



Corporate Governance Dimensions and Organizational Performance: A Pragmatic Investigation from Nigerian Banks

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Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

Article Information

DOI: 10.9734/AJARR/2019/v7i230168

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Complete Peer review History: <http://www.sdiarticle4.com/review-history/52389>

Original Research Article

Received 10 September 2019
Accepted 13 November 2019
Published 20 November 2019

ABSTRACT

This study seeks to examine the impact of corporate governance dimensions on organization Performance with specific reference to the Nigerian Banking Industry. Data were sourced via the audited financial statements of the selected bank for a period of five years between 2013 and 2018. Data analysis was performed with the aid of multiple regression analysis and Pearson Product Moment Correlation Coefficient. The result establishes that positive relationship exists between Board independence and organizational performance measured by earnings per share and return on equity. The result further affirms that Board size and Chief executive duality have an inverse effect on organizational performance measured by earnings per share and return on equity. The implication of this that the abolition of Chief executive duality and small Board size would save guide the shareholder interest and enhances effective monitoring and control. Thus, it will attract both foreign and local investors to invest in the banking sector in Nigeria.

Keywords: Corporate governance; Nigerian banks; EPS; ROE; organizational performance.

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1. INTRODUCTION

Corporate governance has attracted the attention of researchers, regulators, professionals and academics around the globe following a series of corporate scandals that had happened in large companies around the world. According to Agbaeze and Ogosi [1], corporate governance assists in increasing share capital or price and make it easier to obtain capital. Authors reiterate that international investors tend to be reluctant to invest in a corporation where good corporate governance principles are not their priority. It is therefore necessary for the organizations to deal with internal and external matters, it also apparently important for the health of economic and social society and part of the world in general. In Nigeria, corporate government has received increased attention because of high profile scandals involving abuse of power and, in several cases, alleged criminal action by corporate officers. After the conclusion of the consolidation program in 2005, a Code of Corporate Governance for Banking in Nigeria was issued to the banking industry [2]. As a consequence of those indiscriminate charges, many clients have resorted to shutting their saving accounts, leading to the fiscal exclusion of a lot of our citizens. Report from Premium Time, Sept 24, 2019 shows that CBN sanctions imposed on four commercial banks to adhere to its "Know Your Customers" guidelines and at the anti money laundering requirement [3].

A good deal of attention has been given the last years on corporate governance that became a problem of interest throughout the world throughout the last economic crisis as well as the financial devastation of businesses and banks. Nevertheless, very little attention has been given the last years on corporate governance which has become an issue of interest across the world, especially during the last economic crisis and the financial devastation of many companies and banks. This study, therefore, intends to fill the gap in literature by examining the impact of corporate governance dimensions on performance of Nigerian banks.

1.1 Research Objective

The main objective of this study was to examine the extent corporate governance dimensions have impact on the performance of Nigerian banks.

1.2 Research Question

The pertinent question is:

To what extent do corporate governance dimensions have impact on the performance of Nigerian banks?

1.3 Justification for the Study

The study is expected to advance knowledge on the impact of corporate governance on organizations performance in Nigeria. The findings of the study will also serve as an input that will greatly enhance the ability of management of Nigerian banks to understand the importance of corporate governance and to make appropriate policies that will improve ethical practices and professionalism among its staff, so that Nigerian banks will be saved from distressed syndrome currently facing the sector.

1.4 Concept of Corporate Governance in Nigeria

According to Adegbite and Nakajima [4], corporate governance concept in Nigeria can be traced to the colonial days through the independence that Nigeria obtained from Britain in 1960. Before the independent the British colonial government imposed an Anglo-Saxon base system of corporate law and regulation on the country. Mechanism of governance are the Companies and Allied Matters Act 2004, Investment & Securities Act 2007, Securities & Exchange Commission 2011 Corporate Governance Code and various business government codes contain several mechanisms of governance. The code of corporate governance came to glare in 2003 when, the Artedo Peterside was put up by the Securities and Exchange Commission to develop a code of best practice. Code of corporate governance came to glare in 2003 when the Securities and Exchange Commission set up a committee led by Atedo Peterside to develop a code of the best practice. This led to the publication of the 2003 SEC Corporate Governance Code and currently a revised SEC Code 2011. The code is voluntary and was designed to entrench good business practices and standard for the Board of Directors, Auditors, CEO's of listed companies including banks [5].

Several definitions have been put forward to define corporate governance. According to Organization of Economic Cooperation and

Development (OECD) [6], corporate governance is a set of relationships between management, shareholders and other stakeholders. The Central Bank of Nigeria (CBN) [7], sees corporate governance as a principle, condition, processes, or laws by which institutions are guided, regulated and governed. The corporate governance consists of accountability, inclusiveness, rules of law, moral integrity, transparency, participation, responsibility effectiveness and efficiency [7].

1.5 Concept of Organizational Performance

According to Derek [8], performance is the willingness of an individual to carry out the goals and objectives of an organization. Eruemegbe [9] sees organizational performance as using of resources wisely to avoid wastage. In the same manner, Ong and Teh [10] notice that organization performance is the ability of a group of individual to achieve certain specific goals. The authors measure organizational performance by financial measures in terms of return on equity, return on sales and return on assets. Secondly, none financial measures in terms of shareholders' satisfaction, employee's satisfaction, and customers satisfaction. Nancy and Mine [11] on assessing organizational performance stated that most organizations view their performance in terms of "effectiveness" in achieving their mission, purpose or goals. According to Pitt and Tucker [12], organizational performance is defined as a vital sign of the organization, showing how well activities within a process or the outputs of a process achieve a specific goal.

2. LITERATURE REVIEW

2.1 Theoretical Review

This study anchors on agency theory, because 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. More also, corporate governance research has been and continues to be dominated by the Agency theory. According to Bruce, Buck and Main [13], the agency theory relies on an assumption of self-interested agents who seek to maximize personal economic wealth. The conflicting interests between the principal and the agent in terms of goals and desires, as well as, risk appetites would result in

agency cost [14]. Agency costs include the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests, plus the residual loss incurred because the cost of full enforcement of contracts exceeds the benefits [15].

In the context of corporations and issues of corporate control, agency theory views corporate governance mechanisms especially the Board of directors, as being an essential monitoring device to try to ensure that problems that may be brought about by the principal-agent relationships are minimized [16,17]. According to Blair [18], managers as agents must be monitored and institutional arrangements made to assure checks and balances are in place to avoid abuse of power. Agency theory suggests that Boards should consist of outside and independent directors. It also proposes that the position of the Board chairman and chief executive officer should be separate [19].

2.2 Empirical Review

A plethora of studies on the relationship between corporate governance dimensions and organizational performance are reviewed because of their relevance to this study. For example, in the work of Agbaeze and Ogoji [1], the impact of corporate governance on the profitability of Nigerian banks for the period 2005 to 2015 was examined. Profitability was measured by profit after tax while the number of members in the Board was used as a measure of corporate governance. The result revealed that there is a positive relationship between profitability and corporate governance measured by the number of members in the Board of Nigerian banks and also there was a positive relationship between the profitability of Nigerian banks. Impact of corporate governance on the performance of the firm was also investigated by Kashif and Syed [20]. The study measured corporate governance by Board attributes, Audit committee attributes and Ownership attributes while firm performance was measured by the Return on Equity and Return on Assets. The results showed that Board Independence has a significant impact on Return on Equity of the firm while Board size and Audit Committee Independence have a significant impact on Return on Assets. Olannye and Anuku [21] also examine the impact of corporate governance on organizational performance with particular reference to the Nigerian Banking Industry. The survey research design method was employed.

The research instrument was a validated structured questionnaire. The major analytical tools comprised the correlation and multiple regression analysis. The study concluded that corporate governance through ethical behavior has a positive effect on employees' productivity.

The study conducted by Okoi, Ocheni and Sani [22] on the effects of corporate governance on the performance of commercial banks in Nigeria, concurred with prior studies that corporate governance does affect banks' performance and value of the firm. That strong governance standard is important for banks and increased governance quality leads to higher levels of investment as well as greater responsiveness of investment to growth opportunities. Ojeka, Iyoha and Ikpefan [23] also investigate the impact of corporate governance on the financial performance of bailed-out banks in Nigeria. The results revealed that positive relationship between audit committee, Board size, Board independence and return on assets was not exist. Osuagwu [24] also investigates the impact of corporate governance on bank performance. The study found among other things that non-compliance to corporate governance code in the Nigerian banking industry hampered banks performance.

In another study, Ajala, Muda and Arulogun [25] also affirms that there is a negative relationship between Board size and the financial performance while a positive and significant relationship exist between directors' equity interest, level of corporate governance disclosure index and performance.

The study of Azmi Abd-Hamid and Debbie-Dora [26] also seeks to determine the relationship between corporate governance and firm performance. The study establishes that there is a very weak negative relationship between the governance score and the firm's performance. In a similar study, Love and Rachinsky [27] also avers that there is a significant but economically unimportant relationship between corporate governance and operating performance.

Based on the conflicting results of the above empirical studies, this study, therefore, hypothesized that:

Ho: Corporate governance dimensions have no significant impact on the performance of Nigerian banks.

2.3 Methodology

This study made use of the best 7 banks (<https://lists.ng/top-7-best-banks-in-nigeria-2019/>) that are listed in the Nigerian stock exchange market through the purposive method. The study constructed a checklist for evaluating the content of corporate annual reports of the selected banks to determine the level of corporate governance on their performance. Secondary data sourced via the audited financial statements of the selected banks for the period of five years (2013 and 2018) was used for data analysis. Pearson Moment Correlation Coefficient and Ordinary Least Squares (OLS) were employed to analyze the data.

2.4 Model Specification

Mathematically, the models are expressed as follows:

Organization performance = f (Corporate governance)

Organization performance is measured by Earning per Share (EPS) and Return on Equity (ROE), while Corporate Governance is measured by Board independence (BOID); Board size (BOSI) and CEO –Duality (CEDU).

Model I EPS = $\beta_0 + \beta_1 \text{BOID} + \beta_2 \text{BOSI} + \beta_3 \text{CEDU} + \mu_i$

Model II ROE = $\alpha_0 + \alpha_1 \text{BOID} + \alpha_2 \text{BOSI} + \alpha_3 \text{CEDU} + \mu_{ii}$

3. RESULTS AND DISCUSSION

Table 1 depicts that there is negative relationship ($r = -0.012$ and -0.879) between Board size, chief executive duality and earnings per share with respectively. This signify that when the size of Board is high, there is likelihood that earnings per share will be lower. Also, the finding suggests that when chief executive and chairman of the Board occupy the same positions may likely to affect earnings per share inversely. Furthermore, result reveals that there is positive relationship ($r = 0.103$) between Board independence and earnings per share. This finding is in line with previous studies [28,29]. This connotes that independent directors can exercise effective control over top managers' decision-making, which may contribute positively to earnings per share.

Table 1. Pearson’s correlation results

Variables	Mean	SD	1	2	3	4
Earnings per share	43.066	13.840	1			
Board size	6.000	1.203	-0.012**	1		
Board independence	3.666	0.546	0.103	-0.105*	1	
CEO –duality	0.366	0.490	-0.879*	-0.117*	-0.043	1

Source: Data analysis

Table 2 depicts that corporate governance mechanisms jointly and independently influence earnings per share ($F(3, 11) = 32.483$; $R^2 = 0.789$; $P < .05$). The corporate governance mechanisms explained 78.9% of the variance of earnings per share. Furthermore, the result reveals that Board size and Chief executive duality have an inverse effect on earnings per share. This study is consistent with Naveen and Singh [30] that the abolition of Chief executive duality and small Board size would save guide the shareholder interest and enhances effective monitoring and control. Result also shows that Board independence has a positive significant impact on earnings per share. This connotes that independent directors who have the skills of company affairs may contribute positively to the earnings per share. These results conform to previous studies [31,14,28,29].

Table 3 depicts that there is a negative relationship ($r = -0.006$ and -0.886) between Board size, chief executive duality and return on equity. This implies that the bigger size of Board, the likelihood the lower the return on equity. Also, chief executive duality may affect return on equity inversely. Furthermore, result reveals that there is a positive relationship ($r = 0.065$) between Board independence and return on equity. This connotes that return on equity may improve if independent directors are constituted.

Table 4 depicts that corporate governance mechanisms jointly and independently influence Return on Equity ($F(3, 11) = 33.581$; $R^2 = 0.795$; $P < .05$). The corporate governance mechanisms explained 79.5% of the variance of Return on Equity. Furthermore, result reveals that Board size and Chief executive duality have inverse

Table 2. Regression result of corporate governance mechanisms and earnings per share

Variables	Coefficient	T- value	P- value	R ²	F	P	DW- statistics
Board size	-0.111	-1.216	0.035				
Board independence	0.054	0.054	0.039	0.789	32.483	$P < .05$	2.363
Chief executive duality	-0.890	-9.805	0.00				

Source: Data analysis

Table 3. Pearson’s correlation results

Variables	Mean	SD	1	2	3	4
Return on equity	13.100	4.851	1.000			
Board size	6.000	1.203	-0.006*	1.000		
Board independence	3.666	0.546	0.065**	-0.105*	1	
CEO –duality	0.366	0.490	-0.886	-0.117*	-0.043	1

Source: Data analysis

Table 4. Regression result of corporate governance mechanisms and return on equity

Variables	Coefficient	T- value	P- value	R ²	F	P	DW- statistics
Board size	-0.097	-1.080	0.040				
Board independence	0.016	0.183	0.028	0.795	33.581	$P < .05$	2.085
Chief executive duality	-0.897	-10.009	0.000				

Source: Data analysis

effect on Return on Equity. Result also shows that Board independence has positive significant impact on Return on Equity. This connotes that independent directors who have the skills of company affairs may contribute positively to Return on Equity. The study concurs to Kajola [28]'s findings.

4. CONCLUSION AND IMPLICATION

The study establishes that positive relationship exists between Board independence and organizational performance measured by earnings per share and return on equity. The study further affirms that Board size and Chief executive duality have an inverse effect on organizational performance measured by earnings per share and return on equity. The implication of this is that the abolition of Chief executive duality and small Board size would save guide the shareholder interest and enhances effective monitoring and control. Thus, it will attract both foreign and local investors to invest in banking sector in Nigeria.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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Peer-review history:
The peer review history for this paper can be accessed here:
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