Investigating the Impact of Corporate Governance on Banks' Performance in Nigeria: A Field Experiment

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Abstract

This study empirically investigates the impact of corporate governance on deposit money banks' performance in Nigeria in order to ascertain whether certain financial soundness indicators affect the performance (i.e. return on asset-ROA) of Deposit Money Banks-DMBs in Nigeria. These financial soundness indicators are: capital adequacy ratio (CAR), liquidity ratio (LR), loan to deposit ratio (LDR), deposit money bank lending rate (DMBLR), nonperforming loan to total credit (NPLTC), and cash reserve ratio (CRR). They are surrogates for corporate governance. The population of the study comprised of 24 deposit money banks licensed by Central Bank of Nigeria (CBN) and insured by Nigeria Deposit Insurance Corporation (NDIC). The study adopted Panel Survey research design because the study examined the trend and changes in data collected; which also involved time series and cross-sectional data (that is, eight time series and twenty-four deposit money banks which is one hundred and ninety-two (192) observational pooled data). Top's man formula was used to determined sample-size of 100 respondents. Primary and secondary data were used for the study; the primary data is derived from the questionnaires distributed to the shareholders (respondents) of deposit money banks, while the secondary data were gathered through the annual reports of NDIC and CBN statistical bulletin from 2006 to 2013, the data covered the period of eight years. The DMBs' shareholders were classified into three nomenclature based on the banks' paid-up capital requirement (i.e. #10billion, #25billion and #50billion for regional, national and international banks respectively). The study indicated that there is no statistical significant difference between corporate governance practices among the DMBs based on the perceptions of the shareholders and there is significant relationship between DMBs' performance and corporate governance proxy variables and also the corporate governance proxy variables have impacted both positively and negatively on DMBs' performance in Nigeria. Based on the findings, it was recommended amongst others that CBN and NDIC should organized symposia and workshop for DMBs' shareholders in order to increase the level of awareness, and enhance their participation in fostering good and efficient corporate governance practices in banks where they own shares. The CBN and NDIC should properly monitor from time to time the financial soundness indicators which are the bed-rock of advancing and establishing robust financial banking system in the Nigeria economy.

1. Introduction

Adewoyin, (2012) opines that banking is anchored on trust and confidence. Once such assurance is shaken, it becomes very difficult to win back the trust and confidence of the banking public. What this means is that Boards and Management of banks must ensure sound performance of

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their institutions. To achieve this, Osisioma (2012) submitted that the focus of governance or corporate governance is on the board of directors. The unitary board model which is prevalent in Nigeria merges both a governing role (monitoring and supervision) and a management function responsible for day-to-day administration of company operations. Governance therefore, becomes the combination of processes and structures implemented by the board of directors in order to inform, direct, manage and monitor activities of the corporate body towards the achievement of set objectives.

The global pecuniary scandals and the recent collapse of renowned multinational organizations in the United States of America and Europe have brought to the fore, once again, the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders (Adewoyin, 2012).This is in recognition of the critical role of corporate governance to the success or failure of companies. These developments in the Nigerian financial system have shown great concern for good corporate governance among wide range of people, government, industry operators, directors, investors, stockholders, shareholders, and other stakeholders (Adewoyin, 2012). An informed corporate governance standard is vital in helping emerging markets reconstruct competitiveness, restore investor confidence and promote sustainable economic growth (Reddy, 2001 and Koufopoulous, 2006).

Closer home, the failure of large numbers of such banks leave much to be desired with the attendant torture to the stakeholders and the general threat to the economy give more impetus to the need for good corporate governance for financial intermediaries especially the banking sector. For example between 1995 and 1998 twenty-five banks failed and had their licenses revoked by Central Bank of Nigeria (Akingunola, Adekunle, & Adedipe, 2013). In the same vein between 1998 and 2002 about twenty three banks faced distress and Central Bank revoked their licenses (Akingunolaet al., 2013).

As if the above scandals are not enough, in 2009 the Central Bank of Nigeria in collaboration with Nigeria Deposit Insurance Corporation (NDIC) conducted audit and investigations to determine the soundness of the Nigerian banks. Their result showed that eight banks were unhealthy, three of which were nationalized and taken over by Asset Management Company (AMCOM) (Gbadebo, 2014). Unfortunately, these banks had hitherto showed evidence in their financial statements buoyancy and prosperity with hidden unimaginable loan portfolio. Following these, their Chief Executive Officers and Executive Directors sacked between August and October 2009 due to issues related to poor corporate governance practices in the affected banks and replaced by Central Bank of Nigeria appointed Directors (Gbadebo, 2014).

These situations created doubts and erode the confidence of the Nigerian banking public. Since that time, it has been a mixed grill of fear and doubts for banks and their customers. For the banks, it has been an uphill task to win the customers back. This is even true for the very healthy banks. For the customers, it has been a traumatic riddle to choose which banks to do business with. Banks are no longer to be believed as the banking public accuses the banks of misleading them with the accounting figures published concerning their performance (Gbadebo, 2014). The only panacea is to continue to drum on the three fundamentals of corporate governance: openness, integrity and accountability. At the backdrop of these, the researchers therefore investigate the impact of corporate governance on banks' performance in Nigeria through a field experiment. To achieve this, the following hypotheses which were expressed in their null (Ho) forms and tested at 5% level of significance.

1. Ho: The magnitude and direction of relationship between Return on Assets (ROA) and capital adequacy ratio (CAR) is not statistically significant among the Deposit Money Banks (DMBs) in Nigeria.

2. Ho: The corporate governance proxy variables have not jointly affect performance proxy variable significantly among Deposit Money Banks (DMBs) in Nigeria.

3. Ho: The strength of causation of each corporate governance surrogates on the performance model is not statistically significant among Deposit Money Banks (DMBs) in Nigeria.

4. Ho: The overall validity of the model is not statistically significant among the Deposit Money Banks in Nigeria.

5. Ho: The level of effectiveness of corporate governance practices among the Deposit Money Banks in Nigeria base on shareholders' nomenclature and mean responses is not statistically different significantly.

The remainder of the paper is organized as follows: Section one introduces concepts and the formulated hypotheses under investigation. Section two presents the conceptual and theoretical framework on which the work is based and empirical reviews. Section three is the research design and methodology. Section four presents data presentation and analysis while section five details the study findings, conclusion and recommendations.

2. Review of Related Literature

2.1. Conceptual Framework

In order to understand corporate governance and performance proxies or surrogates (variables), it is imperative to highlight their definitions.

2.1.1. Corporate Governance

Corporate governance refers to the private and public institutions, including laws, regulations and accepted business practices, which together govern the organization, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on one hand, and those who invest resources in corporations, (OECD, 2001, in Wan & Idris, 2012). Rezaee (2009) defined corporate governance as "a process through which shareholders induce or persuade management to act in their interest, providing a degree of confidence that is necessary for capital markets to function effectively". Wan & Idris, (2012) examine corporate governance as a set of mechanisms through which investors protect themselves against expropriation (utilize assets without permission) by management, i.e. the managers and controlling shareholders; the insiders may simply steal the profits; sell the output, the assets or securities in the firm they control to another firm they own at below market prices; divert corporate opportunities for firms; put unqualified family members in managerial positions; or overpay managers. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. Corporate Governance generally refers to the process or mechanism by which the affairs of businesses and institutions are directed and managed, with a view to improve long term value of shareholders while taking into account the interests of other stakeholders interested in the well-being of an entity (Sanda, Mikailu, & Garba, 2005). It has been argued that corporate governance practices is not a standard mode (not a "one size fits all") and thus cannot operate in any standard form but rather vary across the globe (Wan & Idris, 2012).

Gundfest (1993) defined Corporate Governance as both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiently. Similarly, Aguilera and Cuervo-Cazurra (2004) consider the codes of good governance as "a set of 'best practice' recommendations regarding the behaviour and structure of the board of directors of a firm designed to address deficiencies in the corporate governance system by recommending a comprehensive set of norms of the role and composition of the board of directors, relationship with shareholders and top management, auditing and information disclosure, and selection, remuneration, and dismissal of directors and top managers".

Corporate Governance Surrogates

Corporate Governance is divided into external and internal corporate governance. Internal corporate governance is covering public's interest, employees' interest, and owners' interest. While external corporate governance is defined as a mechanism through which governments' responsibility to control the operations of banks are exercised based on the prevailing bank regulations (Adewoyin, 2012; Gbadebo, 2014). In Nigeria, Central Bank provides prudential financial guideline to evaluate banks' financial health; it comprises some financial soundness indicators-FSIs. They are: Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), Liquidity Ratio (LR), Cash Reserve Ratio (CRR), and Non-performing Loan Ratio (NPL) as proxies for effective and efficient corporate governance while return on assets (ROA) as banks' performance.

a. *Capital Adequacy Ratio (CAR)*. The capital adequacy ratio is the quotient of the capital base of the bank and the bank's risk weighted asset base. In accordance with Central Bank of Nigeria regulations. CBN tracks a bank's CAR to ensure that it can absorb a reasonable amount of loss and complies with statutory capital requirements. Central Bank stipulates that DMBs should maintain minimum level at 10% or 15% for banks with international subsidiaries. The CAR serves to ensure that banks are well capitalized and protects the public interest. Konishi and Yasuda (2004) find that the implementation of the capital adequacy requirement reduces risk taking of commercial banks. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier one (main) capital, which can absorb losses without a bank being required to cease trading, and tier two (secondary) capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. If using risk weighted assets, thus, this ratio represents a good proxy for implementing good corporate governance mechanism. The study considers regulatory capital and some other financial soundness indicators which are related to the CAR. These other financial soundness indicators as stipulated in CBN Prudential Guidelines (2010) are:

b. *Loan to deposits ratio (LDR)*. Loan-to-Deposit ratio is the ratio of total loans and advances to total deposit liabilities. Loan is represented by total loan in the balance sheet, whilst the deposits include demand deposits, time deposits, certificate of deposits, savings, issued securities, prime capital, loan capital, and borrowing. This ratio shows the proportion of public contribution as a source of capital to finance the banks' loans. Smaller LDR number indicates that public provides smaller proportion to support the

banks' loans. The ratio represents a good proxy for external corporate governance mechanism. Eighty percent (80%) is the maximum prescribed by CBN.

c. *Non-performing Loan to total Loan Ratio (NPLTLR).* Is the ratio of non-performing loan divided by total loan or credit (NPTC). The tolerable limit is 10% stipulated by CBN.

d. *Liquidity Ratio (LR).* Liquidity ratio is the ratio of total specified liquid assets to total current liabilities. Thirty percent (30%) is the minimum prescribed by CBN.

e. *Deposit Money Banks Lending Rates (DMBLR).* The aggregate rates at which the deposit money banks' lending money to their customers.

f. *Cash Reserve Ratio (CRR):* Cash reserve ratio is the ratio of cash reserve requirement to total deposit liabilities. (CRR = Cash Reserve Requirement ÷ Total Deposit). The minimum limit will be determined by CBN from time to time.

Sustained on the above explanations, it is clearly that corporate governance focused on the economy, social political and legal environment in which the corporations operate systems practices and procedures-the formal and informal rules that governed the corporation. In summary corporate governance is very vital in every organization, because good corporate governance contribute to better Deposit Money Banks-DMBs financial performance, it is expected for every other organization to enforce good corporate governance policy, in order to achieve the stated organizational financial and non-financial objectives.

2.1.2. Performance

There are different views on what performance is, one view is concerned with record of outcomes achieved, that is, performance is regarded as accomplishments. Another view is that performance is about doing the work which is behavioral in nature. Akintonde, (2013) opined that performance is a multi-dimensional construct, the measurement of which varies depending on whether the measurement objective is to assess performance outcomes or behavior. Nnabuife, (2009) sees performance as individual efforts that will lead to a specific outcome that will be matched with expected reward by managers. Armstrong (2004) in Akintonde, (2013) defined performance as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction, and economic contributions. Performance could be regarded as behavior i.e. the way in which organizations, teams, and individuals get work done. Hornby, et al., (2010) see performance as the act or process of performing a task, an action that involves a lot of effort, or how well or badly you

do something or something works. Brumbach (1988) in Akintonde, (2013) has a comprehensive view of performance:

> Performance means both behaviors and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors are also out-comes in their own right – the product of mental and physical effort applied to tasks – and can be judged from the results.

This definition embraces both the behavior and outcomes and indicates that when managing the performance of teams and individuals both inputs (behaviors) and outputs (results) need to be considered. That is, there is need for performance evaluation, assessment or appraisal which assists management to plan, control activities and to make viable economic financial decisions which is the objectives of the organization as a whole to be met (Adeniyi, 2011).

Pandey, (2010) and Adeniyi, (2011) emphasized that management, and other stakeholders measure or evaluate the overall financial performance of a firm through its audited financial statements which shows the results of the firm's business operating cycle within a year and to identify firm's strengths and weaknesses in order to proffer remedial solution. Furthermore, Pandey, (2010) suggested that firm's future plan should be in line with the firm's financial strengths and weaknesses; consequently, financial analysis is the starting point for making plans, before adopting any advanced forecasting and planning techniques. Understanding the past is a prerequisite for anticipating the future. The management of the firm would be interested in all areas of the financial analysis; it is their duties to make the effective and efficient use of the firm's resources in their quest for optimization attainment. Shareholders (investors), who have invested their resources in the company, are most concerned about the organization's profitability. They have assurance in those companies that indicate stable growths in earnings (Adeniyi, 2011). Seeing that, they focus on the analysis of the firm's current and potential earnings (Pandey, 2010). While supplier of long-term debt concentrate on the long-term and short-term solvency. They evaluate the firm's profitability over time, its ability to generate cash to be able to pay interest and repay principal and the relationship between various sources of funds (capital structure relationships), (Pandey, 2010).

On the other hand, depositors are concerned with the banks' ability to meet their claims over a very short period of time. Their analysis will, therefore, be restricted to the assessment of the bank's liquidity position (Adewonyi, 2011). The government is interested in profitability to assess tax liabilities, survival and to ensure economic development. Employees are interested in stability and survival of the bank,

on which their jobs, wages depend; while customers focused on the company's continued existence to maintain supplies possibly at reduce cost without compromising standards (Adeniyi, 2011). All these can be ascertained through financial analysis of the firm's audited annual financial statements. The crucial point to note is that the overall performance of a firm or organization in this context is limited to financial accounting indicators; this factor is relevant and paramount to the organizational financial analysis in this study. Performance of bank on the other hand like many economic outfits are expected to produce profit through effective and efficient use of resources (inputs) to create sound asset portfolio (output) and ensure stability in earnings.

Banks Profitability

Profit is the difference between revenue and expenses over a period of time (usually one year). Profit is the ultimate result or 'output' of an organization and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the firm in term of profits. Profitability ratios measure the operating efficiency of the firm's use of its assets and control of its expenses to generate an acceptable rate of return and to assess the overall financial performance and effectiveness of the firm (Groppelli e tal., 2000; Pandey, 2010). Apart from management of the organization, owners, and lenders are also interested in the profitability of the firm. Lenders want to get interest and repayment of principal regularly. Owners want to get a required rate of return on their investments. This is possible only when the company earns enough profits. Generally, there are two categories of profitability ratios that can be computed to assess the operating efficiency of a firm: profitability in connection to sales and profitability in relation to investment.

Determination of return on investment

The term investment may refer to total assets or net assets. The funds employed in net assets are known as capital employed. Net assets equal net noncurrent (fixed) assets plus current assets minus current liabilities excluding banks loans. Alternatively, capital employed is equal to net worth plus total long-term debt (Groppelli e tal., 2000). The conventional approach of determining return on investment (ROI) is to divide PAT by investment. Investment represents pool of funds supplied by owners (shareholders) and creditors (lenders), while PAT represents residue income of shareholders; as a result, it is conceptually unsound to use PAT in the computation of ROI. In addition, PAT is affected by capital structure (Pandey, 2010). It is therefore more appropriate to use return on assets (ROA) is equals to EBIT (1-T) divided by total assets (TA) or return on net assets

(RONA) is equals to EBIT (1-T) divided by net asset (NA). Return on net asset (RONA) is equivalent of return on capital employed (ROCE) (Williams, 2008). Bank's performance constitutes the primary objective of shareholders' and other stakeholders' interest. This study employs a single proxy for bank performance defined as the return on assets (ROA). These variable equations can be calculated as follows:

$$ROA = (\text{Earnings before Interest Tax Depreciation Amortization -EBITDA})/ \text{Total Assets})$$

2.2. Theoretical Framework

In Nigeria, Sanusi (2003) said that the corporate governance in banks involves the range of practices covering proper conduct of business, values, ethics and the whole culture of organizational and staff behaviour. It not only involves process and financial targets to serve the interest of the shareholders but also the best practices of conduct with depositors, customers and other stakeholders. The major contribution of corporate governance was enhancing operating performance of firms and preventing the fraud (Yeh, Lee and Ko, 2002). Black, Jang, and Kim (2002) found that companies with better corporate governance had better financial performance than companies with poor corporate governance. This was well supported by Jensen and Meckling, (1976) and Fama and Jensen (1983). They found that corporate governance really helps owners to exert control over corporate affairs. Corporate governance mechanisms have given powerful position to the owners to manage corporate insiders and managers.

For the benefit of this study, we may not revalidate existing corporate governance theories which had previously anchored on agency theory, stakeholder's theory, and stewardship theory but to present existing empirical reviews affected by the study.

2.3. Empirical Review

Fanta, Kemal and Waka (2013) examine Ethiopian Banks between 2005 and 2011 using Multivariate Regression Analysis and classical linear Regression model The study found an inverse relationship between capital adequacy ratio, bank size; audit committee in the board and bank performance. However positive linkage was established between Banks' size, Capital adequacy Ratio; Board size and Bank's profitability. On the other hand they observed that the existence of audit committee members in the Board, ownership type, loan loss position and loan to deposit Ratio have no significant influence on Bank performance.

Similarly, Kim, and Rasiah, (2010) study the relationship between corporate governance and bank performance in Malaysia during the pre and post Asian Financial Crisis using

yearly data of 11 banks for the period 1995 -2005. They found evidence that Capital Adequacy Ratio (CAR) has significant positive relationship with performance. They also found that foreign owned banks have better corporate governance practices than domestically owned private banks. Rogers, (2008) in Adewoyin, (2012), also tried to address the issue from a slightly different point of view. He investigates the corporate governance and financial performance of selected commercial banks in Uganda from the perspective of bank depositors and bank officials using questionnaire with 5-point Likert Scale to collect data on the perception of 388 respondents. He also used variables such as trust, disclosure, and financial transparency as a measure of corporate governance and Capital, Asset quality, Management efficiency, Earnings and Liquidity (CAMEL) framework as a measure of bank performance and concluded that trust, disclosure, and transparency have a major positive contribution to the performance of commercial banks. However, his study is marred by methodological flaws related to application of the statistical tools.

Fidanoski, Meteska and Simeonooski (2013) examine15 banks out of 17 in Macedonia for a period of five years (2008 – 2011), they employed pool ordinary least square method of analysis. Their findings reveal positive relationship between supervisory and the managing board and banks profitability. Using Return on Equity as a performance indicator they discovered that there was no significant relationship between banks profitability and all the variables adopted. The findings further reveal significant positive relationship between size of managing board and cost-income ratio. In addition there was a significant negative relationship between board size and capital adequacy ratio. It was also discovered that there was a significant positive relationship between Age of bank and Capital Adequacy Ratio. They also observed significant negative relations between proportion of female member of supervisory board and bank performance whereas a strong positive linkage subsists between the proportion of women in supervisory board and bank performance (Cost-Income-Ratio). A positive significant relation was observed between the number of terms served by the CEO and bank performance.

Jensen (1993) posits that keeping board members small can help improve their performance. He opined that board members should not be more than seven (7) or eight (8) people, and where they are, they are likely to be less effective and easier for the CEO to control. However, (Johnson, Daily and Elstrand 1996) and (Daily, Dalton, Canella, 2003) hold a contrary view that board sizes do not undermine performance of banks. Hence they established a positive relationship between board size and performance as measured by Tobin's Q and Return on Assets. They concluded that a reduction in the number of directors in banks could have unfavourable effect on bank performance.

Tandelilin, Kaaro, Mahadwartha and Supriyatna (2007) comprehensively investigated the relationship among corporate governance, risk management, and bank performance in Indonesian banking sector. They took capital adequacy ratio (CAR) as the measure of external corporate practice; value at risk (VAR) as the determinant of risk management, return on equity (ROE) and net profit margin (NPM) as the gauge of bank performance. They found that the relationship between corporate governance, risk management and bank performance are sensitive to the type of bank ownership. Furthermore, risk management has significant effect on bank performance, and vice versa. They also found non-linear association between Capital Adequate Ratio (CAR) and Return on Equity (ROE). Akingunola, Adekunle and Adedipe (2013) examine a sample of five banks in Nigeria between 1992 and 2006. They employed Least Square Regression as a method of analysis. It was discovered that independence, fairness, reliance have less positive effect on bank performance. On the other hand accountability and transparency of bank staff have significant positive influence on bank's profitability. At the same time banks; total credit and deposits are positively related with bank performance.

Osuagwu (2013) in Gbadebo, (2014), studies the implications of corporate governance on the performance of Deposit Money Banks in Nigeria using descriptive research design approach. He found among other things that non compliance to corporate governance code in the Nigerian banking industry hampers banks performance. He recommended that the Deposit Money Banks should enforce full disclosure practices and transparency practices of corporate governance thereby enhancing trust in order to survive in the competitive financial environment in Nigeria. They recommended strategic training for board members and senior bank managers, most especially, courses that will promote corporate governance and banking ethics. From the findings, also we observe that corporate governance have been on the low side and have impacted negatively on bank performance.

3. Research Design and Methodology

The summary of the research procedure and processes adopted in this study are shown below.

The study adopts Panel survey research design; data are collected from a given sample at two or more different time periods. The data collected at these different time periods are analyzed to discover trends or changes in the opinions of the

subjects over the period of time under study. Nworgu, (2012) noted that the panel technique is suitable for studying trends, fluctuations and changes in subjects' opinions, attitudes or behavior.

The population of the study refers to the totality of all the elements or variables under study (Nworgu, 2012).The population of this study consist of twenty-four Deposit Money Banks shareholders in Nigerian. Table3.1 shows the number of questionnaires allocated based on board size to shareholders of each Deposit Money Banks in Nigeria:
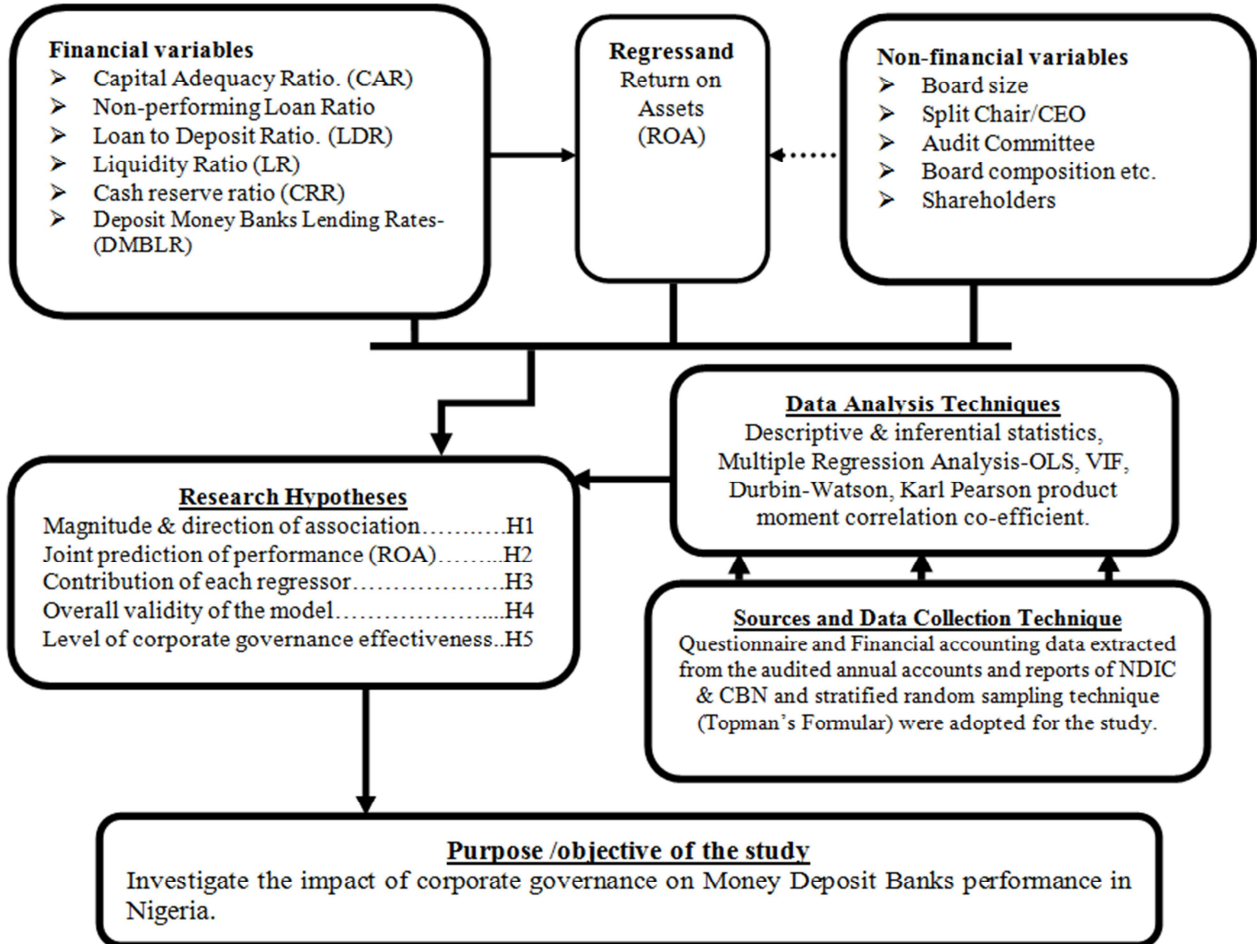

Figure 1. Research Design and Hypotheses Summarized.

Source: Researchers' concept

Table 3.1. Deposit Money Banks in Nigeria as at 31st December 2013.

S/N	Name of Banks	Questionnaires	Board size	Banking License
1	Access Bank Plc	4	14	International
2	Citibank Nigeria Limited	4	12	National
3	Diamond Bank Plc	5	16	International
4	Ecobank Nigeria Plc	5	15	National
5	Enterprise Bank	5	15	International
6	Fidelity Bank Plc	5	17	International
7	First Bank of Nigeria Plc	6	19	International
8	First City Monument Bank Plc	4	13	International
9	FSDH Merchant Bank Ltd	3	11	Regional
10	Guaranty Trust Bank Plc	4	14	International
11	Heritage Banking Company Ltd.	3	9	Regional
12	Jaiz Bank Plc	5	16	Regional
13	Key Stone Bank	4	14	National

S/N	Name of Banks	Questionnaires	Board size	Banking License
14	MainStreet Bank	4	14	National
15	Rand Merchant Bank Ltd	3	11	Regional
16	Skye Bank Plc	5	17	International
17	StanbicIBTC Bank Ltd.	4	14	National
18	Standard Chartered Bank Nig. Ltd.	2	8	National
19	Sterling Bank Plc	3	10	National
20	Union Bank of Nigeria Plc	5	16	International
21	United Bank For Africa Plc	6	19	International
22	Unity Bank Plc	4	13	National
23	Wema Bank Plc	4	13	Regional
24	Zenith Bank Plc	3	11	International
Total		100	331	

Source:NDIC Annual Report and Statement of Account 2013.Vanguard News paper, 01-June-2011.

3.1. Sample Size and Sampling Techniques

Since divergent stakeholders' interests are represented in the corporate governance and the shareholders developed mechanism to control the activities and decision of the management in order to maximize the long term firm's value. These banks were classified according to the bank minimum paid-up capital requirements (i.e. #10 billion, #25 billion and #50 billion for Regional, National and International Banks respectively).Therefore, the sample size was made up of DMBs' shareholders stratified into three strata (that is, regional, national and international Banks) that were considered very crucial in the study; the shareholders were adopted in order to minimize conformity bias while non-executive and executive directors were excluded. From NDIC Report and Account for 2013, Deposit Money Banks-DMBs were identified and their shareholders (respondents) were classified according to types of banking license granted by CBN. The questionnaires were distributed based on the board size of the banks this is to ensure fair representation; (see Table 3.1). The sample size of 100 had been infinitely determine using the Topman's sampling technique formula developed by Cochran (1963) in Adeniyi, S. (2014) and adopted from Nwoye, Okoye, and Oraka, (2013):

$n = [Z^2 (P) (Q)] / E^2 = [(1.96)^2 (0.93) (0.07)] / (0.05)^2 = 0.2500881/0.0025=100.03524 \sim 100$

n= sample size,

P= estimated proportion of an attribute that is present in the populations

Z^2=the desired level of confidence level, obtain from the Norman Curve table e.g. 95%, 90%

Z^2= 95%÷2=0.4750; check for '0.475' under Area against Z = "1.96" from Normal Curve table.

E^2= desire level of precision or significance level. 5% =0.05

Q=1-P = 1- 0.93 = 0.07

Table 3.2. The Summary of Sample size of each type of bank's Shareholders.

S/N	Nomenclature of Shareholders	No. of Questionnaires Allotted	Percentage Allotted %
1	International Banks	52	52%
2	National Banks	30	30%
3	Regional Banks	18	18%
	Total	100	100

Source: Researchers' Computation.

The stratified random sampling technique was used to allocate the one hundred questionnaires among the DMBs in Nigeria after adopting the Topman's formula to determine the sample size of one hundred participants or respondents. These were shared based on board size of each banks and classified into international, national and regional banks with their respective percentage allocations. International, national and regional banks had fifty-two percent (52%), thirty percent (30%) and eighteen percent (18%) respectively. Table3.2 showed the proper details.

3.2. Instrument for Data Collection

Table 3.3. Scales for questionnaire responses.

Codes	Description	Point
VE	Very effective	4
E	Effective	3
IE	Ineffective	2
VI	Very Ineffective	1

Source: Researcher

A structured questionnaire was used to generate relevant data for this study. The instrument was designed by the researchers with insight from literature reviewed. The instrument is titled: An Investigation of Corporate Governance Impact on Deposit Money Banks' Performance in Nigeria Questionnaire (COGIDPEQ). The questionnaire was divided into two sections A and B. Section-A contained three items on personal data of the shareholders covering name of banks, educational qualification and years of holding

shares. Section-B contained 20 items in two clusters B1 and B2 covering the research question three with 13 and 7 items respectively. The instrument is a modified 4-point Resin Likert scale ranging from very effective (4) to very ineffective, table3.3 gives the details as follow:

3.3. Validation and Reliability of the Instrument

The face and content validity of the questionnaire were determined by two experts, one from the Faculty of Education, and one from the Department of Banking & Finance, Nnamdi Azikiwe University, Awka. The researchers presented the research topic, purpose, research questions and hypotheses with the draft instrument to the experts and requested them to consider the length of the entire instrument, suitability of the items, and clarity of instructions, and freely restructure instrument adding and deleting items as they deem fit to ensure that the instrument serves its purpose effectively. The experts agreed with the response options (i.e. Very effective, effective, ineffective and very ineffective). All these were incorporated in the final copy of the instrument which was used for the study.

The instrument was administered on ten (10) respondents made up of Management staff of microfinance banks who were not part of the study population. Their responses were subjected to reliability analysis, using Cronbach Alpha to determine the reliability co-efficient. Cronbach Alpha is the current widely used procedures for estimating the internal reliability of survey instrument. According to Uzoagulu (1998) in Akintonde, (2013), Cronbach's Alpha estimates (0.7) of an instrument with an alternative form which is composed of the same number of items is reliable. Reliability estimates of 0.65 and 0.77 were obtained for section B1 and B2 respectively while overall reliability co-efficient of 0.8 was obtained, hence, the instrument was adjudged reliable for the study.

3.4. Method of Data Collection and Data Analysis

One hundred (100) copies of the questionnaire were administered directly to the respondents by the researcher and research assistants. Copies of questionnaire that were completed on the spot were collected immediately, while copies from those who could not respond on the spot were collected later on appointment within space of two weeks. Repeated visits were made in order to achieve a high response rate. We adopt one regression model in line with previous studies; in order to understand the joint effect of corporate governance mechanisms on banks' performance. The data was analyzed using Multiple Regression, Analysis-OLS, t-test, ANOVA, Variance Inflationary Factor, VIF, Durbin-Watson Statistics, and Karl Pearson product moment correlation co-efficient, to test and ascertain whether there exists the impact of corporate governance variables on banks' performance. In line with these prior studies, this research work considers 2006-2013, the year of post-consolidation, using the CBN, and NDIC reports.

3.5. Decision Rule

The F-test and t-test was used to test the null hypotheses at 0.05 level of significance. The boundary limits of number were used as shown below to facilitate decision making:

Table 3.4. Decision Rule.

Response Options	Codes	Rating Point	Boundary Limits
Very Effective	(VE)	4	3.50 – 4.00
Effective	(E)	3	2.50 - 3.49
Ineffective	(IE)	2	1.50 – 2.49
Very Ineffective	(VI)	1	1.00 – 1.49

Source: Researchers

The decision rule was based on the mean rating which was calculated as follows:

$$(4+3+2+1)/4 = 10/4 = 2.50$$

Therefore, an item with a mean rating of 2.50 and above shows the banks are effective in compliance level where the mean rating is below 2.50 it means the banks are ineffective in compliance level. A null hypothesis was accepted if the p-value is greater than or equals to the pre-set level of significance (5%= 0.05) or otherwise reject.

Table 3.5. Aggregates of Deposit Money Banks Financial Indicators for 8years (2006-2013).

S/N	Years	ROA	CAR	LDR	LR	CRR	DMBLR	NPLTL
1	2006	1.61	22.57	63.6	55.7	4.2	17.26	6.3
2	2007	3.89	23.00	70.8	48.8	7.92	16.94	8.1
3	2008	3.95	21.91	80.9	44.3	3.0	15.14	6.1
4	2009	(8.9)	4.1	85.7	30.7	1.3	18.99	27.6
5	2010	3.9	4.32	74.2	30.4	1.0	17.59	15.04
6	2011	(0.04)	17.71	44.8	42	8.0	16.02	4.95
7	2012	2.62	18.07	54.29	48.3	10	16.5	3.51
8	2013	2.15	17.18	57.95	63.2	12	16.72	3.23

Sources: Statistical Bulletin of Central Bank of Nigeria 2013.Nigeria Deposit Insurance Corporation Annual Report & Account 2006-2013

3.6. Measurement of Variables and Model Specification

This study is constructed on two constructs: corporate governance and bank performance. This section attempts to define the two constructs in specific variables that can be interpreted and measured operationally. This study employed some relevant variables to surrogate each construct. Table 3.5 shows the aggregate financial indicators of Deposit Money Banks in Nigeria, these financial indicators represent the Central Bank of Nigeria and Nigeria Deposit Insurance Corporate banks prudential financial guide lines use in measuring the financial soundness of DMBs. The data have been used as proxy for corporate governance as follows:

3.6.1. Specification of Econometric Model of Banks Performance

Banks' Performance $= f$ (Corporate governance)

Introduce the proxy variables (i.e. the regressand and the regressors)

Banks' Perf.(ROA)$= f$ (Corporate Gov.-CAR, , LDR, LR, CRR, DMBLR)

Introduce the estimates parameters that is, intercept term (α) and regression co-efficient slope (β).

$$ROA_{it} = \alpha + \beta_1 CAR_{it} + \beta_2 LDR_{it} + \beta_3 LR_{it} + \beta_4 CRR_{it} + \beta_5 \text{DMBLR}_{it} \qquad \text{Eq.1}$$

Equation-1 is a mathematical or deterministic model.

Introduce the error term or stochastic disturbance / extraneous variable (ε).

$$ROA_{it} = \alpha + \beta_1 CAR_{it} + \beta_2 LDR_{it} + \beta_3 LR_{it} + \beta_4 CRR_{it} + \beta_5 \text{DMBLR}_{it} + \varepsilon_{it} \qquad \text{Eq.2}$$

Equation-2 is a stochastic or econometric model (i.e. linear regression model).

Table 3.6. Nomenclature of studied variables.

S/N	Name of Variable	Symbol	Variable type
1	Returns on Assets;	ROA	Dependent/Regressand
2	Capital Adequacy Ratio	CAR	Predictors /Regressor
3	Loan to Deposit Ratio	LDR	Independent /Regressor
4	Liquidity Ratio	LR	Independent /Regressor
5	Cash Reserve Ratio	CRR	Independent /Regressor
6	Alpha	α	Intercept/ Constant term
7	Beta	β_{1-5}	coefficient of parameters
8	Stochastic Disturbance term	ε	Extraneous or Error term
9	Years	t	Time
10	Represents individual banks in the sample	i	individual banks
11	Functional notation	f	

Source: Researcher

3.6.2. Justification for Model Estimation Technique

In examining the impact of corporate governance on financial performance of Deposit Money Banks-DMBs in Nigeria, the panel data methodology is adopted because the study combined time series and cross sectional data that is, Twenty-four (24) cross sectional observations for each year and eight (8) time series observations for each bank on independent and dependent variables, a total of one hundred and ninety-two (192) pooled (combined) observations. Panel data regression analysis is a type of regression analysis that involves panel data analytical technique. Panel data are said to be repeated observations on the same cross section, typically of individual variables that are observed for several time periods (Gujarati, Porter, & Gunasekar, 2012).

Panel data analysis is an important method of longitudinal data analysis because it allows for a number of regression analyses in both spatial (units) and temporal (time) dimensions. It also provides a major means to longitudinally analyse the data especially when the data are from various sources and the time series are rather short for separate time series analysis (Gujarati etal, 2012). Even in a situation when the observations are long enough for separate analyses, panel data analysis gives a number of techniques that can help examine changes over time common to a particular type of cross-sectional unit. Panel data model can be estimated using ordinary least square (OLS) or Pooled regression technique (Gujarati etal, 2012 and Nworgu, 2012).

4. Test of Hypotheses

As earlier stated that null hypotheses will be tested in the study. The analysis and inference for the hypotheses are as follows: To test the following hypotheses, various tests were conducted and result extracted from the SPSS Version-21 output.

Test of Hypothesis-1: The magnitude and direction of relationship between Return on Assets (ROA) and capital adequacy ratio (CAR) is not statistically significant among the Deposit Money Banks (DMBs) in Nigeria.

Table 4.1 shows the Pearson correlation co-efficient statistics between Return on asset and corporate governance proxy variables among the Deposit Money Banks in Nigeria. The correlation (r) statistical procedure was tested at alpha (α) level of 5% (.05) in order to investigate the degree of relationship between Capital Adequacy Ratio (CAR) and Return on Asset (ROA). The analysis showed a significant negative correlation between Capital Adequacy Ratio (CAR) and Return on Asset (ROA) ($r = -.644$, $p < .05$). The result

indicated that the CAR had a negative statistical significant relationship with ROA, thereby countering the null

hypothesis (H_o) to be accepted and the converse (Alternative hypothesis-H_a or H_i) was upheld.

Table 4.1. The Correlation Co-efficient Statistics between Corporate Governance Proxy Variables and Return on Assets (ROA).

Variables	CAR	NPLTC	LDR	LR	CRR	DMBLR
ROA-Pearson Correlation	-.644**	.912**	-.035	.065	-.132	.658**
Sig. (2-tailed)	.000	.000	.789	.624	.314	.000
Significant Level: p<.05.						

Source: SPSS Version-21 Output

Table 4.2. Multiple Regression Analysis Showing Corporate Governance Proxy Variables Joint Prediction to Return on Assets (ROA) among Deposit Money Banks-DMBs in Nigeria for the eight year period (2006-2013).

Model	S S	Df	Mean Square	F	R	R^2	Adj. R^2	P
Regression	291.12	6	48.520	63.94	.937	.879	.865	.000
Residual	40.217	53	0.759					
Total	331.34	59						
P<.05 Level of significance								

Source: SPSS Version-21 Output.

Test of Hypothesis-2: The corporate governance proxy variables have not jointly affect performance variable significantly among Deposit Money Banks (DMBs) in Nigeria.

To test the above hypothesis, f-test (ANOVA), t-test, Multiple Regression, Durbin Watson and Variance Inflationary Factor-VIF were conducted and result extracted from the SPSS Version-21 output. The data are presented in table4.2 and 4.3. The result revealed that there is statistical significant effect or impact of corporate governance proxy variables on Return on Asset (ROA) among the DMBs in Nigeria F (6, 59) = 63.94(Adj. R^2= .865, p< .05). The corporate governance surrogates jointly explained eighty-six point five percent (86.5%) variation in banks' performance proxy by return on asset (ROA), while the remaining variance not explained by

the regressors (exogeneous variables) might be accounted for by the impact or effects of extraneous variables. Therefore the corporate governance proxy variables were statistical significant joint contributors to the impact of banks' performance among the DMBs in Nigeria. Base on this analysis we concluded that the null hypothesis (H_o) should be rejected and the alternative hypothesis (H_a) should be accepted; that is, the corporate governance proxy variables have jointly affect or predict performance variable significantly among the Deposit Money Banks in Nigeria.

Test of Hypothesis-3: The strength of causation of each corporate governance surrogates on the performance model is not statistically significant among Deposit Money Banks (DMBs) in Nigeria.

Table 4.3. Multiple Regression Analysis Showing the Relative Contributions of Each of the Regressors to the Joint Prediction of Return on Assets (ROA) among Deposit Money Banks-DMBs in Nigeria for the eight year period (2006-2013).

Dependent Variable Return On Asset (ROA)	VIF Collinearity Statistics	Standardized Coefficients $\beta - Value$	Std. Error	t-value	P-value	Sig	Rank
Constant	-	-	3.113	2.434	.018	<.05	-
CAR	3.058	0.250	0.027	2.984	.004	<.05	1st
DMBLR	3.156	-0.242	0.184	-2.842	.006	<.05	3rd
LDR	1.236	-0.024	0.008	-0.458	.649	>.05	5th
LR	1.440	0.021	0.013	0.364	.717	>.05	2nd
CRR	1.363	-0.031	0.114	-0.561	.577	> .05	4th
Durbin-Watson		2.335					

Source: SPSS Version-21 Output

The result in table 4.3 showed that the beta (β) weights of the paths (Paths coefficients) give the estimates of the strengths of the causation. The entire corporate governance proxy variables shown to contribute differentially to return on asset (ROA) among DMBs' performance in Nigeria; in particular, Capital Adequacy Ratio-CAR contributed positively to the explained variation of return on asset (ROA) which was

statistically significant to the performance of DMBs' performance . This surrogate produced magnitude of beta weights of (Capital Adequacy Ratio-CAR) $\beta = 0.250(t = 2.984, p = .004)$, while Liquidity Ratio-LR came next in the order of magnitude of positive contributions to the dependent variable $\beta = 0.021(t = 0.364, p > .05)$.

The regressors already discussed showed significant

independent prediction of Return on Asset (ROA) to banks' performance among DMBs in Nigeria, excluding the contribution of Liquidity Ratio which is not statistically significant. Subsequently, is the decreasing order of contributions made by Deposit Money Banks' Lending Rate-DMBLR $\beta = -0.242$ (t $= -2.842, p = .006$); Cash Reserve Ratio-CRR $\beta = -0.031$(t $= -0.561, p = .577$); and Loan-to-Deposit Ratio- LDR $\beta = -0.024$(t $= -0.458, p > .05$); which independent contributions to the prediction of the regressand (dependent variable) is not statistically significant to the prediction of Deposit Money Banks' performance proxy by Return on Asset (ROA); except Deposit Money Banks Lending Rate (DMBLR) which had negative significant contribution.

Table 4.3 shows that out of six parameters, three variables (i.e. constant term(α), capital adequacy ratio(CAR), and deposit money banks' lending rates (DMBLR)) are statistically significant in predicting the performance proxy variable (i.e. return on assets). While three out of six exogenous variables (i.e. liquidity ratio (LR), loan to deposit ratio (LDR) and cash reserve ratio (CRR)) are insignificant in predicting the performance proxy variable. On average, we can conclude that the contribution of the three independent variables (i.e. constant term (α), capital adequacy ratio (CAR), and deposit money banks' lending rates (DMBLR) are statistically significant in predicting the performance model. Therefore, we reject the null hypothesis and accept the alternate hypothesis that the strength of causation of corporate governance proxy variables on the performance model is statistically significant on average among Deposit Money Banks (DMBs) in Nigeria.

Test of Hypothesis-4: The overall validity of the model among the Deposit Money Banks in Nigeria is not statistically significant.

Table 4.2 and 4.3 contained the Multiple Linear Regression model summary which showed the details about the explanatory variables and the dependent variables proxy by return on asset (ROA). From table 4.3 we observe that R^2 (.879) is higher than the Adj. R^2 (.865) when there are more explanatory variables in the model; this is not just a coincidence but a property of R^2. Whenever new explanatory variable are added to a model R^2 increases regardless of the contribution of newly added regressor. Thus the value of R^2 may be misleading in Multiple Linear Regression models. For goodness of fitted model or validity of model estimates to be satisfactory, it must fulfill the following three basic assumptions, that is; Linearity, independence and homoscedasticity (all error variances are the same).

The assumption of linearity had been seen from table 4.2, that is, there is linear relationship between return on asset

(ROA) and at least with one of the explanatory variables. From table 4.3 the Durbin Watson statistic ($D_w = 2.335$) this shows that the explanatory variables are statistically independent of one another and all error variances are the same. If this assumption is violated we faced the problem of multicollinearity, that is, there will be contradiction between F-test and T-test in Table 4.2 and 4.3 jointly, in order to test for presence of multicolllinearity we test for Variance Inflationary Factors-VIF of the individual explanatory variables (i.e. CAR= 3.058, DMBLR= 3.156, LDR= 1.236, LR= 1.440 and CRR= 1.363), they are less than five (VIF< 5). Kothari, Gaurav and Garg, (2014) noted that Durbin Waston Statistics that ranges between one and three (i.e.1-3) and Variance Inflationary Factor that is less than five (i.e. VIF< 5) are within the acceptable limit otherwise they are alarming. Therefore, we concluded that the F-test has established the overall validity of the model and any of the explanatory variables is having linear relationship with the response variable. Thus, goodness of fitted model is valid:

$$ROA_{it} = \alpha + 0.250CAR_{it} - 0.024LDR_{it} + 0.021LR_{it} - 0.031CRR_{it} - 0.242DMBLR_{it} + \varepsilon_{it} \qquad Eq.3$$

Finally, Equation.3 above is the fitted model.

Table 4.2 and 4.3 show that the performance model proxy by return on assets (ROA) is valid, since there is no contradiction between F-test and t-test results. Therefore, we accept the alternate hypothesis and reject the null hypothesis and conclude that the validity of the performance model is statistically significant among the deposit money banks in Nigeria.

Test of Hypothesis-5: The level of effectiveness of corporate governance practices among the Deposit Money Banks in Nigeria base on shareholders' nomenclature and mean responses is not statistically different significantly.

To test the above hypothesis, a two-tail f-test (ANOVA) of the difference between the means of the three groups (i.e. Shareholders in Regional Banks, National Banks and International Banks) was undertaken based on the responses of the shareholders. The data are presented in table 4.4. The *F-test* analysis as shown in table 4.4 revealed that the calculated p-value of f (2, 71) = 0.479 (p =.622) is higher than the significant level of five percent (0.05). Consequently, the null hypothesis (H₀) of no significant difference between the regional, national and international banks mean ratings of corporate governance practice level of effectiveness was accepted and the converse (i.e. alternate hypothesis-H₁) was rejected. The corporate governance practice level among the DMBs is the same among the three groups of banks based on the mean rating or scores of the shareholders. The level of efficient and good corporate governance in international banks, national banks and regional banks are equal.

Table 4.4. F-Test (ANOVA) Comparison of Shareholders' Ratings on Corporate Governance Level of Effectiveness among Deposit Money Banks-DMBs in Nigeria.

Subhead	Sum of Squares	df	Mean Square	F	Eta (η)	P
Between Groups(Combined)	0.405	2	0.203	0.479	.117	.622
Within Groups	29.209	69	0.423			
Total	29.614	71				
p >.05 Level of significance						

Source: SPSS Version-21 Output

4.1. Discussion of findings

The outcome of model shown that there is positive impact between CAR and ROA. This result is inconsistent with the findings of (Adewoyin (2012), Gbadebo (2014) and Tandelilin, Kaaro, Mahadwartha and Supriyatna 2007), who argue that the effect of CAR on ROA may not be linear due to central bank regulations. But corroborated with the result of Kim and Rasiah (2010), they found evidence that Capital Adequacy Ratio (CAR) has significant positive impact with performance. While the Pearson correlation co-efficient between CAR and ROA is inverse or negative significant relationship($r = -.644$, $p < .05$). Adewoyin (2012), confirmed that the Basel Accord requires banks to maintain CAR level of at least 10% by 2010 while the Central Bank of Nigeria minimum requirement as at 2014 of 15% for banks with International Subsidiaries, 10% for banks without International Subsidiaries and 16% for banks with methodically essential banks to protect the depositors' interest.

Adewoyin (2012), emphasized that negative effect of CAR on ROA returns to positive when CAR surpass the particular amount of which depositors recognize and believe that bank will be concerned about implementing effective corporate governance that fully conform to international best practice; afterward the banking public will be eager to deposit their money with the banks and in like manner the investors will like to invest their hard earn funds by buying shares of the banks, this in turn will increase the bank profitability. Deposit money banks' lending rates (DMBLR) is found to have positive significant relationship with banks' performance proxy by ROA excluding Liquidity ratio (LR). This implies that the size of LDR, CRR, LR and DMBLR as measures of management's risk taking behaviour or risk appetite do have significant effect on bank profitability (ROA). This situation may be due to the fact that the size of Non-performing loan due to risk of unredeemed loans is equally compensated by the income (lending interest rates) from loans made.

LDR and CRR have insignificant negative correlation co-efficient or relationship with banks' performance proxy by ROA. This indicates that when banks' assets are tied it will generate no income or revenue to the bank, that is, there will be no future economy benefits that will flow from the idle assets to the bank. These findings is in conformity with the conclusion of Tandelilin, Kaaro, Mahadwartha and Supriyatna (2007), they noted that management's risk has significant effect on bank performance. This implies that the source of funds (depositors or shareholders) for credit creation does not matter to a bank's performance. Finally, Osuagwu (2013) found among other things that non compliance to corporate governance code in the Nigerian banking industry hampers banks performance; which is in line with our study.

From our analysis under the hypothesis five it was revealed that board size has no differential effect on banks' performance based on the responses of the banks' shareholders; suggesting that banks with larger board or smaller board tend to perform equally and efficiently in respective of the bank's board size and bank size (i.e. minimum paid-up capital). This finding is not in agreement with conclusion of Jensen (1993), who posits that keeping board members small can help improve their performance. He opined that board members should not be more than seven (7) or eight (8) people. And also with Dallas (2004), affirmed that adverse effect of board size on bank performance may be due to the fact that boards with too many directors could be unproductive, with ineffective communication among directors in the board. This leads to director free riding problem i.e. directors consume more resources than they contribute to the bank, and thereby reducing bank performance. The effect of discharge of audit committee (AUDC) on bank performance (ROA) is also effective, suggesting that banks having a designated audit committee in the board perform effectively. This result contradicts the findings of Fanta, Kemal and Waka (2013) who observed opposite or negative effect of audit committee in the board on banks' performance.

4.2. Implications of Findings

From the empirical study we are able to deduce that corporate governance proxy variables have both positive and negative impact on the deposit money banks' performance proxy by return on asset (ROA). Holding all other factors

constant, the additional increase in capital adequacy ratio-CAR will lead to increase in return on asset (ROA) to the tune of twenty-five percent (25%). This is statistically significant to DMBs' performance in Nigeria. The positive trend of NPLTC indicates the management appetite for risk taking but efficient and good tenet of lending practices should be installed so that depositors' funds will be adequately managed and the banking public and financial system will not be in financial crisis.

While loan to deposit ratio-LDR, cash reserve ratio-CRR and lending rate-DMBLR, have negative impact on banks' performance, that is for every marginal increase in LDR, CRR and DMBLR will lead to decrease of -2.4%, -3.1% and -24.2% respectively in return on asset (ROA); only DMBLR effect is statistically significant. The negative impact of LDR and CRR is not significant; but this implies that when firms' assets or funds are tie down it will not generate income for the organization, therefore, there is a need for efficient management of the banks' liquidity position from time to time (i.e. trade-off between liquidity risk and banks' profitability) and banks' regulator should properly supervise and review the Liquidity ratio, cash reserve ratio and loan to deposit ratio from time to reflect economy reality. From our findings it was discovered that four out of the six exogenous variables including intercept term (α) contribute significantly to the joint prediction of the performance model and the validity of the performance model proxy by return on assets (ROA) was statistically valid. Indicating that the corporate governance proxy variables (i.e. financial soundness indicators) have both positive and negative significant impact on the performance model.

5. Conclusion and Recommendations

The effect of a good and efficient corporate governance practice is the board of directors (bank's management) who guarantees that the stakeholders' interests are not put in danger (Hashanah and Mazlina, 2005 in Adewoyin, 2012). Probity, transparency and accountability are apparatus of corporate governance that would assist banks increase depositors', shareholders', investors' and other stakeholders' trust. These stakeholders require assurance that the corporation will be run both openly and skillfully. This is vital issues in firm's governance (Gbadebo, 2014). Corporate governance improves stakeholders' confidence and this would aid the development of business in the long run. The present corporate governance theories to a great extent explain the complexity and heterogeneity of corporate business. Consequent upon the discussion of findings the researchers recommended that:

i. The CBN and NDIC should properly monitor and review from time to time the financial soundness indicators which are the bed-rock of advancing and establishing robust financial banking system in the Nigeria economy.

ii. The empirical results reveal that as a way to build up the performance of Deposit Money Banks in Nigeria, Central Bank of Nigeria and Nigeria Deposit Insurance Corporation should be concerned about the degree of effectiveness of both internal and external corporate governance system of banks.

iii. The Central Bank of Nigeria and NDIC should encourage banks to appoint and engage directors that are versatile in banking operations and supervision.

iv. The government, Central Bank of Nigeria, Nigeria Deposit Insurance Corporation and other regulatory authorities should collaborate together towards the enforcement of the existing laws in order to promote good and efficient corporate governance.

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