CORPORATE MANAGEMENT AND BANKING INDUSTRY IN NIGERIA: EMPIRICAL CONSIDERATION

Associate Professor Ph.D. David UMORU
Edo University, Edo State, Nigeria
Email: david.umoru@yahoo.com
Ph.D. Student Micah ELUJEKOR
Benson Idahosa University, Edo State, Nigeria

Abstract: *This study ascertains the role of corporate governance in attracting banks' returns in Nigeria from 2006-2016 using panel regression technique. Data were collected from a sample of 21 banks listed on Nigerian stock Exchange. We found significant positive impact of board size, board composition, directors' equity interest on banks' performance in Nigeria. Decisively therefore, we recommend increase in size of management of board as one factor for inducing banks' return in Nigeria.*
Key words: Corporate governance, banks' return, board size, board composition, directors' equity interest Nigeria.

1. Research Background

Agency theory has been the most recognized theoretical view in corporate management (Singh and Daivdson, 2003). The fundamental issue in the agency theory is the separation of ownership and control of a firm. Small private firms 'go public' to expand ownership scope. Hence, it could an efficient avenue of raising interest-free funds to expand business. This therefore means businesses will have multiple owners or shareholders. These shareholders then agree on contract with the firm's managers to execute the corporation on their behalf.

On this note, the shareholders are Principals, while the managers are called agents. However, this power delegation can provide the managers opportunity to use the shareholder's funds to execute projects that will be to their benefits only. Consequently, to synchronize welfares of both the principal and agent, Bhagat and Bolton (2008) and Jensen and Meckling (1976) upholds the opinion of an effective corporate governance system.

In today's corporate world, the role of board of directors is very significant. This is because, they exercise control over highest management of firm, thereby maximizing shareholder wealth (Hanrahan et al. 2001). This research explores the role of corporate governance in improving the banks' return in Nigeria that consequently increases shareholders value.

Nevertheless, we hope to ascertain: *relationship between board size and banks' return in Nigeria, effect of board composition on the banks' return in Nigeria, relationship if any between directors' equity interest and banks' return in Nigeria.* The following null hypotheses will be tested. H_0: Board size and banks' return are not associated, H_0: Board composition and banks' return are not associated, H_0: Directors' equity interest and banks' return are not associated.

2. Literature Review

Corporate governance comprises of structure of the board, board demographics, recruitment of the board, education and evaluation of the board, board member motivation and board leadership. Studies like Sheridan and Milgate (2005), Erhardt, Werbel and Shrader (2003), Callen, Klein and Tinkelman (2003), Kang, Cheng and Gray (2007) and Fitriya and Stuart (2012) found a positive relationship between board composition and banks' return. However, Garg (2007) and Rose (2007) found a negative relationship between board composition and the value of a firm.

For comparison between failed and successful firms, Chaganti, Maharjan and Sharma (1985) revealed that successful banks have bigger boards. Studies by Daily and Dalton (1992) and Coles, Daniel and Naveen (2008) found that complex firms have larger boards than simple firms. Based on agency theory, bigger boards are better. This is because, there are more people who are vigilant and are able to review the actions of management. From resource dependency perspectives, larger boards bring more opportunities and links for more resources. Looking at it from the stewardship theory angle, the ratio to inside and outside directors is of importance here. Because inside directors can bring valuable information for decision making to the board.

Board Composition

Empirical studies on the effect of board membership and structure on performance show mixed results (Coleman and Nicholas-Biekpe, 2006; Elujekor, 2016). Some studies found healthier performance with directors dominated by outsiders (Vafeas, 2003), others found no such relationship in terms of accounting profits or firms value (Elujekor, 2016; Bhagat and Bolton 2008).

This is also evident in the study by Bhagat and Black (2002). Like in many family-based Asian banks (Malaysian banks), boards dominated by insiders are not expected to play their role as effective monitors and supervisors of management. This is particularly when the board chairperson is also the firms CEO. In addition, outside directors provide firms with windows or links to the outside world, thereby helping to secure critical resources and expand networking (Daily and Ellstrand, 1996). Moscu, (2013) showed that the amount of stock owned by individual outside directors is significantly correlated with various measures of banks' performance as well as CEO turnovers in poorly performing companies. Hermalin and Weishbach (2003) showed that the market rewards firms for appointing outside directors.

Board Size

Loderer and Peyer (2002); Mak and Li, (2001), Bennedsen, Kongsted, and Nielsen (2004) and Bonn, Yoshikawa and Phan, (2004), found a negative relationship between board size and banks' return in Switzerland, Canada and Japan respectively. Muzhar, et'al (2013), their study confirmed that; limiting board size is believed to improve bank performance due to cumbersome decision-making process of larger groups. A large board majorly suffers from free-rider problems among directors in their supervision of management (Hermalin and Weisbach 2003).

Directors Equity Interest

The equity ownership of directors go a long way in determining performance of that firm (Forberg, 1989; Brickley, Coles and Terry, 1994 and Yermack, 1996)). Inter alia, when members of a board own equity in a corporation, it is in their best interest the firm performs creditably well. Uwuibge (2015) found positive relationship between directors' equity interest and the banks' return in Nigeria. He found the more equity directors own in a bank, healthier the ROE. This can therefore mean that directors that own equity in a firm would want such investment protected.

The board of directors that own equity in a firm will put up effective monitoring to achieve desired result. Their stake in the firm will make them to be more efficient in the discharge of duties thereby leading to an overall positive financial performance of the firm. Hence, directors' equity interest is the total shareholdings of directors in a firm.

Banks' Return

Bank return measures how banks utilizes their assets to generate revenue. The banks' return is used to ascertain how healthy financial wise, are Nigerian banks is per period of time. This study, adopt return on equity (RO), and return on assets (RA) in line with First

Rand Banking Group (2006). There are nonetheless other measures of bank return like the Net Profit Margin (NPM), Tobin's Q, etc.

Empirical Review

Mak and Li (2001) conducted an empirical analysis of firms listed on the Stock Exchange of Singapore and their study supported Healey (2003) that large groups are less effective than small groups in decision-making. Mak and Kusnadi (2005) also asserted an inverse relationship between board size and firm value. Satirenjit, Shireenjit and Barry (2015) did a study on 700 large listed Malaysian firms for the year 2009. This study found a positive relation between board size and performance of the firm.

Yermack has conducted his study on 452 US firms between 1984 and 1991 using Tobin's Q as an approximation of market valuation. He documented an inverse association between board size and firm value.

Also, the study found fraction of lost value occurs more when size of firm is increasing from small to medium (for e.g. from 6-12) as compare to the firm whose board size is increasing from medium to big (i.e. 12-24). As further observed, most prior studies on corporate governance and performance make use of the market based performance measure and not accounting performance measures.

Model Specification & Methodology

Banks' return is regressand and is proxied by RE and RA, RE measures how well banks used reinvested earning to create superfluous earning. It is calculated as profit before tax divided by overall equity. RA is profit before tax divided by total assets.

Corporate governance is explanatory variable and is proxied by these elements *board size (BS), board composition (BC) and directors' equity interest (DE)*. Board size is total number of directors on the board, board composition is represented by BC which is defined as the ratio of outside directors to overall number of directors, while directors' equity interest is the total shareholdings of directors. Estimated models in this study are as follows:

$$Model\ I: RE_{it} = \{ + \mathsf{u}_k X_{it}^k + e_i + u_{it}$$

$$Model\ 2: RA_{it} = \mathsf{w} + \mathsf{s}_k Z_{it}^k + \mathsf{v}_i + \sim_{it}$$

Where RE and RA as earlier defined X and Z are vectors of explanatory variables which include, BS is board size, BC is board composition and DE is directors' equity interest, e_i and v_i are individual effects, u_{it} and $\sim_{it}$ are error terms.

Theoretically, positive relationship is expected between regressors and regressand. The study adopts panel data regression method. Out of 24 banks that finally made the consolidation deadline, 21 banks were used. These 21 banks are listed on Nigerian stock Exchange. The consideration of these banks was to enable us have access to their annual reports as sources of data. The researchers examine and analyze the books of these selected banks which comprise financial records of 8 years i.e. 2006-2013.

Empirical Results

From Table I below, the result shows that mean RE for banks within the sampled period is 0.58. This implies that banks' performance over period of review was relatively averaged ad this is satisfactory.

Table 1: Descriptive Statistics

Variable	Mean	Median	Std. Dev.	Skewness	J-B
RE	0.58	0.19	0.20	2.50	51.13
RA	0.30	0.43	16.18	4.05	32.91
BS	0.27	0.59	0.03	0.06	46.20
DE	2.35	12.32	2.71	0.02	29.81
BC	9.52	2.15	0.19	1.89	1.34

Result extracted from the Eviews 8.0 output.

Table 2 shows results of panel unit root tests for all variables in the model. The Im, Pesaran and Shin method test indicate that RA, BS and DE have a unit root but RE and BC have not unit root. ADF-Fisher test shows that only BS has a unit root while other variables namely, RE, RA DE and BC have no unit root. Similarly, the PP-Fisher test reveals that RA and BS have unit root at level. However, all the variables are stationary after first difference.

Table 2: Panel Unit Root Test Results

Variables	Level			Difference		
	IPS	ADF-Fisher	PP-Fisher	IPS	ADF-Fisher	PP-Fisher
RE	-4.57***	-5.59***	-29.795**	-7.26***	-46.53**	-29.75**
RA	-0.94	-32.27**	-3.580	-19.39**	-35.87**	-33.80**
BS	-1.35	-2.53	-0.349	-28.85**	-72.63**	-24.47**
DE	-2.17	-18.26**	-5.1398***	-7.39**	-56.40**	-54.21**
BC	-7.39**	-29.45**	-13.286**	-9.30***	-52.75**	-67.51**
*** significant @10%, **significant @ 5%*						

While Table 3 presents co-integration results for the null of no co-integration as against the alternative of co-integration with common AR coefficients within-dimension, Table 4 presents the results of the panel co-integration test for the null of no co-integration as against the alternative of co-integration with individual AR coefficients between-dimension based on Pedroni Residual Co-integration Tests. The results show co-integration of variables and so we reject the null of no co-integration.

Table 3: Pedroni Residual Co-integration Test Results

Statistic	Alternative hypothesis: common AR coefs. (within-dimension)	
	Coefficient	prob
Panel v-statistic	-2.67	0.54
Panel rho-statistic	-0.48	0.63
Panel PP-statistic	-5.95	0.00
Panel ADF-statistic	-2.37	0.59

Table 4: Pedroni Residual Co-integration Test Results

Statistic	Alternative hypothesis: individ. AR coefs. (between-dimension)	
	Coefficients	prob
Group rho-statistic	-0.16	0.92
Group PP-statistic	-4.08	0.00
Group ADF-statistic	-1.39	0.36

The Hausman test was conducted to ascertain the particular model between fixed effects or random effects to adopt for estimation in the study. The core was to test for incidence of conceivable association between individual effects and the explanatory variables. The results as shown in Table 5 provide evidence against association between the individual effects and the explanatory variables at the 5% level. Hence, we estimated the random effects model.

Table 5: Hausman Test Results

Hausman Test: Fixed effects vs. random Effect @ 5%		
Null hypothesis	*Statistic*	*p-value*
Random effects	*Chisq (^{2})= 62.521*	*Prob > Chisq = 0.000*

Table 6 shows the adjusted R-squared of 0.5 indicating that over 50 percent of the systematic variations in return on assets is explained by the explanatory variables. The F-value of 16.5 is significant test at 1% level also indicates significant association between return on assets and all the board characteristics combined is significant.

Table 6: Regression Estimates of RA

Explanatory Variables	with control for board size	without control for board size
	Random Effects	Random Effects
Constant	-0.59*	1.65*
BS	-	0.27*
DE	0.47*	0.43*
BC	0.38**	0.29*
Lagged Regressand	0.93**	0.35*
R^2	0.56	0.57
Adj. R^2	0.50	0.52
F	16.5	121.5
Constant	-0.59*	1.65*

Table 7 shows an unadjusted R-squared of 59 percent and hence does not suggest any weakness in the estimates since pooled data is being used for analysis. The F value of 12.46 shows a high overall model significance.

Table 7: Regression Estimates of RE

Explanatory Variable	with control for board size	without control for board size
	Random Effects	Random Effects
Constant	0.33*	3.96**
BS	-	-0.12*
DE	-0.97**	-0.14*
BC	-0.25***	-0.51*
Lagged Regressand	0.13***	0.01*
R^2	0.59	0.47
Adj. R^2	0.35	0.36
F	12.46	32.5

Conclusion

This study used panel regression method to evaluate effects of corporate management on banks' return in Nigeria. The empirics demonstrated a significant relationship between return on assets and board characteristics. In effect, our null hypotheses is rejected. Hence, effects of size of board, board composition and directors' equity interest on RA is positive and significant.

Nevertheless, all board characteristic all shows significant but negative association with RE. Hence our null hypotheses is accepted. We consequently recommend need for the CBN to ensure mandatory acquiescence with program of board characteristic by developing an operationally legitimate structure that stipulates moralities and commitments of a bank and its board of executives and stockholders.

Acknowledgement

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