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COPORATE GOVERNANCE AND NIGERIAN BAILED-OUT BANKS' PERFORMANCE: THE INDIRECT EFFECT OF PERFORMANCE MEASUREMENT SYSTEM AND BOARD EQUITY OWNERSHIP

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COPORATE GOVERNANCE AND NIGERIAN BAILED-OUT BANKS PERFORMANCE: THE INDIRECT EFFECT OF PERFORMANCE MEASUREMENT SYSTEM AND BOARD EQUITY OWNERSHIP

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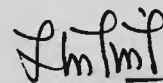
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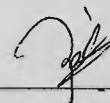|		
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ABSTRACT

Perennial corporate failures had necessitated a bail-out reform in Nigerian banking sector and also the quest for improving managerial effectiveness especially through performance measurement. Most researches concentrated on direct effect of corporate governance on firm performance despite the calls for indirect path. Recent researches suggested multi-dimensional performance measurement systems (PMS) in mediating corporate governance (CG) and firm performance. Drawing upon the agency theory and the resource dependency theory, this study examines the mediating effect of performance measurement systems and moderating effect of board equity ownership in the relationship between corporate governance and bailed-out banks performance. This study used survey to 467 branches managers of bailed-out banks in Nigeria and data was analyzed using a PLS-SEM. The results indicate that board appointment, board size and female membership on board were positively related to banks performance, with the exception of board independence and audit committee quality. This study also found that all the CG variables were related to PMS and PMS is also related to banks performance. As for mediation, all the CG variables were mediated by PMS except board independence. Furthermore, the results showed that board equity ownership is a full moderator between CG (particularly for board independence and audit committee quality) and banks performance. This study concludes that the good structure of CG play a key role in improving bailed-out banks performance. Besides that the evidence indicated that bailed-out banks should also emphasize on board equity ownership and PMS to improve the effectiveness of their CG which in-turn lead to better performance. This study serves as an input to policy makers and regulators in formulating policies and strategies concerning CG. This study also contributes to the CG and PMS literature as scarce attention given on this issue in prior research.

Keywords: corporate governance, performance measurement system, board equity ownership, bailed out banks performance.

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ABSTRAK

Kegagalan korporat yang tidak berkesudahan telah memerlukan pembaharuan dalam langkah menyelamatkan sektor perbankan di Nigeria dan juga usaha untuk meningkatkan keberkesanan pengurusan terutama melalui pengukuran prestasi. Kebanyakan kajian tertumpu terhadap kesan langsung tadbir urus korporat kepada prestasi firma walaupun ada gesaan untuk melihat kesan tidak langsung. Kajian terkini pula mencadangkan sistem pengukuran prestasi pelbagai dimensi (PMS) sebagai pengantara kepada tadbir urus korporat (CG) dan prestasi firma. Berbekalkan teori agensi dan teori kebergantungan sumber, kajian ini mengkaji kesan pengantara sistem pengukuran prestasi dan kesan penyederhana pemilikan ekuiti lembaga dalam hubungan antara CG dan prestasi bank yang diselamatkan. Kajian ini menggunakan soal selidik yang diedarkan kepada 467 pengurus cawangan bank-bank yang diselamatkan di Nigeria dan data dianalisis menggunakan PLS-SEM. Hasil kajian menunjukkan bahawa pelantikan ahli lembaga, saiz ahli lembaga dan keahlian wanita di dalam lembaga mempunyai kaitan yang positif terhadap prestasi bank, dengan pengecualian kepada kebebasan lembaga dan kualiti jawatankuasa audit. Kajian ini juga mendapati bahawa semua pemboleh ubah CG mempunyai hubungan dengan PMS dan PMS juga mempunyai hubungan dengan prestasi bank. Bagi pengantaraan pula, semua pemboleh ubah CG telah diantarai oleh PMS kecuali kebebasan lembaga. Tambahan pula, dapatan kajian menunjukkan bahawa pemilikan ekuiti lembaga merupakan pengantara penuh antara CG (terutamanya kebebasan lembaga dan kualiti jawatankuasa audit) dan prestasi bank. Oleh itu, kajian ini menyimpulkan bahawa struktur CG yang baik memainkan peranan penting dalam meningkatkan prestasi bank yang diselamatkan. Selain itu, terdapat bukti yang menunjukkan bahawa bank-bank yang diselamatkan perlu memberikan perhatian dalam soal pemilikan ekuiti lembaga dan PMS untuk meningkatkan keberkesanan CG yang akan menyumbang kepada prestasi firma yang lebih baik. Kajian ini menyumbang sebagai input kepada penggubal dasar dan penguat kuasa undang-undang dalam merangka dasar dan strategi mengenai CG. Kajian ini juga menyumbang kepada sumber rujukan CG dan PMS berikutan keterbatasan kajian yang melihat isu ini yang ditunjukkan dalam kajian-kajian yang terdahulu.

Kata Kunci: tadbir urus korporat, sistem pengukuran prestasi, pemilikan ekuiti lembaga, prestasi penyelamatan bank.

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LIST OF ABBREVIATIONS

AC: Audit committee

ACQ: Audit Committee Quality

BA: Board Appointment

BI: Board Independence

BEO: Board Equity Ownership

BODs: Board of Directors

BS: Board Size

CBN: Central Bank of Nigeria

CG: Corporate Governance

FMB: Female Membership on Board

MCS: Management Control System

NDIC: Nigerian Deposit Insurance Corporation

OID: Outside Independent Director

PLS: Partial Least Squares

PMS: Performance Measurement System

SEC: Securities and Exchange Commission

SEM: Structural Equations Modelling

CHAPTER ONE
INTRODUCTION

1.1 Background to the study

The economic growth and development of an economy depends to a large extent on its financial system. The financial system consists mainly of bank and other non-banking financial institutions. Historically, the banking system in Nigeria after commencement in 1892, has experienced so many major challenges in the banking industry. It has been in records, the crisis is dated back to the late 1940s and early 1950s, 1962 and mostly due to lack of proper regulations, followed by Structural Adjustment Programme (SAP) in 1986, financial liberalisation in 1987-1988 and prudential guidelines in 1991 (Brownbridge, 1996; Oluranti, 1991). Furthermore, between 1990 and 2004, bank regulators, Central Bank of Nigeria (hereafter called CBN) raised the required minimum share capital for banks fully operational within Nigeria about five (5) times, in 1991, 1997, 2000, 2001 and 2005. Yet, all these measures had failed to curtail the spate of bank distress and failures in the 1990s and beyond (Aburime, 2008). Lastly came the consolidation reform in 2005 and then the recent bail-out reform in 2009 (Alford, 2010).

Yet, in the mid-2008, the global financial crisis has eliminated the aforementioned benefits that had been already realized after the period of post-consolidation, in the banking system and capital market in Nigeria. The higher increase in capital availability in 2005, happened when corporate governance (hereafter called CG) standards were ineffective (Sanusi, 2010). Factually, failure of CG was among the key

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factors that contributed to the financial institutions' crisis (CBN, 2006; SEC, 2003). Consolidation brought stronger banks but failed to address the necessary faults in CG of most of these banks. The industry has some banks that were well recognized and characterized with unethical and potentially fraudulent business practices which were documented and exposed in CBN examinations reports (Kuye, Ogundele, & Otike-Obaro, 2013; Sanusi, 2010).

Recently in 2009 after the global financial crisis, the quality of banks' loans had seriously declined, which instantly led to these banks to face liquidity and profitability problems. As an apex financial regulators, concerned about the stability of the financial system, CBN and Nigeria Deposit Insurance Corporation (hereafter called NDIC), conducted a joint assessment of all the 24 Nigerian banks, and the result revealed that ten (10) banks were nearly collapsing from which eight (8) had serious problems in CG and risk management practices, as well as deficiencies in liquidity and capital adequacy (CBN, 2011). Consequently, the Chief Executive Officers (hereafter called CEOs) and the Board of Directors (hereafter called BODs) of these 8 banks were instantly sacked and then replaced with newly appointed ones, and all the 10 banks were bailed out by injecting of additional Tier 2 capital of N620 billion (Sanusi, 2009). The banks were immediately mandated to recapitalize before the deadline of 30th September, 2009 of which, four (4) of the banks (Equitorial Trust Bank plc., Unity Bank Plc, Union Bank Plc and Wema Bank Plc) have been successfully recapitalized through additional capital investment by other investors, while three (3) banks (Intercontinental Bank Plc, Finbank Plc and Oceanic Bank International Plc) recapitalized through merger and acquisitions (CBN, 2010b; NDIC,

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2011). The remaining three (3) banks (Afribank Plc, Bank PHB Plc and Spring Bank Plc), could not recapitalize at the deadline and thus, were taken over by Mainstreet Bank, Keystone Bank and Enterprise Bank through Bridge Bank mechanism [1] (NDIC, 2011). This has generated a lot of debate concerning the faith of the shareholders of these banks whose investments is however taken over by AMCON and suspended pending the ability of the banks to become financially stable. This research is really important to be conducted in the banking sector despite the over concentration of CG studies on non-banking sector.

Several reports and researches such as CBN, (2006; 2008), Galoji, Ahmad, and Johari (2012), NDIC (2011), SEC, (2003), and Uadiale (2010) have indicated that CG was poorly implemented due to poor managerial leadership, self-serving behaviour of managements, lack of board monitoring/advisory functions and lack of adequate system of control. Additionally, CG failed because BODs lacked independence; there was lack of competent specialist in committees; board appointments always influenced by CEOs; CEOs are constantly misleading boards in strategic decision and implementation (Kuye *et al.*, 2013; Sanusi, 2010). BODs were regarded as instrument of corporate control due to their monitoring managerial and firm's performance. Both the agency, resource dependence and legalistic theories have all described BODs as being responsible for recruiting, removing and replacing a CEO/senior management, evaluating their (management) performance, and also actively involving in the strategic decision making, formulation and implementation through guiding and

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[1] Bridge Bank mechanism: means formation of new banks with new identity to take over all the affairs of the former banks including the assets & liabilities.

advising CEO, by making their own analyses, or proposing options (Epstein & Roy, 2005; McNulty & Pettigrew, 1999; Ogbechie, Koufopoulos, & Argyropoulou, 2009; Ruigrok, Peck, & Keller, 2006; Zahra & Pearce, 1989).

To achieve a sound organisational performance, the CEO/managers' performance must be improved and *"the best way to improve CEO performance is through a multi-dimensional Performance Measurement System (PMS)"* (Epstein & Roy, 2005, p.82). Concern to achieve effective BODs' monitoring and advisory function, and also to involved in strategy formulation and implementation, BODs have to frequently measure and review the strategic performance of the CEO/management (Epstein & Roy, 2005; Judge & Zeithaml, 1992; Ogbechie *et al.*, 2009). Performance measurement system (hereafter called PMS) will therefore be relevant in providing information useful in strategy implementation, and to quantify the managements' contribution to strategy (Anthony & Govindarajan, 2007; Langfield-Smith, 1997; Simons, 1995a). To connect business activities with business strategic goals, PMS must consist of key indicators that give signals into the ability of an organization to advance its future competitive status and should give forecast of future performance.

Organisations ought to consider a broad set of performance measures which are harmonized with the organisation's values, mission and vision and also matched with the organisation's long-term goals. Although PMS has been severally discussed to help in the measurement and implementation of strategy and improve firm performance, yet BODs neglects the importance of those systems. Therefore PMS as an element of management control system (hereafter called MCS) is considered as a

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mediator in this study while MCS is meant to provide useful information for the purpose of planning, performance evaluation, and decision-making (Merchant & Otley, 2007; Widener, 2007). Similarly "MCS are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities (Simons 1995)".

Furthermore, evidences from prior and extant literature had revealed that Board Equity Ownership (hereafter called BEO) encourages/influences the boards' ability to monitor, advice or counsel the management's performance towards achieving better organizational performance. Also, it influences them to actively dismiss and replace a non-performing CEO/management who contribute less to the firm's performance (Albring, Robinson, & Robinson, 2013; Bhagat & Bolton, 2008; Bhagat, Carey, & Elson, 1999; Hillman & Dalziel, 2003).

Specifically in Nigeria, there exist some challenges and ambiguity regarding BOD's equity ownership as reported in the banks supervision annual report of CBN in 2008. Since BEO was suggested and established to motivate boards, this study could argue that the boards of Nigerian banks would have dismissed and replaced those fraudulent CEOs if they were owning any equity in the banks. Again, this moderator is inevitably necessary due to the inconsistent mixed results on the association of CG and firm performance, in order to understand more about such relationship. Therefore, this study aims at examining the mediating role of PMS and the moderating role of BEO on the relationship between CG and these bailed-out banks' performance.

1.2 Problem Statement

Performance measurement of business organizations has captured a serious attention of both managers, BODs, shareholders, researchers and the government of various nations (Epstein & Roy, 2005; Kaplan & Norton, 2000). Several cases of various organizational performance inefficiencies and deterioration, total collapse, or conversely if exceptionally successful, have been leveled against managerial leadership and corporate governance (CBN, 2006; Galoji et al., 2012; Nworji, 2011; Sanusi, 2010). This is because CEOs as managers are the main drivers of the organisation whose performance will determine the organisation's performance, as therefore need to be monitored by BODs to prevent opportunistic self-serving behaviors.

Practically in Nigeria, the poor performance of CEOs which was un-measured and un-tackled by their BODs was discovered by CBN and NDIC, and thus, consequently led their banks' performance to suffer a distress syndrome that necessitated a bailout reform (Kuye *et al.*, 2013; Sanusi, 2010). Despite numerous measures that were been employed by Nigerian government to ensure and improve the stability, profitability and performance of banks, all these measures were unsuccessful in curbing the sequence of bank distress and failures in the country (Aburime, 2008). Recently in 2009, the banking sector was challenged by another round of crisis in 2009, in which the CBN Governor (Mal. Sanusi L. Sanusi), dismissed the CEOs together with their BODs of eight (8) banks out of the ten (10) banks that were distressed or nearly collapsed due to "excessively high level of non-performing loans (NPL) in the banks which was attributable to poor corporate governance practices, bad liquidity position

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and poor risk management". Consequently, a bail-out of about N620 billion was injected to rescue them, and these CEOs after been removed, were then detained, and prosecuted by the Economic and Financial Crimes Commission (EFCC) and also tried before the high court for outright stealing, corruption and mismanagement of their banks. Now the consequential result of this current bail-out reform is still contentious and debated among shareholders, academics, financialists and many Nigerians (Kuye *et al.*, 2013; Oghojafor, Olayemi, Okonjia, & Okolie, 2010).

The other problems of this study emanates from the managerial issues within the banking sector. The BODs are been considered as an instrument of corporate control but yet, they do not fulfil their legally mandated responsibilities by asking managements sensitive enquiries about firm's objectives and performance, do not measures CEO's performance exhaustively, and does not analyse management resolutions before approving them (CBN, 2006; Epstein & Roy, 2005; Sanusi, 2010; Zahra & Pearce, 1989). According to CBN (2006); Kuye *et al.*, (2013); Sanusi (2010); Sanusi (2009), governance malpractice within Nigerian banks, became a normal behavior because, BODs often did not fulfil their function, some BODs lacked independence and some have very low ethical standards. Most BODs audit committees were ineffective, BODs are failing to make meaningful contributions in boardrooms and also lacks the competence/qualifications to impose and implement good governance among bank CEO/management (Sanusi, 2010). Bank chairman(men) and CEO(s) sometimes had an overbearing influence on the board, (Sanusi, 2010). They often claimed being deceived by management, involving in collecting un-secured bank loans.

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The last problems of this study focuses on the theoretical issues regarding prior and extant literature. Firstly, a conflicting mixed results are usually reported in most researches conducted to assess the effect of CG on firms' performance globally and particularly in Nigeria, (Clifford & Evans, 1997; Uadiale, 2010; Zahra & Pearce, 1989). The conflicting/mixed findings are usually caused by factors like inconsistent operationalization of board variables, limited scope, and convenience samples, and usual focus mainly on direct relationships between CG variables and firm's performance, therefore ignoring the indirect relationship through BODs' roles and strategic initiatives (Hillman & Dalziel, 2003; Zahra & Pearce, 1989). Therefore, this study selected its variables [i.e. BI, BA, AC, BS and FM] to address the aforementioned managerial problems.

Second theoretical problem is that the focus of most CG studies in Nigerian context, were not on bail-out banks except few such as Kuye *et al*., (2013), Nworji (2011), Oghojafor *et al*., (2010) which all have different kind of shortcomings like small sample, addressing policy issue not the banks' performance, wrong selection of variables etc. This study therefore, directly aims at examining only the bailed out banks covering only the period of time after the reform. Thirdly, studies on CG covering both non-financial and financial performance are very rare in Nigeria except Ogbechie *et al*., (2009). Although, Okereke, Abu, and Anyanwu (2011) and Oghojafor *et al*., (2010) utilized questionnaire data, their respondents are unsuitable in giving better information.

There is limited research assessing the role of BODs and their involvement in strategic decision-making, formulation and implementation neither in Nigeria nor in

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the African continent (Ogbechie *et al.*, 2009). Even though, there is greater application of non-financial measures for measuring performance of CEO, these measures were usually been ignored by BODs (Epstein & Roy, 2005). To date, no study was undertaken to the best of our knowledge, which explicitly took care of only the bail-out banks in a better approach. Fourthly, another theoretical problem is unresolved as asserted by Hillman and Dalziel (2003), *"both agency theorists and resource dependence theorists have examined one board function (monitoring/the provision of resources) at the expense of the other, contributing to an incomplete understanding of what boards do and how they affect firm performance"* (Hillman & Dalziel, 2003 p.383). Therefore, this study now curtails this problem by integrating both agency theory and resource dependence theory to cover all the study.

Fifthly, another theoretical problem was that several researches have shown that Banks CEOs in Nigeria were always having overbearing influence over boards and their appointments making them to lack independence (Kuye *et al.*, 2013; Sanusi, 2010). CEOs are usually consulted on BOD appointment decisions which allowing them to form BOD that would be loyal to their interests (de Villiers *et al.*, 2011; Monks & Minow, 1991; Clifford & Evans, 1997; Westphal & Zajac, 1995). Hence, this study introduced a variable "board appointment" to measure BODs appointment. This is another means of determining board independence that will measure the extent to which the BODs are absolutely independent from their management, as in deVilliers *et al.*, (2011). A female director was also suggested to add more value to a firm performance (Vo & Phan, 2013), while this is rarely explored i Nigeria's context.

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Sixthly, Zahra and Pearce (1989, p308) reported that "search for direct links among board attributes and company financial performance is misguided and will yield contradictory findings".

> *"the bulk of past and present research focuses on direct thus ignoring the indirect path (through monitoring, control & resource provision) to managers. The indirect links is more important because it considers the interrelationships among board variables, the contingencies that moderates boards' performance of their roles, and the amount of influence that directors exert on senior management's performance/ initiatives which will in turn, enhance the firm's performance"*(Zahra & Pearce, 1989, p308)

To achieve this, PMS as mediator is introduced into the relationship between CG and the banks' performances as suggested by Epstein and Roy, (2005), Ogbechie *et al.*, (2009), Pugliese *et al.*, (2009), Zahra and Pearce (1989). Similarly, Epstein and Roy (2005) reported that CEO's performance is best improved using a multidimensional PMS. This is because, with PMS, BODs could more vigorously monitor and measure the CEO's contribution and progress to organisational performance and also hint the BODs with early warning signs regarding the strategic decisions that might have gone wrong or other problems hindering organizational performance (Epstein & Roy, 2005; Zahra & Pearce, 1989).

> *"Also the CEO would have to use an adequate PMS to monitor and measure the performance of business units and top employees which is an important objective for the CEO"* (Epstein & Roy, 2005, p.84). They added that *"PMS metrics should reflect the CEO's and other managers' role in the implementation process and the day to day management of key internal processes and strategies with more focus on measurable and observable behaviors"* (Epstein & Roy, 2005, p.86).

Therefore, this study will examine how BODs will utilize a multi-dimensional PMS framework earlier developed by Ferreira and Otley (2009) as a comprehensive basis for measuring performance to fulfil their control and strategic roles in these troubled banks that were bailed-out in Nigeria as no study is found to have done so.

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Lastly, BEO is adopted as moderator in this study to mitigate the mixed inconclusive results in this relationships. This is because, BEO has been a contentious lingering issue in Nigerian banks. The CBN banking supervision annual report of 2008, reported that the most prominent challenge of implementing CG Codes in banks is "Ambiguities regarding equity shareholding status of independent directors and their appointment". Furthermore, evidence from extant literature like studies of Albring *et al.*, (2013), Bhagat and Bolton (2008), Bhagat *et al.*, (1999), CBN (2008), de Villiers *et al.*, (2011), Hillman and Dalziel (2003), and Zahra (1996) revealed that BEO moderates the relationship between CG and firm performance by encouraging the BODs monitoring or resources provision ability. Also, it is assumed to increase board monitoring by aligning the interests of BODs' and that of other shareholders' together (Hillman & Dalziel, 2003). In view of the above, the study further argues that, if these banks' BODs were having a substantial equity ownership in the banks or compensated with equity as incentives for a targeted performance, they would definitely have monitored, removed and replaced those incompetent/fraudulent CEOs without allowing CBN to even intervene. Hence the need to test it since it has not been found tested in the case of Nigerian banks especially on the bailed-out banks.

1.3 Research Questions

The main research questions of this study are:

1. Does Corporate Governance (CG) has any significant relationship with the bailed-out banks' performance?

2. Does CG have any relationship with Performance Measurement System (PMS) of bailed-out banks?

3. Does PMS has any relationship with the bailed-out banks' performance?

4. Does PMS mediate the relationship between CG and bailed-out banks' performances?

5. Does Board equity ownership moderate the relationship between CG and bailed-out banks' performance?

1.4 Research Objectives

The main research objectives of this study are:

1. To examine the relationship between CG and bailed-out banks' performance.

2. To examine the relationship between CG and PMS of bailed-out banks.

3. To examine the relationship between PMS and bailed-out banks' performance.

4. To examine the mediating effect of PMS on the relationship between CG and bailed-out banks' performances.

5. To examine the moderating effect of board equity ownership on the relationship between CG and bailed-out banks' performance.

1.5 Scope of the Study

The study covered only the bailed-out banks in the Nigerian banking industry. This is because, they were the only troubled banks that were declared financially distressed and rescued from collapse. The study is proposed to cover only the post bailed-out period of four years from 2010 to 2013. The dependent variable in this study is organizational performance (financial and non-financial performance). The financial performance (profitability, liquidity, number of performing loans, number of non-performing loans etc.) while the non-financial focused on the remaining three aspects of the Balanced Scorecard measures namely (Customer perspective, Internal business process, and Learning & Growth). The study covered a population of 2,811 branches of the 10 banks in Nigeria that cut across the 36 states of the country.

This study examined both the direct effect of corporate governance on bailed-out banks performance and then the indirect effect of PMS as a mediator and BEO as a moderator in their relationship. The direct effect was firstly examined followed by the indirect because mediating or moderating effect can only be determined through the direct relationship.

Thus this study has five independent variables which are: board independence, board appointments, audit committee, board size, and female membership on a board. Also this study considers a moderating factor board equity-ownership on the association between CG and bank performance. A mediator PMS was taken as an element of MCS to mediate the relationship between CG and performance. Several studies has confirm the role of PMS in providing vital information useful in implementing

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strategies (Ferreira & Otley, 2009; Jamil & Mohamed, 2013; Langfield-Smith, 1997; Simons, 1995b), while others revealed the involvement of board in monitoring, reviewing organisational strategies which will give rise to better organisational performance (Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Ogbechie *et al.*, 2009; Pugliese *et al.*, 2009; Ruigrok *et al.*, 2006; Zahra & Pearce, 1989). Similarly, Board equity ownership was adopted as a influencing variable to moderate between the independent variables and the dependent variable, (de Villiers *et al.*, 2011; Hillman & Dalziel, 2003). As suggested by de Villiers *et al.*, (2011), only independent BOD who own shares would be more expected to monitor rigorously (Hillman & Dalziel, 2003).

Banking Legislations

Several radical reforms to the system of prudential regulation and supervision have been implemented since the late 1980s. Most of the reforms employed in the banking sector were unsuccessful in ensuring a very sound bank management and reduce the spate of financial distress among banks indicates (Alford, 2010; Ikhide & Alawode, 2001). Banking regulation was first introduced in Nigeria in the early 1950s in response to the failure of local banks. The 1952 Banking Ordinance imposed minimum requirements for paid up capital and the establishment of reserve funds. This was followed by the enactment of the 1958 Central Bank Act and the Banking Ordinance of 1959. The banking legislation was further strengthened with the enactment of the Banking Decree of 1969. The legislation contained in the 1969 Decree established the regulatory framework for the prudential control of banking for

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the next 22 years until it was superseded by the 1991 Banking and Other Financial Institutions Decree (BOFID).

In 1991, two new decrees were also introduced. The CBN Decree, No. 24 of 1991 to repeal the CBN Act 1958 and the Banks and Other Financial Institutions Decree (BOFID), No. 25 of 1991, which repealed the Banking Decree 1969 respectively. Also, lending rates chargeable was given a ceiling of 21% while the deposit rates has a floor of 13.5%. Still within the year 1990 – 1991, the CBN started to make attempts to restructure distressed banks from which eight technically insolvent banks were found and imposed some regulations and then, CBN in Jan, 1992 took over the management of one of those banks. Similarly, in 1993, CBN took over another set of five banks due to the same reasons (Ikhide & Alawode, 2001)

The new CBN Decree enlarged the powers of the Central Bank with regard to the maintenance of monetary stability and a sound financial system. BOFID, on the other hand, concentrated on regulations that can promote the development of the financial sector in a deregulated regime. Some high points in the decree are the centralization of the functions of bank licensing, regulation and supervision in the CBN. The decree also provided for the control of distressed banks and winding-up of failed institutions; broadening the duties and responsibilities of directors and external auditors of banks; and regulation of any financial sector operators in the informal sector whose activities influence the economy in a significant way.

1.6 Significance of the study

The present study has some fundamental significance theoretically, practically and methodologically. This section describes the diverse significance based on each of these three aspects (theoretical, managerial and methodological) as follows:

Theoretical significance:

Firstly, researches conducted assess the effect of CG on firms' performance globally and particularly in Nigeria, reported mixed findings (Clifford & Evans, 1997; Uadiale, 2010; Zahra & Pearce, 1989). The conflicting/mixed findings are usually caused by factors like inconsistent operationalization of board variables, limited scope, and convenience samples (Hillman & Dalziel, 2003; Zahra & Pearce, 1989). Therefore, this study will contribute to the literature by selecting its variables [i.e. board independence, board appointment, audit committee quality, board size, and female membership in a board] and operationalizing them based on the prior researches and examinations reports of CBN (2008), Kuye *et al.*, (2013), Oghojafor *et al.*, (2010), Sanusi (2010) and Sanusi (2009).

Secondly, this study will also be significant to the literature and policy making by testing a new variable (Board appointment). Several researches have shown that Banks CEOs in Nigeria were always having overbearing influence over boards and their appointments making them to lack independence (Sanusi, 2010). CEOs are usually "consulted" on BOD appointment decisions which allowing them to form BOD that would be loyal to their interests (de Villiers *et al.*, 2011; Monks & Minow,

1991; Clifford & Evans, 1997; Westphal & Zajac, 1995). The result of this study will validate the findings of Byun *et al.*, (2013) de Villiers *et al.*, (2011).

It will also be significant theoretically due lack of studies in Nigerian context that specifically address the most current banking sector crisis that necessitated the bail-out reform. As observed, most of Nigerian studies on CG were either conducted before the banks' bail-out reform, or not in the area of bail-out reform except Kuye *et al.*, (2013), Nworji (2011), Oghojafor *et al.*, (2010). Another significance is the integration of both agency and resource dependence theories to underpin the variables. As lamented by Hillman and Dalziel (2003) researchers on CG commonly adopts a single separate theoretical approach which leads to a partial understanding of the determinants of effective monitoring and the resources provision.

Fifthly, an indirect relationship was suggested by Zahra and Pearce (1989) who opined that search for direct links among board attributes and company financial performance is misguided and will yield contradictory findings. Hence, PMS as a mediator is introduced into the relationship between CG and the banks' performances as suggested by Epstein and Roy, (2005), Ogbechie *et al.*, (2009), Pugliese *et al.*, (2009), Zahra and Pearce (1989). The result of this study will confirm if the findings of Epstein and Roy (2005) and the agency theory's presumption that CEO's performance is best improved using a multidimensional PMS is valid or not. Lastly, BEO as a moderator will be tested in the relationship between CG and performance. This will address the inconclusive mixed results and also curb a contentious lingering issue in Nigerian banks regarding equity shareholding status of independent directors

and their appointment. Hence, the result of this study may provide theoretical support to extant literature like studies of Albring *et al.*, (2013), Bhagat and Bolton (2008), Bhagat *et al.*, (1999), CBN (2008), de Villiers *et al.*, (2011), Hillman and Dalziel (2003), and Zahra (1996) etc. if BEO moderates or not.

Managerial Significance:

The findings of this study will be significant managerially for policy making as follows:

If the result of board appointment as a variable is found, it will confirm an earlier result of prior researches (e.g Byun *et al.*, 2013; de Villiers *et al.*, 2011) that "having majority of outside independent directors in a board" does not guarantees their independence. It is found that despite being majority, outside directors might still be loyal to a serving CEO if he nominates or influence their appointment to office. Hence, they could not be able to criticize, challenge, his opinion or proposals, and cannot vigorously monitor CEO/management. Therefore, it will help CBN to ensure that all directors are not in any way being nominated for appointment by a serving CEO, directors appointments not influence by a serving CEO or if possible, they should be appointed to office before the present CEO (i.e. by a previous CEO) in order not to beholden to this present CEO.

It was lamented in (CBN, 2006; Kuye *et al.*, 2013; Sanusi, 2010) that audit committees were often ineffective. This is possibly due to lack of independence of BODs. The result will help CBN and banks' managements to understand that more

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accounting/financial experts will be very important in ascertaining the quality of financial reporting

As suggested by the code of CG (2006), Byun *et al.*, (2013), de Villiers *et al.*, (2011), Epstein and Roy (2005), Ogbechie *et al.*, (2009), Zahra and Pearce (1989) etc. PMS is very important instrument through which CG is improved to achieve a sound firm performance. Result of this study will help banks managements and BODs to decide on whether or not to continue with PMS at all managerial level in order to attain the best performance. It will also enlighten the CBN on the need to re-enforce this. Lastly, BEO was suggested severally to moderate BODs functional effectiveness. The result of this study will be important to the banks, CBN and NDIC for ensuring optimum level of directorshareholding that will compel them to work effectively.

Methodological Significance

Numerous methodological significances was offered by this study as follows;

Firstly, this study will use questionnaires to source the primary data to be used for analysis. Also, the study will cover both financial and non-financial performance. This is against the usual focus on secondary data to examine CG and firm performance. Apparently, most of the studies on CG were conducted with the use of secondary data with focus on mainly financial performance. Hence, this will give more information to how CG affects both financial and the non-financial performance

Secondly, most studies on CG were conducted with more emphasis on direct relations of CG and firm performance (Epstein & Roy, 2005; Zahra & Pearce, 1989). Hence, an

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indirect relationship through PMS as mediator and BEO as moderator will be tested. Thirdly, the PMS metrics were adopted from framework of Ferreira and Otley (2009) who only developed them and offered them for researchers use but was not tested in this way. Thus, this study will test these 12 multi-dimensional PMS metrics in pilot and main study. The reliability and validity of the all the items of CG variables and PMS items will be examined, discussed and published as contribution to literature.

Lastly, most researches utilized many different techniques of analysis like SPSS, Amos-SEM, EViews, Stata, etc. to produce results. This study will utilise PLS which is comparatively a new analytical tool, to examine the structural relationship among the constructs of this study. The Smart-PLS 2.0 M3 (Ringle *et al.*, 2005) is a sophisticated analytical tool that executes a lot of functions and more suitable for complex models. This will give a guide to future researchers about its application.

1.7 Definition of Terms

Audit Committee Quality is the membership of at least one director with accounting, audit or financial expertise in the audit committee. This shows the level of skills, experience, and qualifications of members of the committees (Albring *et al.*, 2013).

Bank Performance: The level of productive activities of a firm shown in financial or non-financial terms (Kaplan & Norton, 1996; Neely, 2007).

Board Appointment: Independent directors appointed to the board before to the present CEO assume office. This measure the influence of CEO in directors' appointment (de Villiers *et al.*, 2011; McDonald, Westphal, & Graebner, 2008).

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Board Independence is the freedom possessed by board of directors in monitoring and counselling CEO without any influence by the management through having higher number of non-executive directors more than that of executive directors subject to a maximum board size of twenty (20) directors (CBN, 2006).

Board Size implies the number of directors with various competence sitting on a board (de Villiers *et al.*, 2011; Yermack, 1996).

Corporate Governance is the process and arrangements "with which the business affairs of organisations are managed and directed, in order to enhance the strategic values, corporate performance and accountability, for the interest of shareholders and other stakeholders (OECD, 1999).

Female Membership on Board is the presence of a female member in the board of directors (Nielsen & Huse, 2010).

Management Control System is the system that facilitates strategic planning and operational control and also have the purpose of providing information useful in decision-making, planning and evaluation (Merchant & Otley, 2007; Widener, 2007).

Performance Measurement System is a key segment of MCS, which is referred to as a system that facilitates evaluation of the actual against the expected performance of the management towards the achievement of the organizational objectives (Bremser & Chung, 2005; de Waal, 2002).

1.8 Organization of the Thesis

This study is divided into seven chapters. Chapter one contains the background of the study which highlights the practical issues related to the study and the variables that are considered. It also comprises the problem statement of this study, the research questions, objectives of the study, scope of the study, significance of the study and definition of terms are all covered in this chapter. As you can see in figure 1.1 presented below, Literature review is sub-divided into two i.e. Chapter Two which
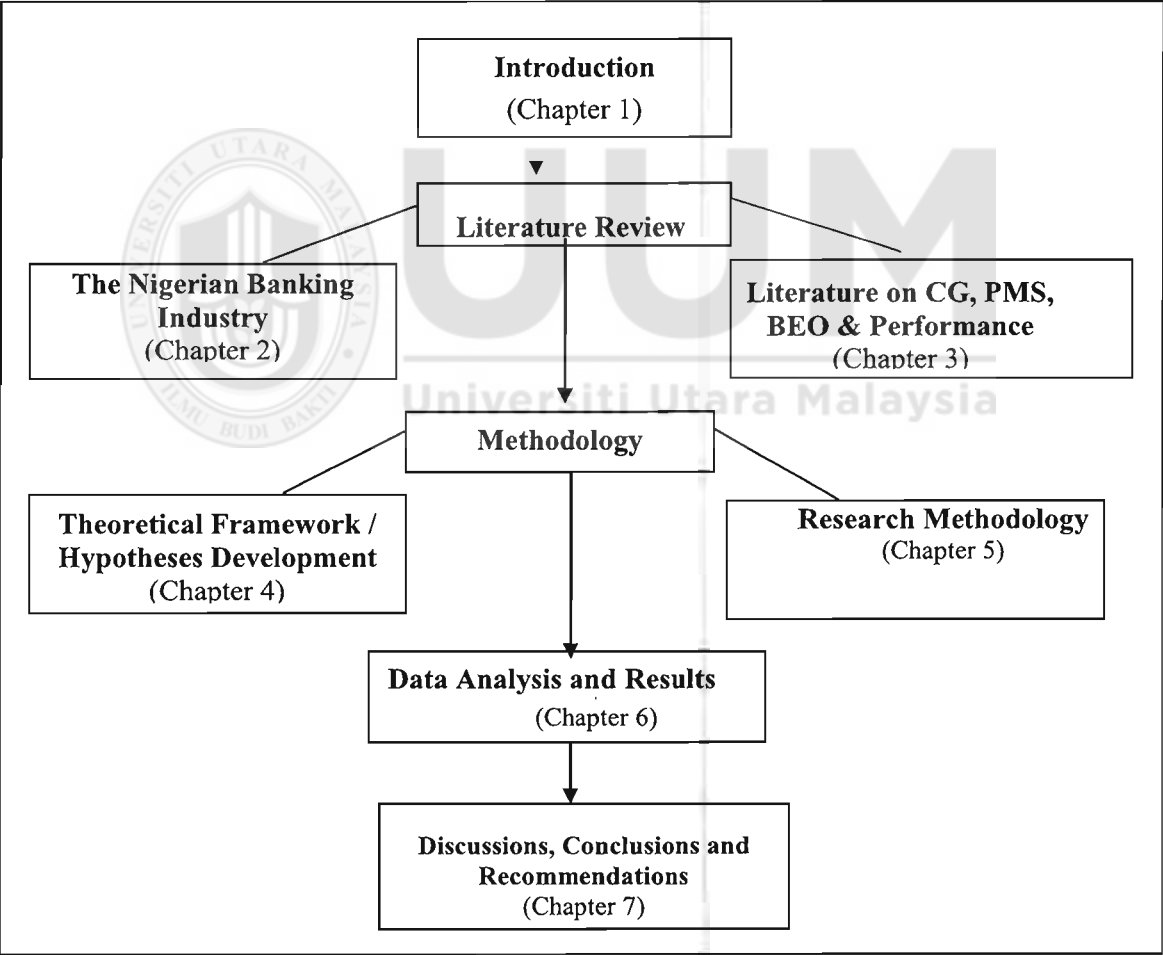
Figure 1.1
Organisation of the Thesis

covers the overview of the Nigerian banking industry, discussing the major crisis and reforms, and then Chapter Three which contains the review of related literature on the variables considered in this study.

Methodology for this study is further sub-divided into two i.e. Chapter Four which focuses on the conceptual framework and hypotheses development of this study and then Chapter Five which focuses on the research methodology (population, sampling size & techniques, data collection sources, unit of analysis, measurements of variables and the data analysis techniques) used in this present research. Chapter Six covers the analysis part i.e. the data analysis, presentation and interpretation.

Finally, Chapter Seven presents discussion, recommendation, limitations of this study, recommendation for future study, and conclusion.
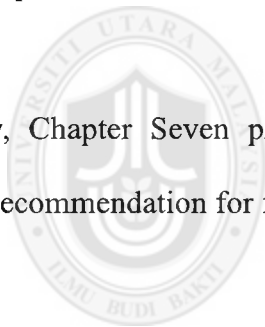
CHAPTER TWO
THE NIGERIAN BANKING INDUSTRY

2.1 Introduction

This chapter discusses the historical overview and major developments in the Nigerian banking industry, which is sub-divided into 10 sub-sections. Starting with the overview of the previous financial reforms, effect of MCS on banking performance, the consequences of ineffective MCS, CG and banking performance. Also, the statistics on frauds as well as non-performing loans were all provided. The Code of CG as issued by CBN were also discussed as well as their proper implementation problems and solutions in sub-sections 2.6, 2.7, 2.8, 2.9, and lastly, summary. All of these vital sections constituted the comprehensive information about the phenomenon under study.

2.2 Overview of Financial Sector Crisis / Reforms in Nigeria Banking sub-sector

Banking is one of the most regulated industries in almost all countries and at all times. By regulation it is meant: the laws, rules, directives and guidelines established to minimize the risk exposure of financial institutions and market inequities in order to ensure the safety and soundness of the individual institutions as well as the financial system itself (Ogunleye, 1995).

In Nigeria, the chances of the financial sub-sector to function effectively has been periodically interrupted by its exposure to systemic distress and macro-economic instability, and policy modification inevitability (Kama, 2006). Thus, financial sector

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crisis has been of long history in the banking market, calling for effective financial reforms and policy guidelines. Financial reform refers to the several transformations and policy amendments or overhaul which are focused on the activities of financial institutions and markets within a time, in response to the nominal need for operational advancement and progress of both the institutions and the entire economy (Iganiga, 2010).

In both emerging and developed markets, like Argentina, Brazil, China, Korea, Nigeria, South-Africa, United Kingdom and United States respectively etc. financial reforms became inevitable as banks struggle hard to be more highly competitive and resistant to economic shocks and also restructure their operations to survive the challenges of the growing globalized banking system, and survive the effects of the global financial crisis. The term financial reform has been given different point of view. Okeke (2007) posits that reforms are deliberate actions by the government to fast track, jump start and consolidate specified sector of the economy to achieve desired objectives. While according to Ebong (2006), are deliberate policy response to correct perceived or impending financial crises and subsequent failure. Reforms in the financial industry are aimed at addressing issues such as governance, risk management and operational inefficiencies (Iganiga, 2010).

However, Lemo (2005) opined that Nigerian financial reforms were primarily employed to ensure an efficient and stable financial sector, as well as enabling the banking industry have the necessary resilience to give supportive roles to the

economic growth and development of the nation by effectively smooth banking services.

The Nigerian governments have thus, imposed several controls on banking market since its establishment, even when most other businesses were free to operate, subject only to the statutes and other general rules of law. Therefore, in this study we briefly elucidate six different periods of banking crisis and reforms programmes introduced, from beginning to present date.

2.2.1 Period of Laissez Faire (Free) banking (1892 - 1951)

This period of 1892 - 1951 is otherwise referred to as the period of "free banking era", due to the total lack of controls or banking regulations during the period. The only entry requirement was registration under the companies' ordinance. In this period there were only three (3) largest banks legally operating in Nigeria originated since the period colonial administration and are often referred to as first generation banks. First is the British Bank for West Africa (now called First Bank) was incorporated in 1894; the second, Colonial Bank, later acquired by Barclays and now known as Union Bank, began operations in 1917, and thirdly, the British and French Bank, the precursor of the United Bank for Africa, and started in 1949. All the three banks were formerly owned wholly by foreigners but the Federal Government later in the mid1970s, acquired a majority share holdings (Beck, Cull, & Jerome, 2005).

These banks encountered very high political discrimination but little competition during the colonial period. The banking industry was dominated by foreign banks

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during the colonial period which triggered considerable resentment by Nigerian politicians and businessmen. The expatriate banks were observed as acting solely for the benefit of their expatriate owners at the detriment of Nigerians and Nigerian economy. Specifically, they were alleged of discrimination against local businesses in terms of loans allocation and refusing to finance the developmental projects of the country. They were instead focusing on the lending to foreign owned companies. Consequently, the federal government goals after independence comprises securing higher national control over the banking system, and guaranteeing increased access to loans for local indigenous businesses/priority sectors. Although a few banks were established by Nigerian local investors during a period so called free banking era (prior to the enactment of the first banking legislation in 1952) which mostly collapsed few years after opening (Beck *et al.*, 2005; Brownbridge, 1996; Iganiga, 2010).
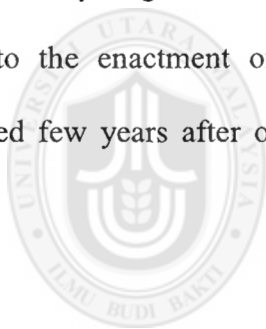
2.2.2 Period of Limited Banking Regulation (1952 - 1958)

The period 1952 - 1958 is otherwise referred to as the era of banks failure. The enactment of Nigerian Banking Ordinance in 1952 introduced some form of regulation into the Nigerian banking market. The ordinance laid down the standard and procedure for the conduct of banking business by prescribing the mandatory minimum capital requirement for banks and introducing regulations to check bank failure. Some of the conditions stipulated by the ordinance for the operation of banking business are; a fully paid-up capital of N25, 000 out of an authorized capital of N50, 000; Maintenance of reserve funds in which 20% of profits must be paid into until it offsets the paid-up capital; Maintenance of satisfactory level of liquidity to

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meet up customers demand; Banks were prohibited from granting unsecured loans greater than N600 to their directors. Many banks could not satisfy these conditions and this caused mass failure of banks and collapse of the prevailing banking boom. In fact all the indigenous local banks setup in this era failed. Although, on one hand, sanity was introduced to the banking business, the bank distress in the era were attributed to the monopolistic structure of the banking industry which allowed the foreign banks to enjoy exclusive patronage from the British firms (Ikhide & Alawode, 2001; Okagbue & Aliko, 2005).

2.2.3 Period of Intensive Banking Regulation (1958 - 1985)

The period 1958 - 1985 is similarly known as the era of intensive regulation because it enhanced and consolidated the benefit of the banking ordinance era. The period started with the enactment of CBN Act of 1958 which created the CBN itself. CBN fully assumed the responsibilities of banking supervision in January 1966, and later, an autonomous Bank Examination Department (BED) was created in 1967. This Act authorized CBN to integrate and promote the financial system in Nigeria. The BED operated with two offices, Bank Examination and Scrutiny Offices, from 1967 to 1976 (CBN, 2008). Thus, the CBN was able to outline regulatory actions to effectively curtail the wave of bank distress that reigned in the preceding periods. Since its establishment, the CBN has strived to curtail bank distress "through its formulation and implementation of monetary and banking policies". With these measures, the CBN has striven to ensure that banks remain stable and profitable while facilitating economic development which, in turn, will enhance the banks (Brownbridge, 1996; Hesse, n.d.).

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After the time of independence in 1960, some banks were established as the second generation. According to Beck *et al.*, (2005), the first group of second generation banks was also mainly foreign owned. They included the Banque Internationale Pour L'Afrique Occidental (BIAO), now called Afribank. It was then followed in the 1970s by the establishment of commercial banks by the state governments in Nigeria and by the entry of a number of merchant banks, which were mostly formed as joint ventures between foreign investors and the Federal Government and /or local investors.

In the mid-1970s, the Federal Government took-over a controlling shares in all of the foreign owned banks and enacted an indigenization decree in 1977 which limited foreign participation in banks to a maximum 40 per cent of equity. By 1980 there were 20 commercial banks and 6 merchant banks in operation, in all but a few of which the Federal Government or state governments were the majority shareholders. Within the 1980s, a third generation of banks emerged from which some were set up by state governments while the majority were established by local private investors (Beck *et al.*, 2005; Ikhide & Alawode, 2001).

2.2.4 The Period of Excessive Economic/Banking Reform (1986 to 1999)

The growth of most indigenous private banks was very fast after 1986, especially in the area of merchant banking. In this period, the major alternative sources of banking regulation were; the Exchange Control Act of 1962, The 1968 Companies Act, and The Banking Act of 1969. Before the assumption of full economic reform in 1986, the Nigerian banking sector was highly regulated as well as being exposed to significant limitations on banking activities or products. Through the direct lending controls,

banks were mandated to facilitate developmental projects which many of them were incapable. As a result, their involvement in this resulted to a severe financial problem due to a mismatch of liabilities and assets (Brownbridge, 1996). The development during the post 1986 prompted the monetary authority to introduce some reforms in order to sanitize the activities of banks in a less regulated system. The new reform affected some of the operators in the industry. Among such policies under the reform were the prudential guidelines (PG), Statement of Accounting Standards (SAS), the use of Stabilization Securities by CBN to mop up excess liquidity in the system as well as the immediate diversion public sector deposits to central bank of Nigeria. Consequently, the number of commercial banks which stood at 14 in 1970, moves to 29 (107%) in 1986 due to bank failures (Ikhide & Alawode, 2001).

Financial liberalization began in 1987 after SAP had been implemented by federal government. The banking markets was partially deregulated particularly in respect of inconsistent interest rates. The requirements to get a banking licenses to operate were however, relaxed during the mid-1980s which led to a tremendous increase in the number of merchant and commercial banks possessed by the indigenous private sector. However, many of them were established majorly to enjoy arbitrary opportunities in transactions of the foreign exchange markets instead of delivering normal conventional banking services. Poor management and corrupt practices, and insider lending, was rampant within these banks which resulted to a widespread distress (Beck *et al.*, 2005; Iganiga, 2010).

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In 1988, two foreign exchange markets/bureaus were establishment with the authority of the Nigerian government. This was only aimed at providing a means for meeting continuous pressurized demand for foreign exchange. Also, the founding of the Nigerian Deposit Insurance Corporation (NDIC) in the same year, was additional significant reform. NDIC is charged with the responsibility of inducing bank deposits by promoting public confidence in the safety of the banking system and protecting depositors' interests (Iganiga, 2010).

Throughout the 1990s, the Nigerian banking sector has experienced a systemic banking crisis and substantial regulatory changes. In 1990, prudential guidelines was issued by the CBN to licensed banks in order to improve the quality of their loans (risk assets) and also, the stability of their banking operations. The guidelines also urged all banks classify their loan portfolio, and also make sufficient provisions for perceived losses based on the portfolio in order to reveal their true and accurate financial positions. Adequate provisions must be prepared for all non-performing loans which were classified either as substandard, doubtful or lost (Beck *et al.*, 2005).

In 1991, two new decrees were also introduced. The CBN Decree, No. 24 of 1991 to repeal the CBN Act 1958 and the Banks and Other Financial Institutions Decree (BOFID), No. 25 of 1991, which repealed the Banking Decree 1969 respectively. Also, lending rates chargeable was given a ceiling of 21% while the deposit rates has a floor of 13.5%. Still within the year 1990 – 1991, the CBN started to make attempts to restructure distressed banks from which eight technically insolvent banks were found and imposed some regulations and then, CBN in Jan, 1992 took over the

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management of one of those banks. Similarly, in 1993, CBN took over another set of five banks due to the same reasons (Ikhide & Alawode, 2001).In 1993, the unsuccessful transition to democratic regime triggered a bank run, resulting in financial sector distress and bank failures. An indirect instrument of monetary control was introduced known as "the Open Market Operations". In 1994, the interest rate and exchange rates controls were reintroduced by the military government of that time. Finally in 1997, additional capital market reforms were introduced, while new licenses were issued to fully-foreign owned banks to operate in 1999 (Aburime, 2008; Iganiga, 2010). Table 2.1 displays the trend of bank population from 1990-2001 with the number of financially distressed banks:

Table 2.1
Banks Population and Financially Distressed Banks

Years	Total Number of Banks in the period	Number of Banks in Distress	Deposits of Distressed Banks to Total Deposits In Banking Industry	Assets of Distressed Banks To Total Assets In Banking Industry	Amount Required for Recapitalization of Distressed Banks
1990	107	9	14.6	23.7	₦2.0 billion
1991	119	8	4.4	16.4	₦2.4 billion
1992	120	16	18.1	20.9	₦2.4 billion
1993	120	33	19.2	18.6	₦23.6 billion
1994	116	55	29.4	18.6	₦23.4 billion
1995	115	60	14.1	19.8	₦30.5 billion
1996	115	50	14.7	11.0	₦43.9 billion
1997	115	47	9.0	7.6	₦42.8 billion
1998	89	15	3.5	3.9	₦15.5 billion
1999	90	13	1.6	1.5	₦15.3 billion
2000	89	12	2.5	20.0	₦10.3 billion
2001	90	9	2.0	3.0	₦12.1 billion

Source: Adegbite, (2005); Alashi,(2003) from CBN Statistical Bulletin

From Table 2.1, it can be seen that by 1992 Nigeria has in operation, a sub-total of 54 merchant banks and 66 commercial banks making total of 120 banks out of which 16 were financially distressed. In 1995, 60 banks, (a little more than half of the total no of operating banks), were classified as failed by the regulatory agencies. The distressed banks comprise of majority of state governments owned and the local private sector owned banks. By the year 1998, the total number of banks reduced from 115 to 89 due to revocation of the licenses of 26 banks. This 89 banks remained operational until the 2005 consolidation reform.

2.2.5 The Pre-Consolidation Banking Sector (2000 – 2004)

Ikhide and Alawode (2001) posits that throughout the 1990s, Nigeria has been faced with a systemic banking crisis. Several financial measures like loans, bank assets, deposits, liquid liabilities, etc. remained relatively low throughout the 1990s and only started to increase significantly after the year 2000. Year 2000 brought the institutionalization of foreign currency deposits while in year 2001, CBN introduced the universal banking system for all commercial banks, such that any bank can operate and deliver the following services; commercial banking, merchant banking, insurance services, clearing house, capital market services etc.

However, after commencement of universal banking a new capital of N1billion was introduced for each category of bank and which was later raised to ₦2 billion by the year 2002. Although, the macroeconomic environment developed since the new

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democratic regime of 1999, yet the Nigerian financial system was exposed to a very high fragmentation and low financial intermediation (Adegbite, 2005).

Indeed, the sharp practices of some banks coupled with the unsoundness of others culminated in widespread financial sector distress and losses to depositors. The development elicited deep concerns of the monetary authorities and the general public. It was against this background that the CBN had to make pronouncement on its next phase of the banking sector reform called "consolidation reform".

2.2.6 The Consolidated Banking Sector (2005 – 2009)

On July 6, 2004, the CBN introduced the Consolidation reform in which it decreed that all banks must increase their minimum share capital base from 2 billion Naira to ₦25 billion by the end of December 31, 2005. Consolidation is one of the key components of financial reforms designed to bring a strong, diversified, sound and reliable banks in Nigeria, which will guarantee the safety of depositor's wealth, effective performance of developmental functions and also become a competitive player in both African, and global financial market. The post-consolidation value of the new enterprise is expected to be higher than before, because of synergy effects (Soludo, 2004).

The mission was purely to raise the average size of all the banks through merger and acquisitions in order to enjoy economies of scales, develop new banking products and in general, create a more stable banking sector that contributes higher to financial intermediation functions. As from the January 2006, the number of banks reduced

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drastically from 89 to 25 banks through merger and acquisition with 14 banks from the former 89 banks incapable of increasing their capital or securing merger partners. However, most of the foreign-owned banks were able to recapitalize by capital injections from their initial parent company. Through bank consolidation reform, banks were able to raise over $3 billion within the Nigerian stock market. Banks were surged with surplus equity and liquidity (Aburime, 2008; Hesse, 2007).

During the post consolidation period 2006 – mid-2009, governance malpractice within Nigerian banks, unchecked after the time of consolidation reform, became a normal behavior in many areas of the sector, enriching the management (few) at the detriment of (many) shareholders who are mainly the depositors and investors. This is due to the excessive amount of capital realized through the merger/acquisition, thus facilitated embezzlement, fraud and unsecured insider lending to the management an BODs of the banks. After consolidation, banks have grown both in complexity and size, but their boards doesn't perform their mandated function and were comfortable with the trivial annual growth in assets and profits. In fact, BODs and CEO/management in so many banks were incapable and incompetent to govern their bank (CBN, 2011; Sanusi, 2010). Coupled with the global financial crisis, the banking sector became fragile and many banks about to collapse. This led to the only rescue option called "bail-out".

2.2.7 The Banks Bail-out Reform (2009 – Present time)

The global economic and financial crisis, could be traced back to the United States, and had really destabilised markets and several economies both the (developed,

developing and underdeveloped) all over the globe, has in the early-2008 to 2009 continued to dominate the attention of governments, investors, regulators etc. as leaders are striving for various strategies to curtail the effect of the financial crisis on both the local and the global economy. Apparently, the global financial crisis eventually hit Nigeria, at a time when the banking industry was so fragile and unprepared to resist the storm despite recapitalization. Additionally, the crisis also severely affected both the capital market and the oil and gas sector because, even the Nigerian banks lost a heavy amount of about ₦1.6 trillion by December 2008. The consequence was a severe rise amount of non-performing loans which immediately deteriorated the banks' liquidity and thus, the banking industry was subjected to a severe crisis since many banks turn out to be financially distressed (Sanusi, 2010).

Consequently, in July 2009, the CBN and NDIC jointly conducted a special assessment of the soundness of all the twenty-four (24) banks in Nigeria, with major emphasis on liquidity, corporate governance practices and capital adequacy, risk management. The Governor CBN Sanusi Lamido Sanusi, announced the result that ten (10) banks (Union Bank of Nigeria Plc, Intercontinental Bank Plc, Finbank Plc and Oceanic Bank International Plc, Equitorial Trust Bank (ETB), Afribank Plc, Bank PHB Plc and Spring Bank Plc), of the Nigerian banking sector as being financially distressed or nearly collapsed due to excessively high level of non-performing loans, poor corporate governance practices, bad liquidity position and risk management. Two (2) banks (Wema Bank Plc and Unity Bank Plc) out of these ten (10) were only having deficiency in capital adequacy. Also, lack of controls measures was prevailing

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since banks' BODs and managements all refused to observe established controls system" (Sanusi, 2010).

Consequently, a bail-out of about ₦620 billion was injected as Tier 2 Capital to rescue them and then the Managing Directors (CEOs) and the board of directors of eight (8) banks were immediately sacked and then replaced with new ones. These CEOs were then detained, prosecuted by the economic and financial crimes commission (EFCC) and also tried before the high court for outright stealing, corruption and mismanagement of their banks (CBN, 2010b; NDIC, 2011). The banks were immediately mandated to recapitalize before the deadline of 30 September, 2009 of which, four (4) of the banks (Equitorial Trust Bank Plc, Unity Bank Plc, Union Bank Plc and Wema Bank Plc) have been successfully recapitalized through additional capital investment by other investors, while three (3) banks (Intercontinental Bank Plc, Finbank Plc and Oceanic Bank International Plc) recapitalized through merger and acquisitions. The remaining three (3) banks (Afribank Plc, Bank PHB Plc and Spring Bank Plc), couldn't recapitalize by the September 30[the] deadline, as such were taken over by Mainstreet Bank Limited, Keystone Bank Limited and Enterprise Bank Limited respectively (NDIC, 2011; Sanusi, 2009).

Sanusi (2009) revealed that five (5) out of the ten (10) banks audited in the first phase of the examination exercise had bad loans amounting to ₦746.19 billion, about $5 billion. Another breakdown of the large debts reveals that Oceanic Bank was the highest on the list with ₦278.2 billion ($1.8 billion), followed by Intercontinental

Bank, which has ₦210.9 billion ($1.4 billion). Others are Afribank ₦141.86 billion, Union Bank ₦73.58 billion and Finbank ₦42.45 billion.

2.3 Management Control System and Banks' Performance in Nigeria

Historically and up till now, the performance of the Nigerian banking sector was immensely tempered with by the level of managerial leadership of the banks. At all the times, the management at all levels (CEO, top managers and senior branch managers) always runs the banks in pursuit of their instant benefit at the detriment of the shareholders returns just as being opined by agency theorist (Aburime, 2009; Sanusi, 2010). Frauds, financial mismanagement and insider abuse is widespread in a condition of fragile, selfish and incompetent management. Fraud, corruptions and forgeries had been severely depressing the soundness, safety and stability of operations in the banking industry (Aburime, 2009).

Since around 1993, bank frauds and forgeries has consumed away the sum of N1, 419.5 billion compared with N401.7 million in 1992, an increase of about 291%. The NDIC annual report in 1993, revealed that the major categorization of fraud perpetuated by managers and other staffs to include the following; fraudulent transfers and withdrawals, outright diversion of banks' money, cashing of forged cheques, honoring fictitious credit, conversion of bank's money, unauthorized overdrafts, suppression of cheques, lending of unsecured loans, initiating fake vouchers and outlawed cash advances, falsification of customers' cheques or cash lodgments etc. (Aburime, 2009; Ikhide & Alawode, 2001).

Perhaps, Horngren, Sundem, and Stratton (2005) and Anthony (2007) had described "MCS as an integrated technique for collecting and using information to motivate employee behavior and to evaluate performance". Therefore, all these kinds of frauds are the product of ineffective MCS, lack of adequate BODs' counsel/monitoring of the measurement of both managerial and banks' performance. Fraud can only be minimized and banks performance improved if a very strong MCS comprising internal audit control, system of performance measurement of both the management and organization is adopted and monitored by the BOD. This is why fraud, corruption, embezzlements were not be easily detectable by the common regular financial ratios we adopts. Because there are other key performance drivers not evaluated and reported for decision making.

Herath (2007) opined that MCS in every organisation prescribes a detailed roles and standards for the whole organization which aims at ensuring the existence and progression of such organization, the staffs personal progress and work satisfaction. However, it comprises firm managers and their subordinates who are frequently appraised according to their contribution to the organizational effectiveness. Therefore, this study argues that if an effective MCS is put in place and well maintained, surely all prevalence of perpetuating fraud will definitely be curbed completely.

For example, in the 1980s before deregulation, banks with bad management and having a below average organizational performance could still survive since huge profit margins often warranted that management errors and low performance were

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ignored. Now with less regulation and low competition, most banks that can no longer achieve huge profit margins due to poor management, must now seek other extremely risky options to attain their targeted profit margins. Perhaps in most circumstances, the banks either collapse or alternatively, its management must embark on embezzlement and fraud in order to stay afloat which mostly causes higher damage than imagined and also lead to more faster collapse of the banks (Ikhide & Alawode, 2001).

However, this menace could be mitigated through a sound effective MCS due to diagnosis capacity. MCS as a wide system comprises of various subsystems that includes action control and results control (Ho, Huang, & Wu, 2011) and personnel control, behaviour control, and accounting control (Abernethy & Brownell, 1997) and performance measurement system (Grafton, Lillis, & Widener, 2010; Henri, 2006; Widener, 2007). As stated above, MCS could be seen as formalized processes and systems that utilizes information to sustain or change behavioural patterns in an organization (Simon, 1987,1995), the meaning comprises monitoring techniques, planning system and also reporting systems that heavily relies on the use of information (Henri, 2006). Hence, the spate of banking failures due to fraudulent activities at various levels in organisations can only be well tackled though a sound MCS.

Table 2.2 shows the extent of frauds perpetuated and the insider lending and granting of unauthorized loans which culminated to a highly disgusting amount of non-performing loans that led to banks failure.

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Table 2.2
Frauds and Non-performing loans vs. Banks Performance in Nigeria

Year	Total Loans (TL)	Non-Performing Loan (NPL)	% of NPL to TL	Banks' losses through Fraud	% of Fraud to Total Assets	No of Distressed Banks
1989	23.2	9.4	40.8%	₦104.9million	12%	5
1990	26.9	11.9	44.1%	₦804.2million	96%	9
1991	32.8	12.8	39.0%	₦643.5million	54%	8
1992	41.4	18.8	45.1%	₦401.7million	34%	16
1993	80.0	33.1	41.0%	₦1419.5billion	78%	33

Source: Ikhide and Alawode, (2001); NDIC annual reports: 1991,1993.

2.4 Consequences of Ineffective Management Control System (before bail-out)

This study classifies the consequential effect of the ineffectiveness of MCS into two. The first is fraud/ forgeries and the second is the increased level of non-performing loans were all attributable to poor CG and poor risk management respectively. Below is another brief outline of such before the bailout periods.

2.4.1 Fraud and Forgeries at Banks before Bail-out

As at December 31, 2008, 1,974 cases of fraud and forgeries was recorded amounting to N24.49 billion and various other sums in foreign currencies were reported by banks. 746 of the cases, amounting to over N6.37 billion were reported to have been successful. Consequently, 316 staff involved within all banks in Nigeria were dismissed and 220 others had their appointments terminated. The total number of branches and cash centres in operation as at December 31, 2008, was 5,134 as against

4,579 in the preceding year. Expansion of branches was closely monitored to ensure that banks did not use depositors' funds for such investments (CBN, 2008).

2.4.2 Non-performing Loan in the Banking Sector

Similarly, in 2008, Non-performing credits increased from 0.4 trillion in 2007 to 0.5 trillion. The ratio of non-performing credits to total credits of 6.26 percent during the review period was far below the trigger level of 35 percent for setting up a Crisis Management Unit as stipulated in the contingency planning framework for systemic distress. The ratio was lower than 21.6 percent, 18.12 percent, 8.77 percent and 8.44 percent recorded in 2004, 2005, 2006 and 2007, respectively (CBN, 2008).

2.5 Corporate Governance and the Nigerian Banking Failure

Corporate Governance (CG) being a broad concept, had been defined severally in many ways by different scholars. CG is meant to be all about the manner in which corporations are directed, controlled and held to account (Wilson, 2006). While Uwuigbe and Fakile (2012) defined it as the set of processes, customs, policies, laws and institutions affecting the way a corporation (or company) is directed, administered or controlled. CG was further elucidated as the process, structures and relationships through which the BODs monitors the Executives' administration.

The Organization for Economic Corporation and Development (OECD, 1999) conversely, has viewed CG as a system which provides the art or process of directing and managing companies. Based on this system, parties involved (BOD, management, supervisory BOD and shareholders) are given some specifications for dividing responsibilities and competencies, and also formulate rules, regulations and

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procedures adoptable for corporate decisions making and implementation (Uwuigbe & Fakile, 2012).

Since the late 1970's, historical development of CG can be linked to United States and have been significantly debated within the United States and also all over the world. Beginning around the early 1990s, the subject of CG only received attention in the USA as a result of mass CEOs dismissals by their Boards (e.g. Honeywell, IBM, and Kodak). Followed by the East Asian financial crisis which emerged in 1997, and touched the economies of Indonesia, Malaysia, Philippines, South Korea, and Thailand. In the mid-2000s, the massive bankruptcies of giant entities like Enron, WorldCom, Barings Bank, Parmalat, Arthur Anderson, Tyco, African Petroleum, Societe Generale Bank (Nigeria) Cadbury Nigeria, etc. increasingly revived the interest of investors, shareholder and governments on the need for effective corporate governance, and proved that no bank can be too big, financially or otherwise, to fail (Wilson, 2006).

2.5.1 Corporate Governance in Banks

CG in Nigeria companies was reported to be at an elementary stage. A survey conducted and published by Securities and Exchange Commission (SEC) in April (2003) reported that, only around 40% of total listed companies, comprising pre-consolidated banks were able to acknowledge the existence of codes of CG. Particularly in the financial industry, poor managerial performance and poor CG had been found to be the main causes of almost all the country's financial institution's failure. In 2004, at the special meeting of Committee of Bankers held on 6th July, the

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former CBN Governor Charles C. Soludo, opined that poor CG practices and poor managerial performance were some of the justifications why the CBN, under his leadership, introduced the Consolidation reform, (NDIC, 2007; SEC, 2003; Soludo, 2004).

Furthermore, recent CBN examinations reports of 2009 and 2010, has revealed a documented evidence on the scope and depth of unethical, immoral and fraudulent business activities. Governance misconducts were so rampant within Nigerian banks which were not prevented at the time of previous consolidation reform, enriching management (few) at the detriment of shareholders who are the (many) depositors and investors. Thus, CG failed in many banks because BODs were negligent of their duties and were always misled by management when doing their work, involving in earning un-secured loans and insider lending scams, many of BODs were not competent and qualified enough to enforce sound governance on the management of their banks (Kuye *et al.*, 2013).

After consolidation, banks improved both in complexity and size but, BODs were not sincere performing their mandated duties and were comfortable with the trivial annual rise in profits/assets. In fact, BODS and CEOs/management in many banks were not prepared and competent to manage their banks. Fundamentally, many banks BODs lacked independence, the bank chairman and or CEO sometimes are having a domineering power on the board, and some BODs hardly make any significant contributions to development of the bank. Additionally, many BODs have poor

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ethical standards, while the BOD committees are sometimes also ineffective (Kuye *et al.*, 2013; Sanusi, 2010).

According to the CBN (2010) report, however, the extent of the insider abuse in these banks was un-imaginable as being published therein. CEOs usually established "Special Purpose Vehicles (SPVs)" used in lending money to themselves to finance personal speculation in stock price, or used to divert money for purchasing of estate properties in where around the world. It was found that a CEO of one bank through insider borrowing, bought a private jet which was deceitfully registered with the name of his (CEO's) son. While the CEO of another bank established about 100 fake firms which were usually used for fraudulent diversion of public funds. (Kuye *et al.*, 2013; Sanusi, 2010).

In fact, almost all the capital allegedly realized by these assumed "bigger banks" was truly a dubious capital sourced from their depositors' moneys. For example, "30% of Intercontinental bank's share capital of was acquired with customers' deposits. Similarly, Afribank used customers' deposits to buy 80% of its IPO. In speculation, it paid N25 per every share while the share price was sold at N11 in market and later the price of the shares felled to below N3. Fraudulently, the Oceanic bank CEO solely acquired over 35% of the bank using SPVs, and insider borrowing of customers' deposits to herself. However, the failure of the capital market washed away these customers' deposited funds to the tune of hundreds of billions of naira. Despite that the CBN had a capital verification process at the commencement of consolidation to prevent bubble capital, this process was unjustifiably stopped". Based on many

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evidences, it is now revealed that consolidation was a failure, these banks did not raised up the share capital they said to have and thus, it led to the current problems of the banking sector.

2.5.2 Banking legislations and Corporate Governance compliance

Several banking legislations/reforms were being introduced and implemented since the late 1980s yet all these reforms had proved ineffective in ensuring stability of the bank sector due to the spate of financial distress among the government-owned and local banks. In Nigeria, banking regulation was first brought in the early 1950s as a response to local banks' failure. The second was 1952 Banking followed by the enactment of the 1958 Central Bank Act and the Banking Ordinance of 1959. The banking legislation was further strengthened with the enactment of the Banking Decree of 1969. In 1986 SAP was introduced and financial liberalisation reform in in 1987, prudential guidelines in 1991and also complemented by another decree in 1991 called Banking and Other Financial Institutions Decree (BOFID). There was further series of banking legislations like recapitalisations and universal banking etc. All these were aimed at ensuring the stability of the banking sector. And enhancing the governance at banks (Alford, 2010; Ikhide & Alawode, 2001).

However, the recent banking crisis after the global financial crisis was also majorly caused by so many factors prominent amongst is corporate governance compliance and its enforcement by the regulatory authorities (NDIC, 2011; Sanusi, 2010; Soludo, 2004). The last banking reform was brought to enforce compliance of CG at banks as exposed by their banks' examination report. CBN was certainly ill-prepared to

supervise banks because their internal processes and governance was unstructured which compromised its ability to supervise the industry. Additionally, most of the issues regarding the financial sector stability as well as economic development are rarely discoursed comprehensively during the CBN Board meetings. "The CBN was not organised to monitor adequately and analyse the macro- economic issues and systems risks inherent in the financial sector.

There is no overarching architecture to manage the risks in the banking system, linking economic indicators to macro-prudential guidelines and to individual bank prudential guidelines. Management information to analyse the risks in the banking system was inefficient" (Sanusi, 2010). Reform programs were now put in place to mitigate the crisis and strengthen the CG code compliance by all banks managements. This is through: 1. Enhancing the quality of banks 2: Establishing financial stability 3: Enabling healthy financial sector evolution 4: Ensuring the financial sector contributes to the real economy.

In order to tackle corporate governance failures in the banking industry, the CBN established a specialist function which will focus on governance issues only in order to ensure that best governance practices are embedded within the industry. It will also strengthen CG in both CBN and the banks, implanting an ethical good governance culture across the industry. Other remedial programs were brought for implementing and monitoring a new set of CG guidelines including a variety of reforms like: updated CG statements prepared by the banks; creation of mandatory board committees and a description of their duties; educating board of directors on their

duties. This had helped to CG code compliance by all banks and it is safe to conclude that CG code is now complementing the earlier banking legislation as they were all made for the same purpose.

2.6 Problems of implementing the CBN Code of Corporate Governance for Banks in Nigeria

The Code of CG Practices for Banks Post Consolidation was issued by the CBN in 2006. However, by implementing the CBN Code of CG for banks, it is found contributing partially towards the enhancement of governance practices in the Nigerian banking industry. Nevertheless, the implementation of the Code still poses some challenges, in which the following are prominent:

1. ambiguities regarding the appointment of independent directors and the shareholding status of these independent directors,
2. government equity ownership,
3. qualifications of the Head of Internal Audit; and,
4. Signatories to statutory returns.

To tackle the above challenges, CBN adopted both on-site and off-site supervisory procedures. Banks were mandated to give their reports of compliance status every month while assigned examiners continues to undertake an on-site verification exercise quarterly (CBN, 2008).

Furthermore, CBN (2006) highlighted some problems and other weaknesses attributed to the CG in Nigerian banks. Prominent amongst them are;

1. ineffective board monitoring functions,

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2. bad leadership, administrative ability and technical incompetence,

3. lack of effective performance measurement for board, management and staff,

4. fraudulent or selfishness behaviour among BOD, management and staff,

5. internal controls weakness,

6. violation of operation procedures and internal controls,

7. poor risk management practices and insider-related lending resulting in huge amount of non-performing loans,

8. ineffective management information system,

9. inactive directors- failure to make meaningful contributions in the board,

10. unawareness of and violation of laws, rules and regulations governing banking business,

11. excessive lending beyond approved limit and unresponsiveness to new business climate,

12. board disputes due to clash of interests between BOD and management.

2.7 Code of Corporate Governance Practices for Banks

The code of CG practices for banks post consolidation released by the CBN on 1st March, 2006 with an effective date of April 3, 2006 covers six major areas. All the following undermentioned are directly extracted from the Code as issued to the banks:

2.7.1 Equity Ownership

The current practice of free, non-restrictive equity holding has led to serious abuses by individuals and their family members as well as governments in the management of banks. However, to encourage a private sector-driven economy, holdings by

individuals and corporate bodies in banks should be more than that of governments. It is also recognized that individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. Such arrangements should be encouraged. Government direct and indirect equity holding in any bank shall be limited to 10% by end of 2007. Equally, an equity holding of above 10% by any investor is subject to CBN's prior approval.

2.7.2 Organisational Structure

The responsibilities of the head of the Board, that is the Chairman, should be clearly separated from that of the head of Management, i.e. MD/CEO, such that no one individual/related party has unfettered powers of decision-making by occupying the two positions at the same time. No one person should combine the post of Chairman/Chief Executive of any bank. For the avoidance of doubt, also no executive Vice-Chairman is recognized in the structure. No two members of the same extended family should occupy the position of Chairman and that of Chief Executive or Executive Director of a bank at the same time (CBN, 2006).

2.7.3 Quality of Board Membership

Institutions should be headed by an Executive Board composed of qualified individuals that are conversant with its oversight functions. Existing CBN guidelines on appointment to the Board of financial institutions should continue to be observed. Only people of proven integrity and who are knowledgeable in business and financial matters should be on the Board. Regular training and education of Board members on issues pertaining to their oversight functions should be institutionalised and budgeted for annually by banks;

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a) The number of non-executive directors should be more than that of executive directors subject to a maximum board size of twenty (20) directors. At least two (2) non-executive board members should be independent directors (who do not represent any particular shareholder interest and hold no special business interest with the bank) appointed by the bank on merit.

b) A committee of non-executive directors should determine the remuneration of executive directors. There should be strict adherence to the existing code of conduct for bank directors, falling which the regulatory authorities would impose appropriate sanctions including removal of the erring director from the Board. Non-executive directors' remuneration should be limited to sitting allowances, directors' fees and reimbursable travel and hotel expenses.

c) In order to ensure both continuity and injection of fresh ideas, non-executive directors should not remain on the board of a bank continuously for more than 3 terms of 4 years each i.e. 12 years. Banks should have clear succession plans for their top executives. There should be, as a minimum, the following Board committees: - Risk Management Committee, Audit Committee and the Credit Committee.

The practice of the Board Chairman serving simultaneously as Chairman/member of any of the Board committees is against the concept of independence and sound corporate governance practice, and should be discontinued forthwith.

2.7.4 Board Performance Appraisal

CG principles is always held as necessary tool for successful performance of Boards, but it's often not enough to measure such. Hence, the need for Board performance measurement or appraisal as a new concept to ensure successful or exceptional performance. Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives. Board should determine the skills, knowledge and experience that members require to achieve those objectives. A Board should work effectively as a team towards those strategic objectives. An annual Board and directors' review or appraisal should be in place covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual members' competencies and respective roles in the Board's performance. The review is to be conducted by an outside consultant. The review report should be presented at the AGM and a copy sent to the CBN.

2.7.5 Quality of Management

Appointment to top management positions should be based on merit rather than some other considerations. Existing guidelines on appointments to top management of banks should continue to be observed. Track records of appointees should be an additional eligibility requirement. Such records should cover both integrity and past experience/performance (visible achievements in previous place(s) of work).

2.7.6 Reporting Relationship

Officers should be held accountable for the duties and responsibilities attached to their respective offices. The structure of any bank should reflect clearly defined and acceptable lines of responsibility and hierarchy.

2.8 Principles and practices that promote good corporate governance

Presently, there exists several unethical business practices and other governance malpractices that undermines the effectiveness of a firm's CG. As mentioned in the section 2.6 of the thesis, evidences had been provided by Code of CG for banks, CBN annual supervision report (CBN, 2006, 2008; Sanusi, 2010) that the full implementation of the CG code was hindered by several bad practices. However, the following below mentioned are some prominent principles/practices that enhances good CG in Nigerian banks.

According to the CBN code of CG, the following practice will surely improve the level of CG to sound status:

a. The Board should retain full and effective control of the bank and monitor executive management.

b. Effective and efficient Audit Committee of the Board.

c. External and internal auditors of high integrity, independence and competence.

d. Internal monitoring and enforcement of a well-articulated code of conduct/ethics for Directors, Management and staff.

e. Regular management reporting and monitoring system.

f.   The number of non-executive directors should exceed that of executive directors.

g.   All Directors should be well experienced and knowledgeable in financial matters.

h.   Installation of a committed and focused BODs who will exercise a high degree of independence in its oversight responsibilities.

i.   A proactive and committed management team.

j.   Absence of clash of interest between the directors, management, staff and bank.

k.   The Board should meet regularly at least four times in a financial year.

l.   There should be a definite management succession plan.

m.   Regulators of high integrity and competence.

All above are obtainable at (CBN, 2006)

2.9 The Audit Committee

Audit committees possess some fundamental contributions towards improving the standards of corporate governance in Nigeria. Section 359, sub-section 3 of the Companies and Allied Matters Act (CAMA)1990, as amended to date, stipulates that every public company in Nigeria must have an audit committee to which the external auditors must report, in addition to reporting to the shareholders. The functions of the audit committee are spelt out in section 359, sub-section 6 as follows:

a.   Ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices.

b.   Keep under review the effectiveness of the company's system of accounting and internal control.

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c. Review the findings on management matters in conjunction with the external auditor and departmental responses thereon.

d. Authorise the internal auditor to carry out investigations into any activity of the company which may be of interest or concern to the committee.

e. Review the scope and planning of audit requirements.

f. Make recommendations to the Board in regard to the appointment, removal and remuneration of external auditors of the company.

All of these were however stipulated by the CG Code of 2006 and made available for guidance and compliance by all banks and financial institutions.

2.10 Summary

This chapter had been able to describe the various banking crisis as well as the reforms programs introduced in Nigerian within all the seven periods as classified. This will ease understanding of a reader about the antecedents and how persistently Nigerian banking sector had been experiencing such. Based on the available facts, it is concluded that ineffectiveness of MCS owing from lack of PMS use, poor audit control, personnel controls etc. coupled with CG failures, ineffective BODs monitoring or guidance all contributed to this menace. As such, this study now aims at diagnosing these issues indeptly to come up with recommendations.

In this chapter, detailed explanation was given on the status of MCS in most Nigerian banks as well as the state of the CG compliance. The CG Code was elucidated and other issues like the problems affecting the implementation of sound CG as well as the principles that promotes the achievement of a good CG in Nigerian banks. In the

next chapter, a review of related literature is provided in order to discuss the study variables based on empirical findings.

CHAPTER THREE
LITERATURE REVIEW

3.1 Introduction

This chapter discusses the review of related empirical studies conducted in the field of performance measurement, and also CG and organisational performance. The various CG variables used in this studies were examined alongside their relationship with performance. In the same vein, performance measurement system relationship with organizational performance as well as board equity ownership and performance were also discussed in various sections. The underpinning theories for the study was described accordingly, followed by research gap in the second to the last section of this chapter. The study thus, consists of 11 sections starting from introduction to summary. All of these vital sections constituted the comprehensive information about the chapter.

3.2 Corporate Governance (CG)

The term CG has been viewed from different perspectives by different authors and practioners based on certain reasons. However, these varied definitions all pointed at the same view emphasizing the issue of separating ownership from control, and preventing managers from acting opportunistically so as to satisfy their selfish interests at the expense of shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976). Therefore, the diverse definitions brought a more consensus as to what CG is all about. Rustam, Rashid, and Zaman (2013) viewed CG as all the policies, measures and procedures that could align the interest of both managers and the shareholders and

all other stakeholders of a firm. Another definition was derived from the Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury report, 1992) that CG is "the system by which organizations are directed and controlled". That is, it could be defined as the process and arrangements with which the business affairs of organisations are managed and directed, in order to enhance the strategic values, corporate performance and accountability, for the interest of shareholders and other stakeholders. Cadbury report further mentioned three major principles of CG as: "openness, integrity and accountability". CG is thus, concerned with ensuring transparency as well as accountability, building corporate integrity as well as sustaining an effective network of information disclosure that will improve sound organisational performance

Similarly, the Organization for Economic Corporation and Development (OECD, 1999) on the other hand, has defined CG as a system on the basis of which companies are directed and managed. Therefore, the concepts of CG relates to the association between a firm's management, BODs, their shareholders and other stakeholders. A simple view to CG sees the topic as the device, through which shareholders will be confident that managers would manage in the shareholders' best interests. It had long been established that managers does not always act in the shareholders' interests of as stated in principal-agent relationship where managers use their delegated powers to seek their own beneficial interests at the owners' expense (Bhagat & Bolton, 2008; de Villiers *et al.*, 2011; Jensen & Meckling, 1976). Conclusively, a broader view of CG, however, refers it to as the process that seeks to direct and control the affairs of an organization in order as to protect the interest of all stakeholders in a balanced

manner. The concept of CG in this study is sub-divided into six sub-divisions so as to elucidate the relevant issues. The subdivisions starts from 3.2.1 to 3.2.6 as follows.

3.2.1 Board of Directors (BODs)

BODs has been long regarded as instruments of ensuring effective internal control in organisations due to their primary roles, functions as suggested by various theorists. To facilitate better understanding of BODs, this study will elucidate extensively the major issues on BODs, particularly focusing on the definition of BODs, types of directors, theoretical perspective of board roles, and boards' roles.

3.2.2 Definition of Board of Directors

Directors are group of people appointed or legally elected as provided by the law, and are mandated to "direct and manage the affairs of an organisation or company". Mueller (1974, p. 25), opined that a director is responsible for the profitability and continued viability of a company. Therefore, the whole collection of a number of directors in a boardroom makes up the BODs. BODs occupies a very sensitive position in an organisation because, they are the intermediary between the shareholders (owners of capital) and managers (the overseers who operate the capital for value creation). Therefore, BODs' positions overlap in between a small and powerful group who manages an organisation (managers) and large, scattered, and comparatively powerless group (shareholders) who always intends and expects a smooth running of the company (Monks & Minow, 2008).

3.2.3 Types of Directors

Apparently, it has long been established that there is two common categories of directors who sit in a boardroom. There are, inside directors (executive directors) and outside directors (non- executive directors or independent directors). The CBN Code of CG for Banks in Nigeria Post Consolidation (2006, p.6) stated that "the number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors and also, at least two (2) non-executive board members should be independent directors who, though appointed by the bank, should be accountable to the shareholders and the CBN".

An executive (insider) directors are among the members of the management team that are actively involved in managing the bank's operation. These directors are full-time employees of the banks who rise through the ranks as carrier bankers. Executive directors however, are people that had a substantial amount of experience on the banking operations due to their long term managerial carrier service. Most CEOs together with a few executive directors act to provide information and assessments to other board members. An executive director is usually nominated for appointed by the CEOs as such limiting his level of independence, and rendering him incapable of expressing his opinion in a board meeting which are contrary to the CEO's opinion.

The "non-executive (outside independent) directors" comprises of people of integrity, knowledge and experience who are appointed by the shareholders, to represent them in reducing the agency cost that arises from managements selfish interests by effectively monitoring and advising the CEO/ other top management of the banks in their strategic decision making. They are assumed to be independent from

management because of their institutional powers to influencing managerial decisions through evaluating CEO performance, and reporting such to shareholders (CBN, 2006).

3.2.4 The Responsibilities of a Board

The most important responsibilies of a board are effective monitoring and providing strategic guidance, advises to the management. The OECD Principles mandated that members of BODs should manage/act in the company's and shareholders' best interest. The basic qualifications prerequisite of any effective BOD of bank consist of financial knowledge, an experience in the strategic business planning and measurement system, familiarity with and delivery assigned responsibilities etc. (Hermalin & Weisbach, 1991). Board could only perform its duties effectively if it have the right people on the board who are independent, knowledgeable and ethical and whose integrity is unquestionable. Also, OECD principles necessitate BODs to act "with due diligence and care". Therefore, under a post financial crisis era like ours, Nigerian banks' BODs must have to devote enough time to in involving into their banks' strategic affairs through their monitoring and counselling duties. Furthermore, members of BODs also have the responsibilities of educating themselves to be familiar on banks' operations and consults external consultants for further clarifications if the need arises. BODs could often be independent, but ye could still be ineffective directors when they lack experience or knowledge which is related to modern banking business. Hence, BODs must be familiar with all the business affairs of their bank as well as the associated risk it confronts.

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3.2.5 Theoretical Perspectives on the Board of Directors Functions

BODs have been viewed as a key instrument of internal governance of a firm. Prior studies have discussed the board's functions as a mechanism to control the behaviour of management to reduce agency cost by aligning managers' and shareholders' interests. To do this, boards provide a multiple of functions in order to ensure corporate survival and progress. Zahra and Pearce (1989) opined that the BODs has four distinct functions that are backed up by four theoretical perspectives namely; agency theory, resource dependency theory, legalistic, and class hegemony.

Stiles (1997) on the other hand, elucidated a few others including; stewardship, stakeholder and managerial hegemony theories. However, these theories explains the board's roles and were all derived from various academic disciplines, including Economics and Finance, Law, Management, Accounting, Marxist sociology, and Organizational theory and behaviour (Zahra & Pearce, 1989).

This study had only adopted both agency and resource dependence theories to underpin the variables in the study based on the nature of the study's problem. Table 3.1 in the next page displays the various different perspectives of BODs roles.

Table 3.1
Summary of Theoretical Perspectives of Boards' Roles

No	Theoretical Perspectives	Board Functions	Roles	Theoretical Origin	Representative studies
1	Agency Theory	The primary functions of the boards is to monitor the actions of the agents (management) to ensure their efficiency and to protect the interests of principals (shareholders).	Control Strategies Service	Economics & Finance	Jensen & Meckling (1976) Fama & Jensen (1983)
2	Resource Dependence theory	1. Boards are a cooperative mechanism to extract resources vital to company performance. 2. Serve a boundary spanning role. 3.Enhance organisational legitimacy	Service Strategies Control	Organisational theory & Sociology	Pfeffer (1972) Pfeffer (1973) Pfeffer & Salancik (1978)
3	Legalistic	1. Representing and protecting shareholders' interest. 2. Managing the corporation without interfering in day to day operations.	Control Service	Corporate Law	Mace (1971) Molz (1988) Chaganti *et al.* (1985)
4	Class hegemony	Boards perpetuate the power and control of the ruling capitalist elite over social and economic institutions.	Service	Marxist Sociology	Nichols (1969) Carpenter, (1988)
5	Managerial Hegemony	Boards are "a legal fiction"	Service	Organisational theory	Mueller (1979)
6	Stakeholders	Boards pursue stakeholders interest	Service	Politics, law & Management theory	Zahra & Pierce (1989)
7	Stewardship	Boards ensure the stewardship of corporate assets	Control	Organisational theory	Donaldson & Davis (1991) Donaldson (1990)

Source: Zahra & Pierce (1989), Stiles (1997)

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3.2.5.1 Agency Theory Perspective

Agency theorist has a collective view that BODs primary assignment is monitoring management, and that only directors who are independent can monitor vigorously (Bhagat & Black, 2000). They further argued that organizations are often recognized with a clash of interest between management and shareholders, where managers (agents), frequently portrays an opportunistic behaviour by exploiting their control over firm operations to increase their short-run benefits at the expense of shareholders'(principals) long-run wealth. However, existence of vigilant BODs could reduce such agency problems through tight monitoring of their company's management (de Villiers *et. al* 2011, Zahra & Pierce, 1989).

The details on agency theory were discussed in Section 3.8. This study adopted this theory to cover the following variables: i) Board independence, ii) Board appointment, iii) Audit committee quality. This is because all the variables were severally conceptualized ad explained with agency theory because they are centrally concerned with BODs monitoring duties.

3.2.5.2 Resource Dependence Theory Perspective

The resource dependence approach developed by Pfeffer (1972) and Pfeffer and Salancik (1978) highlights the role of outside directors (non-executive directors). Non-executive directors enhance the ability of a company to have more choices on resources, protect itself against the external environment, and reduce market uncertainty. Therefore, non-executive directors are able to raise the business's opportunities to generate funds or enhance the business's reputation and status.

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According to Johnson, Daily, and Ellstrand (1996) BODs are selected based on their resources "(reputation, knowledge, and networking)" as it is expected that the company will benefit from such resources. Likewise, they might bring in their experience and knowledge from other firms into the firm they are now serving as the director.

From the resource dependence perspective, board influence on company performance occurs through its impact on the Strategic initiatives of CEO choices, directors can shape these initiatives directly by proposing new business concepts or initiating their analyses (Zahra & Pearce, 1989, p.299). Also, suggests that directors may be actively involved in the strategic arena through counsel and advice to the CEO, by initiating their own analyses, or by suggesting alternatives. However, directors may not develop or execute strategies because these activities are within the purview of the CEO" (Zahra & Pearce, 1989, p.298). Hence, the present study adopts this study in order to cover the following variables: iv) Board size and v) Female membership on board

This is because all the variables were severally conceptualized ad explained with agency theory because they are centrally concerned with BODs monitoring duties.

3.2.5.3 Legalistic Perspective

From this perspective, the legal duty of BODs is to safeguard the interest of the shareholders through monitoring and guiding management decisions without interfering in the firm's daily operations which remains the responsibilities of both

senior executives and their chief executive officer (CEO) (Zahra & Pierce, 1989). The BODs has prescribed legal responsibilities to be delivered through its control and service roles. However, the control roles include appointing and replacing CEO and reviewing management strategies and decisions, whereas service roles encompass advising management, linking a professional network with industrialists, and raising the corporate reputation (Carpenter, 1988; Mueller, 1979). Effective performance of these boards' roles enhances firm performance.

Based on this perspective, a board is not anticipated to initiate strategies or develop policies. Instead, it is responsible for reviewing and approving managerial initiatives that will, in turn, determine company performance. It also requires evaluating company and CEO performance to ensure corporate growth and protection of shareholders' interest (Zahra& Pierce, 1989, p.294).

3.2.5.4 Class Hegemony Theory Perspective

This theoretical perspective on the role of BOD is emanated from the Marxist sociology (Nichols, 1969; Zahra & Pearce, 1989) which reveals that directors stands to be an elite group that perpetuates the powers and the interest of the ruling capitalist in a company within a country. Under this theory, only the most influential and reputable personalities are appointed to serve in a board to coordinate, protect and ensure the interest of the capitalists control of societal institutions. In this theory, firm's strategies are initiated and implemented by the CEO while the directors will review the strategies and its implementation since the "CEOs are representing the values of the capitalist elite" (Zahra & Pearce, 1989, p.300) The BODs are

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considered as a device to ensure that the decision of CEO is always aligned with that of the owners.

From this perspective, the CEO is the ultimate power broker in the firm, representing the values of the capitalist elite. The CEO and senior executives develop and implement strategic initiatives that are reviewed by directors. This review aims to ensure the consistency of CEO's initiatives with the interests of the owners (Zahra & Pearce, 1989, p.300).

3.2.5.5 Managerial Hegemony Theoretical Perspective

This theoretical perspective ascribes more powers to the management than the board who should oversee them. Management are power brokers here because they possess adequate information, experience of company operations, and thus make their decisions without any hesitation, rendering the board to become less relevant, with a lesser role in the boardroom (Zahra & Pearce, 1989).

3.2.5.6 Stakeholder's Theoretical Perspective

This theory focuses on a divergent group of individuals who are mandated beneficiaries of the information, profit (loss) of a company's performance. In this theory, shareholders' rights is dilute with the right of other stakeholders which comprises; employees, creditors, suppliers, customers, regulators (government), society and the general public. Therefore, the primary duty of the board is to protect the interest of all these group members without focusing on only shareholders' interests, as obtains in agency theory (Zahra & Pearce, 1989).

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3.2.5.7 Stewardship Theory Perspectives

This perspective is grounded in the stewardship theory that was brought by Donaldson and Davis (1991) which profound the relationship of managers as stewards of the corporate owners. They have to ensure a sound system of reporting is maintained through the BOD that oversees them. Managers are motivated by achievement, and they do their best for the firm, owners they serve (Donaldson & Davis, 1991). This theory is of the belief that inside (executive directors) on the board, contributes to higher shareholders' returns due to their vast knowledge and experience about the firm's operation (Donaldson, 1990).

3.2.6 Corporate Governance Variables

In this study, five exogenous were examined due to their inevitable relevance to the problems of this study. They are:

i) Board independence   (Agency theory based),

ii) Board appointment   (Agency theory based),

iii) Audit committee quality   (Agency theory based),

iv) Board size   (Resource dependence theory based),

v) Female membership on board   (Resource dependence theory based).

3.3 Board Roles

The roles of BOD have been extensively explained by so many researches and various codes of CG (see Byun *et al.*, 2013; CBN, 2006; de Villiers *et al.*, 2011; Hermalin & Weisbach, 1988a; Hermalin & Weisbach, 1991; Hillman & Dalziel, 2003; Johnson *et al.*, 1996; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Zahra & Pearce,

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1989). However the BOD performance of their role depends on the effectiveness of the regulatory framework that enforces adherence to the CG codes. In Nigeria, the Code of corporate governance for Nigerian Post-consolidated banks (2006) has revealed that the following principles and practices promotes the board's ability to ensure good corporate governance: They are

1. the establishment of strategic objectives and a set of corporate values, clear lines of responsibility and accountability.

2. installation of a committed and focused BODs who will exercise a high degree of independence in its oversight responsibilities.

3. the board should retain full and effective control of the bank and monitor executive management.

4. regular management reporting and monitoring system.

5. all directors should be knowledgeable in business and financial matters and also possess the requisite experience.

6. internal monitoring and enforcement of a well-articulated code of conduct, ethics for directors, management and staff.

7. there should be no conflict of interest between the BODs, management, staff and the bank.

8. the non-executive directors should more than executive directors in a board.

9. effective and efficient audit committee of the board.

10. a proactive and committed management team.

Apparently, the above are some of the recommended provisions of the CBN code of CG that guides the BOD performs their duties diligently with autonomy.

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Nevertheless, Zahra and Pearce (1989) suggested three (3) board roles namely; control, service and strategy. While a more recent review of Johnson *et al.*, (1996)'s brought forward control, services and resources dependence roles as found in study of Hillman and Dalziel (2003).

Service role is viewed as the art of "enhancing company reputation, establishing contacts with the external environment, and giving advice and counsel to executives (Zahra & Pearce, 1989, p.292) . While Strategy role as BODs active involvement in the strategic arena through advice and counsel to the CEO, by initiating their own analyses, or by suggesting alternatives (Zahra & Pearce, 1989, p.298) . Johnson *et al.* (1996, p.411)'s asserts the Service role as directors efforts in advising the CEO and top managers on administrative and other managerial issues as well as more actively initiating and formulating strategy. Resource dependence role is directors' ability to facilitate access and acquisition of resources that are critical to the firm's success and also serving a legitimizing function (Johnson *et al.* 1996, p.411).

By examining the theories that underpinned all these board roles, nevertheless, both the strategy role and service roles from the study of Zahra and Pearce (1989) and then service role and the resource dependency roles from Johnson *et al.* (1996) study, all these roles can be deduced to fall within the array of resources a board provides to its firm as advanced by (Pfeiffer & Salancik, 1978). Later, the two roles (strategy and service) were merged into resource dependence role so as to "advance a more parsimonious understanding of BOD by conceptualizing two theoretically distinct

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board functions: monitoring and the provision of resources" (Hillman & Dalziel, 2003).

Therefore, this study accord the framework of de Villiers *et al.*, (2011) and Hillman and Dalziel (2003) that were earlier developed from Zahra and Pearce (1989) that BOD have two major roles such as controlling or monitoring management (based on agency theory) and also increasing accessibility to vital resources, guidance/advice (based on resource dependence theory). According to agency theory, CEO and senior management develops and implements business strategies, while BODs monitors it (de Villiers *et al.*, 2011; Fama & Jensen, 1983; Hillman & Dalziel, 2003). Also, only independent BODs and other directors that possess equity shares would probably monitor rigorously (Bhagat & Black, 2000; Hillman & Dalziel, 2003). Conversely, resource dependence theory proposed that BODs provides and expedite accessibility to vital resources that enhances firm performance (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978; Pfeffer, 1972). Based on this view, BODs are vigorously involved in advising, guiding and certainly influencing business strategy through management control system (Hillman & Dalziel, 2003). In the next section, the two board roles will be discussed extensively together with the board variables related to each of them.

3.3.1 Monitoring or Control Role

Grounded in the agency theory, monitoring otherwise known as control role is the most fundamental function of the BOD (Bhagat & Black, 2000; Bhagat & Bolton, 2008; de Villiers *et al.*, 2011; Hermalin & Weisbach, 1988; Hermalin & Weisbach, 1991; Hillman & Dalziel, 2003). Agency theorists had earlier argued that firms were

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recognized by a clash of interest between its management and shareholders, because managers often takes opportunity of their governance of business operations to maximize their short-run benefit at the detriment of shareholders' long-run wealth (de Villiers *et al.*, 2011; Fama & Jensen, 1983; Hillman & Dalziel, 2003; Jensen & Meckling, 1976; Zahra & Pearce, 1989). But, the existence of vigilant BOD can diminish such agency problems through tight monitoring of company's management (de Villiers *et al.*, 2011; Hillman & Dalziel, 2003; Westphal, 1999). Also, BOD who monitors the firm's management vigorously, are more probable of demanding justifications for management's business strategic creativities as well as criticizing any kind of wrong initiative that is inconsistent with the firm success (Baysinger & Hoskisson, 1990; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999).

Based on the monitoring role, board contribution to organizational performance occurs by reducing agency cost arising from noncompliance of executives with established goals and procedures, by articulating shareholders' objectives and focusing the attention of key executives on company performance, and through strategic decision making and control (Zahra & Pearce, 1989).

Other BOD monitoring roles includes appointing new CEO and replacing poorly performing CEOs, operating during crises, determining the appropriate packages used for compensating firm's CEOs and senior management, ensuring the presence of risk management practices, and both reviewing managerial and company performance. Furthermore, the legal provision on the duties of a director consist of two duties: i) "the duty of loyalty and good faith and ii) the duty of care, diligence, and skill".

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Based on the duty of loyalty and good faith, the law demands a BODs to make viable unbiased decisions with sincerity that are in the best interest of the business or its owners. Thus this limits the agency cost by curtailing all sort of self-serving, greediness and exploitation of firm's opportunities at the expense of the owners. (Johnson *et al.*, 1996).

Several board attributes were inconsistently adopted to examined the board monitoring function as surrogates for CG but this study will follow the de Villiers *et al.*, (2011) and Hillman and Dalziel (2003) framework to classify CG variables based on their relevance to either monitoring or resource dependence role. Here, two variables are considered (board independence, audit committee quality) under the control role. While the remaining two variables (board size, female presence in boardroom) under the resource dependence role. Since the major key tasks of the BOD is to monitor the business activities of the organisation in addition to its management, we argues that the BOD of Nigerian banks should monitor these top management strategic initiatives through PMS as an intermediary that may enhance banks' performance policies (de Villiers *et al.*, 2011; McNulty & Pettigrew, 1999). Precisely, evidences from studies based on agency theory recommends that BODs would be more rigorous and vigorous in performing their monitoring duties if they are absolutely independent from their firm's management and if they can derive beneficial incentives by doing so (de Villiers *et al.*, 2011; Hillman & Dalziel, 2003). Practically in Nigeria, banks' BOD were severally indicted of not asking managers sensitive inquiries about banks strategies, objectives and their performance, also

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doesn't evaluates CEO performance exhaustively, and rarely analyze decisions of executives before approving it (CBN, 2006; Sanusi, 2010).

Therefore, this study draw on these CG attributes in order to assess their effect on the banks' performance by measuring the performance of the CEOs through involvement and monitoring of CEOs strategy formulation and implementation usually using PMS as discussed by (Anthony, 2007; Epstein & Roy, 2005; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Ogbechie *et al.*, 2009; Ruigrok *et al.*, 2006; Zahra & Pearce, 1989).

3.3.1.1 Board Independence (BI)

Independence of the BODs has long been considered as the fundamental attribute that facilitates and ensures effective monitoring and advisory services by the board. Empirical research on BOD's characteristics (independence in particular), greatly increased in the wake of the prominent seminal works of Baysinger and Butler (1985), Fama and Jensen (1983), Jensen and Meckling (1976), Zahra and Pearce (1989) during the 1980s (Lefort & Urzúa, 2008).

There is no collective consensus about the meaning of board independence (BI) but nevertheless, prior studies refers and measures it as "the number of outside directors in a board". Kang, Cheng, and Gray (2007) referred BI as being independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment. According to Albring,

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Robinson, and Robinson (2013), board monitoring of management is more effective if there is higher proportion of outside or "independent directors" because they have greater incentives to protect their reputation relative to inside directors (Fama & Jensen, 1983). Also, the primary responsibilities of the BOD was to monitor the managements' strategic actions to ensure congruence with firm/shareholders objectives which only independent directors could monitor vigorously (Bhagat & Black, 2000; Hermalin & Weisbach, 1991).

Practically in Nigeria, some boards of many banks were reported to lack independence, the bank chairman/CEO often had an overbearing influence on the board, and some boards lacked independence; directors often failed to make meaningful contributions to safeguard the growth and development of the bank and had weak ethical standards (CBN, 2006, 2008; Sanusi, 2010). CG had failed in various banks because BOD refused to perform their jobs, misleading by CEO/ management, BOD involving in collecting insider loans, and usually lacks qualifications and experience to impose sound governance on the CEO/senior management of their bank (Sanusi, 2010). In view of these malpractices, only directors who are independent can be able to monitor management and prevent such kind of above agency cost. Therefore, this study concord the previous evidences to re-examine the potential effect of boards' independence on banks performance.

Despite the uniform regulatory framework approach, and the bulk of research, yet the board's effectiveness in fulfilling this monitoring role is still trivial, unclear and also, the extent to which these BOD monitors firm's management and to which this

monitoring is   contingent on the independence are significant and remains an unresolved empirical questions because of inconsistent conclusions (Bhagat & Bolton, 2008; Byun *et al.*, 2013; Hermalin & Weisbach, 1991). Some prior scholars and regulatory reports such as CBN (2006), Hermalin and Weisbach (1988), (1991), Sanusi (2010), Zahra and Pearce (1989) all documented and reported that boards generally fail in their responsibility to monitor, guide, evaluate their management and companies performance. Prior studies determines boards independence based on the majority of outside non-executive directors in the board.

Fundamentally, the failure of boards to fulfill their primary role are attributed to lack of independence, dominance of CEOs over board, due to the influence of CEOs on board's appointment (CBN, 2006, 2008; de Villiers *et al.*, 2011; Sanusi, 2010). Therefore, the CBN code of CG for Nigerian Post-consolidated banks (2006) reiterated that every board must consist of "a majority of independent outside directors where the number of non-executive directors should exceed that of executive directors". Similarly, the Council of Institutional Investors (1998) guidelines suggested at least 2/3 of a firm's BOD to be independent; guidelines adopted by the California Public Employees Retirement System (1998) and by the National Association of Corporate Directors (1996) proposed boards to have a "substantial majority" of independent directors. As such most studies uses the "percentage of outside directors on board as a proxy for board independence". This study will follow that and further test another suggested proxy (proportion of independent directors that are appointed before the present CEO) in the Nigerian context as additional contribution.

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However, all the findings of prior and present studies on CG attributes (independence in particular) are reported in mixed. On one hand, bulk of studies reported positive relations on the effect of BI on the performance of a firm while on the other hand the reverse is reported leading to inconclusive result. On the positive side, earlier pioneer researches of Fama and Jensen (1983), Jensen and Meckling (1976), Zahra and Pearce (1989) strongly documents a positive relationship between board independence (measured in terms of proportion of independent outside directors) and the firm performance explaining that the greater the proportion of outside independent directors on the board, the greater the extent of their monitoring, due to their legal powers entrusted on them. The study of Baysinger and Butler (1985), examined the effect of board composition firm performance using a three scale classification (inside, grey, outside) directors and reported that companies with higher proportion of independent outside directors achieved a relatively higher return on investments (ROI) over a period of ten years (1970-1980). They classify directors in three (insider, grey, and outside), of which the outside are more independent.

More others are the study Byrd and Hickman (1992) and Weisbach (1988) are all of the opinion that CEO replacement in a poorly performing firms is greater when the representation of independent outside directors is increases as a result of their effective monitoring roles. Also, Byrd and Hickman (1992) also confirms that if independent outside BODs dominates a board as the majority, its effectiveness will definitely improve. Their result was also supported by so many studies like Agrawal and Knoeber (1996), Beasley (1996), Brickley, Coles, and Terry (1994) who concord that value addition is often derived in boards that are more independent.

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Within the year 2000s up till date, researches conducted in this area remains inconclusive. Numerous studies also examines this prominently among comprises; Bhagat and Black (2000) who conducted their study in American context and found that firms suffering from low profitability responds to any increase in the BI but the conventional wisdom of independence to improve firm performance is not supported. Also de Villiers *et al.,* (2011) confirmed an improvement in the environmental performance of companies with higher BI using a sample of 3742 firms covered by the KLD database in United States of America. Similarly, Bhagat and Bolton (2008) revealed that BI is positively related with the likelihood of disciplinary replacement of management (turnover) in a given poor firm performance. Also, the better governed firms as measured by the GIM and BCF indices are less expected to experience disciplinary management change in spite of their poor performance. These studies were concurred by the results of Bhagat, Carey, and Elson (1999), Byrd and Hickman (1992), Clifford and Evans (1997).

That is, when boards are absolutely independent, it becomes easy for them to replace an unproductive CEO/management of a non-performing firm like in the case of Nigerian banks where there was open and heavy fraud. This study could testify to available evidences that enhancing independence will curtail the CG troubles of Nigerian banks after this bail-out. Another study of Hillman and Dalziel (2003) in a United States based study concord that the greater the outside independent directors (OID) the better their monitoring functions which was also supported by Kang *et al.,* (2007) in their study to measure the degree of independence (amount of OID) of the BODs of top 100 Australian firms and found that 83 companies have the higher

outside independent directors (OID) as per recommended by ASX CG Council. Many uncountable empirical works supported this argument few among them mentioned here are Guest (2008) in a UK study, Lefort and Urzúa (2008) in a Chilean sttudy, Sanda, Mikailu, and Garba (2005) in a Nigerian study, Shen (2007) in an Asian study, Uadiale (2010) in a Nigerian study. Also, Khongmalai, Tang, and Siengthai (2010) in a Thai study ratifies the broad principles of CG and gives detailed information on CG practices through a qualitative study.

Similar positive result was also reported by the study of El-chaarani (2014) in the Lebanese banking sector which utilised a number of 40 Lebanese banks to assess the effect of independent board on the performance of banks. Al-musalli and Ismail (2012) concurred this findings by using a sample of 74 banks in GCC countries and established that the number of independent directors in a boardroom have significant positive relationship with intellectual capital performance. This is supported by another Portuguese study of Quaresma, Pereira, and Dias (2013) using a sample of 69 banks in Portugal and found a weak positive correlation between board independence and measurement of the percentage of total assets invested in the loan portfolio (NL/TA). Many more researches in the Asia for example; Alhaji, Baba, and Yusoff (2013) in Malaysia, Hoque, Islam, and Ahmed (2012) using a sample of 25 banks in Bangladesh, and Kaur (2014) using sample of 13 Indian all confirmed a positive effect of independent outside directors on bank profitability as measured by ROA. However in Nigerian context, a recent research of Ahmad, Jibril, Salihi, and Ahmad (2015) with a sample of 5 Nigerian firms reported that board independence have a positive effect on a firm's dividend policy. Similarly, Samson and Tarila (2014) found

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a positive association between board structure and the performance of Nigerian banks as measure by ROA. Hassan and Farouk (2014) also concurred this positive relationship in their study which assessed 13 banks in Nigeria.

In contrast, bulk of prior studies like Hermalin and Weisbach (1991), disagreed this in their study that found no association between the composition of BOD and company's performance. They admitted that their result lacks adequate robust analysis, further opined that both inside (executive) directors and outside independent directors could be neither bad nor perhaps good at representing interest of the owners since management always exert influence/control of board selection process. Also, some studies contends that firms with more proportion of independent BODs may perhaps woefully perform than expected. For example, Yermack (1996) revealed a major negative correlation between ratio of independent BODs and contemporaneous Tobin's Q, however no strong relationship for (sales/assets; operating income/assets; operating income/sales).

Similarly, the study of Agrawal and Knoeber (1996) revealed negative relation amongst number of outside BODs and Tobin's Q while in the study of Klein (1998), it was also found that a strong negative relationship exist between the percentage of OIDs and market value of equity and but insignificant results for ROA. Also, Rosenstein and Wyatt (1997) revealed that the prices of stocks would neither averagely rise nor fall even if an executive director is appointed to a boardroom. Recent studies like Vo and Phan (2013) also found no relation between BI and the performance of 77 firms in Vietnam.

The next sub-section 3.3.1.2 discusses the new method suggested by recent studies in determining BODs independence based on the process and time of their appointment.

3.3.1.2 Board Appointments (BA)

However, a new extra dimension of measuring board independence deliberated in recent works is "the proportion of directors who are appointed to the board prior to the incumbent CEO's appointment". This aims at measuring the CEOs' comparative power and influence over board appointment which would reveal the degree to which a board is socially independent from management as suggested and tested in (de Villiers *et al.*, 2011; McDonald, Westphal, & Graebner, 2008).

Practically in Nigeria, the banking supervision report of CBN (2008), revealed that "there exist ambiguities regarding the appointment of independent directors to banks' boards", and also according to prior studies, CEOs are frequently consulted regarding the decision of nominating directors, which gives them opportunity to produce board that would be loyal to their opinions (Hermalin & Weisbach, 1991; Monks & Minow, 1991; Wade, O'Reilly, & Chandratat, 1990; Westphal & Zajac, 1995).

In view of this, it is predictable that BODs that were appointed to boardroom after the incumbent CEO has assumed office may possibly have a divided trustworthiness when fulfilling their fiduciary obligation to the shareholders whereas sustaining their cordial rapport with their CEO who facilitated their appointment under his tenure (de Villiers *et al.*, 2011; Wade *et al.*, 1990). Based on this view, this study predicts that

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the greater the ratio of BODs appointed on boards before this present CEO, the better will be the monitoring of both CEO and banks performance.

3.3.1.3 Audit Committee Quality (ACQ)

This is another very sensitive board attribute that emphasizes monitoring roles of boards in the aspect of financial reporting quality. This board attribute emanates from the agency theory which stated that board consist of independent directors who take part in monitoring through an audit committee to determine the truth and fairness of a firm's financial reports. Audit committees are regarded as a valuable tool to enhance the audit quality of a bank by reviewing the report of an independent external auditors, and deciding on their retention or replacement based on integrity. Evidence from empirical research shown that, only independent directors who have sufficient accounting/financial knowledge and experience can carry out this function effectively. The CBN code of CG No. 8.1.4 (2006, p.15) stated that Members of the Board Audit Committee should be non-executive directors and ordinary shareholders appointed at the AGM, and should be knowledgeable in internal control processes. One of such appointed ordinary shareholders should serve as the Chairman of the Committee. The CBN code of CG (2006) also, reported that lack of board members with accounting/ financial expertise makes the audit committee ineffective. Therefore, this study adopts this as a very important variable for this study.

Recent research like Albring *et al.* (2013) asserted that "the best measure of audit committee quality is accounting financial expertise", because the perceived lack of accounting and financial expertise by boards and audit committees triggered a

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widespread regulatory and public attention. In a study of USA, their results shown that firms that has more independent boards, more accounting/financial expertise in their audit committees, greater BODs stock ownership in addition to institutions, and that have separate positions for the CEO/Chairman of BODs, are more probable of switching to non-auditor provider. Similarly in support of this, Abernathy, Herrmann, Kang, and Krishnan (2013) report that competent and effective audit committee could improve the credibility and reliability of the financial statements provided to users.

In support of these, Carol Liu, Tiras, and Zhuang (2014) in another USA based study based on a sample of 18,564 observations of firm - year, also found that accounting expertise on the audit committee not only alleviates earnings management, but also constrains expectations management. Their findings imply that by limiting managers' self-serving disclosures practices, accounting expertise on the audit committee decreases managers' influence on analysts' forecasts, thus contributing to maintaining the independence of analysts' forecasting and disclosure process.

Abbott, Parker, and Peters (2004) in another US research revealed a substantial, negative association between an audit committee which consist of member(s) with accounting or financial expertise. They also reported that the supervisory duty of an audit committee could be compromised especially by an external auditor when he observes that the audit committees lacks the necessary qualifications or experience to know procedural auditing as well as financial reporting requirements.

Furthermore, a financially educated audit committees are well prepared to comprehend the judgments of auditors and detect the matter of incongruities between firm's management and firm's external auditor (Abbott *et al.*, 2004; DeZoort & Salterio, 2001). The frequent evaluations of CEO and firm performance by the board or a standing committee will result in feedback for appropriate corrective actions (Zahra & Pearce, 1989). They opined that, the structure of a board also immensely helps in facilitating BODs success while performing their control duty. This is because, an audit committee that has competent directors and well run, and also, the directors' accessibility to timely and reliable control data is highly inevitable in evaluating both management and firm performance and also enables them to periodically monitor the progress of attaining firms' objectives especially through performance measurement (Zahra & Pearce, 1989).

However, previous research suggests that audit committees consisting of accounting/financial/auditing experts as members are more effective at monitoring the process and quality of financial reporting especially in areas like; the effects of materiality justification and accounting precision (DeZoort, Hermanson, & Houston, 2003), detecting material restatements (Abbott *et al.*, 2004; Raghunandan, Read, & Rama, 2001) curtailing of internal control problems (Zhang, Zhou, & Zhou, 2007) and restatements (Agrawal & Chadha, 2005) and increasing the responsiveness to events indicative of failure in the financial reporting process (Chen & Zhou, 2007; Zhang *et al.*, 2007) and audit committee independence (Bronson, Carcello, Hollingsworth, & Neal, 2009).

Consistent with some recent studies, (Abernathy *et al.*, 2013; Albring *et al.*, 2013; Carol Liu *et al.*, 2014) this study will proxy the audit committee quality as the presence of a competent independent director who has professional accounting, auditing or financial expertise in a board. This is because only board members who are financially educated (accountants or auditors), can be able to diagnose the true and fairness of the firm's financial report even before publishing and monitors the frequent performance measurement of CEO, top management staff and the business units of the firm in order to ensure survival of these banks after the bail-out reform.

3.3.2 Resource Provision Role

Rooted in the resource dependence theory, through a seminal work of Pfeiffer and Salancik (1978), various resources which a director can provide to aid a firm were identified, comprising advice, guide and/or counsel, legitimacy, creating information networks between the firm and externals members, in addition to privileged linkage to various external resources. All this constitute the vital resources that brings a sound performance to a company if directors effectively utilize these in delivering this role.

Also, Hillman, Cannella, and Paetzold (2000) categorized outside BODs according to resource dependence theory by suggesting their classification as "business experts," "support specialists," and "community influentials," signifying the diverse kinds of resources BODS could bring to its board. Extant studies had offered results that confirms these roles such as de Villiers *et al.*, (2011), Hillman and Dalziel (2003), and Zahra and Pearce (1989). In support of this, Kor and Misangyi (2008) contend that BODs having special professional experience may perhaps complement the

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inexperience of CEOs of new enterprises in making strategic investments/production. This kind of expertise expedites contact to essential information as well as business resources linkages and collaborations (Hillman & Dalziel, 2003). Zahra and Pearce (1989) opined that, under this role, BODs could review strategic opportunities through recommending new business innovative ideas. Therefore, this study identify board size and female membership in a board, as CG characteristics that are linked to the diverse important resources obtainable from the BODs of the bailed-out banks.

3.3.2.1 Board Size (BS)

As explained by the resource dependence theorist, the total number of directors within a firm's boardroom significantly influences its effectiveness. Despite uniform regulation on CG, up to date, there are contradictory notions about the proper or optimal size of BOD in a firm. The CBN Code of CG for Nigerian Post-consolidated banks (2006), No.5.3.5 however provided that the number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors (CBN, 2006, p.10). Here, it could be deduced that no specific figure is legally stated as the optimal size, and such allowing the shareholders/board to determine it. However, if a board size (BS) is too large, directors may be individually constrained in actively participating in board decisions, create an ideological conflict hence, lead to trivial contribution. Also, if a board size is too small, the directors may not be able bit the time and effectively deliver their functions. Due to the Sanusi (2010) report that BODs fail to make meaningful contribution in their boardrooms, this study will therefore seek to examine the relative effect of the diverse sizes of the

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banks' boards on their banks performance. In an attempt to determine the effect of BS on the performance of a firm, several conflicting results were reported.

On one hand, prior studies like Chaganti, Mahajan, and Sharma (1985) reported a positive correlation between board size and firm performance based on 21 sampled firms. Chaganti *et al.*, (1985) opined that larger boards prevent company failure compared to those with small boards. Recent empirical evidence exposes that larger board size renders valuable and greater value to firms that require more advice (Coles, Daniel, & Naveen, 2008). This has been supported by Hillman and Dalziel (2003) who stated that the large board size offers more skill, knowledge and improved guidance, is also more probable to consist of business professionals, prestigious personalities that can boost the image of a firm. In a Nigerian study, Kajola (2008) also confirmed that a strong positive relationship exist between board size and financial performance of registered firms. While de Villiers *et al.*, (2011) in a study of United States, gave a confirmation of improved performance (environmental) mostly in firms that has larger board size by using a sample of 3742 firms covered by the KLD database of USA.

In contrast, prior studies contends that the art of planning, coordinating, organizing, communicating, as well as making prompt decision are perhaps difficult and slow in firms with large boards than those with smaller (Eisenberg, Sundgren, & Wells, 1998; Jensen, 1993; Lipton and Lorsch, 1992; Yermack, 1996). Lipton and Lorsch (1992) suggested that smaller BS is better if the BODs membership is limited to ten (10) people only, (preferably eight (8) or nine (9) members). In support of this, Jensen

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(1993) in his study confirmed that if BODs exceeds seven (7) or eight (8) members, their job effectiveness is plausibly reduced rendering them vulnerable to CEO's domination. Similarly, Yermack (1996) reported an inverse association between BS and value of firm (using Tobin's Q) within year 1984 to 1991 based on 452 sampled big U.S.A industrial organizations. He also suggested that CEO performance incentives provided by the board through compensation and the threat of dismissal operate less strongly as board size increases (Yermack, 1996, p.210).

Eisenberg et al, (1998) reported that a significant negative association exist between BS and the profitability performance of a sampled Finnish small & medium firms. Few recent research like Vo and Phan (2013)'s results gave an empirical confirmation that a BS contributes negatively to performance of quoted Vietnamese firms. Similarly, in the Nigerian perspective, Sanda et al., (2005) reported that, small BS improves and relates more with firm's performance instead of large BS which was supported by the study of Uwuigbe and Fakile (2012) who established that the relationship between BS and financial performance of Nigerian banks is negative.

Nigerian banks are presently so large with a huge capital base, diverse range of operational services since after the consolidation and bail-out which makes them more complex organizations. As organizations become larger and more complex, small number of directors could not be able to monitor and guide every significant aspect of banks' operations unless by way of breaking their functions through committees that monitor specific aspects of a company such as audit, remuneration, nomination, and risk management committees. Therefore, banks boards need to employ more directors

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to have a reasonable size that can accommodate the establishment of such committees and render better advices, counsel to top management. Therefore, this study is consistent with CBN (2006), de Villiers *et al.*, (2011), Hillman and Dalziel (2003), and thus, predict that the bail-out banks in Nigeria could perform better if there are large number of directors with high qualifications, industry experience, political connections, and other resources useful for bank survival. Also, this function could be better if these directors owns stock of the bank and also monitors CEO/banks' performance measurement.

3.3.2.2 Females Membership on Board (FM)

This is another board characteristic that is rooted in the resource dependence theory which implies the types of board members who could provide valuable, rich and skilled resources (advices, counsel, connections, legitimacy etc.) to a board. Logically and naturally, it could be observed that women are more cautious, vigilant, nervous, law abiding. Several researches and reports has shown that majority of women are always nervous and scared of conniving in committing a fraud or crime.

As such recent research considers the appointment of females in a corporate board so as to ensure sincere representation through monitoring and advisory roles. Gender has been the greatest deliberated diversity matter, in different fields like BODs diversity, political affairs diversities and also in other social matters. Perhaps nowadays, many calls for a quota systems were made aiming at increasing the representation of women in corporate top positions in countries like France and Sweden (Kang *et al.*, 2007). Also in Europe there was agitation for increasing the amount of females membership

on corporate boards, while in 2002, the government of Norway even warned their companies restructure their BODs to comprise of 40% females if it wasn't willingly structured in such ratio before (Kang *et al.*, 2007; Ripley, 2003). Certainly, empirical evidence reveals that membership of females in a firm's board may possibly improve the firm's value.

Vo and Phan (2013)'s work reveals that female membership on boards signifies that board's membership is actually diversified which in turn improves the firm's performance. Similarly, prior study of Smith, Smith, and Verner (2006) argued three major reasons to acknowledge the significance of females membership on a board. Firstly, female BOD generally are more market conscious making them to understand it better than the male BOD which could facilitate the board's decisions. Secondly, female BODs may attract higher corporate reputation and community acceptance which could significantly improve the firm's performance. Thirdly, a female BOD may guide the remaining other BODs to get an enhanced understanding business environment through the career support/development of both females and males staff of a firm.

In Australia, the labour force consist of 44.5% per cent of females, the amount of females in CEO positions is static and while females BODs increased by 0.2% per cent (Kang *et al.*, 2007; Knight, 2004). Similarly, Farrell and Hersch (2005) in a study of United States between 1990 to 1999 used a panel of 300 firms extracted from Fortune 1000 in US and report an increased representation of females in boards from

5.6% in 1990 to 12.26% in 1999. Also, 87% of firms' boards comprises of at minimum one female in 1999, despite the trend of decreasing board size.

Nielsen and Huse (2010) conducted a study in the context of Norway to examine the contribution of female directors to board strategic involvement and decision-making. They used a survey data from 120 Norwegian firms with many respondents and found that women board members significantly influence board involvement strategy and decision-making because of their diverse professional experiences and values which they bring along into the board. Particularly, Norway had mandated all companies to have 40% of their BODs to be women by a deadline of January 2008 failure of compliance will result to closure of the company.

In Nigeria, the presence of women in boardroom is so trivial and not officially documented. However, it is widely reported that they also contribute positively to decision making with a degree of sincerity and ethics, hence the need to test this in the Nigerian context. The outcome of this could be recommended to the regulatory bodies for adoption.

3.4 Board Equity Ownership (BEO) -- Moderator

This is another board characteristic that is covered by the agency theory and further serves the function of reducing the agency problems between managers and shareholders by aligning the interests of BODs with that of owners (shareholders). That is, BODs possessing substantial equity in the company they are serving, are more expected to sincerely evaluate its business' performance and also control the

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business' strategic ideas (Bhagat & Bolton, 2008; Bhagat et al., 1999; Carol Liu et al., 2014; de Villiers et al., 2011; Hillman & Dalziel, 2003).

Practically in Nigeria, the implementation of CBN code of CG in Nigeria, encountered several challenges, in which the most serious ones were; ambiguities concerning selection/appointment of independent BODs and the share ownership position of these independent BODs (CBN, 2008). Thus, it has been an unresolved debate concerning the potential importance/ effect of BODs' equity ownership on both the board functional performance and firm performance. In study based on the United States context, Albring et al. (2013), reported that, the Blue Ribbon Committee (1999), among others, suggests that director stock ownership should reduce agency problems and therefore the need for external monitoring. Thus, in an attempt to make a proper alignment of the interest of director and shareholders, many boards have implemented equity ownership guidelines and holding requirements for directors, leading to a substantial rise in the ownership of managers and directors but in Nigeria, there exist ambiguities and challenges regarding the directors share ownership status (CBN, 2008).

In support, evidence from prior studies reveals that BODs possessing substantial shareholdings are more expected to tie the compensation of CEO to the performance of the firm (Kren & Kerr, 1997), as well as replacing CEOs of firms that are poorly performing (Bhagat et al., 1999). Being more associated to this work, (Albring et al., 2013; Bhagat & Bolton, 2008; Bhagat et al., 1999; CBN, 2008; de Villiers et al., 2011; Hillman & Dalziel, 2003 and Westphal, 1999) confirmed that BODs' equity

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ownership (BEO) motivates BODs effectiveness in monitoring and reviewing strategic decisions. Similarly, de Villiers *et al.*, (2011) and Hillman and Dalziel (2003), reported in their USA based researches argued that BODs' ownership inducements encourage them to sacrifice immediate personal benefits for long-term future missions and strategies. In view of these, BODs with greater share ownership would be more plausible to vigorously monitor, advice, counsel and provide any type of resource critical to the bailed-out banks' performance because they are more likely to recognize the benefits of their involvement in strategy implementation through performance measurement of the management and the banks. Therefore, in the present aftermath of severe banking crisis, it's believable that greater equity ownership may possibly encourage BODs to frequently measure the CEO/banks' performance through monitoring PMS and advisory services in order to maximize shareholders' value in the future.

There exist conflicting researchers' views regarding this which until now, no clear position is given by the CBN. This show the real extent of the misconception on whether or not equity ownership by the BODs would influence their mandated functions. Also, the percentage of the shareholding is still not clearly determined. However, Bhagat and Bolton (2008); de Villiers *et al.*, (2011); Hillman and Dalziel (2003) opined that equity ownership aligns both BODs' interests with that of other shareholders. Bhagat and Bolton (2008)'s study in the USA context, further revealed that the likelihood of disciplinary replacement (turnover) of CEO/senior management is surely linked to BODs' equity ownership mostly in a poor performing firms. Therefore, in the Nigerian case, it could be argued that if these banks were having

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BODs that owns equity shares in the banks, they would have dismiss and replaced those nonperforming fraudulent managements even before the bailout rescue by CBN. As such it's inevitable to adopt this after the bailout.

Again, Vo and Phan (2013) in their study of Vietnam context, found that firm performance reduces as BEO fluctuates within a range of 0% - 22%, when it rise to above 22%, the firm's performance will also increase commensurately therefore concluding a non-linear association between CG and equity ownership of BODs. Similarly, Weisbach (1988) also reported that CEO replacement in poorly performing firms was greater as the representation of independent outside directors increases. BODs (both executive or insiders and outsiders or non-executive) share ownership enables them possess a portion of the company to a point where they nurture a shareholder-like feelings. This will consequently help reduces manager vs shareholder conflicts by not engaging in unethical behaviors that would be detrimental to firms' and shareholders' interest. This is findings was supported by Hoque et al., (2012) who revealed that directors' ownership significantly affects bank performance by examining 25 Bangladesh banks. Similarly, Borokhovich, Boulton, Brunarski and Harman (2013) also used a sample of 364 USA firms in their study which reported that the stock holding of grey directors have a positive significant relationship with CAR after CEO death announcement while Onakoya et al., (2014) found that BODs share ownership have significant positive effect on ROE using 9 Nigerian banks.

In the United States study (Zahra, 1996) revealed that outside non-executive directors equity ownership will be encouraged to monitor CEO effectively and will

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consequently become increasingly involved in a company's operations, thereby contributing immensely in strategy implementation and decision making. Also, Ammann *et al.,* (2010) examined the effect of firm-level CG on firm value using a previously unused dataset by Governance Metrics International (GMI) that covers 64 individual CG attributes on above 2,300 firms from 22 developed countries over a five-year time period from 2003 to 2007. They reported a strong and positive relation between firm-level CG and firm valuation and between a company's social behavior and firm value.

In contrast, Demsetz and Lehn (1985) reported that BEO is not associated with the performance of firms and a trivial support for the discrepancy in managers and shareholders' interests. Fama and Jensen (1963) argued that contribution of board's ownership is considered as a "two-edged knife" in which there is an optimal level of board ownership which contributes positively to a firm's performance. However, the study of Morck, Shleifer, and Vishny (1988) revealed that performance of companies improves firstly BEO increases up to 5%, and then decreases as BEO rises up to level of 25% and then lastly increases again slightly at a higher BEO. McConnell and Servaes (1990) in their study confirmed that there exist a significant curvilinear interrelationship between BEO distribution and the value of a firm. Uadiale, (2010) in a Nigerian study with a sample of 30 listed firms reported a negative relationship between BEO and the financial performance of firms. The study of Okpara and Iheanacho (2014) concurred this negative relationship between BODs ownership and bank performance using 16 Nigerian banks.

By and large, due to the conflicting findings of the relationship between most CG variables and organisational performance in the extant literature, the introduction of a moderating variable is necessary according to Baron and Kenny (1986), and also since the majority of researches are in support of board shareholding, this study further argues consistent with many studies like Albring *et al.*, (2013), Bhagat and Bolton (2008), Carol Liu *et al.* (2014), de Villiers *et al.* (2011), Guest (2008), Hillman and Dalziel (2003) Bhagat *et al.*, (1999) that, if these banks' BODs were having a substantial equity ownership in the banks or compensated with equity as incentives for a targeted performance, they would definitely have monitored and counselled those sacked incompetent/fraudulent banks' managements. In the current aftermath of banking crisis, it's likely that greater BEO may possibly motivate directors as a moderator (Baron & Kenny, 1986) to monitor and provide resources (advices, counsel connections etc.) to management which will in-turn lead to higher firm performance in the long run.

3.5 Management Control System (MCS)

MCS is a formal or informal system which gathers and uses information to evaluate the performance of different organizational resources like human, physical, financial and also the organization as a whole considering the organizational strategies (Otley, 1994). MCS influences the behavior of organizational resources to implement organizational strategies (Anthony & Govindarajan, 2007). However, MCS are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities (Simons, 1995b, p.5). While Horngren *et al.*, (2005) sees MCS is an integrated technique for collecting and using information to

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motivate employee behavior and to evaluate performance. Apparently, MCS had been defined in various ways but all the definitions maintained a common role of being used in strategy implementation usually through PMS (Anthony & Govindarajan, 2007).

In a Malaysian study of SME hotels, Mohamed and Jamil (2013) opined that MCS has the role of providing information to managers to facilitate their decision making consistent with their plans and objectives. Also based on the conventional, functionalist contingency-based research approach, Chenhall (2003) also argued that, MCS are basically embraced in organisations to help managers realize certain preferred organizational objectives. Therefore, applicability of MCS is always moderated by the environment within which it works. Contingency theory as well argued that no commonly suitable control system relevant to all circumstances. Therefore, suitability of diverse MCS mechanisms is dependent on the situations within the organization (Jamil & Mohamed, 2013).

Similarly, Herath (2007) assume that MCS in every organisation describes a detailed roles and standards for the whole organization which aims at ensuring the existence and progression of such organization, the staffs personal progress and work satisfaction. However, it comprises firm managers and their subordinates who are frequently appraised according to their contribution to the organizational effectiveness. Furthermore, corporate strategy should be highly prioritized in planning and preserving an effective MCS (Herath, 2007).

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MCS as a wide system comprises of various subsystems that includes action control and results control (Ho, Huang, & Wu, 2011) and personnel control, behaviour control, and accounting control (Abernethy & Brownell, 1997) and performance measurement system (Grafton, Lillis, & Widener, 2010; Henri, 2006; Widener, 2007). As stated above, MCS had been seen as formalized processes and systems that utilizes information to sustain or change behavioural patterns in an organization (Simon, 1987,1995), the meaning comprises monitoring techniques, planning system and also reporting systems that heavily relies on the use of information (Henri, 2006). Therefore, this study will adopt one important element of MCS known as PMS which denotes a set of metrics (financial or non-financial, internal or external, short or long term as well as ex post or ex ante) usually used in evaluating actions, performance of employees, mangers and the organisation (Henri, 2006).

3.6 Performance Measurement System (PMS) -- Mediator

In this study, Performance Measurement System (PMS) will be used as a proxy for MCS being a major key element of MCS (Henri, 2006). PMS are collections of financial and/or non-financial performance indicators which are used by managers in measuring their own, their subordinates or their unit's performance. Therefore, these financial and non-financial measures are indicators usually used in monitoring the implementation of strategy within the entire firm and determining whether or not, the firm's strategic objectives were attained (Bremser & Chung, 2005; de Waal, 2002).

Bremser and Chung (2005) opined that the renewed concern in PMS led to the development of so many PMS frameworks and techniques by authors like Bisbe and Otley (2004), Ferreira and Otley (2009), Kaplan and Norton (1996), Otley and

Fakiolas (2000), Otley (1999), Simons (1995b). They also believe that performance measures have to emanate out of the firm's strategy. However, the Balanced Scorecard by Kaplan and Norton (1996), (2000), Levers of Control by Simons (1995a), (1995b), Otley (1999) framework, Ferreira and Otley (2009) are all derived from strategy and these measures helps in tracking whether all the resources i.e. management/employees (human), capital/investments (financial) and properties or processes (physical) are collectively assisting the firm based on the firms' strategy (Bremser & Chung, 2005). In support of this Mohamed and Jamil, (2013) also asserted that PMS models and frameworks are normally designed to support management in measuring their performance, analysing and improving their performance through better decision making.

Simons (1995a) developed levers of control (LOC) framework as an instrument of implementing and controlling corporate strategies. "Beliefs systems and interactive control systems" are adopted for encouraging new ideas, strategies, opportunities, innovation, while "boundary systems and diagnostic control systems" are applied to ensure that individuals work consistent with promulgated policies and regulations through monitoring, rewards (Ferreira & Otley, 2009; Simons, 1995a, b). However, Otley (1999) came up with his five (5) items measurement framework to address five (5) aspects of MCS. Therefore, this study will modify and then implement the extended measurement framework of Ferreira and Otley (2009) which comprises both Simon's (1995) LOC and Otley (1999) measurement frameworks.

Ferreira and Otley (2009) consider their PMSs framework as sufficient tool that can be used by researchers in describing the design and usage of multiple controls that installed by firm's management and planned to support effective implementation of firm's strategies and plans. To ensure effective implementation of plans, strategies, the performance of all the bank resources must be measured by the CEO and monitored by the BOD so as to enable the BOD decide whether the CEO's performance adequate in achieving the banks' mission or not. This monitoring of PMS by the BOD is aimed at verifying the actual performance of CEO, (through top / branch managers) in moving the banks towards its objectives, mission and vision.

Certainly, both agency and resource dependence theories suggested that the CEOs' (and or through) other SBU branch managers' actions and decisions should be monitored by measuring their performance by the board to reduce conflict of interest (Fama & Jensen, 1983; Jensen & Meckling, 1976; Zahra & Pearce, 1989). The control role requires evaluating company and CEO performance to ensure corporate growth and protection of shareholders' interest (Zahra & Pearce, 1989, p.294).

Therefore, the measurement of the CEO's performance should be done frequently, by the board as it identifies the achievement of key success factors (KSF) and other areas of strength, weakness, opportunities, threat, confronting the bank's business which CEO needs to improve on, and they will monitor CEO performance is generally improved based on measured information. Also, the PMS information serves as basis for BOD's decisions whether or not to retain, renew or terminate the appointment of a

CEO (Bhagat & Bolton, 2008; Bhagat *et al.*, 1999; Weisbach, 1988). In the next section we will discuss in brief the prominent PMS frameworks.

3.6.1 Performance Measurement Frameworks

PMS models and frameworks are designed to support management in measuring their performance, analysing and improving their performance through better decision making (Jamil & Mohamed, 2011). Since after the studies of Simons (Simons, 1990, 1991, 1995), many studies such as Abernethy and Brownell, (1999), Chenhall and Langfield-Smith (2003) have re-observed the vital functions of MCS in formulating and the implementing strategy leading to increased concern on PMS use in organisation (Henri, 2006).

Certainly, PMS denotes a set of metrics (financial or non-financial, internal or external, short or long term as well as ex post or ex ante) which were used to measure actions (Henri, 2006; Jamil & Mohamed, 2011). However, various different PMS models or frameworks were earlier developed to offer a complete view which used diverse measures that are knotted together to always oversee the internal context and external context of a firm. The work of Jamil and Mohamed (2011), came up with a taxonomy of PMS models based on review of Garengo, Biazzo, and Bititci (2005) and summarized these eight (8) PMS models as follows:

Table 3.2
Summary of Previous PMS Models

	PMS models	Developers
1	Performance measurement matrix	Keegan, *et al.*, 1989.
2	Performance pyramid system	Lynch & Cross, 1991
3	Performance measurement system for service industries	Fitzgerald, *et al.*, 1991
4	Balanced Scorecard	Kaplan & Norton, 1996
5	Integrated performance measurement system	Bititci, *et al.*, 1997
6	Performance Prism	Neely, *et al.*, 2002
7	Organizational Performance measurement	Chenhall *et al.*, 2000
8	Integrated Performance measurement for small firms	Latinens, 1996, 2002

Source: Jamil and Mohamed (2011), Garengo *et al.*, (2005)

More related to this study are the most widely used frameworks of Simon, Otley, Jamil and Mohamed, Ferreira and Otley, and Kaplan and Norton. Therefore, these shall be discussed in brief for conceptualization.

3.6.1.1 Levers of Control (LOC) PMS Framework

Organizations adopted metrics in efforts of establishing a control system so as to implement strategy. However, the LOC model considers the significance of integrating strategic choices into the control systems of a firm's. LOC model comprises four (4) categories of controls: "belief systems, boundary systems, diagnostic control systems and interactive control systems" (Bremser & Chung, 2005; Jamil & Mohamed, 2011). Belief and boundary systems aims at significantly guiding personnel behaviours. Diagnostic and interactive control systems offers measurement, feed-back and quick decision making.

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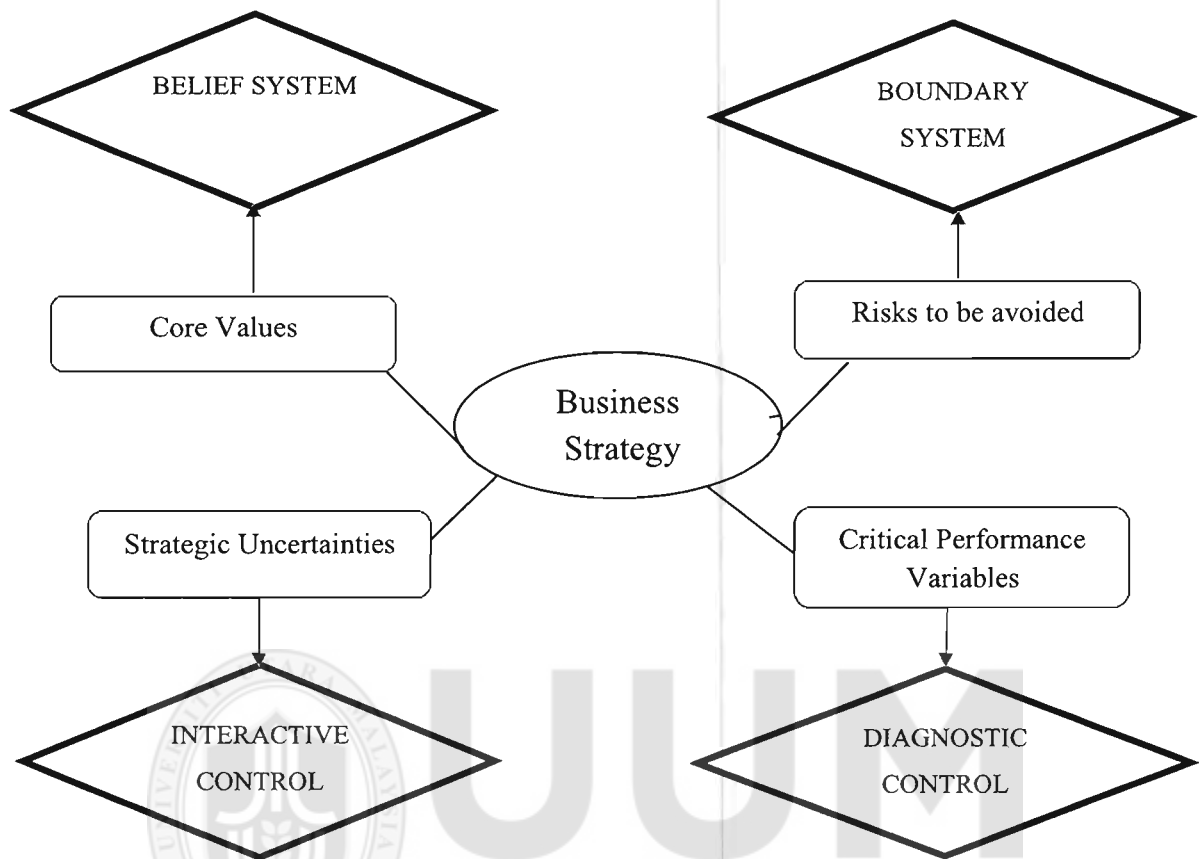
Figure 3.1
Levers of Control Framework
Source: Simons (1995, p.7)

According to Ferreira and Otley (2009), Tuomela (2005), and Widener (2007), the following four LOC items are described as;

i. *Beliefs systems*: are meant for enhancing the main core values that are associated with firm strategy and facilitate the searching of new business opportunities based on those values.

ii. *Boundary systems:* curtails business risks through setting restrictions to cleverly detrimental behaviours.

iii. *Diagnostic control systems:* factors critical to firm's success (CSF) are clearly informed and supervised. Performance indicators usually describes either the CSF based on the implementation of a strategy or its strategic outcomes.

iv. *Interactive control systems:* are adopted for dialogue regarding strategic uncertainties in addition to learning innovative strategic reactions of an unpredictable environment. It is also used in encouraging and incite discussion on specifically learning about the confronting strategic uncertainties which could predict the need for either re-strategizing or change. In this, managements strongly participates in operating this type of system throughout the organisation (Tuomela, 2005). While beliefs systems and interactive control systems are utilized for encouraging inventive actions, boundary systems and diagnostic control systems were normally adopted to ensure the compliance of individuals behaviours with the pre-established strategies, policies and regulations (Ferreira & Otley, 2009; Simons, 1995a, 1995b; Widener, 2007).

3.6.1.2 Otley (1999) PMS Framework

This framework comprises of five (5) items which almost similar to the LOC but with a little changes. They are:

i. *Goals:* The goals/ objectives of the organization are firstly taken into serious consideration.

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ii. *Strategies and plans:* It is very crucial to examine and evaluate the performance of essential actions that may be prerequisite to the implementation of business plans in addition to strategies.

iii. *Performance target:* A suitable and commensurate target are very necessary in improving performance.

iv. *Reward system:* the kind of remuneration systems to be established for achieving the expected performance target or the penalty for failing to achieve the target is important in MCS.

v. *Communication or PMS information Use:* Creating an appropriate information flow (feedback & feed-forward) circles is inevitable in PMS.

However, Otley 1999's framework however, proposed a mechanism for assessing existing firm's activities in a complete way (Otley, 1999).

Figure 3.2
Otley (1999) Performance Measurement Framework
Source: Otley (1999)

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3.6.1.3 Jamil and Mohamed Modified PMS framework

Similarly, researches of Jamil and Mohamed (2011, 2013) had operationalized and used LOC as a framework for measuring performance in small and medium enterprises in Malaysia. Jamil and Mohamed (2011) suggested a modified PMS framework which integrated both PMS and MCS applicable to SMEs businesses. In their model, they also incorporates "the beliefs system and boundary system in business strategy followed by translating such strategy to action through the use of diagnostic and interactive control system as a performance measurement dimension".
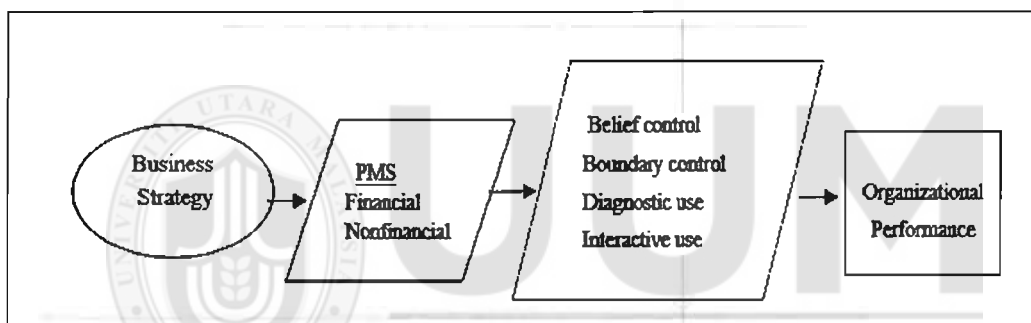
Figure 3.3
Jamil and Mohamed Modified Framework
Source: Jamil and Mohamed (2011)

3.6.1.4 The Extended PMS Framework of Ferreira and Otley (2009)

Ferreira and Otley consists of twelve (12) dimensions that assess the performance of managers, subordinates, and also the business units (branches) based on their contribution to strategic implementation. The below diagram shows the composition of metrics used to assess performance.
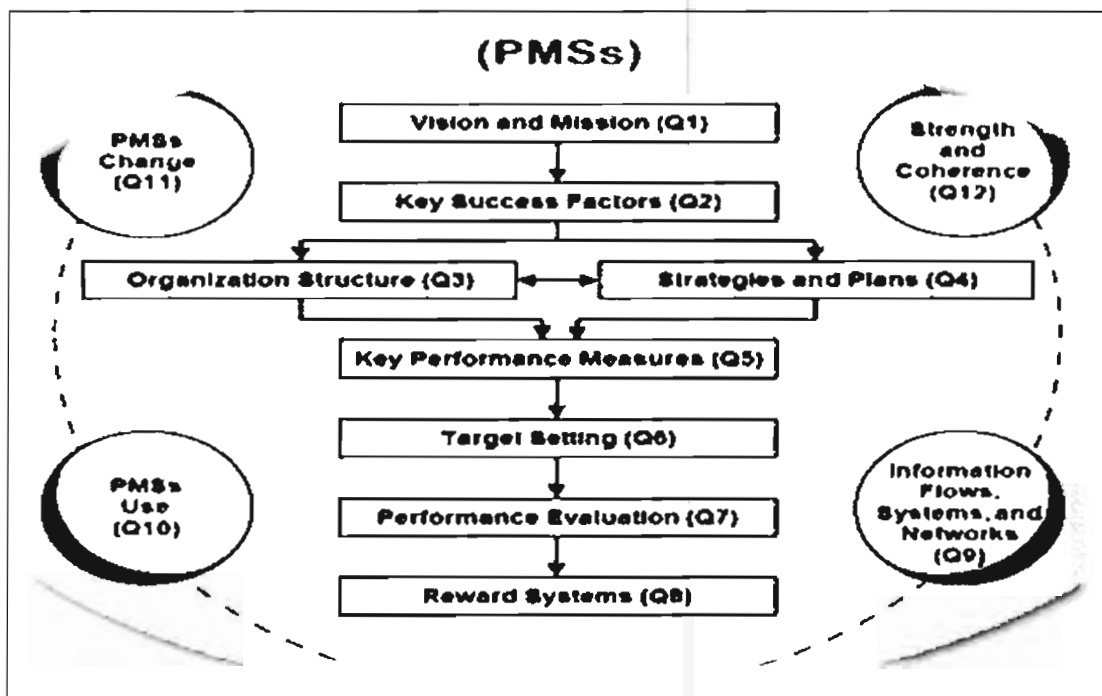
Figure 3.4
The Extended PMS framework of Ferreira and Otley (2009)
Source: Ferreira and Otley (2009)

Mission & Vision: Apparently, objectives are prerequisites requirement for control, which are the used to evaluate performance. Organizations are usually confronted with multiple and often competing objectives that need to be met which are sometimes prescribed by senior managers to meet stakeholders' expectations (Ferreira & Otley, 2009).

The key success factors (KSFs): are those activities, attributes, competencies, and capabilities that are seen as critical pre-requisites for the success of an organization in its industry at a certain point of time.

Organizational structure: is a very important element of MCS which consists of the organizational hierarchy, rules and regulations and reporting relationships while strategy represents the organizational goals and objectives and the ways of achieving

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them. Thus, organizational structure is considered a means of co-ordination and control through which organizational actors' behaviour can be directed towards organizational effectiveness.

Strategies and Plan: Strategy is a master plan on how an organization intends to compete in its environment and what sort of structure, including coordination and control devices, is required to implement the plan (Macintosh, 1994, p. 89). Strategy is mainly concerned with the operative goals of an organization and the problems of achieving them.

Key performance measures: are the financial or non-financial measures (metrics) used at different levels in organizations to evaluate success in achieving their objectives, KSFs, strategies and plans.

Target setting: It was established that, target levels have effects on performance, with moderately difficult goals enhancing group performance.

Performance evaluation: This denote the type of processes, if any, the organization follow for evaluating individual, group, and organizational performance.

Reward system: This denotes the kind of rewards (financial and/or non-financial) managers / employees will gain by achieving performance targets or other aspects of performance and the penalties they will suffer by failing to achieve them.

Information flow: This describes the type and nature of specific information flows (feedback and feed- forward) systems and networks the organization has put in place to support the operation of its PMSs.

PMS Use: This describes the type of use PMS information is made of and the various control mechanisms in place.

PMS change: This denotes the way in which PMSs is altered in the light of the change dynamics of the organization and its environment. Have the changes in PMSs design or use been made in a proactive or reactive manner.

Strength and coherent: This describes how strong and coherent are the links between the components of PMSs and the ways in which they are used.

This PMS framework is adopted in this study as stated earlier because it was specifically developed by the authors as an update and combination of the two prominent frameworks (Simons 1995, and Otley, 1999). Therefore it give a holistic view of the whole PMS components, and also is more recent than the others.

3.6.1.5 The Balanced Scorecard (BSC) Framework

The BSC has been a major component of a strategic management system which enables firms to transform strategic objectives into various performance measures. The measures consist both "financial and non-financial measures" which serves as meters used in monitoring implementation of strategy all through the business organization and also to determine whether firm's strategic objectives are attained and not (Bremser & Chung, 2005; Kaplan & Norton, 1996, 2000). The framework

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comprises of four (1 financial, and 3 non-financial aspects namely; customer perspective, internal business process, learning & growth (Jamil & Mohamed, 2011; Mohamed, Hui, Kamal, Rahman, & Aziz, 2009).

The customer perspective is concerned with the way to handle your customers so as to attain your vision. The internal business process aspect is concerned with the type of business and the quality of services/processes to improve at so as to satisfy customers as well as shareholders. The aspect of learning and growth is concerned with innovation, creativity, and improvement in services delivery so as to achieve mission.

Lastly, the financial perspective is concerned with the way of financially achieving higher returns for the shareholders. This study adopted this model with some adapted modifications to suit the banking sector operations. The figure 3.5 below shows the various components of the Balanced Scorecard and interrelationships.
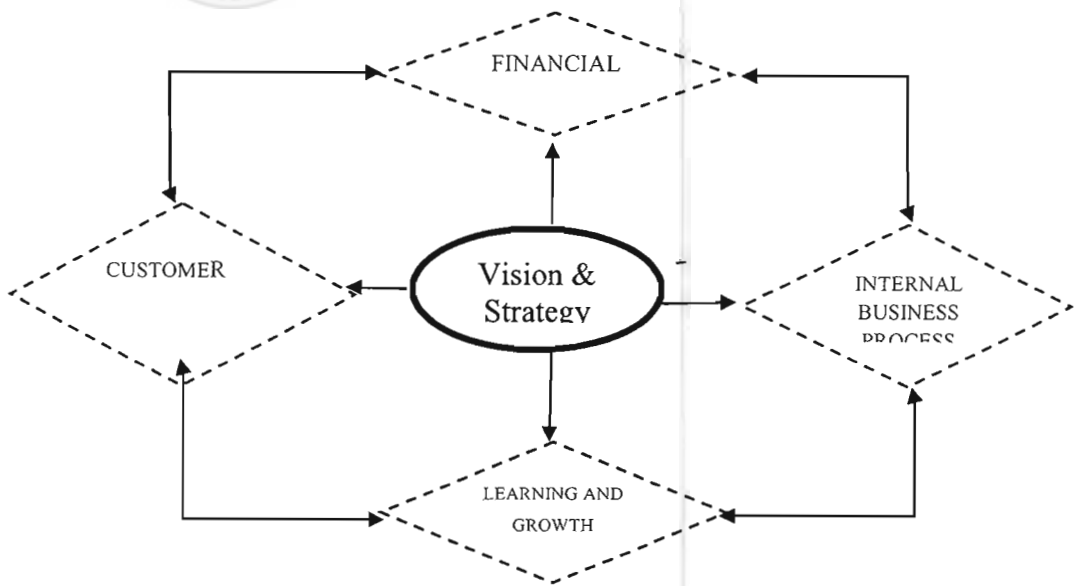
Figure 3.5
Balanced Scorecard PMS framework
Source: Kaplan and Norton (1996)

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3.6.2 The Use of Performance Measurement Systems

PMS are very significant component of the management control structure that often serves a variety of different purposes within organizations. In designing PMS, managers must consider not only what to measure and how to measure it, but also how they are going to use the performance information, based on the kind of circumstances they face. Various empirical research addressing the diverse use of this system have relied on several taxonomies by different scholars to define and operationalize PMS use. Information derived from performance measurement systems can also be used for resource allocation, coordination, business evaluation, and early warning identification (Tuomela, 2005; Simons, 1995b). There had been a long dated debate in the prior PMS literature, about whether PMS are used diagnostically or interactively (Kaplan & Norton, 1996; Tuomela, 2005).

For example as shown in the below diagram, Simons (1990) has two broad distinction between diagnostic and interactive uses from the four item LOC, while Hansen and Van der Stede (2004) brought four(4) distinct roles: operational planning, performance evaluation, communication of goals, and strategy formation. Also, Henri (2006) recommends four (4) categories of PMS use, with a taxonomy comprising monitoring, attention focusing, strategic decision making, and legitimisation.

Lastly, Franco-Santos et al. (2007) brought up another classification, identifying 16 different PMS use which are grouped into five broad categories: (1) measuring performance, including progress monitoring, measuring and evaluating performance; (2)strategy management, which encompasses planning, strategy formulation /

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implementation / execution, attention focusing, and alignment; (3) internal and external communication, benchmarking, and compliance with regulations; (4) influencing behaviour, comprising rewarding behaviour, managing relationships, and control; and (5) learning and improvement, which captures feedback, double loop learning, and performance improvement (Franco-santos et al., 2007). The major difference between the various classifications of PMS uses is based on the number of roles they identify, and in the boundaries between these roles.
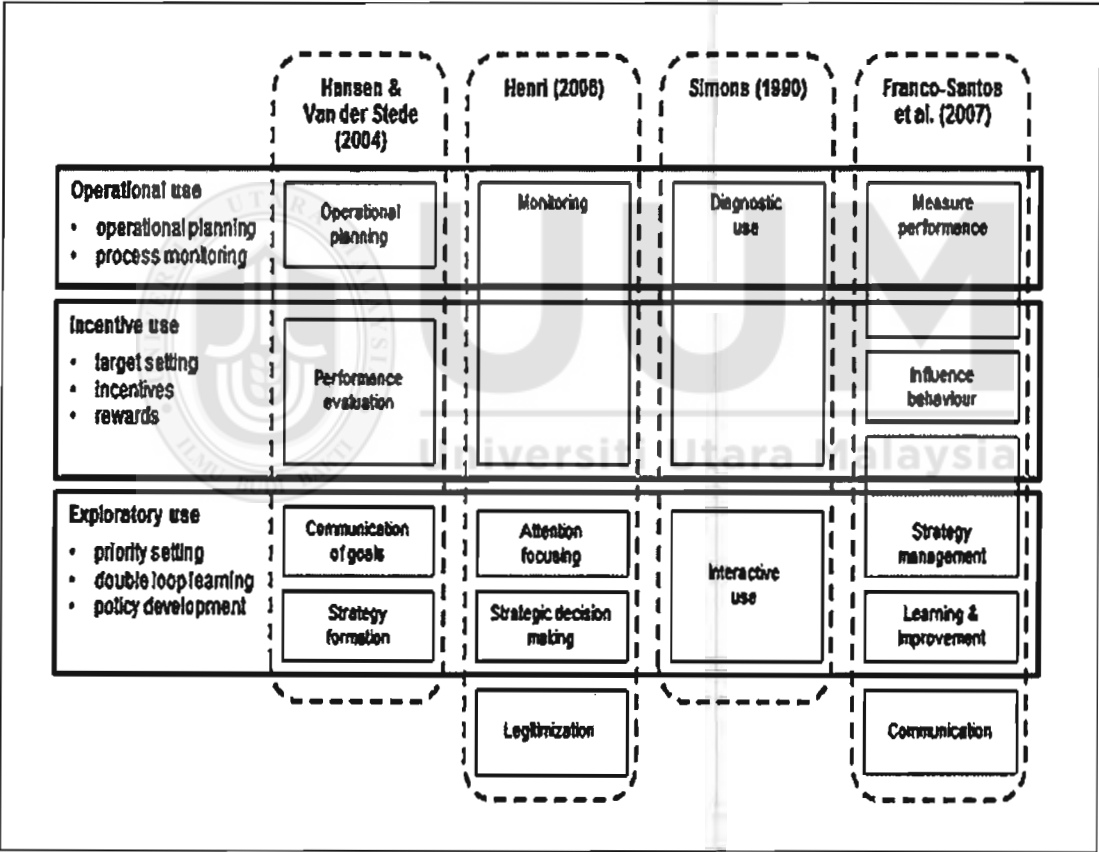
Figure 3.6
Speklé and Verbeeten (2013)'s Classification of PMS Use
Source: Speklé and Verbeeten (2013)

Speklé and Verbeeten (2013) in a study based in Netherlands, used a survey data from 101 public sector organisations to get performance information about the level to which different kinds of PM metrics are used for a variety of purposes. They

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distinguish between three purposes: operational use, incentive use and exploratory use. Operational use (op-use) includes the use of performance metrics (input measures, process measures, output measures, quality measures and effect measures) for planning, allocating budget, and monitoring administrative processes. Incentive provision (inc-use) comprises the significance of PM in promotion and bonus decisions while exploratory use (expl-use) includes a dependence on PMS metrics for communicating objectives and choices as well as appraising the suitability of present objectives and rule conventions (Speklé & Verbeeten, 2013). The metric for (op-use) category includes input measures (e.g. budgets, expenditure limits), process measures (e.g. efficiency, capacity use), output measures (e.g. revenues, productivity), quality measures (e.g. customer satisfaction, number of complaints), and outcome or effect measures (realization of policy goals).

In a study of Canadian context, Henri (2006) reported the relationship between PMS and the capabilities (e.g. innovativeness, market orientation, organizational learning and entrepreneurship) deployment. It is found to be contributing positively when used in an interactive approach and negatively when used in diagnostic approach. Balance use of these two brings a dynamic tension that also positively improves capabilities especially in a contextual great environmental uncertainty.

Bremser and Chung (2005) in a study of USA also presented a framework which offers a framework for mounting PMS indicators which can execute the strategies/tactics of an e-business entity based on 8 factors for the C-suite executives while P-suite executives has 7 factors.

Jamil and Mohamed (2013) in a study of SME hotels in Malaysian reveals that MCS is positively correlated to PMS design and overall hotel performance. Their study adopts LOC. With the exception of diagnostic control system however, their finding does not suggest that the hotel performance will be influenced by the MCS. Interactive control system was not found to significantly exhibit the level of hotel performance. And even though, a positive association exist between all types of MCS and performance of hotels, these hotels performance does not necessarily depend on whether or not the hotels integrate MCS in their PMS design.

Widener (2007) examined both backgrounds and resultant effect of using both interactive and diagnostic PMS. Based on survey data from 122 CFOs, SEM technique was applied to justify that control systems (i.e., beliefs, boundary, diagnostic, and interactive control systems), improves firms' performance. She found PMS to have been used together interactively and then diagnostically by firms. Therefore, her study confirms that components of levers of control (LOC) have to be deployed together for a successful operation because, each has a vital role to play in improving organisational performance. Thus this study takes a Ferreira and Otley (2009) as the most recent and updated framework that combines both LOC- Simons (1995), Otley (1999), and Jamil and Mohamed (2011) together to test its indirect effect on CG and performance relationship.

Sangkala, Jamil, and Kamardin (2014) examined the association between budget participation and budget slack, moderated by diagnostic control system and belief control system. Their study used functional managers of 140 manufacturing firms

from Indonesian. They reported that both diagnostic control system and belief control system moderates the association of budget participation and budget slack.

Similarly, Grafton *et al.*, (2010) in an Australian study sourced data through mail survey from managers of 794 branches from a cross section of 715 unique companies operating in manufacturing sector and others in service sector of Australia. They examined the extent to which decision-facilitating measures and decision influencing measures (feedback and feed-forward) use of PMS information are captured in evaluation mechanisms will influence the use of those measures and in turn affect organisational results. Second, they consider the implications of the decision making use of modern PMS for developing and developing strategic capabilities for sustained competitive advantages.

3.7 Organizational Performance – Dependent variable

Organisational performance had widely received a serious attention because it reveals the system and the manner in which resources (like human, financial, and material resources) obtainable by an organization were used judiciously in achieving the whole organisational objectives. Various measurement models were previously developed to take care of either managerial or organisational or both performance. Perhaps, performance is measured and reported based on two major indicators: financial and non-financial. This section will discuss each of them and how they are measured and reported in banking sector.

3.6.3 Financial Performance

Long ago, different financial indicators we widely used in measuring organisational performance. Organisational performance may perhaps be measured with long-term market oriented performance measures and other short-term non-market-oriented performance measures. Few samples of those measures comprises market value added (MVA), economic value added (EVA), cash flow growth (CFG), earnings per share (EPS) growth, asset growth rate (AGR), dividend growth (DG), and sales growth (SG) (Uadiale, 2010).

Others are Return on assets (ROA), return on equity (ROE), return on investments (ROI), profit margin (PM) has been largely used as proxies for corporate performance, e.g. Kajola (2008) in a Nigerian study. Also in the article of Judge, Naoumova and Koutzevoi (2003), they utilised a set of financial (profitability) and other non-financial measures like (process improvements, customer satisfaction, capacity utilization, and product / service quality) in measuring performance of firms (Uadiale, 2010).

For this study, ROA, ROE, profit and sale growth among other banking performance indicators such as number of performing loans, non-performing loans etc. were also considered. Other indicators of banks financial performance is based on classification of loans according to the repayment activity. This is further explained below.

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Loan Classification as another determinant of Banks Performance in Nigeria.

The Prudential Guidelines (2010) issued with effect from 1st May, 2010 by the CBN, classifies loans and advances into two major types namely: 1) Performing loan 2) Non-Performing Facilities

1) Performing Loans: A facility is said to be performing if a customer pays the principal amount and the interest at the due date. For such a loan the interest accrued have to be documented as incomes in financial report.

2) Non-Performing Loans: Loan facility is regarded as non-performing if any or all of the following circumstances applies:

   i) The due interest is unpaid within 90 days

   ii) The accrued interest unpaid at due date

   iii) A bank capitalizes interest

   iv) Rolled-over of a loan facility (except with a prudent justification for that)

When a facility is classified as non-performing the Prudential Guidelines require that interest accruing and accrued on the facility should be suspended 100% i.e. interest will be credited to a suspense account. The Guidelines require that the principal must be categorized into three (3) i.e. *i) Substandard   ii) Doubtful iii) Lost*

i) Substandard Non-Performing Loan: A loan facility is considered "substandard once the unpaid principal and/or due interest stayed unpaid for above ninety (90) days but below 180 days. 10% provision will be made on the principal sum".

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ii) Doubtful Non-Performing Loan: A facility is said to be doubtful if:

•Accrued principal & its interest stayed owing for 180 days but below 360 days

• The loan facilities are unsecured with a legal designation to leased assets.

• The collateral security for the loan was not authenticated or is not realizable.

When facility is doubtful, 50% of the principal amount should be made as provision.

iii) Lost Non-Performing Loans: A facility is categorized as lost when the owing principal and/or its interest staying unsettled for about 360 days or above, and are not unsecured by legal designation to an authenticated viable collateral, which may be in process realizing. The loan full amount should be provided for the account 100%. NOTE: Facilities are {Substandard (90-180 days), Doubtful (180-360 days), Lost (>360 days)} Principal Amount 10% Provision 50% Provision 100% Provision, while unfavourable ones can send the bank packing.

3.7.2 Nonfinancial performance

Since 1980s, many US firms discovered that they were driven by changes in non-financial areas such as customer satisfaction, quality, that eventually impacted companies' financial performance. As such some improved measurement metrics were developed prominent among them being Balanced Scorecard (BSC) established by Kaplan and Norton (1996). Balanced Scorecard model facilitates a sound mechanism of measuring performance in the banking sector (Bremser & Chung, 2005). The BSC has been a major component of a strategic management system which enables firms to transform strategic objectives into various performance

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measures. The measures consist both financial and non-financial measures which serves as gauges used in monitoring implementation of strategy all through the business organization and also to determine whether firm's strategic objectives are attained and not (Bremser & Chung, 2005). The measurement framework comprises of four (1 financial, and 3 non-financial aspects (customer perspective, internal business, learning and Innovation). It is then adapted and modified to suit the banking operations based on some studies like Bontis, Keow, and Richardson (2000); Bontis (1998); Khong and Richardson (2003); Mohamed, Hui, Kamal, Rahman, and Aziz (2009); Rettab, Brik, and Mellahi (2008) and Ringim, Razalli, and Hasnan (2012).

3.8 Corporate Governance, Performance Measurement System, Board Equity Ownership and Bank Performance (IV- Mediator – Moderator – DV)

Specifically, CG is related to PMS through the interference of the board in the review of the strategy formulation, and implementation by using information from performance measurement. PMS is a major element of MCS which has the primary role of providing information useful in linking strategy into action, tracking the progress of its implementation by the CEO through the managers of Strategic Business Units (SBU) otherwise called branch managers (Anthony & Govindarajan, 2007; Kaplan & Norton, 1996). Mohamed and Jamil (2013) are of the opinion that MCS have to be customised clearly to facilitate the strategy of businesses in order to attain an improved performance. Also, by deducing from various definition of MCS, CG could only enhance banks performance through PMS. For instance, MCS was defined as a formal or informal system which gathers and uses information to evaluate

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the performance of different organizational resources like human, physical, financial and also the organization as a whole considering the organizational strategies (Otley, 1994). Similarly, MCS influences the behaviours of organizational resources to implement organizational strategies (Anthony, 2007).

Both agency theorist and legalistic theorist asserts that the Chief Executive Officer (CEO) and management (branch managers) initiate and implement strategic innovations which must be reviewed by BODs (de Villiers *et al.*, 2011; Hillman & Dalziel, 2003; Zahra & Pearce, 1989). The BODs' review aimed at ensuring a proper alignment of management's strategic actions with the owners' / shareholders' interests. However, Otley (1994) and Anthony (2007) opined that MCS uses performance measurement information to influence the behaviours of business resources (human, financial, material) in implementing business strategies successfully.

MCS based literature revealed the significance of PMS in providing vital information useful in implementing strategies (Langfield-Smith, 1997) and the various PMS frameworks developed and employed in tracking progress of strategy implementations (Ferreira & Otley, 2009; Grafton *et al.*, 201; Jamil & Mohamed, 2011, 2013; Otley, 1999; Simons, 1995a, 1995b; Tuomela, 2005; Widener, 2007) and the use of the PMS information for strategic decision making (Grafton *et al.*, 2010; Sangkala *et al.*, 2014; Simons, 1995b; Speklé & Verbeeten, 2013). A lot of other studies mentioned earlier had conceptualized the various ways PMS helps in enhancing organisational performance.

Recent researches revealed that the best approach to enhance performance of CEOs is by using a multi-dimensional PMS which comprises measures which are interconnected with strategy, consisting of both foremost and lagging performance indicators and a comprehensive variety of the financial metrics and the non-financial metrics (Epstein & Roy, 2005; Kaplan & Norton, 1996; Langfield-Smith, 1997). Due to its increased significance, the BSC and some other frameworks now became more valuable reference when developing PMS and other strategic management work. Factually, with PMS, boards can more effectively monitor and evaluate the CEO's progress and contribution to corporate performance and also provide the board with early warning signals as to strategic decisions that may have gone awry or other problems that could affect organizational performance (Epstein & Roy, 2005).

On one hand, PMS metrics usually provides the BOD with information that reflects the CEO's and managers' contribution in the process of implementing strategies and the daily management of basic internal business processes, as well as focusing more on measurable and observable behaviour. While on the other hand, PMS also helps "the CEO to monitor and evaluate the performance of business units (branches) and top employees (managers) which is also an important objective for the CEO (Epstein & Roy, 2005, p.84,86)". It could thus be predicted that the bailed-out banks in Nigeria may perhaps be well performing if it's newly appointed BODs will monitor CEO with PMS while the CEO will also evaluate and monitor performance of other managers and their branches (business units). This will definitely in-turn lead to an improved banks performance.

Similarly, the resource dependence perspective suggests that "directors may be actively involved in the strategic arena through counsel and advice to the CEO, by initiating their own analyses, or by suggesting alternatives. However, directors may not develop or execute strategies because these activities are within the purview of the CEO (Zahra & Pearce, 1989, p.298)".

Therefore, this study see the relevance of boards' function (monitoring/resource provision) in ensuring effective performance measurement of all the organisational resources (management, subordinate managers, and others) using Ferreira and Otley (2009) framework which the information may call for board's review and corrective actions that can results to a better firm performance. Also, boards' accessibility to timely and reliable performance control data enables them to monitor progress in achieving firm objectives (Zahra & Pearce, 1989).

However, Ogbechie *et al.*, (2009) in a Nigerian study, opined that BODs of Nigerian public corporations participates in the strategic issues of their businesses but found that board characteristics have no influence on strategic decision making. Thus, according to Baron and Kenny (1986) a mediator became necessary in a weak relationship and inconclusive findings, hence this study takes PMS in this association between CG and performance. Specifically, more related to this study are McNulty and Pettigrew (1999) and Ogbechie *et al.* (2009). Others are the research of Pugliese *et al.*, (2009), Ruigrok *et al.* (2006). These studies all discussed and suggested the crucial role of BODs involvement in strategy formulation, implementation as well as

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ensuring corporate survival through such, which are however related to the role of PMS.

As for the board shareholding, it related to the CG variables as earlier discussed in the section 3.4 and thus this study argue theoretically, logically, practically based on extant literature and empirical evidences that if the bailed out banks directors were full independent and are owing a substantial stock, they would have monitor and advice these fraudulent bank management through thee PMS information. In support of prior studies (Albring et al., 2013; Carol Liu et al., 2014; de Villiers et al., 2011; Hillman & Dalziel, 2003) this study predict that the directors who owns equity shares in the banks, fully independent, consisting of members of audit committee with financial/audit expertise could better monitors and counsellors of firm's CEOs.

3.9 Underpinning Theories

The framework of this study had been identified to be covered by the agency theory and resource dependence theories which have been earlier discussed.

3.9.1 Agency Theory

Grounded in the agency theory, monitoring otherwise known as control role is the most fundamental function of the BOD (Bhagat & Black, 2000; Bhagat & Bolton, 2008; de Villiers et al., 2011; Hermalin & Weisbach, 1988; Hermalin & Weisbach, 1991; Hillman & Dalziel, 2003). Agency theorists had earlier argued that firms were recognized by a clash of interest between its management and shareholders, because managers often takes opportunity of their governance of business operations to

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maximize their short-run benefit at the detriment of shareholders' long-run wealth (de Villiers *et al.*, 2011; Fama & Jensen, 1983; Hillman & Dalziel, 2003; Jensen & Meckling, 1976; Zahra & Pearce, 1989).

But, the existence of vigilant BOD can diminish such agency problems through tight monitoring of company's management (de Villiers *et al.*, 2011; Hillman & Dalziel, 2003; Westphal, 1999). Also, BOD who monitors the firm's management vigorously, are more probable of demanding justifications for management's business strategic creativities as well as criticizing any kind of wrong initiative that is inconsistent with the firm success (Baysinger & Hoskisson, 1990; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999). This study adopts this theory to cover: Board independence, Board appointments, Audit committee quality, Board equity ownership (Moderator) and PMS (Mediator)

The first three (a, b, c) are all CG attributes related to board monitoring functions as such covered by this theory. While the PMS (d) could also be covered because, regular performance measurement of both managements' and the company's performance by the board or its standing committee (audit committee) will yield a good feedback usable for proper corrective actions, and this process is prerequisite in performing the BOD control functions effectively (Zahra & Pearce, 1989; Hillman & Dalziel, 2003).

3.9.2 Resource Dependence Theory

This is another board function that emanated from resource dependence theory from the seminal work of Pfeiffer and Salancik (1978) who mentioned that directors helps firms through advice and counsel, connections with externals, and privileged accessibility to external business resources. Other pioneer scholars such as Boyd (1994), Dalton, Daily, Johnson, and Ellstrand (1999), Hillman *et al.*, (2000), Hillman and Dalziel (2003), Pfeffer (1972) are all in concord to this notion. This role concerns the BODs' capability of bringing business resources into the firm, such as skills, experience, knowledge, business connections etc. The study adopts two of this board attribute and a mediator namely; Board size, Female Membership in a Board, and PMS could again fall under this theory due to strategic and service roles of BODs Similarly, these three will be covered due to their role in ensuring better managerial performance through performance measurement (Zahra & Pearce, 1989; Hillman & Dalziel, 2003). Many resource dependence scholars like Hillman, Cannella, and Paetzold (2000) categorized outside BODs according to resource dependence theory by suggesting their classification as "business experts," "support specialists," and "community influentials," signifying the diverse kinds of resources BODS could bring to its board. Extant studies had offered results that confirms these roles such as de Villiers *et al.*, (2011), Hillman and Dalziel (2003), and Zahra and Pearce (1989). In support of this, Kor and Misangyi (2008) contend that BODs having special professional experience may perhaps complement the inexperience of CEOs of new enterprises in making strategic investments/production. This kind of expertise expedites contact to essential information as well as business resources linkages and collaborations (Hillman & Dalziel, 2003).

3.10 Research Gaps

As earlier described in Section 1.2 the problem statement, some gaps were identified based on literature consulted, which however, motivated this study. It was found that there was mixed inconclusive results on the CG and performance relationship, there was inconsistent operationalization of CG variables. Some studies suggested indirect relationship variables. Some studies like Epstein and Roy (2005), Zahra and Pierce (1989) etc. suggested using PMS for monitoring CEOs and firm performance. Theoretically, there was issue of inappropriate selection of theory. It is observed that researchers adopting either agency theory or resource dependence theory have only considered one board function (monitoring/the provision of resources) at the expense of the other resulting to ambiguous understanding of CG-performance relationship.

- Consequences of Bail-out reform unknown
- BODs doesnt meaures firms'/managers' performace
- BODs lacks Independence
- Problems of BODs share ownership
- Improper appointment of BODs
- BODs lack experienced, experts
- CEOs dominates their BODs

Practical/ Managerial

Theoretical

- Mixed inconsistent results
- Few CG Studies on Bailed-out banks
- Most CG studies focused on non-banking sector.
- Usual focus on direct relationship
- Misapplication of theories in CG studies

Methodological

Theoretical

- Few CG Studies on financial / nonfinancial performance
- Testing of Ferriera & Otley (2009) PMS measures.
- Use of Questionnaires data
- The use PLS in analysis of complex model

- Lack of PMS as mediator in CG studies
- Most PMS studies were on non-banking sector
- BEO severally sugested as moderator of CG -- Performance
- Adopting new variable (BA)

Figure 3.7
Research Gaps

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Also in the field of PMS, various frameworks were used but a recently updated one was suggested for further research and so need to be tested along CG variables. The most prominent PMS frameworks were Otley (1999) and Simons (1995) and all of them were limited in some measurement aspects. Consequently, another update is made by Ferreira and Otley (2009) with a revised 12 dimensions that encompasses both and more other measures which were offered for use. This PMS framework had not been used to the best of my knowledge in measuring CEO/managements performance.

Majority of researches were usually done with focus on financial performance and ignoring the other indicators of perceived performance (Epstein & Roy, 2005; Kaplan & Norton, 1996). Therefore, this study will also, fill up the gap and add up to the scanty managerial accounting literature by conducting a researches using primary data source to cover both financial and non-financial performance. Also, all the CG variables were purely selected from the CBN reports and other prior literature. Hence there is an appropriate match between the this study's variables and the CG problems as lamented in (CBN, 2006, 2008; Sanusi, 2010; Sanusi, 2009).

3.11 Summary

This chapter reviewed the relationship amongst the exogenous, mediating, moderating and endogenous variables (CG, PMS, BEO and banks performance) in the study. The interrelationship between them were empirically confirmed and added to the existing literature. The chapter however, gave a detailed information regarding the nature of relationships amongst the study's variables. This is done by exploring the past and

current literature concerning these relationships. Different findings were explored regarding the relationship amongst the exogenous variables and the endogenous variables and hence predicted a potential indirect influence of a mediator (PMS) and a moderator (BEO) on their relationship. The next chapter presented the research framework and also developed the hypotheses that was tested on the proposed relationship amongst the variables.

CHAPTER FOUR

THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

4.1 Introduction

This chapter displays the research model of the study diagrammatically including a detailed explanation of the relationship among all the variables involved in the study. The variables in this research are eight (8) namely: board independence, board appointments, audit committee quality, board size, and female membership in a board, MCS (PMS as its proxy), board equity ownership, and bank performance. Hence, this chapter proposed a theoretical framework that aimed at retesting the linkage among the constructs empirically by developing hypotheses based on the prior literature and theories. The chapter has six (6) sections: first, the proposed research framework; second, the relationships between variables; third, the hypotheses development.

4.2 Overview of the Research Framework (IV – Mediator-- Moderator – DV)

Figure 4.1 below is the research framework developed from the literature specifically to address the problem of the study. The CG variables were selected based on the various CBN, NDIC reports and Kuye *et al.*, (2013); Sanusi (2010), (2009) and some other studies that confirmed that Nigerian banking system had poor CG due to lack of independence, ineffective unqualified audit committee members, lack of experienced, skilled directors and poor ethical standard, diversity problem. Thus the PMS was selected based on suggestion of many studies such as Epstein and Roy (2005), Ogbechie *et al.*, (2009), Zahra and Peirce (1989) and also the moderator based on the

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findings of prior researches that established its influence over CG and performance relationship, and also based on the mixed nature of results Bhagat and Bolton (2008), Bhagat *et al.,* (1999), CBN (2008), de Villiers *et al.,* (2011). The framework consists of five IVs (board independence, board appointments, audit committee, board size, and female membership on board) a mediator (PMS) a moderator (BEO) and DV (bank performance).
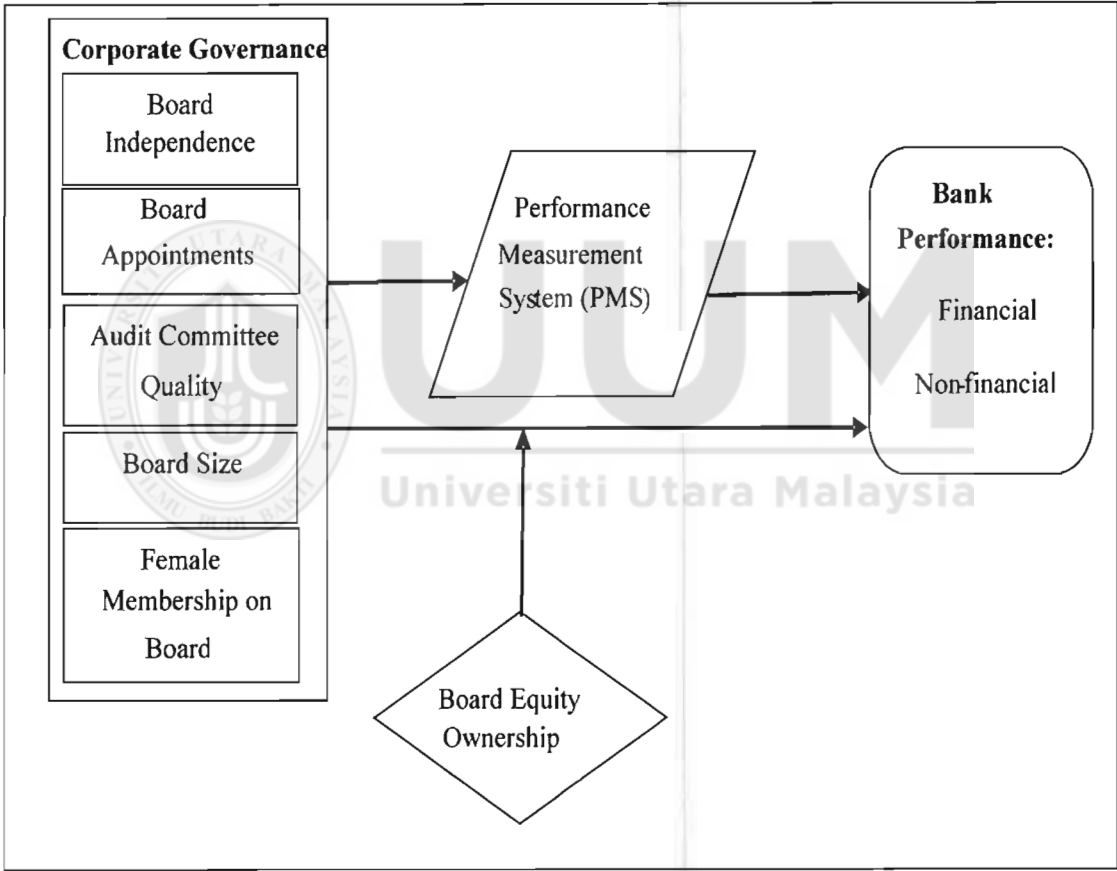
Figure 4.1
Research Framework

As earlier mentioned, agency theory is underpinning the relationship between board independence, board appointments, audit committee quality, performance measurement system, board equity ownership, and bank performance. While resource

dependence theory is covering board size, and female membership on board, and bank performance. Detailed description of their tie with the theories had earlier been stated in section 3.9.

4.3 CG and Banks Performance (IVs – DV)

In this study, CG and banks performance is the direct relationship between the five IVs and the DV. The IV is further subdivided into four namely; board independence as 4.3.1, audit committee quality as 4.3.2; board size as 4.3.3 and then female membership in a board as 4.3.4. These will be followed by the indirect relationship namely CG– BEO– Performance in 4.4 and CG – PMS – Performance in 4.5.

4.3.1 Board Independence (BI) and Bank Performance

In Nigeria, many banks' boards lacked independence, the banks' CEOs and their boards chairmen usually have domineering influence on their BODs, resulting to directors failing to make sound contributions in safeguarding the growth and development of their banks (Sanusi, 2010). The CBN annual supervision report of 2008, reported that many banks does not comply with the CBN Code of CG provision on board independence (CBN, 2008) hence the need for further research.

However, prior evidence of agency theory based researches such as Fama and Jensen (1983), Hermalin and Weisback (1991), Jensen and Meckling (1976), Lefort and Urzúa (2008), Zahra and Pearce (1989) all revealed that BODs becomes vigorous in performing their monitoring functions if they are absolutely independent of their management and if they will get any kind of economic incentives (Byun *et al.*, 2013;

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de Villiers *et al.*, 2011; Hillman & Dalziel, 2003; Sanda *et al.*, 2005). Previous researches revealed that the greater the ratio of independent BODs on a firm's board, the greater their effectiveness in monitoring management because CEOs hold little power on independent BODs, since their jobs are not dependent on the CEO, thus no any obligation between them (Albring *et al.*, 2013; Hermalin & Weisbach, 1991). Weisbach (1988) also reported that CEO replacement in poorly performing firms was greater if the representation of outside independent directors rises. Consistent with these findings the study argues that a bank board having a greater proportion of independent BODs will be more probable to sincerely exert their skills and experience in monitoring banks' performance after the bail-out. Therefore, the following hypotheses were formed:

H1a: BOD independence (proportion of outside independent BODs) is positively related to bailed-out banks' performance.

4.3.2 Board Appointment (BA) and Bank Performance

Appointment to the boardroom has a significant impact on a director's independence because he may remain loyal to who influence his appointment to office. Weisbach (1988) also reported that CEO replacement in poorly performing firms was greater if the representation of outside independent directors rises. Consistent with these findings the study argues that a bank board having a greater proportion of independent BODs will be more probable to sincerely exert their skills and experience in monitoring banks' performance after the bail-out. Also, as suggested by de Villiers *et al.*, (2011) BODs employed by former CEO would be more expected to be absolutely independent of this present CEO because they were not beholden to him for

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appointing them. This will strengthen their objectivity in monitoring functions. Therefore, the following hypotheses were formed

H1b: Board appointment is positively related to bailed-out banks' performance

4.3.3 Audit Committee Quality (ACQ) and Bank Performance

This is indeed a very sensitive board attribute that provides monitoring control roles of boards. Albring *et al.* (2013) revealed that audit committee quality can be best measured with accounting financial expertise, because the perceived lack of accounting and financial expertise by boards and audit committees triggered a widespread regulatory and public attention (Hilzenrath, 2002). A competent and effective audit committee could improve the credibility and reliability of the financial statements provided to users (Abernathy *et al.*, 2013). Frequent evaluations of CEO and firm performance by the board or a standing committee will result in feedback for appropriate corrective actions (Zahra & Pearce, 1989). They also opined that the structure of a board also helps BODs' in successful accomplishment of their control functions. This is because, an audit committee that has competent directors and well run, and also, the directors' accessibility to timely and reliable control data is highly inevitable in evaluating both management and firm performance and also enables them to track the progress of realizing business objectives especially through performance measurement (Zahra & Pearce, 1989).

In this study, the audit committee quality is referred to as "the presence of a competent (professional accountant or financial expertise, i.e. practicing auditor /financial analysts) in the committee". However, recent researches such as Abernathy

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et al., (2013), Albring *et al.*, (2013), Carol Liu *et al.*, (2014), Zhang *et al.*, (2007) tend to focus on the competence of audit committee as against their previous focus on independence. This is because only board members who are financially educated (accountants or auditors), can be able to diagnose the true and fairness of the firm's financial report even before publishing and monitors the frequent performance measurement of CEO, top management staff and the business units of the firm in order to ensure survival of these banks after the bail-out reform.

However, previous research suggests that membership of financial experts in audit committees increases effectiveness of monitoring the process and financial reporting quality especially in effects of materiality justification/accounting precision (DeZoort *et al.*, 2003); detecting material misstatement (Abbott *et al.*, 2004; Raghunandan *et al.*, 2001), curtailing of internal control problems (Krishnan, 2005; Zhang *et al.*, 2007) and restatements (Bhagat & Bolton, 2008; Agrawal & Chadha, 2005), and increasing the responsiveness to events indicative of failure in the financial reporting process (Chen & Zhou, 2007; Zhang *et al.*, 2007). They also reported that the supervisory duty of an audit committee could be compromised especially by an external auditor when he observes that the audit committee lacks the necessary qualifications or experience to know procedural auditing as well as financial reporting requirements. Furthermore, a financially educated audit committee is well prepared to comprehend the judgments of auditors and detect the matter of incongruities between firm's management and its external auditor (Abbott *et al.*, 2004; DeZoort & Salterio, 2001).

Consistent with prior studies such as Abbott *et al.,* (2004), Albring *et al.,* (2013), Carol Liu *et al.,* (2014), de Villiers *et al.,* (2011), Hillman and Dalziel (2003) this study thus, predict that the independent directors with accounting/financial/audit expertise who are members of the board's audit committee, will be more probable to be effective in monitoring the authenticity of periodic financial reports presented by management and bank's performance. Thus the following hypothesis is formed:

H1c: Audit committee quality is positively related to bailed-out banks' performance.

The above three CG variables (board independence, board appointments and audit committee quality) are all focusing on the strategic and control roles of BODs covered by the agency theory and the hypotheses were developed in that respect. While resource provision is another board function that emanated from "resource dependence theory" from the seminal work of Pfeiffer and Salancik (1978) who mentioned that directors aids firms through advice and counsel, connections with externals, and privileged accessibility to external business resources. Other pioneer scholars such as Boyd (1994), Dalton, Daily, Johnson, and Ellstrand (1999), Hillman *et al.,* (2000), Hillman and Dalziel (2003), Pfeffer (1972) are all in concord to this notion. This role concerns the BODs' capability of bringing business resources into the firm, such as skills, experience, knowledge, business connections etc. The study adopts two of this board function attributes namely; a) Board size and b) Female membership in a board.

4.3.4 Board Size (BS) and Banks Performance

This is a board attribute that rely on the resource dependence theory (de Villiers *et al.*, 2011; Hillman & Dalziel, 2003; Guest, 2008; Pfeffer & Salancik, 1978; Zahra & Pearce, 1989). Under this theory, researchers evaluated the association between BODs as a provider of vital resources (e.g. advices, counsel, legitimacy, connections/contacts with outside businesses etc.) and corporate performance. The theoretical link amongst these different activities is their common focus on BODs as resources provider instead of monitor of firm's management (Hillman & Dalziel, 2003; Zahra & Pearce, 1989). Regarding board size, several conflicting outcomes were given since the past decades.

On one hand, Eisenberg *et al.*, (1998), Hermalin and Weisbach 2001, Jensen (1993), Lipton and Lorsch (1992), Uwuigbe and Fakile (2012), Yermack (1996) etc. contends that smaller BS contributes better to the firm performance as bigger BS are usually ineffective and cumbersome to manage. However, majority of other prior and extant researches such as Chen and Al-Najjar, (2012), Dalton *et al.*, (1999), de Villiers *et al.*, (2011), Guest (2008), Hillman and Dalziel (2003), Sanda *et al.* (2005), Uadiale (2010) among others asserted that larger board size relates positively to firm performance. This is because, bigger BS were predicted to consist many directors with different expertise, qualifications and business experience, external connections, reputations and other qualities that lead to qualitative decision making. As BS increases, the domination of BODs by a CEO becomes more challenging and BODs would have a good chance to utilize their authority in leading the firm (Zahra & Pearce, 1989). Consistent with these prior studies, this study argues that, in a larger board, it is more

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likely that one or more BODs may have acquired skills regarding banking crisis and on how to revive the bank especially after a bail-out. As such, any director having such skills/exposure can guide the remaining BODs regarding the related strength, weakness, challenges and opportunities that must be managed to succeed in their function. Thus, the below hypothesis is formed:

H1d: Board size is positively related to bailed-out banks' performance.

4.3.5 Female Membership in a Board (FMB) and Banks Performance

To strengthen the resources provision abilities, more recent researches on CG has begun to refocus on proposing of gender diversity (female board membership) in top management positions and corporate boardrooms (Carter, Simkins, & Simpson, 2003; Dalton *et al.*, 1999; Farrell & Hersch, 2005). Female membership as corporate BODs is very minimal globally. Female corporate board membership is less than "15% in countries like UK, USA, Canada, Australia and many European countries, but some Asian countries have as low as 0.2% (Terjesen & Singh, 2008)". However, in Nigeria, no empirically data is reported as female representation is also less than 0.2% of Asia. Several researches have reported conflicting findings about the influence of female membership on board on the performance of firms such as Carter *et al.*, (2003), Vo and Phan (2013), Adams and Ferreira (2003). In Nigeria's context, nothing is known in the case of bail-out banks hence, there is need to investigate whether the female members might be more ethically responsible and might be more vigorous in monitoring management to ensure better banks performance after the bail-out rescue. Therefore, the study will introduced it to the model, testing it alongside a moderator and a mediator.

Vo and Phan (2013)'s work reveals that female membership on boards signifies that board's membership is actually diversified which in turn improves the firm's performance. Several other views were found regarding the effect of female membership in a board. Both Carter *et al.*, (2003) and Adams and Ferreira (2003) found a strong relationship between the number of female membership on board and value of the firm using Tobin's q. Also, the Norwegian study of Nielsen and Huse (2010) additionally confirmed the positive correlation between women directorship and firm performance using a survey questionnaire data administered among 120 firms in Norway. They added that women directors positively influence strategic decision making and monitoring.

Also in support, Agrawal and Knoeber (2001), revealed a significant correlation between Board size and the female membership on board. Since the presence of an experienced, competent female director could provide more credible, unbiased advice, counsel, connections, and also monitoring the management's strategy implementation to protect their reputation, the firm performance tend to be better (Farrell & Hersch, 2005). The study of Farrell & Hersch (2005) reported that females naturally tend to only serve in better performing firms, hence this study argues that presence of female in boards could probably lead to better firm performance due to her ability to deliver her advisory/monitoring duties diligently, effectively and vigorously.

H1e: Female board membership is positively related to bailed-out banks' performance.

4.4 Corporate Governance, Performance Measurement System and Banks Performance (IV – Mediator - DV)

CG is related to PMS through the interference of the board in the review of the strategy formulation, and implementation by using information from performance measurement. Zahra and Pearce (1989) asserts that the CEO and top management initiates and execute strategic plans which must be reviewed by BODs. The review is made to certify the alignment of management's strategic plans with the shareholders' or owners' interests. However, Anthony (2007) and Otley (1994) opined that MCS uses performance measurement information to influence the activities of all the organizational resources in implementing the targeted organizational strategies. Therefore, this study see the relevance of boards' function (monitoring/resource provision) in ensuring effective performance measurement of all the organisational resources (management, subordinate managers, and others) using Otley, 2009 framework which the information may call for board's review and corrective actions that can results to a better firm performance.

MCS based literature revealed the significance of PMS in providing vital information useful in implementing strategies (Langfield-Smith, 1997) and the various PMS frameworks developed and employed in tracking progress of strategy implementations (Ferreira & Otley, 2009; Grafton *et al.*, 201; Jamil & Mohamed, 2011, 2013; Otley, 1999; Simons, 1995a, 1995b; Tuomela, 2005; Widener, 2007) and the use of the PMS information for strategic decision making (Grafton *et al.*, 2010; Sangkala *et al.*, 2014; Simons, 1995b; Speklé & Verbeeten, 2013). A lot of other

studies mentioned earlier had conceptualized the various ways PMS helps in enhancing organisational performance.

On the other hand, the directors were primarily tasked with both monitoring and guiding/advising management in strategic decisions and implementations. Researches (Boyd, 1994; Hillman & Dalziel, 2003; Jensen & Meckling, 1976; Pfeffer & Salancik, 1978; Zahra & Pearce, 1989)" and theories (agency, resource dependence, legalistic) all revealed that board are only to monitor, review and guide in strategy implementation to ensure better company performance. More other studies such as Judge and Zeithaml (1992), McNulty and Pettigrew (1999), Ogbechie *et al.*, (2009), Pugliese *et al.*, (2009), Ruigrok *et al.*, (2006)" have discussed in full and describe how boards are involved in strategic decisions and implementations.

This study is therefore, consistent with all these studies and argues that BOD are more likely to be effective in their duties through the use of PMS in order to measure performance of both CEO, other managers, employees and their contribution in implementing good banking strategies that will bring sound bank performance. The below are the CG variables; independence of boards, audit committee quality, board size and female membership on board. All these sections will develop its hypotheses in relation to PMS.

4.4.1 Board Independence and Performance Measurement System

Evidence from prior evidence of agency theory based researches such as Fama and Jensen (1983), Jensen and Meckling (1976), Lefort and Urzúa (2008) and Zahra and Pearce (1989) revealed that BODs are excellently vigorous in performing their

monitoring functions if they become absolutely independent of their management (Byun *et al.*, 2013; de Villiers *et al.*, 2011; Hillman & Dalziel, 2003). Ogbechie *et al.*, (2009) opined that BODs of Nigerian public corporations were participating business strategic processes but found board characteristics (independence) have no/little influence on strategic decision making. Also, board's accessibility to timely and authentic performance data enables them efficiently measure progress in attaining business objectives.

This study therefore predicts consistent with extant studies Albring *et al.*, (2013), Bremser and Chung (2005), Byun *et al.*, (2013), Ferreira and Otley (2009), Henri (2006), Uadiale (2010) that PMS could be essential in strengthening the relationship between CG and banks performance because information on the frequent measurement of CEO, subordinate managers, and banks performance which is reviewed by BOD or its committee may consequently generate feedback that could be used to appropriately correct lapses (Zahra & Pearce, 1989).

4.4.2 Audit Committee Quality and Performance Measurement System

Also consistent with prior researches which suggested that membership of financial experts in audit committees leads to more effective monitoring the process and financial reporting quality especially in; effects of materiality justification/accounting precision (DeZoort *et al.*, 2003); detecting material misstatements (Abbott *et al.*, 2004; Raghunandan *et al.*, 2001), curtailing of internal control problems (Krishnan, 2005; Zhang *et al.*, 2007) and restatements (Agrawal & Chadha, 2005), and increasing

the responsiveness to events indicative of failure in the financial reporting process (Chen & Zhou, 2007; Krishnamurthy *et al.*, 2006; Zhang *et al.*, 2007).

Since frequent measurement of CEO, other managers and firm performance by the BOD or its committee may consequently generate feedback that could be used to appropriately correct lapses (Zahra & Pearce, 1989). It is thus, argued consistent with Albring *et al.*, (2013), Bremser and Chung (2005), Carol Liu *et al.*, (2014), de Villiers *et al.*, (2011), Ferreira and Otley (2009), Henri (2006), Ruigrok *et al.* (2006) Ogbechie *et al.*, (2009) that audit committee with financial experts may surely verify the quality of the measured information and ensure the conduction of performance measurement which helps in tracking the banks' strategic implementation progress.

4.4.3 Board Size and Performance Measurement System

Consistent with prior studies, we argue consistent with de Villiers *et al.*, (2011), Hillman and Dalziel (2003), Pugliese *et al.*, (2009), Tuomela (2005), Uadiale (2010) that, in a larger board, it is more likely that one or more directors have been exposed to the effects banking crisis and have the experience on how to measure performance of all firm resources to ensure better firm performance especially after a bail-out. As such, directors with such exposure can monitor by reviewing the PMS information and then guide the rest of the board regarding the related strength/weakness of the management, challenges/opportunities facing any bank branch or unit that must be managed to achieve higher performance. Specifically for these reasons among others, PMS is seem to be a very vital medium of enhancing banks performance

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4.4.4 Female Board Membership and Performance Measurement System

This study also argue consistent with Farrell and Hersch (2005), Ogbechie *et al.*, (2009), Ruigrok *et al.*, (2006), Terjesen and Singh (2008), Vo and Phan (2013) and thus, predict that female director's accessibility to timely and reliable performance/control information may enables her to monitor progress in achieving higher banks' performance because the frequent measurement of CEO, other managers and firm performance by the BODs may consequently generate feedback (Ferreira and Otley (2009), Langfield-Smith1997), that could be used to appropriately correct lapses (Zahra & Pearce, 1989). Below are the developed hypotheses;

H2a: BOD independence is positively related to PMS

H2b: Board appointments is positively related to PMS

H2c: Audit committee quality is positively related to PMS.

H2d: Board size is positively related to PMS.

H2e: Female board membership is positively related to PMS.

H3: PMS is significantly related to bailed-out banks' performance.

H4a: PMS mediates the relationship between board independence and bailed-out banks' performance.

H4b: PMS mediates the relationship between board appointments and bailed-out banks' performance.

H4c: PMS mediates the relationship between audit committee quality and bailed-out banks' performance.

H4d: PMS mediates the relationship between board size and bailed-out banks' performance.

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H4e: PMS mediates the relationship between female members on board and bailed-out banks' performance.

4.5 CG, BEO, and Bank Performance (IV– Moderator-- DV)

Practically in Nigeria, the implementation of CBN code of CG in Nigeria, encountered several challenges, in which the most serious ones were; ambiguities concerning selection/appointment of independent BODs and the share ownership position of these independent BODs (CBN, 2008). Thus, it has been an unresolved debate concerning the potential importance/ effect of board members' equity ownership on both the board functional performance and firm performance. Albring *et al*. (2013), opined that in the USA, the Blue Ribbon Committee (1999), among others, suggests that director stock ownership should reduce agency problems and therefore the need for external monitoring. Thus, in an attempt to make a proper alignment of the interest of director and shareholders, many boards have implemented stock ownership guidelines and holding requirements for directors, leading to a substantial rise in the ownership of managers and directors but in Nigeria, there exist ambiguities and challenges regarding the directors share ownership status (CBN, 2008)

There exist ambiguities and conflicting views regarding equity ownership which until now, no clear position is given by the (CBN, 2008). This show the real extent of the misconception on whether or not equity ownership by the BODs would influence their mandated functions. Also, the percentage of the shareholding is still not clearly determined. However, de Villiers *et al*., (2011) opined that equity ownership aligns both BODs' interests with that of other shareholders. As such, BODs possessing equity shares are highly expected to sincerely evaluate business performance its

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strategic innovations. BODs (both executive or insiders and outsiders or non-executive) share ownership enables them possess a portion of the company to a point where they nurture a shareholder-like feelings. This will consequently help reduces manager versus shareholder conflicts by not engaging in unethical behaviours that would be detrimental to firms' and shareholders interest. In support, evidence from prior studies reveals that BODs possessing substantial shareholdings are more expected to tie the compensation of CEO to the performance of the firm (Kren & Kerr, 1997), as well as replacing CEOs of firms that are poorly performing (Bhagat *et al.*, 1999).

On the contrary view, Demsetz and Lehn (1985) reported that BEO is not associated with the performance of firms and a trivial support for the discrepancy in managers and shareholders' interests.. The findings of Sanda *et al.*, (2005) and Uadiale (2010) supported this negative relation in a Nigerian study. Also, Fama and Jensen (1983) argued that contribution of BEO is considered as a "two-edged knife" in which there is an optimal level of board ownership which contributes positively to a firm's performance. However, McConnell and Servaes (1990) in their study confirmed that there exist a significant curvilinear interrelationship between BEO distribution and the value of a firm.

By and large, board ownership, was viewed as an encouragement that will help board members supervise management in a more efficient way. Consistent with the positive view, studies like Bhagat and Bolton (2008), Bhagat *et al.*, (1999), Chung and Pruitt (1996), de Villiers *et al.*, (2011), Jensen and Murphy (1990), Mehran (1995)

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supported that, board's ownership will improve firm's performance and are positively correlated. More related to this study, Albring *et al.*, (2013), Bhagat and Bolton (2008), Bhagat *et al.*, (1999), Chung and Pruitt (1996), de Villiers *et al.*, (2011), Hillman and Dalziel (2003), Mehran (1995), Westphal (1999) opined that BEO influences or enhances BODs review of business strategic decisions. Bhagat and Bolton, (2008); Hillman and Dalziel, (2003) argue that BODs' ownership inducements encourages them to sacrifice immediate personal benefits for long-term future missions and strategies.

In view of the above, this study argues that, if these banks' BODs were having a substantial equity ownership in the banks or compensated with equity as incentives for a targeted performance, they would definitely have monitored and counselled those sacked incompetent/fraudulent banks' managements. In the current aftermath of banking crisis, it will be convincing that greater ownership may possibly encourage BODs to monitor and provide resources (advices, counsel connections etc.) to management which will in-turn lead to higher firm performance in the long run.

This study formulates the following hypotheses consistent with earlier findings and arguments on BI, and BEO, this study argues that board equity ownership could moderate the independent directors' functional ability to monitor or provide resources to management which will in-turn enhance the banks' performance. Also could moderate the functional ability of independent directors appointed before the present CEO. As for ACQ, this study predict consistent with prior studies on ACQ and BEO (Albring *et al.*, 2013; Bhagat & Bolton, 2008; Carol Liu *et al.*, 2014; de Villiers *et al.*,

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2011; Hillman & Dalziel, 2003; Vo & Phan, 2013) that the independent directors who owns equity shares in the banks, and are members of audit committee with financial/audit expertise, could be more likely to be effective in monitoring the quality of periodic financial reports presented by management and bank's performance.

Additionally, this study argues that BS with a larger board size, independent outside BODs and other BODs who acquired shares will possibly provide more adequate resources (advice, counselling, business connections) to these banks vigorously (de Villiers et al., 2011; Hillman & Dalziel, 2003). For FBM this study argues in concord to Boyd (1994), Dalton et al., (2003), de Villiers et al., (2011), Hillman and Dalziel (2003) that independent female board member's level of equity ownership is more likely to moderate her ability to sincerely exert experience into resources provision and controlling both banks' management and the bank's performance after the bail-out. Hence, these hypotheses were formed:

H5a: Board equity ownership positively moderates the relationship between board independence and bailed-out banks' performance.

H5b: Board equity ownership positively moderates the relationship between board appointments and bailed-out banks' performance.

H5c: Board equity ownership positively moderates the relationship between audit committee quality and bailed-out banks' performance.

H5d: Board equity ownership positively moderates the relationship between board size and bailed-out banks' performance.

H5e: Board equity ownership positively moderates the relationship between female board membership and bailed-out banks' performance.

Table 4.1 summarizes all the hypotheses in this study.

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Table 4.1
Summary of all Hypotheses

Obj	Hyp	Hypotheses Statements
(1)		**CG is positively related to bailed-out banks performance.**
1	H1a	Board independence is significantly related to bailed-out banks' performances.
1	H1b	Board appointments is significantly related to bailed-out banks' performance
1	H1c	Audit committee quality is significantly related to bailed-out banks' performance.
1	H1d	Board Size is significantly related to bailed-out banks' performance.
1	H1e	Female board membership is significantly related to bailed-out banks' performance.
(2)		**CG is positively related to PMS**
2	H2a	BOD independence is positively related to PMS
2	H2b	Board appointments is positively related to PMS
2	H2c	Audit committee quality is positively related to PMS.
2	H2d	Board size is positively related to PMS.
2	H2e	Female board membership is positively related to PMS.
(3)	H3	**PMS is positively related to bailed-out banks' performance.**
(4)		**PMS mediates the positive relationship between CG and banks performance**
4	H4a	PMS mediates the positive relationship between board independence and bailed-out banks' performance.
4	H4b	PMS mediates the positive relationship between board appointments and bailed-out banks' performance.
4	H4c	PMS mediates the positive relationship between audit committee quality and bailed-out banks' performance.
4	H4d	PMS mediates the positive relationship between board size and bailed-out banks' performance.
4	H4e	PMS mediates the positive relationship between female board membership and bailed-out banks' performance.

(5)		BEO moderates relationship between CG and banks performance
5	H5a	BEO moderates the relationship between board independence (proportion of independent outside directors) and bailed-out banks' performance.
5	H5b	BEO moderates the relationship between board independence (proportion of directors appointed before the present CEO) and bailed-out banks' performance.
5	H5c	BEO moderates the relationship between audit committee quality and bailed-out banks' performance.
5	H5d	BEO moderates the relationship between board size and bailed-out banks' performance.
5	H5e	BEO moderates the relationship between female board membership and bailed-out banks' performance.
TOTAL	21 Hypotheses.	

4.6 Summary

The chapter had presented the developed framework of this research and show how it was related to literature. This chapter had also developed the relevant hypotheses for the respective IVs, mediator, moderator, and the DV. In this chapter, the interrelationship among all the variables of the study were clearly explained. Additionally, the hypotheses were developed argumentatively using relevant literature in order to make it logical. The next chapter will thus describe the methodology of conducting this research.

CHAPTER FIVE
RESEARCH METHODOLOGY

5.1 Introduction

This chapter contains a comprehensive explanation of the methods and technique utilized in the research. This chapter, will start with the introduction, the research design, population and sample size, sampling technique, unit of analysis, measurement of variables, data collection procedure, and techniques of data analysis.

5.2 Research Design

Research design refers to a master plan specifying the methods and procedures for collecting and analyzing the needed information (Zikmund, 2000). Basically, three types of business research methods were identified namely, exploratory, descriptive and explanatory (Sekaran, 2003; Zikmund, 2000). The decision of adopting any among these relies on the nature, understanding and clarity of a problem. This study is adopting descriptive and survey research method.

Descriptive research method is usually chosen if there a researcher has very little knowledge about the nature of a problem hence, the need to assess and describe it more clearly (Sekaran, 2003; Zikmund, 2000). It is also undertaken in organizations in order to learn about or describe characteristics of a group, organization or firm i.e. age, level of education, job status or years of service (Sekaran & Bougie, 2010).Therefore, this will be very essential in this study. Exploratory research is meant to enable understanding of a new phenomenon, which further studies will be conducted to gain verifiable and conclusive evidence (Zikmund, Babin, Carr, &

Griffin, 2010). Explanatory or Causal or hypothesis testing design is usually adopted to further provide specific knowledge and description of the nature of relationships among the variables being investigated (Zikmund, 2000; Sekaran, 2003). Therefore, this study will only adopt descriptive survey design in order to assess the nature of the relationship among all the variables in this study by sourcing data from a survey source and then describing them clearly to test the formulated hypotheses (Zikmund, 2000; Sekaran, 2003).

5.3 Population

According to Sekaran and Bougie (2009), population of a study could be referred to the entire group of organization, people, events that are selected as the focus of a study which researchers intends to investigate. Population of a study is described as a collection of objects sharing homogeneous features which a study intends to cover (Zikmund, 2010). The population of this study strictly covers only commercial banks in Nigeria with particular focus on only the bailed-out banks. The bailed-out banks are ten (10) having a total of 2,811 branches network that cut across the 36 states of the country, plus the federal capital, Abuja. Presently, the banking sector consist of twenty-one banks (21) but our primary focus is the ten (10) troubled banks. Therefore, this research is covering the whole of the 2,811 branches of these ten (10) troubled banks that are spread within the country that are owned by these ten bailed-out banks as our population.

The research is utilizing the banks' branches because every strategy of a banking business is always implemented at the branch offices. Branch offices are the main

sources of the banks' profitability, liquidity of banks are maintained at the branches, loans are given at branches and losses from non-performing loans also emanates from poor branch operations. Therefore, there is need for adequate PMS of all the operation of branches so as to track the progress in strategy implementation by the banks' CEO through his branch managers will could enhance the bank's performance. The BOD' monitoring of this will then lead to improved bank performance. Branch managers are selected as the respondents of this study because, in total, there are only 10 CEOs in the 10 bailed-out banks operating in Nigeria, which is insufficient for a survey analysis, but using their 2,811 branch managers will be sufficient for the study after taken a sample from it.

Table 5.1 illustrates the population of the Nigerian banking industry specifically the conventional deposit money banks operating in Nigeria after the bail-out rescue exercise. However, some of these banks were still existing with their initial identity because they recapitalized by themselves while others were merged and acquired by other banks. Also, their number of branches are disclosed for further guide on their operational strength and also from which the sample will be extracted with focus on only the ones bailed out by CBN, NDIC.

Table 5.1
Total Banks and their Branches operating in Nigeria

S/NO.	BANKS	NO.OF BRANCHES
1	ACCESS	300
2	CITIBANK	13
3	DIAMOND	230
4	ECOBANK	611
5	ENTERPRISE	150
6	FBN	600
7	FCMB	313
8	FIDELITY	200
9	GTB	190
10	HERITAGE	3
11	KEYSTONE	200
12	MAINSTREET	220
13	SKYE	260
14	STANBIC IBTC	41
15	STANDARD CHARTERED	36
16	STERLING	286
17	UBA	750
18	UNION	379
19	UNITY	242
20	WEMA	110
21	ZENITH	500
	TOTAL	**5,634**

Table 5.2
Banks involved in Bailed out reform

S/NO.	BANKS	NO.OF BRANCHES
1	ACCESS	300
2	ECOBANK	611
3	ENTERPRISE	150
4	FCMB	313
5	KEYSTONE	200
6	MAINSTREET	220
7	STERLING	286
8	UNION	379
9	UNITY	242
10	WEMA	110
	TOTAL	**2, 811**

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5.4 Sampling Design

Sampling refers to the process of choosing a smaller number of subset from the larger set or population in order to represent the entire population and draw conclusions about the whole of the population (Zikmund *et al.*, 2010). A sample is a usually selected through a technique and the size through a formula so as to represents populations under study (Sekaran & Bougie, 2009). Precisely, (Salkind, 1997) highlighted that determining an accurate sample size is very necessary in any kind of research since very small sample size could not fully represent the whole population.

5.4.1 Sample Size

As stated earlier, the population size of this study is 2,811 branches of bailed-out banks in Nigeria. Therefore, the sample size in this study is computed by using two formulas proposed by Dillman (2000) and Weaver (2006).

First method used is the sample size table provided by Krejcie and Morgan, (1970). According to the sample size table, 2800 number of population has a sample size of 338. Therefore, approximately our sample size will be 338 banks (Krejcie & Morgan, 1970). Secondly, the formula for computing sample size by Dillman (2000) and Weaver (2006) is used as shown below:

$$n = \frac{(N)(p)(1-p)}{(N-1)(B/C)^2 + (p)(1-p)} \quad n = 338 \text{ samples}$$

Furthermore, due to the problem of non-response bias, an increase of 169 samples (50% of 338) will be added to the initial sample (169 + 338) making a total of 507.

Therefore, this study now takes an approximate figure of 500 samples. This study achieved this by increasing the sample by 50% which according to Babbie (1973), 50% response rate is regarded suitable for a social science surveys. However, oversampling assists in recouping the possible sample decrease due to damages or low-response (Salkind, 1997). Therefore, this study has a sample size of 500 bank branches.

5.4.2 Sampling Technique

In this study, stratified sampling is adopted. This technique has a merit of ensuring equality and fairness in the sample selection process, (Salkind, 2003) and also entails categorizing the selected elements into different groups, then picking an element from every stratum by means of simple random or proportionate sampling method (Sekaran, 2003). Sekaran and Bougie (2009) opined that this technique is an efficient sampling method that gives clearer information with a given sample size. Similarly, Creswell (2009) was in support of this view that stratification is one of the efficient technique that ensures that sample is distributed in the same manner as the population of the study based on the same stratifying criteria. Nigerian banks are hereby classified based on two strata; the healthy (unaffected) and the other stratum is the ten (10) unhealthy/distressed (bailed-out) banks. Therefore, our sample is taken out from the unhealthy/distressed stratum which has a total population of 2,811 branches from which a sample size of 500 will also be taken as representative for the ten (10) bailed-out banks. The inclusion criteria for selecting the samples was simply based on the fact that all these branches of the whole 10 banks are all operating as strategic business units (SBUs) generating profits from banking operations. None of them is

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operating as a window thus no SBU was excluded from the sample. On the other hand, the non-bailed-out banks were ascertained healthy by CBN/NDIC hence, excluded and need not to be among the samples of this study.

Again, proportionate sampling technique would be used to allocate the 500 questionnaires among the 10 banks proportionately based on their respective number of branches in the total population of 2,811 branches. Based on a stratified sampling method, the questionnaires shall be administered within the Northern Nigeria, Central Nigeria and Southern Nigeria by selecting the one biggest state from each of the three stratified regions (i.e. Kano from Northern Nigeria, Abuja from Central Nigeria and Lagos from the Southern Nigeria).

Kano is the largest commercial centres in the northern Nigeria, having the highest concentration of banks operating in the state and the most populated northern state. Abuja is the federal capital of Nigeria and administrative nerve center of the country. Therefore, all banks have a large concentration of branches in the territory. While Lagos is the largest commercial center in the south having the biggest seaport, many industries, companies and the former federal capital of Nigeria. Lagos is also the most populated state in the south. Therefore, these three will fully represent the whole country in terms of banking activities.

5.5 Unit of Analysis

In this study, the unit of analysis is organisation. This is because, the board are representing an organisation (bank), the PMS will measure the branch operations in implementing strategy for which lower and middle managers will respond based on their perception about their bank. The managers shall respond on how the PMS is used by top management or CEO in implementing strategies and the BOD has to monitor the whole PMS process in order to get the information useful in tracking the CEO's and other managers' performance, which will in turn results to a better bank performance.

Secondly, branch managers are the implementers of every bank strategy because bank branches are the profit centers and investment centers of any bank while the corporate headquarters is only a cost center where all administrative activities are taking place. The BOD, CEO and other top managers are all domicile in the headquarters making strategic management decision for the overall entity. Therefore, this study will use the perception of lower, middle and few top managers in charge of branches operation in order to obtain first-hand information/ data about the BODs' ability to guide, advice and monitor CEO performance through PMS and which could result to higher bank performance. Thirdly, since the bailed-out banks are only ten, assessing only ten CEOs of ten banks is too small for this kind of survey study, as well as difficulty in having access to CEOs is another serious problem. Therefore, these branches managers will be more suitable for this study.

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Similarly, in a Nigerian study, Ringim, Razalli, and Hasnan (2012) which examined the relationship between information technology capability and performance in Nigerian Banks using a sample of 560 questionnaires administered to branches managers, head of departments. Most studies on banking performance using primary data adopts branches managers and few other top managers due to insufficient sample of the banks (21 banks) in Nigeria.

Another supporting evidence is the study of Galoji, Ahmad, and Johari, (2012) examined association between leadership self-efficacy and the managerial job performance in Nigerian commercial banks using primary data collected via the use of survey questionnaire administered to branch managers of the sampled branches of the Nigerian commercial banks. In their study, they used 457 branch managers as respondent instead of 24 CEOs that are considered insufficient to be the sample size. Galoji, Ahmad, and Johari (2013) in another study of moderating effect of leadership tenure on the relationship between leadership self-efficacy and effective leadership behaviour of banks in Nigeria, used a sample of 457 branches where branch managers were the respondent in the survey.

5.6 Measurement of Variables

In this section, all the variables under study will be clearly defined based on how they are considered in this study and also prior studies. Again, their measurement is also highlighted. They are arranged from the IVs, to Mediator, Moderator and DV.

5.1.1 Independent Variables:

i. Board Independence

Based on existing literature, this is operationalized as the majority of outside independent directors in the board. This is followed the agency theory and many prior researches like Albring *et al.* (2013), Bhagat and Black (2000), Fama and Jensen (1983), Hermalin and Weisbach (1988b); Hermalin and Weisbach (1991), Hillman and Dalziel (2003), Zahra and Pearce (1989) etc. that as the total number of outside independent directors increases, the better the monitoring of CEO and firm performance. Some studies that used secondary data, measured it as a ratio or percentage by dividing the number of outside non-executive directors by the total number of directors on a board (de Villiers *et al.*, 2011; Zahra, 1996).

Khongmalai, Tang, and Siengthai 2010 conducted a case study to collect information on particular CG behaviors in 38 Thai state-owned enterprises. Then they a questionnaire, administered and tested the reliability and factor analysis was additionally done to examine a common framework of CG practices. The Cronbach's Alpha values of their items ranged from 0.8999 to 0.9488, signifying high scale reliability.

This study will use only the survey method, and adapts items from studies of Khongmalai *et al.*, (2010); Okpara (2010). This will be measured as;

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Table 5.3
Measures of Board Independence

S/n	Items	Sources
1	The number of independent non-executive directors is higher than executive directors in the board of my bank.	
2	Non-executive directors are absolutely independent of management in decision-making.	
3	Have no relationships that could influence their independent judgment on strategy implementation, codes of behaviour and performance.	Khongmalai *et al.*, (2010)
4	Independent directors participates in reviewing/guiding corporate strategic planning and decisions	Okpara (2010).
5	Independent directors ensures an effective management system	
6	Independent directors follows up on the progress of board resolutions	

ii. Board Appointment

This is operationalized as the extent to which directors are absolutely and socially independent from management. Because of usual CEO's influence over board appointments, the directors' independence, objectivity in their function is restrictedly undermined. Thus if they were not appointed during his tenure (before the CEO's appointment) they will have no loyalty for him during their rigorous monitoring responsibility as in (de Villiers *et al.*, 2011). Some studies that used secondary data, measured it as the percentage of directors appointed before the present CEO assumed office out of the total number of directors (de Villiers *et al.*, 2011).

Nam and Nam (2004) conducted a study based on ASIAN perspective to cover Indonesia, Malaysia, Korea and Thailand using a survey questionnaire with a very

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high items reliability. Thus, this study will use only the survey method, and adapts

items from studies of Nam and Nam (2004). This is measured as:

Table 5.4
Measures of Board Appointment

S/n	Items	Sources
1	Majority of the independent outside director were appointed before the current CEO assumes office.	
2	The board members were not preferentially selected by the present CEO	
3	The CEO has no personal relationships with the non-executive directors	Nam and Nam (2004)
4	Directors open objection of the management-proposals/agenda is viewed as an act contrary to behavioural norm	
5	The CEO decides the extension or termination of the directorship	
6	Board of directors guides in developing strategic options	

iii. Audit Committee Quality

This is another board attribute that is operationalized as the membership of one or

more professional accountant, financial analyst, or auditor in the audit committee of a

board.   This study is in support of previous studies like   Abbott *et al*., (2004),

Abernathy *et al*., (2013), Albring *et al*., (2013), Carol Liu *et al*., (2014) who suggests

that audit committee comprising accounting/financial professionals as members will

be better effective at monitoring the process and authenticity of firms' financial

report.

Also the frequent monitoring of CEO though PMS will be more rigorous. Some

studies use secondary data, and usually measures it as percentage of audit committee

members that previously have experience as an accountant, auditor, or chief financial

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officer, or chief accounting officer. The percentage out of the total number of members is computed used as a score, as in Albring *et al.*, (2013).

Therefore, this study used survey method, and adapted items from studies of Ammann, *et al.* (2010); Khongmalai *et al.*, (2010); Nam and Nam (2004) and this is measured as shown table 5.5

Table 5.5
Measures of Audit Committee Quality

S/n	Items	Sources
1	The audit committee in my bank has directors with accounting, auditing or financial expertise.	
2	Accounting/financial experts in Audit Committee ensures the integrity of the bank's financial reporting system.	Ammann, *et al.* (2010)
3	Accounting/financial experts in Audit Committee ensures that financial statements comply with a recognized set of accounting standards and codes of corporate governance.	Khongmalai *et al.*, (2010)
4	Audit Committee autonomously select/re-appoint/remove the external auditor and conduct a proper review of his work	
5	Ensures that the bank is not currently under investigation for accounting irregularities	Nam and Nam (2004)
6	Ensures reviewing of the effectiveness of bank's internal control	

Ammann, Oesch, and Schmid (2010) conducted their study based on 6,663 firm-year observations from 22 developed countries over the period from 2003 to 2007 with a sound CG attributes items reliablity. Khongmalai *et al.*, (2010); Nam and Nam (2004) items were all earlier discussed.

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iv. Board Size

BS is operationalized as the total amount of BODs in a board as commonly referred in prior studies. Using secondary data, it is measure as the total number of directors in a board and the figure is recorded as in (de Villiers *et al.*, 2011). This study will use only survey method, by adapting items from studies like Ammann *et al.*, (2010); Khongmalai *et al.*, (2010, p.627) and it shall be measured;

Table 5.6
Measures of Board Size

S/n	Items	Sources
1	The board size of my bank should be large (between 11 – 20)	
2	The size of my board should be small (between 10 and below).	Ammann *et al.*, (2010),
3	The size of my board enables understanding of the operating environments, offers better guidance	
4	The size of my board enables understanding of the business process	Khongmalai *et al.*, (2010,
5	My board has directors with experiences in the relevant industries	p.627)
6	My board has directors with experiences in finance or economic areas	

v. Female Membership on Board

This is operationalized as the presence of a female member in a bank's board. As opined by previous researches, female presence reduces agency cost, brings transparency and objectivity in a firm's operation. It is commonly measured as a dichotomous variable that is coded 1 if there is a female board member in a board and 0 otherwise or as percentage of females in a board by using secondary data.

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Nielsen and Huse (2010), study examined this with items of varied crombach alpha i.e. 0.80. 0.69 and 0.87 etc. This study will use only the survey method, where the first item is adapted from ASEAN CG Scorecard (2012, p.58) while the remaining five items from Nielsen and Huse (2010). Therefore, it will be measured as

Table 5.7
Measures of Female Membership on Board

S/n	Items	Sources
1	The Board of my bank consist of at least one female director.	
2	Female director on our board have different professional experiences than	ASEAN CG Scorecard (2012, p.58)
3	Female director on our board have different values than men	
4	Female director women have influenced the way the board reviews and guide corporate business strategy	Nielsen and Huse (2010)
5	Female director are equally active in discussions compared to men	
6	Female director have influenced governance issues which are considered by the board.	

5.6.2 Board Equity Ownership -Moderator

This is operationalized as the level of director shareholding. It has been considered to improve monitoring of CEO/management through the alignment of directors and shareholders interest. Prior researches like Albring *et al.*, (2013), Bhagat and Bolton (2008), de Villiers *et al.*, (2011), Hillman and Dalziel (2003) all concord to this and found it to have influential effect on boards' monitoring/advisory effectiveness.

Using survey questionnaire data, this study adapted items from study of Ammann *et al.*, (2010) which had been earlier discussed and this is measured as:

Table 5.8
Measures of Board Equity Ownership

S/n	Items	Sources
1	All executive directors own shares of this bank apart from stock options held	
2	All non-executive directors own shares of this bank apart from stock options held	
3	Their equity shareholding encourages them to monitor and guide CEO effectively.	
4	Number of shares held by board of directors of this bank has not decreased	Ammann *et*
5	Number of shares held by board of directors of this bank has increased	*al.*, (2010)
6	Non-executive directors are paid entirely in some form of equity shares compensation	
7	Non-executive directors paid in cash and some form of equity shares compensation	

5.6.3 Performance Measurement System - Mediator

PMS as the most vital element of MCS (Henri, 2006) is considered in this study and operationalized as the collections of financial and/or non-financial performance indicators which are used by managers in measuring their own, their subordinates or their unit's performance. Therefore, these financial and non-financial measures are indicators usually utilized in monitoring the implementation of strategy within the entire firm and determining whether or not, the firm's strategic objectives were attained (Bremser & Chung, 2005; de Waal, 2002; Henri, 2006).

This study will adopt the extended measurement framework of Ferreira and Otley (2009) which comprises both LOC by Simon's (1995), and Otley (1999) measurement framework.

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Table 5.9
Operationalization of the Selected PMS framework

	LOC- Simons 1995 ; Jamil & Mohamed 2011	Otley 1999	Ferreira & Otley 2009
1	Belief System (core values risk to avoid)	Goals	Mission and Vision
2	Boundary System (influence employees' work behaviour)	Strategies and Plans	Key success factors
3	Diagnostic control system (monitor, assess, reward)	Performance Targets	organisational structure
4	Interactive control system (learning, strategies, ideas)	Reward system	Strategies and Plans
5		PMS information use or feedback –feed forward communication	Key performance measures
6			Performance targets
7			Performance evaluations
8			Rewards system
9			Information flow (feedback/forward)
10			PMS use
11			PMS change
12			Strength and coherence of PMS components

Source: Ferreira and Otley (2009), Jamil and Mohamed (2011), Otley (1999), Simons (1995a)

Table 5.10
Measures of Performance Measurement System

S/N	Items	Dimensions
1	Directors and management determines the bank's vision and mission to guide strategic direction.	
2	Management determines and reviews bank's objectives to match its mission and vision.	Mission and Vision
3	My bank's mission and goals are clear, well understood and shared throughout the bank	
4	My branch goals are clearly consistent with the bank's mission.	
5	The key success factors that are believed to be crucial to my bank's overall future success are determined by management.	
6	Key success factors are clearly communicated to managers and employees.	Key Success Factors
7	My board and management reviews and evaluates present and future opportunities, threats and risks	
8	Ensures that your bank's organisational structure and capabilities are appropriate and clear to facilitate sound performance.	
9	Managers and staff have the authority and tools they need to make decisions and take action, consistent with the responsibilities assigned to them	Organisational Structure
10	In performing their tasks, unit employees rely on standard procedures and rules.	
11	Strategies and plans has been designed, adopted and communicated to managers and employees in order to achieve our objectives.	
12	Determines the branch strategies and plans designed to achieve banks objectives	Strategies and Plans
13	My branch can sense the need for strategic change and able to seek new capabilities in light of the need.	
14	The performance measures of my branch are clearly related to the Key Success factors, mission and goals of the bank	
15	The set of performance measures provides a complete picture of the results to be achieved based on strategies & plans.	Key Performance Measures
16	The performance measures are clearly communicated to all managers and employees and often used for evaluating their performance.	

Source: Ferreira and Otley (2009)

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Table 5.10 (Continued)

S/N	Items	Dimensions
17	Performance targets are set in order to achieve a performance level on the key success factors	Key Performance Measures
18	Managers, employees and branches are levied with a target to achieve.	Performance Targets
19	Performance targets are always challenging and difficult.	
20	Adapts performance evaluation to monitor individual contribution in the implementation of strategy.	Performance Evaluations
21	Performance evaluations are fair, and objective	
22	Managers and other employees are rewarded (financially and/or non-financially) by achieving their performance targets.	Rewards System
23	Managers and employees suffers penalties by failing to achieve performance targets	
24	Feed-forward information flows & networks has been put in place to support the operation of its PMSs to: i. Set performance goals for the branch or branch employee ii. Guide strategy implementation iii. Develop action plans iv. Communicate important aspects of the branch's strategy.	Information Flow (feedback/forward)
25	Feed-back information flows and networks has been put in place to support the operation of its PMSs to: i. Promote organizational learning ii. Analyse the impact of past decisions iii. Prompt re-examination of strategies and targets iv. Identify the need for corrective action	
26	PMS information is used diagnostically to: i. Track progress towards goals achievement ii. Monitor the process & result of strategy implementation iii. Plan and allocate budget iv. Compare outcomes to expectations v. Review key performance measures vi. Revision of business processes.	PMS Use
27	PMS information is used interactively to: i. Enable discussion in meetings of superiors, subordinates and peers ii. Enable the organization to focus on critical success factors iii. Communicating goals and priorities to unit employees. iv. Evaluating the appropriateness of goals and/or policy assumptions. v. Reporting to senior management and board.	
28	PMS is altered in the light of the change dynamics of the bank and its environment	PMS Change
29	The links between the components of PMS are strong and coherent the ways in which they are used.	Strength and Coherence of PMS components

Source: Ferreira and Otley (2009)

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All survey items for PMS were developed by Ferreira and Otley (2009) with 12 dimensions. This study is also able to find similar items for most of the 12 dimensions with a good varied reliability in some studies like; IFAC (2001); Henri (2006); Ogbechie *et al.*, (2009), Grafton *et al.*, (2010), Speklé and Verbeeten (2013), Widener (2007). Items are adapted wholly from Ferreira and Otley (2009), while making reference to some studies that used few similar items with different Likert scale (5 or 7), and had varied reliability. These are IFAC (2001); Henri (2006); Ogbechie *et al.*, (2009), Grafton *et al.*, (2010), Speklé and Verbeeten (2013), Widener (2007). They have 12 dimensions as follows:

5.6.4 Banks Performance – Dependent variable

This is operationalized as the set of indicators or metrics that reveals the process and the manner in which resources (like human, financial, and material resources) obtainable by an organization were used judiciously in achieving the whole organisational objectives. This is measured with both the financial indicators (objective) and non-financial indicators (subjective) measuring the level of managers' perception regarding the status (increase or decrease) of the banks' performance.

Therefore a modified BSC of Kaplan and Norton (1996) is utilized while items for this were adopted and adapted from few sources like (Mohamed *et al.*, 2009; Rettab *et al.*, 2008; Ringim *et al.*, 2012). They are adapted to suit and capture all the banking operations that indicates the organisation's performance as presented in Table 5.11 below.

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Table 5.11
Measures of Performance (Financial & Non-financial)

S/n	Items	Sources
	Financial	
1	The number of performing loan	
2	The number of non-performing loans	Ringim *et al.*, (2012)
3	The number of recovered bad loan	
		Mohamed *et al.*, (2009)
4	The yearly profit and sales growth	
5	The Return on Assets (ROA) yearly growth	Rettab *et al.*, (2008)
6	The Return on Equity (ROE) yearly growth	
7	The growth of interest income on loans and advances	
8	The growth of non-interest income, fee/commission income on transactions	
9	The volumes of a tenured fund or fixed deposit.	
10	The achievement of financial performance targets by branches	
	Non-financial	
11	The level of customers satisfaction with our services	
12	The customer service delivery in our branches	
13	The customer relationship management in our branches	
14	The reputation of our bank in the banking industry	
15	The quick delivery of transactions in our branches	
16	The operating cost of doing business in branches.	
17	The accuracy and error free operational processes	
18	Number of new services/products launched	
19	The market share in retail, consumer corporate banking services	
20	The market share in public sector business	

The respondents were asked to rank their bank for the last four (4) years specifying their level of perception regarding their banks' performance under a 5 Likert scale: 1=

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Significantly-Decreased (SD); 2=Decreased (D); 3=Neutral; 4=Increased (I) and 5 = Significantly-Increased. Each performance dimension (non-financial & financial) will be measured with ten (10) items measuring the perception of bank managers regarding the performance of their bank. The above listed dimensions of financial and non-financial organisational performance are perceived subjective measures of financial and non-financial performance within the banks. The financial performance indicators and the non-financial performance measures were adapted from Ringim *et al.* (2012) which is consistent with other studies like Bontis, Keow, and Richardson (2000), Bontis (1998), Khong and Richardson (2003), Mohamed *et al.* (2009), Rettab *et al.*, (2008).

The non-financial performance measures includes dimensions like customer satisfaction, cycle time reduction, quality service, process speed, marketing research and customer relationship management (Bontis, 1998; Bontis, Chua & Richardson, 2000; Khong & Richardson, 2003; Mohamed *et al.* (2009).

The questionnaire for the study is attached in the Appendix A.

5.7 Data Collection Procedure

Certainly, there are several methods of collecting data in a research which comprises the primary and secondary source. For this study, only the primary source of data collection will be used through a self-administrated questionnaire. Also, the structured type of questionnaires will be administered to the respondents on the field. The questionnaires are designed to cover all the variables considered in this study after asking the respondent about some demographic information.

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5.8 Questionnaire Design

Questionnaire design is an exceptionally very essential stage of any research which provides opportunity to capture the numbers of targeted respondents, as well as helping in circumventing and reducing plausible measurement error especially by logically arranging the questions in a simple understandable manner to the respondents. In addition, the design assist in curtailing the problem of measurement error / bias, through the kind of measurement scale and the rating scale-point adopted. The nature, type and the rating scale is described in 5.8.1 and the validity of items were described in 5.8.2 as follows.

5.8.1 Questionnaire Type and Rating scale

Questionnaires had been defined as a set of questions designed to extract information based on the opinion of the target respondents about some certain variables of study. However, these questions can be either open ended, dichotomous and/or close ended. This research adopted the close ended type of 86 items for 8 variables and then 7 items for the demographical variable. Therefore questions comprising of a total of 93 multiple choice-questions. Specifically, the questionnaire consists of, these questions were well structured, simplified and clearly stated to aid respondents' understanding. Also, these questionnaires were self-administered with the help of some research assistants. It is prepared in English language because it is the official language in Nigeria. Part 1 is CG, part 2 is BEO, part 3 is PMS, part 4 is performance, and part 5 is demography. All items were appropriately arranged according to constructs.

Likert scale had been considered the most appropriate and common rating scales used in measuring constructs in social science research and is thus, utilized in this research.

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All the constructs (the independents, mediating, moderating and the dependent variables) in this research were structured to be measured using the 5- point Likert scale ratings. This is because, Krosnick and Fabrigar (1997) revealed that a rating scale between 5- point and 7- point was confirmed to be more reliable than otherwise and also found that the lack of a mid-point results in compelling respondents to respond in a particular direction which may perhaps increase the measurement error. To enhance the reliability of the measures, a 5-point scale was therefore used.

5.8.2 Face and Content Validity

In order to ensure a strong reliability of the items, a step by step process of assessing the validity of the whole items was conducted starting with the face validity and then content validity. Each of these significantly facilitates in constructing a good questionnaire.

Face validity ensures that the items meant to measure a certain construct will actually measure it (Sekaran & Bougie, 2010). This test also helps in establishing through experts' view whether or not, the questionnaire items are simple, clear, understandable, and practically representing the context of the study, and whether or not the items could measure what it is intended to measure.

Content validity provides experts' opinion concerning the adequacy, suitability, content, and arrangement of the items that are designed to measure the constructs of a study (Hair, Money, Samouel, & Page, 2007; Sekaran & Bougie, 2010). Invariably,

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content validity had helped us in determining the adequacy, and comprehensiveness of the items in representing each construct.

A draft of the questionnaire items of this research was distributed to 9 managers in the banking industry (i.e. 6 branch managers, 2 senior managers, and 1 assistant general manager), and 7 academic lecturers (3 Senior Lecturers and 2 Associate Professor and 2 Professors) in the School of Accounting, Universiti Utara Malaysia. Some Ph.D. candidates that are familiar with banking in Nigerian context were also consulted for advices and inputs on the clarity of the items. Based on the feedback from these experts, the questionnaire was revised several times, many questions are re-worded and rephrased to make it simple, clear, and concise. Also, the items for every construct were logically arranged to simplify respondents understanding. Therefore, the questionnaire items were considered appropriate for the study since it has been verified by experts from the academic environment and professionals from the banking industry who are even familiar with the environmental context of this research.

5.9 Pilot Study

A pilot study was conducted prior to the main full-scale study in order to determine the reliability of the selected measurement items to improve upon the study design, and also to determine the cost and feasibility of the research. Apparently, pilot study is important because it can unveil shortcomings in the design of a proposed survey or procedure that can be addressed before time and resources are committed on large scale study (Doug *et al.*, 2006).

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According to (Malhotra, 1999), the sample size for a pilot study is usually small consisting of 15 to 30 respondents, although it can be increased considerably depending on peculiarities. Therefore, this pilot study was conducted with 40 questionnaires distributed to 40 branch managers of 10 banks in Nigeria. Out of the 40 distributed, only 33 were returned and later found that 3 questionnaires were invalid and thus considered invalid for this study. Finally, only 30 questionnaires were used for the pilot study and whole process lasted for two weeks. After that, the reliability of the items was computed to establish the strength of its scale. The Table 5.12 displays the Cronbach's Alphas of each construct.

Table 5.12
Reliability Test (Pilot Study)

Constructs	Symbol	Number of items	Cronbach's Alpha
Board Independence	(BI)	6	0.877
Board Appointments	(BA)	6	0.859
Audit Committee Quality	(ACQ)	6	0.836
Board Size	(BS)	6	0.836
Female Membership in a Board	(FMB)	6	0.776
Board Equity Ownership	(BEO)	7	0.871
Performance Measurement System	(PMS)	29	0.706
Performance	(Perfm)	20	0.720

Source: Questionnaire Analysis 2015

Based on the result of the test, the items were established to be strong enough for this research since 5 construct were all having above 0.80 and 3 constructs were also having above 0.70 which according to literature a reliability coefficient of 0.60 is

average reliability, and a coefficient of 0.70 and above is high reliability (Hair *et al.*, 2007; Nunnally & Bernstein, 1994; Sekaran & Bougie, 2010). The reliability test shows the individual Cronbach's Alphas of each construct which serves as the best way of determining the internal consistency of the constructs (Hair, Black, Babin, & Anderson, 2010). During the pilot test the researcher also identified some likely problems in the questionnaire contents and the actual time taken. Necessary corrections were effected before collecting the main empirical survey.

5.10 Data Analysis

This study used Partial Least Squares (Smart PLS) in analyzing the collected data. Bart and Bontis (2003) reported that Smart PLS is recently used widely with greater interest as a technique of Structural Equation Modeling (SEM). PLS can help in developing a systematic and complete assessment while forming measures of solving some research problems. PLS therefore will be suitable in this study due to its robustness and clearer display of interrelationship among tested variables of a study.

5.11 Summary

This chapter had discussed the various methods to be used in conducting this study and based on the existing literature. Also, the chapter highlighted clearly the diverse nature of the variables in the study, their measurement as well as the data sources and analysis. The population and sampling design was also discussed. The unit of analysis of the study was described, and justifications for all these were provided.

CHAPTER SIX

DATA ANALYSIS AND FINDINGS

6.1 Introduction

This chapter begins with the analyses of the response rate from this survey. This chapter presented the collected data, analysed and then discussed the results. Additionally, the demography of the respondents were analysed, non-response biases tested, the collected data screened with missing data replacement, outliers removed. This chapter also analyzed the measurement model, goodness of measures, discriminant validity and reliability analysis of measures used, as well as the predictive relevance. Furthermore, all the direct relationships (relationships between five independent constructs) and the indirect (mediating and moderating) relationships were analysed and reported based on the data collected from this survey.

6.2 Analysis of Response Rate

This survey was conducted in the Nigerian banking industry to a total of 467 respondents who are managers at various levels within a sampled states of Nigeria. Although 500 respondents were targeted but only 467 questionnaires were disbursed during the survey. The sampled banks were; Access bank, Ecobank bank, Enterprise bank, FCMB bank, Keystone bank, Mainstreet bank, Sterling bank, Union bank, Unity bank, Wema bank. However, as illustrated in Table 6.1, a total of 321 questionnaires were lastly retained for the analysis from a total 383 questionnaires that were returned from the respondents. After the data collection, the questionnaires were coded into Statistical Packages for Social Sciences (SPSS) and consequently, a

total of 29 responses were rejected and excluded from the coding process because many were found with incomplete pages, some with multiple answers while some are incorrectly completed. Likewise, in the process of data screening and cleaning, 33 copies of questionnaire were found to be univariate and multivariate outliers which were considered not ineligible for further analysis and thus, removed from the data set. Hence, a total of 62 questionnaires were removed while 321 retained and used for further analysis. However, the removal of such number of questionnaires/data will surely improve the data because the removed does not represent the sample.

Table 6.1
Response Analysis

Item	Frequency	Percentage %
Distributed questionnaires	467	100%
Returned questionnaires	383	82%
Rejected questionnaires	62	13%
Usable questionnaires	321	69%

Questionnaires were administered to a total of 321 respondents who are branch managers, middle and some top level managers of bailed-out banks in Nigeria, which make up a valid response rate of 69% that covers. This response rate is achieved because the researcher insisted on instant completion and sometimes lobbies for prompt return. This response rate is considered adequate for this research based on the argument of Sekaran's (2003) that response rate of 30% is acceptable for surveys. Furthermore, this response rate of 69% is considered adequate based on the recommendation that sample size should be 5 to 10 times the number of variables in a

study (Bartlett, Kotrlik, & Higgins, 2001; Hair *et al.*, 2010). Since this study consist of 8 variables, 80 samples is thus sufficient for analysis based on the above suggestion. Moreover, since this study is utilising PLS, which requires a minimum of only 30 responses (Chin, 1998b), and particularly for Nigerian social science study that has a common response rate of 40-50%, this study's 69% response rate falls within the range (Linus, 2001).

6.3 Data Screening and Cleaning

In this research, the collected data after being coded is however subjected to further screening and cleaning. Data screening is done primarily for the purpose of improving the data, removing unwanted data and normalising it for further analysis. Thus, in this study, the process started with checking and replacing missing values, checking and treating outliers, assessing normality, and then multicollinearity respectively as discussed in the following sub-headings.

6.3.1 Missing Data

Missing data had been established to be of a major concern to researchers due to its negative effects in the results of analysis. Researcher must have to take a precautionary measures to minimise their occurrence right away from the field. In this survey, the completed questionnaires were all immediately checked all through pages at point of collection by the researcher/research assistants in order to ensure that all the questions were properly responded. In the event that a responded had omitted a question, he/she was then immediately reminded to fill in the missing entry. Hence,

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the cases of these missing values were drastically reduced in the survey. After coding the data into SPSS software, preliminary check for missing values was done and six cases were found. They were thus replaced using SPSS SMEANS which automatically takes the mean values as replacement. Analysis using PLS-SEM is very sensitive to missing data hence the need to check and replace it.

6.3.2 Assessment of Outliers

The next stage in data screening is always the assessment of outliers and their treatment. An outlier is a case with such an extreme value on one variable (a univariate outlier) or such a strange combination of scores on two or more variables (multivariate outlier) that it distorts statistics (Tabachnick & Fidell, 2007).

The reason for checking and treating it is to delete the extreme high or low values that may have a significant negative effect on the analysis results. According to (Hair *et al.*, 2010), outlier cases typically have an abnormally high or low value, a variable or a unique combination of values across numerous variables, which makes the observation stand out from the remaining therefore, its assessment/treatment is very necessary in a given multivariate analysis.

This study however assessed and treated a total of 33 cases both univariate and multivariate outliers accordingly. A total of 24 univariate outliers were checked by identifying cases with large z-score values in the dataset coded in the SPSS software. As a yardstick, all cases with a standardised z-score values above 3.29 were considered to be univariate outliers and thus, removed from the dataset (Tabachnick & Fidell, 2007). Likewise for multivariate outliers, Mahalanobis Distance is used in

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detecting and treating them, as established by Tabachnick and Fidell (2007). The procedure is to run Mahalanobis in the SPSS and then compare the values with that of the chi-square table. This procedure was followed as opined by Tabachnick and Fidell (2007), thus any score with a Mahalanobis Distance above the computed value is considered a multivariate outlier which should be deleted from the dataset. By this criteria, 9 cases were detected and established to be multivariate outliers that should be deleted from the dataset for further analysis.

6.3.3 Normality Test

Normality test is very important in a multivariate analysis especially if the aim is to make inference (Tabachnick & Fidell, 2007). Even though normality of study variables is not compulsorily required for analysis, yet the result is generally a bit better if the variables are all normally distributed. Result is usually degraded, if the study variables are not normally distributed (Hair *et al.*, 2010; Tabachnick & Fidell, 2007). Testing of normality is done by either statistical or graphical techniques but the most important components are Skewness and Kurtosis. The Skewness reveals the symmetry of a variable's distribution while the Kurtosis reveals the peakedness of a variable's distribution as either too peaked (with short, thick tails) or too flat (with long, thin tails) (Tabachnick & Fidell, 2007). In this study, the normalisation of data started at the earlier stage of outlier detection and treatment. Both univariate and multivariate outliers were detected and then removed which consequently boosted and improved the quality of the dataset.

Table 6.2
Result of Normality Test

Construct	Skewness	Kurtosis
Board Independence	-.734	-.187
Board Appointments	-.202	-1.070
Audit Committee Quality	-.546	-.131
Board Size	-.322	-.563
Female Membership on Board	-.628	-.303
Board Equity Ownership	-.423	.397
Performance Measurement System	-.236	-.538
Performance	-.329	-.716

After all this process, the Skewness and Kurtosis values of all the constructs/items are all less than 1 which is within the acceptable range of < 2 and < 7 respectively (see appendix). Since this study is adopting PLS-SEM, normality of data is not really important because non-normal data is compatible with PLS-SEM without any problem but the results tend to be better if it is normalised. The Table 6.2 shows the normality values are all within the acceptable threshold. Both the Skewness and Kurtosis are all less than 1.0 which indicated that there is a very good level of data quality.

6.3.4 Multicollinearity Test

According to Tabachnick and Fidell (2007), multicollinearity problem arises when the exogenous variables in a model are very highly correlated up to as high as 0.9 and above. Similarly, Hair *et al.*, (2010) opined that multicollinearity only exists when a variable can be explained by other variables in the regression model. That is, when

exogenous variables are highly correlated, they contain redundant information, hence, not all of them are needed in the same analysis, because they usually expand the size of error terms consequently weakening the strength of constructs.

In this study, multicollinearity is tested by examining Variance Inflation Factor (VIF) and tolerance level through regression in the SPSS. The rule of thumb is that the tolerance and the VIF values should not be less than 0.10 and also should not exceed 10 respectively (Hair *et al.*, 1998).

Table 6.3
Result of Multicollinearity Test

Constructs	Tolerance	VIF
Board Independence	.891	1.123
Board Appointments	.728	1.373
Audit Committee Quality	.570	1.754
Board Size	.474	2.110
Female Membership on Board	.564	1.774
Board Equity Ownership	.871	1.148
Performance Measurement System	.938	1.066

Table 6.3 revealed that the values for tolerance ranges between 0.474 and 0.938 which is substantially > 0.10. Likewise, VIF values ranges from 1.066 to 2.110 which is also within the acceptable range of less than < 10 (Tabachnick & Fidell, 2007). Based on these result, it is therefore established that there is no any sign of multicollinearity problem among the exogenous variables in the model.

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6.4 Non-response Bias Test

Non-response bias refers to "the differences in the answers between non-respondents and respondents" (Lambert and Harrington, 1990 p.5). Similarly, it was described as "the possible mistake made by researchers when evaluating a sample characteristic because some types of survey respondents are under-represented due to non-response" (Berg, 2002). However, the probability of non- response bias is commonly calculated through a time-trend extrapolation method, by way of comparing both the early and late respondents or non-respondents (Armstrong & Overton, 1977)and also contended that the late respondents have the same characteristics with the non-respondents. Based on Armstrong and Overton (1977) method, this study categorized the respondents into two groups based on response time. That is, those who responded within the first 60 days are the early respondents while those who responded after 60 days are regarded as the late respondents.

As shown in Table 6.4, the early respondents were 249 (78%) of the sample; while the late respondents were the 72 (22%) whom responded to the questionnaire after 60 days. Consequently, this study conducted an independent samples t-test to identify any likelihood of non-response bias by assessing Levene's test for equality of variances and also comparing the mean, standard deviation of the study constructs i.e. BI,BA, AC, BS, FM, PMS, BEO and PERFM. This independent-samples t-test result is displayed in Table 6.4.

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Table 6.4
Result of Non-Response Bias Test

Constructs	Group	N	Mean	Std. Deviation	Levene's Test for Equality of Variances	
					F	Sig.
BI	Early response	249	-.002	1.004	.048	.826
	Late response	72	.005	1.001		
BA	Early response	249	-.042	1.021	.637	.425
	Late response	72	.146	.923		
AC	Early response	249	-.008	.990	.378	.539
	Late response	72	.028	1.048		
BS	Early response	249	-.040	.990	.162	.688
	Late response	72	.138	1.037		
FM	Early response	249	-.013	1.014	.508	.477
	Late response	72	.044	.962		
PMS	Early response	249	.007	.970	1.923	.166
	Late response	72	-.026	1.112		
BEO	Early response	249	-.036	1.025	1.161	.282
	Late response	72	.126	.913		
PERFM	Early response	249	.000	.947	2.489	.116
	Late response	72	.000	.866		

From the result of the Table 6.4, the independent-samples t-test shown that the equal variance significance values for each of the eight study constructs were all greater than the 0.05 significance level of Levene's test for equality of variances as opined by (Pallant, 2010). Therefore, there is no significant difference between the early and the late respondents and also the assumption of equality of variances between early and late respondents has been achieved. Conclusively, non-response bias problem has been defeated in this study. Additionally, non-response bias has been tackled in this

study by achieving 69% response rate, which is above the 50% that was recommended by Lindner and Wingenbach's (2002).

6.5 Common Method Bias Test

Common method variance (CMV), otherwise known as common method bias, refers to "variance that is attributable to the measurement method rather than to the construct of interest" (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003, p.879). It had been generally accepted by researchers that common method variance is a prospective problem in most behavioural research especially for scholars using self-report surveys. This is because CMV is one of the major sources of measurement error. Measurement error (random error and/or systematic errors) usually threatens the validity of the conclusions about the relationships between measures and have a serious confounding influence on empirical results, yielding potentially misleading conclusions (Podsakoff et al., 2003; Spector & Brannick, 2010). Apparently, common method bias are usually caused by factors that limit the capabilities of respondents and/or making the task of responding correctly more difficult (Viswanathan & Kayande, 2012). They elucidated a number of factors that can cause biased responding by reducing the respondent's ability to answer accurately such as "lack of verbal ability or education, complex or abstract questions, items ambiguity, double-barrelled questions, questions that rely on retrospective recall, lengthy scales, forced participation, repetitiveness of the items etc." (Viswanathan & Kayande, 2012, p.546-549).

In this study, many procedural remedies were adopted to reduce the effects of CMV as suggested by MacKenzie and Podsakoff (2012), Podsakoff *et al.*, (2003), Podsakoff, MacKenzie, and Podsakoff (2012), Viswanathan and Kayande (2012). Firstly, all the items in the questionnaire were well structured, clearly stated, simply worded and ambiguity free. Secondly, all the questions were not repetitive, and not retrospectively joined, and not double-barrelled. Thirdly, the items scale is not lengthy as five (5) point Likert was adopted to ease respondents. Fourthly, the respondents were not forced to participate in the survey and they were assured of confidentiality of their response. To further ease comprehension, the respondents were enlighten that there is no right or wrong answer to the items in the questionnaire.

Lastly, despite all the above mentioned procedural remedies, this study also tested CMV using the Harman's single factor test suggested by (Podsakoff and Organ (1986). In this method, all the study's constructs are analysed with exploratory factor analysis from which the results of the unrotated factor solution will then be observed to determine the number of factors that are required to account for the variance in the variables (Podsakoff & Organ, 1986). Based on this method, all items in this study were subjected to a principal components factor analysis. Result from this analysis brought eight factors, from which the first (largest) factor explains 14.4% of the total variance, which is less than 50%. Furthermore, this results confirms that no single factor accounted for the majority of covariance in the predictor and criterion variables. Therefore, this study has no problem of common method bias and no relationships between variables measured could be inflated (Podsakoff *et al.*, 2012).

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6.6 Demographic Statistics of Respondents

In this study, description of the respondents' profile is done and displayed in Table 6.2. Their diverse characteristics were asked in the demographic section of the questionnaire from which this data is now sourced for analysis. As presented in Table 6.2, the gender of majority of the respondents in this survey were males constituting (67.3%), while females represent 32.7%. This testifies that in the banking sector, and particularly for the bailed-out banks, males are the dominants while the females were minorities.

As for the years of experience, the branch managers with 1 to 5 years working experience are the least (4.7%). While managers with banking work experience 6 to 10 years, 11 to 20 years were the majority as they constitute 32.4% and 48% respectively. This proves that most of this study's respondents were really experienced bankers who are very conversant with the banking issues being asked. The top level managers constituted 15% of the respondents.

As for the educational qualifications, it is established that those with diploma or HND are only 42 representing 13.1% of the total respondents. Those possessing first degree are 108 representing 33.6% while the majority of the respondents are 151 holding a master's degree and/or other postgraduate degree constituting representing 47%. While respondents possessing other types of qualification are only 20 making 6.2% of the sample. Thus, it could be concluded that most of the respondents were adequately educated apart from being experienced.

Table 6.5
Demography Statistics of Respondents

S/n	Demography	Frequency	Percentage
1	**Gender**		
	Male	216	67.3
	Female	105	32.7
2	**Years of banking-work experience**		
	Between 1 -5 years	15	4.7
	Between 6 – 10 years	104	32.4
	Between 11 – 20 years	154	48.0
	Between 21 years and above	48	15.0
3	**Educational Qualification**		
	Diploma or HND	42	13.1
	Bachelor's degree	108	33.6
	Master's degree or other Post-graduate degree	151	47.0
	Others	20	6.2
4	**Position in the bank**		
	Branch level manager	189	58.9
	Middle-level manager	93	29.0
	Top-level manager	39	12.1
5	**Rating of the Bailed-out reform**		
	Effective	223	69.5
	Fairly effective	91	28.3
	Ineffective	7	2.2
6	**Bank's ranking in the industry**		
	Max	17	
	Min	4	
7	**Age**		
	Max	61	
	Min	31	
	Mean	42.09	

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As for the respondents' positions in their respective banks, the descriptive statistics revealed that branch level managers were the majority being 189 out of 321 representing 58.9 % of the sample. The middle level manager were 93 making 29% of the sample while 39 top level managers constituted 12.1% of the respondents. The rating of the bail-out reform by various responding managers within the banking sector revealed that 223 managers considered it "effective" representing 2/3 of the respondents (i.e., 69.5%). Other 91 managers rated the bail-out as "fairly effective" making 28.3%. Conversely, 7 managers rated it as "ineffective" meaning that no any achievement gotten.

The maximum age of the respondents is 61 while the minimum is 31. Their average age is 42.09. This confirms that all the respondents were adequately matured. The diverse rating of the respondents' banks within the industry was having 4 as minimum rating and maximum of 17. This confirms that despite the bailed-out, some of the banks had rose up to be strong enough to be among the first 10 good banks within the banking sector.

6.7 Descriptive Statistics of Latent Constructs

This study consists of 8 latent constructs (five independent constructs, a mediating, one moderating, and a dependent constructs). After the overall data entry, and preliminary data screening, these latent constructs were however analysed descriptively to determine the various statistical values such as means, standard deviation, minimum and the maximum values for all the constructs in the study. The Table 6.6 below displays these clearly.

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Table 6.6
Descriptive Statistics of Latent Constructs

Constructs	N	Mean	Std. Dev.
Board Independence	321	4.30	.56
Board Appointments	321	4.10	.61
Audit Committee Quality	321	4.49	.39
Board Size	321	4.26	.48
Female Membership on Board	321	4.13	.60
Board Equity Ownership	321	4.28	.48
Performance Measurement System	321	4.49	.23
Financial Performance	321	4.34	.61
Non-financial Performance	321	4.30	.57
Performance	321	4.31	.39

From the above Table, it could be seen that the total number of valid observation in the data is 321 represented by N. The mean scores ranges from 4.10 to 4.49 while the standard deviation ranges from 0.23 to 0.61. BA has the highest standard deviation of 0.61 with almost the least mean value. BI and BS both has the highest mean values while BA has the highest followed by FM and the BI, BS, BEO, AC, PERFM, and then lastly PMS.

From the above table, it could be deduced that the respondents has an average response of 4.30 for BI and the response varied from one respondent to another by 56%. Similarly, BA had an average of 4.10 with a variation of 61% in the managers' response as well as 4.49 average response with a 39% variation in response to the AC questions. This means that most of the respondents agree with the questions with a

little deviation of 0.39. As for BS and FM, the series mean were all above 4 showing that most of the items received an agreed responses concerning whether large board size, and membership of a female director is favourable to firm performance or not. Although, higher variations from respondent to respondent on these questions were found with a standard deviation of 0.48 and 0.60 respectively.

BEO is presenting the average response 4.28 which also varies from one respondent to another as portrayed by the value of the standard deviation i.e. 0.48, which is explaining 48% dispersion in its data while PMS, also has a mean value 4.49, indicating that respondents' average response agrees with the conducts of PMS implemented within the banking sector. Yet, the responses dispersion is lower i.e. 23% as shown in the value of the standard deviation above. For performance, the mean response was 4.31 with a varied response value of 39%.

A possible reasons for these positive responses could be due to the consistency of these items with the provisions of the code of corporate governance which banks must comply with. Although, some deviance behaviours occurs in terms of compliance.

However, another descriptive statistics for all items is also provided for more information. This might be of a guide regarding the diverse response for all the constructs of this study. See Appendix C.

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6.8 Evaluation of PLS-SEM Path Model

In this study, PLS-SEM is solely utilised in analysing the data for testing all the hypotheses (direct effect, mediating and moderating). The first step in PLS-SEM analysis, is to evaluate the measurement model otherwise known as outer model. Goodness of measures are determined through the measurement model by revealing the relationships between the items that measures each construct and other constructs in the model (Ramayah, Lee, & In, 2011). The second step is the evaluation of the structural model (inner model) which mainly measures the interrelationship among all the constructs in the model. It is in the structural model that the hypotheses of a study are being tested by assessing their significance.
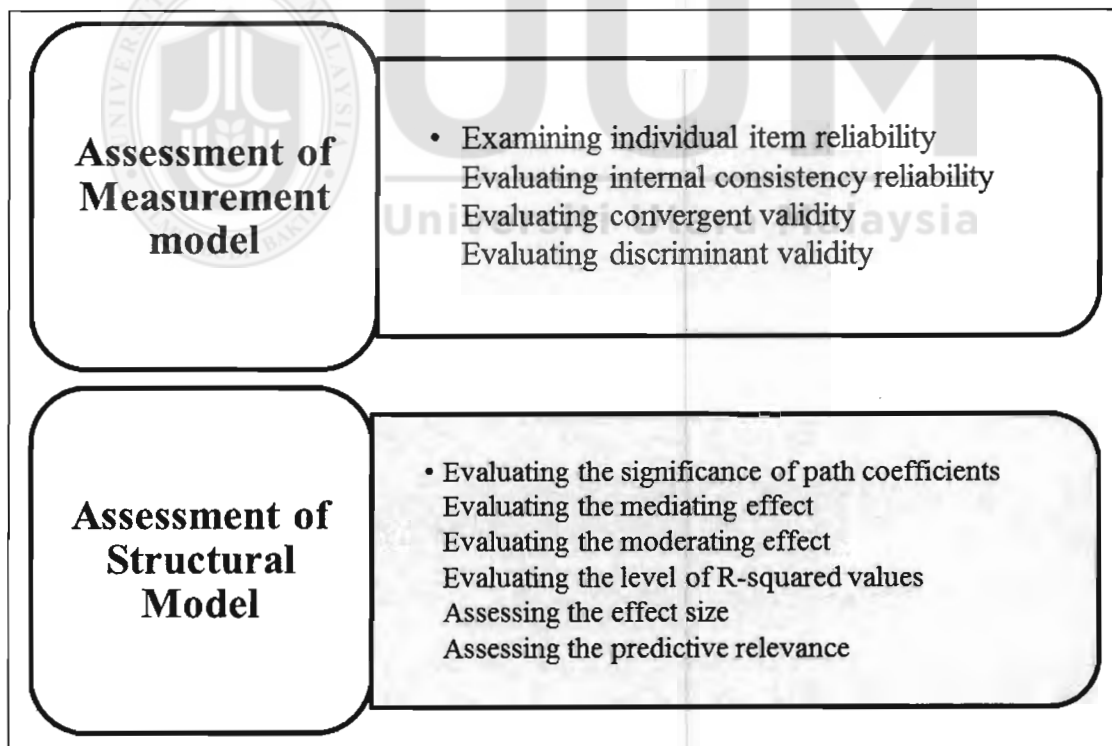
Figure 6.1
Two-step PLS-SEM Path Model Evaluation

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6.9 Assessment of Measurement Model

In PLS SEM, there are two main criteria of evaluating the measurement model of a study namely validity and reliability. The Reliability test evaluates how consistently measuring instruments measures the what it is meant to measure, while validity tests evaluates how well an instrument measures an exact concept it is designed to measure (Hair *et al.*, 2010; Sekaran & Bougie, 2010).

The result of the measurement model basically interprets the goodness of the measures through the reliability and validity as shown in the subsequent tables. According to Chen (2011), three quality evaluation criteria are three namely (1) the significance level of factor loadings of all items, then (2) the Composite Reliability (CR) of the items should be at least 0.7 and above, and (3) the Average Variance Extracted (AVE) should be at least 0.5 and above (Chen, 2011). In this study, the model is a reflective measurement model and therefore the quality criteria used comprises the composite reliability (CR) which examines the internal consistency, Average Variance Extracted (AVE) which examines the convergence validity, then Fornell-Larcker criterion, and Loadings/Cross-loadings which examines discriminant validity. Other forms of validity were also done and discussed accordingly.

The goodness of the outer model's measures was confirmed by assessing the individual items' internal consistency reliability, convergent and discriminant validity as established by Fornell and Larcker (1981) in order to ensure that the measurement model is valid and reliable. Consistent with the rules of thumb, the items outer loading were considered to be a minimum of 0.5 and above, while the Average Variance

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Extracted (AVE) must also be 0.5 and above. Consequently, all the items with outer loading below 0.5 were deleted starting with the one that has the lowest value. This method is the best appropriate way of improving data quality (Hair *et al.*, 2012). An evaluation of the items loadings and cross loadings was done in order to check any problem with the items as well as determining the convergent and discriminant validity as shown in Table 6.9. The Figure 6.1 displays the goodness of the measurement model.

6.9.1 Reliability Analysis (Internal Consistencies)

To confirm the goodness of the measurement model, internal consistency reliability was firstly analysed. Basically, it is determined with either Cronbach's alpha or composite reliability. Although, there exist some debate concerning the best method of calculating reliability, the Cronbach's alpha is traditionally used but now being challenged for its deficiency of over/underestimating or miscalculating construct's reliability (Hair *et al.*, 2014; Hair *et al.*, 2010; Sekaran & Bougie, 2010). Additionally, Cronbach's alpha coefficient assumes that all items contribute equally to its construct disregarding the real contribution of each item's loadings (Gotz, Liehr-Gobbers, & Krafft, 2010).

Therefore, this study used CR because in PLS-SEM, the CR is more important, stronger and commonly used because, it is inbuilt with PLS-SEM analysis, derived together with the AVE and is widely considered more vigorous and gives much less biased estimate of reliability robust than Cronbach's alpha (Fornell & Larcker, 1981). In this study, despite that the reliability had been determined earlier at the pilot study

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showing a very good Cronbach's alpha, the PLS still re-examines this through the means of composite reliability (CR).

As a rule of thumb, CR values ranging from 0.60 to 0.70 are considered as acceptable while 0.70 to 0.90 are considered excellent in an advance stage of research while values of less than 0.60 denotes lack of internal consistency reliability (Hair *et al.*, 2014; Hair *et al.*, 2010). As shown in the Table 6.8 the CR of all the constructs in the model are ranging from 0.755 to 0.892 which exceeds the value of 0.70, and thus confirming that all the measures/constructs are highly reliable.

6.9.2 Convergent Validity

Convergent validity is the degree to which items measuring a construct correlates with other items of the same construct and also shows the level of their true representation of that latent construct (Hair *et al.*, 2007). The common measure of establishing convergent validity on the construct level is the average variance extracted (AVE) which is defined as the grand mean value of the squared loadings of the items associated with the construct (Hair *et al.*, 2014). According to Hair *et al.* (2010), convergent validity could be attained by assessing the factor lodgings, and the Average Variance Extracted (AVE). Thus, if an items load higher ranging from 0.5 to 0.70, shows an indication of association among items while any item with less than 0.40 should be deleted from the model in order to achieve AVE.

Therefore, convergent validity is attained when indicators/items load highly 0.50 or more (i.e., > .5) on their related constructs (Hair *et al.*, 2010) and none of the items

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loads more highly on a different construct than the one it intends to measure (Hair *et al.*, 2010; Barclay *et al.*, 1995). However, to achieve AVE of 0.50 or more, items may be deleted as much as possible leaving a minimum of two items for every construct.

This study assessed the convergent validity by examining the AVE of each construct, as recommended by Fornell and Larcker (1981). Items with lower loadings were deleted beginning with the lowest values, in order to achieve the AVE of 0.50 and above as well as the CR of 0.70 and above. The Figure 6.2 and Table 6.8 below shows that the AVE values of all the constructs ranges from 0.506 to 0.551 signifying higher loadings above (> .50) therefore confirming that adequate convergent validity is attained. The following Figure 6.2 and Table 6.8 below describes the measurement model and its results.
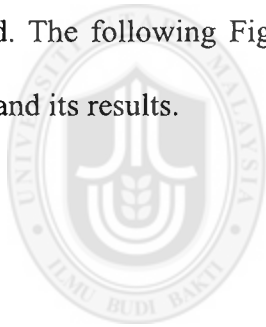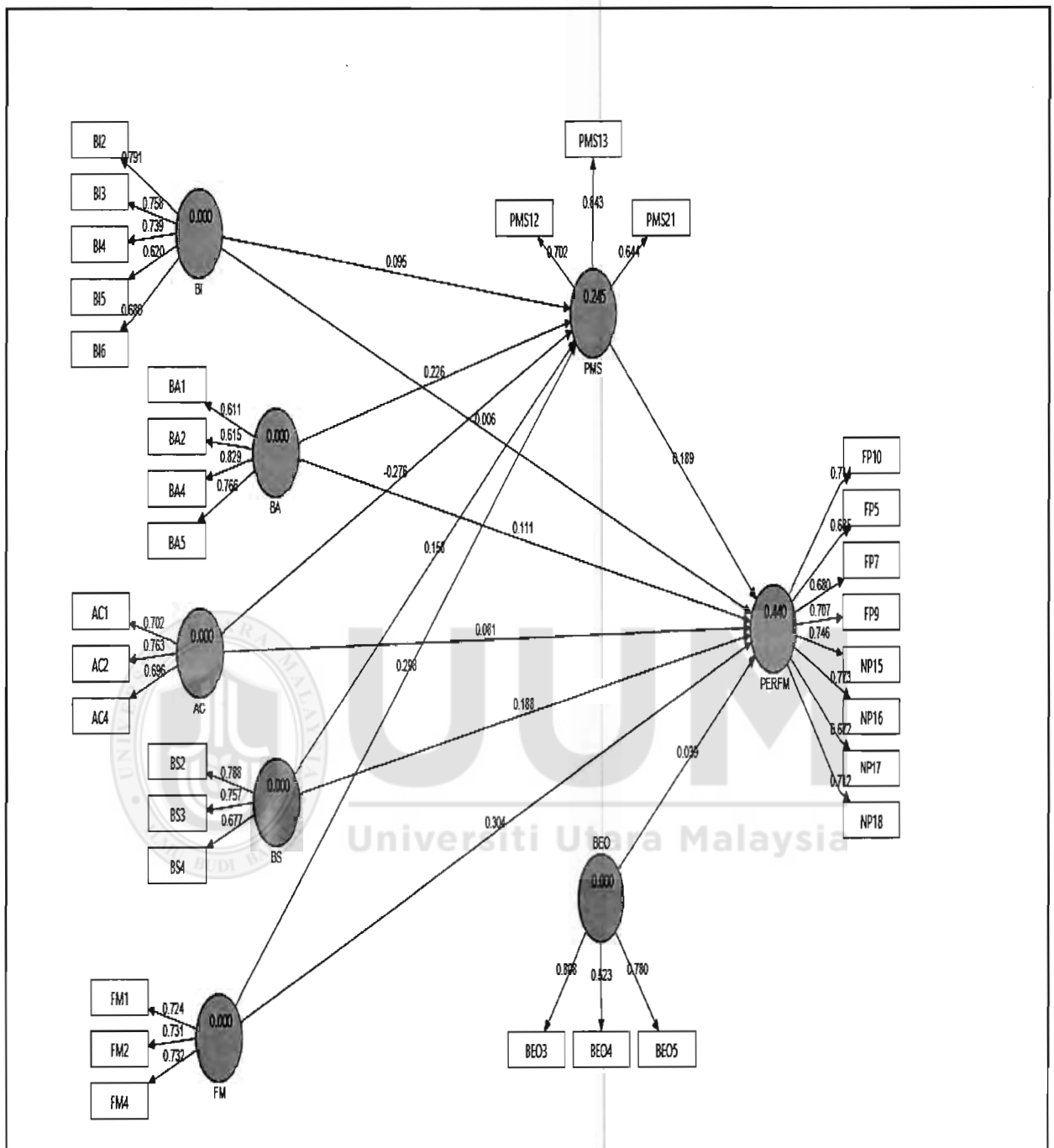
Figure 6.2
Revised Measurement Model

BI: Board Independence

BA: Board Appointments

AC: Audit Committee Quality

PMS: Performance Measurement System

BS: Board Size

FM: Female Membership on Board

BEO: Board Equity Ownership

PERFM: Performance

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Table 6.8
Convergence Validity and Reliability Analysis

Construct	Item	Loadings	AVE	Composite Reliability
Audit Committee	AC1	.702	.520	.764
	AC2	.763		
	AC4	.696		
Board Appointment	BA1	.611	.506	.801
	BA2	.615		
	BA4	.829		
	BA5	.766		
Board Equity Ownership	BEO3	.808	.512	.753
	BEO4	.523		
	BEO5	.780		
Board Independence	BI2	.791	.519	.843
	BI3	.758		
	BI4	.739		
	BI5	.620		
	BI6	.680		
Board Size	BS2	.788	.551	.786
	BS3	.757		
	BS4	.677		
Female Membership in a Board	FM1	.724	.531	.773
	FM2	.731		
	FM4	.732		
Performance	FP10	.781	.507	.891
	FP5	.778		
	FP7	.696		
	FP9	.719		
	NP15	.708		
	NP16	.743		
	NP17	.784		
	NP18	.651		
Performance Measurement System	PMS12	.717	.539	.776
	PMS13	.848		
	PMS21	.625		

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6.9.3 Discriminant Validity

Discriminant validity is the extent to which a construct is truly distinct from other constructs by empirical standards. Therefore, establishing discriminant validity indicates that a construct is absolutely unique and also captures phenomena not represented by other constructs in the model (Hair *et al.*, 2014). Basically, there are two measures of discriminant validity namely; the cross loadings of the indicators and the Fornell-Larcker criterion. In this study, discriminant validity was determined by the both criterion as suggested where the first criterion is liberal and the second is conservative criterion (Hair *et al.*, 2014)

Firstly, by using item loadings and cross loadings based on (Chin, 1998) criterion the items outer loading on a construct were compared with others to see if they are greater than all of its loadings on other constructs (i.e., the cross loadings). However, the presence of cross loadings that exceed the item's outer loadings signifies a discriminant validity problem. As displayed in Table 6.9, all the indicators loaded effectively on their respective constructs ranging from a lower bound of 0.537 to a higher bound of 0.826 indicating that they exceeds 0.50 as suggested. Also, all the indicators loadings were greater than the cross- loadings, signifying its fulfilment of acceptable discriminant validity.

Table 6.9
Factor Loadings and Cross Loadings

Constructs	AC	BA	BEO	BI	BS	FM	PERFM	PMS
AC1	**.702**	.179	.182	.020	.421	.465	.253	.165
AC2	**.763**	.091	.176	-.065	.398	.435	.318	-.021
AC4	**.696**	.260	.091	.199	.410	.325	.294	-.037
BA1	.217	**.611**	.247	.179	.200	.310	.150	.231
BA2	.200	**.615**	.224	.331	.242	.213	.217	.232
BA4	.129	**.829**	.278	.323	.274	.398	.421	.337
BA5	.191	**.766**	.215	.154	.304	.310	.314	.267
BEO3	.172	.210	**.808**	.156	.315	.275	.263	.108
BEO4	.065	.096	**.523**	.008	.119	.106	.130	.038
BEO5	.181	.373	**.780**	.160	.284	.329	.237	.274
BI2	.089	.255	.126	**.791**	.154	.254	.200	.209
BI3	.055	.329	.132	**.758**	.105	.143	.107	.186
BI4	.025	.223	.164	**.739**	.140	.161	.119	.200
BI5	-.034	.273	.120	**.620**	.014	.054	.116	.090
BI6	.079	.185	.069	**.680**	.055	.049	.076	.144
BS2	.376	.461	.265	.083	**.788**	.510	.475	.217
BS3	.433	.155	.301	.120	**.757**	.366	.328	.248
BS4	.489	.109	.226	.134	**.677**	.398	.314	.122
FM1	.488	.428	.309	.256	.417	**.724**	.452	.279
FM2	.288	.349	.239	.119	.364	**.731**	.396	.251
FM4	.447	.178	.219	.066	.484	**.732**	.433	.241
FP10	.239	.257	.169	.175	.352	.424	**.714**	.405
FP5	.204	.222	.152	.132	.370	.347	**.685**	.265
FP7	.164	.242	.201	.102	.291	.396	**.680**	.263
FP9	.371	.339	.291	.165	.487	.500	**.707**	.347
NP15	.305	.318	.223	.080	.358	.413	**.746**	.194
NP16	.310	.424	.279	.172	.378	.433	**.773**	.290
NP17	.362	.232	.174	.102	.341	.435	**.672**	.277
NP18	.291	.294	.225	.073	.306	.358	**.712**	.197
PMS12	.101	.182	.137	.280	.218	.210	.207	**.702**
PMS13	.075	.339	.229	.183	.274	.389	.327	**.843**
PMS21	-.076	.289	.079	.092	.091	.139	.328	**.644**

Note: The bolded items belong to a construct on the same column and they possess a high loading of > 0.5

The Fornell-Larcker criterion is the second and more conservative approach to assessing discriminant validity which is determined by comparing the square root of the AVE values with the latent variable correlations. Specifically, as a rule of thumb, the square root of each construct's AVE should be greater than its highest correlation with any other construct (Byrne, 2010; Hair *et al.*, 2014; Hair *et al.*, 2010). In this study, the square root of the average variances extracted (AVE) were compared with the correlations among the latent constructs to establish the discriminant validity.

Table 6.10
Discriminant Validity (Square root of AVE / Latent Variable Correlations)

Constructs	AC	BA	BEO	BI	BS	FM	PERFM	PMS
Audit Committee (AC)	.721							
Board Appointment (BA)	.241	.712						
Board E. Ownership (BEO)	.207	.335	.716					
Board Independence (BI)	.067	.348	.172	.720				
Board Size (BS)	.567	.360	.356	.145	.742			
Female Membership (FM)	.565	.440	.353	.206	.579	.729		
Performance (PERFM)	.402	.415	.306	.180	.514	.587	.712	
Perform M. System (PMS)	.043	.381	.211	.240	.270	.353	.400	.734

Note: The value in bold face denotes the square roots of AVE across the diagonal shares among between the constructs and their measures. The off diagonal values are the correlations among the constructs

The Table 6.10 above presents the squared AVE for all the constructs along the diagonal with bold values while the correlations among the latent constructs in the off- diagonal rows and columns with un-bolded values. It is also displays that the square root of the AVE were all greater than the correlations among constructs, signifying that there is acceptable discriminant validity (Fornell & Larcker, 1981).

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6.9.4 Face Validity

Face validity ensures that the items meant to measure a certain construct will actually measure it to (Sekaran and Bougie, 2010). This test also helps in establishing through experts' view whether or not, the questionnaire items are simple, clear, understandable, and practically representing the context of the study, and whether or not the items could measure what it is intended to measure.

To achieve this, a draft of the measurement items of this research was distributed to 9 managers in the banking industry (i.e. 6 branch managers, 2 senior managers, and 1 assistant general manager), and 7 academic lecturers (3 senior lecturers and 2 associate professors and 2 professors) in the School of Accounting, Universiti Utara Malaysia. Some Ph.D. candidates that are familiar with banking in Nigerian context were also consulted for advices and inputs on the clarity of the items.

Based on the feedback from these experts, the measures were revised several times, many items re-worded and rephrased to make it simple, clear, and concise. Also, the items for every construct were arranged to facilitate readers' understanding consistent with the banking context. Therefore, the measurement items for the constructs of this study have fulfilled the validity criteria were considered appropriate for the study since it has been verified by experts from the academic environment and professionals from the banking industry who are even familiar with the environmental context of this research.

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6.9.5 Nomological Validity

In this study, nomological validity was assessed using the computed correlation matrix was utilised as suggested by Hair *et al.* (2010) in order to the extent to which a variable connect to other variables in based on a theoretically dependable manner. Thus, it easy to see the extent of relationships among the variables under study (BI, BA, AC, BS, FM, PMS, BEO, and PERFM) according to the literature. The correlation analysis run statistically confirmed this inter-relationship as shown in the Table 6.10. It can be concluded that all the constructs have significant positive correlation, and, hence, the nomological validity is supported. Having presented the outcomes of the assessment model for this study which indicated that the measures for all the constructs are reliable and valid, the subsequent step is to present results of the structural model.

6.9.6 Collinearity Test

This had been computed earlier before at the stage of preliminary data cleaning and all the values for Tolerance and VIF were all within the acceptable range. The earlier Table 6.6 revealed that the values for tolerance ranges between 0.474 and 0.938 which is substantially > 0.10. Likewise, VIF values ranges from 1.066 to 2.110 which is also within the acceptable range of less than ten < 10 (Tabachnick & Fidell, 2007).

Now this is re-examine in the PLS-SEM stage by using the latent variable scores that are derived from the PLS result output. As a condition in PLS, re-testing with LVS will give a better information about the VIF and tolerance. The table 6.11 in the appendix shows further that all the latent constructs are free from multicollinearity

problems among each other since the VIF is found to be less than 2 despite the threshold of 10. And the tolerance is also far above 0.10 for all the constructs as suggested. The rule of thumb is that the tolerance and the VIP values should not be less than 0.10 and also should not exceed 10 respectively (Hair *et al.*, 1998).

6.10 Assessment of the Structural Model

Having examined the measurement model in the previous sub-sections, this section will now evaluates the structural model. Structural model explains the dependence of relationship in the hypothesized model (Hair *et al.* (2006). Therefore, the structural model in PLS is aimed at testing the hypothesized relationships among all the constructs i.e. the directional relationship between the constructs, the indirect (mediating / moderating) relationships and their path coefficient, standard error and t-values. The central aim here is to test the. At first, this study focused on model evaluation and secondly, examines the assumption of regression and correlation of variables.

This structural model evaluation begins firstly with the examining the direct relationships among exogenous and endogenous constructs. The study has a total of 5 main hypotheses which were broken to 21 from which 11 are meant to test the direct relationship in this study, 5 were to test mediation relationships and the other 5 to test moderation relationships. Thus, the structural model evaluation is categorized into three sections as earlier mentioned so as to discuss the direct, mediation, and the moderation test results separately. Now the evaluation starts with the direct hypotheses.
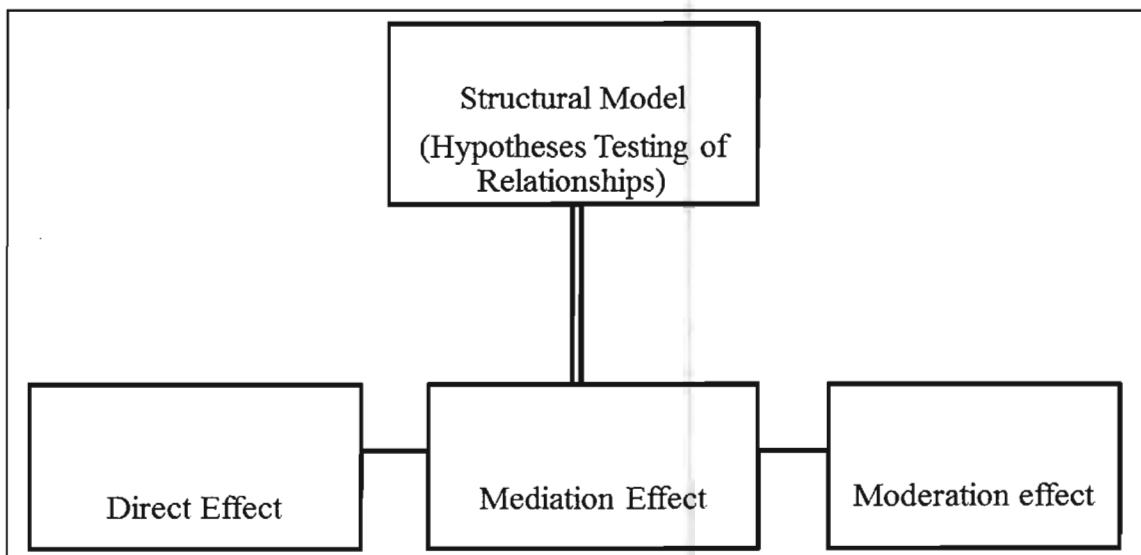
Figure 6.3
Relationships in the Model

However, the structural model is run in full to include the indirect effect (i.e. direct and mediation paths) while the moderation relationship is run separately. Also, it is run using the standard bootstrapping method with 5000 bootstrap samples and 321 cases to evaluate the significance of the path coefficients (Hair *et al.*, 2014; Hair *et al.*, 2012; Henseler *et al.*, 2009).

The structural model shown in figure 6.2 displays the direct path relationship thereby revealing the direct effect of every latent construct on the dependent variable. The estimates shown on the full structural model in figure 6.2 comprises all the direct and the mediating relationships (i.e., Performance Measurement System).

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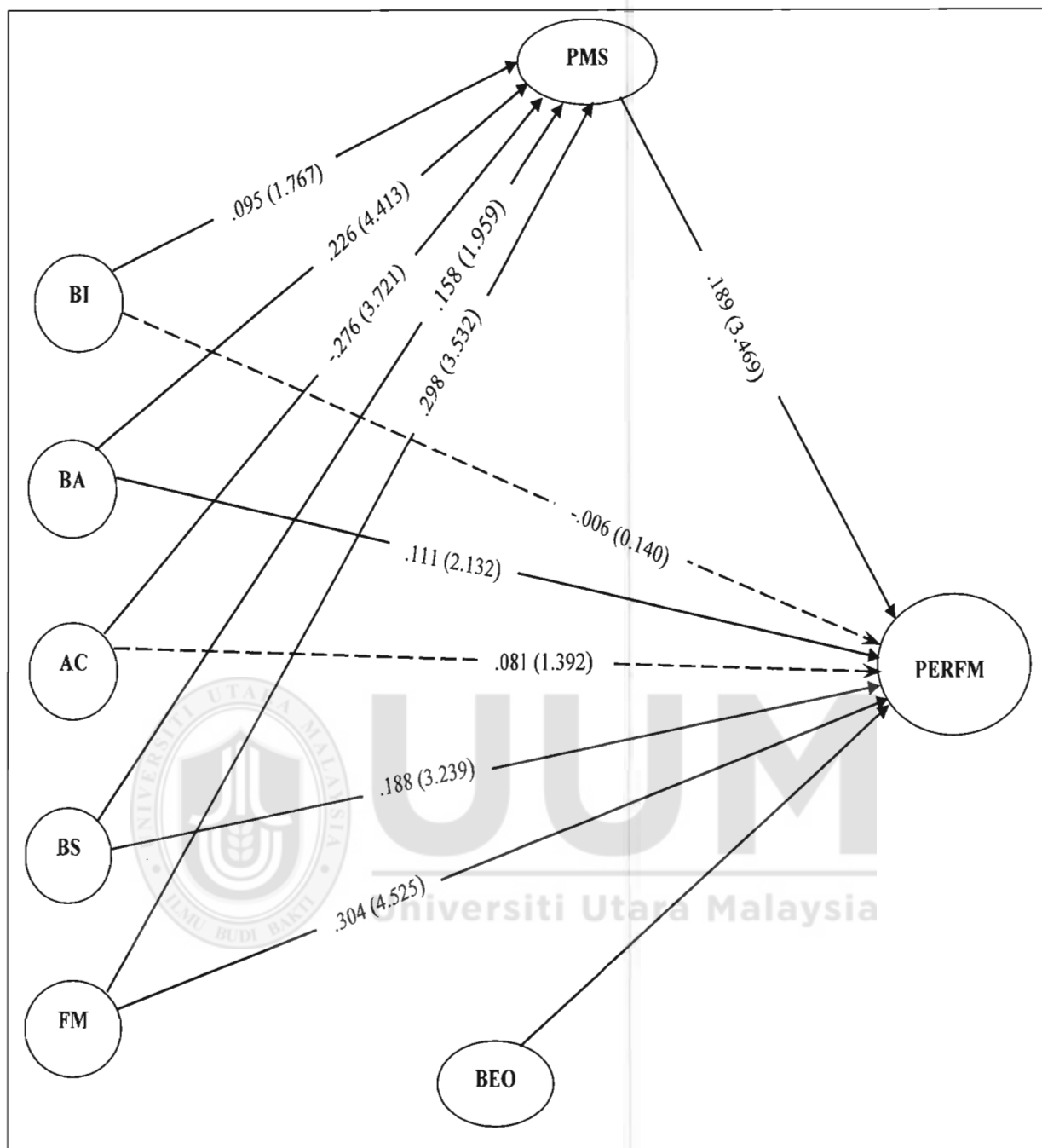
Figure 6.4
Structural Model (with Mediation only)

Note: The path with a straight long line denotes a supported relationship while the dotted-lined shows an unsupported relationship. The figure inside bracket is the T-value while the Beta value is outside.

BI: Board Independence   BS: Board Size

BA: Board Appointments   FM: Female Membership on Board

AC: Audit Committee Quality   BEO: Board Equity Ownership

PMS: Performance Measurement System   PERFM: Performance

6.10.1 Direct Relationships

In this section, the results of the hypothesized direct effects of independent variables (Board independence, Board Appointment, Audit Committee Quality, Board Size, Female Membership in Board) on performance is hereby shown. Additionally, the direct effect of these IVs on PMS (mediator), and PMS on performance is tested. The total three 3 main direct hypotheses were broken into 11, categorized as:

Five (5) for direct relationship between IV and DV (i.e. CG and Performance).

Another five (5) between IV and Mediator (i.e. CG and PMS).

Then one (1) between Mediator and DV (i.e. PMS and Performance)

Table 6.11
Summary of the Direct Hypotheses

Obj	Hyp	Hypotheses Statements
(1)		**CG is positively related to bailed-out banks performance.**
1	H1a	Board independence is positively related to bailed-out banks' performance.
1	H1b	Board Appointment is positively related to bailed-out banks' performance
1	H1c	Audit committee quality is positively related to bailed-out banks' performance.
1	H1d	Board Size is positively related to bailed-out banks' performance.
1	H1e	Female board membership is positively related to bailed-out banks' performance.
(2)		**CG is positively related to PMS**
2	H2a	BOD independence is positively related to PMS
2	H2b	Board Appointment is positively related to PMS
2	H2c	Audit committee quality is positively related to PMS.
2	H2d	Board size is positively related to PMS.
2	H2e	Female board membership is positively related to PMS.
(3)	H3	**PMS is positively related to bailed-out banks' performance.**

As shown in Table 6.11, the results is summarized revealing the standardized path coefficient (β), standard error, T-values, P-values and decision taken. Likewise, Figures 6.3 also graphically displays the standardized path coefficient (β) and T-values for the hypothesized relationships. Figures 6.3 and Table 6.12, revealed that 2 out of the 5 direct relationships between five exogenous constructs (CG) and performance were rejected while the remaining 3 are all supported and accepted. Also the relationship between all five exogenous constructs and PMS are all accepted. Likewise the relationship between PMS and performance is also strongly supported.

Table 6.12
Result of Direct Hypotheses Test

Hypotheses	Relationship	Beta Value	Std. Error	T Value	P Value	Decision
H1a	BI -> PERFM	-.006	.042	.140	.444	Not Supported
H1b	BA -> PERFM	.111	.052	2.132	.017	Supported
H1c	AC -> PERFM	.081	.058	1.392	.082	Not Supported
H1d	BS -> PERFM	.188	.058	3.239	.001	Supported
H1e	FM -> PERFM	.304	.067	4.525	.000	Supported
H2a	BI -> PMS	.095	.054	1.767	.039	Supported
H2b	BA -> PMS	.226	.051	4.413	.000	Supported
H2c	AC -> PMS	-.276	.074	3.721	.000	Supported
H2d	BS -> PMS	.158	.081	1.959	.025	Supported
H12e	FM -> PMS	.298	.084	3.532	.000	Supported
H3	PMS -> PERFM	.189	.055	3.469	.000	Supported

NOTE: Significance level is $P<0.05$, and $P<0.01$

Based on the results from the Figure 6.3 and Table 6.12 above, it is confirmed that: Hypothesis 1 which predicted that Board independence (proportion of independent outside directors) is positively related to bailed-out banks' performance, is thus confirmed by the result above that this relationship is not statistically significant ($\beta=.011$, t-value=.140, P=.444), and thus rejected. Similarly, the Hypothesis 2 which

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predicted that Board Appointment (proportion of directors appointed before the present CEO) is positively related to bailed-out banks' performance is confirm to be statistically supported with a fair (β=.111, t-value=2.132, P=.017) and thus accepted. The Hypothesis 3 is also proven to be statistically not significant (β=.081, t-value=1.392, P=.082) and therefore rejected. The others are hypotheses 4 and 5 indicating that Board size (β=.188, t-value=3.239, P=.001) and female membership in a board (β=.304, t-value=4.525, P=.000) were all extremely statistically significant at 1% hence, all supported.

This is result provides an empirical supports to many studies and regulatory reports on the possible effects of CG on firm performance. For example, It was earlier reported in CBN Code of CG (2006), CBN (2008), Kuye *et al.*, (2013), and Sanusi (2010) that BODs of banks lacks independence and also lacks qualified professionals in their audit committees mostly due to their compromised board appointments. Large board size, female membership and board appointment were hereby established to improve performance as predicted by others like de Villiers *et al.*, (2011), Kajola (2008), Kang *et al.* (2007), Vo and Phan (2013). Furthermore, the relationship between the CG and PMS were established where all the hypotheses were proven to be all supported. In hypothesis 6, BI was also predicted to be positively related to PMS and the result revealed a significant positive relationship (β =.095, t =1.767, p=.039) thus accepting the hypotheses. Similarly, Hypothesis 7 predicted BA to be positively related to PMS and the result indicated that an extreme significant positive relationship exists between them (β=.226, t= 4.413, p=.000). Hypothesis 8, which predicted a positive

relationship between AC and PMS was also extremely statistically supported with significant (β=-.276, t=3.721, p=.000). Similarly, Hypothesis 9 which proposed a positive relationship between BS and PMS is also proven statistically supported with (β=.158, t=1.959, p=.025). For Hypothesis 10 it is also found that FM is extremely positively related with PMS as hypothesized with (β= .298, t = 3.532, p=.000). Lastly, as for Hypotheses 11, PMS was also confirmed to be extremely positively related with performance with a high (β= .189, t = 3.469, p=.000) and thus supported.

This result provides additional evidence that CG is adversely interconnected with PMS most particularly in terms of BODs monitoring duties and their participation in corporate strategic decision making, strategies formulation and tracking of the strategies implementation by the CEO, and other managers within the organisation. Many studies like Epstein and Roy (2005), McNulty and Pettigrew (1999), Ogbechie et al., (2009), Ruigrok et al., (2006), Zahra and Pearce (1989) opined that multi-dimensional PMS helps to improve CG by providing vital information to the BODs about the actual status of organisational performance, the contribution of CEO, managers and other staffs to the achievement of the targeted objectives/performance. Hence, CG must inevitably be rubbed together with PMS for the purpose of control, strategy and services functions of BODs.

6.10.2 Mediating effect of Performance Measurement System (PMS)

In evaluating this indirect relationship, the structural model in Figure 6.2 was used for determining the paths coefficients a and b. Apparently, mediation test is always undertaken mostly to determine whether a mediator variable extends the influence of the independent variable to the dependent variable (Ramayah *et al.*, 2011). That is, the mediation test here could ascertain the indirect effect of the independent variable (CG) on the dependent variable (performance) through a mediator variable (PMS).

Table 6.13
Mediation Relationship Hypotheses

Obj	Hyp	Statement
(4)		**PMS mediates the positive relationship between CG and banks performance**
4	H4a	PMS mediates the relationship between board independence and bailed-out banks' performance.
4	H4b	PMS mediates the relationship between board appointments and bailed-out banks' performance.
4	H4c	PMS mediates the relationship between audit committee quality and bailed-out banks' performance.
4	H4d	PMS mediates the relationship between board size and bailed-out banks' performance.
4	H4e	PMS mediates the relationship between female board membership and bailed-out banks' performance.

In conducting mediation test, there are different methods adopted such as the Sobel test (Sobel, 1982) or the causal steps approach-three conditions (Baron & Kenny, 1986), product distribution method (MacKinnon, Lockwood, & Williams, 2004) and bootstrapping (Hayes, 2009; Preacher & Hayes, 2004; Shrout & Bolger, 2002). This study therefore adopted the bootstrapping (re-sampling) mediation technique. This is

because, PLS uses path analysis and treats direct and indirect effects simultaneously, like any other mediation techniques. Therefore, PLS SEM method has now been conferred in literature as a mostly well suited method for mediation studies (Chin, 1998; Hair *et al.*, 2011; Hayes & Preacher, 2010).

In this study, the mediation is evaluated by multiplying the average of paths "a" and "b" and then dividing the obtained value by the standard error of the paths (Kock, 2013) as shown in this formula: $T = \dfrac{a * b}{S(a*b)}$ where

"a" is the value of relationships between independent and mediating variable,

"b" is the value of the relationship between mediating and dependent variables, and "S (a x b)" is the standard deviation of (a) and (b) above.

Additionally, the both paths "a" and "b" are all derived from the PLS bootstrapping in order to ascertain the significance of their coefficients and standard error as suggested by Hair, Ringle, and Sarstedt (2013) and Kock (2013). When calculation PLS bootstrapped mediation, the "T" represents the path coefficient significance level. This study tested the mediating effect of PMS with 5000 re sampling bootstrapping in Smart-PLS 2.0 M3 (Ringle, Wende, & Will, 2005) and the structural model Figure 6.2 presented the t-values of the paths. Having known the paths values, the calculation of the mediation effect is now done with the formula provided as displayed in the next Table 6.14.

Table 6.14
Mediation Calculation Table

Hyp	Relationship	Path a	Path b	Indirect Effect (a * b)	S(a*b)	t-value (a*b)/S(a*b)	Confidence Interval 95%LL 95%UL	
H4a	BI -> PMS -> PERFM	.095	.189	.018	.011	1.632	-0.004	0.040
H4b	BA -> PMS -> PERFM	.226	.189	.043	.017	2.513***	0.009	0.076
H4c	AC -> PMS -> PERFM	.276	.189	.052	.022	2.371***	-0.095	-0.009
H4d	BS -> PMS -> PERFM	.158	.189	.030	.018	1.659*	0.005	0.065
H4e	FM -> PMS -> PERFM	.298	.189	.056	.024	2.347***	0.009	0.103

Note: t-values are calculated using PLS bootstrapping routine with 321 cases and 5000 samples. Significance level are: ***$p<0.01$ level, ** $p<0.05$

This study tested the mediation effect of PMS to estimate whether or not, PMS could mediate the relationship between five exogenous constructs (BI, BA, AC, BS, and FM) and performance as an endogenous construct. Table 6.15 shows the final result.

Table 6.15
Results of Mediation Hypotheses Test

Hyp	Relationship	Beta Value	Std. Error	T Value	P Value	Result
H4a	BI -> PMS -> PERFM	.018	.011	1.632	.104	Not Supported
H4b	BA -> PMS -> PERFM	.043	.017	2.513***	.012	Supported
H4c	AC -> PMS -> PERFM	.052	.022	2.371***	.018	Supported
H4d	BS -> PMS -> PERFM	.030	.018	1.659*	.098	Supported
H4e	FM -> PMS -> PERFM	.056	.024	2.347***	.020	Supported

Note: t-values are calculated using PLS bootstrapping routine with 321 cases and 5000 samples. Significance level are: *$p<0.1$, ** $p<0.05$, ***$P<0.01$

From the results of mediation, the relationship between the CG variables and performance were statistically established and proven to be mediated by PMS and thus, all the hypotheses were supported. In the first hypothesis, PMS was predicted to mediate the positive relationship between BI and performance and the result revealed no significant mediation between them signifying (β =.018, t =1.632, p=.104). Similarly, the second hypothesis predicted PMS to mediate the relationship between

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BA and performance and the result indicated that an extreme significant positive mediation exists between them (β=.043, t=2.513, p<.012) and thus strongly supported.

Third hypothesis (4c), which predicted PMS to mediate the relationship between AC and performance was also supported with the result indicating that an extreme significant positive relationship exists between them (β=.052, t=2.371, p<.018) and thus strongly supported. Fourth hypothesis (4d) which proposed PMS to mediate the relationship between BS and performance is also proven statistically supported but only at 10% level of significance with (β=.030, t=1.659, p<.098). Lastly the fifth hypothesis (4e), also found that PMS extremely mediates the relationship between FM and performance as hypothesized with strong (β=.056, t = 2.347, p<.020) and thus strongly supported.

Based on the above result, it could be deduced that PMS is a strong intervening factor between CG variables and firm performance due to its immense importance in guiding both the boards, CEO and managers with measured behaviour pattern and their individual contributions to organisational goals. However, only board independence was found not to have been mediated by PMS.

6.10.3 Moderating Effect of Board Equity Ownership (BEO)

In this study, an indirect relationship by way of moderation is created in the structural model as shown in Figure 6.4 in order to examine if board equity ownership (BEO) can moderate the positive relationship between five (5) CG variables and bailed-out banks' performance. The Table 6.16 and Table 6.17 displays the list of hypotheses and result of moderation test respectively while Figure 6.4 presents the structural moderation model. The moderator variable was created, for all the exogenous constructs hence, product terms were used as indicators of the interaction term in the structural model (Kenny & Judd, 1984). The t-values of all the paths were computed and revealed in Figure 6.4

Table 6.16
Moderation Relationship Hypotheses

Obj	Hyp	Statement
(5)	5	**BEO moderates relationship between CG and banks performance**
5	H5a	BEO moderates the relationship between board independence and bailed-out banks' performance.
5	H5b	BEO moderates the relationship between board appointments and bailed-out banks' performance.
5	H5c	BEO moderates the relationship between audit committee quality and bailed-out banks' performance.
5	H5d	BEO moderates the relationship between board size and bailed-out banks' performance.
5	H5e	BEO moderates the relationship between female board membership and bailed-out banks' performance.

Figure 6.5
Moderation Model

Note: The path with a **straight-line** denotes a supported relationship while the **dotted-lined** shows an unsupported relationship. The figure inside bracket is the T-value while the Beta value is outside.

BI: Board Independence   **BS:** Board Size

BA: Board Appointments   **FM:** Female Membership on Board

AC: Audit Committee Quality   **BEO:** Board Equity Ownership

PMS: Performance Measurement System **PERFM:** Performance

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Table 6.17
Result of Moderation Hypotheses Test

Hypotheses	Relationship	Beta Value	Std. Error	T Value	P Value	Result
H17	BI * BEO -> PERFM	.851	.378	2.250	.025	Supported
H18	BA * BEO -> PERFM	.590	.487	1.210	.227	Not Supported
H19	AC * BEO -> PERFM	1.776	.775	2.292	.023	Supported
H20	BS * BEO -> PERFM	.730	.516	1.414	.158	Not Supported
H21	FM * BEO -> PERFM	.086	.466	.184	.854	Not Supported

From the results of moderation model in figure 6.4 and table 6.17 above, the relationship between the three (3) CG variables (BA, BS, FM) and performance were statistically tested and confirmed not to be moderated by BEO while BI and AC is proven moderated. Therefore, three (3) of the hypotheses were unsupported and two (2) were supported.

From Figure 6.4, Table 6.17, hypothesis 17, BEO was predicted to moderate the relationship between BI and performance and the result revealed a significant positive relationship (β =-.851, t= 2.250, p<.25). On the contrary, Hypothesis 18 predicted BEO to moderate the relationship between BA and performance but the result indicated that BEO has no significant influence on their relationship showing (β=.590, t= 1.210, P<.227) and thus rejected. Hypothesis 19, which predicted BEO to moderate the positive relationship between AC and performance was also proven supported with the result indicating strong significant moderation between their relationship (β=-1.776, t= 2.292, P<.023) and thus rejected. Hypothesis 20 which proposed BEO to moderate the relationship between BS and performance is also proven statistically unsupported with (β=.730, t=1.414, P<.158) and thus rejected. Lastly for hypothesis

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21, it is also found that BEO does not moderate the relationship between FM and performance as hypothesized with a very low (β=.086, t = .184, P<.854) and thus rejected.

The Figure 6.5 below displays the interaction effect the BI, BEO on the banks performance.
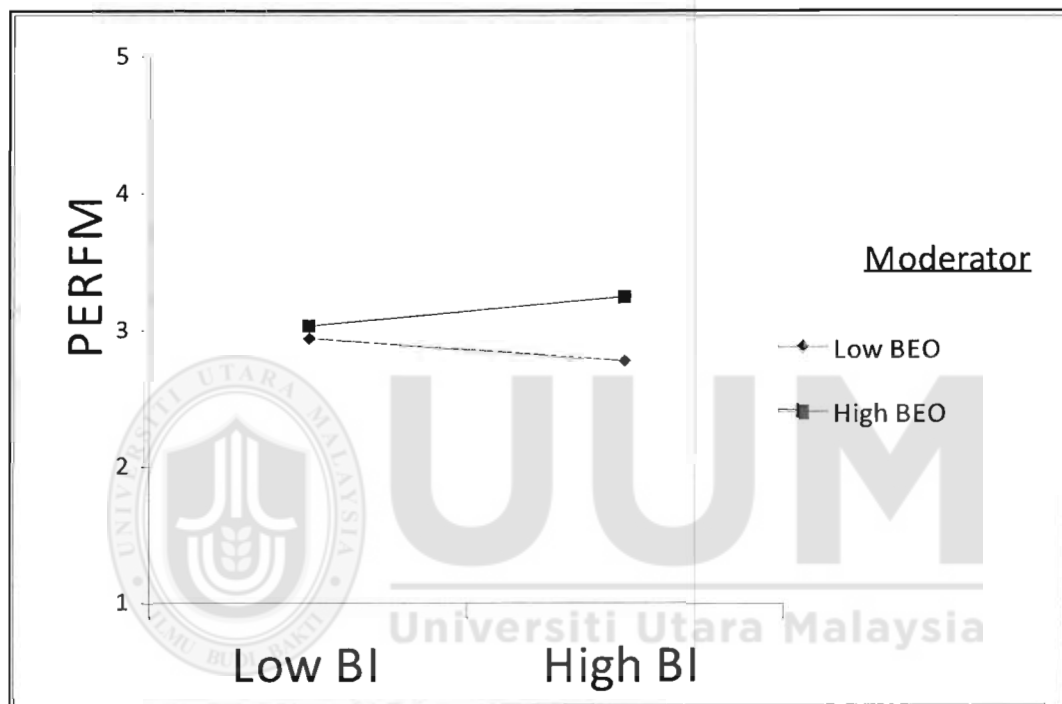
Figure 6.6
Interaction Effect of Board Independence and Board Equity Ownership on Performance

Particularly based on the graph in Figure 6.5, the result of the moderation of BEO on BI and performance relationship is hereby confirmed showing that Board equity Ownership (BEO) moderated the relationship between Board Independence (BI) and the bailed-out banks performance to the extent that BI and performance of banks are high with a higher BEO than when the BEO is low.

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6.11 Assessing the Level of R² in the Model

After the assessment of the path models, the next significant criterion for evaluating the structural model in PLS-SEM is the estimation of R^2 value, alternatively referred to as the coefficient of determination (Hair *et al.*, 2012; Henseler, Ringle, & Sinkovics, 2009). R^2 value signifies the amount of variation in the dependent variable(s) that can be explained by one or more predictor construct (Hair *et al.*, 2014; Hair *et al.*, 2010). Even though the minimum acceptable level of R^2 value is subject to the context of a research, an R^2 value of 0.10 was still suggested as a minimum. However, another rating was recommended by (Cohen, 1988) that in PLS-SEM, the R^2 values of 0.26, 0.13, and 0.02 could be regarded as substantial, moderate, and weak, respectively. In this study, the endogenous constructs were performance and PMS which have the following R^2 values as shown in Table 6.18.

Table 6.18
R Square Values

Construct	R^2	Assessment Criteria (Cohen, 1988)
Performance	0.440	Substantial
Performance Measurement System	0.245	Slightly Substantial

The Table 6.18 above clearly displays that the model explains only 44% of the total variance in Performance as well as 25% of the total variance in PMS. Therefore, it can be concluded that all the five exogenous latent constructs (i.e., BI, BA, AC BS, and FM) altogether can account for 44% and 25% of the variance in Performance and PMS respectively.

6.12 Assessing the (f²) Effect Sizes

In PLS-SEM, effect size shows the relative effect of certain exogenous constructs on endogenous construct(s) through the estimating the changes in the R-squared (W. W. Chin, 1998). Calculating effect size could reveal the extent of contribution of each of the CG variables to the performance and also to PMS as dependents variables. Thus, it is calculated as the possible increase in R^2 of the CG variables (exogenous constructs) to which the path is connected, relative to the exogenous constructs' percentage of unexplained variance as suggested by Chin (1998). However, the higher the f^2 value the better the control of these exogenous constructs on the endogenous construct. The effect size is estimated using the following formula (Cohen, 1988; Jörg Henseler *et al.*, 2009):

$$\text{Effect Sizes:} \quad f^2 = \frac{R^2\,incl - R^2\,excl}{1 - R^2\,incl}$$

Where:

f^2 = effect sizes

R^2 incl = R^2 inclusive (R^2 with a particular construct included in the model)

R^2 excl = R^2 exclusive (R^2 with a particular construct excluded from the model)

1 = is constant

According to Cohen (1988), the f^2 evaluation criterion is rated as values of 0.02, 0.15 and 0.35 as small, medium, and large respectively.

In this study, the R^2 change in the endogenous constructs is estimated by running the structural model twice (i.e., once with the exogenous variables and once without the exogenous constructs) denoting R^2 inclusive and R^2 exclusive values. The Table 6.19

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below displays the respective effect sizes of the exogenous constructs on the endogenous construct(s) in the structural model.

Table 6.19
Effect Sizes of Latent Constructs (f²)

Relationship		R-squared	R-squared		
Exogenous	Endogenous	Included	Excluded	F^2	Effect size
BI		.440	.440	.000	None
BA		.440	.430	.020	Small
AC		.440	.435	.009	None
BS	PERFM	.440	.422	.032	Small
FM		.440	.398	.075	Small
PMS		.440	.429	.020	Small
BEO		.440	.417	.004	Small
BI		.245	.240	.006	None
BA		.245	.210	.046	Small
AC	PMS	.245	.200	.060	Small
BS		.245	.232	.027	Small
FM		.245	.198	.062	Small

From the result displayed, it could be seen that three of the CG variables (BA, BS, FM), PMS (mediator) and BEO (moderator) are all having a small size of effect on performance (the endogenous construct) while BI, and AC has no any effect on performance. For PMS as endogenous variable, four (4) CG variables has a small effect size on it except BI.

6.13 Determining the (Q²) Predictive Relevance

After determining the effect size, this study further examines the predictive capacity of the model. Usually in PLS-SEM, predictive relevance is meant to establish the quality of the model or its goodness of fit. This study adopted Stone-Geisser Q² test of predictive relevance of the model by using blindfolding techniques and which

advocates that the model must be able to adequately predict each endogenous latent construct's indicators (Geisser, 1974; Hair *et al.*, 2011; Stone, 1974).This blindfolding procedure is a resampling technique that systematically deletes and predicts every data point of the indicators in the reflective measurement model of endogenous constructs. If the calculated Q^2 value is greater than zero (0), it implies that the exogenous constructs have predictive relevance for the endogenous construct under consideration (Hair *et al.*, 2014; Hair *et al.*, 2011). After the blindfolding, the Q^2 results was derived through the cross validated redundancy which will explain the ability of the model to predict the endogenous variables and hence reveals the quality of the research model (Chin, 2010; Hair *et al.*, 2012; Ringle *et al.*, 2012).

Additionally, a research model with higher positive Q2 values suggests more predictive relevance. The Table 6.20 displays the results of the Q^2 - cross-validated redundancy test.

Table 6.20
Q^2 - Cross Validated Redundancy

Total	SSO	SSE	1-SSE/SSO
PERFM	2568	2022.592	.212
PMS	963	846.866	.121

Note: $Q^2 > 0$

From the result illustrated above in Table 6.20, the Q^2-cross-validation redundancy test for all endogenous constructs (performance and PMS) were all above zero (0), indicating predictive relevance of the model (Chin, 1998; Hair *et al.*, 2014; Hair *et al.*, 2011).

6.14 Assessing the *q²* Effect Sizes

Q² Effect Sizes is another evaluation criterion which is similar to f^2 effect sizes method for assessing R² values is called. The estimation of q² Effect Sizes is an equivalent method (Hair *et al.*, 2013), and these must be calculated manually due to the fact that Smart PLS does have the process (Hair *et al.*, 2013). Moreover, instead of the R² values the q² values of the predictive relevance are used as inputs after running the blindfolding method (Hair *et al.*, 2013). The result indicates how an exogenous constructs has a small, medium or large predictive relevance for a certain endogenous constructs. The q² Effect Sizes can be computed with the following formulae:

$$\text{Effect Sizes: } q^2 = \frac{Q^2 \text{ Incl} - Q^2 \text{ Excl}}{1 - Q^2 \text{ Incl}}$$

Where:

q² = effect sizes

Q² incl = Q² inclusive (R² with a particular construct included in the model)

Q² excl = Q² exclusive (R² with a particular construct excluded from the model)

1 = is constant

According to Cohen (1988), the q² evaluation criterion is rated as values of 0.02, 0.15 and 0.35 as small, medium, and large respectively. In this study, the q² change in the endogenous constructs is estimated by running the structural model twice (i.e., once with the exogenous variables and once without the exogenous variables) denoting R² inclusive and R² exclusive values.

Table 6.21
q² - Effect Size

| Relationship | | Q² | Q² | | |
Exogenous	Endogenous	included	excluded	*q²*	Effect size
BI		0.384	0.394	-0.0162	N/A
BA		0.384	0.386	-0.0032	N/A
AC		0.384	0.393	-0.0146	N/A
BS	PERFM	0.384	0.378	0.0097	None
FM		0.384	0.363	0.0341	Small
PMS		0.384	0.347	0.0601	Small
BEO		0.384	0.388	-0.0065	N/A
BI		0.224	0.232	-0.0103	N/A
BA		0.224	0.210	0.0180	None
AC	PMS	0.224	0.205	0.0245	Small
BS		0.224	0.229	-0.0064	N/A
FM		0.224	0.198	0.0335	Small

From the result in the Table 6.21 above, it is confirmed that FM and PMS had a small q² effect size on performance while the rest have none. As for the PMS as endogenous variable, AC and FM also had a small q² effect size.

6.15 Assessing Goodness of Fit (GOF)

The GoF is the geometric mean of the average communality (AVE) and the average R² for the dependent constructs (Hair *et al.*, 2013; Tenenhaus, Esposito Vinzi, Chatelin, & Lauro, 2005). PLS goodness-of-fit index (GoF) was earlier suggested by Tenenhaus *et al.*, (2005, p. 173) as "an operational solution to problem as it may be meant as an index for validating the PLS model globally" (Hair *et al.*, 2014).

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However, Henseler, Ringle and Sarstedt (2012) recently challenged the importance of the GoF both conceptually and empirically by revealing that GoF does not represent a goodness-of-fit criterion for PLS-SEM. Specifically, GoF is unlike fit measures in CB-SEM, thus could not separate valid models from invalid ones. Secondly, Smart-PLS 2.0 M3 (Ringle *et al.*, 2005) is not like the CB-SEM, hence, does not give emphasis to goodness of fit information. Particularly, because in Smart-PLS 2.0 M3 (Ringle *et al.*, 2005), centers more on nonparametric measures whose fitness were based the strength and influence of R^2, AVE, CR, Q^2 predictive relevance and bootstrapping (Chin, 1998; Fornell & Larcker, 1981).

6.16 Summary of the Hypotheses Tests Results

After analyzing the data, testing all the hypotheses, and presented all their results, this section finally collate them and present them summarily to comprise the direct, mediating and moderating effects as shown in Table 6.22

Table 6.22
Summary of all the Hypotheses Tests Results

Hyp	Relationship	Hypotheses Statements	Decision
1		**CG is positively related to bailed-out banks performance.**	
H1a	BI →PERFM	Board independence is positively related to bailed-out banks' performance.	Not Supported
H1b	BA->PERFM	Board Appointment is positively related to bailed-out banks' performance	Supported
H1c	AC ->PERFM	Audit committee quality is positively related to bailed-out banks' performance.	Not Supported
H1d	BS->PERFM	Board Size is positively related to bailed-out banks' performance.	Supported
H1e	FM->PERFM	Female board membership is positively related to bailed-out banks' performance.	Supported

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2		CG is positively related to PMS	
H2a	BI →PMS	BOD independence is positively related to PMS	Supported
H2b	BA ->PMS	Board Appointment is positively related to PMS.	Supported
H2c	AC ->PMS	Audit committee quality is positively related to PMS.	Supported
H2d	BS ->PMS	Board size is positively related to PMS.	Supported
H2e	FM ->PMS	Female board membership is positively related to PMS.	Supported
H3	PMS->PERFM	**PMS is positively related to bailed-out banks' performance.**	Supported
4		**PMS mediates the positive relationship between CG and banks performance**	
H4a	BI->PMS->PERFM	PMS mediates the positive relationship between board independence and bailed-out banks' performance.	Not Supported
H4b	BA->PMS->PERFM	PMS mediates the positive relationship between board appointments and bailed-out banks' performance.	Supported
H4c	AC->PMS->PERFM	PMS mediates the positive relationship between audit committee quality and bailed-out banks' performance	Supported
H4d	BS->PMS->PERFM	PMS mediates the positive relationship between board size and bailed out banks' performance.	Supported
H4e	FM->PMS->PERFM	PMS mediates the positive relationship between female board membership and bailed-out banks' performance	Supported
5		**BEO moderates relationship between CG and banks performance**	
H5a	BI * BEO -> PERFM	BEO moderates the relationship between board independence and bailed-out banks' performance.	Supported
H5b	BA * BEO -> PERFM	BEO moderates the relationship between board appointments and bailed-out banks' performance.	Not Supported
H5c	AC * BEO -> PERFM	BEO moderates the relationship between audit committee quality and bailed-out banks' performance.	Supported
H5d	BS * BEO -> PERFM	Female board membership is positively related to PMS. BEO moderates the relationship between board size and bailed-out banks' performance.	Not Supported
H5e	FM * BEO -> PERFM	BEO moderates the relationship between female board membership and bailed-out banks' performance	Not Supported

6.17 Summary

In this chapter a detailed description of the data collection (response rate, non-response bias, common method bias) as well as descriptive statistics of the variables were all elucidated. Furthermore, Data screening and cleaning were all done to ensure the prevalence of normality despite that is not too important in PLS-SEM analysis. All the results confirms absolutely that the data is normal and good for further analysis. In PLS-SEM analysis, results from the measurement model confirmed that the research model has achieved reliability, convergent and discriminant validity. The research models (measurement and structural) were all evaluated using Smart-PLS 2.0 M3 (Ringle *et al*., 2005) and all research hypotheses were tested from whichb15 out of 21 hypotheses were supported and 6 were established not-supported.

CHAPTER SEVEN

DISCUSSSION, CONCUSION AND RECOMENDATION

7.1 Introduction

This chapter elucidates the analytical results found in the last chapter after the analysis. This chapter is organised in six sections starting with introduction, then executive summary of the whole work, the discussion of the results follows in section 7.3 which is also designed into sub-sections. Section 7.4 describes the contributions of this study (practical, theoretical and methodological), followed by the research limitations and suggestions for further studies. The conclusion of the study was presented in the last section.

7.2 Executive Summary

This study succeeded primarily in examining the effect of corporate governance BODs attributes (e.g., board independence, board appointments, audit committee quality, board size, and female membership on board) on banks' performance. Additionally, it investigated the relationship between CG and the PMS of banks, as well as the relationship between PMS and banks' performance. Furthermore, it examined the mediating effect of PMS on the association between CG and banks performance, as well as the moderating effect of BEO on the association between CG and banks performance. To this end, an aggregate of twenty-one (21) hypotheses were developed and tested, from which the results empirically supported fifteen (both the

direct, mediating and moderating) hypotheses altogether. The subsequent section 7.3 provides the discussion of the findings in details as arranged in sub-sections.

7.3 Discussion

This section discusses the findings of the study consistent with extant and prior studies, and also with the relevant underpinning theories. This discussion is organised in an orderly manner according to the research questions and objectives of this study. Therefore, the first sub-section will address the first question and objective of the study, hence subsequently follows consistently.

7.3.1 The relationship between Corporate Governance and Bailed-out Banks' Performance (Hypotheses 1a to 1e).

This sub-section addresses the first research question and objective which comprises of five hypotheses. Since all these five hypotheses had divergent effect on the performance and thus were discussed separately from hypotheses 5a to 5e.

The first hypothesis (H1a) predicted relationship between board independence (the number of independent directors on the board) is positively related to performance. The hypothesis envisages that the majority of outside independent board members in a board increases the performance of a bank. However, based on the results found, an insignificant association between the number of independent directors on the board and performance was revealed (refer to Table 6.12). This finding means that banks performance did not in any way improve by just having a majority of independent outside directors in the board. A possible reason for this is that most often, these directors may be there but not appointed on merit and not having the courage,

confidence, experience to challenge CEO's proposals or decision (CBN, 2006). Lack of independence within banks BODs had been a lingering problem which had severally been lamented and reported in CBN code of CG, many CBN supervision reports like CBN (2006; 2008) and Sanusi, (2010). Secondly, it was also revealed that in many banks, the CEOs or chairmen of the boards have domineering powers over the directors. And again, most of the CEOs often misleads the BODs during decision making with vague or trivial information. Thirdly, it was also documented that BODs participate in obtaining fraudulent unsecured insider loans hence compromising the monitoring function for personal benefits. Fourthly, extant researches revealed that "majority number of outside independent directors in a board" does not determines and improve independence for a board as some directors may be dormant, unqualified or favourably appointed (Byun et al., 2013; de Villiers et al., 2011). This findings is consistent with many studies i.e. Agrawal and Knoeber (1996), Hermalin and Weisbach (1991), Vo and Phan (2013), Yermack (1996).

The second Hypothesis (H1b) predicted that the board appointments is positively related to banks' performance. Result of this study revealed a significant relationship between the board appointment and banks performance (refer to Table 6.12). A major explanation for this is that if qualified BODs are appropriately appointed on merit without any favour or influence by the CEO, there will be a better monitoring of CEO which will in turn lead to good bank performance. This study is consistent with agency theory and also with prior literature that BODs are more effective at monitoring functions if they are absolutely independent from management and the best determinant of their independence is having their appointment into office without

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any favourable influence of the present CEO (Bhagat & Bolton, 2008; Byun *et al.*, 2013; de Villiers *et al.*, 2011; Zahra & Pearce, 1989). This means they will have no absolute loyalty to him because he does influence their appointment. Hence they can monitor CEO vigorously, challenge, reject and criticize any misguided decision.

The CBN annual supervision report had documented that "there was ambiguities regarding the appointment of independent directors" which poses challenges to the implementation of the CBN code of CG (CBN, 2008; p.14). Hence it became very important and measures were taken to address this by the CBN. Therefore this study intended to establish if this could enhance banks performance. This study confirms that proper appointments of BODs enables an effective measurement of managements' performance which reduces agency problems of opportunistic selfish behaviours of managers, and also restricts a CEO from adopting fraudulent or risky business decisions. Lastly, it is found that appointment to these banks' boards were undertaken appropriately on merit (qualifications) by the CBN without any favour or influence of any CEOs. This happened by replacing the poor performing boards and the CEOs of the bailed out banks with entirely new ones. Hence their appointments ensures their full independence from management.

Hypothesis 1c predicted that audit committee quality is positively related to banks performance. This denotes that having an accounting/financial expertise in a board audit committee will ensure improved performance. However, this study had found this hypothesis unsupported (refer to Table 6.12). That is, in the case of Nigerian banks, the quality of their audit committee does not improved performances. A

possible reason for this is that most of them had not enough qualified members in their audit committees who are knowledgeable in accounting/financial (CBN, 2006; Sanusi, 2010) although the respondents in this survey agrees that there was presences of few. Therefore, the board committee members cannot scrutinize, evaluate, and ascertain the credibility of the financial reports before approving them since they have no prerequisite experience, skills, and expertise. Better monitoring of financial reports is more likely if there is presence of a chartered accountant, practicing auditor, financial analyst etc. (Abbott *et al.*, 2004; Albring *et al.*, 2013; Carol Liu *et al.*, 2014).

Secondly, this hypothesis may be unsupported possibly because, CEOs mostly misleads their boards and often conceals or restricts access to vital information used in control system (CBN, 2006; Sanusi, 2010). However, directors' accessibility to timely and reliable control data is highly inevitable in evaluating both management and firm performance and also enables them to periodically monitor the progress of attaining firms' objectives especially through performance measurement (de Villiers *et al.*, 2011; Epstein & Roy, 2005; Zahra & Pearce, 1989). The CBN code of CG had clearly stated that presently there are many deficiencies of information disclosure, especially in the area of performance measures, risk management strategies, risk concentration etc. (CBN, 2006). Hence, this may affect BODs' functions.

Lastly, it may be attributable to lack of independence of the directors as lamented (CBN, 2006, 2008; Kuye *et al.*, 2013; Sanusi, 2010) and thus audit committee effectiveness is only guaranteed if the members are not only qualified, but also fully

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independent of their management (Bronson *et al.*, 2009; Hundal, 2013; Krishnamurthy *et al.*, 2006; Zhang *et al.*, 2007).

Hypothesis 1d predicted that board size is positively related to banks performance. This study assumed that larger number of directors in a board will be more beneficial to the banks as better decisions will be made by many directors that possess diverse experience, skills and expertise and linkages. Even though that decisions will be delayed due to deliberations (Yermack, 1996), yet the best shall be made at last. Results of this study found a strong relationship exist between large board size and banks' performance (refer to Table 6.12). This could be as a result of many banks are having large size and also comfortable with it despite some stakeholders contends that small is the best for cost reasons. This result is consistent with the resources dependence theory and many literature that with large board size, bailed-out banks were able to make better post-crisis business decisions and thus achieve higher performance. Secondly, bigger board size were found to consist many directors with different expertise, qualifications and business experience, external connections, reputations and have acquired skills regarding banking crisis and on how to revive the bank especially after a bail-out.

Thirdly, with a large board size, the domination of BODs by a CEO as lamented by Sanusi (2010) becomes more challenging and BODs would have a good chance to utilize their authority in steering the bank effectively. This findings is consistent with many studies that advocates large board size such as Chaganti *et al.*, (1985), Coles *et al.*, (2008), de Villiers *et al.*, (2011), Hillman and Dalziel (2003), Kajola (2008) and

contradicts those that supports small size such as Eisenberg *et al.*, (1998), Jensen (1993), Lipton and Lorsch (1992), Sanda *et al.*, (2005), Uwuigbe and Fakile (2012), Vo and Phan (2013), Yermack (1996).

Hypothesis 1e predicted that female membership on board is positively related to banks performance. This signifies that when women are appointed to a boardroom as suggested by global code of corporate governance, might improve banks performance. Introduction of females in corporate boards had become an emerging issue in corporate governance as females are predicted to better ethical values, more promising and scared of criminality. Hence these behaviours will be beneficial to organisations. Result of this study confirms this assertion by revealing a significant positive relationship between female membership on board and banks performance (refer to Table 6.12).

Many of the banks have some females serving as either executive or independent directors. Responses from our survey confirms that women adds values to a boardroom and to its banks performance. Thus, this findings is consistent with resource dependence theory and prior literature (de Villiers *et al.*, 2011; Farrell & Hersch, 2005; Kang *et al.*, 2007; Nielsen & Huse, 2010; Vo & Phan, 2013) on this relationship.

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7.3.2 The relationship between Corporate Governance and Performance Measurement System (Hypotheses 2a to 2e)

This sub-section addresses the second research question and objective of the study. Subsequently, consistent with the 5 CG variables in the study, 5 hypotheses were developed to capture the relationship ranging from hypotheses 2a to 2e.

Hypothesis 2a is on the relationship between board independence and PMS. This hypothesis focuses on whether the independence of BODs will improve PMS. This is because performance measurement of CEO is only possible if directors are independent of management (Albring *et al.*, 2013; Fama & Jensen, 1983; Zahra & Pearce, 1989). Findings of this study supported this predictions indicating a significant association between them.

An explanation for this is that since new set of BODs were appointed by CBN to replace the dismissed ones, and were also assigned some targets, definitely they must have to monitor the new management/CEO. BODs that rigorously monitors their management/CEO would be more expected to conduct periodic measurement of management/CEO's performance, demand justifications on their strategic creativities and also be able to criticize any misguided initiatives in the control system (de Villiers *et al.*, 2011; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Ogbechie *et al.*, 2009).

This findings empirically supports the results of de Villiers *et al.*, (2011), Ogbechie *et al.*, (2009), Ruigrok *et al.*, (2006) who also reported positive relationship between board independence and PMs strategy implementation. Although Board independence

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was not found to positive affect performance, yet it is established to be related to PMS due to the fact that PMS is a significant tool of monitoring (control) and strategic function of the BODs. Hence, relationship of board independence and PMS is an additional contribution to literature.

Hypothesis 2b predicted that board appointment is positively related to PMS. This denotes the kind of influence BODs' appointment could exert on the monitoring performance measurements. Consistent with agency theory, and extant literature, BODs appointment determines or influences their independence which will in-turn affect their functional effectiveness especially regarding performance measurement (Byun *et al.*, 2013; Clifford & Evans, 1997; de Villiers *et al.*, 2011).

This study found a strong significant relationship between them and this could attributable to the fact that they were credibly appointed by CBN without any CEO's nomination and were heavily tasked with targets to achieve. Achievement of their targets warrant close monitoring and performance measurement of CEO, business units as well as overall bank.

Furthermore, board appointment could definitely affect the performance of a firm being a major determinant or source of independence of board of directors. Consistent with the agency theory, this study established that an uncompromised board appointment will ensure effective monitoring duties which encompasses PMS practices. Hence, its only directors who were appointed on merit without CEO's influence, can engage in conducting frequent performance measurements of CEO,

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managers and staffs. The findings of (de Villiers *et al.*, 2011; Westphal & Zajac, 1995).

Hypothesis 2c also predicted that audit committee quality is positively related to performance measurement system (PMS). This denotes that having accounting or financial experts in an audit committee of a board could significantly facilitate effective monitoring through period performance measurement of both the management's and also the overall banks' performance. This hypothesis was found to be significantly supported showing a strong relationship between audit committee quality and performance measurement system (refer to Table 6.12).

Accordingly, the frequent evaluations of CEO and firm performance by the board or a standing committee will result in feedback for appropriate corrective actions (Zahra & Pearce, 1989). They opined that, the structure of a board also immensely helps in facilitating BODs success while performing their control duty. This study is consistent with the agency theory and extant literature (Albring *et al.*, 2013; Carol Liu *et al.*, 2014; Zahra & Pearce, 1989) that, an audit committee which has competent directors and well run, and also, the directors' accessibility to timely and reliable control data is highly inevitable in measuring both management and firm performance and also enables them to periodically monitor the progress of attaining firms' objectives especially through performance measurement. Hence, banks should continue to ensure good quality of the audit committees.

This result further confirms the various predictions that the conduction of proper performance measurements as part of the monitoring and control function of BODs, a sound and qualified audit committee if inevitably required. Despite that audit committee quality did not directly improve performance in this study, yet it is found to be positively related to PMS and mediated by PMS as well. It is not surprising because PMS in invariably part and parcel of monitoring (control) duties of BODs which must always be used either diagnostically or interactively or both (Franco-santos *et al.*, 2007; Speklé & Verbeeten, 2013) in order to track the progress of strategies implementations by CEO and other managers within the organisations (Bremser & Chung, 2005; Grafton *et al.*, 2010; Henri, 2006; Ruigrok *et al.*, 2006) Hypothesis 2d predicted that board size could positively improve PMS. This implies the possible effect of a large sized board on the performance measurement of management and the banks. The relationship is supported with a significant values signifying that larger sized board enables an easy and speedy monitoring through its abundant directors with diverse skills, expertise, and qualifications.

This findings supports the suggestion of Section 4.11 of CBN code of CG that "All directors should be knowledgeable in business and financial matters and also possess the requisite experience". This is more likely to be gotten in a larger sized boards thus, PMS becomes more easy (Coles *et al.*, 2008; de Villiers *et al.*, 2011; Kajola, 2008; Zahra & Pearce, 1989). Apparently, size of a board have a direct connection to the kind of resources that could be derived from it. A large sized board may plausibly encompasses more professional, competent, resourceful, experienced personalities as members who are well politically connected, having business linkages or influences

that are required by a firm to survive and compete profitably in market. Thus these qualities will certainly help in ensuring the proper conduct of frequent PMS as part of their control function effectively. This findings also similar to that of Ogbechie *et al.*, (2009), Ruigrok *et al.*, (2006) who revealed that board size is positively related to PMS strategy implementation. However, this findings contradicts prior studies of Goodstein *et al.*, (1994), Judge and Zeithaml (1992) who reported a negative effect of board size on PMS strategy implementations.

Hypothesis 2e predicted that female membership on a board is positively related to PMS. This denotes the possible effect of a female directorship in the process of guiding performance measurements of both management and business. This relationship is proven strongly supported consistent with the theory and literature. This result supported the findings of many studies (i.e. Farrell & Hersch, 2005; Kang *et al.*, 2007; Nielsen & Huse, 2010; Vo & Phan, 2013 etc.) who opined that women contributes positively to firm performance. Although many banks were found to have females in their boards, while some are yet to adopt since the code of CG does not make it mandatory. Thus, it is suggested that this becomes a standing rule for all corporate bodies not only banks. Obviously, it was also observed and found by the researcher through discussion with some top managers that most of the whistle blowers are women at the either board or managerial levels. Hence, the need to more of them who may be fraud averse.

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7.3.3 The relationship between PMS and bailed-out banks' Performance (Hypotheses 3)

This sub-section addresses the 3rd research question and objective of the study. Subsequently, PMS was hypothesized as a single variable in the study to relate with performance in sub-hypotheses 3 as follows;

Hypothesis 3 predicted that PMS is positively related to banks performance. This relationship aimed at determining the possibility of achieving better performance through frequent performance measurement of both management and bank as a whole. The result of this study confirm a strong positive relationship between them. This implies that since after the bail-out reform, and the installation of new boards and managements in these banks, there had been close monitoring of performance measurement information in order to track the progress of strategies formulation and implementation at all levels (top/branches).

This findings supported the provision No. 4.18 of the CBN Code of CG that there should be regular management reporting and monitoring system. This facilitated PMS at both managerial level and board levels. According to de Villiers *et al.*, (2011), the regular measurement of CEO and firm performance by BODs or a standing committee will result in feedback for appropriate corrective actions (Zahra & Pearce, 1989). This study also confirms the finding of Epstein and Roy (2005) that corporate governance is inevitably improved through multi-dimensional performance measurement system.

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Apparently, PMS had been established and reported to be a vital instrument of ensuring the achievement of sound organisational performance by providing of quantified information regarding the progress in strategic formulation and implementation at various levels of commands. Bremser and Chung (2005) opined that the quest for improving firm performance ignited renewed concern in PMS which led to the development of so many PMS frameworks and techniques by authors like Bisbe and Otley (2004), Ferreira and Otley (2009), Kaplan and Norton (1996), Otley and Fakiolas (2000), Otley (1999), Simons (1995b).

It is widely believed that performance measures have to emanate out of the firm's strategy. However, the Balanced Scorecard by Kaplan and Norton (1996), (2000), Levers of Control by Simons (1995a), (1995b), Otley (1999) framework, Ferreira and Otley (2009) are all derived from strategy and these measures helps in tracking whether all the resources i.e. management/employees (human), capital/investments (financial) and properties or processes (physical) are collectively assisting the firm based on the firms' strategy (Bremser & Chung, 2005).

7.3.4 The Mediating Effect of Performance Measurement System

(Hypotheses 4a to 4e)

This sub-section addresses the fourth research question and objective of the study. Subsequently, consistent with the 5 CG variables in the study, hypotheses were developed to capture the relationship ranging from hypotheses 4a to 4e.

Hypothesis 4a predicted that PMS mediates the relationship between board independence and bailed-out banks performance. This relationship centers around the intervention of PMS in strengthening performance particularly through regular measurements of CEO/management/firms' performance. As established by the agency theory and literature, the frequent evaluations of CEO and firm performance by the board or a standing committee will result in feedback for appropriate corrective actions (Zahra & Pearce, 1989) . CG is best improved through a multi-dimensional PMS (Epstein & Roy, 2005). Also, CBN code of CG provided that a consistent management reporting in addition to monitoring system will enable a good performance of a firm.

This hypothesis was found not supported with a weak value implying that PMS was not able to intervene between board independence and banks performance (refer to Table 6.15). This result is not surprising because, already, most of the banks boards were severely lacking independence (CBN, 2006; Kuye et al., 2013; Sanusi, 2010) and also, this result show that board independence was not positively related to these banks performance. Hence, it could be deduced that the majority independent

directors lacks the independence to be able to conduct frequent evaluations of CEO and firm performance.

In support of this Mohamed and Jamil, (2013) also asserted that PMS models and frameworks are normally designed to support management in measuring their performance, analysing and improving their performance through better decision making. Yet, this PMS framework has not been able to intervene in improving BODs independence to have better effect on firm performance particularly due to lack of absolute freedom from management. Moreover, it had been documented that BODs were mostly denied access to vital PMS information and uninvolved in strategy formulation or implementation, which will lead to poor bank performance. Hence, it is not surprising that this relationship is not supported. This supports the findings of Goodstein *et al.*, (1994), Judge and Zeithaml (1992).

Hypothesis 4b predicted that board appointment and bailed-out banks performance is mediated by PMS. The hypothesis concerns with whether the nature of BODs' appointment as another basis of independence can enhance performance through PMS. This relationship is found supported and accepted by the result (refer to Table 6.15). The result however, confirms that if board of directors are appointed before the present CEO assumes office, or without any nomination, influence of a present-serving CEO, their independence will be guaranteed and would enable them monitor performance measurement of CEO/management/bank performance to achieve the best objectives.

Therefore, this result supports the theoretical proposition of agency theory and extant literature which opined that control/monitoring duties are best done if directors are absolutely loyal to firm's shareholders and independent of its management (Clifford & Evans, 1997; Fama & Jensen, 1983; Jensen & Meckling, 1976; Lefort & Urzúa, 2008). This results is also consistent with the findings of de Villiers *et al.*, (2011) in a US study which reported a strong positive relationship between board appointment and firm performance.

Hypothesis 4c also assumed relationship between audit committee quality and performance is mediated by PMS. This hypothesis is also strongly supported indicating that having directors with accounting or financial expertise will surely be useful in evaluating CEO/managements/firms' performance which will result to better firm performance (refer to Table 6.15). Particularly in performance measurement, an audit committee that has competent directors and well run, and also, the directors' accessibility to timely and reliable control data is highly inevitable in measuring both management and firm performance and also enables them to periodically monitor the progress of attaining firms' objectives. Also, regular measurement of CEO and firm performance by the board audit committee helps with a feedback for useful for corrective actions (Zahra & Pearce, 1989).

However, this result confirms prior studies which suggested that audit committees constituted with accounting/financial/auditing experts as members are more effective at monitoring the process performance measurements and quality of financial reporting especially in areas like; the effects of materiality justification and

accounting precision (DeZoort, Hermanson, & Houston, 2003), detecting material restatements (Abbott *et al.*, 2004; Raghunandan *et al.*, 2001) curtailing of internal control problems (Zhang *et al.*, 2007) and restatements (Agrawal & Chadha, 2005) and increasing the responsiveness to events indicative of failure in the financial reporting process (Chen & Zhou, 2007; Zhang *et al.*, 2007).

Hypothesis 4d predicted that the relationship between board size and banks performance is mediated by PMS. However, this result had also found to be a weak relationship even though it was supported slightly at 10% level of significance (refer to Table 6.15). The result however, implies that the larger size of the board was able to improve performance through monitoring, performance measurement of CEO/management and banks especially through its committees. A large sized board may plausibly encompasses more professional, competent, resourceful, experienced personalities as members who are well politically connected, having business linkages or influences that are required by a firm to survive and compete profitably in market. Thus these qualities will certainly help in ensuring the proper conduct of frequent PMS as part of their control function effectively.

This findings supports the suggestion of Section 4.11 of CBN code of CG that "All directors should be knowledgeable in business and financial matters and also possess the requisite experience". This is more likely to be gotten in a larger sized boards thus, PMS becomes more easy (Coles *et al.*, 2008; de Villiers *et al.*, 2011; Kajola, 2008; Zahra & Pearce, 1989). Apparently, size of a board have a direct connection to the kind of resources that could be derived from it. This findings is also similar to that

of Ogbechie *et al.*, (2009), Ruigrok *et al.*, (2006) who revealed that board size is positively related to PMS strategy implementation. However, this findings contradicts prior studies of Goodstein *et al.*, (1994), Judge and Zeithaml (1992) who reported a negative effect of board size on PMS strategy implementations.

Hypothesis 4e is on the relationship between female membership o board and performance mediated by PMS. The result of this study confirms that there is a strong mediation of PMS in this relationship (refer to Table 6.15). This further indicates that membership of a female in a board definitely adds value, credibility and trust to the performance measurement process.

This result is in support, prior studies like Agrawal and Knoeber (2001), which revealed a significant contribution from female membership on board. This is because, the presence of an experienced, competent female director could provide more credible, unbiased advice, counsel, connections, and also monitoring the management's strategy implementation to protect their reputation, hence the bank performance becomes better (Farrell & Hersch, 2005). The study of Farrell & Hersch (2005) reported that females naturally tend to only serve in better performing firms.

This study's results concurred the findings of Vo and Phan (2013)'s, Carter *et al.*, (2003), Adams and Ferreira (2003) all found a strong relationship between the number of female membership on board and value of the firm using Tobin's q. Similarly, the Norwegian study of Nielsen and Huse (2010) additionally confirmed the positive correlation between women directorship and firm performance using a

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survey questionnaire data administered among 120 firms in Norway. They added that women directors positively influence strategic decision making and monitoring. Consistent with these among other studies this study suggests that women are inevitable important in regular PMS duties thus organisations should ensure their appointment.

7.3.5 The Moderating Effect of Board Equity Ownership (Hypotheses 5a to 5e)

This sub-section addressed the fifth research question and objective of the study. Subsequently, consistent with the 5 CG variables in the study, 5 hypotheses were developed to capture the relationship ranging from hypotheses 5a to 5e.

Practically in Nigeria, the implementation of CBN code of CG for banks, encountered several challenges, in which the most serious ones were; ambiguities concerning selection/appointment of independent BODs and the share ownership status of these BODs (CBN, 2008). Thus, it has been an unresolved debate concerning the potential importance and/or effect of BODs' equity ownership on both the board functional performance and firm performance. In a US based study, Albring *et al.* (2013), reported that, the Blue Ribbon Committee (1999), among others, suggested that directors stock ownership could reduce agency problems and therefore the need for external monitoring. Thus, in an attempt to make a proper alignment of the interest of director and shareholders, many boards have implemented equity ownership guidelines and holding requirements for directors, leading to a substantial rise in the ownership of managers and directors but in Nigeria, there is obscurities and

challenges regarding the directors share ownership status (CBN, 2008). The following hypotheses 5a to 5e provides empirical explanation on this.

Hypothesis 5a stated that BEO moderates relationship between board independence and bailed-out banks performance. In this relationship, it is aimed at assessing whether BEO can influence the direction of the relationship between them. This study had found a significant support for this hypothesis (refer to Table 6.17). Therefore, a full moderation is established since the direct relationship was not supported. This indicates that majority number outside directors does not makes them more independent in their duties of ensuring sound performance but as they acquire equity shares in the banks, it influenced them to do it vigorously. This is because, their interest is aligned with that of other shareholders of the bank.

This result is consistent with the theoretical assumption of agency theory such as (Fama & Jensen, 1983; Jensen & Meckling, 1976) and also with many studies such as (Albring et al., 2013; Bhagat & Bolton, 2008; Bhagat et al., 1999; de Villiers et al., 2011; Hillman et al., 2000; Hillman & Dalziel, 2003; Jensen & Murphy, 1990; Zahra, 1996) who all agree that equity ownership of directors significantly boost their independence and thus makes them to be more proactive at monitoring and advising management on strategic decisions.

However, this relationship was not found supported in the direct effect to performance, but now is supported with the influence of BEO. This is not actually surprising because, it has been a usual practice in some banks where some BODs

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refuses to acquire substantial amount of equity shares of their banks just to avoid bonding themselves to it. Thus, they become less liable for the consequence of their performance.

Evidently, lack of BEO may have caused the inability of Nigerian bailed-out banks' BODs to dismiss the poorly performing CEOs until the CBN itself interfere and then dismiss the CEOs for fraud or mismanagement, and also dismiss the BODs for negligence in their duties of monitoring, dismissing the banks CEOs. This case of Nigerian banks confirms the findings of extant literature (i.e. Bhagat & Bolton, 2008; Bhagat *et al.*, 1999; de Villiers *et al.*, 2011; McConnell & Servaes, 1990; Zahra, 1996) etc. that BODs will only be more vigorous at their "control, strategic, and services" functions in a firm if they also owns equity shares in it. Hence, BEO is highly recommended in banks.

Hypothesis 5b is on the moderating effect of BEO in the relationship between board appointment and bailed-out banks performance. This relationship was however, found not supported by this result (refer to Table 6.17). This implies that in respective of how directors were appointed, share ownership does not influence their functional effectiveness. This relationship is not supported possibly due to the actual problem of deregulation of equity ownership of directors. As stated in CBN supervision report, there still exist ambiguity regarding the equity ownership of directors. As such uptil now the directors' shareholding is not clearly specified and enforced, thus allowing them to buy or sell equity at their discretion (Sanusi, 2009).

Another possible the reason is that most of the BODs does not want to be held liable, as some were only politically rewarded with the board appointment. As such, they might not even want to acquire any shares besides salary earnings. Therefore this "current practice of free, non-restrictive equity holding has led to serious abuses by individuals and their family members as well as governments in the management of banks" (CBN, 2006).

Hypothesis 5c predicted the moderating role of BEO in the relationship between audit committee quality and performance. This is particularly connected to the kind of effective audit services offered by its committee as a result of being co-owners of the bank. This hypothesis is found to be strongly supported (refer to Table 6.17) thus, suggesting that equity ownership of directors in audit committees surely motivates, encourages and influences them to vigorously monitors/controls the effectiveness of internal control system, quality of financial reporting.

This result confirms the agency theory presumption that BODs are best at curtailing agency problems and protecting shareholders' interests if they also have a similar interest (Eisenhardt, 1989; Fama & Jensen, 1983; Jensen & Meckling, 1976; Zahra & Pearce, 1989). It further supported many studies that opined BEO to influence monitoring at board/committee levels (Abernathy *et al.*, 2013; Albring *et al.*, 2013; Bhagat & Bolton, 2008; de Villiers *et al.*, 2011; Hillman & Dalziel, 2003; Jensen & Murphy, 1990; Vo & Phan, 2013; Zahra, 1996).

Therefore it will be believable that accounting/financial experts in audit committees that have substantial equity will surely be more effective at monitoring the process

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performance measurements and quality of financial reporting especially in areas like; detecting material restatements (Abbott *et al.*, 2004; Raghunandan *et al.*, 2001) curtailing of internal control problems (Zhang *et al.*, 2007) and restatements (Agrawal & Chadha, 2005) and increasing the responsiveness to events indicative of failure in the financial reporting process (Chen & Zhou, 2007; Zhang *et al.*, 2007). This result also supports other prior evidences that BODs possessing substantial shareholdings are more expected to tie the compensation of CEO to the performance of the firm (Kren & Kerr, 1997), as well as replacing CEOs of firms that are poorly performing (Bhagat *et al.*, 1999).

This study had been able to achieve another full moderation because the direct relation to performance was not supported probably due to lack of independence, and lack of much qualified members (Kuye *et al.*, 2013; Sanusi, 2010) but when moderated with equity ownership, the relationship becomes supported. Hence, BEO tend to be a good mechanism of control.

Hypothesis 5d predicted that BEO moderates the relationship between board size and performance of banks. This is found to be unsupported based on this result (refer to Table 6.17). A possible reason for this is attributable to the ambiguities regarding the ownership of these directors and lack of clear regulation on boards' equity ownership as stated in CBN (2008) supervision report. Secondly, the CBN code of CG clearly lamented that "The current practice of free, non-restrictive equity holding has led to serious abuses by individuals and their family members as well as governments in the

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management of banks" (CBN, 2006). Therefore, the size of these directors in their boards might not be significantly influenced by their ownership since they were not strictly compelled to acquire a certain percentage of stocks in the bank. However, their size had been able to improve performance due to higher number of experts, skilled directors, yet their ownership status is not clear and unenforced, consequently unbinding them from acting in the best interest of shareholders. The agency theory is hereby not adopted by this hypothesis.

Hypothesis 5e predicted that BEO moderates the relationship between female membership on board and performance of banks. This hypothesis is found to be statistically not supported by this result (refer to Table 6.17). This implies that membership of a female director is not influenced by BEO to improve performance. This is probably due to the underlying problems regarding the ownership status of the directors and lack of enforcement on equity ownership. It is really believable that even if female director is in a board, she might not be rigorous in guidance, resources provision to management if they holds no or very little equity in the bank they serve.

This result is definitely not surprising because, the former boards of directors and CEOs of 10 banks were all dismissed for poor performance even though they have female members (NDIC, 2011; Sanusi, 2010). This implies that the female members were poorly performing all because they refused to hold substantial equity and also speculating with it. Therefore, they could not be able to take disciplinary action of replacing the poorly performing CEOs (Bhagat & Bolton, 2008; Bhagat et al., 1999).

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7.4 Contributions of the Study

The findings of this current study offers some significant contributions classified into three sections. Firstly, it contributed significantly to literature and theory testing or development. Secondly, it has important managerial implications to banks managements, regulatory authorities (CBN, NIDC), shareholders etc. and thirdly contribution to methodology of research. These implications are thus, discussed sequentially in the following three diverse sections.

7.4.1 Theoretical Implications

This study has numerous theoretical implications that are classified in series as follows:

Firstly, researches conducted assess the effect of CG on firms' performance globally and particularly in Nigeria, reported mixed findings (Clifford & Evans, 1997; Uadiale, 2010; Zahra & Pearce, 1989). The conflicting/mixed findings are usually caused by factors like inconsistent operationalization of board variables, limited scope, and convenience samples, and usual focus mainly on direct relationships between CG variables and firm's performance, therefore ignoring the indirect relationship through BODs' roles and strategic initiatives (Hillman & Dalziel, 2003; Zahra & Pearce, 1989).

Therefore, this study contributed to the literature by selecting its variables [i.e. board independence, board appointment, audit committee quality, board size, and female membership in a board] and operationalizing them based on the prior researches and

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examinations reports of CBN (2008), Kuye *et al.*, (2013), Oghojafor *et al.*, (2010), Sanusi (2010) and Sanusi (2009). However, this result of this study supported the report of (Kuye *et al.*, 2013; Sanusi, 2010) that boards lacks independence and most BOD audit committees were ineffective. These hypotheses were not supported as tested signifying that the problem still lingers. However, board appointment, board size, and female membership on board were found to positively improve performance. This corroborated the findings of majority of studies on these relations.

Secondly, another problem was that several researches have shown that Banks CEOs in Nigeria were always having overbearing influence over boards and their appointments making them to lack independence (Sanusi, 2010). CEOs are usually "consulted" on BOD appointment decisions which allowing them to form BOD that would be loyal to their interests (de Villiers *et al.*, 2011; Monks & Minow, 1991; Clifford & Evans, 1997; Westphal & Zajac, 1995). Therefore, BODs appointed by a former CEO will be more likely to be independent of the present CEO (de Villiers *et al.*, 2011). This study introduce this variable "board appointment" and is empirically found to strongly determine and improve independence of directors as suggested by Byun *et al.*, (2013) de Villiers *et al.*, (2011). This suggests that all directors should not in any way be nominated for appointment by a serving CEO, directors appointments not influence by a serving CEO or if possible, they should be appointed to office before the present CEO (i.e. by a previous CEO) in order not to beholden to this present CEO. Thus this findings corroborated that of de Villiers *et al.*, (2011) that all directors appointed in the tenure of a previous CEO will be more expected to be independent of the present CEO. As suggested, it is now empirically established in

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Nigerian context to be effective and this will address the problems of appointment of BODs (CBN, 2008).

Thirdly, this study had been able to specifically address the most current banking sector crisis that brought forward this bail-out reform. As observed, most studies on CG in Nigerian context were either conducted before the banks' bail-out reform, or not in the area of bail-out reform. Only few studies were found on bail-out such as Kuye *et al.*, (2013), Nworji (2011), Oghojafor *et al.*, (2010) which all have different kind of shortcomings like small sample, addressing policy issue not the banks' performance, wrong selection of variables etc. This study therefore, theoretically contributed by examining only the bailed out banks covering only the period of time after the reform.

Fourthly, a theoretical problem is unresolved as asserted by Hillman and Dalziel (2003) that researchers on CG commonly adopts a single separate theoretical approach which leads to a partial understanding of the determinants of effective monitoring and the resources provision. They added that "both agency theorists and resource dependence theorists have examined one board function (monitoring/the provision of resources) at the expense of the other, contributing to an incomplete understanding of what boards do and how they affect firm performance" (Hillman & Dalziel, 2003 p.383). Therefore, this study now curtail this problem by selecting variables (i.e. board independence with two dimensions, audit committee quality, board size, and female membership in a board) that will integrate both "agency theory

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and resource dependence theory" alongside a moderator (agency theory based) and a mediator (both theories).

Fifthly, Zahra and Pearce (1989) reported that search for direct links among board attributes and company financial performance is misguided and will yield contradictory findings . Over concentration on the direct relations between CG variables and firm performance resulted in inconsistent mixed findings, scope limitation, and inconsistent selection and operationalizing of CG variables. "The indirect links is more important because it considers the interrelationships among board variables, the contingencies that moderates boards' performance of their roles, and the amount of influence that directors exert on senior management's performance/ initiatives which will in turn, enhance the firm's performance" (Zahra & Pearce, 1989).

To address this, Performance Measurement System (PMS) as a mediator is introduced into the relationship between CG and the banks' performances as suggested by Epstein and Roy, (2005), Ogbechie *et al.*, (2009), Pugliese *et al.*, (2009), Zahra and Pearce (1989). PMS is a key element of Management Control System (MCS) (Widener, 2007). Regular performance measurement of both managements' and the company's performance by the board or its standing committee (audit committee) will yield a good feedback usable for proper corrective actions, and this process is prerequisite in performing the BOD control functions effectively (Zahra & Pearce, 1989; Hillman & Dalziel, 2003).

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This study confirms the findings of Epstein and Roy (2005) and the agency theory's presumption that CEO's performance is best improved using a multidimensional PMS. That is, with PMS, BODs could more vigorously monitor and measure the CEO's contribution and progress to organisational performance and also hint the BOD with early warning signs regarding the strategic decisions that might have gone wrong or other problems hindering organizational performance. From the results, all the CG variables (BI, BA, AC, BS, and FM) were significantly related to PMS. Also PMS was able to mediate relationship between BA, AC, BS, FM and bank performance. This confirms that the CEOs would have to adopt a sufficient PMS in monitoring and measuring the performance of business units and top employees as a key function of a CEO (Epstein & Roy, 2005, p.84). Also, this "PMS metrics should reflect the CEO's and other managers' role in the implementation process and the day to day management of key internal processes and strategies with more focus on measurable and observable behaviors" (Epstein & Roy, 2005, p.86). These findings is a significant contribution to the theory by validating or contradicting the presumptions about the nature of relationships.

Lastly, this study had theoretically contributed by mitigating the mixed results by considering BEO as a moderator in the relationship between CG and performance. This is because, BEO has been a contentious lingering issue in Nigerian banks as the most prominent problem in implementing CG Codes in banks are "ambiguities regarding equity shareholding status of independent directors and their appointment". Hence this study had empirically tested the moderating power of BEO achieved a full moderation in relationship of between BI, ACQ and performance. These two were not

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supported in their direct relation with performance. Hence, BEO must be strongly emphasized to ensure sound banks performance. Although BA, BS, and FM were not moderated by BEO and explanation for that had been provided earlier in section 7.3.5. This study provided theoretical support to extant literature like studies of Albring *et al.*, (2013), Bhagat and Bolton (2008), Bhagat *et al.*, (1999), CBN (2008), de Villiers *et al.*, (2011), Hillman and Dalziel (2003), and Zahra (1996) etc. that BEO moderates the relationship between CG and firm performance by increasing/encouraging the BODs monitoring or resources provision ability.

7.4.2 Managerial and Policy Implications

This study is of immense importance to Nigerian financial regulators such as CBN, NDIC, investors and shareholders with the information on the whether the bailout has yielded a desired outcome or not, whether the problems of CG, bad debt, board independence, are solved through the bail-out reform or not. As earlier pointed by NDIC (2011) and Sanusi (2010) the banking sector will remain fragile until these key problems are addressed.

Based on the findings of this study, it is statistically established that most of the CG variables in this framework which were adopted to address the particular problems of CG were found to have significant effect on performance except board independence and audit committee quality. Therefore, as lamented CBN and NDIC should note the following:

That "having majority of outside independent directors in a board" does not guarantees their independence. This study confirms the findings of some studies (Byun *et al.*, 2013; de Villiers *et al.*, 2011) that despite being majority, outside directors might still be loyal to a serving CEO if he nominates or influence their appointment to office. Hence, they could not be able to criticize, challenge, his opinion or proposals, and cannot vigorously monitor CEO/management.

Board appointments is found to strongly affect performance because it strongly determines and improves board independence. Therefore, CBN should ensure that all directors are not in any way being nominated for appointment by a serving CEO, directors appointments not influence by a serving CEO or if possible, they should be appointed to office before the present CEO (i.e. by a previous CEO) in order not to beholden to this present CEO. Thus this findings supported that of de Villiers *et al.*, (2011) that all directors appointed by a previous CEO are more likely to be independent of the incumbent CEO.

Audit committee financial expertise must be relooked as it a significant determinant of monitoring function but this result lack supporting evidence for it. It was lamented in (CBN, 2006; Kuye *et al.*, 2013; Sanusi, 2010) that audit committees were often ineffective. This is possibly due to lack of independence of BODs. CBN and banks' managements should understand that more accounting/financial experts will be very important in ascertaining the quality of financial reporting (Abbott *et al.*, 2004; Abernathy *et al.*, 2013; Albring *et al.*, 2013; Carol Liu *et al.*, 2014; Zhang *et al.*, 2007). Much attention must paid on this.

As suggested by the code of CG (2006), Byun *et al.*, (2013), de Villiers *et al.*, (2011), Epstein and Roy (2005), Ogbechie *et al.*, (2009), Zahra and Pearce (1989) etc. PMS is very important instrument through which CG is improved to achieve a sound firm performance. Result of this study revealed that CG is positively related to PMS and also PMS strongly mediates relationship of CG and performance. Therfore, banks managements should continue with PMS at all managerial levels, and the boards of directors must emphasize more on PMS for the entire bank (CEO / lower managements) in order to attain the best performance. CBN should also re-enforce this through circulars and supervisions.

Lastly, BEO was suggested severally to moderate BODs functional effectiveness. That is it BEO aligns the interst of directors with that of other shareholders to rthe extent they will be feeling like shareholders thus, monitoring, advising, guiding vigirously because of their investments (Albring et al., 2013; Bhagat & Bolton, 2008; de Villiers et al., 2011; Hillman & Dalziel, 2003; Morck, Shleifer, & Vishny, 1988; Zahra, 1996). This findings found it to moderate board independence and audit committee quality which were all not supported in their direct relation to performance. Since it was lamented that that " there still exist free, unrestricted equity ownership, and ambiguities regarding boards ownerhip", it is now important to clearly determine, specify, and enforce a ceratin equity holding conditions.

7.4.3 Methodological Implications

In this study, numerous methodological contributions to was made to literature. These immense contributions are sequentially discussed as follows:

Firstly, this study made use of questionnaires to source the primary data to be used for analysis. Also, the study covers both financial and non-financial performance. This is against the usual focus on secondary data to examine CG and firm performance. Apparently, most of the studies on CG were conducted with the use of secondary data with focus on mainly financial performance. Studies on CG covering both non-financial and financial performance are very rare in Nigerian context except (Ogbechie *et al.*, 2009). Although, Okereke, Abu, and Anyanwu (2011) and Oghojafor *et al.*, (2010) which all used questionnaire data but their respondents were unsuitable for the best information needed, while some have other inappropriate methodology issues. Hence, this will give more information to how CG affects both financial and the non-financial performance. Also, serve as alternative source of data if the secondary data is scanty or unavailable.

Secondly, most studies on CG were conducted with more emphasis on direct relations of CG and firm performance (Epstein & Roy, 2005; Zahra & Pearce, 1989). Hence, an indirect relationship through PMS as mediator and BEO as moderator is tested. There is limited research assessing the role of BODs and their involvement in strategic decision-making, formulation and implementation neither in Nigeria nor in the African continent (Ogbechie *et al.*, 2009). Even though, there is an increasing use of non-financial measures for measuring performance of CEO, these measures were

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usually been ignored by BODs (Epstein & Roy, 2005). The findings of this study confirms the opinion of agency theorists and studies (Eisenhardt, 1989; Epstein & Roy, 2005; Hillman & Dalziel, 2003; Zahra & Pearce, 1989) etc. that CG is more strengthen/improved through a multi-dimensional PMS. From the results, all the CG variables were positively related with PMS and PMS mediated most of them. Thus, confirms that a sufficient PMS helps in monitoring and measuring the performance of business units and top employees as a by a CEO because, "PMS metrics reflects the CEO's and other managers' role in the implementation process and the day to day management of key internal processes and strategies with more focus on measurable and observable behaviors" (Epstein & Roy, 2005, p.84,86). Future studies could adopt this PMS as a proven mediator.

Thirdly, the PMS metrics were adopted from framework of Ferreira and Otley (2009) who only developed them and offered them for researchers use but was not tested in this way. Thus, this study had been able to test these 12 multi-dimensional PMS metrics in pilot and main study. The reliability and validity of the PMS items had been discussed earlier on in Section 5.9 and 6.9 and published as contribution to literature. Additionally, all the CG variables were tested in pilot and main study with their reliability and validity of the items discussed also in section 5.9 and 6.9 and awaiting publishing as contribution to literature. The questionnaire items of this study shall be of immense importance to literature for future researches to adopt.

Fourthly, the moderating role of BEO was also tested as an indirect relation of CG and performance. This is important in guiding researchers about the possible

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behaviour of moderator in a given model and how it's treated , whether it moderates or not, and the implication of that.

Fifthly, most researches utilized many different techniques of analysis like SPSS, Amos-SEM, EViews, Stata, etc. to produce results. This study now explored PLS which is comparatively a new analytical tool, to examine the structural relationship among the constructs of this study. The Smart-PLS 2.0 M3 (Ringle *et al.*, 2005) is a sophisticated analytical tool that executes a lot of functions such as confirmatory correlation analysis, factor analysis, multiple regression and multivariate data analysis. The Smart-PLS is capable of predicting relationships among constructs and also evaluating them concurrently. This will give a guide to future researchers its application.

7.5 Limitation and Suggestion for Future Research

Actually, this study has the following limitations:

Firstly, this study covers only the bailed-out banks in the Nigerian banking industry. This is because, they were the only troubled banks that were declared financially distressed and rescued from collapse. Therefore, this study did not consider other banks that were not bailed-out which are 11 in number. Future studies may try some of these variables on the whole banks in Nigeria without any emphasis on the bail-out.

Secondly, this study covers only the post bail-out period of four years from 2010 to 2013. The bail-out of the ten (10) distressed banks took place in July 2009 resulting to

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dismissal of their BODs and CEOs altogether. This study was restricted to post bail-out period only to assess the outcome of the reform. Therefore, all the period before this bail-out (i.e. 2009 backward) are not part of this study's scope. Future studies may examine the pre-bailout period to have a longer time frame.

Thirdly, this study is presently carried out in Nigeria i.e. only one country out of the whole continent/world. Hence, this results may perhaps not be applicable to other countries both within Africa and beyond. This is because banking crisis and the reform all happened in Nigeria and the issues are just peculiar to this country.

Fourth, this study has four independent variables which are; board independence, board appointments, audit committee, board size, and female membership in a board. There are many other CG variables that could affect organisational performance but this study only considered the ones that presently affects the Nigerian banking sector. Performance issues reported through the CBN, NDIC and other researchers were accordingly considered for diagnosis.

Fifthly, this study considers a moderating factor board equity-ownership on the association between CG and bank performance. However, no significant moderating effect of BEO on the relationship between BA, BS, FM and bank performance was found. Future studies may retest this in another context.

7.6 Conclusion

This study has significantly contributed to the emergent body of knowledge by revealing empirical evidence regarding the effect of CG on the performance of bailed-out banks in Nigeria. The mediating effects of PMS and moderation effects of BEO on the relationships between CG and banks performance were all examined respectively. The results of this study provides support to the two (agency and resources dependence) theoretical presumptions regarding the relationships among variables of study. However, some research hypotheses and objectives of this study have been successfully answered and achieved while some were not.

From the results of the study, corporate governance (BA, BS, and FM) was found to be positively related to bailed-out banks performance except (BI and AC). Corporate governance was also positively related to PMS. PMS was also positively related to bailed-out banks performance. PMS was found to mediate relationship between BA, AC, BS, FM and bailed-out banks with the exception of BI. Furthermore, BEO was found to moderate only BI and AC. Here, a full moderation was found suggesting that BEO could definitely improve their relation with performance.

Hence, the underlying theoretical gap in CG – Performance relationship is hereby filled-up by adopting PMS to explain the nature of the relationship as suggested and also BEO to influence the direction of the relationship. This study also provided a theoretical and empirical support to extant literature on the using board appointment as another good measure or determinant of independence. It is found that monitoring roles will best achieved if directors appointments is not interfered by CEOs.

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Furthermore, there is theoretical contributions, through the integration of both agency and resource dependence theories with variables under each taxonomy. The use of PLS-SEM for data analysis, integrating both financial and non-financial measures of Balanced Scorecard, and used of indirect relationship in this research framework all forms another methodological contribution to literature.

Findings from this study offers some vital practical suggestions to CBN, NDIC, banks and other related stakeholders. Some suggestions for future researches had been given due to some limitations of this present study. As this study is restricted to bailed-out banks only, further researches may considers the whole industry or another context. Conclusively, this study has added significant contributions to knowledge practically, theoretically, and methodologically.
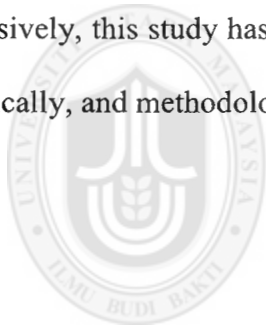
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Appendix A
Sample of Questionnaire

**CORPORATE GOVERNANCE AND NIGERIAN BANKS PERFORMANCE:
THE INDIRECT EFFECT OF PERFORMANCE MEASUREMENT SYSTEM
AND BOARD EQUITY OWNERSHIP**

QUESTIONNAIRE   SURVEY

Dear Sir/Ma

I am a PhD (Accounting) student of the University Utara Malaysia and currently conducting a survey on the relationship amongst Measurement System, Board Equity Ownership, Corporate Governance and the Performance of Nigerian banks.

Kindly, assist us by completing this questionnaire as accurately as possible. We sincerely assure you that all your responses will be confidentially used for only academic purpose. You are required to circle the options that best represent your opinion. In some instances, you are required to tick [√]. There are no rights or wrong answers, hence, we would appreciate your honest and complete response to help us understand your views.

Thank you in anticipation of kind cooperation and assistance.

Yours Sincerely,

Nuraddeen S. Aliyu   Che Zuriana Muhd Jamil, *PhD*   &   Rapiah Mohamed, *PhD*
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Researcher   Main-Supervisor   Co-Supervisor

Pusat Pengajian Perakaunan
SCHOOL OF ACCOUNTANCY

Universiti Utara Malaysia

Part 1. Corporate Governance

Please indicate in your opinion the extent to which you agree with each of the following governance attributes in your bank. Please circle the appropriate answere.

Strongly-Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

A. Board Independence

S/N	Statement	SD	D	N	A	SA
	In my Bank, …					
BI1	…The number of outside non-executive directors is higher than executive directors in my board	1	2	3	4	5
BI2	…Outside non-executive directors are absolutely independent of management in decision-making	1	2	3	4	5
BI3	… Outside non-executive directors have no relationships that could influence their independent judgment on strategy implementation	1	2	3	4	5
BI4	… Outside non-executive directors participates in reviewing and guiding corporate strategic planning and decisions.	1	2	3	4	5
BI5	… Outside non-executive directors ensures an effective management system.	1	2	3	4	5
BI6	…Outside non-executive directors follows up on the progress of board resolutions	1	2	3	4	5

B. Board Appointments

S/N	Statement	SD	D	N	A	SA
	In my bank, …					
BA1	…Majority of the independent outside director were appointed before the current CEO assumes office.	1	2	3	4	5
BA2	…The board members were not preferentially selected by the present CEO	1	2	3	4	5
BA3	…The CEO has no personal relationships with the non-executive directors	1	2	3	4	5
BA4	… Directors' open objection of the management proposals or agenda is viewed as an act contrary to behavioral norm	1	2	3	4	5
BA5	…The CEO decides the extension or termination of the directorship	1	2	3	4	5
BA6	… Board of directors guides in developing strategic options	1	2	3	4	5

C. Audit Committee Quality

S/N	Statement	SD	D	N	A	SA
	In my bank, …					
AC1	… The audit committee in my bank has directors with accounting, auditing or financial expertise.	1	2	3	4	5
AC2	… Accounting/financial experts in Audit committee ensures the integrity of the bank's financial reporting	1	2	3	4	5

AC3	… Accounting/financial experts in Audit committee ensures that financial statements comply with a recognized set of accounting standards and codes of corporate governance	1	2	3	4	5
AC4	… Audit committee autonomously select or recommend the external auditor and conduct a proper review of financial reports	1	2	3	4	5
AC5	… Audit committee financial experts ensures that the bank is not currently under investigation for accounting irregularities	1	2	3	4	5
AC6	… Audit committee ensures reviewing of the effectiveness of bank's internal control	1	2	3	4	5

D. Board Size

S/N	Statement	SD	D	N	A	SA
	In my bank, …					
BS1	… The size of its board should be large (between 11 – 20) members.	1	2	3	4	5
BS2	…The size of its board should be small (between 10&below) members.	1	2	3	4	5
BS3	… The size of its board enables understanding of the operating environments, offers better guidance	1	2	3	4	5
BS4	…The size of its board enables understanding of the business process	1	2	3	4	5
BS5	… its board has directors with experiences in the relevant industries	1	2	3	4	5
BS6	…its board has directors with experiences in finance or economic areas	1	2	3	4	5

E. Female Membership in Board

S/N	Statement	SD	D	N	A	SA
	In my bank's board, …					
FM1	…. Female directors has different professional experiences than men	1	2	3	4	5
FM2	… Female directors has different values than men	1	2	3	4	5
FM3	… Female directors has influenced the way the board reviews and guide corporate business strategy	1	2	3	4	5
FM4	…Female directors are equally active in discussions compared to men	1	2	3	4	5
FM5	… Female directors has influenced governance issues which are considered by the board	1	2	3	4	5
FM6	… Female directors are involved in evaluating product quality and customer satisfaction	1	2	3	4	5

Part 2. Board Equity Ownership

Please indicate in your opinion to what extent do you agree with the following statements about "Equity shareholding of board of directors" motivates them in fulfilling their fiduciary monitoring/advisory duties of ensuring good corporate governance in your bank. Please circle the appropriate answer.

Strongly-Disagree	Disagree	Neutral	Agree	Strongly Agree				
1	2	3	4	5				

S/N	Statement **In my bank, …**	SD	D	N	A	SA
BEO1	…All executive directors own shares of this bank after excluding stock-options held	1	2	3	4	5
BEO2	… All non-executive directors own shares of this bank after excluding stock-options held	1	2	3	4	5
BEO3	… Their equity shareholding motivates them to effectively monitor and guide CEO.	1	2	3	4	5
BEO4	… Number of shares held by board of directors of this bank has not decreased	1	2	3	4	5
BEO5	…Number of shares held by board of directors of this bank has increased	1	2	3	4	5
BEO6	… Non-executive directors are paid entirely in some form of equity shares compensation	1	2	3	4	5
BEO7	… Non-executive directors paid in cash and some form of equity shares compensation	1	2	3	4	5

Part 3. Performance Measurement System (PMS)

The following Statements assess the extent to which Performance Measurement System is been conducted, used by the top management and reviewed by the board, in order to track the progress in banking strategies implementation. Also, to help board of directors and their CEO/top management to determine what performance issues are important in their bank, and what information directors require about these issues to fulfill their monitoring, advisory responsibilities. Please indicate in your opinion the extent you agree with the following statements by circling the appropriate answer.

Strongly-Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

S/N						In my bar
PMS1	…directors and management determines the bank's vision and mission to guide strategic direction.	1	2	3	4	5
PMS2	…directors and management determines and reviews bank's objectives to match its mission and vision.	1	2	3	4	5
PMS3	…mission and goals are clear, and are understood and shared throughout the bank.	1	2	3	4	5
PMS4	…branch goals are clearly consistent with the bank's mission	1	2	3	4	5

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PMS5	... Key success factors that are believed to be crucial to my bank overall future success are determined by management.	1	2	3	4	5
PMS6	... key success factors are clearly communicated to managers and employees.	1	2	3	4	5
PMS7	... directors and management reviews and evaluates present and future opportunities, threats and risks	1	2	3	4	5
PMS8	... organisational structure and capabilities are appropriate and clear to facilitates sound performance	1	2	3	4	5
PMS9	...managers and staffs has the authority and tools needed to make decisions and take action, consistent with the responsibilities assigned to them.	1	2	3	4	5
PMS10	... units/branches employees relies on standard procedures and rules in performing their tasks.	1	2	3	4	5
PMS11	...strategies and plans has been designed, adopted and communicated to managers and employees in order to achieve our objectives.	1	2	3	4	5
PMS12	... determines the branch strategies and plans designed to achieve banks objectives	1	2	3	4	5
PMS13	... branch can sense the need for strategic change and able to seek new capabilities in light of the need	1	2	3	4	5
PMS14	... bra nch performance measures are clearly related to the key success factors, mission and goals of the bank.	1	2	3	4	5
PMS15	... performance measures provides a complete picture of the results to be achieved based on strategies and plans	1	2	3	4	5
PMS16	..performance measures are communicated to all managers /employees and used for evaluating their performance	1	2	3	4	5
PMS17	... performance targets are set in order to achieve a performance level on the key success factors.	1	2	3	4	5
PMS18	... managers, employees and branches are levied with a target to achieve	1	2	3	4	5
PMS19	... performance targets are always challenging and difficult to meet	1	2	3	4	5
PMS20	... adopts performance evaluation to monitor individual contribution in the implementation of strategy	1	2	3	4	5
PMS21	... performance evaluations are fair and objective	1	2	3	4	5
PMS22	... managers and other employees are rewarded (financially and/or non-financially) by achieving their performance targets	1	2	3	4	5
PMS23	... managers and employees suffers penalties by failing to achieve performance targets	1	2	3	4	5

How are the following been used by your bank to support the operation of its Performance Measurement System (PMS)?									
Not at all		**Slightly**		**Moderately**	**Significantly**		**Extremely**		
1		**2**		**3**	**4**		**5**		
S/N	**Statement**					**N**	**S**	**M**	**Sf**	**E**

S/N	Statement	N	S	M	Sf	E
	In my bank, …					
PMS24	**Feed-forward information flows & networks has been put in place to:** i. Set performance goals for the branch or branch employee ii. Guide strategy implementation iii. Develop action plans iv. Communicate important aspects of the branch's strategy	1	2	3	4	5
PMS25	**Feed-back information flows and networks has been put in place to:** i. Promote organizational learning ii. Analyze the impact of past decisions iii. Prompt re-examination of strategies and targets iv. Identify the need for corrective actions	1	2	3	4	5
PMS26	**Performance Measurement System information is used diagnostically to:** i. Track progress towards goals achievement ii. Monitor the process and result of strategy implementation iii. Plan and allocate Budget iv. Review key performance measures v. Revise business processes.	1	2	3	4	5
PMS27	**Performance Measurement System information is used interactively to:** i. Enable discussion in meetings of superiors, subordinates and peers ii. Enable the bank to focus on critical success factors iii. Communicating goals and priorities to employees. iv. Evaluating the appropriateness of goals and/or policy assumptions. v. Reporting to senior management and board.	1	2	3	4	5
PMS28	PMSs is altered in the light of the change dynamics of the bank and its environment`	1	2	3	4	5
PMS29	The links between the components of PMS are strong and coherent	1	2	3	4	5

Part 4. Bank's performance

The statements below assess the Financial and Non-Financial Performance of banks. Please indicate in your opinion to what extent do you think your bank has performed in the last four years based on the rating scale provided. Please circle the appropriate answer.

Significantly-Decrease	Decrease	Neutral	Increase	Significantly-Increase	
1	2	3	4	5	

H.   *Financial Performance*

S/N	Statement	SD	D	N	I	SI
	In my Bank,					
FP1	…The number of performing loan	1	2	3	4	5
FP2	…The number of non-performing loans	1	2	3	4	5
FP	…The number of recovered bad loan	1	2	3	4	5
FP4	…The yearly profit and sales growth	1	2	3	4	5
FP5	…The Return on Assets (ROA) yearly growth	1	2	3	4	5
FP6	…The Return on Equity (ROE) yearly growth	1	2	3	4	5
FP7	…The growth of interest income on loans & advances	1	2	3	4	5
FP8	…The growth of non-interest income, fee/ commission income on transaction services	1	2	3	4	5
FP9	…The volumes of a tenured fund/fixed deposit.	1	2	3	4	5
FP10	…The financial performance targets achievement by branches.	1	2	3	4	5

I.   *Non-financial Performance*

S/N	Statement	SD	D	N	I	SI
NP11	…The level of our customer satisfaction with our services	1	2	3	4	5
NP12	…The customer service delivery in our branches	1	2	3	4	5
NP13	…The customer relationship management in our branches	1	2	3	4	5
NP14	…The reputation of our bank in the banking industry	1	2	3	4	5
NP15	…The transaction on-time delivery in our branches	1	2	3	4	5
NP16	…The operating cost of doing business in branches.	1	2	3	4	5
NP17	…The accuracy of operational work produced in your branch and/or the quality of the service delivered.	1	2	3	4	5
NP18	…Number of innovations, process improvements, or new services or products launched and implemented by your unit.	1	2	3	4	5
NP19	…The market share in retail, consumer banking services	1	2	3	4	5
NP20	…The market share in public sector business	1	2	3	4	5

Part 5: **Demographic Information** *(Please tick (√) in the appropriate box).*

1. **Gender**

   Male   ☐

   Female   ☐

2. **Years of banking-work experience**

1. Between 1 – 5 years ☐	3. Between 10 – 20 years ☐
2. Between 6 – 10 years ☐	4. 21 years and above ☐

3. **Your Educational Qualification**

   Diploma or HND   ☐

   Bachelor's degree   ☐

   Master's degree or other Postgraduate degree   ☐

   Others   ☐

4. **Your position in the bank**

   Branch level Manager   ☐

   Middle-level Manager   ☐

   Top-level Manager   ☐

5. Your bank's ranking in the industry _____

6. Your age _____

Sample Size Calculations

The formula for computing sample size by Dillman (2000) and Weaver (2006) is used as shown below:

$$n = \frac{(N)(p)(1-p)}{(N-1)\,(B/C)^2 + (p)\,(1-p)} \qquad n = 338 \text{ samples}$$

Given that   N=2,811,   P=0.5,   B=0.05,   C=1.96.

$$n = \frac{(2{,}811)\,(0.5)\,(1-0.5)}{(2{,}811-1)\,(0.05/1.96)^2 + (0.5)\,(1-0.5)} \quad = \quad \frac{2{,}811 * 0.25}{(2810 * 0.0006508) + 0.25}$$

$$n = \frac{702.75}{2.078748} \quad = 338.06 \quad \text{approximately } n = 338 \text{ samples}$$

Therefore, the sample size for this study is **338 bank branches**.

Descriptive Statistics of Latent Constructs

Items Label	Items Statement	N	Mean	Std. Deviation
Board Independence				
BI1	**In my Bank,…..** … The number of outside non-executive directors is higher than executive directors in my board	321	4.37	.805
BI2	…Outside non-executive directors are absolutely independent of management in decision-making	321	4.26	.837
BI3	… Outside non-executive directors have no relationships that could influence their independent judgment on strategy implementation	321	4.34	.822
BI4	… Outside non-executive directors participates in reviewing and guiding corporate strategic planning and decisions	320	4.24	.773
BI5	… Outside non-executive directors ensures an effective management system	321	4.36	.884
BI6	…Outside non-executive directors follows up on the progress of board resolutions	321	4.33	.773
Board Appointments				
BA1	…Majority of the independent outside director were appointed before the current CEO assumes office	321	4.48	.694
BA2	…The board members were not preferentially selected by the present CEO	321	4.27	.839
BA3	…The CEO has no personal relationships with the non-executive directors	321	4.20	.847
BA4	… Directors' open objection of the management proposals or agenda is viewed as an act contrary to behavioural norm	321	3.71	1.225
BA5	…The CEO decides the extension or termination of the directorship	321	3.77	1.235
BA6	… Board of directors guides in developing strategic options	321	4.36	.741
Audit Committee Quality				
AC1	… The audit committee in my bank has directors with accounting, auditing or financial expertise.	321	4.46	.693
AC2	… Accounting/financial experts in audit committee ensures the integrity of the bank's financial reporting.	321	4.54	.656
AC3	….. Accounting/financial experts in audit committee ensures that financial statements comply with a recognized set of accounting standards and codes of corporate governance.	321	4.53	.652
AC4	… Audit committee autonomously select or recommend the external auditor and conduct a proper review of financial reports	321	4.49	.623
AC5	… Audit committee financial experts ensures that the bank is not currently under investigation for accounting irregularities	321	4.46	.680
AC6	… Audit committee ensures reviewing of the effectiveness of bank's internal control	321	4.45	.631
Board Size				
BS1	… the size of its board should be large (between 11 – 20) members	321	4.45	.749
BS2	…the size of its board should be small (between 10 and below) members	321	3.86	1.234
BS3	… the size of its board enables understanding of the operating environments, offers better guidance	321	4.39	.792

BS4	... the size of its board enables understanding of the business process	321	4.40	.645
BS5	... its board has directors with experiences in the relevant industries	321	4.33	.747
BS6	... its board has directors with experiences in finance or economic areas	321	4.46	.637

Female Membership on Board

FM1	.... Female directors has different professional experiences than men	321	4.16	.991
FM2	... Female directors has different values than men	321	3.87	1.221
FM3	... Female directors has influenced the way the board reviews and guide corporate business strategy	321	4.33	.788
FM4	...Female directors are equally active in discussions compared to men	321	4.31	.831
FM5	... Female directors has influenced governance issues which are considered by the board	321	4.34	.810
FM6	... Female directors are involved in evaluating product quality and customer satisfaction	321	4.47	.754

Board Equity Ownership

BEO1	...All executive directors own shares of this bank after excluding stock-options held	321	4.33	.697
BEO2	... All non-executive directors own shares of this bank after excluding stock-options held	321	4.34	.779
BEO3	... Their equity shareholding motivates them to effectively monitor and guide CEO	321	4.33	.730
BEO4	... Number of shares held by board of directors of this bank has not decreased	321	4.14	.885
BEO5	...Number of shares held by board of directors of this bank has increased	321	4.31	.803
BEO6	... Non-executive directors are paid entirely in some form of equity shares compensation	321	4.15	.883
BEO7	... Non-executive directors paid in cash and some form of equity shares compensation	321	4.37	.871

Performance Measurement System

PMS1	...directors and management determines the bank's vision and mission to guide strategic direction	321	4.21	.810
PMS2	...directors and management determines and reviews bank's objectives to match its mission and vision	321	4.30	.744
PMS3	...mission and goals are clear, and are understood and shared throughout the bank	321	4.33	.736
PMS4	...branch goals are clearly consistent with the bank's mission	321	4.26	.819
PMS5	... Key success factors that are believed to be crucial to my bank's overall future success are determined by management	321	4.18	.759
PMS6	... key success factors are clearly communicated to managers and employees	321	4.25	.788
PMS7	... directors and management reviews and evaluates present and future opportunities, threats and risks	321	4.49	.652
PMS8	... organisational structure and capabilities are appropriate and clear to facilitates sound performance	321	4.06	1.317
PMS9	...managers and staffs has the authority and tools needed to make decisions and take action, consistent with the responsibilities assigned to them	321	4.49	.716
PMS10	... units/branches employees relies on standard procedures and rules in performing their tasks	321	4.58	.577
PMS11	...strategies and plans has been designed, adopted and communicated to managers and employees in order to achieve our objectives	321	4.59	.546
PMS12	... determines the branch strategies and plans designed to achieve banks objectives	321	4.53	.607
PMS13	... branch can sense the need for strategic change and able to seek new capabilities in light of the need	321	4.62	.585

PMS14	... branch performance measures are clearly related to the key success factors, mission and goals of the bank.	321	4.51	.618
PMS15	... performance measures provides a complete picture of the results to be achieved based on strategies and plans	321	4.49	.571
PMS16	... performance measures are clearly communicated to all managers and employees and often used for evaluating their performance	321	4.48	.633
PMS17	... performance targets are set in order to achieve a performance level on the key success factors	321	4.42	.608
PMS18	... managers, employees and branches are levied with a target to achieve	321	4.45	.636
PMS19	... performance targets are always challenging and difficult to meet	321	4.17	.816
PMS20	... adopts performance evaluation to monitor individual contribution in the implementation of strategy	321	4.52	.592
PMS21	... performance evaluations are fair and objective	321	4.20	.830
PMS22	... managers and other employees are rewarded (financially and/or non-financially) by achieving their performance targets	321	4.54	.536
PMS23	... managers and employees suffers penalties by failing to achieve performance targets	321	3.74	.984
PMS24	Feed-forward information flows & networks has been put in place to: *i. Set performance goals for the branch or branch employee* *ii. Guide strategy implementation* *iii. Develop action plans* *iv. Communicate important aspects of the branch's strategy*	321	3.32	1.563
PMS25	Feed-back information flows and networks has been put in place to: *i. Promote organizational learning* *ii. Analyze the impact of past decisions* *iii. Prompt re-examination of strategies and targets* *iv. Identify the need for corrective actions*	321	3.06	1.291
PMS26	Performance Measurement System information is used diagnostically to: *i. Track progress towards goals achievement* *ii. Monitor the process and result of strategy implementation* *iii. Plan and allocate Budget iv. Review key performance measures v. Revise business processes*	321	3.15	1.361
PMS27	Performance Measurement System information is used interactively to: *i. Enable discussion in meetings of superiors, subordinates and peers* *ii. Enable the bank to focus on critical success factors* *iii. Communicating goals and priorities to employees* *iv. Evaluating the appropriateness of goals and/or policy assumptions* *v. Reporting to senior management and board*	321	3.95	.933
PMS28	PMS is altered in the light of the change dynamics of the bank and its environment	321	3.66	1.253
PMS29	The links between the components of PMS are strong and coherent	321	3.18	1.484
Performance (Financial & Non-financial)				
FP1	...The number of performing loan	321	4.45	.665
FP2	...The number of non-performing loans	321	2.76	1.378
FP3	...The number of recovered bad loan	321	4.25	.628
FP4	...The yearly profit and sales growth	321	3.64	1.481
FP5	...The Return on Assets (ROA) yearly growth	321	4.44	.777
FP6	...The Return on Equity (ROE) yearly growth	321	4.45	.727

FP7	…The growth of interest income on loans & advances	321	4.31	.884
FP8	…The growth of non-interest income, fee/commission income on transaction services	321	4.26	.791
FP9	…The volumes of a tenured fund/fixed deposit	321	4.23	1.001
FP10	..The financial performance targets achievement by branches.	321	4.27	.897
NP11	…The level of our customer satisfaction with our services	321	4.43	.634
NP12	…The customer service delivery in our branches	321	4.28	.815
NP13	…The customer relationship management in our branches	321	4.36	.790
NP14	…The reputation of our bank in the banking industry	321	4.32	.806
NP15	…The transaction on-time delivery in our branches	321	4.36	.720
NP16	…The operating cost of doing business in branches	321	4.02	1.041
NP17	…The accuracy of operational work produced in your branch and/or the quality of the service delivered	321	4.26	.819
NP18	…Number of innovations, process improvements, or new services or products launched and implemented by your unit	321	4.28	.838
NP19	…The market share in retail, consumer corporate banking services	321	3.23	1.206
NP20	…The market share in public sector business	321	3.42	.870
Valid N (listwise)		320		

C2: Multicollinearity Test

Dependent Variable	Independent Variable	Collinearity Statistics	
		Tolerance	VIF
AC	BA	.697	1.434
	BEO	.806	1.240
	BI	.871	1.148
	BS	.634	1.576
	FM	.589	1.698
BA	BEO	.830	1.205
	BI	.937	1.067
	BS	.559	1.788
	FM	.538	1.859
	AC	.582	1.719
BEO	BI	.868	1.152
	BS	.570	1.753
	FM	.514	1.944
	AC	.582	1.718
	BA	.718	1.393
BI	BS	.553	1.809
	FM	.508	1.968
	AC	.584	1.712
	BA	.753	1.328
	BEO	.806	1.241
BS	FM	.544	1.839

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	AC	.667	1.500
	BA	.704	1.420
	BEO	.830	1.204
	BI	.866	1.154
	AC	.678	1.476
	BA	.742	1.348
FM	BEO	.820	1.220
	BI	.872	1.147
	BS	.595	1.680

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Appendix D
PLS- Measurement Model outputs (Quality Criteria)

D1: Overview

	AVE	Composite Reliability	R Square	Cronbachs Alpha	Communality	Redundancy
AC	0.519707	0.764172		0.537823	0.519707	
BA	0.506498	0.801271		0.677545	0.506498	
BEO	0.511992	0.752869		0.528745	0.511992	
BI	0.518910	0.842636		0.771919	0.518910	
BS	0.550904	0.785665		0.602428	0.550904	
FM	0.531368	0.772806		0.560136	0.531368	
PERFM	0.506891	0.891385	0.440355	0.861162	0.506891	0.029212
PMS	0.539280	0.776103	0.245210	0.572723	0.539280	-0.056507

D2: Latent Variable Correlations

	AC	BA	BEO	BI	BS	FM	PERFM	PMS
AC	1.000000							
BA	0.241053	1.000000						
BEO	0.207462	0.335085	1.000000					
BI	0.067226	0.348187	0.172264	1.000000				
BS	0.566720	0.359676	0.355633	0.144969	1.000000			
FM	0.564850	0.439589	0.352674	0.206281	0.579491	1.000000		
PERFM	0.402153	0.414651	0.306095	0.180218	0.514183	0.587059	1.000000	
PMS	0.043370	0.381057	0.211407	0.239986	0.269863	0.353342	0.399984	1.000000

D3: Cross Loadings

	AC	BA	BEO	BI	BS	FM	PERFM	PMS
AC1	0.701501	0.179168	0.182068	0.020035	0.421166	0.465011	0.253310	0.164910
AC2	0.763267	0.090812	0.176393	-0.065333	0.398291	0.434722	0.318242	-0.020935
AC4	0.696017	0.259712	0.090687	0.198951	0.409683	0.325079	0.294497	-0.036526
BA1	0.217461	0.610625	0.246976	0.179344	0.199505	0.310445	0.149992	0.231428
BA2	0.200397	0.614994	0.224378	0.331398	0.242021	0.212745	0.216526	0.232118

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BA4	0.129245	0.829171	0.277900	0.322775	0.274031	0.398465	0.420501	0.337064
BA5	0.191318	0.766411	0.215219	0.153875	0.304291	0.309584	0.314167	0.267031
BEO3	0.171959	0.209730	0.808109	0.156445	0.315000	0.275114	0.263448	0.108054
BEO4	0.064870	0.095789	0.523398	0.007800	0.118759	0.106074	0.130145	0.037933
BEO5	0.181076	0.372835	0.780378	0.160445	0.283824	0.329208	0.237497	0.274471
BI2	0.089184	0.255379	0.126124	0.791386	0.154457	0.254069	0.200143	0.208616
BI3	0.055049	0.329088	0.132030	0.758306	0.104781	0.143153	0.107275	0.185698
BI4	0.024880	0.222964	0.164245	0.739217	0.139739	0.160660	0.119199	0.199587
BI5	-0.034324	0.273495	0.120027	0.620282	0.013585	0.053675	0.115529	0.090427
BI6	0.078718	0.185384	0.068824	0.679736	0.054910	0.049454	0.075637	0.144449
BS2	0.375726	0.461200	0.264670	0.083238	0.787686	0.509524	0.475209	0.217359
BS3	0.433241	0.154774	0.301426	0.120471	0.757353	0.366322	0.327697	0.248344
BS4	0.489223	0.108652	0.226056	0.133537	0.677259	0.397663	0.313557	0.121956
FM1	0.488096	0.427671	0.308843	0.255974	0.416580	0.723900	0.451514	0.279046
FM2	0.287603	0.349184	0.238622	0.119282	0.363546	0.731238	0.395791	0.250797
FM4	0.447081	0.178019	0.218864	0.066440	0.484104	0.731685	0.432775	0.240765
FP10	0.239426	0.257173	0.168683	0.175298	0.352038	0.424162	0.714309	0.405315
FP5	0.204334	0.222187	0.152470	0.131552	0.369994	0.346580	0.684612	0.264716
FP7	0.163892	0.242208	0.201315	0.101729	0.290545	0.395589	0.679625	0.262946
FP9	0.371053	0.338641	0.291246	0.164886	0.487093	0.499977	0.707346	0.347249
NP15	0.304871	0.317736	0.222841	0.079775	0.358250	0.412977	0.746062	0.193591
NP16	0.310494	0.423793	0.278816	0.171640	0.378232	0.432619	0.773165	0.289796
NP17	0.362160	0.231646	0.174099	0.101627	0.341465	0.434560	0.672397	0.276880
NP18	0.291409	0.294407	0.224748	0.073061	0.305696	0.358091	0.712363	0.197043
PMS12	0.100766	0.182045	0.136963	0.280131	0.218189	0.210373	0.207456	0.701768
PMS13	0.074895	0.339238	0.229248	0.183288	0.274428	0.389353	0.327223	0.842699
PMS21	-0.076492	0.288846	0.079180	0.091822	0.090708	0.138838	0.327663	0.644376

Q² Predictive Relevance

| Total	SSO	SSE	1-SSE/SSO
PERFM	2568	2022.592	.212
PMS	963	846.866	.121

Structural Model Outputs

E1: Direct Effects: Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
AC -> PERFM	0.081216	0.083625	0.058341	0.058341	1.392104
AC -> PMS	0.275637	-0.270520	0.074086	0.074086	3.720526
BA -> PERFM	0.110579	0.108948	0.051868	0.051868	2.131952
BA -> PMS	0.226372	0.226353	0.051298	0.051298	4.412864
BEO -> PERFM	0.039057	0.046225	0.044304	0.044304	0.881564
BI -> PERFM	-0.005897	-0.002587	0.042056	0.042056	0.140225
BI -> PMS	0.095256	0.099598	0.053916	0.053916	1.766744
BS -> PERFM	0.187991	0.191670	0.058043	0.058043	3.238816
BS -> PMS	0.157956	0.156319	0.080633	0.080633	1.958941
FM -> PERFM	0.304203	0.300563	0.067228	0.067228	4.524932
FM -> PMS	0.298342	0.300544	0.084458	0.084458	3.532421
PMS -> PERFM	0.189264	0.190682	0.054566	0.054566	3.468513

Direct Effects: PLS Structural Model output

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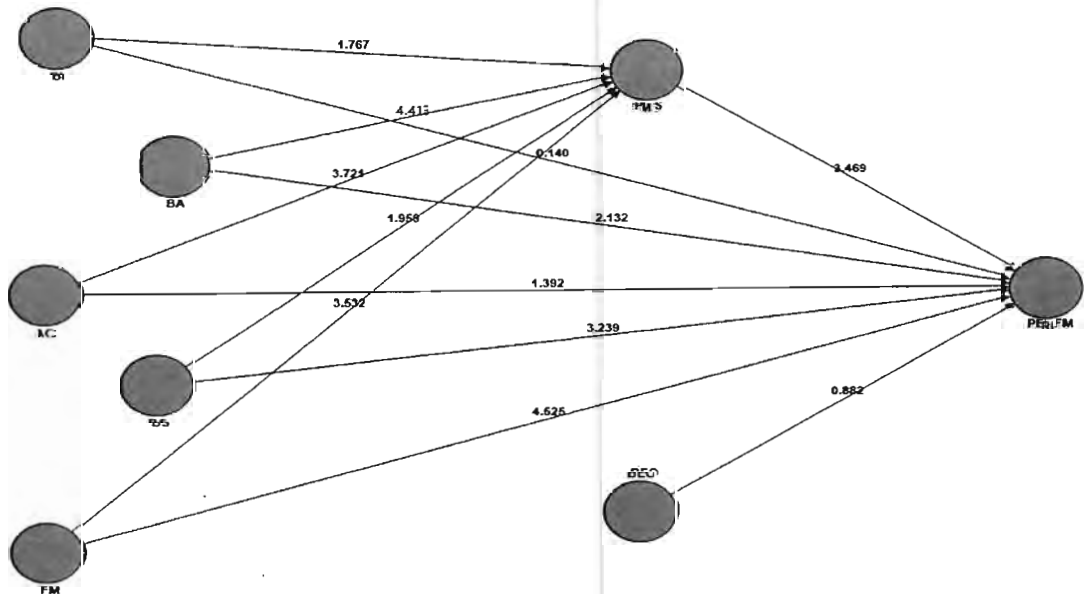
E2: Moderation Effects: Path Coefficients (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
AC -> PERFM	1.090854	0.904598	0.460636	0.460636	2.368147
AC -> PMS	0.274292	-0.268731	0.076101	0.076101	3.604329
AC * BEO -> PERFM	1.776406	-1.443348	0.774964	0.774964	2.292243
BA -> PERFM	-0.340460	-0.340294	0.354017	0.354017	0.961704
BA -> PMS	0.225978	0.227713	0.050649	0.050649	4.461623
BA * BEO -> PERFM	0.589652	0.593824	0.487184	0.487184	1.210328
BEO -> PERFM	0.029076	-0.035592	0.374868	0.374868	0.077562
BI -> PERFM	-0.554151	-0.465546	0.273242	0.273242	2.028061
BI -> PMS	0.095042	0.100192	0.055253	0.055253	1.720130
BI * BEO -> PERFM	0.850533	0.718839	0.377935	0.377935	2.250473
BS -> PERFM	-0.271609	-0.184013	0.322757	0.322757	0.841528
BS -> PMS	0.157251	0.156380	0.081288	0.081288	1.934488
BS * BEO -> PERFM	0.730002	0.594223	0.516216	0.516216	1.414142
FM -> PERFM	0.237118	0.255713	0.324139	0.324139	0.731533
FM -> PMS	0.298215	0.298237	0.085549	0.085549	3.485886
FM * BEO -> PERFM	0.085711	0.062078	0.465944	0.465944	0.183951
PMS -> PERFM	0.210211	0.216636	0.055203	0.055203	3.807991

PLS Moderation Model Output

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