CORPORATE GOVERNANCE AS A MECHANISM FOR MEASURING FINANCIAL PERFORMANCE OF BANKS IN NIGERIA

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ABSTRACT

The issue revolving around corporate governance and financial performance has always been an essential and critical element for banking sector in Nigeria. Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving performance. Precisely, this study investigates the relationship between the corporate governance mechanisms (CEO tenure, board size and the audit committee size) and return on assets (ROA) was chosen as a measure of financial performance. Moreover, this study used firm size, leverage, bank age and management change as control variables. Furthermore, the research made use of secondary data obtained from the annual reports of twenty-one (21) banks listed in the Nigeria Stock Exchange for the year 2006 to 2009. The model of this study was theoretically found on the agency theory. In analyzing the data, this study utilized the panel data methodology on 21 banks with 68 observations. Based on the panel data results, the random effect model was used to examine the effect of the predictors on the financial performance measured by ROA. In Nigerian banks, the result indicates that the relationship between CEO tenure and ROA is positively significant. This study further found that the relationship between board size and ROA is positively insignificant. In addition to that, this study found that the relationship between audit committee size with ROA is negatively insignificant. Also, this study found that the relationship between firm size and ROA is negatively significant while the relationship between leverage, bank age and ROA were found to be positively significant. Finally, the outcome of the relationship between management change and ROA is positively insignificant. Besides providing suggestions for future research work, this study provides several recommendations for regulators and the Nigerian banking industry.

Keywords: CEO tenure, board size, audit committee size, corporate governance and financial performance

ABSTRAK

Isu yang berkisar tadbir urus korporat dan prestasi kewangan sentiasa menjadi elemen penting dan kritikal untuk sektor perbankan di Nigeria. Amalan tadbir urus korporat yang baik dianggap sebagai penting dalam mengurangkan risiko bagi pelabur, menarik modal pelaburan dan meningkatkan prestasi. Secara khususnya, kajian ini menyiasat hubungan antara mekanisme tadbir urus korporat (tempoh CEO, saiz lembaga pengarah dan saiz jawatankuasa audit) dan pulangan ke atas aset (ROA) telah dipilih sebagai ukuran prestasi kewangan. Selain itu, kajian ini meggunakan saiz firma, pengungkitan, umur bank dan perubahan pengurusan sebagai pembolehubah kawalan. Tambahan pula, kajian ini dibuat menggunakan data sekunder diperolehi daripada laporan tahunan dua puluh satu (21) bank yang disenaraikan di Bursa Saham Nigeria bagi tahun 2006 hingga 2009. Model kajian ini secara teorinya berasaskan teori agensi. Bagi menganalisis data, kajian ini menggunakan kaedah panel data bagi 21 bank dengan 68 pemerhatian. Berdasarkan keputusan panel data, model kesan rawak digunakan untuk mengkaji kesan satu ramalan mengenai prestasi kewangan yang diukur oleh ROA. Dalam bank Nigeria, keputusan kajian menunjukkan bahawa hubungan antara tempoh Ketua Pegawai Eksekutif dan ROA adalah positif yang signifikan. Kajian ini juga mendapati bahawa hubungan antara saiz lembaga pengarah dan ROA adalah positif dan tidak signifikan. Di samping itu, kajian ini mendapati bahawa hubungan antara saiz jawatankuasa audit dan ROA adalah negatif dan tidak signifikan. Selain itu, kajian ini mendapati bahawa hubungan antara saiz firma dan ROA adalah negatif dan signifikan manakala hubungan antara pengungkitan, umur bank dan ROA didapati positif dan signifikan. Akhir sekali, hasil daripada hubungan antara perubahan pengurusan dan ROA adalah positif dan tidak signifikan. Selain menyediakan cadangan untuk penyelidikan masa depan, kajian ini memberikan beberapa cadangan untuk pengawal selia dan industri perbankan Nigeria.

Kata kunci: CEO tempoh, saiz Lembaga, saiz jawatankuasa audit , tadbir urus korporat dan prestasi kewangan

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Abdullahi Bala Ado

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LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
2SLS	Two-stage least squares regression
AUDITSIZ	Audit Committee Size
BANKAGE	Bank Age
BCBS	Basel Committee on Banking Supervision
BOARDSIZE	Board Size
BOFIA	Banks and other Financial Institutions Act
CAC	Corporate Affairs Commission
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CEOTENUR	CEO Tenure
FIRMSIZE	Firm Size
IFC	International Finance Corporation
MCHANG	Management Change
NDIC	Nigerian Deposit Insurance Corporation
NSE	Nigeria Stock Exchange
OECD	Organization for Economic Cooperation and Development
ROA	Return on Asset
SEC	Securities and Exchange Commission
UK	United Kingdom
USA	United States of America
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Corporate governance is still a hot topic of great relevance to many researchers in various field of knowledge (Demirag & Khadaroo, 2011). It is an entire sequence of financial and regulatory mechanisms designed to reduce clashes of interest between the management and stakeholders of capital in the banks (Vafeas, 1999). Consequently, corporate governance aim at protecting the shareholders from the opportunistic behavior, and make the managers work hard to accomplish the interests of the owners particularly the shareholders in the organization (Kyereboah-Coleman & Biekpe, 2005).

Corporate governance in this manner refers to the procedures and structures by which the affairs of business and institutions are managed and directed, with the goal of enhancing shareholder's value through improving corporate accountability and performance, while considering the interest of other shareholders (Jenkinson & Mayer, 1992).

The recent corporate failure around the world has strengthened the importance of corporate governance particularly in both developing and developed countries. The issue of corporate governance bounced to global business attention from virtual obscurity after a series of breakdowns of high profile corporations. Houston, Texas based energy giant, Enron and WorldCom the telecom behemoth, stunned the business world with both the age and scale of their illegal and unethical dealings. These organizations appeared to reveal only the tip of a dangerous iceberg (Shleifer & Vishny, 2007).

In Nigeria, the subject of corporate governance is being given the front burner position by all parts of the economy. For example, the Securities and Exchange Commission (SEC) set up a committee on corporate governance in the public companies known as Peterside Committee. Another sub-committee on corporate governance for banks and other financial institutions in Nigeria was set up by Banker's Committee. This is in acknowledgment of the serious roles played by corporate governance in the failure or success of Banks in Nigeria (Ogbechie, 2006).

Banks are backbone of economic growth through the services they offer. Their intermediation function is said to be an incentive for economic development. The efficient and effective performance of the banking industry over time is an indication of financial strength in any country. The level to which a bank offers credit to the public for productive activities fast-tracks the speed of a nation's sustainability and economic growth (Kolapo, Ayeni, & Oke, 2012). Stable banking systems are essential element of good financial systems, as has been clearly shown by current growths around the world (Barth, Caprio Jr, & Levine, 2001).

In emerging economies, banking sector with other sectors has came across numerous incidents of collapses, which include the Savannah Bank Plc, Societe Generale Bank Ltd, Alpha Merchant Bank Ltd (within Nigeria), The Trust Bank of Kenya, Consolidated Bank of Kenya Ltd, Capital Finance Ltd and Continental Bank of Kenya Ltd among others (Akpan, 2007). Given the wrath of events that have stirred the efforts of banks to conform with the several consolidation guidelines and the experiences of few operators in the system, there are worries on the need to reinforce corporate governance in the banks.

This will enhance public confidence and guarantee effective and efficient performance of the banking system (Soludo, 2004).

The first bank of Nigerian was established in 1892 as the African Banking Corporation. They were no banking legislation, until 1952 when the conventional banking commenced with the industry undergoing a lot of institutional and regulatory improvements. The industry was managed by at least 5 out of 89 banks presence before the beginning of the restructuring of banking industry in the country. Nigerian banks practice a system of multiple branches, which as at 2004 has an aggregate of 89 banks (Chiemeke, Evwiekpaefe, & Chete, 2006). "The industry is likewise confronted with substantial difficulties, comprising the persistent cases of failure and distress, a poor capital base, loss of public confidence, poor asset quality, over bearing effect of corruption and fraud and so on". Part of the efforts to resolve these current problems involve the guidelines issued by Central Bank of Nigeria on banking reform in June 2004, which is to a great extent focused at decreasing the number of banks and making the uprising banks much reliable and stronger (Chiemeke *et al.*, 2006).

Financial performance as given by Nimalathasan (2008) conveyed that the common purpose of supporting much of the financial performance discussions and research is that, rising financial performance analysis will provide improvement in processes and functions of the organization. Financial performance and research into its dimension is well progressive within management and finance fields. A display of performance indicators is required to reveal the various features of the bank performance (Gibson & Cassar, 2005).

Aarma, Vainu and Vensel (2004) implied that performance analysis of banks is an essential issue in the states of transition economies because of the strategic role played during the successful transition of the financial sector. Various features of the DuPont financial ratios seems to be appropriate to the banks and other financial institutions (refer to Avkiran, 2000; Dietrich, 1996). Altman and Hotchkiss (2010) stated that ratio analysis is a representation of the true picture of performance of a business at a particular point. Despite the importance of financial ratio analysis in providing valuable knowledge to an entities performance, it has some significant boundaries as an analytical instrument in analysis of bank performance.

Corporate governance in emerging economies has presently received a lot of attention by stakeholders [see for example, Agoraki, Delis and Staikouras (2010); Bebchuk, Cohen and Ferrell (2009); Goswami (2000); Lin, 2001; Malherbe and Segal (2001); McConnell, Servaes and Lins (2008); Oman (2001); Smallman, Carter and Lorsch (2005)], however corporate governance of banks in emerging countries as it relates with financial performance has nearly being disregarded by many researchers (Caprio & Levine, 2002; Ntim & Osei, 2013). Indeed, even in industrialized countries, banks corporate governance and their financial performance has only been deliberated presently in some literature (Uwuigbe & Fakile, 2012).

Finally, this study examine the role played by corporate governance in measuring the financial performance of banks in Nigeria. Unlike previous studies, this study uses the operating performance variables to examine if they are any relationship between corporate governance and the financial performance of Nigerian banks.

1.2 Problem Statement

Corporate governance in banking sector has presumed sensitive significance and has turned into a subject of global concern, it is required in other to enhanced services and strengthening of financial intermediation with respect to banks and enables appropriate banking operations.

> *"Corporate governance is essential to the proper performance of banks and that corporate governance can also be a way of avoiding bank distress only if it is well executed but they did not clearly show how improper corporate governance will cause bank failure" (Uche, 2004).*

In Nigeria, the issue of large scale abuse and malpractices by capital market operators have raise a great concern, particularly the current occurrence on the sale of forged securities of some publicly quoted corporations. Many corporations have gone into insolvency for reasons verging on non-existing or ineffective system of corporate governance. Examples are Abacus Merchant bank, Onwuka Hitech and others not mentioned (Dabor & Tijjani, 2010). Due to calls by stakeholders for reinforcement of corporate governance components to improve the supervisory function of the board of directors and to reinstate public confidence in the reliability of financial reporting, in 2003 the Nigerian Security and Exchange Commission announced the new Code of Best Practices on corporate governance for public quoted companies which was later revised in 2011 to improve its efficiency and effectiveness, the affected companies are required to adapt to the revised procurements (Ofo, 2011).

Moreover, according to Sanusi (2010), the recent banking distress in Nigeria, has been associated with governance misconduct within the merged banks which has in this way turned into a lifestyle in large segments of the sector. He also said that corporate governance in several banks is unsuccessful because of the fact that boards overlooked these practices for reasons involving being misinformed by the executive, partaking themselves in acquiring un-secured loans to the detriment of depositors and not having the experiences to impose good corporate governance practice on bank management.

In 2009, series of accounting irregularities recorded in the Nigerian banking was widely publicized (for example, Fin Bank, Union Bank, Afri Bank, Spring Bank, Oceanic Bank and Intercontinental Bank) was identified with the absence of vigilant supervision functions by members of the boards of directors, the board assign control to executive management who chase their own self-interests and the board being careless in its responsibility to shareholders (Uadiale, 2010).

As of January 2010, a regulation was passed by CBN limiting the tenure of bank CEO to a maximum number of 10 years in office, and by 31 July, 2010 some setting CEO's are required to resign. The purpose of the guideline is to enhance corporate governance of banks in Nigerian by preventing the "sit-tight syndrome" where the executives manage the bank as their own private business instead of a publicly held establishment accountable to depositors, shareholders and government regulators. CEO's are ineligible to serve as directors for the period of three years after the second term as CEO elapses and they are restricted to two renewable of five years in office (Sanusi, 2010).

Furthermore, Aburime (2011) argue that

> *"Placing a cap on bank CEO tenure in Nigeria negates this paradigm and implies that CEOs remaining in office beyond the cap has adverse implications for the performance of the banks they manage. He said his initial analysis indicated that CEO tenure had a detrimental impact on the technical efficiency of banks in Nigeria from the second until the seventh year. Efficiency indicators then recorded significant improvement until about the eighteenth year. In other words, every bank CEO should exit when the performance ovation is loudest so their banks can keep making satisfactory progress."*

The longer a CEO remains in office, the more connected he becomes, the more he perceives and acts as if the bank belongs to him, and the more likely he will become a dominant positive or negative influence on the level of performance of the bank. The extent to which this trend could have adversely impinged on the efficiency of the banks they managed is a matter yet to be considered by the existing body of literature on bank performance in Nigeria. The negative implication of this trend is that, if poor performing CEOs are able to keep themselves in office because they own a large chunk of their banks' voting shares, corporate governance mechanisms could become ineffective and worsen the performance of their banks (Aburime, 2011).

As a result, several corporate governance reforms have precisely emphasized on suitable changes to be effected on the board of directors in terms of its structure, size and composition (Abidin, Kamal, & Jusoff, 2009). Based on the above issues, this study attempts to bridge this gap as CEO tenure, and board size and further justify if audit committee size has effect on performance of banks and the determinants of banks financial performance using accounting variable.

1.3 Research Questions

Thus, from the issues highlighted in the problem statement section above, this research stressed on addressing the following questions that emerges within the study context:

I. What is the relationship between CEO tenure and financial performance of banks in Nigerian?

II. What is the relationship between board size and financial performance of banks in Nigeria?

III. What is the relationship between audit committee size and financial performance of banks in Nigeria?

1.4 Research Objectives

The principal focus of this research is to assess the effect of corporate governance on the financial performance of banks in Nigeria. Precisely, the following objectives have been identified;

I. To examine the relationship between CEO tenure and financial performance of Banks in Nigeria.

II. To examine the relationship between board size and financial performance of banks in Nigeria.

III. To examine the relationship between audit committee size and financial performance of banks in Nigeria.

1.5 Significant of the Study

This study would add to the enduring argument on the relationship that prompt between the corporate governance with banks financial performance in Nigeria. It would enlighten management of the bank on the positive effect of corporate governance on the bank financial performance. Managers at all levels would benefit from this study on how current Nigerian codes of corporate governance increase the degree of performance in Nigerian banking sectors. This study hopefully contributes to the framework upon which the government could take appropriate policies on corporate governance as well as other codes of best practice so as to move the economy further to compete favorable with their emerging Asian counterparts and the world in general. Students and readers of this work may stand the chance to benefit a lot from this study as it shows the understanding and the impact of corporate governance as it exposes and serves as reference materials for future researcher. The study contributes to the body of relevant literature and reference materials in the area of corporate governance and also its impact on the financial performance in the Nigeria banking sector, which is seen as one of the strategic sectors of the economy.

1.6 Scope and Limitations of the Study

The current research focuses on the banks which are listed in the Nigerian stock exchange and CBN bulletin, meaning that this research cover the 21 banks that were listed and traded on main board of the Nigeria stock exchange from 2006 - 2009. The selection of this sector is grounded on the fact that the banking sector's strength has a huge positive externality and the banks are considered as the main institutions that keep track of the payment system in an economy, that is essential for the stability of the financial institutions. The financial sector stability, in this regards has a deep externality on the economy in general. The outcomes of the present study are limited to the banks operating within the Nigerian economy. The scope of corporate governance variables comprises of the CEO tenure, board size and the audit committee size. In regards to bank financial performance, these study emphases on one measurement of accounting performance, which is return on asset (ROA) employed in this study to determined the financial performance of banks in Nigeria.

1.7 Organization of the Study

This research is sub-divided into five sections, the summary of each of the section were captures briefly in chapters below;

Chapter 1 provides a short introduction based on the arrangement of the contents in the chapter, which comprises the background of the study, followed by problem statement, then research questions and the objectives of the research. This chapter also highlights the significance, scope, limitation and finally in the chapter is the organization of the study. Chapter 2 focuses on the review from previous literatures that is related to the independent and dependent variables. It covers literature about the concept of corporate governance, importance of corporate governance in Nigeria, corporate governance principle and compliance, concept of bank financial performance, corporate governance structure, theoretical framework and finally review of empirical literature.

Chapter 3 discusses research methodology and explain the methods that is been device to carry out the research. The population as well as sample of the study is being explained, data collection and the instrument development for the study was also highlighted, lastly the methods that have been used for the data analysis to test the hypotheses development is covered in this chapter. Chapter 4 discusses descriptive statistics followed by diagnostic tests, correlation analysis, then to model selection between fixed and random effect, it then discusses the linear regression analysis, additional analysis and lastly the whole summary of the chapter. Chapter 5 discusses the summary of the study, it goes further to discuss the implication of the study, limitations of the study, recommendations for future studies and ultimately conclusion of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section discusses the impact of corporate governance as mechanism for measuring financial performance of banks in Nigeria. It reviews and synthesizes the work of other scholars with regards to corporate governance as well as the findings of previous researches. It contains a detailed discussion on the concept of corporate governance with a view to identified evolution of corporate governance in Nigeria and importance of corporate governance as well as the corporate governance principle and compliance, code on corporate governance practices for banks post consolidation, corporate governance legislation: an overview of Nigerian banking industry, corporate governance and bank distress, cause of corporate governance and bank distress in Nigeria and concept of bank financial performance is also discussed. Furthermore, this section identifies and also discusses the theoretical framework of the study.

2.2 Concept of Corporate Governance

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Olannye & David, 2014). As such it is essential that a comprehensive framework be codified in the accounting framework of any organization. In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the organization depends on the underlying soundness of its individual components and the connections between them.

According to Shleifer and Vishny (1997), among the main factors that support the stability of any country's financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; a sound disclosure regimes and an appropriate savings deposit system.

Corporate governance may be the ways of bringing the interest of investors and managers into line and ensuring that firms are run for the benefit of investors. Effective corporate governance mobilizes the capital appropriation with the promotion of efficient use of resources both within the company and the larger economy. It also assists in attracting lower cost of investment capital by improving domestic as well as international investors confidence (Rehmans & Mangla, 2010).

Corporate governance swivel around some important aspect such as role of board of directors, basic structure of board of directors, its remuneration, ownership of director, availability of freedom to an enterprise, role of services of institutional directors, accountability of member of BOD, financial reporting, institutionalization of audit functions and linkage with shareholders. Good corporate governance can add value to developing sound corporate management and enriching the results of corporate entities for society in general and shareholders in particular to be the beneficiaries (Rehmans & Mangla, 2010).

There are various definitions of corporate governance. Definition most commonly used on a large scale is the one given by the Organization for Economic Cooperation and Development (OECD), which states that corporate governance is a system that direct and control business. "Governance structure specifies the distribution of rights and responsibilities among the various participants in the company, such as plate, managers, shareholders and other stakeholders, and defines the rules and procedures for making decisions concerning the affairs of the company. Through it, it also provides the structure through which company objectives and the means by which to achieve these objectives and monitoring performance" (Jesover & Kirkpatrick, 2005).

According to International Finance Corporation (IFC) corporate governance simply refers to "the stimulating and processes developed for the direction and control of companies". The term corporate governance is used in a distinct way by different people. In the Anglo–Saxon countries like the United Kingdom and United State, efficient corporate governance entails firms pursing the overall interests of shareholders (equity owners). While in some other nations like France, Germany and Japan, it involves presenting the interests of all corporate stakeholders that include workers, clients, the public and to whom the preparation is responsible as well as the shareholders. Thus, many scholars view corporate governance from different perspectives. For instance, Al-matari, Fadzil (2011); Morck and Nakamura (1999); Pandya (2011) view it as those structures and procedures developed for the control and direction of corporations.

Nevertheless, corporate governance includes a couple of relationships that exist between the management of the company, its auditors, its board of directors, shareholders and other stakeholders. These relationships in other words involve various rules and incentives, and then offer the structure through which the aims and objectives of the company are set, and the means of achieving these objectives as well as observing performance are determined. Thus, the most significant aspects of good corporate governance is to embrace transparency of corporate structures and operations; the boards to shareholders and the accountability of managers; and corporate responsibility towards stakeholders (Pandya, 2011).

2.3 Evolution of Corporate Governance in Nigeria

The term corporate governance emerged after the study of corporate control and ownership separation, they pinpoint the essential components of corporate governance. The divergence rises and performance diminishes when the level of separation amongst control and ownership rises (El-Chaarani, 2014). “Without showing suspiciously nationalistic, Nigeria is universally renowned for its corrupt practices that profoundly eaten into the societal structures of the Nigerian people”. The term corporate governance as formerly known, is absolutely new subject of discussion in Nigeria and other rest of the developing and developed economies. History of corporate governance in scholastic and corporate platforms is at the earl adopter stage within the globe, in 1996 a lecture was delivered on corporate governance at Harvard Business School (Moran, 2010).

The change of power that happen in Nigeria in the year 1999 which brought a new administration into power with a strategy to pull in new and feasible foreign investments which are in the demanded for reform in all sectors of the economy. This brought about a set up commission to examine the adequacy, existence and moreover relevance of corporate governance in Nigeria in relation to the global best practices in light of the new International Economic Order (NIEO) (Oyebode, 2009).

The recent black market trading in Nigeria, gigantic and pervasive frauds, obligatory retirement of CEOs of banks, because of fraudulent activities and wasteful rubber-stamped board, have merged to identify the nonexistence of or breakdown of standing corporate governance policy. The Companies and Allied Matters Act (CAMA 1990) established to control and regulate the relationship among the shareholders, board and management comprising different stakeholders, flopped woefully because of deficient enforcement capacity (Oyebode, 2009).

In Nigeria, regulatory bodies such as the Central Bank of Nigeria (CBN), securities and Exchange Commission (SEC), Nigerian Deposit Insurance Corporation (NDIC) and Corporate Affairs Commission (CAC), are enormously staffed with self-intrigued executives who effortlessly and promptly team up with organization's senior officials to trade off the shareholder’s interest. Board members are handpicked from the puddle of high-profiled civil servants and even from retired senior military officers without fundamental skill in business and financial dealings (Okpara, 2010). This arrangement of unproductive saboteurs sits on the over populated board of directors (average 40-50 members) with the sole reason to propagate fraudulent practices especially altering the compensations of senior executives which compromise corporate governance decorum and etiquette. Institutional investors in Nigeria are debilitated and excluded in governance, and it is not exceptional to partner some few shareholders to rally bolster for the board and the management at the Annual General Meetings, while the gatherings even occur at remote areas trying to keep away most shareholders from attending (Oyebode, 2009).

2.4 Importance of Corporate Governance in Nigeria

In 2007 during the world financial crisis, the corporate scandals which prompted the failure of corporate titans such as Enron, WorldCom, and so forth, has drawn out the significance of efficient corporate governance all over the globe. Lapses within the senior executives of organizations and careless stance of boards of directors in Nigeria quite in the areas of guaranteeing satisfactory review of the frameworks for consistence with rules and regulations, combined with lack of frameworks to support and review material changes in accounting standards, keep on putting corporate governance in the bleeding edge as panacea for reversal (Adams & Mehran, 2003).

The corporate scandals wrecked with the coming of Sarbanes Oxley 2002 in the United States which further fetched into the corporate and political spotlight the certainty of effective corporate governance in offering tactical direction not only to the management as well as, to guarantee accountability, transparency and controls to safeguard business interests, the enthusiasm of the stakeholders and the shareholders. With regard to the ongoing global economic problems, current researches in corporate governance have clearly pointed out the positive correlation between efficiency in corporate governance best practice and sustainable economic growth and development (Adams & Mehran, 2003).

As discussed by Alfiero and Venuti (2015) most of the literature investigating the importance and role of corporate governance is focused mainly on industries rather than on the banking industry or financial services sectors. Only recently an increasing attention has been paid on this topic precisely for the banking sector. Alfiero and Venuti (2015) states that the Basel Committee on Banking Supervision (BCBS) defined “corporate governance” for banks in the glossary of its 2014 document “Corporate Governance Principles for Banks” as the “set of relationships between a company’s management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority is allocated and how corporate decisions are made”.

After the world financial meltdown in the late 1990’s during the Asian Financial crisis, has flagged up a clarion call on the need to amend corporate governance structure as the only answer for effective turnaround. The prevailing practice in the less developed nations in Middle East, Asia Africa, and Eastern Europe to grasp privatization of government establishments, most particularly Russia's remorseful enormous privatization without the fitting frameworks set up, are wakeup calls to the underdeveloped, developing and even the developed nations alike to put resources into infrastructure required to support effectiveness in corporate governance best practice (McGee & Bose, 2007).

The major lesson learned was the demise of one of the key players in corporate governance i.e when there is conflict of interest between the agent and the principal by enchanting unsuitable risks in the business, in light of the fact that the board is not offering the oversight to curtail agency problems, the outcome is enormous agency cost (Mallin, 2012). In the ongoing global context, government around the world are compelled to pay the agency cost (monitoring and disciplining) with the bail-out payments which further plunged the global economy into deficit. However, the major import from these literature reviews is that regardless of the level of economic advancement of the western world, the fundamentals and the pragmatic common-sense principles of corporate governance remain relevant especially in Nigerian banking sectors.

2.5 Corporate Governance Principle and Compliance

As an emerging nation, expanding the quantity and quality of universal inflow of capital is a key significance step. The recent financial crisis, which eventually started to have an impact during the third quarter of 2008, while slowing the world economies, by putting the United States of America into stagnation, this brought about the prominence of corporate governance practices to the attention of firms, stakeholders and all other related parties. A good corporate governance practices is a vital tool for indicators of growth and sustainability within the activities of the organizations in 2011 (Mallin, 2012).

Financial institutions are descriptive of the corporate approach within the financial sector and where it works, knows that a strong system for good governance can be accomplished through deciding the kind of strategy the management will adopt, actualizing viable internal control and risk management instruments, setting efficient ethical tenets, running overall public disclosure under the range of the current disclosure guidelines in a superb manner and transparency in the exercises of the Board of Directors activities (Adenike & Ayorinde, 2009).

In line with the standards of corporate governance, financial institution deals with the rights and obligations of its shareholders, clients, employees and other related parties by using the general principles of transparency, equality, responsibility and accountability included within the point of view of efficient management and control system. Performing activities in line with the moral qualities decided in parallel with the Nigeria Commercial Code, Capital Markets Law and related enactment, financial institution is in consistence with the Corporate Governance Principles and regards them as essential as financial performance for offering long term value for its potential investors (Nigerian Stock Exchange, 2009).

2.6 Concept of Bank Financial Performance

Mostly, the financial performance of banks and other financial establishments are been measured using a combination of financial ratios, benchmarking, measuring performance against budget (Ashbaugh-Skaife, Collins, Kinney, & Lafond, 2009; Avkiran, 1994). The financial statements of commercial banks that is published normally enclose a assortment of financial ratios meant to give an indication of the performance of the banks.

As its well known in accounting, there are constraints associated with the use of some of the financial ratios. In this research notwithstanding, ROA ratios with premium income size are utilized to gauge the performance of commercial banks. The bank size, operational proficiency and asset management are utilized together to investigate the connections among them and the financial performance. Simply expressed, a great part of the present bank performance literature portrays the aim of financial establishments as that of acquiring satisfactory returns and minimizing the risk taken to procure this return (Bhagat & Black, 2000). There is a commonly established relationship between risk and return, in other words the higher the risk the higher the projected return. Consequently, traditional methods of measuring bank performance have measured both risks and returns. The growing rivalry in the national and global banking markets, the developments towards monetary unions and the new technological developments indicates significant revolutions in the banking environment, and task all banks to prepare suitable arrangements so as to go into new competitive financial environment.

Ashbaugh-Skaife et *al.* (2009) examined the adequacy of commercial banks in light of their assets size. They used in their study a multi criteria approach to categorize commercial banks as per the return and operational factors, and to demonstrate the dissimilarities of the bank's efficiency and profitability between small and large banks.

Quadri (2010) stated in his study that most past studies concerning organization performance evaluation concentrate just on operational effectiveness and operational efficiency which may notwithstanding impact the existence of an organization. By utilizing advanced two stage data envelopment analysis model in their study, the empirical outcome of this study is that an organization with better effectiveness does not generally imply that it has better efficiency. Financial statements of banks can be measured by a collection of financial ratios prepare to present a genuine picture of company's performance in the Nigerian banking sector.

2.7 Corporate governance structure

2.7.1 CEO Tenure

CEO tenure relates to the way how the CEO approaches certain problem and how the CEO analyzes the typical issue within the organization. It is often used to address CEO turnover which is used to analyze CEO succession issues. The issues in agency theory arise from two fundamental assumptions which are goal incongruence and information asymmetry (Chakravarthy & Zajac, 1984).

The goal and objective of the banks refers to the partially differing objectives of the principal and the agent, concerning issues of adverse selection and moral hazard. This refers to the lack of transparency in the actions and decisions of the agent. Given the inherently nontransparent nature of actions taken by the agent, a principal seeking to limit divergence from his own interests must monitor the outcome of these actions, i.e. the corporate performance. Published performance becomes a strategic variable for the CEO, and might thus be subject to specific discretionary activities on his or her part, in order to secure the position as top executive. A decline in performance increases the probability of subsequent CEO turnover (Kyereboah-Coleman, 2007).

Performance-related turnovers were generally observed in cases where CEOs leave before normal retirement age. That is shorter CEO tenure indicative of poor performance of the CEO. If the top executive remains longer in a company until normal retirement age, performance is not an explanation for the change in CEO turnover. On another perspective, longer CEO tenure meant that the CEO is able to exercise power based on the argument from information asymmetry. The CEO may have indirect control on the board of directors.

2.7.2 Board Size

The board of directors should be designed to be the pack of executive and non-executive directors. Chairman should be having a command on all executive and non-executive directors. There should be between five and fifteen persons on the board size (Pillania, Ogbechie, Koufopoulos, & Argyropoulou, 2009).

Previous literature on board size provided the link between the board size and bank performance because they have a range of expertise to help make better decisions, and harder for a powerful CEO to dominate. Mak and Li (2001) found a positive correlation between board size and bank performance of the result of their ordinary least squares (OLS) but their two-stage least squares (2SLS) regressions do not support this result in examining 147 Singaporean banks from 1995 data. Adams and Mehran (2003), in the United state banking industry, found a positive relationship between the board size and performance. Dalton and Dalton (2005) reported that larger boards were correlated with higher bank performance.

On the other hand, many recent studies leaned towards smaller boards Yermack (1996) found a negative relationship between board size and bank performance. Based on a sample of 452 large United State industrial corporations between 1984 and 1991, he documents that the market values banks with smaller boards are higher. Eisenberg, Sundgren and Wells (1998) also find an inverse relationship between board size and profitability when using sample of small and midsize Finnish banks. They presented evidence of an inverse relationship between board size and profitability. Vafeas (2000) supports that banks are better informed about earnings are with smaller board, when the board consists of five members. Mak and Li (2001) reported that listed bank valuations of Singaporean and Malaysian banks are highest in banks with smallest board. Bonn, Yoshikawa and Phan (2004) found a positive association between board size and bank performance for Japanese banks but found no relationship between the two variables for its Australian counterpart. Shakir (2008) found a negative relationship between board size and bank performance and that supports a suggestion by Jensen (1993) who stated that for a bank to be effective in its monitoring, it should have a relatively small board of directors. Haniffa and Hudaib (2006) suggested that a large board is seen as less effective in monitoring performance and could also be costly for companies in terms of compensation and increased incentives to shirk.

The optimal number of directors is an important question to answer for companies. Efficiency is reduced if the number of directors is too large because there is an increased difficulty in achieving agreement concerning decisions. Conversely, decision-making precision is reduced if the number of directors is too small because there may not be adequate discussion of issues involved (Wu, Xu, & Phan, 2011). Different countries have different board sizes. For example; although United Kingdom and United States of America boards subscribe to the same model, they differ in size, with United Kingdom boards typically being smaller. To illustrate, the median number of board members for firms in the study by Dedman (2000) is eight, whereas in the United States of America study conducted by Yermack (1996), the median board size was 12. Pfeffer (1972) argued that preferences for board size are related to the resource dependence perspective.

The greater the reliance on the external environment is, the larger the board of directors. Small boards are most appropriate when directors serve primarily as administrators. It might also be noted that small boards are more "manageable" from the CEO's perspective (Daily & Dalton, 1993).

2.7.3 Audit Committee

There has been growing recognition in recent years of the importance of corporate governance in ensuring sound financial reporting and deterring fraud. The audit serves as a monitoring device and is thus part of the corporate governance mosaic (Cohen, Krishnamoorthy, & Wright, 2002).

Levitt (2000) argued that "audit committees play an indispensable role in challenging those practices that have the potential to undermine the quality of financial reporting." In addition, by performing the attest verification function, auditors are a significant part of a firm's monitoring system and thus can also be considered an essential component of the corporate governance mosaic. Therefore, in principle, auditors must work with other actors in the corporate governance mosaic to ensure that stakeholders receive the highest quality financial reports as well as help to protect the interests of current and future shareholders and investors. For instance, the auditor must work with the audit committee to assess and promote financial reporting quality (Cohen et al., 2002).

Agency theory literature argues that large audit committee which is a function of larger board with sufficient resources enables quicker ratification of anomalies in companies (Abbott, Parker, & Peters, 2004; Dellaportas, Leung, Cooper, Rochmah Ika, & Mohd Ghazali, 2012; Li, Mangena, & Pike, 2012). Moreover, Akhtaruddin, Hossain, Hossain and Yao (2009) and Anderson, Gillan and Deli (2003) posit audit committee size to total board as impacting positively on disclosure.

Consequently, based on the agency theory postulations, larger audit committee provides much needed support in the dual role of management opportunistic behavior and information asymmetry reduction. Audit committee is an important agency mechanisms of good corporate governance which is expected to result in effective financial reporting outcomes in annual report (Jensen & Meckling, 1976). Anderson et al (2003) foresee a greater monitoring oversight due to the number of members that may share the various responsibilities that requires their attention.

2.8 Theoretical Framework

This review has seen corporate governance from various theoretical perspectives. The emergence of agency theory, stakeholder theory, stewardship theory, transaction cost theory and political theory addresses the cause and effect of variables, such as the configuration of board members, audit committee, independent directors and the role of top management. In addition, ethics in business have been closely associated with corporate governance. This can be seen with the association of business ethics theory, feminist ethics theory, discourse ethics theory, virtue ethics theory and postmodern ethics theory. Hence, it can be argued that corporate governance is more of a social relationship rather than process orientated structure. Based on this, the study adopted agency theory as the theoretical framework.

2.8.1 Agency Theory

Chakrabarti (2006) stated that agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1975) and further developed by (Jensen & Meckling, 1976). Agency theory is defined as the "relationship between the principals, such as shareholders and agents such as the company executives and managers". In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholders agents (Clarke, Cull, Peria, & Sánchez, 2005). Indeed, Chakrabarti (2006); Daily, Dalton, and Cannella (2003) argued that two factors can influence the prominence of agency theory. First, the theory is conceptually a simple theory that reduces the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested.

The agency theory, shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Davis, Schoorman, & Donaldson, 1997). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross (1973) and the first detailed description of agency theory was presented by (Jensen & Meckling, 1976; Kajola, 2008). Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by (Davis et al., 1997). In agency theory, the agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agents pursuits. Even the understanding of risk differs in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Sullivan, 2002). Uadiale (2010) argued that instead of providing fluctuating incentive payments, the agents will only focus on projects that have a high return and have a fixed wage without any incentive component.

Although this will provide a fair assessment, but it does not eradicate or even minimize corporate misconduct. Here, the positivist approach is used where the agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke et al., 2005). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. Due to the fact that in a family firm, the management comprises of family members, hence the agency cost would be minimal as any firm's performance does not really affect the firm performance (Chakrabarti, 2006).

The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationally where rewards and punishments seem to take priority (Jensen & Meckling, 1976; Kajola, 2008). This theory prescribes that people or employees are held accountable in their tasks and responsibilities. Employees must constitute a good governance structure rather than just providing the need of shareholders, which maybe challenging the governance structure.

2.9 Review of Empirical Study

Al-Manaseer, Al-Hindawi, Al-Dahiyat, and Sartawi (2012) conducted a study on the impact of corporate governance on the performance of Jordanian Banks, the study investigates empirically the impact of corporate governance dimensions (board size, board composition, chief executive officer status and foreign ownership) on the performance of Jordanian Banks. The study employed pooled data, and ordinary least square estimation method to examine relationship between Jordanian banks performance and corporate governance dimensions for 15 banks quoted on the Amman Stock Exchange. The study reveals a positive relationship between corporate governance dimensions with the number of outside board members and foreign ownership and Jordanian banks performance. Whereas, board size and the separation of the role of CEO and chairman have a negative relationship with performance. In addition, the study revealed that banks benefit from large size in offering services more than granting loans. It suggested that there may be a need for bank regulation in the area of corporate governance which would balance the interests of executives, board of directors and shareholders.

Rehmans and Mangla (2010), also conducted a study on corporate governance and performance of financial institutions in Pakistan making a comparison between conventional and Islamic banks in Pakistan. This study provides the structure through which the company's objectives are set and the means of obtaining those objectives and monitoring performance. It also explained on how corporate governance may be the ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors. The study was mainly conducted on the basis of literature survey and secondary information. Various journals and research papers, diagnostic study reports and newspaper articles have been surveyed in making this study. It found out that banking sector in Pakistan was influenced by the government authorities with weak governance which results in a low performing sector, but after making the necessary changes in the governance structure in every sector marked a phenomenon growth and high returns in it. The study discovered that there are still some gaps left in the governance structure of the banking sector in Pakistan, but these gaps will fill up by the Islamic banks due to their more reliable governance structure.

Similarly, Suberu and Aremu, (2010), conducted a study on the corporate governance and merger activity in the Nigerian banking industry. The study examined the merger activity in the Nigerian banking industry which has as at the time of study recorded twenty - five (25) successful mergers arising from the regulatory demand for consolidation. The data used are essentially secondary. The major finding revealed that the banking sector is partly responsible for the poor state of the Nigerian economy through its support for the import dependence nature of the economy rather than financing of sustainable economic development through shareholder's values maximization. It was recommended that to ensure improvements in corporate governance through the pursuit of shareholder value which managers, should uphold as guiding instruments for their job security.

Kim, Rasiah and Tasnim (2012) conducted a study on the relationship between corporate governance and bank performance in Malaysia during the pre and post Asian financial crisis. The study revealed that corporate governance came to be seen as a problem in banking system following the Asian financial crisis. Malaysia is a particularly interesting case and it was seen as a worthy example of a “tiger economy”, experiencing continuous economic growth and social development. The study attempts to identify and understand the differences between two types of banking ownership – the private domestic owned banks and the foreign owned banks in terms of relationship between corporate governance and bank performance in the pre and post Asian financial crisis. The variables are classified into two types, firstly there is a conceptual definition of variables and secondly, there is operational definition.

Kajola (2008), studied corporate governance and firm performance, taking a case study of Nigerian listed firms. The study seeks to examine the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and profit margin, PM), of a sample of twenty Nigerian listed firms between 2000 and 2006. Using panel methodology and OLS as a method of estimation, the results provide evidence of a positive significant relationship between ROE and board size as well as chief executive status. The results further reveal a positive significant relationship between PM and Chief executive status. The study however, could not provide a significant relationship between the two performance measures and board composition and audit committee. These results are consistent with prior empirical studies.

Kyereboah-Coleman, (2007), also conducted his study on corporate governance and firm performance in Africa making a dynamic panel data analysis. The study examined the effect of corporate governance on the performance of firms in Africa by using both market and accounting based performance measures. Unique data from 103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five-year period 1997 – 2001 was used and analysis done within the dynamic panel data framework. Results indicate that the direction and the extent of impact of governance are dependent on the performance measure being examined. Specifically, the findings show that large and independent boards enhanced firm value and that combining the positions of CEO and board chair has a negative impact on corporate performance. It also finds that CEO's tenure in office enhances a firm's profitability whiles board activity intensity affects profitability negatively. The size of audit committees and the frequency of their meetings have positive influence on market based performance measures and that institutional shareholding enhances market valuation of firms. It was recommending a clear separation of the positions of CEO and board chair and also to maintain relatively independent audit committees.

In addition, a study by (Chakrabarti, 2006) on corporate governance in India, evolution and challenges. Sought to establish that corporate governance of Indian banks is undergoing a process of change with a move towards more market – based governance. It also as mechanism on the existence of a deep and liquid stock market with considerable informational efficiency as well as a legal and financial system. The study used literature survey and secondary information. It was found that with the recent spate of corporate scandals and the subsequent interest in corporate governance, a plethora of corporate governance norms and standards have sprouted around the globe.

Also, Sanda, Mikailu and Garba (2005), conducted their study on corporate governance mechanisms and firm financial performance in Nigeria. The study aimed at discussing the recent global events concerning high profile corporate failures have put back on the policy agenda and intensified debate on the efficacy of corporate governance mechanisms as a means of increasing firm financial performance. The methodology employed in this study was documentary sources of data and the study attempts to address corporate governance mechanism using pooled ordinary least squares regression and descriptive statistic to analyze the relevant data collection. The study point to the need for a reasonable number of individuals and or corporate bodies with more than typical share of equity of the firm as this will encourage them to undertake the monitoring process.

Cornett, Guo, Shahriar and Tehranian (2005), also conducted their study on the impact of corporate governance on performance differences in privately – owned versus state owned banks, making an international comparison. This study examined the performance differences between privately-owned and state (or publicly) owned banks in sixteen Far East countries from 1989 through 1998. It also aimed to find that differences in performance are the greatest in those countries in which government involvement in the banking system is the greatest. The study employed multiple regressions to analyze the data collection. It was found out that greater state ownership of banks results in slower economic and financial development for the countries. Differences in corporate governance and subsequently in manager's incentives and objectives are offered as explanations for the results.

Lastly, Ademola T and Adedoyin, (2001), studied on corporate governance in Nigeria, aimed to narrow the view or perception of corporate governance in terms of issues relating to shareholder protection, management control and the popular principal agency problems of economic theory. It also reviewed the different provisions of legislation governing corporate governance in Nigeria from three perspectives; disclosure and transparency; minority and shareholder rights; and oversight management. The study has been conducted mainly on the basis of literature survey; secondary information and quantitative tool of data analysis are used in this research. It found out that the way the privatization programme was implemented posed a lot of corporate governance challenges which can stretch the relevant institutions for corporate governance. The study therefore recommended that for Nigeria to reap the benefit of effective corporate governance there is need to strengthen the enforcement mechanism of the regulatory institutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the framework of the methods which is employed in the conduct of this study. According to Kothari (2001), research methodology is more than just collections of method to perform a research; it is a systematic way to solve the research problem. The research methods refer to the methods and techniques used by the researcher in performing the research. Therefore, this section is subdivided into the following heading; research design adopted, population of the study, sample size and sampling technique, sources of data and methods of data collection, study variables, methods used in analyzing the data generated from the research instruments administered.

3.2 Research Framework

The present study makes use of agency theory in the examination of the relationship between corporate governance and financial performance. On the basis of agency theory, the main problem is explained by the agency appears under conditions of incomplete information and asymmetric. Another indication that the issue of key factors in most of the relations of employers and employees. For instance, when shareholders recruit senior executives from companies. It can use different mechanisms to try reconciled the interests of the agent with the principal's interests.

According to the agency view that the delegation of administrative responsibilities, which usually provide for school administrators and agents calling to make use of mechanisms to reconcile the interests of principals and agents and monitors the performance of managers in ensuring that the authority delegated result in the highest possible returns. Consistent with this, Kyereboah-Coleman (2007) found that the agency theory arranges the relationship between board characteristics and firm performance.

Agency theory may lead to organize the relationship between the owner and manager, and contributing to the separation of functions and works to strengthen trust between owners and managers, and thus, it helps the company to improve performance and increase the value of the company (Jensen & Meckling, 1976). One of the main mechanisms that provides the monitoring function is crucial in dealing with the problems of the agency board of directors (Lefort & Urzúa, 2008). Arguably, the board of directors play a crucial role in protecting the interests of shareholders of the various interests of the self-management. The best solution to some agency problems in the modern corporation lies in the function of the board of directors (Adams, Hermalin, & Weisbach, 2008).

The primary goal of the board is to reduce agency costs, increase disclosure of information that serves the stakeholders, and work to increase the shareholder interests (Fama & Jensen, 1983). Based on the De Andres, Azofra, and Lopez (2005) and Abdullah (2004), the board can be enhanced through the formation of the board, its size, and its structure, which may help to improve performance, and work to do strategic plans and implementation in the manner required.

Hypothetically, the board has to bear all responsibilities for the company's operations, its financial viability and ensure that it meets the requirements of the company and the interests of shareholders and also, the board plays a crucial role in affecting the firm's financial performance (Coles, McWilliams, & Sen, 2001; Fama & Jensen, 1983). Prior empirical studies reveal that the relationship between CEO duality, CEO tenure, audit committee size, board size and 38 board composition and firm performance have mixed results (Baysinger & Butler, 1985; Brown & Caylor, 2004; Chen, Elder, & Hsieh, 2007; Coles et al., 2001; Ertugrul & Hegde, 2009; Haniffa & Hudaib, 2006; Judge, Naoumova, & Koutzevol, 2003; Kajola, 2008; Klapper & Love, 2003; Leruth, Khatri, & Piesse, 2002; Pham, Suchard, & Zein, 2011; Rechner & Dalton, 1991; Rhoades, Eisenberger, & Armeli, 2001)

The present study attempts to investigate the relationship between the corporate governance variables comprising CEO tenure, board size and audit committee size with financial performance (ROA) in Nigerian listed Banks. The independent variables are examined against the financial performance (i.e. ROA) which represents the dependent variable.

Figure 3.1 presents the research model of the present study including all respective variables. The discussion and explanation of each variable as well as the hypotheses development is laid down in detail in the following paragraphs.

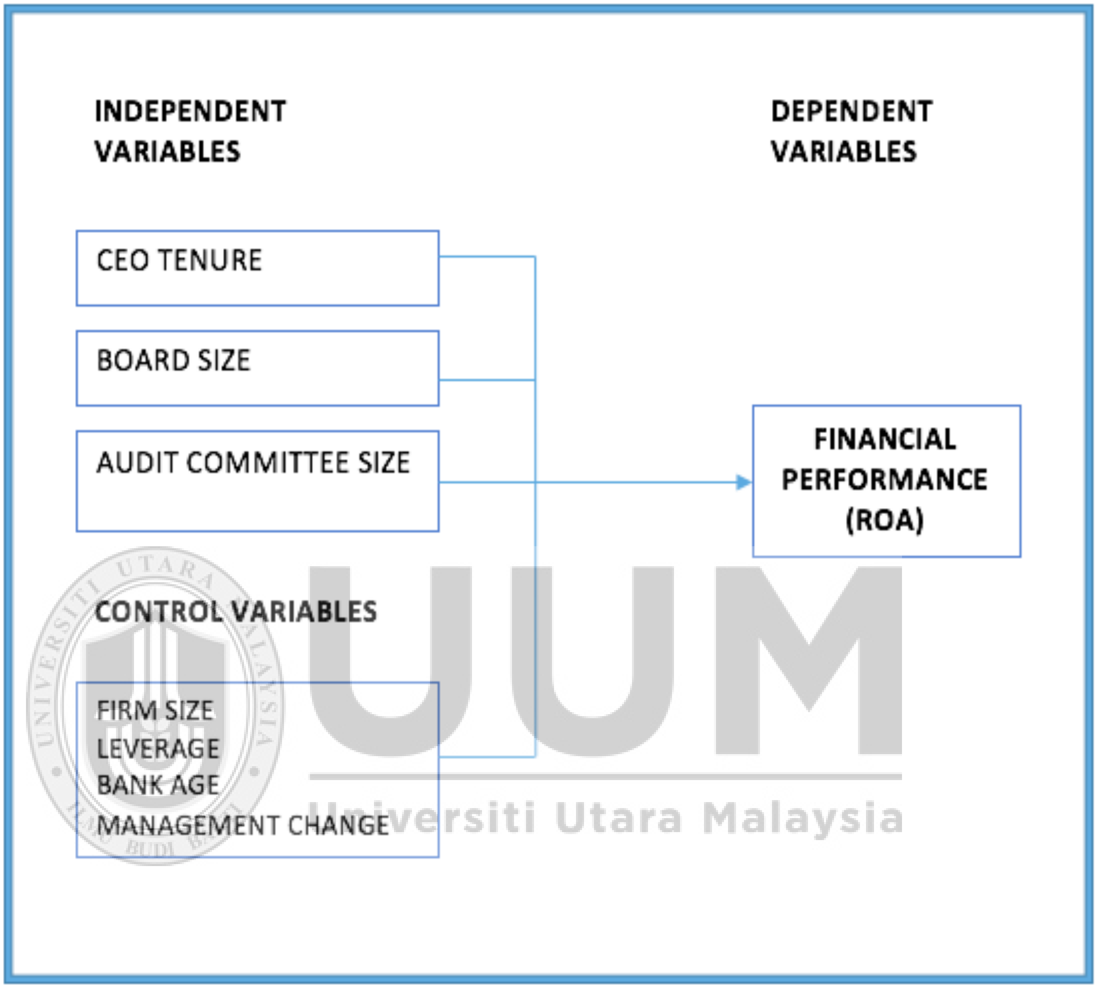

Figure 3.1
Theoretical Framework

3.3 Hypotheses Development

This section provides the relationship between financial performance (ROA) as dependent variables with corporate governance variables namely, CEO tenure, board size, audit committee size as independent variables.

3.3.1 Financial Performance

The financial performance is considered as the dependent variable in the present study as financial performance indicators represent return on asset (ROA).

ROA widely differs in various companies and represents the measure of efficient use of assets. ROA is normally an effective indicator of the profitability of the company and the business as compared to a benchmark rate of return equal to the risk adjusted weighted average cost of capital. In addition, ROA measures the operating and financial performance of the firm (Klapper & Love, 2003). Thus, higher ROA presents the effective use of assets for the shareholder's advantage (Haniffa & Hudaib, 2006).

Based on Miller, Boehlje and Dobbins (2001), ROA represents a measure for gauging the overall efficiency of which the firm's assets are utilized for the purpose of net income production from firm operations. Also, the authors stated that ROA is evidence of effective management in allocating capital as there is a possibility of the firm being efficient but yet poorly able to utilize capital. ROA has been used widely in corporate governance studies (see for example Baysinger & Butler, 1985; Brown & Caylor, 2004; Chen et al., 2007; Coles et al., 2001; Haniffa & Hudaib, 2006; Judge et al., 2003; Kajola, 2008; Klapper & Love, 2004; Leruth et al., 2002; Rechner & Dalton, 1991; Rhoades et al., 2001). In the present study, concentration is provided to independent variables such as CEO tenure, board size and audit committee size. This section of the paper, discusses these variables that guide the study of its results compared to prior studies. The objective lies in the examination of the impact of these variables upon financial performance. This section explain all the independent variables and the sole dependent variable in the study.

3.3.2 Return on Assets (ROA)

The accounting-based ROA is the firm measurement and ROA is different in various companies representing measurements of efficient utilization of assets. It is generally an effective firm profitability indicator compared to a benchmark rate of return equivalent to the risk adjusted weighted average cost of capital (Al-Matari, Al-Swidi, Fadzil, & Al-Matari, 2012).

On the basis of Miller (1995) study, ROA is the representation of a measurement that gauges the complete efficiency of how the firm's assets are used for the production of net income from the operations of the firm. He added that ROA represents the effectiveness of management in appropriating capital as they may be efficient but are unable to use capital.

ROA is ratio of net income to total assets (i.e., fixed assets and current assets), where total assets or average of total assets can be used. It refers to banks' efficiency making profits. It measures the ability of bank management in investments of its assets, buildings and land, inventory and stocks. If the ROA is high that's means the bank is more efficient and capable of using the funds (Wen, 2010). The ROA also gauges the firm's performance in terms of its finance and operations (Klapper & Love, 2003). Therefore, the higher the ROA, the more effective is the use of assets to satisfy the shareholders' interests (Ibrahim & Samad, 2011).

3.3.3 CEO Tenure and Financial Performance

Based on the agency theory, tenure suggests CEO's asymmetry with the company turnover's information and they have control over the decisions making. However, it has been argued that the tenure of the CEO constitutes another governance mechanism Bertsch and Mann (2005) stated that a strong relationship exists between CEO pay and tenure because, the owner of the company will be particularly keen on its business, and he is highly experienced, and the main goal of increasing the value of the company's assets. Additionally, Kyereboah-Coleman (2008) concluded that CEO tenure in office improves the profitability of the firm. The author argues that when a CEO has a longer tenure, it adds as an incentive that promotes shareholders" interest owing to the fact that the CEO becomes a witness to the outcome of his decisions.

On one hand, Abed, Suwaidan and Slimani (2014) they revealed that salary of a senior executive is statistically associated with the number of years he has been the CEO to the company. Hill and Phan (1991) argued that age and ownership have little or no effect on CEO compensation. In contrast, Bertsch and Mann (2005) found a strong correlation between CEO compensation and ownership. Once again, there is no consensus on whether CEO tenure may be used to determine CEO compensation or not. Finkelstein and Hambrick (1989) found no significant relationship between CEO tenure and firm's performance that the total compensation and salaries of CEOs were not impacted by their general management experience but were impacted by bonuses associated to it. However, the theoretical evidence, therefore, it is hypothesized that:

H1: There is a relationship between CEO tenure and financial performance.

3.3.4 Board Size and Financial Performance

Board size is generally believed to impact the monitoring strength and larger boards are believed to act as a more capable monitor of top management (Abdullah, 2004). It is however clear that larger boards lead to a disadvantage in the form of higher spending on the maintenance in addition to difficulties in planning, work coordination, decision-making and holding regular meetings owing to the large number of members. Contrarily, smaller boards can help avoid free riding by individual directors, and increase their decision taking processes.

According to Lipton and Lorsch (1992) a notable increase in the size of the board might lead to a less effective monitoring of management. The authors suggest the board size to be composed of between eight or nine members and any additional advantages from the increased monitoring by additional members will nullify the costs related to slow decision making, and to efforts expanded. This is manifested by the firm's financial performance as clearly presented in Tobin's Q, the ROA measures utilized in the study. This is further evidenced by Jensen (1993) stating that the board of directors become less effective when their number increases over 7 or 8 members. Similarly, Jensen, (1993); Lipton and Lorsch (1992) concluded that large boards are less effective and there is a possibility that discussion among the members become less meaningful. With an increase in board size, difficulties arise concerning coordinating and processing problems.

There are some empirical research findings which support the arguments such as studies by (Adams et al., 2008; Bonn et al., 2004; Haniffa & Hudaib, 2006; Mak & Li, 2001; Vafeas, 2000; Yermack, 1996); studies which revealed a negative link between board size and firm performance. This is further evidenced by Shakir (2008) 45 who also found a negative relationship between board size and firm performance. On the contrary, (Adams & Mehran, 2003; Dalton & Dalton, 2005; Mak & Li, 2001; Pfeffer, 1972; Zahra & Pearce, 1989) found a positive relationship between the two. Therefore, based on the theoretical perspective and discussion above, the following hypothesis is formulated:

H2: There is a relationship between board size and financial performance.

3.3.5 Audit Committee Size and Financial Performance

The larger the size of the audit committee, the more the experts will be available to monitor and check the financial reports and give confidence to the shareholders. The Cadbury Commission suggested the number of audit committees to be at least three. Kajola (2008) argue that increase members in the committee suggest more experts available at hand for the overlooking of internal controls and financial reporting. Various accounting standards and principles must guarantee that general rules and regulations are employed by accountants in a large scale when they prepare financial statements and reports reflecting the exact state of the company (Zhang, Zhou, & Zhou, 2007). According to Kyereboah-Coleman (2007), a positive relationship exists between the size of audit committee and performance and its independence is evidenced to be positively related to the effectiveness to monitor mistakes in the financial reporting process. Based on the above, the following hypothesis is formulated:

H3: There is a relationship between audit committee size and financial performance.

3.4 Research Design

Research design involves the collection and evaluation of data. This is dictated by the nature of the research. It includes building up the reliability and validity of the study. The main purpose of the research design is to ascertain the relationship that exists between the research questions, the data collected and to draw conclusion (Asika, 2004). This study use the ex-post factor research design. It involves the collection and utilization of documentary source of data from the annual reports and accounts of the banks listed in Nigeria Stock Exchange for the period under study.

3.5 Population of the study

This study involves all banks that are listed in the Nigerian Stock Exchange. Therefore, the population of the study covers all twenty-one (21) commercial banks in accordance with the Central Bank of Nigeria regulation.

3.5.1 Sample Size and sampling Technique

From the study population, there are twenty-one (21) banks listed in the Nigerian stock Exchange which are sampled out for the study, which are:

Table 3.1

List of Commercial Banks in Nigeria as at 2010

S/N	Commercial Banks in Nigeria
1.	Access Bank Plc
2.	Citibank Nigeria Limited
3.	Diamond Bank Plc
4.	Ecobank Nigeria Plc
5.	Enterprise Bank
6.	Fidelity Bank Plc
7.	First Bank of Nigeria Plc
8.	First City Monument Bank Plc
9.	Guaranty Trust Bank Plc
10.	Keystone Bank
11.	Mainstreet Bank
12.	Savannah Bank Nig
13.	Skye Bank Plc
14.	Stanbic-IBTC Bank Plc
15.	Standard Chartered Bank Nigeria Ltd
16.	Sterling Bank Plc
17.	Union Bank of Nigeria Plc
18.	United Bank for Africa Plc
19.	Unity Bank Plc
20.	Wema Bank Plc
21.	Zenith Bank Ltd

Source: *Central Bank of Nigeria (CBN) cbn.gov.ng viewed on 10 Nov, 2010 at 1:57AM*

It is viewed that the banks constituting the population are homogeneous, having almost similar patterns of preparing and reporting their financial statements in which findings can be generalized. The 21 commercial banks are adequate enough to be the representative of the entire population.

The sampling technique used in drawing the sample is purposive sampling. Some of the key factors considered in determining the sample size include the nature of population; type of sampling design; and degree of precision desired. As using a sample that is too large might result in a waste of resources and time consuming, while using too small means getting results that are likely to be lacking in validity. The purposive sampling used is to obtain an estimate about the characteristics or features of the population since the sample can only provide an estimate of the entire population but can never ascertain whether the samples provides exact and totally accurate information. The homogeneity operational nature of the commercial banks mostly led to the use of the sample size thereby representing the other elements in the population.

3.6 Sources of Data and Methods of Data Collection

The study utilizes secondary sources of data. Documentary sources are to be gathered from the annual reports and financial statements of the selected banks in Nigeria. This is a longitudinal study of the banks for fours years (2006-2009) that is covered by the study. Even though accuracy of financial statements largely depends on the integrity of the banks and the care, caution and diligence exercised by different supervisory authorities, it is believe that these statements are highly reliable because the data are going to be sourced from various avenues especially the Central Bank of Nigeria's publications like

Annual Reports and Statistical Bulletins, Securities and Exchange Commission publication and the Federal office of Statistics "National Accounts, and Annual Abstract of Statistics".

3.7 Method of Data Analysis

Since the data for this study is gathered from one sources, i.e documentary sources, different statistical tests has been carry out to examine the relationship between the variables in the study. From average score of each analysis and multiple regression technique will be used to correlate the relationship amongst dependent and independent variables. The regression model can be presented focused on CEO Tenure (CEOTENUR), Board size (BOADSIZE), Audit Committee size (AUDITSIZ), Return on Asset (ROA) for the pre implementation period of Corporate Governance Code.

3.7.1 Model Specification and Multiple Regressions

The multiple regression method is used to examine the relationship between the financial performance of banks in Nigeria and CEO tenure, board size and audit committee size.

The result of the regression analysis is an equation that represents the best prediction of a dependent variable from several independent variables. This method is used when the independent variables are correlated with one another and with the dependent variable.

The following regression equation is estimated as follow:

FP = α^0 + β1 CEOTENUR + β2 BOADSIZE + β3 AUDITSIZ + β4 FIRMSIZE + β5 LEVERAGE + β6 BANKAGE + β7 MCHANG + ε

Where:

FP	= Financial Performance
α 0	= Constant
CEOTENUR	= CEO Tenure
BOADSIZE	= Board Size
AUDITSIZ	= Audit Committee Size
FIRMSIZE	= Firm Size
LEVERAGE	= Leverage
BANKAGE	= Bank Age
MCHANG	= Management Change
ε_{it}	= Error term
β1, β2, β3, β4, β5, β6, β7	= The coefficients of the Variable

For the purpose of examining the relationship between the whole set of predictors and the dependent variable, all dependent variables are entered into the regression equation simultaneously. The objective behind the analysis is the determination of independent variables that are highly significant in determining bank financial performance.

3.7.2 Measurement of the Variables

This section provides measurement of dependent variables, independent variables and control variables. The measurements of variables for the study are as follows:

3.7.2.1 Dependent Variables

One measure regarding financial performance that is utilized namely ROA in order to distinguish between the impacts that corporate governance structures have on the types of financial performance. ROA is considered to be the earnings before tax divided by total assets of the company.

3.7.2.2 Independent Variables

This section provides measurements of the corporate governance characteristics as independent variables which are considered as follows:

CEOTENUR: the period of CEO's serving in the board.

BOADSIZE: the total number of directors serving on the board of directors.

AUDITSIZ: the total number of members serving on the audit committee.

3.7.2.3 Control Variables

This section provides firm size, leverage, bank age and management change as the control variables.

3.7.2.3.1 Firm Size

Using firm size as the control variable in this study is motivated by the fact that it has been found to be associated with companies with different characteristics. According to Lehn, Patro and Zhao (2009) they argued that the possibility of firm size and growth are important determinants of the size and structure of the boards. They found that firm size is directly related to size and inversely proportional to the proxy for growth opportunities, that insider representation is inversely proportional to firm size and directly related to the proxy for opportunities growth and thus, a firm size has an effect on the financial performance.

The firm size has an effect on company performance. It is widely used as a control variable in the empirical literature on corporate governance, as in De Andres et al. (2005), Linck, Netter and Yang (2008) and (Ghosh, 2006). However, firm size can have a clear effect on corporate performance. For example, large firms may be less effective than smaller companies because it can meet most of the government bureaucracy, more redundancy and greater agency problems (Lehn et al., 2009). However, as they are likely that the use of economies of scale, employ more skilled managers and more powerful on the market, large firms may be more effective (Kyereboah-Coleman & Biekpe, 2005). Similarly, Coles et al. (2001) argued that when firm is growing it needs more board members to help monitor the performance of managers, or it need new directors who have specialized services on board to monitor the growth.

Al-Matari et al. (2012) measured the dimensions of the natural logarithm of sales (LNSA) and Qian, Khoury, Peng and Qian (2010) size measured by natural logarithm of total assets of the company. Finally, this study measures firm size by using the natural logarithm of the total assets as it has been used by the previous studies (Abor & Fiador, 2013; Adjaoud & Ben-Amar, 2010; Ghabayen, 2012; Haye, 2014; Musa, 2014; Ramli, 2010).

3.7.2.3.2 Leverage

Leverage has been widely used as a control variable by a number of empirical studies that have examined the relationship between corporate governance and financial performance (refer to Alsaeed, 2006; Chiang & Lin, 2011; Duke II, Kankpang, & Okonkwo, 2012; Herly & Sisnuhadi, 2011; Kang & Kim, 2011; Khatab, Masood, Zaman, Saleem, & Saeed, 2011; Kyereboah-Coleman & Biekpe, 2005). These studies have revealed that the debt has an effect on the financial performance of the company. Alsaeed (2006), in his study measures firm leverage by dividing total of liabilities by the total of assets.

The debt ratio is defined as the sum of long-term debt and short-term or extent of liability as a percentage of total assets. It argues that the debt ratio has an effect on all the company's results. On the one hand, a positive effect may result from reduced cash flow, control of the company to expose more of the market. In discussing the agency theory, Jensen and Meckling (1976) argued that the company must use leverage to support the monitoring costs such as debt levels increase to agency. Managers are able to provide greater oversight in the most effective boards and committees.

Agency theory would predict that the magnitude of the increase in leverage increases the effectiveness of the board. On the other hand, a negative effect of debt can be caused by the failure or the cost of agency fees of debt (Jensen, 1986). Finally, the leverage in the study is measured by using the total debt divided by the total assets as it has been used by the previous studies (refer to Arshad, Akram, Amjad, & Usman, 2013; Huda & Abdullah, 2013; Mansourinia, Emamgholipour, Rekabdarkolaei, & Hozoori, 2013; Ramli, 2010).

3.7.2.3.3 Bank Age

Bank age is measure using number of year’s bank incorporated. Founder CEOs will characteristically be highly involved in most, significant aspects of their organizations' functioning. As organizations age, routines, systems, and standard operating procedures are consciously created or otherwise emerge (Blau & Scott, 1962). A result of this developing organizational architecture is that senior managers will have less need to become involved in operating decisions, or even all strategic decisions, since various aspects of structure, broadly defined, will now be substituting for their managerial discretion (Mintzberg, 1979). Bank age is used widely as a control variable by a number of the empirical studies which examined the relationship between corporate governance and firm's performance (refer to Ahmed, Ahmed, & Ahmed, 2010; Anderson, Mansi, & Reeb, 2004). Following Ahmed *et al.* (2010), the current study measures the age of a firm as the difference between observation year and establishment year of the firm.

3.7.2.3.4 Management Change

This study utilizes management change as control variable in order to measure the financial performance of Banks during the past four years. The use of this variable gives a clear indication about the performance of the banks over four years in order to know the reasons which led to the fluctuation of the performance of banks.

An organization experiences a number of critical incidents throughout the course of its operation, both positive and negative, all of which can result in management change, namely through changes in executive management or board structure (Fee & Hadlock, 2003; Price, 2011). It has been well-documented that the value of human capital is increased by directors, which ultimately depends on their performance as decision makers, by improving their standing as decision control professionals (Fama & Jensen, 1983; Fama, 1980). On the other hand, however, a number of other elements imply that directors will not necessarily act in the interest of the shareholders; for instance, external directors could owe their standing to management who primarily suggested their role (Hart, 1995). Secondly, multiple and interlocking directorships could decrease the overall efficiency of external directors (Hart, 1995; Patton & Baker, 1987). Lastly, directors might not own a significant portion of the firm's equity, meaning they may have little to gain personally as a result of firm performance improvements (Hart, 1995; Jensen, 1993).

An in-depth review and summary of the numerous empirical research of the causes, consequences, and marketing impacts of management turnover, with regard to characteristic firms, was provided by (Furtado & Karan, 1990). Research analyzed internal forces centered on monitoring management performance, such as through the board of directors (Fama, 1980), competing management (Fama & Jensen, 1983), and block shareholders (Shleifer & Vishny, 1997). Findings highlight an inverse link between management turnover and firm performance (Warner, Watts, & Wruck, 1988). Mclntosh and Gonzalez-Lima (1994) carried out a joint test centered on the postulation that data relating to management performance can be seen through stock returns, with return data then directed towards assessing performance. Accordingly, management change (MCHANG) measured as a dichotomous variable, coded "1" if board members have changed and "0" if not, has an inverse link with regard to financial performance. According to the above, this section provides measurements to the control variables which are as follows:

FIRMSIZE: the natural log of total assets.

LEVERAGE: the ratio of total liabilities to total assets.

BANK AGE: Numbers of years since the company start incorporation.

MCHANG: A dummy variable, coded "1" if there is a change in board and "0" otherwise.

Table 3.2
Summary of the operational of Research Variables

S/N	VARIABLES	ACRONYM	OPERATIONALISATION
Dependent Variables:			
1.	Return on Assets ratio	ROA	Earnings before tax divided by total assets of the company
Independent Variables:			
1.	CEO Tenure (year)	CEOTENUR	The period of CEO's serving in the company
2.	Board Size (number)	BOADSIZE	Total number of directors serving on the board of directors
3.	Audit Committee Size (number)	AUDITSIZ	Number of members serving on the audit committee
Control Variables:			
1.	Firm Size (number)	FIRMSIZE	The natural log of total assets
2.	Leverage (%)	LEVERAGE	The ratio of total liabilities to total assets
3.	Bank Age	BANKAGE	Numbers of years since the company start incorporation.
4.	Management Change	MCHANG	A dummy variable, coded "1" if there is a change in board members and "0" otherwise

3.8 Data Analysis

The collected data are analyzed with the use of Stata 14 software which comprises of descriptive statistics that provides details and summary of questions and answers collected from the annual statement of Nigerian banks.

3.8.1 Descriptive Analysis

The descriptive analysis is carried out to reduce the mean, minimum, maximum as well as standard deviation for each variable of the sample opted for in the present study.

3.8.2 Diagnostic Tests of Panel Data Analysis

Normality, heteroscedasticity, autocorrelation and multicollinearity are the common diagnostic tests to be conducted before analysis and econometric modelling can be done (Carneiro, 2006). These four (4) tests were conducted in this study in order to prove that there is a high possibility that econometric assumptions are not violated and to obtain truthful results.

3.8.2.1 Normality Test

Normality is described as the shape of the distribution of data for individual quantitative data variable and its normal distribution. It is a basic assumption in multivariate analysis that follows the premise that a significant deviation from normality will result in an invalid statistical outcome (Hair, Black, Babin, Anderson, & Tatham, 2006).

According to Tabachnick and Fidell (2007), the distribution shape can be observed on a graph. The residual distributions according to standardized normal probability plots (pnorm) that are sensitive to non-normality in the middle data range were noted. For the purpose of this study Shapiro-Wilk, Shapiro-Francia, Mardia Skeness Henze-Zirkler and Kernel Density Estimator were used respectively.

3.8.2.2 Heteroscedasticity Test

The test for heteroscedasticity of a group of variance is needed in the panel data analysis because such analysis is a combination of time series and cross sectional data. There are many heteroscedasticity tests available, namely, Goldfeld-Quandt Test, Spearman's Rank Correlation, Glejser Test, Park Test, White Heteroscedasticity Test and the Breush-Pagan Goldfrey Test. Consequently, Gujarati and Porter (2009) pointed out that there is no answer for the best and most powerful test to diagnose the problem. Greene (2003) suggested using the White Heteroscedasticity Test. The Whites test itself has many alternatives and the choice of such a test depends on the statistical package used. In the panel data analysis using Stata statistical software, a modified Wald test for group wise heteroscedasticity in the residuals could measure heterogeneity from the significance of the chi-square value (Greene, 2003).

3.8.2.3 Autocorrelation Test

Another diagnostic test that is pertinent to the panel data analysis involves checking the correlation between the disturbance term of observations in time or space (Gujarati & Porter, 2009). In the panel data analysis, the test to ascertain the presence of autocorrelation in the panel is based on the Wooldridge test for autocorrelation (Carneiro, 2006). The test involves checking the significance of null hypothesis that there is no idiosyncratic error of a linear panel data model. The significant F-value indicates the existence of autocorrelation in the model. This problem can be solved by using the random effect model or the fixed effects model since the model always provides consistent estimators (Gujarati & Porter, 2009; Wooldridge, 2003).

3.8.2.4 Multicollinearity Test

Although the panel data analysis, to some extent, is capable of reducing the multicollinearity problem (Baltagi, Bratberg & Holmås, 2005). Multicollinearity checking is a common diagnostic test to ensure that none of the independent variables are highly correlated, which can result in massive variance bias. The high correlation between two (2) independent variables would result in a huge bias in variance, thus, causing the estimations to be unreliable (Baltagi et al., 2005). The Variance inflation Factor (VIF) is an example of the test that is common to examine such a problem. It treats one (1) of the independent variables as dependent variables and the remaining independent variables as independent variables. Other tests that have been used by many researchers include the Correlation Matrix and Condition Index (Anderson & Zeghal, 1994). It is anticipated that, by conducting a multicollinearity test for the panel data, one (1) of the basic requirements for econometric regression is met.

3.8.3 Correlations

The present research determines the interrelationships between the variables. The outcome of the analyses displays the nature, direction and significance of the correlation of the variables present in the research and this correlation is analyzed based on the person correlation.

3.8.4 Panel Data Analysis

According to Baltagi *et al.* (2005), panel data refers to the pooling of observations on a cross section over several times. In short, it is a hybrid of time series and cross sectional data structures, thus, enabling the researcher to study the dynamics of change over the short time series. In this study, panel data structure rather than cross sectional or time series is utilized due to the potential benefits provided by this approach, in particular it can enhance the quantity and quality of data that could not be provided with either a cross sectional or a time series alone (Greene, 2003).

The researchers further suggest that research on corporate governance and financial performance could be conducted by utilizing panel data analysis since it offers various benefits other than data structure, such as cross sectional and time series where panel data are capable, to some extent, of controlling for model specification (Henderson & Kaplan, 2000). In the current study, the data is analyzed using Stata 14 statistical data analysis software. The analysis of static panel data includes the random effect and fixed effect analysis.

3.8.4.1 Choosing between Fixed Effects Model vs. Random Effects Model

Baltagi *et al.* (2005) proposed the fixed effects model or random effects model to estimate the panel data. The fixed effects model is a regression with constant slopes, however, the intercepts differ according to the cross sectional unit while the random effects model would have a random constant term (Greene, 2003). The choice of the fixed effects model or random effects model can be tested based on the Hausman specification test proposed by Hausman (1978). This test is based on the difference between the fixed effects and random effects estimators. The fixed effect is preferable over random effect when the Hausman test result is significant in the model (Al-Ajmi, 2008).

3.8.5 Multiple Linear Regression Analysis

This study employs multiple linear regressions (MLR) specifically panel data analyses in order to examine the association between the financial performance and corporate governance variables (CEO tenure, board size and audit committee size).

3.9 Summary

This study aims at investigating the relationship between corporate governance structure and bank financial performance in Nigeria. This present chapter explains the methodology used in the research and highlighted the hypotheses that have been formulated. In addition, an explanation of the theoretical framework according to the agency theory and hypotheses formulation, research methodology, the research design and data analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This section exhibits the analysis of the findings of the study. The data is analyzed with the use of Stata 14 software. As was shown before in chapter three, there are three corporate governance variables and one financial performance variable which were measured using ROA. Moreover, this section is divided into six sub-sections which are as follows; Section 4.1 start with introductory and Section 4.2 exhibits the descriptive statistics of the variables in the study. Section 4.3 discusses diagnostic tests of panel data and correlation analysis is presented in Section 4.4. Section 4.5 discusses about the model selection between fixed effect and random effects. Additionally, the linear regression analysis is explained in section 4.6 and Section 4.7 present the additional analysis. Finally, Section 4.8 ends with the summary/concluding remarks of the chapter.

4.2 Descriptive Statistics

Descriptive analysis is conducted so as to give brief information about the sample target that can prompt simple and better elucidation of data (Genser, Cooper, Yazdanbakhsh, Barreto, & Rodrigues, 2007). Table 4.1 exhibits the mean, standard deviation, minimum and maximum of the variables shown in the study. In the underlying steps, the descriptive statistics for the independent and independent variables have been abridged and exhibits in Table 4.1 that included the information of mean, standard deviation, minimum and maximum of the variables in the study. With the application of linear regression analysis, the scores might greatly affect the outcomes and turns into a reason for concern by the researcher. The means, standard deviation, minimum and maximum resulting from the Stata 14 were displayed in the table below.

Table 4.1
Summary of Descriptive Statistics N=68

Variables	**Mean**	**Std. Dev.**	**Minimum**	**Maximum**
CEOTENUR	5.176	4.604	1	19
BOARDSIZE	13.676	2.476	7	20
AUDITSIZ	5.838	0.444	4	6
FRIMSIZE	19.969	0.898	18.485	21.506
LEVERAGE	13.185	16.640	0.09	72.28
BANKAGE	13.185	29.855	1	115
MCHANG	0.647	0.481	0	1
ROA	0.977	5.568	-40.77	4.72

CEOTENUR = CEO Tenure; BOARDSIZE = Board Size; AUDITSIZ = Audit committee Size; FIRMSIZE = Firm Size; LEVERAGE = Leverage; BANKAGE = Bank Age; MCHANG = Management Change; ROA = Return on Assets.

Referred to the Table 4.1 above, it shows the outcome for descriptive statistic taken from the variables incorporated into the model. The descriptive statistics which comprises of mean, standard deviation, minimum and maximum, which were run with Stata version 14. Taking into account the descriptive analysis as condensed in Table 4.1, the mean value for CEO Tenure (CEOTENUR) in Nigerian banks is 5.176 and the minimum and maximum tenure in the banks are 1 and 19 for CEO to serve on the board of Nigeria banks.

As to board size (BOARDSIZE), the result in the table uncovers that the value of the mean for board size is 13.676 with a minimum of 7 and the maximum of 20 members from the board of directors in Nigerian banks. The summary of the results reveal that the mean for Audit Committee Size (AUDITSIZ) is 5.838 members with the minimum number of 4 members and the maximum of 6 members in the Nigerian banks.

With regards to firm size (FIRMSIZE), the result in the Table 4.1 reveals that the mean of number of firm size is around 19.969 for Nigerian banks with a minimum of 18.485 and a maximum of 21.506. By the way, Patro, Lehn, and Zhao (2003) expressed that both firm size and growth are key elements for determining board structure and size. Moreover, firm size influences firm performance and usually employed as control variable in the corporate governance literatures (e.g. Cheung, Thomas Connelly, Limpaphayom, & Zhou, 2007; De Andres, Azofra, & Lopez, 2005; Ghosh, 2006), the firm size that is usually ascertained by the logarithm of total asset reveals that there was little distinction between minimum and maximum amount.

As for leverage (LEVERAGE), the outcome in Table 4.1 reveals that the mean of leverage is around 13.185 with a minimum of 0.09 and a maximum of 72.28. Based on the principles of the agency theory (Jensen & Meckling, 1976), the firm ought to help its monitoring costs including its growing debt level. With regards to bank age (BANKAGE), the mean of the banks age is 13.185 with a minimum age of 1 year and a maximum age of 115 years for banks in Nigeria. Regarding management change (MCHANG), the banks in the specimen have had changes in the board of directors membership with a mean of 0.647 for changes in the management with minimum change of 0 and maximum change of 1 which is a dummy variable.

Lastly, the mean value of the return on assets (ROA) is 0.977 with a minimum value of -40.77 and the maximum of 4.72, showing a limited disparity in the ROA over the Nigerian banks in the sample.

4.3 Diagnostic Tests

Research diagnostics are carried out to support the validity of the result from regression analysis by identifying and correcting the model from regression related problems namely non-normality, heteroscedasticity, autocorrelation and multicolinearity Gujarati and Porter (2003); Hair Jr, Black, Babin, Anderson and Tatham (2010) tests have been carried out in this study. The discussions are as follows:

4.3.1 Normality Test

The normality issue is tested using Shapiro-Wilk test on the residual of the models and supplement with the descriptive analysis on skewness and kurtosis for each data used in the model. Table 4.2 shows the summary result on the normality of the residual of the model. The result shows that residual is normally distributed by statistical evidence provided by the insignificant *p*-values of Shapiro-Wilk, Shapiro-Francia, Mardia Skeness and Henze-Zirkler, respectively. Thus, fail to reject the null hypothesis that the residual is normally distributed.

Table 4.2
Summary Results of the test

Test	**Model**	
	Statistic	**Sig**
Shapiro-Wilk Test	0.97690	0.23802
Shapiro-Francia Test	0.97690	0.23802
Mardia Skewness	2.218	0.1365
Henze-Zirkler	0.001	0.9726

Note: (*) Significant at 5% level

The study also conducts additional test to supplement the result on the Shapiro-Wilk W Test on the normality of the data used in each model. The result shows that all variables are normally distributed. Thus, the descriptive statistics provide reliable data on normality and the result of the final model utilizing these data are supported.

4.3.1.1 Kernel Density estimate

Histograms are typical vehicle for signifying medium sized data are distributed graphically, yet they endure some defects. The Kernel density estimate (KDE) is a computer comprehensive method, which encompasses smoothing of the data as well as holding the general structure. It is a very efficient technique for remodeling an obscure population from a random sample of data (Thompson, 2006).

The KDEs are superior at retrieving remarkable structure and should be utilized rather the conventional histograms or frequency polygons to analyze in details the data distributions. As stated by Salgado-Ugarte and Perez-Hernandez (2003), the fixed bandwidth KDEs are susceptible to noise in any low count interval of the distribution and miss distribution details in areas where data converge. In more specialized terms, the bandwidth (h) should rise with f(x) to decrease variance and would reduce with $|f''(x)|$ to reduced bias. The ordinary kernel estimator soffer adaptivity and thus manages to oversmooth regions with excessive structure and to undersmooth the distribution tails or to slightly data range with small structure (Simonoff & Tsai, 1999). To address this issue, one thought is to expand the window width in ranges of low data densities and to lessening it at intervals with huge counts. Furthermore, it is conceivable to retrieve detail where data focus and to dispose noise where observations are aparse (Fox, 1991).

Figure 4.1 depicts that data collected for the present study follow normal pattern since all the bars on the KDE were closed to a normal curve. Thus, Figure 4.1 indicates that normality assumptions were not violated in the present study.

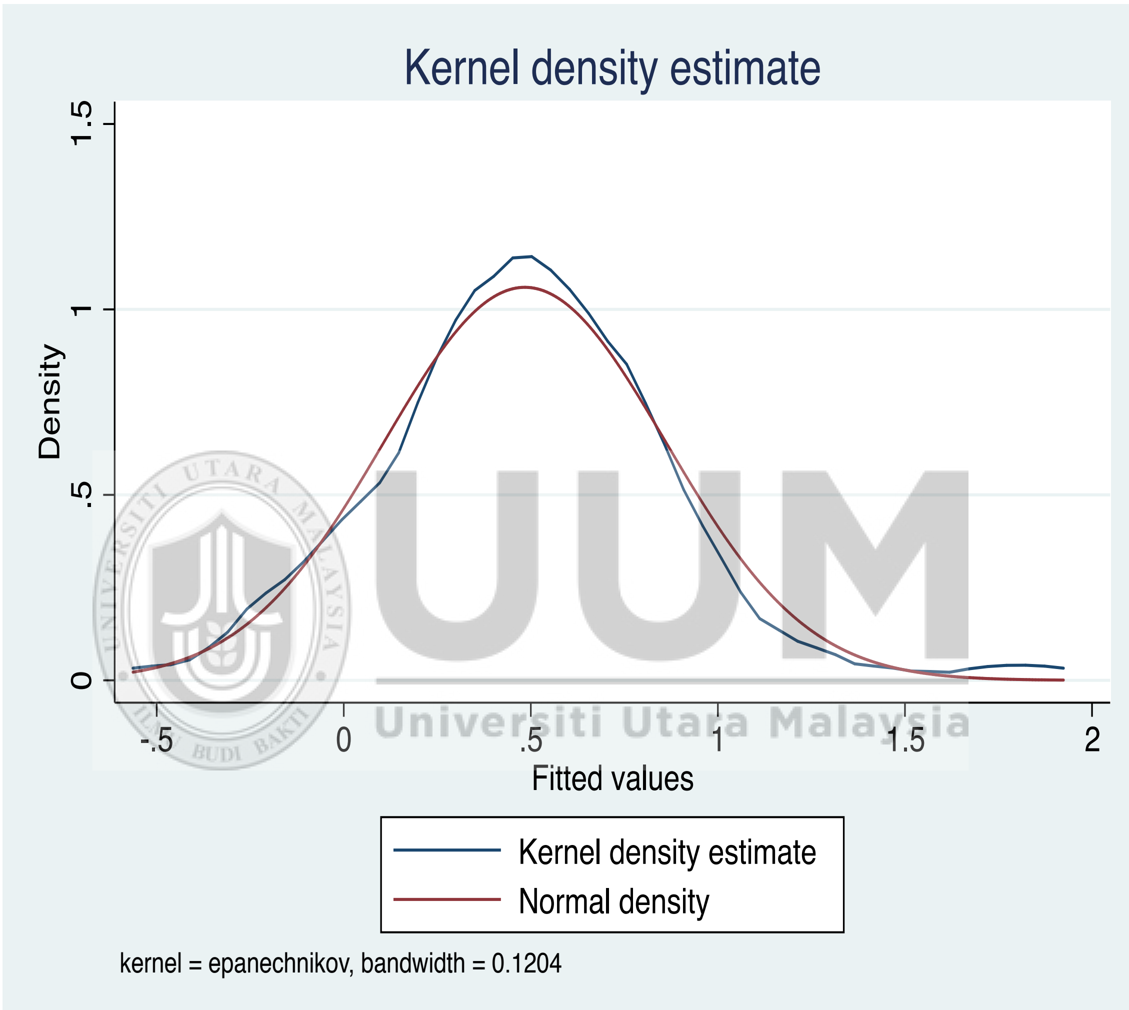

Figure 4.1
Kernel density estime

In the above Figure 4.1, we used the default width. Kernel density is smarter than two-way histogram in that its default width is not a fixed constant. Based on the figure shown above, the kernel density estimate shows that the data are normally distributed.

4.3.2 Heteroscedasticity Test

Heteroscedasticity or what is generally known as the unequal variance is viewed as one of the common transgression. It is known in multivariate analysis in which the residuals in regression measurement are heteroscedasticity. Heteroscedasticity shows up with any expansion or reduction of the variance and this prompts statistical extrapolation issues within the regression model. The homoscedastic presumption should be analyzed prior to employing regression analysis on the outcomes. Heteroscedasticity can be identified through graphical tests where, the residuals of the model are plotted in contradiction of the anticipated value of firm performance and each descriptive variable to ascertain regardless of whether the model's error terms have consistent variances.

Many tests can be employed in order to identify the heteroscedasticity issue, such as the white's General Heteroscedasticity Test, Spearman's Rank Correlation Test, Park Test, Goldfeld-Quandt Test, Glejser Test and Breusch-Pagan-Godfrey Test. This study has utilized Breusch-Pagan-Godfery/Cook-Weisberg Test in other check for the existence of homoscedasticity among the error terms (Gujarati & Porter, 2012).

The problem of heteroscedasticity is taken care of with the assistance of White Heteroscedasticity Consistent Variance with the Standard error technique as was suggested by (Gujarati & Porter, 2003). Such a test is carried out by STATA (version 14) software. The above technique reduces or expands the standard error as required and the variances prompt the respective decline or expansion of t-statistics with the coefficient staying fixed. The outcomes don't basically vary from the previous regression with slightly variations in the *p*-values and *t*-statistic to display the estimator's correction.

Table 4.3
Test for Model Specification and Heteroscedasticity

	Chi²	***F***	***p*-value**
Breusch-Pagan	2.22	-	0.1358
Ramsey Test	-	0.20	0.8993
Ho (null)	Do not reject		Do not reject

Note: Ho (null): Constant variance (homoscedasticity)

The result of Breusch-Pagan/Cook-Weisberg Test are shown in Table 4.3. Taking into account the result, the *p*-value is greater than 0.05 in the model, indicating that heteroscedasticity does not exist.

In statistical analysis, the Ramsey Regression Equation Specification Error Test (RESET) test in general is a specification test within the linear regression model. Furthermore, it checks whether non-linear blends of fitted values would assist describe the response variable. The instinct behind this test is the fact that if non-linear blends of the explanatory variables have any impact in explaining the response variable, that is the model is misspecified (Ramsey, 1974; Semykina & Wooldridge, 2013).

Going by the result shown in Table 4.3 above, Ramsey test specify that if the *F*-statistic is lower that the *p*-value at a given significance point, then we accept the null hypothesis of correct specification. This implies that the functional form is correct and as a result no problem of heteroscedasticity in the model.

4.3.3 Autocorrelation Test

The word autocorrelation can be used to choose the query of whether or not the sample data set is created from a random procedure. It is common that the residual terms of any two cases ought not to be correlated but instead independent. Autocorrelation is believed to be existing where the residual terms are not independent (Field, 2000). Furthermore, autocorrelation defies the presumption that errors are uncorrelated and independent and that both size and path of a single error term does not impact on the direction and size of another.

Autocorrelation can be identified in different process with one of the method is by using the Wooldridge Test. This test checks for serial connection in fixed or random-effects one way models acquired by (Wooldridge, 2010). In Tum and Drukker (2003) utilizes the Wooldridge Test in his determination of serial correlation in a particular error term in the panel-data model. Autocorrelation might likewise be determined with the use of Durbin-Watson test.

Table 4.4
Test for autocorrelation

	F (1,16)	***p*-value**
Autocorrelation	1.155	0.2985
H0	Do not reject	Do not reject

Note: Wooldridge test for autocorrelation. Ho (null): No first-order autocorrelation

From the outcome of the Table 4.4 above, the Wooldridge test was conducted to find out whether there is an autocorrelation problem in the data. From the analysis done, it was discovered that autocorrelation doesn't exist in relation to return on assets in the Nigerian banks.

4.3.4 Multicolinearity Test

Multicolinearity is a situation where two or more presumption's variables are extremely associated to one another. The Extent to which one variable can be described by the other variables in the analysis. As multicollinearity increases, it confuses the interpretation of the *variate* since it is more challenging to determine the impact of any single variable, attributable to their interrelationships (Hair, Black, Babin, & Anderson, 2013).

Research by Hair, Tatham and Black (1995) stated that multicolinearity is one out of the numerous methods utilized by the researchers to check the presence of an irregular relationship between independent variables that more often than not clarifies the consequences of which variables influenced can be controlled by alternate variables within the study. The use of Variance Inflation Factor (VIF) for every independent variable turned into a common strategy for identifying the multicolinearity and to estimation the outcome (Naser, Al-Khatib, & Karbhari, 2002). The VIF expressed that if VIF is more than 10, it demonstrates that the independent variable in the research have extreme relationships that prompts the multicolinearity issue. In this study, the researcher joined the multicolinearity diagnostic with the VIF while running the linear regression models.

Table 4.5 reveals the outcome of the multicolinearity issue as VIF for all independent variables is less than 10 which implies that the independent variables are within the normal range. It is accordingly presumed that the present study is free from multicollinearity.

Table 4.5
Summary of Multicolinearity Test

Variables	**Collinearity Statistics**	
	Tolerance	**VIF**
CEOTENUR	0.799330	1.25
BOARDSIZE	0.718864	1.39
AUDITSIZ	0.926045	1.08
FIRMSIZE	0.653908	1.53
LEVERAGE	0.969019	1.03
BANKAGE	0.861391	1.16
MCHANG	0.794846	1.26
Mean VIF		**1.24**

CEOTENUR = CEO Tenure; BOARDSIZE = Board Size; AUDITSIZ = Audit committee Size; FIRMSIZE = Firm Size; LEVERAGE = Leverage; BANKAGE = Bank Age; MCHANG = Management Change

4.4 Correlation Analysis

Since Pallant (2011) expressed that the correlation analysis is important in depicting the direction and strength of the linear relationship amongst two variables. More precisely, the Pearson correlation analysis was undertaken to clarify and assess the strengths of the relationship amongst the study variables as presented in Table 4.6. The correlation coefficient (*r*) values presented in the Table 4.6 displays the strength of the relationship among variables. Joseph (2010) suggested that the correlation value of 0 proves no relationship, while the correlation ±1.0 indicates perfect relationship. Cohen (1988) on the other hand, interpreted the correlation within 0 and 1.0 which are as follows; the correlation (*r*) between ±0.1 and ±0.29 indicate little relationship, then between ±0.30 and ±0.49 indicate an average relationship and more than ±0.50 displays strong/solid relationship. Generally, the outcome of this study reveals that all correlation is less than 0.70. This is in consistent with the revelation of Hair, Black, Babin, Anderson, and Tatham (2010) that correlation matrix ought not to exceed 0.70 to guarantee that the multicolinearity problem is not in existence in this study.

Table 4.6

Summary of Pearson Correlation Matrix

	CEOTENUR	BOARDSIZE	AUDITSIZ	FIRMSIZE	LEVERAGE	BANKAGE	MCHANG
CEOTENUR	1.000						
BOARDSIZE	0.256*	1.000					
AUDITSIZ	0.007	0.128	1.000				
FIRMSIZE	0.296*	0.432**	0.077	1.000			
LEVERAGE	-0.032	0.065	-0.063	0.054	1.000		
BANKAGE	-0.164	-0.102	-0.053	0.201	-0.042	1.000	
MCHANG	-0.241*	0.053	-0.201	-0.262*	0.131	-0.118	1.000

Notes:
** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05level (2-tailed).

The above Table 4.6 discloses the Pearson correlation matrix between the control variables and independent variables with the return on asset of banks listed in Nigeria stock exchange bulletin. In assessing the relationship between all variables in this study and the ROA as another way of measuring financial performance.

From the table above, they are few correlations amongst the variables in the model at 1% and 5% significant level. we can see that the peak level of correlation is seen amongst board size (BOARDSIZE) and firm size (FIRMSIZE) with 43.2% at level of correlation of 1% of significant. Another correlation is found between CEO tenure (CEOTENUR) and firm size (FIRMSIZE) at a significant level of 5% of 29.6%. Furthermore, they is correlation between firm size (FIRMSIZE) and management change (MCHANG) with 26.2% at 5% significant level.

Finally, another correlation was found between CEO tenure (CEOTENUR) and board size (BOARDSIZE) in one side and CEO tenure (CEOTENUR) and management Change (MCHANG) with 25.6% and 24.1% level of correlations at 5% significant level. All other variables are found not correlated.

4.5 Model Selection Between Fixed Effect and Random Effects

The Hausman test (which is also called as the Wu–Hausman test) is another statistical hypothesis test in the field of econometrics which is named after James Durbin, De-Min Wu and Jerry A. Hausman. This test assesses the impact of an alternative estimator versus an estimator. It assists researchers to assess whether a statistical model matches to the data (Oyerinde, 2014).

Hausman specification test assists in selecting between FE model and RE model. As indicated by the Hausman test, the null hypothesis is a coefficient estimated by efficient RE estimator and is equal to the one estimated by the reliable FE estimator. If the values in the study are insignificant (*p-value, prob > chi2 larger than .05*), at that point it is safe to utilize RE model; else, FE model impact is used (Davidson & MacKinnon, 1993; Greene, 2003; Stock, Watson, & Addison-Wesley, 2007).

Table 4.7
Hausman Specification Tests

	Chi^2	***p*-value**
Hausman	4.42	0.7301
H_0	Reject	Reject

The *p*-value (0.7301) for the Hausman test as indicated in Table 4.7 is insignificant and therefore established that RE model is more suitable, since there is no proof of significant disparities within the banks; hence, RE regression can be run (Gujarati & Porter, 2012). Meaning that reject fixed effect and accepted random effect. Thus, this study adopted random effect to analyze panel data.

4.6 Linear Regression Analysis

In the current study, the analysis of linear regression is being utilized as a statistical technique to investigate the relationships that arise amongst the dependent variable and three independent variables comprising CEO tenure, board size, audit committee size and the four control variables which are firm size, leverage, bank age and management change for 21 listed Banks in Nigeria. Table 4.8 reveals the analysis of results for fixed and random effects model in the study.

Table 4.8
Regression result of the model fixed and random effects (Dependent = ROA)

	Fixed Effect			**Random Effect**		
Variables	**Coef**	**t**	**P>|t|**	**Coef**	**z**	**P>|z|**
CEOTENUR	0.0227066	0.76	0.456	0.0585052	5.23	0.000
BOARDSIZE	0.0202586	0.18	0.858	0.0690148	1.00	0.319
AUDITSIZ	0.0385351	0.07	0.943	-0.1050675	-0.60	0.546
FIRMSIZE	-0.1297711	-0.48	0.640	-0.3372234	-2.05	0.041
LEVERAGE	0.0540617	0.67	0.514	0.125941	2.63	0.009
BANKAGE	-0.239382	-0.64	0.531	0.1907006	2.76	0.006
MCHANG	0.093178	0.29	0.773	0.0240861	0.09	0.925
_CONS	3.047315	0.49	0.630	5.735061	1.77	0.076
Number of Obs			68			68
Number of group			17			17
Wald $chi^2(7)$			-			124.43
F(7,16)			1.69			-
R^2			0.0106			0.2128
Prob > chi^2			-			0.0000
Prob > F			0.1830			-

4.6.1 (ROA as Dependent Variable)

In probing the hypotheses model using a linear regression analysis, some indicators were engaged. Some of which are using the R^2 (R Square) Coefficient, that assesses the robustness of the regression equation. It is also referred to as the coefficient of determination which uncovers the point of difference between the dependent variable which is described by model of the variables. In this study, the R^2 displays the point of difference of dependent variable (ROA) which is described by the dependent variable (financial performance as was being measured using ROA) resulting from the collective influence of the independent variable namely (CEO Tenure, board size, Audit committee size). Furthermore, when the R^2 is equivalent to 1 that implies that there is an excellent linear connection amongst the dependent and independent variables in the study. More so, when R^2 is equivalent to 0, this implies no linear connection existing amongst the dependent and the independent variables. As a result, the value/unit under R^2 exhibits the level of difference in the dependent variable (financial performance as was being measured using ROA) is being described in the model which involves (CEO Tenure, board size, Audit committee size).

As shown by the outcomes in Table 4.8, the rate of R^2 in the model is 0.2128. This implies that the model describes 21.28% of the difference in financial performance as being measured using ROA. This is being considered as an acceptable outcome. The STATA (version 14) presents adjusted R^2 value in the output. In cases where there is a small sample, R^2 value is a rather optimistic overestimation of the real population value (Tabachnick & Fidell, 2007). R^2 signifies that 0.2128 percent of the disparity in the dependent variable is discussed by the disparities in the independent variables within the study. This implies that the deviation in financial performance, as being measured by ROA, is statistically described by the regression equation. The outcomes in Table 4.8 also display that the model is significant (p<0.0l) indicating the validity of the model used.

In order to test the hypotheses, standard beta coefficients were utilized. Standardized required the values of each different variable to be converted to the same scale for contrast of the beta value that is the highest (while disregarding the negative signs). In this way, standardized beta coefficients may be contrasted with one another with the higher coefficient signifying that they are strong influence of the variables on the dependent variable. Regression coefficient disclosed that the variables were predictors of the model's dependent variable.

Generally, the outcomes in Table 4.8 displayed the four variables in the study that were discovered to be significant with financial performance predictors (as being measured by ROA). The variables are CEO tenure (CEO TENURE) (β=0.0585052, p<0.1), Firm size (FIRMSIZE) (β=-0.3372234, p<0.05), leverage (LEVERAGE) (β=0.125941, p<0.1) and finally bank age (BANKAGE) (β=0.1907006, p<0.1).

Nevertheless, other variables such as board size (BOARDSIZE) (β=0.0690148, p>0.1), audit committee size (AUDITSIZ) (β=-0.050675, p>0.1) and management change (MCHANG) (β=0.0240861, p>0.1) failed to make a significant contribution as dependent variable predictors (financial performance as being measured using ROA) as a result the significance values are higher than 0.1 were revealed to be statistically insignificantly related to the banks financial performance (ROA).

4.6.2 Hypotheses Testing

In this section, the outcomes of the analysis of the relationship between financial performance (ROA as dependent variable) and CEO tenure, board size and audit committee size are the independent variables. Whereas the control variables are the firm size, leverage, bank age and management change as discuss in the study are presented through linear regression analysis.

4.6.2.1 CEO Tenure and ROA

According to the Table 4.8, the CEO tenure on this regression has a clear positive effect on ROA and also the outcome is significant. This finding supports the first hypothesis (H_1) that there is relationship between the CEO tenure and the financial performance. As a such, the first hypothesis that mentioned there is relationship between the CEO tenure and the financial performance is supported. This positive value shows that if there is an increase in CEO tenure, financial performance (ROA) will also increase and vice versa. This outcome is similar to that found in the study Al-Matari, Al-Swidi, Fadzil, and Als-Matari, (2012) they investigated the effect of board characteristics on the firm performance; which is evidence from non-financial listed companies in Kuwaiti Stock Exchange. They discovered a positive relationship between the CEO tenure and the financial performance (ROA).

4.6.2.2 Board Size and ROA

As revealed in Table 4.8, the study found a positive relationship between the board size and financial performance (ROA) and insignificant. The findings reject the second hypothesis (H_2) which states that there is a relationship between the board size and the financial performance (ROA). Therefore, the second hypothesis (H_2) which reveals that there is a relationship between the board size and financial performance (ROA) is supported. The positive value discloses that if there is decrease in the board size, financial performance (ROA) will also increase and vice versa. This result is similar to that found in a study by Sanda *et al.* (2005) who investigated the corporate governance mechanisms and the firm's financial performance in Nigeria. They discovered a positive relationship between the board size and the firm financial performance but not significant. While another result found by Ujunwa (2012) displays that they is negative relationship between the board size and firm performance.

4.6.2.3 Audit Committee Size and ROA

According to Table 4.8, audit committee size on this Table has negative impact on the ROA and also not significant. The findings reject the third hypothesis (H_3) which revealed that there is relationship between the audit committee size and financial performance (ROA). Therefore, the third hypothesis (H_3) that discloses there is a relationship between the audit committee size and financial performance is rejected. The negative value indicates that when there is a decrease in the audit committee size, financial performance (ROA) will increase and reverse is the case. The outcome contradicts with the one found in the study of Al-Matari et al., (2012) they examined the effect of board characteristics on the firm performance and they found a positive significant relationship between the audit committee size and ROA. Another study by Kyereboah-Coleman (2007) and Kajola (2008) who examined the relationship between the audit committee size and firm performance of U.S and Nigeria separately. They discovered a positive relationship between the audit committee size and firm performance as being measured using (ROA).

4.6.2.4 Control Variables and ROA

Four control variables were adopted in this study, which are the firm size, leverage, bank age and management change. First of them is the firm size. The use of firm size as a control variable is being justified by the findings of companies with various distinct characteristics. The possibility, that growth and firm size are significant elements of board's size and structure, was highlighted by Patro *et al.* (2003), according to them, firm size is explicitly associated to its size and is inversely comparative to the alternate of growth prospects. In addition, the firm size affects firm performance and is usually utilized as control variable in experimental research devoted to the corporate governance (De Andres *et al.*, 2005; Ghosh, 2006; Cheung *et al.*, 2007). The influence of firm size on the corporate governance has also been reported in the outcomes that depict bigger companies to be less useful in comparison to their smaller counterparts even though they adhere to government bureaucracy, they are riddled with uncertainty and complex agency problems (Patro *et al.,* 2003). The result in Table 4.8 shows a negative relationship, but statistically significant (β=-0.3372234, $p<0.05$) between firm size (FIRMSIZE) and ROA. This is not consistent with the one found in the study of Klapper and Love (2003), they discovered that there is positively significant relationship between firm size and performance and the one found in Al-Matari et al., (2012) they examined the effect of board characteristics on the firm performance and they found a positive insignificant relationship between the ROA and firm size.

The second control variable considered was the debt ratio (Leverage) that refers to the total sum of long-term debt and the short-term liability as total assets percentage. Debt ratio impacts the outcomes of the banks. A positive effect may result in minimized cash flow, and control of the banks, which could depict more of the market. As illustrated in Table 4.8, the result displays a positively significant relationship between the leverage (LEVERAGE) and ROA (β=0.125941, $p<0.1$). This result is consistent with the one found in Al-Matari et al., (2012) they examined the effect of board characteristics on the firm performance and they found a positive significant relationship between the leverage and ROA but contrast with the outcome found by Kyereboah-Coleman and Biekpe (2006).

In terms of bank age the results presented in Table 4.8 shows a positive relationship and significantly related with ROA (β=0.1907006, $p<0.1$). The outcomes are consistent with the previous studies found by Evans, (1987) and Stinchcombe, (1965), which showed that an increase in the age of a company accompanies an increase in management abilities and skills to improve firm performance. Therefore, financial performance increases with the bank age.

Finally, the fourth control variable that was considered in this study is the management change. With respect to management change, from the analysis in Table 4.8, the result displays a positive relationship and insignificantly related to ROA (β=0.0240861, $p>0.1$). The outcomes are not consistent with previous studies that any changes in board of director's structure leads to decreased firm performance (Hart, 1995; Patton & Baker, 1987; Warner et al., 1988). However, any changes in the board of directors affect not only the firm's value in the market, but also the firm's performance (Fama, 1980; Furtado & Karan, 1990). Therefore, the financial performance decreases with changes in the board of directors.

4.7 Additional Analysis

Section 4.7 presents the additional interactions of variables that were tested in the study. For the purpose of testing, each interactive variable was originally added to the original model.

Table 4.9
Regression results showing the fixed and random effects indicating an interaction between log (CEO tenure, board size and audit committee size) and ROA

	Fixed Effect			**Random Effect**		
Variables	**Coef**	**t**	**P>|t|**	**Coef**	**z**	**P>|z|**
LogCEOTENUR	0.0832117	0.41	0.684	0.3025962	3.33	0.001
LogBOARDSIZE	0.4388004	0.31	0.764	0.9950901	1.21	0.226
LogAUDITSIZ	-0.0655285	-0.03	0.980	-0.3015555	-0.34	0.734
FIRMSIZE	-0.1415572	-0.54	0.599	-0.3676264	-2.42	0.015
LEVERAGE	0.0588829	0.71	0.489	0.1182821	2.61	0.009
BANKAGE	-0.2707259	-0.70	0.495	0.2086064	3.20	0.001
MCHANG	0.0747128	0.23	0.818	0.0670065	0.26	0.791
_CONS	2.872183	0.42	0.683	4.462352	1.65	0.099
Number of Obs			68			68
Number of group			17			17
Wald $chi^2(7)$			-			101.15
F (7,16)			1.42			-
R^2			0.0078			0.2137
Prob > chi^2			-			0.0000
Prob > F			0.2626			-

Table 4.9 presents the results of the relationship between CEO tenure, board size, audit committee size and the financial performance (ROA) which are all in logs. The relationship between log CEO tenure and the financial performance (ROA) was found to be statistically significant as evident by the *p*-value of 0.001 (0.1%). This suggests that CEO tenure does influence financial performance of the banks based on the additional analyses done on this studies.

Another relationship was found between log of board size and the financial performance (ROA) which found that the variable relationship is statistically insignificant as evident by the *p*-value of 0.226 (22.6%). This suggest that board size does not influence financial performance of the banks based on the additional analysis done in this study.

Finally, the relationship between log audit committee size and the financial performance (ROA) was found to be statistically insignificant with a *p*-value 0.734 (73.4%). This prompt that audit committee size does not influence financial performance of the banks based on the additional analyses of the interactive variables in this study. Based on the result above, additional analysis was done to support the robustness of the result found in the study.

4.8 Summary

This chapter try to discussed the outcomes of the analysis that is conducted in the study employing several instruments with the aim of ensuring that the data conform with the expectations of linear regression analysis and correlation analysis are both conducted and then the researcher carry out some series of tests on the normality, multicollinearity, heteroscedasticity and autocorrelation problem were ruled out.

The analyses provided evidence that the relationship between the CEO tenure and ROA is positively significant. Also, the study discovered that the relationship between the board size and ROA is positive and insignificant. By contrast, this result found that the relationship between the audit committee size with ROA is negatively insignificant. In addition to that, these results found that the relationship between the firm size and ROA is negatively significant. Furthermore, the outcome displays that the relationship between the leverage and ROA is positive and significant. Another outcome in this study discovered that there is a positive and significant relationship between the bank age and ROA. Finally, the result displays that there is positive and insignificant relationship between management change and ROA. Table 4.8 shows the results founded on the outcomes of the study.

CHAPTER FIVE

SUMMARY AND RECOMMENDATIONS

5.1 Introduction

This current study has tried to discover the relationship between some specific set of corporate governance variables (CEO tenure, board size and audit committee size) representing the independent variables, firm size and leverage, bank age and management change, representing the control variables and measure of financial performance (ROA), representing the dependent variable, from 2006 - 2009 annual reports of banks listed on the Nigerian Stock Market. This chapter is apportioned into three sections. Starting with the introduction of the chapter. The second section is the summary of the research, then followed by the implication of the study. Finally, it presents the limitations of the study and as well as the recommendations for future studies.

5.2 Summary

The study investigates 21 banks that are quoted in the Nigeria stock exchange for the time frame of 2006 to 2009. The key objective of this study is to investigate the effect of corporate governance on the financial performance of Nigerian banks. For the purpose of this research, corporate governance variables are to be represented by CEO tenure, board size and audit committee size to determine the influence it has on the financial performance of Nigerian banks. In view of the results obtained, the study indicates that CEO tenure is associated with financial performance (ROA), hereby opining that the longer the tenure of a CEO, the higher the financial performance or more effective is the bank. However, the board size does not seem to influence the banks financial performance. Furthermore, audit committee size seem to be negative but not attributable significant to financial performance of the banks.

Other variables which includes: firm size, leverage, bank age and management change were also investigated. The study documents a negative and significant relationship between the firm size and financial performance, for leverage and bank age it was found that a positive and significant relationship exist with the financial performance. Finally, management change was not found to be significantly associated to financial performance.

Lastly, this study carry out additional analysis by using logarithm for all the hypothesis variables in other to show the robustness of the result. The log CEO tenure was found to be positive and significant with financial performance while, log board size was found to be positive and insignificant to financial performance. Finally, the result implies that log audit committee size was found to be negative and insignificant with Nigerian banks financial performance as measured by ROA.

Table 5.1
Summary of the Hypothesis Testing Results

Hypothesis	Hypothesis statement	Findings
H_1	There is a relationship between CEO tenure and financial performance.	Positive & Significant
H_2	There is a relationship between board size and financial performance.	Positive & insignificant
H_3	There is a relationship between audit committee size and financial performance.	Negative & insignificant

In summary, the study results obtained from panel data analyses showed that two hypotheses were positive while the other one is negative. Specifically, Table 5.1 indicates that H1 is positive and significant and H2 is positive but insignificant. On the other hand, H3 is negative and insignificant. Based on this, it can be conclude that the objectives of the study are achieved.

5.3 Implication of the Study

This research examined the impact of corporate governance variables on the financial performance of Nigerian banks. The findings of the study would provide invaluable insight to the government, stock market, auditing and accounting regulators and auditing and accounting professional bodies, as to the extend which codes of corporate governance degrees, regulators, resolutions, and laws are implemented by the banks and other financial services. Further, the study provides knowledge to the government and regulators when making new policies or deliberating on issues regarding corporate governance in relation to bank performance.

Moreover, the importance of having good corporate governance practice should be emphasised so as to achieve credibility and quality of financial statement. Hence, the result of the study could improve corporate governance practices by management, and also improve corporate performance in organizations most especially the banking industry.

5.4 Limitation of the Study

They are very few researches on corporate governance and bank financial performance in the Nigerian banking industry. Most of the empirical studies referenced in this study were studies conducted in developed countries. However, due to the differences in environment and culture between these countries and Nigeria, the results of these studies might not be appropriate and suitable to apply in the Nigerian setting.

Some of the data used in this study was collected from data-stream. Even though the data-stream is source of data collection, it still provides missing data of some certain banks in Nigeria.

5.5 Recommendation for Future Studies

The limitations of this study have urged the following recommendations for further research as itemized below;

1) To enhance the model of this study, future research ought to incorporate other corporate governance variables like risk management expertise, ownership concentration, director remuneration, management ownership and board qualification. Furthermore, the data for this research covers the time period from 2006 to 2009. This limitation or constraint was inflicted by the non accessibility of data concerning the studied banks. Hence, future research may be conducted to cover a more extended timeframe in order to have a reasonable and more exact impression of results. Perhaps, to incorporate more recent years, 2010 and 2015.

2) The data utilized for the present study is originated from 21 banks in Nigeria with their return on asset. A bigger data set relating financial and non financial organizations might convey a substitute model of the relationship that exist between the value of an organization and corporate governance. The introduction of new corporate governance mechanisms might also convey an extra edge-worth mixtures of the internal corporate governance mechanism whereas the other performance measures might likewise be presented.

3) This research has gone extra mile to explore corporate governance with corporate performance of banks in a broader context. Further research could explore the relationship in more in specific categories for example, in not-for-profit organizations, in government organizations, and in family companies. Since this study focused on the Nigeria banking sector it would be beneficial to have a clearer understanding of corporate governance roles in other types of organizations. Such research could address the similarities and differences of the roles in different organizations and consider also the legal requirements for different organizations.

4) Advance researches are also essential on the behavioral features of the boards. Researchers in developed countries have recently started examining board processes by attending actual board meetings. However, this also needs to be expanded by researchers in developing economies. There is therefore the need to go beyond the quantitative research, which

is yielding a mixture of results, to perhaps a more qualitative approach as to how boards work. Expanding this current research into a wider study of board dynamics and decision making would be a start in developing a better understanding of corporate governance.

5) Lastly, there is a call to launch a cohesive corporate institution/body charged with the duty of collating and collecting corporate governance related information and building the applicable indices to encourage corporate governance research in Nigeria.

5.6 Conclusion

The research objective which is to explore the effect of corporate governance variables on the Nigerian banks financial performance has been accomplished. The study investigates the relationship between the three independent variables (CEO tenure, board size and audit committee size) with the dependent variable which is return on asset (ROA). Based on the outcome of the panel data analysis, only one variable namely CEO tenure was found to be positive and significant relationship with the banks financial performance which was measured using return on asset (ROA).

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