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EFFECTS OF CORPORATE GOVERNANCE DYNAMICS ON FIRM PERFORMANCE OF QUOTED BANKS IN NIGERIA

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Abstract

This study examines the effects of corporate governance on firm performance. Ordinary least square of data analysis was adopted. The data used were sourced from the annual report of the selected banks. The specific objectives of the study are to examine the effect of directors' remuneration, determine the effect of board size, to ascertain the effect of board duality, and to investigate the effect of board gender on firm performance of quoted banks. The study revealed that director's remuneration, board size, and board gender have negative influence on profitability while BOARD DUALITY HAS POSITIVE effect. The study concludes that Nigerian banks should apply good corporate governance principles to achieve organizational objectives. The study recommends among others that board size should be reduced to the barest minimum since it influences the PAT negatively.

Keywords: Effects, Corporate Governance, Dynamics, Firm Performance, Banking Industry, Nigeria.

Background of the Study

Corporate governance is a system of structuring, operating, and controlling the activities of a company with a view to achieving long-term strategic goals to satisfy its shareholders, creditors, employees, customers and suppliers (Das., 2015). Corporate governance and its relation to economic development generally and particularly on firm performance in developing countries like Nigeria appear extremely important. For instance, directors of companies if wrongly compensated may not have the right motivation to perform in the best interest of the organization and the shareholders are waiting for their returns at the end of the financial year. The provision of efficient managerial incentives is a crucial ingredient for the successful transition of the economy but how does this affect performance? Kim and Nofsinger (2017) reveal that the incentives are not the only way to solve agency problem, but also needed a scrutiny mechanism called the corporate governance mechanism.

Statement of the Problem

Numerous studies have investigated the connection between corporate governance dynamics and firm performance of companies. For example, Kato and Cheryl (2015) in a study conducted in China found a statistically significant sensitivities and elasticities of annual cash compensation for CEOS with respect to shareholders value. Crumley (2018) conducted a study on the relationship between firm performance and CEO compensation in commercial banking industry. The study used 36 sample banking companies in the U.S. in period 2011-2015. The results showed that there is a weak relationship among the percentage change in stock return and percentage return on assets and CEO compensation whereas firm size and CEO compensation have a strong and positive relationship.

Kinawa (2014) conducted a study in Nigeria on board shareholding and corporate-profitability and found that board shareholding does not have significant relationship with corporate profitability.

Fallatah (2015) in Saudi Arabia found a significant relationship between CEO compensation and firm performance measures. Though previous studies have provided empirical evidence mostly on firm performance and CEO compensation, board size, board gender and board duality have been neglected in previous studies. The inclusion of these variables have the potential of providing deeper insight on firm performance of a developing country like Nigeria and this is the gap this study sought to fill in knowledge.

Objectives of the Study

The main objective of this study is to examine the effects of corporate governance dynamics on firm performance of quoted banks in Nigeria.

The specific objectives include to:

1. Examine the effect of directors' remuneration on firm performance of quoted banks in Nigeria.
2. Determine the effect of board size on firm performance of quoted banks in Nigeria.
3. Ascertain the effect of board duality on firm performance of quoted banks in Nigeria
4. Investigate the effect of board gender on firm performance of quoted banks in Nigeria.

Research Questions

1. To what extent doses director's remuneration influence firm performance of quoted banks in Nigeria?
2. To what dimension does board size affect firm performance of quoted banks in Nigeria?
3. To what extent does board duality affect firm performance of quoted banks in Nigeria?
4. To what degree does board gender influence firm performance of quoted banks in Nigeria?

Research Hypotheses

The following null hypotheses are formulated for the study:

1. Director's remuneration has no significant impact on the performance of quoted banks in Nigeria.
2. Board size does not impact significantly on the performance of a firm.
3. The impact of board duality on firm performance is insignificant.
4. Board gender has no significant impact on firm performance.

Significance of the Study

The findings and recommendations of this study will be significant to the following:

- **Bank Management:** This will help in policy formulation at the micro level and also to create awareness on the effects of directors' remuneration on firm performance and to minimize the amount paid to the directors. This will help to improve their performance as well help them to resolve the conflict between the directors and the otherwise known as the agency problem.
- **Central Bank**: This will help in formulating policies towards the healthy growth of Nigerian banks.
- **Researcher:** This will be a source of reference material for the upcoming researchers.

Scope of the Study

The study covers corporate governance dynamics and firm performance of the selected banks listed on the Nigerian Stock Exchange for ten years (2008-2021).

Conceptual Review

Review of related literature

Corporate Governance

Corporate governance represents methods through which organizations are being administered, a structure through which the welfare of different parties with vested interests are harmonized, showing group of interaction between a company's administration, its board, its shareholders and other interested parties (Cheema and Din. 2016). Corporate governance involves the interaction among the many interested parties concerned and the reasons why the corporation is being managed (Dar, Naseen, Rehman, and Niazi, 2014). The overall focus of organizational governance has to do with developing the merits of good corporate profitability improvement and boosting organizational opportunities to obtain outside funds, serving government policy goal, lowering vulnerability of the economic disaster, and reducing expenditure incurred in obtaining funds (Latif, Shahid, Haq, Waqas, and Aeshad, 2015). Good governance also encourages support and assurance in the banking system (Mohammed, 2017).

Firm performance

Businesses are set up to provide solution to needs; profitability is one of the major reasons for the existence of business enterprises (Akinyomi and Olagunju, 2013). Organizational performance has to do with the approach and method by whch things of economic values, existing in a corporation are prudently utilized for the achievement of the general business goal of a particular enterprise (Latif, Shahid, Haq. Waqas and Aeshad, 2013; Akinyomi, 2014). Banks are business enterprises and as such their aim is to maximize profits just like any other profit making organizations. Profitability which is an indicator of economic result of any organization indicates the success of its management; it is also the most important indicator for investors (Ayse, 2013).2.2

Theoretical Framework

Agency Theory

Problem arises when there is separation between ownership and management (Jensen and Meckling. 1976). The conflict of interests appears between the owners and managers. This problem is known as agency problem. Basically, the shareholder wants managers to take appropriate actions on behalf of the shareholders to maximize their wealth. That is what shareholders pay the management so that they always act in accordance with the interests of shareholders. Even the shareholders do not hesitate to increase remuneration if the company maximizes profits.

Remuneration aims to motivate the executives in order to improve their performance. If the performance of the company increases, the value of the company will increase, and shareholders wealth will also increase. Sudarsono (2020) argues that by linking executive remuneration issues, always associated with agency theory. The theory basically assumes that executives always act on its own interests so there is need to create a mechanism that the executives would be subject to the interests of shareholders. In Nigeria the provision of incentives alone cannot solve this problem we also needed to set in motion other corporate governance mechanisms in other to control the activities of the managers.

The current study anchors on Agency theory and was selected because of its relevance to the composition of the hierarchy of corporation and the functions of the directors, with respect to good corporate governance.

Empirical Review

Murphy (2014) links the influence of company performance with executive compensation and the results show that there is positive and significant influence of firm performance on executive compensation. Core (2013) finds that firms with weak governance structures. Have a high level of compensation. They conclude that firms with weak corporate governance have high agency problem. Their sample comprises 405 big companies in U.S. during the period 2009 until 2017.

Evans and Evans (2016) studied the link between performances-pay using economic value added (EVA) as a measure of performance. The study discovered positive pay- compensation where equity remuneration is used as against cash compensation which exhibit negative relationship. The result evidently shows that equity based pay brought objective consensus between the top executives and shareholders hence reduction in agency cost. The reduction is however, contrasted with cash-based compensation which allows management pursues short term financial goal.

Waseem (2015), this study aimed to provide evidence of whether or not the corporate governance and performance indicators of the Jordanian industrial companies listed at Amman Stock Exchange (ASE) are affected by variables that were proposed and to provide the important indicators of the relationship of corporate governance and firms performance that can be used by the Jordanian industrial firms governance of the Jordanian firms Toted at Amman Stock Exchange (ASE) (44) Firms were selected randomly in the study. The study found that there is a direct positive relationship between profitability measured either by Earnings per share (EPS) or Return on assets (ROA) and corporate governance, also a positive direct relationship between corporate governance and corporate performance,

Takno and Cheryl (2015) provides evidence on how executive compensation relates to firm performance using comprehensive financial and accounting data on China listed firms from 1998 to 2002 and found the statistically significant sensitivities between compensation and firm performance. Parthasarathy et al (2016) examined 409 companies listed on Bombay Stock

Exchange and finds that corporate performances has positive and significant influence on executive remuneration.

Kim and Nofsinger (2017), a study on corporate governance reveals that the incentives are not the only way to solve the agency problems, but also needed a scrutiny mechanism (the corporate governance mechanism.) Crumley (2018) conduct a study on the relationship between firm performance and CEO compensation in U.S. commercial banking industry. The study uses 36 sample banking companies in the U.S. in period 2001-2003. The results show that there is a relationship among the percentage change in stock return and percentage return on assets and CEO compensation, whereas firm size and CEO compensation have a strong and positive relationship. Vent Phan (2017) examined elements of corporate governance such as CEO duality presence of female board members, the working experience of the board members and remuneration of beard members and found that all the elements has positive impact on the firm performance but board size had negative impact on the firm performance. Djansdottir (2016), examined gender diversification and financial performance of Denmark and Norway they found that having more women on the board tends to have highly significant effect on equity.

Kurawa (2016) conducted a study in Nigeria on executive compensation and firm performance and found a positive and significant link between execute e compensation and profit before tax of the sample banks. Ofor and Jideofor (2015) a study conducted in Nigeria on board shareholding and corporate profitability found that board shareholding does not have significant relationship with corporate profitability.

Fallatah (2015) a study conducted in Saudi Arabia on CEO compensation and firm performance and found a significant relationship between CEO compensation and firm performance measure. In additional, negative and significant relationship between CEO compensation and corporate governance structure (board independence) was observed. Narwal and Jindal (2015) a study in India on the impact of corporate governance on the profitability, found that board size, board meeting and non executive directors do not have significant association with profitability.

Research Design

Mathoko (2007) described a research design as a set of decisions that make up the plan specifying the methods and procedures for collecting and analyzing the needed information. In this study, ex post facto research design was used due to the nature of data collected.

Nature and Source of Data

Secondary source of data, which we derived from, annul reports of the selected banks quoted on the floors of the Nigerian Stock Exchange were used.

Sample Size

Non probability method of sampling that is the convenience method of sample selection was adopted. The sample size is 8 banks selected using a convenience sampling method The banks are Access Bank, Eco Bank, FBN, FCMB, Fidelity, Guaranty Trust Ban UBA, Union Bank were selected due to the availability of their annual reports at the office of the Nigerian Stock Exchange at the time of data collection.

Method of Data Analysis

The data collected were analyzed using the multiple regression.

Model Specification

Analytical Model

The multiple regression model of firm performance versus indicators of corporate governance was used to examine the relationship between the variables. The model of this relationship is presented below:

Firm performance = f(Directors remuneration, board size, board gender, board duality) and the Algebraic expression of the analytical model is also presented in equation below

PATit=β0+β1 DIREMit + β2 BDSIZEit + β3 BDGENDit + β4 β DULit + £it ……………......(1)

Where

PAT = Profit after tax is used as a proxy for firm performance which is our dependent variable. The Independent variables are

DIREM Directors remuneration

BDSIZ = Board size

BDGEND Board gender

BDUAL -Board duality

Eit-An error term of the model.

Where β0 is the constant of the model while β1, β2, β3 and β4 are the coefficients of the independent variables.

i= indexes individual banks

t= indexes firm performance in years (t=1, 2, 3, 4)

4.2 Regression Analysis

To examine the impact of the relationship between the dependent variables (PAT) and the independent variables (DIREM, BDSIZ. BDGND, BDUL) we used multiple regression analysis since the data has time series (2008-2021).

Table 4.2 Panel Multiple Regression Result

VARIABLES	T-STATISTICS	PROB.
C	3.22	0.0*
DIREM	-4.82	0.4
BDSIZ	-1.95	0.1**
BDGEND	-0.35	0.7
BDUAL	1.14	0.3

R-squared = 0.19

Adjusted R-squared = 0.05

F-statistic = 1.39

Prob. F-(statistic) = 0.27

Source: Researchers computation (2021)

Note: *1% **10% level of significance.

Director's Remuneration (DIREM) based on the t-statistic value of -4.82 and P value of 0.4 was found to have a negative influence on our sampled quoted banks PAT performance. However this influence was not statistically significant since P value was more than 1% this result suggests that we should accept the null hypothesis which states that directors remuneration has no significant effect on firm performance of banks in Nigeria but often two large and this impact on profitability negatively. The practice of paying the directors of most Nigerian banks bogus remuneration justifies the negative relationship. Therefore even though influence is not statistically significant, it should not be ignore by the management but Fallatah (2015) found a significant relationship between CEO compensation and firm performance measures.

Board Size (BDSIZ) based on t-statistic value of -1.95 and P value of 0.1 was found to have a negative influence on firm performance. However, this influence was statistically significant since the P value is within 10% level. This result therefore suggests that we should reject our null hypothesis two which states that Board size are expected to spend more money in paying directors remuneration and this will in turn reduce the profit declared by such firms. Therefore owners should always reduce the size of their board members in order to maximize profit but Narwal and Findal (2015) found that board size, board meeting, and non executive directors do not have significant association with profitability.

Board Gender (BDGN) based on t-statistic of 0.35 and p-valoe of 0.7, was found to have a negative influence on our sampled quoted banks PAT. However this influence was statistically significant since our p value was more than 10% this result therefore suggest that we should accept our null hypothesis which states that Board gender has no significant effect on firm performance. This means that whether board composition is dominated by male or female gender, it does not impact on firm performance of Nigeria banks. This result is in contrary to Bjanadottir (2013) which examines gender diversification and financial performance of Denmark and Norway. They found that having more women on the board tends to have highly significant return on equity.

Board Duality (BDUL) based on t-statistic of 1.14 and P value of 0.3 was found to have a positive influence on our sampled quoted bank's PAT performance. Although, this influence was not statistically significant since the P value is more than 10%. This result therefore suggests that we should accept our null hypothesis 3 which states that board duality has no significant effect on firm performance. The implication of this result is that companies with high number of board duality, pay less out of profit, hence they are expected to perform better than companies with less board duality. However this is not what the management should be concerned about since the influence was not statistically significant. This result affirm with Vo and Phan (2013) which examined elements of corporate governance such as CEO duality, presence of female board members, the working of the board members and remuneration of board members and found that all the element had positive impact on the firm performance but board size had negative impact on the firm performance.

Summary of Findings

1. The multiple regression results show that Director' Remuneration has negative influence on profit after tax (PAT) but not statistically significant.

2. The Board Size also has negative influence on profit after tax (PAT) and statistically significant which lead to the rejection of the null hypothesis 2 and accepting the alternate. More board members are significantly negative to the profitability of the selected banks. Large Board Size may not be in favor of Nigerian banks because they do not increase the profitability of the banks.

3. Board Genders also have a negative influence on the profitability but result is not statistically significant.
4. Board Duality has a positive influence on PAT but not statistically significant.

Conclusion
From the findings, study concludes that Director's Remuneration has negative influence on firm performance of quoted banks in Nigeria. Board Size has a strong negative influence on firm performance of Nigerian quoted bank. Finally it is observed that if the Nigerian banks should apply good corporate governance principles, that will help to achieve the organizational objectives among which, is profit maximization.

Recommendations
Based on the findings of the current study, the following recommendations are suggested,
1. Board Size should be reduced to the barest minimum since it influences the PAT negatively.
2. Large Board Size impacts negatively on firm performance. Previous studies on this concept observed that organizations selects size of board to create equilibrium between the requirements for timely advice and the financial implications of maintaining large board membership (Akinyomi, 2013).
3. Board Duality should be encouraged since it has positive influence although not statistically significant.
4. There should be a regular review of the corporate governance codes so as to reflect current social, environmental, technological and economic situations of the country at large.

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