The Implications of Corporate Governance on Financial Institution’s Performance in Nigeria

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Abstract

The Central Bank of Nigeria (CBN) (2006) had asserted that disagreement between the board and management of financial institutions usually gives rise to board squabbles and ineffective board oversight functions. This is why the objective of this article is to determine the extent to which corporate governance practices impacts on financial institutions performance. To validate this assertion, a sample of thirty three financial institution listed on the Nigerian stock Exchange from 2004 to 2008 was used for this study. Multiple regressions Analysis and ordinary least square (OLS) method of estimation were applied. The results showed that there is a positive correlation between corporate governance practices and firms performance. The other two performance proxies that is, return on Equity and two corporate governance practices namely; the firms’ board size and audit committee also showed positive relationship. However, there was a negative relationship between the net profit margin, the firms’ board size and audit committee. The study could not establish a relationship between the two performance variables, namely; Return on Equity and Net profit Margin, and the executive officers’ status. It is recommended that corporate governance mechanisms be objectively structured to enhance optimal performance of corporate institutions in Nigeria.

Key words: Corporate Governance, Stakeholders, Financial Institution Performance, Financial Reporting.

1. INTRODUCTION

The protracted economic crisis in Europe, the tailspining of the US economy and rising financial scandals around the world are indicative of the need for the practice of good corporate governance. Corporate governance may be used broadly to refer to the guidelines, rules, processes by which businesses are operated, regulated and controlled. It is a system of managing the affairs of corporations with a view to increasing shareholders’ value and meeting the expectations of the other stakeholders.

In the last few years, the discourse on the subject of corporate governance in Nigeria has gradually crystallized into the development of norms for listed companies. Following the collapse of many banks in the early 1990s in Nigeria and several other corporate frauds such as overstatement of accounts which bedeviled the economy, not a few stakeholders have called for a review of guideline for corporate governance in line with international best practice. However, the problem of private companies, that form a vast majority of Nigeria
corporate entities, remains largely unaddressed. Thus, when on June 15, 2000 the
Securities and Exchange Commission (SEC), in collaboration with the Corporate Affairs
Commission (CAC) instituted the 17-member committee on corporate governance, headed
by the chief executive of Investment Banking and Trust company (IBTC) Limited (Stanbic
IBTC) Atedo Peterside, many observers thought this would open a new vista in corporate
citizenship in the country. The banking industry being the fulcrum for economic growth,
banking crises is of great concern to every stakeholder in the economy. This is because it
exacerbate downturns in economic activities, prevent savings from flowing to the most
productive users, reduce the availability of credits, increase the cost of lending to small and
medium-size firms and seriously constrain the flexibility of monetary policy (Goldstein, 1997).

In Nigeria, the governance of financial institution ordinarily rest with the board of directors.
The boards, as can be deduced from recent cases, do not live up to their expectations in
discharging their duties. Some financial institutions do not comply with all legal requirements
and regulatory standards. Banking businesses are not conducted with high ethical
standards; there are gross insider abuses such as granting of insider-related credits resulting
in large quantum of non performing credits. The internal control and operational procedures
are often not followed thus rendering the system very weak and allowing fraudulent and self—
serving practices among members of the board, management and staff. Ali (1995) posited
that:

“The management environment of Nigerian banking industry is characterized by
instability in tenure of office, ineptitude, sheer incompetence or even interpersonal
disagreement and hostilities within the board which often leads to polarization of
rank and file of staff. Board members and top management staff often take
advantage of the polarization by building empires, engaging in arbitrage
opportunities and rent seeking activities rather than planning for corporate profit and
survival strategies all of which have systematic bandwagon negative effect on the
industry”.

Ebhodaghe (1996) also stated that the new generation banks are characterized by
boardroom quarrels, insider abuse, fraud and forgeries, weak internal control systems as
well as occasional contravention of statutory regulations.

1.1 The Problem
The financial institutions in Nigeria are of interest to the corporate investor who has a
prominent stake in the economy. This is in consideration of the crises and revolution that
attended the banking consolidation of 2009 that resulted in the sack of chief executives of
five banks on account of allegations of bad corporate governance practices. This allegation
was proved right, when one of the bank chief executive officers was convicted of bank fraud
and was forced to forfeit assets worth N191 billion (Balogun, 2010). Other six ex-bank chiefs
had opted for plea bargaining negotiation with the anti-graft agency—the Economic and

1.2 Objective of the Study
The main objective of the study therefore, is to determine the relationship between corporate
governance and financial institution’s performance. To examine the extent to which ethical
practices are allowed to govern the conduct of executives in the performance of their duties.
1.3 Research Questions
The following research questions are used to provide direction to the achievement of the objectives of the study. (a) To what extent do corporate governance mechanisms relate to firms’ performance? (b) Has there been a proper instituted ethical practice in the performance of official duties of chief executives.

1.4 The Hypotheses
The following hypotheses will be tested to validate or otherwise the concept under study: (a) there is no relationship between corporate governance mechanism and firms’ performance. (b) There is no relationship between ethics and corporate governance. (c) There is no relationship between Return on equity and the firms’ board composition. (d) There is no relationship between return on equity and the firms’ chief executive officer status.

2. CONCEPTUAL FRAMEWORK
Several theories have been used to underpin the concept of corporate governance. Among them include the following:

2.1 Agency Theory
The agency theory holds that the demand for audit quality has been motivated by the need to manage agency conflict. Accordingly, in an agency setting, information asymmetry between a principal (stakeholder) and an agent (management) creates a moral hazard problem, which is the concern that an agent will pursue his/her own self-interest at the expense of the principal (Jensen and Meckling, 1976; Watts and Zimmerman, 1990). Agency theory predicts that agents and principals will recognize that it can be mutually beneficial to reduce the moral hazard and will devise arrangements to align their self-interest. One such arrangement is the independent audit, which provides a monitoring device designed to improve information about client performance and reduce the asymmetry. The greater the agency conflict between managers and stakeholders, the greater the agency costs, and the
greater the demand for audit identified as high quality or of high perceived quality (Palmrose, 1984; Francis and Wilson, 1988; Defond, 1992; Craswell et al, 1995).

DeAngelo (1981) argues that auditors will specialize in supplying a certain level of audit quality. Therefore, if a client wishes to change audit quality, they must change auditors. Relying on various theoretical and analytical arguments (DeAngelo, 1981; Dopuch and Simonic, 1982; Titman and Trueman, 1986; Beaty, 1989) most agency-related audit quality research assumes that larger (brand name) auditors provide greater monitoring strengths and that this result in higher information quality and credibility.

In Nigeria, issues relating to auditor monitoring strength, as it affect information quality and credibility have been significantly established by the agency conflict of interest relationship between managers and stakeholders as exhibited in the case of Savanna Bank Plc where the auditor’s internal report was hidden under the carpet at the detriment of the firms stakeholders.

2.2 Stakeholder Theory
One argument against the strict agency theory is its narrowness, by identifying shareholders as the only interest group of a corporate entity necessitating further exploration. By expanding the spectrum of interested parties, the stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholder in order to ensure that each interest’s constituency receives some degree of satisfaction (Abrams, 1951). The stakeholder theory therefore appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituent, employees, banks, governance, relevant stakeholders. Related to the above discussion, John and Senbet (1998) provide a comprehensive review of the stakeholders’ theory of corporate governance which points out the presence of many parties with competing interests in the operations of the firm. They also emphasize the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance. In Nigeria majority of large corporations do not abide by this principles.

2.3 Stewardship Theory
This theory posits that managerial opportunism is not relevant (Donaldson and Davis, 1991, Singh and Davidson Ill, 2003, Muth and Donaldson, 1998,). According to the stewardship theory, a manager’s need of achievement and success are satisfied when the firm is performing well. One key distinguishing features of the theory of stewardship is one that replaces the lack of trust to which agency theory refers with respect to authority and inclination to ethical behavior. The theory considers the following summary as essential for ensuring effective corporate governance in any entity:

- Board of Directors: the involvement of non-executive directors is viewed as critical to enhance the effectiveness of the board’s activities because executive directors have full knowledge of the firm’s operations. Thus, it is believed that the appointment of non-executive directors will enhance decision-making and ensure the sustainability of the business.

- Leadership: contrary to the agency theory, the stewardship theory stipulates that the position of chief executive officer and board chair should be concentrated in the same individual. The reason being that it affords the chief executive officer the opportunity to carry through decision quickly without the hindrance of undue bureaucracy. We must rather point out that this position has been found to create
higher agency costs. The argument is that when governance structures are effectively working, there should not be undue bureaucratic delays in any decision making.

- Finally, it is argued that small board sizes should be encouraged to promote effective communication and decision-making. However, the theory does not stipulate a rule for determining the optimal board size and for that matter what constitutes small?

2.4 Resources Dependency Theory
According George (2006), this theory introduces accessibility to resources in addition to the separation of ownership and control as a critical dimension to the debate on corporate governance. Again, the theory points out that organization usually tend to reduce the uncertainty of external influence by ensuring that resources are available for their survival and development. By implication, this theory seems to suggest that the issue of dichotomy between executive and non-executive directors is actually irrelevant. How then does a firm operate efficiently? To resolve this problem, the theory indicates that what is relevant is the firm’s presence on the boards of directors of other organizations to establish relationship in order to have accesses to resources in the form of information which could then be utilized to the firm’s advantage. Hence, this theory shows that the strength of a corporate organization lies in the amount of relevant information it has at its disposal.

2.5 Social Contract Theory
According to Jeffery (2003) the social contract theory has a long tradition in the ethical and political theory. In general, this theory considers the society as a series of social contracts between members of society and society itself. The social contract theory in business ethics argues that corporate rights and responsibilities can be inferred from the terms and conditions of an imaginary contract between business and society.

In the context of business ethics, an alternative possibility is not that business might act in a responsible manner because it is in its commercial interest, but because it is part of how society implicitly expects business to operate. An integrated social contract theory, as a way for managers to take decisions in an ethical context, has been developed. Here, distinction is made between macro social contracts and micro social contracts. Thus, a macro social contract in the extent of communities, for example, would be an expectation that business provides some support to its local community and the specific form of involvement would be the micro social contract. Hence companies who adopt a view of social contracts would describe their involvement as part of “societal expectation.”

3. RESEARCH DESIGN
This involves the strategy applied in the collection and analysis of data to ease the work and to allow for a reliable and valid conclusion. Accordingly, the following are relevant to the study.

The population of the study constitutes 33 financial institutions in Nigeria obtained from the Nigerian stock exchange fact book. The techniques of sampling were a combination of purposive sampling and stratified random sampling techniques. A total of 18 Banks and 15 insurance companies were finally used (see Appendix 1).
3.1 Model Specification/Data Analysis Technique

The method of analysis is that of multiple regressions and the method of estimation is ordinary least square (OLS).

The economic model used in the study (which was in line with what is mostly found in the literature) is given as:

\[ Y = \beta_0 + \beta_1 F_i + \epsilon_i \]  

Equation (1) where, \( Y \) is the dependent variable (Firms’ performance measures, denoted by Net Profit Margin (NPM); and Return on Equity (ROE)), \( \beta_0 \) is the constant; \( \beta \) is the Coefficient of the explanatory variable (corporate Governance Mechanisms). \( F_i \) is the error term (assured to have zero and independent across time period).

This research employs two financial ratios (Return on Equity (ROE) and Net Profit Margin (NPM) to measure the firms performance (PERF). In previous studies, Tobin’s Q (the market value of equity plus the market value of debt divided by the replacement cost of all assets) has been used extensively as a proxy for measuring firm’s performance. It is however, difficult to get the required information relating to the market value of debt issued by Nigerian firms; since these are not usually disclosed in their financial reports. In order to mitigate this problem, many scholars (Adenikinju & Ayorinde, 2001, Miyajima & Sanda 2005) used modified form of Tobin’s Q. This study will not follow their line of assumption, because the various modifications made on the original Tobin’s Q are considered to be subjective, and in line with the dictates of the writers and may influence the outcome of the study.

The study examines four corporate governance mechanisms together. The four governance mechanism are Board size (hereinafter B size), Board composition (hereinafter B COMP), Chief Executive Status (hereinafter CEO), and Audit committee (hereinafter AUDCOM).

If we adopt the economic model as an equation (1) above, the study equation (2) below will evolve.

\[ \text{PERFORMANCE (PERF)} = \beta_0 + \beta_1 B \text{ SIZE} + \beta_2 B \text{ COMP} + \beta_3 \text{ CEO} + \beta_4 \text{ AUDCOM} + \epsilon_i \]  

Equation (2).

This equation is the tool that will be used in the analyses of the data.

3.2 Variable Description

The variable in the study are described as follows:

Dependent variables:
- ROE = PROFIT AFTER Tax/shareholders Fund
- NPM = profit after Tax/turnover.

Independent variables:
- B SIZE = Board SIZE: Number of directors on the board.
- B COMP = Board composition: proportion of outside directors sitting on the board.
- CEO = Chief Executive Officer Status: Value is zero (0) if the same person occupies the post of the chairman and the chief executive and (I) if otherwise.
- AUDCOM = Audit committee: the composition of the audit committee, which is outside as a proportion of the total number for firm i in time t.
<table>
<thead>
<tr>
<th>STATISTICAL PARAMETER</th>
<th>ROE</th>
<th>PM</th>
<th>BSIZE</th>
<th>BCOMP</th>
<th>CEO</th>
<th>ANDCOMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>.3974</td>
<td>.3543</td>
<td>12.0000</td>
<td>.4963</td>
<td>1.0000</td>
<td>.5022</td>
</tr>
<tr>
<td>Median</td>
<td>.1240a</td>
<td>.2660a</td>
<td>11.8000a</td>
<td>.4889a</td>
<td>.a</td>
<td>.5022a</td>
</tr>
<tr>
<td>Mode</td>
<td>.06b</td>
<td>.31</td>
<td>8.00b</td>
<td>.05</td>
<td>1.00a</td>
<td>.50</td>
</tr>
<tr>
<td>Std. Dev</td>
<td>2.10287</td>
<td>4.5253</td>
<td>3.51825</td>
<td>.07635</td>
<td>.00000</td>
<td>.01228</td>
</tr>
<tr>
<td>Skewness</td>
<td>8.918</td>
<td>4.472</td>
<td>.196</td>
<td>-.030</td>
<td>.5022</td>
<td></td>
</tr>
<tr>
<td>Kurtosis</td>
<td>79.632</td>
<td>23.526</td>
<td>-.896</td>
<td>-.620</td>
<td>28.937</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>20.42</td>
<td>3.17</td>
<td>14.00</td>
<td>.33</td>
<td>1.00</td>
<td>.07</td>
</tr>
<tr>
<td>Minimum</td>
<td>.00</td>
<td>.00</td>
<td>6.00</td>
<td>.33</td>
<td>1.00</td>
<td>.50</td>
</tr>
<tr>
<td>Maximum</td>
<td>20.42</td>
<td>3.17</td>
<td>20.00</td>
<td>.67</td>
<td>1.00</td>
<td>.57</td>
</tr>
<tr>
<td>Sum</td>
<td>65.58</td>
<td>58.47</td>
<td>1980.00</td>
<td>81.90</td>
<td>165.00</td>
<td>82.86</td>
</tr>
</tbody>
</table>

The above table shows the descriptive statistics of all the variables used in the study. The mean ROE of sampled firms is about 40% and the mean PM is 35%. The results indicate that the average, for every N 100 turnover of the sampled firms, N 3.50 was the profit earned. The average board size of the 33 firms used in this study is 12, while the proportion of outside directors sitting on the board is about 49%. The result also indicates that 100% of the sampled firms have separated person occupying the post of the chief executive and the board chairman. All the firms have audit committees composed of at least (50.22%) of outside members. The Nigerian companies and allied matters Act, 1990 prescribe a 6-member audit committee (3 member representing the shareholders and 3 representing the management/directors). One can therefore infer that half of the boards of the sampled firms are independent.

Table 2 : Inferential Statistics of the Research Variable using Correlations (Pearson)-Roe as a Firm Performance Proxy.

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>B SIZE</th>
<th>B COMP</th>
<th>CEO</th>
<th>AUDCOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>.008</td>
<td>.236</td>
<td>.a</td>
<td>.012</td>
</tr>
<tr>
<td>BSIZE</td>
<td>1</td>
<td>.454**</td>
<td>.a</td>
<td>.151</td>
</tr>
<tr>
<td>B COMP</td>
<td>.454**</td>
<td>1</td>
<td>.a</td>
<td>.241</td>
</tr>
<tr>
<td>CEO</td>
<td>.a</td>
<td>.a</td>
<td>.a</td>
<td>.a</td>
</tr>
<tr>
<td>AUDCOM</td>
<td>.151</td>
<td>.241</td>
<td>.a</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SIG(2 TAILED</th>
<th>ROE</th>
<th>.962</th>
<th>.180</th>
<th>.</th>
<th>.944</th>
</tr>
</thead>
</table>

The Pearson correlation, here ROE is positively correlated with the firm’s board composition (0.105) and is not significant (sig. 0.180). Similar results appear for board size (0.004); (sig. 0.962) and audit committee (0.006), (sig. 0.944). It is also interesting to note that ROE did not correlate with chief executive officer status. This may be due to the fact that there was no variance in the data of the chief executive officer status.

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>B SIZE</th>
<th>B COMP</th>
<th>CEO</th>
<th>AUDCOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPM</td>
<td>-0.102</td>
<td>.036</td>
<td>.a</td>
<td>-.019</td>
</tr>
<tr>
<td>BSIZE</td>
<td>1</td>
<td>.454</td>
<td>.a</td>
<td>.151</td>
</tr>
<tr>
<td>B COMP</td>
<td>.454**</td>
<td>1</td>
<td>.a</td>
<td>.241**</td>
</tr>
<tr>
<td>CEO</td>
<td>.a</td>
<td>.a</td>
<td>.a</td>
<td>.a</td>
</tr>
<tr>
<td>AUOCOM SIG TAIRED</td>
<td>.151</td>
<td>.241</td>
<td>.a</td>
<td>-.019</td>
</tr>
<tr>
<td>NPM</td>
<td>0.192</td>
<td></td>
<td></td>
<td>.811</td>
</tr>
</tbody>
</table>

Using the Pearson correlations, the NPM result shows variables such as Audit committee (-0.019); (sig. 0.081). Others are board size (-0.102); (sig. 0.192). NMP is positively correlated with board composition (0.036) and is not significant (sig. 0.647). There was no correlation between NPM and chief executive status because there was no variance in the range of data of the chief executive officer status.

The data was further analyzed using analysis of variance (ANOVA) in order to show the joint influence of the independent variables on the ROE in tables 4 and 5 respectively.

TABLE 4. Influence of Board Size, Board Composition, CEO and Audit Committee on Return on Equity

<table>
<thead>
<tr>
<th>MODEL</th>
<th>SUM OF SQUARES</th>
<th>DF</th>
<th>MEAN SQUARE</th>
<th>F</th>
<th>SIG.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.985</td>
<td>3</td>
<td>3.328</td>
<td>.749</td>
<td>.524</td>
</tr>
<tr>
<td>Residual</td>
<td>715.233</td>
<td>161</td>
<td>4.442</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>752.218</td>
<td>164</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Multiple R-value = 0.117
R-square = 0.014
A. Predictors: (constant), AUOCOM, B-SIZE, B-COMP
B. Dependents Variable: ROE

TABLE 5. Influence for Board Size, Board Composition, CEO and Audit Committee on Net Profit Margin

<table>
<thead>
<tr>
<th>MODEL</th>
<th>SUM OF SQUARES</th>
<th>DF</th>
<th>MEAN SQUARE</th>
<th>F</th>
<th>SIG.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.653</td>
<td>3</td>
<td>.218</td>
<td>1.064</td>
<td>.366a</td>
</tr>
<tr>
<td>Residual</td>
<td>32.931</td>
<td>161</td>
<td>.205</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>33.584</td>
<td>164</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Multiple R value = 0.139  
R-square value = 0.019  
C. Predictors: (constant), AUOCOM, B-SIZE, B-COMP  
d. Dependent variable: NPM

The above tables, 4 and 5 show the analyses of the variance (ANOVA) of multiple Regression Analysis for the variables. From the analysis the following results were observed: multiple R value of 90.117 and R-square value of 0.117 and R-square value of 0.014 (1.4% predictions) with F-value of 0.947 (sig 0.524) and multiple R value of 0.139 and R-square value of 0.019 (1.9% predictions with F-value of 1.064 (sig 0.366) for ROE and NPM as performance proxies’ respectively. It clearly shows that there is weak relationship between the dependent variables (ROE and NPM) and the independent variables (the four corporate governance mechanism-board size, board composition, and chief executive status and audit committee) at 1%, 5% and 10% levels.

**TABLE 6:** Coefficients Estimate of the Influence of the Independent Variables on the Return on Equity

<table>
<thead>
<tr>
<th>MODEL</th>
<th>UNSTANDARDIZED COEFFICIENTS</th>
<th>STANDARDIZED COEFFICIENTS</th>
<th>T</th>
<th>SIG</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>B</strong></td>
<td><strong>STD.ERROR</strong></td>
<td><strong>BETA</strong></td>
<td></td>
</tr>
<tr>
<td>1 (constant)</td>
<td>.547</td>
<td>1.450</td>
<td>.469</td>
<td>.640</td>
</tr>
<tr>
<td>B-SIZE</td>
<td>-0.33</td>
<td>1.011</td>
<td>-.148</td>
<td></td>
</tr>
<tr>
<td>B-COMP</td>
<td>3.694</td>
<td>2.966</td>
<td>.109</td>
<td></td>
</tr>
<tr>
<td>AUDCOM</td>
<td>-3.173</td>
<td>2.966</td>
<td>-.280</td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 7:** Coefficients Estimate of the Influence of the Independent Variables on the NPM
In order to have a good analysis of the relationship of the variables, it was pertinent to check for the levels of influence of each independent variable on ROE and NPM as indicated in Tables 6 and 7 respectively.

From the results of the above tables, the independent variable with the greatest contribution on ROE was board corporation (t: 1.497; B: 3.694). This was seconded by Board size (t: -0.619; B: -0.033). The least factor was audit committee (t: -0.230; B: -3.173).

From the result of Table 7, the most influencing independent variable was Board component (t: 1.216; B: 0.644). This was seconded by Board size (t: -1.688; B: -0.019). The third in order was audit committee (t: -0.280; B: -0.831).

The analysis above shows that ROE is positively correlated with firms’ board composition (hypothesis C) through the level of correlation is not significant.

Similarly, the ROE is positively correlated with the firms’ board size and audit committee (hypothesis b and e respectively). While there is no correlation between the ROE and the firm’s chief executive status (hypothesis d is thus rejected). The reason could be because there was no variance in the range of data of the chief executive officer status. The analysis further reveals that the other performance proxy NPM, is positively correlated with the firms’ board composition (hypothesis g) though not significant too. There was no correlation between NPM and the chief executive officer status (hypothesis h which is thus rejected). This too, may be due to the fact that there was no variance in the data of the chief executive officer status. The relationship between NPM and the firms’ audit committee (hypothesis I which is thus rejected) as well as that of NPM and the firms’ board size (hypothesis j which is thus rejected) is negative.

The data was further analyzed using analysis of variance (ANOVA) in order to show or determine the joint influence of the independent variables on the ROE and NPM (see Tables 3a and 3b respectively). From the analysis of variance (ANOVA) of multiple Regression analysis for the variables, the following result was observed: multiple R value of 1.117 and r-square value of 0.014 (1.4% predictions) with f-values of 0.947 (sig. 0.524) and multiple R-value of 0.139 and R-square value of 0.019 (1.9% predictions with F-value of 1.064 (sig. 0.3666) for ROE and NPM as performance proxies respectively. It clearly shows that there is a weak relationship between the dependent variables (ROE and the independent variables (hypothesis a): the four corporate governance mechanisms-board size, board composition, chief executive status and audit committee) at 1%, 5% and 10% levels.

<table>
<thead>
<tr>
<th>MODEL</th>
<th>B</th>
<th>STD.ERROR</th>
<th>BETA</th>
<th>T</th>
<th>SIG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (constant)</td>
<td>.681</td>
<td>1.450</td>
<td>.469</td>
<td>.640</td>
<td></td>
</tr>
<tr>
<td>B- Size</td>
<td>-.019</td>
<td>.011</td>
<td>-.148</td>
<td>-1.688</td>
<td>.093</td>
</tr>
<tr>
<td>B-COMP</td>
<td>.644</td>
<td>529</td>
<td>.109</td>
<td>1.216</td>
<td>.226</td>
</tr>
<tr>
<td>AUDCOM</td>
<td>-.831</td>
<td>2.966</td>
<td>-.023</td>
<td>-280</td>
<td>.780</td>
</tr>
</tbody>
</table>

The data was further analyzed using analysis of variance (ANOVA) in order to show or determine the joint influence of the independent variables on the ROE and NPM (see Tables 3a and 3b respectively). From the analysis of variance (ANOVA) of multiple Regression analysis for the variables, the following result was observed: multiple R value of 1.117 and r-square value of 0.014 (1.4% predictions) with f-values of 0.947 (sig. 0.524) and multiple R-value of 0.139 and R-square value of 0.019 (1.9% predictions with F-value of 1.064 (sig. 0.3666) for ROE and NPM as performance proxies respectively. It clearly shows that there is a weak relationship between the dependent variables (ROE and the independent variables (hypothesis a): the four corporate governance mechanisms-board size, board composition, chief executive status and audit committee) at 1%, 5% and 10% levels.
Again, the data was further analyzed to check for the level of influence of each independent variable on ROE and NPM (see tables 4a and 4b respectively) shows that the independent variable with the greatest contribution on ROE was Board composition ($t$:1.497; $B$:3.694). This Audit committee ($t$:0.230; $B$: -3.173). The factor was Board size ($t$:0.619; $B$: -0.033). While the most influencing independent variable on the NPM was board composition ($B$: 0.644). This was Audit committee ($t$: -0.280; $B$: -0.831).

The relationship between board composition and the two performance measures is not statistically significant. The implication of this is that for the sample firms, there is no relationship between the firms’ financial performances and the outside directors sitting on the board. This outcome also has the support of Forsberg (1989), Weisbach (1991), and Sanda (2005).

While the negative relationship between NPM and two corporate governance proxies-Board size and Audit committee, is in line with the findings of Yermack (1996) and Mansfield (1999). The average board size of about 12 as indicated in the descriptive statistics is considered small in the Nigerian context. Also, the positive relationship between ROE and the firms’ board size reported in this research does not contradict the research findings of Eisenberg, Sundgren as well (1998) and Lawson (2005).

Moreover, that there is no relationship between the two performance indices and the chief executive status as shown in this research contradicts previous research findings as reported in Yermack (1996) and Mansfield (1999). However none of those studies relates to the financial institutions, which is one of the most regulated of all the industries in terms of capital adequacy, prudence and supervisory pressure. However, the descriptive statistics shows that 100% of the sample firms have separate person occupying the post of the chief executive and the board chairman. This has influence on the financial performance of the sampled firms’ and is in line with the tenet of the code of corporate governance best practice of Nigeria.

4. SUMMARY AND IMPLICATION

There is no doubt that many studies have been conducted so far (and is still ongoing) on the relationship between firms’ performance and corporate governance variables, but the results of these studies are mixed. The study examined the relationship between firms’ performance, using two proxies, (ROE and NPM) and four corporate governance variables (board size, board composition chief executive status and audit committee).

A sample size of 33 financial firms listed on the Nigerian Stock Exchange from 2004 to 2008 was used. Panel data methodology was employed; the method of analysis was multiple regressions and the method of estimation was ordinary least squares (OLS).

The study revealed the following. (i) there is a positive relationship between ROE and firm’s board composition, though the level of correlation is not significant. (ii) The ROE is positively correlate with the firm’s board size audit committee, and too, the level of correlation is not significant. (iii) There is no relationship between the two performance proxies (ROE and NPM) and the firm’s chief executive status. (iv) There is a relationship between the NPM and the firm’s board composition, the level of correlation or relationship is not significance. (v) There is a relationship between the ROE and the firm’s audit committee. The level of correlation is not significant. (vi) The relationship between NPM and two corporate governance proxies, board size and audit committee is negative.
In future research, the sample size and the corporate governance variables may be increased, particularly, the inclusion of ownership concentration and characteristic. The need to examine the relationship between firm performance measures when leverage is introduced will make the outcome of the research to be richer. More importantly, the existing literature indicates a sample selection bias in favor of very big firms. It is suggested that attention should be directed to the study small and medium scale firms in Nigeria and other developing economies. This is expected because of the developmental role these firms are to play and these firms account for at least 90% of the total number of firms in most developing and developed economies.

REFERENCES


[16] Ebulu, s. (2009). Sack of five CEOs: An earthquake foretold. The Nation,


APPENDIX I

LIST OF FINANCIAL INSTITUTIONS USED IN THE STUDY

1. Access Bank Plc
2. Afribank Plc
3. Bank PHB
4. Diamond Bank Plc
5. Eco Bank Plc
6. Fidelity Bank Plc
7. First Bank Plc
8. FCMB
9. First Inland Bank Plc
10. Guaranty Trust Bank Plc
11. Oceanic Bank Plc
12. Skye Bank Plc
13. Stanbic IBTC Bank plc
14. Sterling Bank Plc
15. Union Bank Plc
16. UBA Plc
17. WEMA Bank Plc
18. Zenith Bank Plc
19. Consolidated Hallmark Insurance Plc
20. Continental Re-Insurance Plc
21. Custodian and Allied Insurance Plc
22. Equity Assurance Plc
23. Gold Insurance Plc
24. Greatest Nigeria Insurance Plc
26. LASACO Assurance Plc
27. Mutual Benefits Assurance Plc
28. Niger Insurance Plc
29. Oasis Insurance Plc
30. Prestige Assurance Plc
31. Regency Alliance Insurance Plc
32. Sovereign Trust Insurance Plc
33. Staco Insurance Plc