“Financial performance of Nigerian deposit money banks and corporate governance”

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FINANCIAL PERFORMANCE OF NIGERIAN DEPOSIT MONEY BANKS AND CORPORATE GOVERNANCE

Abstract

Corporate governance has become a significant policy issue in Nigeria, especially with many developments such as the volatility of corporations on the Nigerian Exchange and the rise in the population of stockholders, which have increased the relevance of corporate governance measures. This study examined the nexus between corporate governance and Nigerian Deposit Money Banks' (NDMBs) financial performances using a period from 2012 to 2019. Using a judgmental sampling technique, out of 25 NDMRs, 15 NDMRs were selected as a sample size. Secondary data were extracted from the annual reports of the selected banks. Descriptive research design and regression analysis were used to analyze the data. The findings offer empirical evidence to refute the five null hypotheses and found that the financial performance of NDMBs as measured by Tobin Q and corporate governance proxies (i.e. board meetings, the board size, CEO duality, audit committee independence, and board independence) is statistically related. This study found that the nexus between Nigerian deposit money banks' financial performance and CEO duality is negative and significant. The nexus between Nigerian deposit money banks' financial performance and board independence is negative and significant. Nigerian deposit money banks' financial performance and audit committee independence have a positive and significant nexus. The nexus between Nigerian deposit money banks' financial performance and board size is positive and significant. The nexus between Nigerian deposit money banks' performance and board meetings is positive and significant. This study concluded that corporate governance and financial performance of NDMBs are related.

Keywords board, governance, characteristics, performance, firms, Nigerian, stock, exchange

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INTRODUCTION

In recent years, corporate governance (CG) and organizational success have gained a lot of analytical attention. The growing number of global financial crises, financial scandals, and high-profile corporate failures, all of which have resulted in a general lack of public trust and investor apathy, may have fueled this never-ending enthusiasm for governance research, corporate governance (CG) extends beyond the day-to-day operations of a company (Bairathi, 2009). CG (proxied by board characteristics) includes a wider range of management practices than traditional management practices. Transparency in corporate dealings, integrity and responsibility, ethical practice, justice, and strict adherence to regulatory and ethical standards are all issues that are addressed by CG. In light of the complexity of CG problems, one critical question arises: Do board characteristics influence an organization's financial performance (FP)? The relationship between Nigerian deposit money banks' (NDMBs) performance and board characteristics (a proxy for corporate governance) is investigated in this study as an attempt to provide an answer to this research question. Organizations with good governance processes are supposed to benefit from a market premium. However, empirical evidence on firm performance and board characteristics has been mixed. This failure of consensus is the impetus for the current study.

1. LITERATURE REVIEW AND HYPOTHESES

Kakanda et al. (2016) opined that every firm's sustainability and development are determined by its financial performance. However, there are differing viewpoints about how a company's performance should be measured. According to Marn and Romauld (2012), firm performance is described as the efficient and effective use of scarce resources to attain the firm's overall objective. Berger and Di Patti (2006) consider firm performance to increase shareholder wealth. According to Berger and Di Patti (2006), a good measure of firm performance is when shareholders are satisfied at the end of a financial year compared to the beginning of the year. The board of directors is expected to reduce agency costs to achieve improved firm performance. Agency costs emerge because of a conflict of interest between the firm owner and management objectives (Zabri et al., 2016; Otekunrin et al., 2019, 2020, 2022). The existing research on the relationship between firms' FP and board features uses a variety of indicators for firms' financial performance, including Profit Before Interest and Tax (PBIT), turnover, ROA (returns on assets), ROE (returns on equity), and TQ. TQ is used as a proxy in this study for FP in line with extant research (Van Ness et al., 2010).

The word "board characteristics" can be viewed as a broad term with no generally accepted meaning (Carcello et al., 2006). The characteristics of firm boards in charge of a company's overall management are referred to as board characteristics. The role of management and firm governance as a phase is linked to businesses' success or failure (Eluyela et al., 2018). BI, BM, BS, CEO duality and ACI were examined in this review. The number of non-executive directors versus executive directors is often used to indicate the board's independence. A firm board with a handful of outside directors is known as board independence. Independent or outside directors are thought to be more cautious in controlling the company's activities through decision-making (Fama & Jensen, 1993). Regardless of the debate, non-executive and executive directors have advantages and disadvantages; nevertheless, many researchers prefer independent directors (De Andres et al., 2005). The explanation for this is that outside directors might better protect shareholders' interests than inside directors. They add additional experience and skills to the organization, strengthening the requisite skills for strategy execution (Kamardin & Haron, 2011). The inclusion of independent directors on the board gives the board's recommendations and judgments more weight (Saat et al., 2011). Hence, based on the extant literature, this study examined if Nigerian deposit money banks' financial performance and Board independence are related.

The audit committee is a board panel whose primary responsibilities include internal control, and auditing of financial statements. An important part of the internal management system that helps companies improve their CG is the audit committee. The audit committee must conduct a thorough analysis on behalf of the central board, freeing up time for the central board and allowing non-executive directors to use their expertise (Klein, 2002). Hence, based on the extant literature, this study also examined if Nigerian deposit money banks' financial performance and ACI are related.

According to Rutledge et al. (2016), the concept of CEO duality is part of the leadership system. The phrase "CEO duality" refers to a situation when the CEO additionally functions as the board of directors' chairman. The board of directors is in charge of managing administrators, such as CEOs, on behalf of shareholders. They are in charge of drafting salary packages as well as hiring and firing CEOs. There are three reasons supposed to minimize a CEO's over-emphasis on unethical creativity. First, CEO duality relieves pressure to achieve short-term financial growth, allowing CEOs to pursue invention more freely. Second, CEO duality improves management discretion and simplifies CEO tasks. As a result, CEOs face less opposition when changing technical trajectories, adopting technological initiatives, and pursuing new technological opportunities from the board. Finally, due to unnecessary external controls by the board of directors, CEOs lacking duality can lose their intrinsic incentive to explore. Various studies and hypotheses have taken opposing positions on whether or not CEO duality influences a company's success. Rutledge et al. (2016) opined that CEO duality will increase the CEO's ability to advance their own interests over those of shareholders and undermine the authority of other directors, leading to a dysfunctional board. This may be because only one man or woman serves as both Chairman of the Board and CEO, which entails decision-making and supervision, leaving other directors unable or unable to focus on the CEO's performance and practices (Conger & Lawler, 2009; Chi, 2009; Fama & Jensen, 1983). As a result, merging the designation of chairman and CEO would influence a company's performance negatively. Stoeberl and Sherony (1985) argued that CEO duality is an important tool for increasing productivity and efficiency. According to them, managers are less opportunistic than self-actualizing, so CEO duality will aid in developing a good and clear leadership structure. Lam and Lee (2008) opined that managers would not jeopardize their careers to improve their job satisfaction and prestige by acting against the interests of shareholders since it would be self-sabotaging (Rutledge et al., 2016). The opposing views of researchers on the nexus between a firm's FP and CEO duality in the extant literature motivate this study to examine if Nigerian deposit money banks' financial performance and CEO duality are related.

The BS is determined by the number of members of directors on it in the current study. There are opposing viewpoints on board size: large vs small, and there is no agreement on which is preferable. According to the first school of thought, a smaller board size relates more to a company's success, while a large board is slow to make decisions and wastes time resulting in lower company performance (Lipton & Lorsch, 1992; Jensen, 1993). The second school of thought claims that having a large board of directors helps a company function better (Klein, 1998; Pfeffer, 1972). The large board size allows for more data collection. On the flip side, though, the number of directors on the board of directors seems to influence the company's performance. BS and leverage have a strong relationship (Abor, 2007). Large board size, according to Klein (1998) and Pfeffer (1972), improves company FP. The past literature on the nexus between firm FP and board size is mixed, and as a result, this study examines Nigerian deposit money banks' performance and Board size are not related (Owolabi et al., 2023).

An official meeting of the board of directors is held during which issues are discussed and pertinent concerns relating to their past experiences, present situation, and future-looking subjects related to the successful business. Any decision made during this meeting is legally binding and becomes operating in the business. The number of meetings attended by top-level managers during a year can determine the BM frequency. The meeting is an important tool for successful opinion harmonization to pursue a company's performance objectives (Kiel & Nicholson, 2003; Chauhan et al., 2016; Ntim et al., 2017). Based on the findings of the existing literature, this study examines if Nigerian deposit money banks' financial performance and Board meetings are related.

Some researchers have found a link between firm performance and board size that is positive and statistically significant (Ghabayen, 2012; Bathula, 2008). This result refuted Berle and Means' (1933) board failure hypothesis, stating that boards lacked the motivation and capacity to serve shareholder interests objectively. Due to contradictory outcomes of extant studies on this subject area, the link between company performance and board attributes is still being researched and attracts considerable interest from academics.

Stakeholder Theory and Agency Theory formed theoretical frameworks for this study. Eisenhardt (1989) opined that the theory that describes the agency issue comes into play when the principal's (i.e. shareholders) and the agent's (i.e. the management's) interests or objectives clash and it is hard or costly for the principal to monitor the agent's actions. This is due to the separation of ownership and control. The shareholders are not involved in the daily operation of their company. The management runs the company on a daily basis on

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behalf of the shareholders. CG has positioned the board of directors as an intervention on behalf of the shareholders to carry out oversight functions on management activities. Consequentially, a board's primary responsibility is to oversee management activities to reduce agency issues and achieve outstanding firm financial performance. Jensen and Meckling (1976) propose that agency challenges can be addressed by drafting contracts that clearly define the rights of principals and agents. On the other hand, unknown events or circumstances require the allocation of residual rights, the bulk of which pass to the agents and are available for transfer to them as they see appropriate (Shleifer & Vishny, 1997). To fix the agency's issues, various approaches have been proposed (Fama & Jensen 1983). Hence, stakeholder theory is expected to be very instrumental in resolving principal and agent conflicts of interest.

Stakeholder theory assumes that the board of directors would act in interests of the shareholders. According to the stakeholder concept, because firms and society are interconnected, firms serve a wider societal objective than its obligations to shareholders (Owolabi et al., 2023). Freeman et al. (2004) described stakeholders as one of the earliest advocates of stakeholder theory, every group or person that may influence or is influenced by attaining the firm's objectives. Stakeholder value maximization, according to proponents of the stakeholder perspective, would result in the dispossession of value from non-shareholders and redistribution to shareholders.

This study aims to add to the body of literature by empirically investigating the nexus between the performance of Nigerian deposit money banks and CG proxy by board characteristics. Audit Committee Independence (ACI), Board Meeting (BM), Board Size (BS), CEO duality, and Board independence (BI) were employed as board characteristics, whereas Tobin Q (TQ) was utilized as a metric of business FP.

Based on the review literature, this study examined the nexus between Nigerian deposit money banks' financial performance and CG (proxied by board characteristics) to test the following research null hypotheses formulated:

H_1: *Nigerian deposit money banks' financial performance and Board independence are not related.*

H_2: *Nigerian deposit money banks' financial performance and Audit committee independence are not related.*

H_3: *Nigerian deposit money banks' financial performance and CEO duality are not related.*

H_4: *Nigerian deposit money banks' financial performance and Board size are not related.*

H_5: *Nigerian deposit money banks' financial performance and Board meetings are not related.*

2. RESEARCH METHODOLOGY

The designs used for the study were descriptive in line with Ramadan et al. (2011) and Bassey and Moses (2015) to explore the relationship between the selected Nigerian deposit money banks' financial performance and CG (Proxies by board characteristics). The sample size is 15 out of 25 NDMB on NSE companies. The data are scheduled for 2014–2022 (8 years). Secondary data used was obtained from selected NDMB annual reports available on their websites. Simple random sampling is the methodology used in this analysis for sampling.

2.1. Model specification

The model that was used in this study is shown below:

$$FP = \begin{pmatrix} BS, BI, BM, CEO, \\ ACI, FAGE, FSIZE \end{pmatrix}, \tag{1}$$

$$\begin{aligned} Tobin\ Q = {} & \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BM_{it} \\ & + \beta_4 CEO_{it} + \beta_5 ACI_{it} + \beta_6 FAGE \\ & + \beta_7 FSIZE + \varepsilon_{it}, \end{aligned} \tag{2}$$

where *FSIZE* = Size of a Firm, *FAGE* = Age of a Firm, *BS* = Size of the Board, *BM* = Board Meeting, *ACI* = Audit Committee Independence, CEO Duality = *CEO*, *BI* = Board Independence.

3. RESULTS AND DISCUSSION

3.1. Descriptive statistics

TOBIN, BS, BI, BM, CEO, ACI, FAGE, and FSIZE were analyzed in Table 1 using descriptive statistics. The parameters are left-handedly skewed in the negative direction, as indicated by the positive kurtosis. The data are normally distributed, according to the Jarque-Bera test. The Jarque-Bera figures and associated probabilities are significant and revealed the regression parameters have a normal distribution. The distribution is highly and positively skewed (more than 1), according to the BS skewness result (the mean is higher than the median). The distribution is significantly skewed, according to the skewness finding of BI because it is greater than one and negatively skewed. After all, the median is higher than the mean. The maximum and minimum values are 9 and 1, respectively.

3.2. Regression analysis

Table 2 shows that this study's empirical evidence gave insights into NDMBs' financial performance and CG (proxied by board characteristics). The nexus between NDMBs' financial performance and BI is negative and significant with t-Statistic (–3.231377) and p-value (0.0016). Hence, the null hypothesis one that Nigerian deposit money banks' financial performance and BI are not related is now rejected. The alternative hypothesis that Nigerian deposit money banks' financial performance and board independence are related is accepted. The results of Table 2, with a robust t-statistic of (2.878331) and p-value (0.0016), showed that Nigerian deposit money banks' financial performance and ACI have a positive and significant nexus. Hence null hypothesis two that states Nigerian deposit money banks' financial performance and ACI are not related is now rejected, and the alternative hypothesis one that Nigerian deposit money banks' financial performance and ACI are related is accepted. Table 2 shows that the nexus between Nigerian deposit money banks' financial performance and CEO duality is negative and significant with t-Statistic (–4.933400) and p-value (0.0000). Hence, null hypothesis three that Nigerian deposit money banks' financial performance and CEO duality are not related is rejected. The alternative hypothesis that Nigerian deposit money banks' financial performance and CEO duality are related is accepted. Also, Table 2 shows that the nexus between NDMBs' FP and board size is positive and significant with t-statistic (2.147675) and p-value (0.0339). Hence, null hypothesis four that NDMBs' financial performance and board size are not related is rejected. The alternative hypothesis that NDMBs' performance and board size are related is accepted. Table 2 shows that the nexus between NDMBs' financial performance and board meetings is positive and significant with t-Statistic (2.556232) and p-value (0.0119). Hence null hypothesis five that NDMBs' performance and board meetings are not related is rejected, and the alternative hypothesis one that states NDMBs' performance and board meetings are related is accepted.

Table 1. Descriptive statistics

Source: Author's compilation (2019).

Variable	TOBIN Q	BS	BI	BM	CEO	ACI	FAGE	FSIZE
Mean	0.431437	10.42500	5.316667	4.383333	0.516667	2.650000	35.76667	9.899809
Median	0.230481	10.00000	6.000000	4.000000	0.000000	3.000000	32.50000	9.755648
Maximum	2.323326	23.00000	9.000000	6.000000	2.000000	6.000000	89.00000	11.17981
Minimum	0.011877	5.000000	1.000000	1.000000	0.000000	0.000000	4.000000	8.500252
Std. Dev.	0.496421	2.687232	2.278815	1.271427	0.673425	1.542943	19.95572	0.576317
Skewness	1.941810	1.743873	-0.505493	-0.944252	0.933971	0.143835	0.817614	-0.191771
Kurtosis	6.382714	9.881683	2.482090	4.067922	2.684657	2.684753	3.412476	2.843347
Jarque-Bera	132.6263	297.6097	6.451614	23.53454	17.94323	0.910672	14.22055	0.858226
Probability	0.000000	0.000000	0.039724	0.000008	0.000127	0.634235	0.000817	0.651086
Sum	51.77243	1251.000	638.0000	526.0000	62.00000	318.0000	4292.000	1187.977
Sum Sq. Dev.	29.32561	859.3250	617.9667	192.3667	53.96667	283.3000	47389.47	39.52485
Observations	120	120	120	120	120	120	120	120

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Table 2. Regression analysis

Source: Author's compilation (2019).

Variable	Coefficient	Std. error	t-Statistic	Prob.
C	6.394636	0.531020	12.04217	0.0000
BS	0.033328	0.015518	2.147675	0.0339
BI	–0.052560	0.016265	–3.231377	0.0016
BM	0.081011	0.031692	2.556232	0.0119
CEO	–0.286234	0.058020	–4.933400	0.0000
ACI	0.089552	0.031113	2.878331	0.0048
FAGE	–0.012188	0.001613	–7.556751	0.0000
FSIZE	–0.610094	0.055591	–10.97467	0.0000
R-squared	0.692872	–		
Adjusted R-squared	0.673677	–		
Durbin-Watson stat	0.253440	–		
F-statistic	36.09558	–		
Prob. (F-statistic)	0.000000	–		

This study found a negative and significant relationship between the financial performances of NDMBs and board independence. This result suggests that fewer non-executive directors are better than having a handful of non-executive directors in the board of directors' composition. This is in line with Abdullah (2004). This study found that Nigerian deposit money banks' financial performance and ACI have a positive and significant nexus. This indicates that ACI would enhance the committee's oversight role, which would undoubtedly lead to improved firm performance. This is similar to Mak and Kusnadi's (2005) findings. This study found a negative and significant relationship between Nigerian deposit money banks' performance and CEO duality. This result supports Rutledge et al.'s (2016) assertion that in the agency theory, CEO duality enhances the CEO's ability to promote his or her self-interests over the shareholders' interests, and the CEO might subvert the authority of other directors, resulting in a poor board of directors. This result is also in line with Conger and Lawler (2009), Chi (2009), and Fama and Jensen (1983). This study also found a positive and significant nexus between Nigerian deposit money banks' financial performance and board size. This result is similar to that of Prashar and Gupta (2021), and Zhou et al. (2018). This study also found a positive and significant nexus between Nigerian deposit money banks' performance and board meetings.

CONCLUSION

This study examined the nexus between CG and the financial performance of Nigerian deposit money banks. The findings offer empirical evidence to refute the five null hypotheses and found that the financial performances of NDMBs and board characteristics (i.e. five CG variables) are statistically related. The nexus between NDMBs' financial performance and board independence is negative and significant. This study also found that Nigerian deposit money banks' financial performance and ACI have a positive and significant nexus. Empirical evidence from this study also shows that the nexus between CEO duality and Nigerian deposit money banks' financial performance is negative and significant. Also, empirical evidence from this study shows that the nexus between Nigerian deposit money banks' financial performance and board size is positive and significant. Similarly, empirical evidence from this study also shows that the nexus between NDMBs' financial performance and board meetings is positive and significant. The study concluded that CG and financial performance of NDMBs are related. Hence, a firm with a strong board of directors would ensure that both shareholders' and stakeholders' wealth is maximized. As a result, both agency theory and stakeholder theory benefit from having the right board characteristics, (i.e. proxies for corporate governance).

AUTHOR CONTRIBUTIONS

Conceptualization: Adegbola Olubukola Otekunrin, Mishelle Doorasamy, Olateju Aregbesola, Sunday Omojola.
Data curation: Adegbola Olubukola Otekunrin, Mishelle Doorasamy, Olateju Aregbesola, Sunday Omojola.
Formal analysis: Adegbola Olubukola Otekunrin, Mishelle Doorasamy, Olateju Aregbesola, Sunday Omojola.
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Software: Olateju Aregbesola, Sunday Omojola.
Supervision: Adegbola Olubukola Otekunrin,
Validation: Adegbola Olubukola Otekunrin, Olateju Aregbesola, Sunday Omojola.
Visualization: Adegbola Olubukola Otekunrin, Mishelle Doorasamy, Olateju Aregbesola.
Writing – original draft: Sunday Omojola.
Writing – reviewing & editing: Adegbola Olubukola Otekunrin, Mishelle Doorasamy, Olatunde Wright, Olateju Aregbesola, Sunday Omojola.

CONFLICT OF INTEREST

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