



**EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF SELECTED DEPOSIT MONEY BANKS QUOTED  
ON THE NIGERIAN STOCK EXCHANGE (2005 – 2017)**

**Benson Aisagbonbuomwan Esan<sup>1</sup>,  
Amalachukwu Chijindu Ananwude<sup>2i</sup>,  
Ijeoma Chinwe Okeke<sup>3</sup>**

<sup>1</sup>Dr., Bursary Department,  
University of Benin,  
PMB 1154, Benin City,  
Nigeria

<sup>2</sup>Department of Banking and Finance,  
Nnamdi Azikiwe University,  
Anambra State, PMB 5025,  
Awka, Nigeria

<sup>3</sup>Dr., Department of Banking and Finance,  
Nnamdi Azikiwe University,  
Anambra State, PMB 5025,  
Awka, Nigeria

**Abstract:**

This study examined the effect of corporate governance on financial performance of selected deposit money banks. Corporate governance is an important issue because of the rise in corporate scandal suffered by corporate organizations arising from insider abuse by management board, and other financial recklessness. Specifically, the effect of board ownership structure, audit committee, independence, age and block shareholding on return on assets, return on equity and earnings per share of selected deposit money banks quoted on the Nigerian Stock Exchange (NSE) were ascertained. The result of the analysis using panel data from 2005 to 2017 established that corporate governance practice has significant effect on financial performance of deposit money banks in Nigeria, however, such effect is marginal considering the number of corporate governance variables that significantly affect return on assets, return on equity and earnings per share. In this regard, appointment into the board should be on the bases of age and experience not on friendship since it positively relates to performance and to the probability of disciplinary management turnover in poorly performing banks. Board members should not be encouraged to have too much stake in the ownership structure of the banks as it is negatively related with performance. The holding of block shares of

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<sup>i</sup> Correspondence: email [amalision4ltd@yahoo.com](mailto:amalision4ltd@yahoo.com)

the banks by individuals, institutional investors or agencies should be discouraged because block shareholding could induce the prioritization of self-interest by block shareholders and the consequent expropriation of firm resources, resulting in decreased bank performance.

**JEL:** G30; G34; G21

**Keywords:** corporate governance; financial performance; banks

## 1. Introduction

### 1.1 Background of the Study

There has been a wide variety of attention among researchers, scholars, governments and global agencies on corporate governance after high profile collapse of a number of large companies that led to the bankruptcy of many institutions in the world. Most of the corporate scandals revolved around accounting fraud involving directors and managers of corporations. The corporate crises and scandals have resulted in a loss of confidence in corporate financial reporting, leaving business management in a difficult position (Ejুবekpokpo & Esuikе, 2013). Revelations of corporate fraud all over the world in the past years and the historical antecedents in financial practices have indicated that financial crisis is the direct consequence of poor corporate governance (Uwuigbe & Fakile, 2012). Corporate governance is defined as rules and regulations that ensure that a company is governed in a transparent and accountable manner such that the company survives and meets the expectation of its shareholders, creditors and other stakeholders (Akpan & Amran, 2014). Corporate governance is not just corporate management; it also involves a fair, efficient and transparent administration to meet certain well-defined objectives (McIntyre, Murphy & Mitchell, 2007). It is a system of structuring, operating and controlling a company with a view to achieving strategic goals to satisfy shareholders, creditors, employees, customers etc. and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. An important theme of corporate governance is the nature and extent of accountability of particular individuals in the organization and mechanisms that try to reduce or eliminate the principal-agent problem (Akingunola, Olusegun & Adedipe, 2015). Corporate governance is set out to improve management oversight and increases disclosure and quality of reported financial information as well as the information asymmetry between managers and capital providers (Coles, McWilliams & Sen, 2001). Hermalin and Weisbach (2003) posit that the overall effect of corporate governance could be the strengthening of investors' confidence in the economy of a particular country, sub-region, or region.

The increasing incidence of corporate fraud relating to exaggerated and overstated accounts have informed the renewed global emphasis on the need for effective corporate governance. Such incidence raised concern in the United States with the collapse of the

energy corporation Enron in 2001 which filed for bankruptcy after adjusting its accounts. WorldCom, Global Crossing and Rank Xerox are other companies in the United States with similar problem. In Europe, big corporations such as Parmalat, Hollinger Incorporation, Adeptia Communications Company and Tyco International Limited, revealed significant and deep-rooted problems in their corporate governance leading to financial scandals (Oki & Maimako, 2015). There is a plethora of literatures which attribute the collapse of financial institutions in developing economies like Nigeria to poor corporate governance standard, corruption and lack of transparency. For instance, the country witnessed a near collapse of the financial sector in the early 1990s through the occurrence of failed banks and other financial institutions. In a bid to curb this menace, the Failed Banks (Recovery of Debt) and Financial Malpractice in Banks Act 1993 was promulgated to facilitate the prosecution of those who contributed to the failure of banks and to recover the debt owed to the failed banks. Financial institutions such as Savannah Bank and Societe Generale Bank of Nigeria were few of the deposit money banks affected. Several reasons which included the ineffectiveness of the board as well as the ineptitude and instability of the management; the false and unreliable returns to the regulatory authorities; the insolvent and deteriorating financial position of the banks and the urgent need to protect the interest of depositors, both existing and prospective and the banking system and the inability of the bank to respond to various regulatory initiatives were adduced as reasons for the financial crisis in the defunct banks (Uwuigbe, 2011). In a related case, the operating license of Peak Merchant Bank was revoked due to poor corporate governance practices by the Central Bank of Nigeria because of over bearing influence of the Chairman who was also the majority shareholder of the bank.

There were also reported cases of persistent liquidity problem; poor asset quality; significant insider abuses; poor track of profitability; lack of seriousness; inability and unwillingness of shareholders to recapitalize; reckless granting of credits; complete absence of focus and lack of corporate governance being perpetuated by the sanctioned banks. Despite the alleged role of corporate governance (if fully complied with by banks) in improving financial performance of banks, finding vary according to countries. This calls for context specific research to provide evidence based conclusions regarding its specific effect across different variables of financial performance. From empirical literature in the context of Nigeria on corporate governance and financial performance, the conventional measure of financial performance of banks are return on assets and return on equity (see Adigwe, Nwanna & John, 2016; Abdulazeez, Ndibe & Mercy, 2016; Ajala, Amuda & Arulogun, 2012; Mohammed, 2012; Osisioma, Egbunike & Adeaga, 2015; Ene & Alem, 2016; Akingunola, Olusegun & Adedipe, 2015; Osuagwu, 2013; Akingunola & Olusegun, 2013; Ayorinde, Toyin & Leye, 2012; Uwuigbe, 2011; etc.) thus the need to expand the surrogate for measuring financial performance of deposit money banks to accommodate earnings per share. Consequently, this study examines the effect of corporate governance on financial performance of selected deposit money banks quoted on the Nigerian Stock Exchange.

After this introduction, the remainder of the study is divided as follows: section two reviews previous literature; section three depicts the methodological approach employed; section four discusses the findings from the application of econometric tools, while section five summarizes and concludes the study.

## 2. Literature Review

There has been no generally accepted definition or classification of corporate governance. However, the definitions of corporate governance given by researchers are not significantly different (Adigwe, Nwanna & John, 2016; Uwuigbe & Fakile, 2012; Ujunwa, 2012; Osuagwu, 2013). The different definitions could be attributed to divergent economic, social and ethical world views about the concept of corporate governance. Consequently, researchers and policy makers tend to define the concept from the perspectives of their ethical, political, economic and legal viewpoint. For the purpose of this study and consistent with previous studies, the definition derived by the Organization for Economic Co-operation and Development (OECD) is used. The OECD (2004) defines corporate governance as a set of relations between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined. It is the system of rules, practices and processes by which a company is directed and controlled. It essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Traditionally the main medium for communicating corporate governance practices has been through company annual reports. In the view of Neifar and Haliou (2013), high-quality corporate disclosure helps investors and other capital market participants by enabling them to make proper assessment of the potential risks and rewards of alternative investments. Well-informed investment decision-making by capital market participants leads to efficient allocation of capital, which promotes productivity and economic growth. A strong disclosure regime is a pivotal feature of market-based monitoring of corporate conduct and is central to the ability of shareholders to exercise their voting rights effectively.

Theoretical work on corporate governance has produced a number of theories as to the motivation of firms to report or disclose information on their corporate governance activities, most deriving from the broad theory called political economy theory which is defined as the social, political and economic framework within which human life takes place (Gray, Kouhy & Lavers as cited in Uwuigbe & Fakile, 2012). We limited this study to agency theory and stakeholders' theory. Agency theory explains the agency problems arising from the separation of ownership and control. It provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system (Davis, Schoormann & Donaldson, 1997). In her assessment and review of agency theory,

Eisenhardt (1989) outlines two streams of agency theory that have developed over time: Principal-agent and positivist. Principal-agent research is concerned with a general theory of the principal-agent relationship, a theory that can be applied to any agency relationship e.g. employer- employee or lawyer-client. On the other side positivist researchers have tended to focus on identifying circumstances in which the principal and agent are likely to have conflicting goals and then describe the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt, 1989). Stakeholders have been identified as those groups who have an interest in the actions of the corporation. Furthermore, a stakeholder has been defined as 'any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization.

In the course of reviewing empirical studies, we did not follow the orthodox style that elucidates methodological approach employed by authors, period covered, etc., rather we hinged on the major findings of the authors. Empirical findings on the alleged nexus between corporate governance and financial performance of banks are controversial. Studies such as Guo, Langston and Hadley (2003), Naushad and Malik (2015), Abobakr (2017), Abdulazeez, Ndibe and Mercy (2016), Ahmed, Zannat and Ahmed (2017), Mohammed (2012), Osisioma, Egbunike and Adeaga (2015), Utama and Musa (2011), Okiro, Aduda and Omor (2015), Ene and Alem (2016), Al-Baidhani (2016), Akingunola, Adekunle and Adedipe (2015), Akingunola and Olusegun (2013), Ayorinde, Toyin and Leye (2012), Adams and Mehran (2005), Hoque, Islam and Ahmed (2013), Ajanthan, Balaputhiran and Nimalathashan (2013), Ogege and Boloupremo (2014), Belhaj and Mateus (2016), Sakilu and Kibret (2015), Odili, Ezeudu and Orikara (2015), Dzingai and Fakoya (2017), Shungu, Ngirande and Ndlovu (2014), Malik, Wan, Ahmad, Naseem and Rehman (2014) and Ahmed (2017) documented positive relationship between variables of corporate governance and financial performance of banks. Sakawa and Watanabel (2011), Grove, Patelli, Victoravich and Pisum (2011), Ajala, Amuda and Arulogun (2012), Ashfaq and Saeed (2017), Dogan and Yildiz (2013), Ashenafi, Kalifa and Yodit (2013), Uwuigbe (2011), Pan (2014), Filip, Vesna and Kiril (2014), Ermina (2010), Bebeji, Mohammed and Tanko (2015), Bussoli, Gigante and Tritto (2015), Dincer and Dincer (2013) and Alam and Akhter (2017) reported negative linkage between variables of corporate governance and financial performance. with regards to effect, Adigwe, Nwanna and John (2016), Kaur (2014), Aldalayeen (2017), Changezi and Saeed (2013), Kusuma and Ayumardani (2016), Osuagwu (2013), Srairi (2015), Akpan and Rilman (2012) and Okoye, Evbuomwan, Achugamonu and Araghan (2016) found that corporate governance has significant effect on banks' financial performance. On the other hand, the studies of Xavier, Shukla, Oduor and Mbabazize (2015), Ahmed, Ullah, Ahmed and Rahman (2016), Kigera (2012), Aulia (2013), Herawanto and Maman-Kusman (2017), Ahmad and Mensur (2012), Thuraisingam (2013) and Abdul-Qadir and Kwanbo (2012) revealed no significant effect of corporate governance on banks performance.

### 3. Mathematical Modelling

#### 3.1 Population, Data Source and Description

The population of this study consists of fifteen (15) deposit money banks quoted on the Nigerian Stock Exchange as at March, 2018 (NSE Market Report, March 30<sup>th</sup> 2018). A sample size of ten (10) banks were purposively selected and utilized for the study. The ten (10) deposit money banks are Access Bank, Diamond Bank, Fidelity Bank, First Bank of Nigeria, First City Monument Bank, Guarantee Trust Bank, Sterling Bank, United Bank for Africa, Wema Bank and Zenith Bank. We utilize annual time series data from the financial statement/annual reports of these deposit money banks from 2005 to 2017. The choice of the dependent variables and explanatory variables were influence by some authors. The dependent variables: return on assets (see Adigwe, Nwanna & John, 2016; Abobakr, 2017; Ene & Alem, 2016), return on equity (see Odili, Ezeudu & Orikara, 2015; Hoque, Islam & Ahmed, 2013) and earnings per share (see Alam & Akhter, 2017; Ermina, 2010). For the corporate governance variables: board ownership (see Adigwe, Nwanna & John, 2016; Ene & Alem, 2016), board independence (see Pan, 2014), board audit committee (see Shungu, Ngirande & Ndlovu, 2014), board age (see Federe, 2012) and block shareholding (see Gogantopoulous & Filios, 2017). The control variable are bank's size (see Federe, 2012) and bank's debt structure (see Pan, 2014). The dependent variables are Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS). The independent variables are the indicators of corporate governance mechanism through Board Ownership (BodOwn) Board Independence (BodInd) Board Audit Committee (BodAud), Board Age (BodAge) and Board Block Shareholding (BodBsh). The control variables are Bank's Size (Bsize) and Bank's Debt Structure (BDS).

#### 3.2 Model Specification

The effect of corporate governance of financial performance was estimated via Granger Causality test, whereas the ordinary relationship was undertaken using the Panel Ordinary Least Square (POLS) performed in three sets: pooled OLS, Fixed and Random effect. Our model is influenced by Uwuigbe (2011) and modified in functional form as in Equ. 1 – 3 and in log transformation as in Equ. 4 – 6.

#### 3.3 Functional Form

$$ROA = f(BodOwn, BodAud, BodInd, BodAge, Bsh, Bsize, Bds) \quad (\text{Equ.1})$$

$$ROE = f(BodOwn, BodAud, BodInd, BodAge, Bsh, Bsize, Bds) \quad (\text{Equ.2})$$

$$EPS = f(BodOwn, BodAud, BodInd, BodAge, Bsh, Bsize, Bds) \quad (\text{Equ.3})$$

### 3.4 Econometric Form

$$\text{LogROA}_t = B_0 + \text{Loga}_1\text{BodOwn}_t + \text{Loga}_2\text{BodAud}_t + \text{Loga}_3\text{BodInd}_t + \text{Loga}_4\text{BodAge}_t + \text{Loga}_5\text{Bsh}_t + \text{Loga}_6\text{Bsize}_t + B_7\text{Bds}_t + \delta_t \quad (\text{Equ.4})$$

$$\text{LogROE}_t = B_0 + \text{Loga}_1\text{BodOwn}_t + \text{Loga}_2\text{BodAud}_t + \text{Loga}_3\text{BodInd}_t + \text{Loga}_4\text{BodAge}_t + \text{Loga}_5\text{Bsh}_t + \text{Loga}_6\text{Bsize}_t + B_7\text{Bds}_t + \delta_t \quad (\text{Equ.5})$$

$$\text{LogEPS}_t = B_0 + \text{Loga}_1\text{BodOwn}_t + \text{Loga}_2\text{BodAud}_t + \text{Loga}_3\text{BodInd}_t + \text{Loga}_4\text{BodAge}_t + \text{Loga}_5\text{Bsh}_t + \text{Loga}_6\text{Bsize}_t + B_7\text{Bds}_t + \delta_t \quad (\text{Equ.6})$$

Where:

ROA = Return on Assets

ROE = Return on Equity

EPS = Earnings per Share

BodOwn = Board Ownership

BodAud = Board Audit Committee

BodInd= Board Independence

BodAge = Board Age

Bsh = Board Block Shareholding

Bsize = Banks' Size

Bds = Banks' Debt Structure

e = Stochastic or disturbance term.

t = Time dimension of the variables

$\beta_0$  = Constant or intercept

$B_{1-5}$  = Coefficients to be estimated or the coefficients of slope parameters

## 4. Results and Discussion

### 4.1 Descriptive Statistics of Data

Table 1 reveals the descriptive characteristics of the data from 2005 to 2017. It shows the mean, standard deviation, maximum, minimum and total number of observations. The mean values of the variables: ROA, ROE, EPS, BODOWN, BODAUD, BODIND, BODAGE, BSH, BSIZE and BDS are 1.67, 8.654923, 89.92, 9.84, 50.15, 42.88, 50.24 76.62, 1.10 and 78.88 respectively. The maximum values of the series are 20.08 for ROA, 40.30 for ROE, 548.00 for EPS, 44.15 for BODOWN, 60.00 for BODAUD, 90.00 for BODIND, 60.80 for BODAGE, 95.97 for BSH, 4.43 for BSIZE and 136.53 for BDS, while the minimum values are -24.80, -162.49, -573.00, 0.00, 50.00, 6.67, 35.00, 0.09, 19435289 and 0.79 ROA, ROE, EPS, BODOWN, BODAUD, BODIND, BSH, BSIZE and BDS respectively. The standard deviation of the variables are 3.53 for ROA, 19.17 for ROE, 123.23 for EPS, 11.53 for BODOWN, 1.24 for BODAUD, 20.17 for BODIND, 5.54 for BODAGE, 15.39 for BSH, 1.02 for BSIZE and 21.54 for BDS.

**Table 1: Descriptive Statistics of Data**

	Mean	Std. Dev.	Min.	Max.	Obs.
<b>Panel A: Financial Performance</b>					
ROA	1.665846	3.529535	-24.80000	20.08000	130
ROE	8.654923	19.16638	-162.4900	40.30000	130
EPS	89.92308	123.2287	-573.0000	548.0000	130
<b>Panel B: Corporate Governance</b>					
BODOWN	9.841231	11.52918	0.000000	44.15000	130
BODAUD	50.15385	1.235530	50.00000	60.00000	130
BODIND	42.87623	20.17461	6.670000	90.00000	130
BODAGE	50.24585	5.542050	35.00000	60.80000	130
BSH	76.61569	15.39414	0.090000	95.97000	130
<b>Panel C: Control Variables</b>					
BSIZE	1.10E+09	1.02E+09	19435289	4.43E+09	130
BDS	78.88038	21.54794	0.790000	136.5300	130

**Note:** Mean = mean of the variables from 2005 to 2017; Std. Dev. = standard deviations of the variables; Min. & Max. = Minimum and maximum values of the variable, whereas Obs. = number of observations of the variables

#### 4.2 Test for Multicollinearity

The correlation matrix estimation is a way of detecting multi-collinearity in any model. The presence of multi-collinearity between the independent variable results in biased regression output. The correlation matrix in Table 2 indicates that the highest correlation between the independent variables is -0.62 for BODAUD and BSH. The correlation of 0.62 between board audit committee and block shareholding is within the acceptable range of no high correlation. In this regard, this study concludes that there is no multi-collinearity issue between the corporate governance indices that applied in this study.



**Table 2:** Correlation Matrix

	ROA	ROE	EPS	BODOWN	BODAUD	BODIND	BODAGE	BSH	BSIZE	BDS
ROA	1.0000									
ROE	0.8074	1.00000								
EPS	0.4258	0.49754	1.00000							
BODOWN	-0.238	-0.21570	-0.18155	1.000000						
BODAUD	-0.026	0.02206	-0.04371	0.057509	1.000000					
BODIND	-0.067	-0.03738	0.02651	-0.038641	-0.163000	1.000000				
BODAGE	0.1444	0.13551	0.26412	-0.261773	-0.198024	0.455384	1.000000			
BSH	-0.030	-0.12832	-0.15481	0.126356	-0.623505	0.202916	0.137882	1.00000		
BSIZE	0.1294	0.24517	0.49043	-0.170725	-0.101712	0.121367	0.520937	0.00625	1.00000	
BDS	-0.136	0.00747	0.05805	-0.030391	0.049643	-0.308378	-0.282189	-0.11795	0.25223	1.00000

**Source:** Output data from E-views 10.0.

#### 4.3 Panel Unit Root Test

This study applies the Levin, Lin and Chu (LLC) Test and Breitung unit root tests which were performed at level and first difference. From the unit root output in Tables 3 – 4, the variables were found to be stationarity thus devoid of stationarity defect that are typical of most time series data.

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**Table 3: LLC Test Result**

Variables	LLC Test Statistic	Pooled Coefficient	Pooled t-Stat.	Remark
<b>Panel A: Financial Performance</b>				
ROA	-2.62804 (0.04)**	-0.99955	-9.535	Stationary/1(0)
ROE	-4.90276 (0.00)*	-1.64172	-12.253	Stationary/1(1)
EPS	-3.18804 (0.04)**	-0.76777	-6.800	Stationary/1(0)
<b>Panel B: Corporate Governance</b>				
BODOWN	-1.84667 (0.03)**	-0.39807	-5.233	Stationary/1(0)
BODAUD	-6.43184 (0.00)*	-1.96974	-9.424	Stationary/1(1)
BODIND	-3.45930 (0.00)*	-1.45545	-9.955	Stationary/1(1)
BODAGE	-5.97012 (0.00)*	-1.46179	-10.583	Stationary/1(1)
BSH	-22.6734 (0.00)*	-0.57762	-22.422	Stationary/1(0)
<b>Panel C: Control Variables</b>				
BSIZE	-3.18116 (0.00)*	-1.28532	-8.461	Stationary/1(1)
BDS	-3.64488 (0.00)*	-0.74670	-8.010	Stationary/1(0)

**Source:** Output data from E-views 10.0

**Note:** \* and \*\* denote significance level at 1% and 5% respectively, whereas 1(0) and 1(1) represent integration order at level and first difference accordingly.

**Table 4:** Breitung Unit Root

Variables	LLC Test Statistic	Pooled Coefficient	Pooled t-Stat.	Remark
<b>Panel A: Financial Performance</b>				
ROA	-2.21230 (0.00)*	-0.26835	-2.212	Stationary/1(0)
ROE	-4.43518 (0.00)*	-0.56582	-4.435	Stationary/1(0)
EPS	-3.25384 (0.00)*	-0.41279	-3.254	Stationary/1(0)
<b>Panel B: Corporate Governance</b>				
BODOWN	-3.26735 (0.00)*	-0.46641	-3.267	Stationary/1(1)
BODAUD	-4.00507 (0.00)*	-0.00096	-0.005	Stationary/1(1)
BODIND	-4.82863 (0.00)*	-0.14506	-0.829	Stationary/1(1)
BODAGE	-5.77888 (0.00)*	-0.94921	-5.779	Stationary/1(1)
BSH	-2.06699 (0.04)**	-0.10909	-1.067	Stationary/1(1)
<b>Panel C: Control Variables</b>				
BSIZE	-2.29040 (0.01)*	-0.35688	-2.290	Stationary/1(1)
BDS	-1.83027 (0.03)**	-0.14597	-1.830	Stationary/1(0)

**Source:** Output data from E-views 10.0

**Note:** The optimal lag for LLC test is selected based on the Schwarz Info Criteria (SIC), No spectral estimation method for Breitung unit root test, p-values are in parentheses where (\*) and (\*\*) denote significance at 1% and 5% respectively.

#### 4.4 Kao Residual Co-integration Test

The structural criteria for estimation the Kao panel Co-integration test is based on Engle-Granger. Kao (1999) notes that the null hypothesis of no co-integration for panel data exists in two test. The first is a Dickey-Fuller types test, while the other is an Argumented Dickey-Fuller type test. Table 5 depicts the Kao's co-integration test for financial performance indices of deposit money banks and corporate governance mechanism in Nigeria. The p-values of the t-statistics for all the model are significant at 5% level of significance, which is the rejection of the null hypothesis of no co-integration for financial performance indices of deposit money banks and corporate governance. Put differently, return on assets, return on equity and earnings per share are related in long run with corporate governance variables of board ownership structure, audit committee, independence, age and block shareholding.

**Table 5:** Kao Residual Co-integration Test

Models Estimated	Argumented Dickey-Fuller	
	t-Statistic	Prob.
ROA → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	-15.57007*	0.0000
ROE → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	-15.43969*	0.0000
EPS → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	-16.610052*	0.0000

**Source:** Output data from E-views 10.0

**Notes:** The ADF is the residual-based ADF statistic. The null hypothesis is no co-integration. (\*) and (\*\*) indicate that the estimated parameters are significant at the 1% and 5% level respectively.

#### 4.5 Panel OLS Analysis of Corporate Governance and Financial Performance of Deposit Money Banks in Nigeria

##### A. Return on Assets and Corporate Governance

The Hausman test in Table 6 suggests the preference of the random effect estimation to fixed effect due to insignificant p-value of the Chi-square. There is an insignificant positive relationship between return on assets and age of directors of the board of deposit money banks in Nigeria, whereas board ownership structure, audit committee, independence and block shareholding have insignificant negative relationship with return on assets. The coefficient of the constant 7.196817 indicates that if corporate governance variables are held constant, deposit money banks' return on assets would rise by 719.68%. A unit rise in the age of the board results in 2.02% increase in return on assets. Return on assets would depreciate by 0.08%, 8.04%, 0.09% and 0.08% following a unit rise in board ownership structure, audit committee, independence and block shareholding. For the control/moderating variables, there is a positive significant relationship between the size of the banks' and return on assets, while a significant negative relationship between capital/debt structure and return on assets. Invariably, a unit increase in banks' total assets and debt structure lead to 524% rise and 2.66 depreciation in return on assets respectively. The adjusted R-square value of 0.067698 shows that the explanatory variables jointly accounted for 6.78% variations in return on assets of deposit money banks within the period of the study. The F-statistic which determine the overall significance joint influence of the independent variables shows that corporate governance and moderating variables significantly explained the variations in return on assets as the p-value is significant at 5% level ( $0.04 < 0.05$ ). The Durbin Watson statistic of 1.89 which is the traditional test of autocorrelation is within the acceptable range of no autocorrelation in a model.

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**Table 6:** Panel OLS Regression Result of Return on Assets and Corporate Governance

Variables	Pooled OLS		Fixed Effect		Random Effect	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	6.728812	0.5673	9.275830	0.4350	7.196817	0.5372
BODOWN	-0.009045	0.6227	-0.007369	0.6867	-0.008816	0.6277
BODAUD	-0.070067	0.7335	-0.132663	0.5234	-0.080357	0.6937
BODIND	-0.010035	0.3770	-0.006737	0.5757	-0.009595	0.3977
BODAGE	0.020251	0.7195	0.024683	0.6681	0.020209	0.7180
BSH	-0.008015	0.6481	-0.005053	0.7766	-0.007745	0.6564
BSIZE	5.03E-10	0.0544	6.96E-10	0.0146	5.24E-10	0.0449
BDS	-0.026346	0.0162	-0.029778	0.0091	-0.026609	0.0146
R-squared	0.127096		0.232359		0.130374	
Adjusted R-squared	0.064184		0.086507		0.067698	
S.E. of regression	2.099556		2.074363		2.080073	
Sum squared resid	489.3030		430.2980		480.2641	
Log likelihood	-254.6020		-246.8918			
F-statistic	2.020214		1.593118		2.080132	
Prob(F-statistic)	0.050317		0.072454		0.043585	
Durbin-Watson stat	1.882383		1.791944		1.867988	
Hausman Specification Test						
	Chi-Sq. Statistic		8.611971			
	P-value		0.376100			

**Source:** Output data from E-views 10.0

**Note:** Periods included: 12, Cross-sections included: 10, Total Number of Observations: 120

#### 4.6 Return on Equity and Corporate Governance

From the Hausman test in Table 7, the random effect is favoured as the p-value of the Chi-square is insignificant at 5% level. The result discloses that corporate governance reflected by audit committee, independence and block shareholding have insignificant negative relationship with return on equity. On the other hand, board ownership structure and age have insignificant positive relationship with return on equity of deposit money banks.

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**Table 7:** Panel OLS Regression of Return on Equity and Corporate Governance

Variables	Pooled OLS		Fixed Effect		Random Effect	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	33.18963	0.6112	51.70416	0.4342	33.18963	0.6078
BODOWN	0.060172	0.5530	0.082920	0.4126	0.060172	0.5492
BODAUD	-0.341287	0.7650	-0.768974	0.5059	-0.341287	0.7628
BODIND	-0.036579	0.5596	-0.010971	0.8688	-0.036579	0.5558
BODAGE	0.042034	0.8930	0.077140	0.8090	0.042034	0.8919
BSH	-0.114883	0.2395	-0.112202	0.2589	-0.114883	0.2350
BSIZE	3.63E-09	0.0137	4.65E-09	0.0038	3.63E-09	0.0129
BDS	-0.045214	0.4498	-0.066569	0.2851	-0.045214	0.4454
R-squared	0.134441		0.235178		0.134441	
Adjusted R-squared	0.072059		0.089862		0.072059	
S.E. of regression	11.64138		11.52916		11.64138	
Sum squared resid	15042.90		13292.16		15042.90	
Log likelihood	-460.1428		-452.7189			
F-statistic	2.155112		1.618388		2.155112	
Prob(F-statistic)	0.036362		0.065946		0.036362	
Durbin-Watson stat	1.842646		1.846575		1.842646	
Hausman Specification Test						
	Chi-Sq. Statistic		10.950898			
	P-value		0.2045000			

**Source:** Output data from E-views 10.0

**Note:** Periods included: 12, Cross-sections included: 10, Total Number of Observations: 120

According to the constant coefficient of 33.18963, keeping board ownership structure, audit committee, independence, age and block shareholding, shareholders' wealth would be 3,318%. Increasing audit committee, independence and block shareholding by a unit leads to 34.12%, 53.66% and 11.49% depreciation in shareholders wealth. Subsequently, increasing board ownership structure and age by one percent, return on equity would be up by factor of 76.02% and 4.20% respectively. The size of the banks' still exhibited a positive significant relationship with return on equity as against banks' debt structure that showed a negative insignificant relationship. Consequently, wealth of shareholders would increase by 363% owing to a unit increase in banks' total assets, while a percentage increase

in debt structure of the banks' leads to 4.52% decline in shareholders' wealth. The F-statistic values of 2.155112 with a p-value of 0.036362 show that the corporate governance variables jointly and significant explained the changes in return on equity of deposit money banks. Going by the adjusted R-squared of 0.072059, it is crystal clear that the explanatory variables accounted for only 7.21% changes in return on equity. It is also observed from the Durbin Watson statistic of 1.84 that the variables in the model are free from autocorrelation problem and inference deduced is reliable in statistical terms.

### **C. Earnings per Share and Corporate Governance**

From the Hausman test in Table 8, the random effect is favoured as the p-value of the Chi-square is insignificant at 5% level. The result depicts that board ownership structure, audit committee, independence, age and block shareholding have insignificant negative relationship with earnings per share. The coefficient of the constant 340.7749 unveils that if corporate governance variables are held constant, earnings per share of deposit money banks would up by 340.77 kobo. A unit increase in board ownership structure, audit committee, independence and block shareholding would result in a corresponding decrease in earnings per share by a factor of 45.10, 411, 42.0, 15.08 and 80.28 respectively. In terms of the control variable, a positive significant relationship was observed for earnings per share and size of the banks, while a negative insignificant relationship exists between debt structure of the banks and earnings per share. The F-statistic of 9.575219 with a p-value of 0.00 show that variables corporate governance jointly and significant explained the changes in earnings per share. Judging by the adjusted R-squared of 0.365678, it is crystal clear that the explanatory variables accounted for only 36.57% changes in earnings per share. It is also observed from the Durbin Watson statistic of 2.1 that the variables in the model are free from autocorrelation problem and inference deduced is reliable in statistical terms.

**Table 8:** Panel OLS Regression of Earnings per Share and Corporate Governance

Variables	Pooled OLS		Fixed Effect		Random Effect	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	340.7749	0.5458	439.0956	0.4474	340.7749	0.5468
BODOWN	-0.451086	0.5992	-0.421084	0.6265	-0.451086	0.6001
BODAUD	-4.114959	0.6754	-6.808074	0.4999	-4.114959	0.6762
BODIND	-0.420440	0.4353	-0.404612	0.4859	-0.420440	0.4364
BODAGE	-0.150796	0.9555	0.304593	0.9126	-0.150796	0.9556
BSH	-0.802277	0.3395	-0.637894	0.4591	-0.802277	0.3407
BSIZE	4.17E-08	0.0033	4.99E-08	0.0026	4.17E-08	0.0034
BDS	-0.482940	0.3541	-0.579892	0.3001	-0.482940	0.3553
R-squared	0.408321		0.464331		0.408321	
Adjusted R-squared	0.365678		0.362554		0.365678	
S.E. of regression	99.92360		100.1693		99.92360	
Sum squared resid	1108304.		1003390.		1108304.	
Log likelihood	-718.1236		-712.1568			
F-statistic	9.575219		4.562232		9.575219	
Prob(F-statistic)	0.000000		0.000000		0.000000	
Durbin-Watson stat	2.123497		2.051489		2.123497	
Hausman Specification Test						
	Chi-Sq. Statistic		9.292441			
	P-value		0.318200			

**Source:** Output data from E-views 10.0

**Note:** Periods included: 12, Cross-sections included: 10, Total Number of Observations: 120

#### D. Model Robustness

The model robustness was realized by virtue of serial correlation LM test, heteroskedasticity Test and Ramsey Reset Specification. From the output in Table 9, the serial correlation LM test, heteroskedasticity Test and Ramsey Reset Specification evidence that the variables in the models pass robustness test as the p-values of the f-statistics for all the models are insignificant at 5% level of significant.



**Table 9: Model Robustness**

	F-statistic	Prob.
<b>Serial Correlation LM Test</b>		
ROA → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	0.122969	0.7260
ROE → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	0.155031	0.6490
EPS → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	0.180797	0.0625
<b>White Test of Heteroskedasticity</b>		
ROA → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	36.41339	0.19485
ROE → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	0.326460	0.06559
EPS → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	43.26788	0.05548
<b>Ramsey Reset Specification</b>		
ROA → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	3.09155	0.08120
ROE → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	3.72425	0.05600
EPS → BODOWN + BODAUD + BODIND + BODAGE + BSH+BSIZE+BDS	1.17803	0.28000

**Source:** Output data from E-views 10.0

### E. Granger Causality Effect Result

To examine the effect of corporate governance on financial performance of deposit money banks in Nigeria measured by return on assets, return on equity and earnings per share, the granger causality test was utilized. The idea of using granger causality over the panel ordinary least square regression is on the premise that the granger causality test is structured to depict the ability of one variable to predict another. This is unlike the panel OLS that only reveals relationship but cannot unveil the predicting power of one variable on the other.

### F. Return on Assets and Corporate Governance

Table 10 reveals that it is only the age of board of directors of deposit money banks that has significant effect on return on assets. This is based on the fact that there is a unidirectional causal relationship between board age and return on assets of banks. Causality flows from board age to return on assets of banks at 5% level of significance. It is obvious that board ownership structure, audit committee, board independence and block shareholding have no significant effect on return on assets of deposit money banks as there is no evidence of causality flowing from either direction.

**Table 10: Granger Causality Test for Return on Assets and Corporate Governance**

Null Hypothesis:	Obs	F-Statistic	Prob.	Remarks
BODOWN does not Granger Cause ROA	120	1.06041	0.3052	No Causality
ROA does not Granger Cause BODOWN		0.57288	0.4506	No Causality
BODAUD does not Granger Cause ROA	120	0.02298	0.8798	No Causality
ROA does not Granger Cause BODAUD		0.10821	0.7428	No Causality
BODIND does not Granger Cause ROA	120	0.20398	0.6524	No Causality
ROA does not Granger Cause BODIND		0.43582	0.5104	No Causality
BODAGE does not Granger Cause ROA	120	6.72083	0.0107	Causality
ROA does not Granger Cause BODAGE		0.56745	0.4528	No Causality
BSH does not Granger Cause ROA	120	1.44194	0.2323	No Causality
ROA does not Granger Cause BSH		0.12961	0.7195	No Causality
BSIZE does not Granger Cause ROA	120	2.92435	0.0899	No Causality
ROA does not Granger Cause BSIZE		0.21955	0.6403	No Causality
BDS does not Granger Cause ROA	120	0.07036	0.7913	No Causality
ROA does not Granger Cause BDS		0.16070	0.6892	No Causality

*Source: Output data from E-views 10.0*

### G. Return on Equity and Corporate Governance

From Table 11, the age of directors in the board and individuals/entities with block shareholding have significant effect on the return on equity of deposit money banks. There is a one way causal relationship between return on equity, board age and block shareholding at a significance level of 5%. Deposit money banks' return on equity is not affected by ownership structure, audit committee and board independence. The size of the banks was found to have significant effect on return on equity as the p-value of 0.0246 is significant at 5% level of significance.

**Table 11: Granger Causality Test for Return on Equity and Corporate Governance**

Null Hypothesis:	Obs	F-Statistic	Prob.	Remarks
BODOWN does not Granger Cause ROE	120	0.03915	0.8435	No Causality
ROE does not Granger Cause BODOWN		1.55561	0.2148	No Causality
BODAUD does not Granger Cause ROE	120	0.39850	0.5291	No Causality
ROE does not Granger Cause BODAUD		0.35019	0.5551	No Causality
BODIND does not Granger Cause ROE	120	0.41480	0.5208	No Causality
ROE does not Granger Cause BODIND		0.08778	0.7675	No Causality
BODAGE does not Granger Cause ROE	120	5.01975	0.0269	Causality
ROE does not Granger Cause BODAGE		0.95691	0.3300	No Causality
BSH does not Granger Cause ROE	120	5.52932	0.0204	Causality
ROE does not Granger Cause BSH		0.16913	0.6816	No Causality
BSIZE does not Granger Cause ROE	120	5.18271	0.0246	Causality
ROE does not Granger Cause BSIZE		0.36574	0.5465	No Causality
BDS does not Granger Cause ROE	120	3.00348	0.0857	No Causality
ROE does not Granger Cause BDS		0.18615	0.6669	No Causality

**Source:** Output data from E-views 10.0

### **E. Earnings per Share and Corporate Governance**

As can be seen in Table 12, earnings per share of deposit money banks is significantly affected by changes in age of board of directors as well as block shareholding. This is adduced based on the existence of unidirectional causal relationship observed between earnings per share, board age and block shareholding. Board ownership structure, audit committee and board independence do not determine the earnings per share of banks in Nigeria. In addition, there is a bidirectional relationship between earnings per share and size of the banks. This is to say that it is the size of the banks that determines the amount of money that banks pay as dividend in one hand, while on the other hand, earnings per share of the banks determines the amount of branches to be established as well as their assets.

**Table 12:** Granger Causality Test for Earnings per Share and Corporate Governance

Null Hypothesis:	Obs	F-Statistic	Prob.	Remarks
BODOWN does not Granger Cause EPS	120	0.65112	0.4213	No Causality
EPS does not Granger Cause BODOWN		0.05878	0.8089	No Causality
BODAUD does not Granger Cause EPS	120	0.78583	0.3772	No Causality
EPS does not Granger Cause BODAUD		0.62836	0.4296	No Causality
BODIND does not Granger Cause EPS	120	0.06386	0.8009	No Causality
EPS does not Granger Cause BODIND		1.99385	0.1606	No Causality
BODAGE does not Granger Cause EPS	120	5.03273	0.0268	Causality
EPS does not Granger Cause BODAGE		0.18328	0.6694	No Causality
BSH does not Granger Cause EPS	120	4.61081	0.0338	Causality
EPS does not Granger Cause BSH		1.07498	0.3020	No Causality
BSIZE does not Granger Cause EPS	120	6.14905	0.0146	Causality
EPS does not Granger Cause BSIZE		7.46655	0.0073	Causality
BDS does not Granger Cause EPS	120	3.36053	0.0693	No Causality
EPS does not Granger Cause BDS		0.00932	0.9232	No Causality

**Source:** Output data from E-views 10.0.

### F. Highlight of our Findings

Table 6 reveals that there is a negative relationship between board independence and return on assets of deposit money banks in Nigeria. This may be attributed to the fact that the appointment of members into the board are majorly based on friendship rather than experience. In Nigeria banking sector, most directors use their power to influence management decisions and undermine the proper functioning of the board, thereby affecting bank performance negatively. This findings agree with the agency theory that as board size becomes large, the agency problem related to director free-riding increases and will give the managers the spaces to pursue their own interests instead of aligning the interests of the shareholders which lowers firm performance. This supports the findings of Adigwe, Nwanna and John (2016) and Abobakr (2017) but disagrees with Ene and Alem (2016) and Uadiale (2016). The result on the relationship between board independence and return on assets discloses that a higher independence of the board would lead to appreciation in performance of banks in Nigeria expressed via return on assets.

In Table 7 there was evidence of positive relationship between board ownership structure, age of the board of directors and return on equity of deposit money banks. This favours the agency cost theory that the greater the share board members have in the firm, the greater the costs they will incur for not maximising the wealth of shareholders. Hence, aligning the interests between principals and agents resolves for the agency problem and achieves the main goal of the shareholders, which is value maximization, consequently affecting firm performance positively. This is in line with Odili, Ezeudu and Orikara (2015), Hoque, Islam and Ahmed (2013) and Ermina (2010). The negative relationship between independence of the board affirms the study of Pan (2014), Vesna and Kiril (2014), Ogege and Bolupremo (2014) but disagree with Shungu, Ngirande and Ndlovu (2014) and Mohammed and Tank (2015).

The negative nexus between earnings per share and block shareholding in Table 8 is in unison with the work of Alam and Bangladesh (2017) that block shareholding decreases financial performance of banks. Nevertheless, disagree with the result of Ermina (2010). The negative relationship between block shareholding and earnings per share supports the agency theory that higher ownership concentration could induce the prioritisation of self-interest by large shareholders and the consequent expropriation of firm resources resulting in decreased firm performance. The negative relationship between board independence and earnings per share might be that non-executive director are not involved in day to day affairs of the banks; this will undermine their ability to monitor and advise the board because of the lack of the information that they have which will reduce the non-executive director ability to apply their function efficiently.

## **5. Concluding Remarks and Policy Implications**

This study examines the effect of corporate governance variables on financial performance of deposit money banks. Corporate governance is an important issue because of the rise in corporate scandal suffered by corporate organisations arising from insider abuse by management board, and other financial recklessness. The result from the analysis establishes that corporate governance practice has significant effect on financial performance of deposit money banks in Nigeria, however, such effect is marginal considering the number of corporate governance variables that significantly affect return on assets, return on equity and earnings per share. As a result, good corporate governance practice should not be regarded as a threat to entrepreneurial drive and spirit but a gauge to promoting integrity and transparency in financial reports.

Appointment into the board should be on the bases of age and experience not on friendship since it positively relates to performance and to the probability of disciplinary management turnover in poorly performing banks. Corporate governance efforts should focus on ownership structure of the board. Board members should not be encouraged to earn too much stake in the ownership structure of the banks as it is negatively related with performance. The holding of block shares of the banks by individuals, institutional

investors or agencies should be discouraged because block shareholding could induce the prioritisation of self-interest by block shareholders and the consequent expropriation of firm resources, resulting in decreased bank performance.

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