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CORPORATE GOVERNANCE AND FIRM VALUE: IS POOR CORPORATE GOVERNANCE RESPONSIBLE FOR THE PERSISTENT CRISES IN NIGERIA BANKING SECTOR?

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Abstract

The broad objective of this study was to investigate the relationship between corporate governance and firm value of Nigeria banks. It is quantitative research that used correlation descriptive design. The study adopted a similar model used by Haat, et al. (2008) and Hamad, et al. (2021) to estimate the combined effects of corporate governance proxies on the firm value of selected banks. Secondary data was collected from the published financial reports of the selected banks for the year 2010 to 2020, which is the scope of the study. The data was analyzed using both descriptive and inferential statistics (using the Ordinary Least Squares-OLS-regression) via the Statistical Package for Social Sciences (SPSS). The findings indicated that corporate governance has significant effect on the Return on Investment, Dividend per Share, as well as on the Net Assets per share of the banks in Nigeria. The paper recommends that all the stakeholders involved in monitoring the institutionalization of an effective system of corporate governance in Nigeria banks should do more to ensure that bank directors adhere to good and transparent corporate governance to reverse the continuous trend of bank failures in Nigeria.

Keywords: Corporate governance; Firm value; Dividends per share; Return on Investment; Net Assets per Shares

Introduction

The Directors and managers of any company are agents of the shareholders and must carry out their operations to satisfy the interest of the shareholders. These managers and shareholders are mandated to carry out the operations of the company ethically and transparently within the provisions of laws and regulations governing the operations of companies in the country and globally. These managers and directors must endeavor to run the company successfully, increase the value of the company and bring in profit for the owner-shareholders. This is where corporate governance comes in. It aims to protect the interest of the shareholders, preserve the company's reputation and shields the company from monumental fraud by its directors and officers (Rahman & Nugrahanti 2021; Uddin, et al., 2021).

Over the years several study have been done in the area of corporate governance and its influence and indicators.

It has also been discovered that good corporate governance is pivotal for any company's success and bad corporate governance could herald crises in companies. Also, in the last one decade and half, Nigeria banks have been going through one crises or the other. From the failures of Halmark bank, All states bank, Savanah bank, and recently, Oceanic bank, Intercontinental Bank, Diamond bank, Bank PHB, Equatorial Trust Bank, etc. Presently, First bank is going through its own crises. A closer look at the crises in these banks shows that insider dealings and non-performing loans are key to their failures and crises. This begs the questions: Why are crises in Nigeria banks continuing despite efforts by the central bank to revitalize and recapitalize these banks? Could this also be as a result of poor corporate governance? Is corporate governance responsible for the failure or success of Nigeria banks?

Also, interestingly, with the persisting crises popping up in the Nigeria banking sector, one would have expected to see recent studies in Nigeria investigating why these banks continue to fail and the present role of corporate governance in mitigating the crises. However, the opposite is the case. Most studies in Nigeria in the area of corporate governance and firm value in Nigeria banks are over a decade old and these calls for updating of literature. At the backdrop of these, the researchers formulated the following hypotheses in their null form to carry out their investigations:

1 To investigate the relevance of corporate governance on Returns on investments of Nigerian banks.

2. To investigate the value relevance of corporate governance on dividend per share of Nigerian banks.

3. To examine the importance of corporate governance on net assets per share of Nigerian banks.

Review of Related Literature Corporate Governance Relevance

Corporate governance refers to how firms are managed, that is, how the resources of a firm are employed in the pursuit of the set goals of the organization (Chiejien, 2010). It includes transparency, independence, accountability, fairness, corporate social responsibility, timely and accurate disclosure of information and corporate discipline. Good corporate governance is expected to regulate the relationship and interconnectivity amongst shareholders, board of directors and management (Hassan, 2010; Murinda, et al., 2021).

Good corporate governance should be preoccupied with giving direction to the firm, in terms of its operations, resource derivation and resource allocation. It ensures transparency in the operations of the firm.

The relevance of corporate governance is usually judged from its contribution to economic growth and efficient utilization of resources. Other concrete relevance of corporate governance should include:

(a) Enhanced accessibility to external fiancé: Better creditor and shareholder rights are seen to be related with in-depth and better developed banking and capital markets. (Claessens, 2003)

(b) Influences firm value positively: This attracts investors and attracts lower cost of capital, as well as leads to higher growth and employment opportunities.

(c) Promotes optimal and efficient allocation of resources and better firm operations.

(d) Acts as a shock absorber in times of economic crises, thereby reducing and mitigating risks, and promoting the firm's reputation.

(e) Creates better relations amongst various stakeholders.

Firm Value Characteristics

Firm value or total enterprise value is the economic measure reflecting the market value of a business. It reflects the value of a business at a given date. Theoretically, it is the amount that an individual or firm would be willing to pay to buy or to take over a business entity and can be determined on the basis of either book value or market value. (Kurniansyah, et al. 2021). However, market value is commonly used in determining the value of a business. It is the sum of claims by all claimants. These claimants include creditors (secured and unsecured creditors), and shareholders (preference shareholders and ordinary shareholders).

Varying findings from different authors in most previous recent studies related to factors influencing firm value have been reviewed. In his findings, Anabestani and Shourvarzi discovered that profitability negatively affects firm value. Antounian, et al. (2021). found profitability to positively influence firm value. Results obtained from the study conducted by Danoshana and Ravivathani (2019) showed that leverage is positively related to firm value. Furthermore, the findings of the study of El-Deeb, et al. (2021). found that size of the firm is positively connected to firm value, while Garay and Gonzalez (2008) indicated that size of the firm has negative relationship with firm value.

Theoretical Review Stakeholder Theory

This study is hinged on the stakeholder theory and obtained support from Agency theory. The stakeholder theory is a capitalism postulation that emphasizes the interrelated relationships existing between a business and its various stakeholders such as customers, suppliers, employees, investors, communities, etc. The theory states that managers of businesses must of necessity take into consideration the needs of all stakeholders and that these constituents impact its operations and is impacted by its operations (Lemmon and Lins 2003).

It postulates that a business must seek to maximize value for its stakeholders. It takes into cognizance both economical and ethical considerations, while promoting fairness for everyone involved in the company and gives the managers clear objective (Herbert, et al., 2021; Islam, et al., 2021).

Despite its seeming importance, many scholars such as Haat, et al. (2008) and Hamad, et al. (2021) have criticized the stakeholder theory. Most argued that the theory lacks specificity and as such cannot be operationalized in a way that allows scientific observation. They pointed out that it can be difficult to consider the differing interests of various stakeholders. Some feel that the theory offers no decision-making standard that could provide a benchmark for governance.

Others argued that the stakeholder theory is vacuous and unrealistic of the actual operations of organizations.

This study hinges on the stakeholder theory that bank managers and directors in Nigeria are in those banks for the interest and reward of stakeholders and not for their own personal interest. The study further found support from the agency relationship theory which was first pointed out by Jensen and Meorching (1976) as a contract under which one or more persons {the principal (s)} engage another person (the agent) to perform some services on their behalf. Here, the shareholders (owners/principal) of the firm hire the agents (managers and directors) to oversee the activities of the firm.

Methodology

The scope of the study covers the 2010 to 2020 accounting years of the selected banks. The study is a quantitative research. It employed descriptive research design. The population of the study consists of the 23 commercial banks listed in the Nigeria Stock Exchange as at December, 2020. However the sampled banks comprise 8 banks with international authorization in Nigeria as at December, 2020 representing about 35 percent of the population. These include Access Bank PLC, Fidelity Bank PLC, First City Monument Bank PLC, First Bank of Nigeria PLC, Guaranty Trust Bank PLC, Union Bank of Nigeria PLC, United Bank for Africa PLC, and Zenith Bank PLC. These were purposefully sampled because these banks are incorporated and also subject to all IFRS and IAS provisions and other local and international disclosures and transparency requirements due to their global operations and presence.

The study made use of secondary data collected from the fact book of the Nigeria Stock Exchange and websites of the selected banks for the year 2020. The data collected was for both corporate governance and corporate performance variables. The data collected was analyzed using both descriptive and inferential statistics (using the Ordinary Least SquaresOLS-regression) via the Statistical Package for Social Sciences (SPSS). The multi regression analysis established whether the set of independent variables {Firm Ownership Structure (FOS), Board Size (BOS), Board Composition (BOC), Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (CAC)} explained the proportion of the variance in the dependent variables {Return on Investment (ROI), Dividends per Share (DPS) and Net Assets per Share (NPS)}.

The study adopted a similar model used by Haat, et al. (2008) and Hamad, et al. (2021) to estimate the combined effects of corporate governance proxies on the corporate performance of selected banks. Corporate governance (COG) is estimated as a function of the banks' corporate performance indicators, which are defined in this study as Firm Ownership Structure (FOS), Board Size (BOS), Board Composition (BOC), Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (CAC). This is expressed as CG= f (FOS, BOS, BOC, FDT, CAC). On the other hand, corporate performance (COP) is represented by Return on Investment (ROI), Dividends per Share (DPS) and Net Assets per Share (NPS). Thus, COP= f (COG), which by expansion becomes: COP= f (FOS, BOS, OC, FDT, CAC).

The Ordinary Least Squares (OLS) regression that is used to estimate the relationship is as follows:

$ROI = \beta_0 + \beta_1FOS + \beta_2BOS + \beta_3BOC + \beta_4FDT + \beta_6CAC + e$……………. (i)

$DPS = \beta_0 + \beta_1FOS + \beta_2BOS + \beta_3BOC + \beta_4FDT + \beta_6CAC + e$……………. (ii) $NPS = \beta_0 + \beta_1FOS + \beta_2BOS + \beta_3BOC + \beta_4FDT + \beta_5CAC + e$……………. (iii)

Where:
ROI = return on investment
DPS = Dividend per share
NPS = Net Assets per share
FOS = Firm Ownership Structure
BOS = Board Size
BOC = Board Composition
FDT = Financial Disclosure and Transparency
CAC = Composition of Audit Committee β_0 = Constant $\beta_1$toβ_5 = Parameters to be estimated.
e = error term.

Results and Discussions

This section dealt with the presentation, interpretation, as well as the discussion of results. The main objective of this paper was to investigate the relationship between corporate governance and performance of Nigeria banks. The results would provide information on the descriptive and inferential statistics used in analyzing the formulated hypotheses.

Table 1: Descriptive Statistics

Variables	FOS	BOS	BOC	FDT	CAC	ROI	DPS	NPS
Mean	12	0.67	0.39	8.8	0.04	27.9	11	0.62
Standard Deviation	1.20	16.20	0.09	0.21	0.41	31.62	24.56	1.09
Kurtosis	0.42	-0.57	-1.10	12.02	-0.34	8.09	28.8	8.89
Skewness	0.935	-1.08	-0.92	3.64	1.34	-1.75	6.00	3.65
Maximum	14	0.75	0.62	60.32	0.09	89.67	151.04	5.88
Minimum	10	0.58	0.46	0.70	0.04	-89.63	-8.22	0.04
Count	26	26	26	26	26	26	26	26

Source: Field Investigation (2021)

The table 4.1 above shows that the mean figures of DPS, ROCE, and NAPS of the sampled banks are 27.9, 11, and 0.62 respectively. While firm ownership structure, board size, board composition, financial disclosure and transparency, and composition of audit committee have a mean of about, 0.67, 0.39, 8.8, 0.04 and 12 members respectively. Board size has the highest standard deviation of 16.20 signifying its low contribution, whereas Firm Ownership Structure (FOS), Board Composition (BOC), Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (CAC) have lower standard deviation which indicates their significant contribution.

The composition of the audit committee falls between 38 to 51 percent which is not in line with requirement of CAMA 1990, now amended in 2020, that the representation of shareholders on the committee should be three whereas the whole committee should be six.

During the period of the study, Fidelity bank had ratio 2 directors to 4 shareholders. Likewise Union Bank Plc for the first 4 years the ratio of the Audit Committee Composition was 2:4.

Corporate Governance and Return on Investment (ROI)

In this section, the regression equation results of the relationship between Corporate Governance and Return on Investment are presented and discussed. The summary of the results are presented in Table 2.

Table 2. Regression Results on Corporate Governance and ROI

Variables	Coefficients	t-values
Intercept	12.634	1.433
FOS	-11.512	-1.856*
BOS	-16.321	-2.951**
BOC	-10.991	-3.261**
FDT	0.443	0.431
CAC	0.862	3.121**
R^2	0.82	
Adjusted R^2	0.71	
F-Stat	5.865**	
Durbin-Watson	1.334	

Source: Field Investigation (2021)

The symbol ***, **, * indicates statistical significance at 1%, 5% and 10% respectively. Table 4.2 relates DPS (dependent variable) to corporate governance variables (independent variable). The estimated regression relationship for *DPS* model is:

ROI = 11.544 - 10.703FOS -17.460BOS - 11.440BOC +0.310FDT + 0.959 CAC

The equation shows that the independent variables have significant impact on the dividend per share. While board size is negatively related and statistically significance at 10%, board composition and composition of audit committees have negative relationship with the dependent variable at 5% significant level. This signifies that an increase in these variables would lead to decrease in ROI. The adjusted coefficient of determination (R^2) offers better explanation of the variations in ROI as the value is about 65 percent. Also, the value of the Fstatistics is 5.865 with a *p*-value of 0.001, showing fitness of the model.

From the result, the null hypothesis can be rejected. In other words, the result provides evidence that corporate governance of firms in Nigerian banks has significant impact on the performance as measured by their Return on Investment.

Corporate Governance and Dividends per Share

In this section, the result of the regression equation of the independent variable: Firm Ownership Structure (FOS), Board Size (BOS), Board Composition (BOC), Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (COC), and dependent variable, DPS is presented.

Table 3. Regression Results on Corporate Governance and DPS

Variables	Coefficients	t-values
Intercept	11.543	1.678
FOS	-9.743	-2.398**
BOS	-17.980	-5.238**
BOC	-11.775	-4.987**
FDT	0.385	1.901*
CAC	0.812	6.845***
R^2	0.875	
Adjusted R^2	0.734	
F-Stat	8.988**	
Durbin-Watson	1.185	

Source: Field Investigation (2021)

The symbol ***, **, * indicates statistical significance at 1%, 5% and 10% respectively. Table 4.3 relates DPS (dependent variable) to corporate governance variables (independent variable). The estimated regression relationship for *DPS* model is:

DPS = 10.407 - 9.997FOS-16.467BOS - 10.884BOC +0.294FDT + 0.903 CAC

The equation shows that the independent variables have significant impact on the return on capital employed as a proxy for financial performance. Firm's ownership structure (FOS), Board Size (BOS), Board Composition (BOC) have negative relationship with the dependent variable at 5% respectively. This signifies that decrease in these variables would lead to an increase in dependent variable. Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (CAC) are positively related with DPS. While financial disclosure and transparency has significant relationship at 1%, composition of audit committees is at 10%. That is, increase in the level of financial disclosure and transparency, and composition of audit committee increase in DPS of banks in Nigeria. Durbin Watson statistics of 1.195 shows absence of auto correlation. The adjusted coefficient of determination (R^2) of approximately 73% offers better explanation of the variations in DPS occasioned by variation in the independent (CG) variables. Also, the value of the F-statistics is 8.988 with a *p*-value of 0.002, indicates fitness of the model.

From the result, the null hypothesis can be rejected. In other words, the result provides evidence that corporate governance of banks in Nigeria has significant impact on their performance as measured by their DPS. The result however, did not support the findings of Ararat, et al. (2017), Black, et al. (2015) and Chhaochharia and Grinstein (2007).

Corporate Governance and Net Asset per Share (NPS)

The result of the regression equation of the independent variables; corporate governance represented by Firm Ownership Structure (FOS), Board Size (BOS), Board Composition (BOC), Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (COC), and dependent variable, NPS is presented.

Table 4 Regression Results on Corporate Governance and NPS

Variables	**Coefficients**	**t-values**
Intercept	27.567	2.875***
FOS	-0.701	-2.321**
BOS	-21.825	-5.021***
BOC	-19.946	-4.983***
FDT	0.024	1.772*
CAC	50.123	8.332***
R^2	0.907	
Adjusted R^2	0.834	
F-Stat	15.223***	
Durbin-Watson	1.121	

Source: Field Investigation (2021)

The symbol ***, **, * indicates statistical significance at 1%, 5% and 10% respectively. Table 4.4 relates NAP (dependent variable) to corporate governance variables (independent variable). The estimated regression relationship for NPS model is;

NAPS = 28.689 – 009FOS -23.999BOS – 21.634BOC +0.017FDT + 45.278 CAC

The equation shows that Firm Ownership Structure (FOS), Board Size (BOS) and Board Composition (BOC) have negative relation with the NPS at 5% level of significance respectively. This signifies that decrease in these variables would lead to an increase in NPS. Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (CAC) are positively related with NPS. While Financial Disclosure and Transparency has statistically significant relationship at 1%, Composition of Audit Committee is at 10%. This implies that, increase in the level of Composition of Audit Committee guarantee increase in the performance of the banks in Nigeria. The adjusted coefficient of determination (R^2) offers better explanation of the variations in NPS as the value is about 83 percent. Also, the value of the F-statistics is 15.223 with a *p*-value of 0.002, this shows the fitness of the model. From the result, the null hypothesis can be rejected. In other words, the result provides evidence that corporate governance of firms in Nigeria banks has significant impact on the performance as measured by their NPS.

Implications of the Findings

The results of the study have provided insight into the predictor variables that have important impact in explaining the dependent variable (financial performance) of banks in Nigeria. The results indicate that corporate governance has significant effect on the Dividend per share of banks in Nigeria and Financial Disclosure and Transparency (FDT) and Composition of Audit Committee (CAC) are important variables that can be used to explain financial performance of banks in Nigeria. The important feature of this finding is that the financial performance of the banks can be controlled by manipulating financial disclosure and transparency, and composition of audit committee. The results also indicate that corporate governance has significant effect on the Return on investment, dividends per share and net assets per share of banks in Nigeria. Adequate disclosure with robust transparency increases the chances of having good performance and ensuring appropriate business and financial decision making.

Also Composition of audit committee affects the financial performance as the presence of the shareholders' representative in the audit committee would ensure that the work of the audit committee is effective and without bias.

Conclusion and Recommendations Conclusion

From the findings, we can conclude that corporate governance influences the performance of banks in Nigeria. The firm ownership structure could affect the dividends per share paid out to shareholders, the returns on investment and the net assets per share. The presence of shareholders or their representatives in the audit committee has critical consequence on the work of the audit committee and this would further ensure proper audit work and enhance corporate performance.

A very fundamental propeller of shareholders value that ensures the going concern of the banks is financial disclosure and transparency. Evidence has shown that inadequate disclosure and insufficient transparency are the reasons for insider dealings that have led to monumental nonperforming loans of Nigeria banks. The heavy non-performing loans like the case of First Bank Nigeria PLC, Ecobank PLC, former Diamond bank (now Access bank PLC) are the major reasons for their financial crises.

Recommendations

In line with the findings, the study recommends as follows. There should be cordial interrelationship between the boards of the banks, the management and the shareholders through continuous consultations and carrying everyone along. The government and regulators such as the central bank of Nigeria should have zero tolerance for below standard corporate governance practices by Nigeria banks. The central bank should be above board and transparent in dealings with the banks to ensure that all stakeholders' interests in the Nigeria banking sector are consistently protected.

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