Corporate Governance and Market Performance: Empirical Evidence from Nigerian Banks

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Abstract: The need to manage banks effectively and efficiently has become more important given the role they play in allocating scarce resources among competing uses. However, the efficacy of mechanisms employed by the boards of banks to protect and promote the interests of stakeholders has been questioned by the dozens of bankruptcies and collapse of banks around the world. In an effort to address this problem, this study empirically examined the relationships among corporate governance mechanisms and bank performance in Nigeria. The study employed panel regression analysis comprising pooled effects, fixed effects and random effects estimators on a sample of 13 out of an average of 21 banks listed on the Nigerian Stock Exchange (NSE) for the period 2005 through 2015. Consistent with earlier studies, this study found evidence of a negative and significant influence of board composition on market price per share (MPS) and a positive and significant influence of gender diversity on market capitalization (LMC). Bank age is also found to relate negatively with performance. In contrast however, the study did not find any empirical evidence to support the hypotheses that the size of the board and that of the bank affect performance as measured by MPS and LMC. In view of these evidences and in line with the agency theory, sufficient evidences have emerged that minimising the appointment of outside directors is necessary to reduce them, the board size and the high cost of maintaining directors in order to achieve superior performance. In addition, policies that will encourage more participation of female directors on the board by way of enforcing gender quotas should be encouraged by the banks and the regulatory agencies.

Keywords: Corporate Governance, Board of Directors, Bank Performance, GLS, Nigeria

I. INTRODUCTION

Everyone has interest, whether direct or indirect, in the effective and efficient performance of banks in Nigeria, for their function as financial intermediaries has a major bearing on how efficiently the economy allocates its scarce resources among competing uses. The need to manage them effectively and efficiently has become paramount, hence, the evolution of various corporate governance mechanisms and code of ethics for board members. Consequently, the effectiveness and efficiency with which the boards discharge their responsibilities helps in determining the banks competitive position.

Moreover, world events concerning high-profile bank failure and the attendant consequences of dozens of bankruptcies and collapse of firms in other sectors have precipitated the growing interest in corporate governance studies and practices by academics, regulatory authorities, multilateral bodies, corporate governance pundits and other stakeholders (Securities and Exchange Commission, SEC, 2011). For example, the notorious collapse of Bank of Credit and Commerce International (BCCI) in 1991; the East Asian financial crises of 1997 that severely affected the economies of Thailand, Indonesia, South Korea, Malaysia and the Philippines; the Russian financial crises of 1997; the Nigerian banking crises of the 1990s and 2000s among others all question the efficacy of corporate governance as a means of increasing bank performance and averting potential distress and failure.

The most recent is the collapse of the American banking subsector in 2007 that led to the global financial and economic crises in 2008 and the way the governments of affected economies chose to save banks by laying the burden on taxpayers’ shoulders while exercising austerity policies has also triggered a number of discussions over several fundamental corporate governance issues across the globe including Nigeria.

It is acknowledged by the country’s SEC (2011) that poor corporate governance is responsible for corporate bankruptcies and failures in Nigeria. This is also corroborated by the Central Bank of Nigeria (CBN) which argued that weak corporate governance practice is one of the major factors in virtually all known instances of a financial
The introduction of a series of very stringent and mandatory corporate governance codes, guidelines and recommendations for best practices in the last two and a half decades. A number of these efforts and initiatives on promoting good corporate governance in the Nigerian banking industry are evidenced in the Banks and Other Financial Institutions Act (BOFIA), 1991; the issuance of the Code of Conduct for Bank Directors by the Bankers’ Committee in 2001 and the issuance by the CBN of the Code of Corporate Governance for Banks and Other Financial Institutions in Nigeria in 2003 with subsequent revisions in 2006 and 2014. Codes of corporate governance for banks were initially voluntary but because of the recurring incidences of bank distress and failure, the codes are now mandatory.

In an attempt to determine if the compliance of banks with the various corporate governance codes influences their performance, this study uses two distinct indicators of bank performance as objective functions to determine the influential roles of three prominent corporate governance mechanisms and two institutional factors which are considered theoretically cogent in determining bank performance.

To achieve this objective, the study is subdivided into five sections. After this brief introduction is section two which considers the literature review. Section three details the methodology and data used for the estimation while section four discusses the results. The last section concludes the study and highlights some policy implications.

Significance of the Study
The importance of corporate governance in not only enhancing the performance of firms but also serving as a tool for averting corporate failure have pushed governments, regulatory authorities and even individual firms to adopt policies that safeguard stakeholders’ interests and continually review corporate governance issues. It is argued that if corporate managers are subjected to sound governance mechanisms, they will more likely allocate resources efficiently and exert effective corporate governance over the firms they manage. This type of reasoning gives the impetus for a research of this kind.

The outcome of this study is expected to be beneficial to shareholders who have to make optimal decisions on the entrenchment of best corporate practices in Nigeria. The study is also expected to assist the regulatory authorities like the SEC, CBN, Nigeria Deposit Insurance Corporation (NDIC) and the Corporate Affairs Commission (CAC) among others, on the contentious issues of board composition, size and gender diversity. Finally, the study has the potential to increase the curiosity of researchers who may want to improve upon its scope and expand the horizon of the knowledge provided by it as it will undoubtedly add to the existing literature on the subject matter of corporate governance and performance of banks in Nigeria.

II. LITERATURE REVIEW AND THEORETICAL FRAMEWORK
This section is divided into two – theoretical and empirical reviews. Whilst the former reviews theories underpinning corporate governance, the latter reviews scholarly studies on the impact of board on bank performance.

Theoretical Framework
Typically, a modern corporation is characterized by large number of shareholders who are usually not directly involved in making business decisions on daily basis either due to their size, lack of expertise, experience, or even time to manage the affairs of the business, thus, professional managers are employed to represent owners’ interests and make decisions on their behalf. Although this practice, according to early researchers such as Smith (1776), gave birth to poor incentives for the professional managers to manage the firm effectively and efficiently, therefore, leading to the principal-agent problem. Furthermore, the legal entity status of owning property, suing and can be sued give the managers power and discretion to appropriate wealth. Consequently, the growth of these agents at the top of large corporations and the increasing dispersion of ownership has further exacerbated the agency problem.

The agency theory is the most widely used theoretical framework for aligning the interests of corporate agents and owners (see Shleifer & Vishny, 1996; Sanda, Mikailu & Garba, 2010). It states that in the presence of information asymmetry, the agent (in this case, the managers and directors) is likely to pursue interests and preferences that may be detrimental to the principal, or owner (Ross, 1973; Fama, 1980). The theory argues that the central problem of corporate governance lies in how to construct mechanisms that effectively and efficiently align...
these divergent behaviours at the level of the firm (Turnbull, 1997), thus, ensuring that the agents who pursue their own interests also pursue the collective interests.

One of such mechanisms designed to help align their divergences is the monitoring of the activities of corporate managers and directors through formation of effective and efficient board of directors (Donaldson & Davis, 1991). However, efficacy of the corporate board depends on its composition and diversity (John & Senbet, 1998; Bhagat & Black, 1999; Sanda, Garba & Mikailu, 2011; Abubakar, 2014). Fields and Keys (2003) argue that board diversity encourages managers and board members to act ethically and thus improve performance.

Another board element that is capable of reducing the agency problem is the size of the board. Lipton and Lorsch (1992), Yermack (1996), Huther (1997), Eisenberg, Sundgren and Wells (1998) among other scholars argue that board size is a good monitoring mechanism. However, empirical evidence on the optimal size of the board is inconclusive. To some scholars, smaller boards are more effective. For instance, Lipton and Lorsch (1992), Monks and Minow (2008) and Sanda et al. (2010) suggest an optimal board size of ten or fewer. According to them, an average size of ten or fewer is more capable in monitoring the aberrant activities of management than larger boards. They premised their arguments on the grounds that smaller boards make decisions faster, communicate easier, are less costly and that a large board is an obstacle to change as it tends to be slow in decision making.

On the contrary however, Kyereboah-Coleman (2007) maintains that larger boards reduce the possibility of free-riding and therefore have the tendency of boosting firm performance. He based his argument on the premise that a large board enables the firm to draw from a broader range of relevant knowledge, skills, expertise and experiences in appointing directors to the board. Accordingly, diverse members add value by bringing new, cross-fertilized ideas and different perspectives to the table and that a large board is more effective in monitoring financial reporting as well as harder for a powerful chief executive officer to dominate.

Kyereboah-Coleman (2007) however contends that 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 stakeholders in order to ensure that each interest constituency receives some degree of satisfaction. John and Senbet (1998) emphasize the role of non-market mechanisms such as the size of the board and diversity in the board structure as important to firm performance.

Porter (1992) and Blair (1995) also argued that the stakeholder theory seeks to provide the ‘voice’ and ‘ownership-like incentives’ to critical stakeholders by encouraging long-term employee ownership and board representation by significant customers, financial advisers, employees, suppliers and community representatives to the corporate board. Blair (1995) added that members of the board must understand that they are the representatives of all the important stakeholders in the firm. Therefore, individuals who explicitly represent critical stakeholders should be put on boards to give those stakeholders some assurance that their interests will be taken into account. Although Blair (1995) acknowledged that conflicts of interest could result, these conflicts could be reduced by ensuring that all stakeholders receive an equity stake proportional to their firm-specific investments. Despite its limitations, the stakeholder theory remains a major point of reference in this paper and other corporate governance discussions.

**The Impact of Corporate Board Mechanisms on Bank Performance**

Many studies have provided both theoretical as well as empirical insights into the corporate governance conundrum and in the process offered different viewpoints on the relationship between corporate governance mechanisms and bank performance. Whereas some results indicate existence of a relationship, some do not provide evidence of any. Worse still, there is no unanimity on the exact nature and extent of the relationship even among scholars that reported evidence of relationship between corporate governance and bank performance. This subsection reviews empirical studies on the relationship among corporate governance mechanisms and bank performance.

Kyereboah-Coleman and Biekpe (2006a) used secondary data based on financial statements of a population of eighteen Ghanaian banks over eleven year period, 1990 to 2001, to test the relationship between board variable (board size, board composition, CEO duality and CEO tenure) and two performance variables (return on assets, ROA and change in interest income). They employed a modified version of generalised least squares model of Miyajima, Omi and Saito (2003). The results point to a positive relationship between board size and ROA for both listed and non-listed banks. On board composition, the study shows that the more outsiders on a bank’s board, the worse the performance in terms of ROA. In other words, when a board is deemed independent, performance of the bank is worse. This finding is consistent with that of Agrawal and Knoebel (1996) who suggested that boards expanded for political reasons often result in too many outsiders on the board which does not help performance.
Asogwa (2009) empirically examined the determinants of shareholder value creation of banks quoted on the NSE using Random Effects Probit (REP) model for the period, 2004 through 2008. The study which used financial policy, dividend policy, profitability and earnings, as well as bank size, age and structure as proxies for determining bank value employed the ratio of market value to book value as surrogate for shareholder value creation. Comparing Random Effects Probit and Standard Probit model, the study revealed that REP performs better than the Standard Probit model. The study also found that dividend policy is more important in value creation than profitability and growth. Furthermore, financial policy, bank size and structure were found to have no significant effect on shareholder value creation.

Hassan (2010) studied corporate governance mechanisms and performance of nine out of 21 licensed deposit money banks in Nigeria between 2003 through 2007. The study utilized multiple regression techniques and found no significant relationship between corporate governance measures (board size, board composition, director’s shareholding, dividend policy and audit quality) and financial performance (return on assets, net interest margin, Tobin’s Q and price earnings ratio). Based on the findings, the study recommended that regulatory authorities should leave issues of board size and board composition to the discretion of Nigerian banks.

In a similar vein, Maxwell and Kehinde (2012) scrutinized whether a positive correlation exists between corporate governance and bank performance using two corporate governance indicators – board composition and ownership structure and market value as a measure of bank performance. The study utilized cross-sectional survey research design and correlation coefficient in gathering and analysing data respectively from a sample of 14 out of 21 banks quoted on the NSE as at 31st December, 2008. The authors found no relation between corporate governance indicators used in the study and performance of banks in Nigeria. Based on these findings, they recommend that, since board composition has no positive correlation with firm performance, board size should be limited in order to improve firm performance through cost reduction.

Fanta, Kemal and Waka (2013) examined the impact of selected internal and external corporate governance mechanisms (board size, audit committee, capital adequacy ratio and loan loss provision) on performance (ROA and ROE) of a sample of 9 (2 state-owned and 7 private commercial) banks in Ethiopia for the period 2005 through 2011. Controlling for bank size and ownership type, the authors regress corporate governance mechanisms on firm performance revealing a statistically significant negative influence of board size and audit committee on bank performance. In contrast, the study reported positive and statistically significant impact of capital adequacy ratio and bank size on performance. The study noted absence of organized stock exchange; high government intervention; lack of corporate governance awareness, absence of national standards of corporate governance, as well as accounting and auditing; and weak legal framework to protect minority shareholder rights as the major factors inhibiting effective corporate governance and bank performance in Ethiopia.

Thuraisingam (2013) found no evidence of a significant relation between the percentage of outside directors and various performance measures. The author studied relationship between corporate board mechanisms (board size, board composition and audit committee) and company performance (ROA and ROE) of the financial services industry of Sri Lanka from 2008-2011 randomly sampling 20 out of 33 banks, finance and insurance organizations listed on the Colombo Stock Exchange (CSE) as at April 1, 2007 and employed Simple Linear Regression model to identify any relationships. However, the study did not establish a significant relationship between the selected performance measures and corporate governance mechanisms. In specific terms, the study provided evidence of an insignificant positive impact of board composition on ROA and ROE and a non-significant negative and positive influence of board size on ROA and ROE respectively. The study however documented a positive and significant impact of audit committee on ROE and an insignificant positive influence of audit committee on ROA. The author suggested that if shareholders’ interests are to be promoted, greater flexibility in acceptable governance structures may therefore be necessary and hence the need for future research with a larger sample.

Al-Saïdi and Al-Shammari (2013) provided insights on the relationship between board composition (i.e., non-executive directors, family directors, role duality and board size) and bank performance using a sample of nine listed banks in Kuwait over 2006 to 2010 period. The study which used ordinary least squares (OLS) and two-stage-least squares (2SLS) to test such a relationship and to address endogeneity in explanatory variables reveals that board composition of banks relates to their performance. According to the OLS regression results, only board size and proportion of non-executive directors negatively affect bank performance. Meanwhile, the 2SLS results indicated that role duality positively affects a bank’s performance while board size affects a bank’s performance negatively. The study noted smaller sample size and time frame as their major limitations.

Bebefi, Mohammed and Tarno (2015) analyzed the effects of board size and board composition on performance of banks listed in Nigeria. The authors employed multivariate regression analysis technique on a sample of five banks. The study which used secondary data for a period of nine years, reported a significant negative
impact of board size on ROA and ROE and a significant positive influence of board composition on bank performance. The study recommended among others, the need for banks to have adequate board size to the scale and complexity of the bank’s operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings. The board must also be made up of qualified professionals who are conversant with oversight functions.

In a recent study, Ayako and Wamalwa (2015) examined determinants of the eleven (11) commercial banks listed on the Nairobi Securities Exchange between 2002 and 2012. The authors employed Olhson’s Residual Income Valuation (RIV) to estimate bank value. The empirical results of the random effects regression model revealed mixed results such that whereas bank total assets, capital structure, cash flows, dividend ratio and intangible assets had no statistically significant individual effects on bank value, market capitalization had statistically significant effect on bank value at 5%. Given the relatively low combined effects of the determinants under the study, it recommended further studies to identify and include additional firm specific, industry level and macroeconomic variables to evaluate the effects of alternative computation of firm value on the model estimation results.

The conclusions from the previous empirical studies are ambiguous. These ambiguities may be due to differences in theoretical frameworks and estimation methods. In summary, most studies conducted within and outside Nigeria particularly those that are reviewed in this study could not adequately address the corporate governance problems of banks by making a thorough analysis of the interplay of corporate governance mechanisms and bank performance using appropriate methodology to assess the effect of various influential factors on the subject matter. Some of them have not included control for other factors like size and age of the firm as these are factors known to affect firm performance and may blur the picture if not controlled. Yet, some of the studies employed only accounting ratios to test the efficacy of corporate governance mechanisms. Accounting measures have limitations imposed by generally accepted accounting principles (GAAP) and possible window dressing and so do not account for risk differences. This study utilizes market measures to hedge against the vagaries of accounting data.

III. DATA ISSUES AND METHODOLOGY

This section covers the techniques employed in data collection and analysis. It comprises of methods of data collection and analysis, sample and sampling procedure and model specification.

Data Issues

This study uses secondary data across 13 deposit money banks (DMBs) quoted on the NSE. The data which were obtained from NSE Factbooks and of individual banks covered the period 2005 through 2015. It is a panel research design that seeks to examine the relationship between corporate governance mechanisms and market performance of banks listed on the NSE.

Sample Size and Sampling Technique

This study adopts a purposive (non-probability) sampling technique as only banks that were present on the NSE throughout the study period were selected. To ensure a balanced panel data set, banks that were quoted after 2005 as well as those that were delisted from the market or crumbled in between the study period were not included in the sample. Thus a sample of 13 out of an average population of 21 DMBs were covered.

Estimation Techniques and Procedures

The study utilized both descriptive and inferential statistics. The results are divided into two to reflect these analyses. The descriptive analysis provides frequencies and averages of relevant variables to describe the data set. The inferential panel regression analysis is conducted to explain the influence of corporate governance mechanisms represented by board size, board composition and gender diversity on market performance of Nigerian listed banks proxied by market price per share (MPS) and market capitalisation (LMC).

\[
MC_{i,t} = MPS(NOS_{i,t})
\]

Where MC is year-end market capitalisation, NOS denotes number of ordinary shares outstanding and subscripts i and t represent bank i in year t, respectively. Considering the large nature of the value of market capitalisation, this study adopts the logarithm of market capitalisation as a proxy for bank performance. The independent variables are also measured as follows:

Board Composition (BC): This is the percentage of outside directors in proportion to board size. This is in line with the studies by Sandra et al. (2010), Thuraisingam (2013) and Shaba (2016).

Board Size (BS): This is the number of directors sitting on a bank board in a particular financial year. The use of this variable as a determinant of firm performance is common among corporate governance scholars (see Abubakar, 2014; Shaba, 2016).
Gender Diversity (GD): This is the percentage of female directors in proportion to board size. The choice of this variable follows the studies by Abubakar (2014) and Shaba (2016).

Firm Age (FA): It is the number of years of listing at a Stock Exchange instead of number of years from founding. It is argued that older firms are believed to be more experienced, enjoy the benefits of learning and are associated with first mover advantages (Douma, George & Kabir, 2003). The authors however asserted that older firms are also prone to inertia and are less flexible in their ability to adapt to competitive pressures. It has also been argued that as firms grow older; their markets shrink with attendant increased costs and deterioration of performance (Loderer & Waelchli, 2011).

Firm Size (FS): This is measured by the total assets base of a bank. Hassan (2010) however, contended that the natural logarithm of total assets is better considering the seemingly large value of total assets hence this study adopts the logarithm of total assets as a proxy for firm size. The use of this variable as a proxy for firm size is widespread in corporate governance literature (See Hassan, 2010; Shaba, 2016).

The generalised form of the estimated equation is given as:

$$Y_{it} = \alpha + \beta X_{it} + \gamma C_{it} + \mu_{it}$$

Where:

- $Y$ is the dependent variable (different measures of bank performance);
- $\alpha$ is a constant, otherwise known as an intercept;
- $X$ is a vector of explanatory variables which consists of board composition, board size and gender diversity;
- $C$ is the vector of control variables – firm age and size;
- $\mu$ is the error term (assumed to have zero mean and independent across time periods);
- $\beta$ is the regression coefficient of the vector of the explanatory variables;
- $\gamma$ is the coefficient of the vector of $C$ explanatory variables;
- Subscripts $i$ and $t$ are as defined under (1).

From the generalised equation presented as equation (2), the specific forms of the estimated equations are detailed as follows:

MPS equation therefore takes the form of:

$$MPS_{it} = \alpha_{it} + \beta BC_{it} + \delta BS_{it} + \omega GD_{it} + \gamma FA_{it} + \theta FS_{it} + \mu_{it}$$

Where MPS represents year-end market price, BC connotes board composition, BS denotes board size, GD is gender diversity, FA represents firm age, FS is firm size, $\mu$ is the error term, $\alpha, \beta, \delta, \omega, \gamma, \theta$ are the coefficients of their respective variables and the subscripts $i$ and $t$ are as defined under (2).

Similarly, the LMC equation takes the form:

$$LMC_{it} = \alpha_{it} + \beta BC_{it} + \delta BS_{it} + \omega GD_{it} + \gamma FA_{it} + \theta FS_{it} + \mu_{it}$$

Where LMC indexes year-end market capitalization in logarithm form, BC, BS, GD, FA, FS, $\mu$ and $\alpha, \beta, \delta, \omega, \gamma,$ and $\theta$ are as defined under (3). Subscripts $i$ and $t$ are as defined under (2).

Model Selection Test

There is the need to determine a more suitable model among the different approaches that were employed for the estimation. The best method of selecting the most suitable between fixed and random effects models is the Hausman Chi-square test (See Tian & Zeitun, 2007; Salawu, 2007). The Hausman (1978) specification test is the most conventional and widely used test for selecting the most efficient between fixed and random effects models. It enables the determination of the level of correlation between the unobserved unit of the dependent variable and the regressors. If there is a significant correlation among the variables of interest, conclusion can be drawn on the suitability of fixed effects model otherwise the random effects model is considered and recognised as more appropriate. This is because if the correlation among the variables of interest is significant, random effects model is likely to be inconsistently estimated. The decision criterion is that if the $p$-value for the test is less than 5.0% (i.e., $p \leq 0.05$) then the fixed effects specification is to be preferred otherwise the random effects model is the most appropriate.

IV. RESULTS AND DISCUSSION

This section presents, interprets and discusses the results. It is divided into two sub-sections, namely; descriptive and inferential results. The descriptive statistics which generally explored the characteristics of the data include; the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, Jarque-Bera, probability, sum as well as number of observations per each variable. The inferential statistics consist of pooled ordinary least squares, fixed and random effects estimators and model selection test.

Summary Statistics
The analysis begins by examining the basic characteristics of the data using summary statistics as a starting point. The summary statistics provided are for board composition, board size, gender diversity, firm age, size and logarithm of market capitalisation. A critical assessment of MPS revealed an average market price of N10.98, a median of N7.50, a maximum and minimum of N52.00 and N0.52 respectively with the standard deviation computed at N10.21. The deviation from the mean of this magnitude signifies that most of the firms in the banking sub-sector do not have similar market price per share. A further examination of the data revealed an equal mean and median of 14 and maximum and minimum board sizes of 20 and 7 members respectively. Of the overall total board size of 1,974 members during the study period, non-executive directors, their executive counterparts and female directors accounted for an average of 63.17%, 36.83% and 12.69% respectively.

Comparatively, while Thuraisingam (2013) reported a maximum board size of 14, a minimum of 5, an average of 9 and a standard deviation of 2 when she examined the effects of corporate governance on performance of Sri Lankan financial services firms, Fanta et al. (2013), reported a maximum of 12 members on the board, a minimum of 5, an average of 9 and a standard deviation of 2 when the authors examined the impact of corporate governance on performance of Ethiopian banks. The average and maximum board sizes of 14 and 20 found in this study further indicate that Nigerian banks have relatively larger boards than those in Sri Lanka and Ethiopia, which, the CBN believes is better for bank performance.

The maximum of 91.67% and an average of 63.17% board composition explain the banks’ compliance with the CBN (2014) revised code of corporate governance best practice for banks and discount houses which requires higher proportion of non-executive directors against their executive counterparts for efficient monitoring. Similarly, the maximum and minimum board sizes of 20 and 7 members throughout the study period fall within the limits set by the revised code of a maximum and minimum of 20 and 5 directors respectively.

For firm age, the descriptive statistics reveal that at the end of 2005 and 2015, the oldest bank was 33 and 44 years old; the youngest, 1 and 15 with the average and median computed at 17.063 and 12 years respectively. The implication of this finding is that most of the sampled banks are experienced which should translate into superior performance.

**Correlation Coefficients**

As presented in Table 2, the correlation results yielded a triangular matrix. It reveals mixed relationships among the variables. Whilst the least association is found between BC and LFS with a value of -54.9%, the highest is found between MPS and LMC with a correlation coefficient of 70.6%.

**Table 1: Summary Statistics**

<table>
<thead>
<tr>
<th><strong>Variable</strong></th>
<th><strong>Mean</strong></th>
<th><strong>Median</strong></th>
<th><strong>Minimum</strong></th>
<th><strong>Maximum</strong></th>
<th><strong>Std. Dev.</strong></th>
<th><strong>Skewness</strong></th>
<th><strong>Kurtosis</strong></th>
<th><strong>Jarque-Bera</strong></th>
<th><strong>Probability</strong></th>
<th><strong>Observations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>MPS</td>
<td>10.982</td>
<td>7.500</td>
<td>0.520</td>
<td>52.000</td>
<td>10.212</td>
<td>1.601</td>
<td>5.627</td>
<td>3.294</td>
<td>0.000</td>
<td>143</td>
</tr>
<tr>
<td>BS</td>
<td>14</td>
<td>20</td>
<td>7</td>
<td>1974</td>
<td>2.849</td>
<td>-0.278</td>
<td>2.960</td>
<td>21.140</td>
<td>1.000</td>
<td>143</td>
</tr>
<tr>
<td>BC</td>
<td>63.165</td>
<td>62.500</td>
<td>42.857</td>
<td>91.667</td>
<td>9.082</td>
<td>0.867</td>
<td>3.968</td>
<td>23.502</td>
<td>1.000</td>
<td>143</td>
</tr>
<tr>
<td>GD</td>
<td>12.688</td>
<td>12.500</td>
<td>0.000</td>
<td>42.857</td>
<td>9.988</td>
<td>0.386</td>
<td>2.677</td>
<td>13.217</td>
<td>0.041</td>
<td>143</td>
</tr>
<tr>
<td>FA</td>
<td>17.063</td>
<td>12.000</td>
<td>1.000</td>
<td>44.000</td>
<td>13.217</td>
<td>0.886</td>
<td>2.361</td>
<td>21.140</td>
<td>0.041</td>
<td>143</td>
</tr>
<tr>
<td>LFS</td>
<td>3.294</td>
<td>3.301</td>
<td>0.124</td>
<td>36.326</td>
<td>0.000</td>
<td>0.124</td>
<td>0.000</td>
<td>11.766</td>
<td>0.041</td>
<td>143</td>
</tr>
<tr>
<td>LMC</td>
<td>25.403</td>
<td>25.403</td>
<td>1.000</td>
<td>70.667</td>
<td>1.000</td>
<td>0.198</td>
<td>1.853</td>
<td>21.140</td>
<td>0.041</td>
<td>143</td>
</tr>
</tbody>
</table>

The moderate degrees of associations among all the variables presupposes the absence of autocorrelation as evidenced in the Durbin Watson statistics of 2.128 and 2.108 under fixed effects model of the MPS and LMC equations respectively (see Table 4).
Unit Root Test

The study adopted a panel unit root test consisting of Levin, Lin and Chu; Im, Pesaran and Shin; Augmented Dickey-Fuller (ADF) - Fisher Chi-square and Phillips-Perron (PP) - Fisher Chi-square. The result as reported in Table 3 revealed the variables as level stationery. For instance, under individual intercept, Im, Pesaran and Shin, and ADF - Fisher Chi-square reported the variables as non-stationery at level. Individual intercept and trend reported all variables as level stationery and without intercept and trend under ADF - Fisher Chi-square reported the variables as non-stationary at level.

Inferential Results and Discussion

Empirical Results on MPS Equation

<table>
<thead>
<tr>
<th>Variable</th>
<th>PE</th>
<th>FE</th>
<th>RE</th>
<th>PE</th>
<th>FE</th>
<th>RE</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>305.731</td>
<td>-224.205</td>
<td>19.338</td>
<td>-18.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[1.935]</td>
<td>[-2.243]</td>
<td>[1.453]</td>
<td>[-1.957]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BS</td>
<td>-0.234</td>
<td>-0.221</td>
<td>-0.608***</td>
<td>-0.006</td>
<td>0.011</td>
<td>0.021</td>
</tr>
<tr>
<td></td>
<td>[-0.587]</td>
<td>[-0.576]</td>
<td>[-1.904]</td>
<td>[-0.167]</td>
<td>[0.327]</td>
<td>[0.680]</td>
</tr>
<tr>
<td>BC</td>
<td>-0.182***</td>
<td>-0.206***</td>
<td>-0.080</td>
<td>-0.007</td>
<td>-0.000</td>
<td>0.000***</td>
</tr>
<tr>
<td></td>
<td>[-1.386]</td>
<td>[-1.878]</td>
<td>[-0.773]</td>
<td>[-0.763]</td>
<td>[-0.015]</td>
<td>[1.947]</td>
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<tr>
<td>GD</td>
<td>-0.082</td>
<td>0.193</td>
<td>0.221**</td>
<td>0.007</td>
<td>0.029**</td>
<td>0.020**</td>
</tr>
<tr>
<td></td>
<td>[-0.672]</td>
<td>[1.408]</td>
<td>[2.285]</td>
<td>[0.595]</td>
<td>[2.511]</td>
<td>[2.098]</td>
</tr>
<tr>
<td>LFS</td>
<td>7.680**</td>
<td>-77.351</td>
<td>76.485**</td>
<td>7.790*</td>
<td>2.273</td>
<td>12.829*</td>
</tr>
<tr>
<td></td>
<td>[2.525]</td>
<td>[-1.619]</td>
<td>[2.572]</td>
<td>[27.763]</td>
<td>[0.656]</td>
<td>[4.601]</td>
</tr>
<tr>
<td>FA</td>
<td>0.053</td>
<td>-1.432*</td>
<td>0.168**</td>
<td>0.012</td>
<td>-0.103**</td>
<td>0.011</td>
</tr>
<tr>
<td></td>
<td>[0.353]</td>
<td>[-3.037]</td>
<td>[2.173]</td>
<td>[0.797]</td>
<td>[-2.549]</td>
<td>[0.997]</td>
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<tr>
<td>AR(1)</td>
<td>0.639*</td>
<td>0.332*</td>
<td>0.675*</td>
<td>0.318*</td>
<td>0.675*</td>
<td>0.318*</td>
</tr>
<tr>
<td></td>
<td>[9.139]</td>
<td>[4.078]</td>
<td>[9.932]</td>
<td>[4.029]</td>
<td>[9.932]</td>
<td>[4.029]</td>
</tr>
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</table>

Table 4: Estimated Results

Note: PE = Pooled Effects, FE = Fixed Effects, RE = Random Effects, *, ** & *** = Significance at 1.0, 5.0 & 10.0 per cents respectively, () = t-statistics, AIC = Akaike Information Criterion, SBC = Schwarz Criterion, HQC = Hannan-Quinn Criterion, DW = Durbin Watson
The Hausman (1978) tests show Chi-Square values of 19.166 and 12.858 with associated p-values of 0.0039 and 0.0453 for the MPS and LMC equations respectively. These in part, are indications that fixed effects model is the most efficient for the two equations.

From the results presented in Table 4, the R2 is 0.602 implying that 60.2% of market price per share is aggregatedly determined by BS, BC, GD, LFS and FA which is considered to be above average. The F-statistic of 9.339 is also significant at 1.0% suggesting that variations in MPS are adequately explained by the regressors in the model.

The results show evidence of a significant negative influence of board composition on MPS in congruence with the findings of Sanda et al. (2010), Maxwell and Kehinde (2012), Al-Saïdi and Al-Shammari (2013) and Tukur and Abubakar (2014). This result suggests that Nigerian banks should reduce the appointment of outside directors since greater board composition is detrimental to market performance (MPS).

The inverse and significant impact reported may be due to the fact that outside directors may be too busy with other commitments and are involved with the company strategic issues on a part-time basis or their appointments may be politically motivated. In addition, such outside directors may not possess the necessary business acumen or even the commitment to monitor the executive management; hence do not necessarily make the best decisions that will stimulate the expected reaction. In accordance with the hypotheses of the agency and stakeholder theories of corporate governance, this negative and significant impact of board composition on firm performance reported in this study does not align the interests of stakeholders. However, Pinteris (2002), Kyereboah-Coleman and Biekpe (2005) and Javed and Iqbal (2007) among other corporate governance scholars found that firms with higher presence of outside directors on their boards perform better than their counterparts. This is true because outside directors have the incentive to act as monitors of management since they will want to protect their reputations as effective, independent decision makers.

Nonetheless, firm age affects MPS of banks sampled in this study such that the more the banks get older the worse their performance in terms of MPS. This finding is in line with the empirical studies conducted by Douma et al. (2003) and Loderer and Waelchli (2011) who attributed negative and significant impact of age on performance to deterioration, increased cost of operations and slowness in adapting to changes in today’s volatile, versatile and competitive business environment.

The negative coefficient of board size under fixed effects model though insignificant indicates an inverse relationship signifying the tendency for increase in the size of the boards of Nigerian listed banks to be accompanied by decrease in their market prices. This finding, though, insignificant supports Thuraisingam (2013) who found insignificant influence of board size on performance of Sri Lankan financial services firms. The coefficient of gender diversity is positive and also non-significant. This substantiates the empirical documentations of earlier scholars like Swartz and Firer (2005), Randoy, Thomsen, Oxelheim (2006) and Francoeur, Labelle and Sinclair-Dessagne (2008) who did not find any evidence to support the argument that the presence of women on boards help improve firm performance.

**Empirical Results on LMC Equation**

As shown in Table 4, the R2 and adjusted R2 for the LMC equation are respectively 72.1% and 67.5%. Thus, variation in the size of the board, composition of the board of directors, board gender diversity, size and age of the bank accounted for at least 67.5% of the variance in this market performance, LMC. In addition, the value of F-statistics which is 15.898 and significant at 1.0% indicates that the model is well fitted.

Just like the MPS equation, there is a negative and significant influence of firm age on LMC connoting that every increase in firm age is associated with decrease in market capitalisation of the sampled banks and vice-versa. In tandem with the empirical findings of Adams and Ferreira (2009), Vo and Phan (2013), Abubakar (2014), Tukur and Abubakar (2014) among other scholars, our results provide evidence of a positive and significant influence of gender diversity on a capital market based measure, LMC. One possible explanation is that greater gender diversity impacts significantly on measures of board effectiveness (Adams & Ferreira, 2009) and thus, better organisational and financial performance (Abubakar, 2014).

Like the MPS equation, the coefficient of board size is insignificant, though positive, signifying the tendency for a capital market based measure (market capitalisation) to increase as board size increases. This insignificant relationship also supports the finding of Thuraisingam (2013). Similar to the MPS equation too, a negative but insignificant influence of board composition on performance (LMC) is reported. Although the logarithm of firm size indicate some variations in LMC, this relationship is also not statistically significant.

**V. CONCLUSIONS AND POLICY IMPLICATIONS**

The general interest of stakeholders in the performance of banks in Nigeria can largely be attributed to the role they play in mobilising resources, both human and material; in generating employments; in paying taxes; and in
providing sources of livelihood to mankind, businesses and the government. The need to manage them effectively and efficiently has thus become paramount because the economy depends on the safety and soundness of its financial institutions to thrive. Therefore, the essence of good corporate governance is that the directors must be free to drive their institutions forward, but exercise that freedom within a framework of transparency and effective accountability.

However, due to the aberrant actions of greedy managers, the efficacy of corporate governance in protecting and promoting the interests of depositors, investors and other stakeholders has been questioned by the repeated failures of banks not only in Nigeria but around the world. The consequences of these failures on the banks and other sectors of the economy are enormous and unbearable.

There is therefore the need to examine the most efficient mechanisms that will align the divergent interests of banks’ stakeholders in Nigeria. In a bid to achieve this, this study empirically examined the relationship between the most prominent corporate governance mechanisms (board composition, board size and gender diversity) and market performance proxied by market price per share and market capitalisation in Nigeria. The effects of institutional factors such as age and size on bank performance were also investigated. The study employed panel regression analysis comprising pooled effects, fixed effects and random effects estimators on a sample of 13 banks listed on the Nigerian Stock Exchange for the period 2005 through 2015. The most commonly used technique of Hausman specification test was conducted on the fixed and random estimators to determine the most optimal model.

The empirical results showed that the size of the board does not have any significant impact on bank performance as measured by market price per share and market capitalisation. This suggests that performance is not dependent on number of people sitting on the boards of banks quoted on the NSE. The findings also provide evidence of a significant negative and an insignificant negative impact of board composition on MPS and LMC respectively, positing on the need to have minimum non-executive directors on the board in order to maximise shareholder value and reduce agency problems in Nigerian banks. Several reasons may be responsible for these findings. Nigerian boards may have been expanded for political reasons which often result in too many outsiders on the board which does not enhance performance. Furthermore, the members of the board may have been involved in dysfunctional conflicts where board members do not work optimally to achieve the overall objective of shareholders wealth maximisation. The negative relationships noticed may also be due to over-monitoring by non-executive directors, ineffective communication among directors, lack of time and business acumen which results to director agency costs where directors consume more resources than they contribute to the firm thereby reducing firm performance.

In view of these, sufficient evidences have emerged that minimising the appointment of outside directors is necessary to reduce them, the board size and the high cost of maintaining directors in order to achieve higher performance. The result is consistent with the agency theory which focuses on maintaining smaller boards in order to reduce the possibility of free-riding, align the behaviours of managers whose interests are assumed to diverge from those of their principals and hence improve firm performance.

Gender board composition is found to impact positively on bank performance. This suggests the need for the banks to increase the appointment of women on the boards of Nigerian listed banks in order to maximise the wellbeing of the stakeholders’

The results also show that age is a determinant of firm performance. Hence, banks must be more flexible in their ability to adapt to changes in economic conditions, political and legal factors, technology and competitive pressures among others.

The findings therefore suggest the need for the SEC, Corporate Affairs Commission (CAC), and CBN to re-examine the procedures for the appointment of non-executive directors in order to remove the influence of powerful CEOs from the appointment process. The management of the banks in collaboration with the shareholders’ associations through the appointment committee should also emphasize entrepreneurial skills and sufficient knowledge in critical areas like management, finance, law, accounting, economics, engineering and board matters in the appointment of outside directors as this will enable Nigerian banks to draw from diverse skills and experiences that will help improve performance. The CBN should consider reversing the provision of the 2014 revised code of a maximum of 20 where necessary as a means of reducing the exorbitant costs associated with maintaining large boards and hence improve bank performance. In addition, policies that will encourage more participation of female directors on the board by way of enforcing gender quotas should be encouraged since gender diversity does positively and significantly impact on performance of banks listed on the NSE.

Since age affects performance negatively, this study recommends that Nigerian banks should respond adequately to changes in the political, legal and regulatory, socio-economic, competition and technological environments among others in order to avert the negative impact of age on performance. Firms in Nigeria should be more flexible, entrepreneurial and innovative as they get older in order to earn higher performance.
Limitations of the Study

The limitations of this study are noted below:

First, the study sample was determined by data availability and not a probability criterion. Since the samples used are typically only based on quoted banks for which it is possible to get reliable information, the findings of this study may thus not be representative for all banks in Nigeria.

The study is within the agency and stakeholder frameworks given the increased support for these theories in the literature. Hence, no other perspectives of interpreting the interrelationships among corporate governance variables are considered.

The study adopted a panel regression approach to examine the impact of corporate governance mechanisms on bank performance. There is also the need to examine qualitative as well as psychological features of board characteristics on corporate performance of Nigerian banks. Therefore, failure to do this is an important weakness.

Suggestions for Further Studies

This study has laid some groundwork to explore the impact of corporate governance mechanisms on market performance of Nigerian listed banks upon which a more detailed evaluation could be based. Further research is required to develop new hypotheses and design new variables to reflect the influence of corporate governance mechanisms on bank performance. In addition, a more detailed work that will study qualitative as well as psychological features of board characteristics and performance of Nigerian banks could help in resolving some theoretical underpinnings of corporate governance.

This research examined the impact of corporate governance mechanisms on performance of banks listed in Nigeria. The need for further studies that will examine the influence of bank performance on corporate governance mechanisms in Nigeria is recommended.

VI. REFERENCES


