporate Governance for Banks as issued by the Central Bank of Nigeria | 183 | 34 | 40 | 13 | 270 |
| 2 | There is succession plans in the banks to ensure that Chief Executive Officers do not stay beyond the mandatory 10-year term as stipulated by the Central Bank of Nigeria | 134 | 68 | 34 | 34 | 270 |
| 3 | There are relevant Committees (e.g. Audit, Credit, Risk Management, etc) in place in the banks to exercise oversight on the activities of management | 202 | 34 | 30 | 4 | 270 |
| 4 | There are established protocols to which the board and management of banks are committed to ensure that there is no insider dealings either by the management or board or collusion | 117 | 68 | 68 | 17 | 270 |

| | | | | | | |
|---|--|----------|----------|----------|--------|------|
| | of both the management and board | | | | | |
| 5 | The extent of adoption of the principles of corporate governance in the Nigerian banking industry is significant | 154 | 54 | 48 | 14 | 270 |
| | | 790(59%) | 258(19%) | 220(16%) | 82(6%) | 1350 |

Source: Field Survey, 2015

From Table 4, 790 (59%) indicated agreement while 220 (16%) indicated disagreement. This shows that the extent of adoption of the principles of corporate government in the banking industry in Nigeria is significant.

Table 5 - Effects of Corporate Governance on the Performance of the Nigerian Banking Industry

| S/N | | A | SA | D | SD | Total |
|-----|--|----------|----------|----------|--------|-------|
| 1 | Corporate governance promotes entrenchment of ethical values and ensures that banks are run in a manner that will promote healthy returns to investors and shareholders | 132 | 84 | 34 | 20 | 270 |
| 2 | Corporate governance enhances greater access to capital and reputation through the appointment of board members with requisite qualifications, experience and reputational capital | 105 | 68 | 40 | 28 | 270 |
| 3 | Corporate governance minimizes wastages and corruption through the effective oversight of board members on the activities of management | 124 | 68 | 62 | 18 | 270 |
| 4 | Corporate governance promotes healthy competition among banks through adherence to Code of Conduct for Banks as issued by the Central Bank of Nigeria | 192 | 54 | 22 | 20 | 270 |
| 5 | Corporate Governance has positive effects on the performance of the Nigerian banking industry | 206 | 77 | 13 | 0 | 270 |
| | | 759(56%) | 351(26%) | 171(13%) | 86(6%) | 1350 |

Source: Field Survey, 2015

From Table 5, 759 (56%) indicated agreement while 171 (13%) indicated disagreement. This shows that corporate governance has impacted positively on the performance of the banking industry in Nigeria.

Test Of The Research Hypotheses

Hypothesis One

H₀: Adherence to corporate governance principles does significantly attract investors to the Nigerian banking industry.

H₁: Adherence to corporate governance principles does not significantly attract investors to the Nigerian banking industry.

Table 6 - Contingency Table Referred to Table 3 for Testing Hypothesis (1)

| S/N | | Agreement | Disagreement | Total |
|-----|---|-------------|--------------|-------|
| 1. | The boards of Nigerian banks ensure that ethical values are entrenched and enforced in the management of the banks | 202 (189.6) | 68 (119.6) | 270 |
| 2. | The board ensures that bank management do not engage in unethical practices that could endanger investors interests in the bank | 202 (189.6) | 68 (119.6) | 270 |
| 3. | The board ensures that there is reasonable returns to investors through regular declaration of dividends | 168 (189.6) | 102 (119.6) | 270 |
| 4. | There is appropriate diffusion of authority through the separation of the position of the Managing Director and that of Chairman of the Board | 168 (189.6) | 102 (119.6) | 270 |
| 5. | Adherence to corporate governance principles does significantly attract investors to the Nigerian banking industry | 208 (189.6) | 62 (119.6) | 270 |
| | | 948 (70%) | 598 (30%) | 1350 |

Source: Field Survey, 2015

Table 7 - Descriptive Statistics

| | N | Mean | Std. Deviation | Minimum | Maximum |
|---|------|---------|----------------|---------|---------|
| Adherence to corporate principles governance does significantly attract investors to the banking industry | 1350 | 4.16592 | .26431 | 3..7452 | 4.5865 |

Table 8 - One-Sample Kolmogorov-Smirnov Test

| | |
|--------------------------|---|
| | Adherence to corporate governance principles does significantly attract investors to the banking industry |
| N | 1350 |
| Normal Parameters(a,b) | Mean 4.1659 |
| | Std. Deviation .26431 |
| Most Extreme Differences | Absolute .13216 |
| | Positive .3.745 |
| | Negative .4.586 |
| Kolmogorov-Smirnov Z | 5.243 |
| Asymp. Sig. (2-tailed) | .000 |

a Test distribution is Normal.

b Calculated from data.

Table 8 is the output of the computed One-Sample Kolmogorov-Smirnov Test; the response options of agreement and disagreement based on the responses of the research subjects from the selected banks. Z-calculated Value ($Z_c = 5.243$) is greater than the Z- tabulated value ($Z_t = 1.96$)

Decision Rule

The decision rule is to accept the alternate hypothesis if the computed Z value is greater than tabulated Z value otherwise accept the null hypothesis.

Decision

Since the $Z_c = 5.243$ is greater than $Z_t = 1.96$, the null hypothesis is rejected and alternate hypothesis is accepted. Thus, we conclude that adherence to corporate governance principles does significantly attract investors to the banking industry.

Hypothesis Two:

H_0 : The extent of accountability to investors by corporate managers in the banking industry is not significant.

H_1 : The extent of accountability to investors by corporate managers in the banking industry is significant.

Table 9 - Testing Hypothesis (2)

| S/N | | Agreement | Disagreement | Total |
|-----|---|--------------|--------------|-------|
| 1. | Banks are transparent in disclosing information regarding investment in shares and stocks to their shareholders and other stakeholders | 217 (209.6) | 53 (60.4) | 270 |
| 2. | Major investment decisions that may pose considerable risk to investors are first discussed by the boards and approval given before management could commit funds | 202 (209.6) | 68 (60.4) | 270 |
| 3. | Investors are regularly updated on the state of affairs of the banks and the safety of their investments | 236 (209.6) | 34 (60.4) | 270 |
| 4. | Banks do not commit investors funds on speculative and other unapproved investments vehicles as directed by the Central Bank of Nigeria | 185 (209.6)) | 85 (60.4) | 270 |
| 5. | The extent of accountability to investors by Corporate Managers in the Nigerian banking industry is significant | 208 (209.6) | 62 (60.4) | 270 |
| | | 1048 (78%) | 302 (12%) | 1350 |

Source: Field Survey, 2015

Table 10 - Chi-Square Tests

| | Value | Df | Asymp. Sig. (2-sided) |
|------------------------------|-------|----|-----------------------|
| Pearson Chi-Square | 17.90 | 6 | .000 |
| Likelihood Ratio | 24.4 | 6 | .000 |
| Linear-by-Linear Association | .122 | 1 | .001 |
| N of Valid Cases | 1350 | | |

Table 10 is the output of the computed Chi-Square values from the cross tabulation statistics of observed and expected frequencies with the response options of agreement and disagreement based on the responses of the research subjects from banks. Pearson. Chi-Square computed value ($X^2_c = 17.9$) is greater than the Chi-Square tabulated value ($X^2_t = 12.59$) with 6 degrees of freedom (df) at 0.05 level of alpha ($X^2_c = 17.9, p < .05$)

Decision Rule

The decision rule is to accept the alternate hypothesis if the computed Chi-Square value is greater than tabulated Chi-Square value otherwise accept the null hypothesis.

Decision

Since the Pearson Chi-Square computed $X^2_c = 17.9$ is greater than Chi-Square table value $X^2_t = 12.59$, the null hypothesis is rejected and alternate hypothesis is accepted. Thus, we conclude that the extent of accountability to investors by corporate managers in the banking industry is significant.

Hypothesis Three

H_0 : The adoption of the principles of corporate governance in Nigerian banking industry is not significant.

H_1 : The adoption of the principles of corporate governance in Nigerian banking industry is significant.

Table 11 - Contingency Table Referred to Table 4 Testing Hypothesis (3)

| S/N | | Agreement | Disagreement | Total |
|-----|--|-------------|--------------|-------|
| 1. | The banks are committed to the Code of Corporate Governance for Banks as issued by the Central Bank of Nigeria | 183 (158) | 53 (60.4) | 270 |
| 2. | There is succession plans in the banks to ensure that Chief Executive Officers do not stay beyond the mandatory 10-year term as stipulated by the Central Bank of Nigeria | 134 (158) | 68 (60.4) | 270 |
| 3. | There are relevant Committees (e.g. Audit, Credit, Risk Management, etc) in place in the banks to exercise oversight on the activities of management | 202 (158) | 34 (60.4) | 270 |
| 4. | There are established protocols to which the board and management of banks are committed to ensure that there is no insider dealings either by the management or board or collusion of both the management and board | 117 (158) | 85 (60.4) | 270 |
| 5. | The adoption of the principles of corporate governance in the Nigerian banking industry is significant | 154 (158) | 62 (60.4) | 270 |
| | | 790 (58.5%) | 302 (41.5%) | 1350 |

Source: Field Survey, 2015

Table 12 - One-Sample Kolmogorov-Smirnov Test

| | | |
|--------------------------|----------------|---|
| | | The adoption of the principles of corporate governance in Nigerian banking industry is significant. |
| N | | 1350 |
| Normal Parameters(a,b) | Mean | 3.7223 |
| | Std. Deviation | 2.4876 |
| Most Extreme Differences | Absolute | .236 |
| | Positive | .1223 |
| | Negative | .3.543 |
| Kolmogorov-Smirnov Z | | 4.414 |
| Asymp. Sig. (2-tailed) | | .000 |

a Test distribution is Normal.

b Calculated from data.

Table 12 is the output of the computed One-Sample Kolmogorov-Smirnov Test, the response options of agreement and disagreement based on the responses of the research subjects from the selected banks. Z-calculated Value ($Z_c = 4.414$) is greater than the Z- tabulated value ($Z_t = 1.96$)

Decision Rule

The decision rule is to accept the alternate hypothesis if the computed Z value is greater than tabulated Z value otherwise accept the null hypothesis.

Decision

Since the $Z_c = 4.414$ is greater than $Z_t = 1.96$, the null hypothesis is rejected and alternate hypothesis is accepted. Thus, we conclude that the adoption of the principles of corporate governance in the Nigerian banking industry is significant.

Hypothesis Four

H_0 : Corporate governance has negative effects on the performance of Nigerian banking industry.

H_1 : Corporate governance has positive effects on the performance of Nigerian banking industry

Table 13 - Contingency Table Referred Table 5 for Testing Hypothesis (4)

| S/N | | Agreement | Disagreement | Total |
|-----|--|------------|--------------|-------|
| 1. | Corporate governance promotes entrenchment of ethical values and ensures that banks are run in a manner that will promote healthy returns to investors and shareholders | 216 (208) | 54 (62) | 270 |
| 2. | Corporate governance enhances greater access to capital and reputation through the appointment of board members with requisite qualifications, experience and reputational capital | 173 (208) | 97 (62) | 270 |
| 3. | Corporate governance minimizes wastages and corruption through the effective oversight of board members on the activities of management | 192 (208) | 78 (62) | 270 |
| 4. | Corporate governance promotes healthy competition among banks through adherence to Code of Conduct for Banks as issued by the Central Bank of Nigeria | 246 (208) | 24 (62) | 270 |
| 5. | Corporate Governance has positive effects on the performance of the Nigerian banking industry | 213 (208) | 57 (62) | 270 |
| | | 1040 (77%) | 310 (23%) | 1350 |

Source: Field Survey, 2015

Table 14 - Summary of the Regression Result

| Variable | Coefficient | Std Error | t-statistic | Prob | Test Result |
|-------------------------|-------------|-----------|-------------|--------|-------------|
| Constant | 2.710517 | 0.653975 | 4.144680 | 0.0003 | - |
| CorpGov | 0.488166 | 0.119520 | 4.084391 | 0.0003 | Significant |
| R ² | = | 0.357358 | | | |
| Adjusted R ² | = | 0.335936 | | | |
| F-Statistic | = | 16.68225 | | | |
| Prob(f-statistic) | = | 0.000303 | | | |
| Durbin Watson stat | = | 0.970837 | | | |

Table 15 - Result of t-Test of Significance

| t* | T _{0.025} | Test Result |
|----------|--------------------|---------------------------|
| 4.084391 | 2.045 | Statistically significant |

Table 16 - Result of f-Test of Significance

| f* | f _{0.025} | Test Result |
|----------|--------------------|---------------------------|
| 16.68225 | 4.18 | Statistically significant |

Evaluation of the Research Hypothesis

From the result in Table 15, the computed (t*) regression coefficient is greater than the tabulated value (t_{0.025}). Therefore, we reject null hypothesis (H₀) and accept alternative hypothesis (H₁). This indicates that corporate governance has positive effects on the performance of the Nigerian banking industry.

Moreover, the result of the regression coefficient shows that the computed (f*) statistic is greater than the table value (f_{0.025}), which means that the test result is statistically significant.

Finally, the coefficient of correlation (r) and coefficient of determination (r²) of 36% and 34% respectively, shows that corporate governance influences the performance of Nigerian industry only minimally. In other words, the explanatory power of corporate governance on Nigerian banking industry performance is low and other stochastic variables could be attributed to the performance of Nigerian banking industry.

DISCUSSION OF RESULTS

Hypothesis one was tested using Z-test and the result states that adherence to corporate governance does significantly attracts investors to the banking industry ($Z_c = 9.417 > Z_t = 1.96$; $p < 0.05$).

Hypothesis two was tested using Pearson's Correlation Coefficient. The result show that the extent of accounting to investors by corporate managers in the banking industry is significant ($X_c^2 = 24.540 > X_t^2 = 12.59$; $p < 0.05$). Bino and Thomas (2010) in their study on Corporate Governance and Performance of Jordanian Banks stated that the Code of Conduct issued to all banks in Jordan by the Federal Controller led to greater degree of accountability to investors by managers of banks and other financial institutions in Jordan.

Hypothesis three was tested using Z-test. The result shows that the adoption of the principles of corporate governance in Nigerian banking industry is significant ($Z_c = 6.817 > Z_t = 1.96$; $p < 0.05$).

Hypothesis four was tested with regression analysis and the result shows that corporate governance has positive effects on the performance of the banking industry in Nigeria ($t^* = 4.084391$; $p < 0.05$). Drobotz and Zimmermann (2003) in their work on Corporate Governance and Expected Stock Returns state that corporate governance contributed significantly to the performance of the banking sector in Germany.

SUMMARY OF FINDINGS

The findings at the end of the study include the following:

- a) Adherence to corporate governance significantly attracts investors to the banking industry. This was confirmed by the test of hypothesis one ($Z_{cal} = 9.417 > Z_{critical} = 1.96$, $p < 0.05$).

- b) The degree of accountability to investors by corporate managers in the banking industry is significant. Test of hypothesis two confirmed this ($X_c^2 = 24.540 > X_t^2 = 12.59$, $p < 0.05$).
- c) The extent to which banks adoption of the principles of corporate governance enhances the rate of return on investment in the banking industry is significant. This was supported by test of hypothesis three ($Z_{cal} = 6.817 > Z_{critical} = 1.96$, $p < 0.05$).
- d) Corporate governance impacts positively and significantly on the performance of the banking industry in Nigeria. This was confirmed by test of hypothesis four ($X_{cal}^2 = 18.270 > X_{critical}^2 = 12.59$, $p < 0.05$).

CONCLUSION AND RECOMMENDATIONS

The study concludes that adherence to corporate governance has positive impact on the performance of the banking industry. Corporate managers in the Nigerian banking industry are significantly adhering to the principles of good corporate governance and this has reflected on the positive returns on investment in the industry.

Based on the findings of this study, the following recommendations are proffered

- a. There is need to strengthen the anti-corruption war in the banking industry so that investors will have more confidence in the system.
- b. Corporate managers should be recruited based on skills, experiences and qualification rather than personal connections or volume of cash, attracted to the bank, because when mediocre are in position of authority, it drags the system backward, but when the right people are in the right place, there is always room for better performance.
- c. Banks should as a matter of right, give transparent information to investors on how their funds are managed. Also, this information should be available as at when due. A situation whereby investors get stale information regarding their investment portfolio is not in the best interest of investment in Nigeria.
- d. The management of corporate organizations should be properly separated from ownership, and seen to have been actually separated. A situation whereby a bank is quoted as a Public Liability Company (PLC) but still being controlled by a family interest is not acceptable. In this case, the Nigeria Stock Exchange, Securities and Exchanges Commission (SEC) and Corporate Affairs Commission (CAC) has to do a more thorough job before enlisting corporate organizations in their businesses. CAC should scrutinize corporate organizations, especially banks seeking registration in order to ensure that ownership is well dispersed and management separated from ownership to entrench good corporate governance.
- e. Shareholders should be properly carried along in the management of corporate organizations. To this end, shareholders should fortify their unions in order to assert their rights and privileges regarding their investment. This they can do by lobbying the national assembly to pass a law mandating corporate organizations to apportion some percentage of board and management positions to shareholders so that they (shareholders) will be fully abreast of what is happening with their investment.
- f. The creation of awareness on investment should not be left alone in the hands of the investment companies. To this end, the Nigerian Investment Promotion Council (NIPC) should be established in the local government areas so as to educate the rural populace on the need for investment as a tool to boost the economy because most of the unbanked people reside in the rural areas.
- g. Banks should equally establish branches in the rural areas so as to educate the rural dwellers on the need for them to use banks as means of transacting business. Such money raised by the rural dwellers could be used as investment by the banks in addition to the development that those banks will attract to the rural areas.

REFERENCES

- Abdur R (2011), "The Role of CEO, Board Composition and Firm Performance: An Empirical Study of Listed Companies in Bangladesh. *Indian Journal of Commerce & Management Studies*. 2
- Adekanye, F.A. (1986), *The Elements of Banking in Nigeria*, Lagos, F & A Publishers.
- Adewakun, A. (2010), "Poor Corporate Governance, Bane of Nigerian Banks" *Nigeria Tribune*, September 29.
- Agrawal, A. and Knoeber, C. R. (1996). Firm Performance and Mechanism to Control Agency problems between Managers and Shareholders. *Journal of Financial and Quantitative Analysis* 31: 377-397
- Agrawal, A. and Knoeber, C. R. (1996), "Firm Performance and Mechanisms to Control Agency Problems Between Managers and Shareholders" *Journal of Financial and Quantitative Analysis*, 31(3), 377–397.
- Aguilera, R. V. and Jackson, G. (2003), "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants" *Academy of Management Review*, 28(3), 447-465.
- Aguilera, R. V; Williams, C. A; Conley, J. M. and Rupp, D. E. (2006), "Corporate governance and Social Responsibility: A comparative analysis of the UK and the US" *Corporate Governance: An International Review*, 14(3), 147-158.
- Atedo, P. (2009), "Corporate Governance - What Role for Astute Regulator" *This Day Newspaper*, October 30.
- CBN (2006), Code of Corporate Governance for Banks in Nigeria Post Consolidation, Lagos, Nigeria.
- Dignam, A and Lowry J. (2006), "Corporate Governance", Available on <http://en.wikipedia.org>. Assessed 27th November, 2015
- Emekewue, P.E. (1990), *Corporate Financial Management*, Kinshasa-Zaire, African Bureau of Educational Sciences.
- Ezigbo, C.A. (2011), *Advanced Management Theory and Application*, Enugu, Immaculate Publications Limited.
- Freedman, R.E. (1984), *Strategic Management: A Stakeholder Approach*. Boston: Pitman.
- Koontz, H. and Weihrich, H. (2006), *Management: A Global Perspective*, New York, Tata McGraw-Hill Publishing Co. Inc.
- O'Donovan, G (2006) A Board Culture of Corporate Governance. <http://en.wikedia.org>. Assessed 27th November, 2015
- Palia, D. and Lichtenberg, F. (1999), "Managerial Ownership and Firm Performance: A Re-Examination Using Productivity Measurement" *Journal of Corporate Finance*, 5(4), 323–339.
- Pearce II, J. A. and Zahra, S. A. (1991), "The Relative Power of the CEOs and Boards of Directors: Associations with Corporate Performance" *Strategic Management Journal*, 12(2), 135–153.
- Pearce II, J. A. and Zahra, S. A. (1992). "Board Composition from a Strategic Contingency Perspective" *Journal of Management Studies*, 29(4), 411–438.
- Pfeffer, J. (1972). Size and Composition of Corporate Boards of Directors: The Organization and its Environment. *Administrative Science Quarterly*, 17(2), 218–228.
- Pfeffer, J. and Salancik, G. (1978), *The External Control of Organizations, A Resource Dependence Perspective*. New York: Harper and Row.
- Prahalad, C. K. and Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review*, 68(3), 79 – 91.
- Prowse, S. (1997), 'Corporate Control in Commercial Banks', *Journal of Financial Research*, 20: 509–527
- Rwegasira, K. (2000). Corporate Governance in Emerging Capital Markets: Whither Africa *Empirical Research Based and Theory-Building Papers*, 8 (3), 258-268.
- Reese, W. Jr. and Weisback, M. (2001), "Protection of Minority Shareholder Interests, Cross-Listings in the United States, and Subsequent Equity Offerings" *NBER Working Paper* 8164.
- Rhodes, J. D. (1999), "The Challenges of Governance in the Global Marketplace: Satisfying Shareholders". *Pharmaceutical Executive*, 19(7), 86–91.

- Richard, O. C. (2000), "Racial Diversity, Business Strategy, and Firm Performance: A Resource-Based View" *Academy of Management Journal*, 43, 164-177.
- Roberts, J; McNulty, T. and Stiles, P. (2005), "Beyond Agency Conceptions of the Work of Non-Executive Director: Creating Accountability in the Boardroom" *British Journal of Management*, 16(1), 5-26.
- Rodgers, C. (2008), The Relationship Between Board Compensation and the Firm Value of the Farm Credit System, *Journal of Agricultural Economics*, 3(1)
- Romano, R. (2005), "The Sarbanes-Oxley Act and the Making of Quack Corporate Governance" *Yale Law Journal*, 114(7), 1521-1611.
- Rose, C. (2007), "Does Female Board Representation Influence Firm Performance? The Danish Evidence" *Corporate Governance: An International Review*, 15, 404-413.
- Shleifer, A. and Vishny, R. (1986), "Large Shareholders and Corporate Control" *Journal of Political Economy* 94, 461-488.
- Shleifer, A. and Vishny, R. W. (1997), "A Survey of Corporate Governance" *Journal of Finance*, 52(2), 737-783.
- Shirley, M. and Walsh, P. (2001). Public vs. Private Ownership. *World Bank Policy Research Working Paper No. 2420*. Washington, D.C.: USA.
- Shleifer, A. and Vishny, R. (1997). A Survey of Corporate Governance. *Journal of Finance* 52: 737-783.
- Singh, S.P. (2006), *Strategic Management*, India, AITBS Publishers and Distributors
- Sundaram, A. K. and Louge, D.E. (1996), "Valuation Effect of Foreign Company Listings on U.S. Exchanges" *Journal of International Business Studies* 27 (1): 67-88.