GSJ: Volume 9, Issue 11, November 2021
ISSN 2320-9186

Global Scientific JOURNALS
GSJ: Volume 9, Issue 11, November 2021, Online: ISSN 2320-9186
www.globalscientificjournal.com

Institutional Corporate Governance Compliance, Level of Tolerance and Performance in Listed Deposit Money Banks in Nigeria

IDOWU Abiola, & OYELEYE, Olufunke Adebisi

Department of Management and Accounting,
Ladoke Akintola University of Technology, Ogbomosho, Oyo State, Nigeria.

aidowu22@lautech.edu.ng olufunkeadebisi@gmail.com*(corresponding author)*

Abstract : The objective of the research is to examine the compliance level of listed deposit money banks in Nigeria to some of the core variables of corporate governance, as well determine the level of importance of corporate governance variables to performance. Percentage and bar chart were employed to examine level of compliance. Optimal scaling correlation with level of importance was used for objective two. The following constitutes corporate governance variables; board independence, board size , gender diversity, board independence, audit committees' size, number of meeting per annum. Intervening variables included were inflation and exchange rate. Compliance index showed that Union Bank Plc has perfect compliance score of 100%, thereby came first while Access Bank Plc came last with 82%. It was shown that the level of importance of the corporate governance variables differs to financial performance, it revealed that Board meetings, Board independence, corporate social responsibility, Firm size are the most important variables to financial performance of banks. Compliance to Corporate should be enforced and emphasis should be placed on Board meetings, Board independence, corporate social responsibility, Firm size.

Key Words: Institutional Governance Compliance, Performance, Level of Tolerance

Introduction

Responsibility of management is to manage the resources in their care in such a way that it will be beneficial to all claimants within the organization. Institutional (Corporate) governance dictates the process, way and manner in which organisations can be directed and controlled (Cadbury 1992). Corporate governance can also be referred to as a set of relationship that exist between company's directors and her stakeholders. Company performance is the measure of the success of financial functions or activities within an organization is referred to as financial performance. Stories of failed institutions due to in effective and inefficient corporate governance abound in the world and Nigeria as country is not immune (Appiah 2013)). Banking sector in Nigeria experienced the failure and revocation of Skye bank's license and the eventual takeover of its asset and liabilities by Polaris in 2018, Access bank also took over Diamond Bank.

Banks in Nigeria are the front runner in the establishment of sectorial codes of corporate governance in the year 2006 before the general corporate governance codes issued in 2018. Central Bank of Nigeria reported that scandals within organization that later led to liquidation of most banks are as result of misuse or non-availability of good corporate governance in such organizations. Many researchers such as Onakoya *et.al.* (2014) and Sarpong-Danquah *et al* (2018) had found out that good corporate governance strengthens the performance of corporation on the long run, this is because good corporate governance safeguards the resources of the organization as well as encourages managers to discharge their duties efficiently by maximizing owner's wealth.

Many studies has shown the relationship of institutional governance variables and performance with that are not convergent. Some reported positive correlation (Al-Ghamadi and Rhodes (2015)) and relationship of governance variables on performance while some governance variables have negative correlation (Khamis *et al* (2015)), this gives room for further studies.

The past researchers looked at impact of corporate governance variables on performance without looking at the level of importance of those variables, this study explore the level of importance of corporate governance variables to performance of listed deposit money banks, non-inclusion of corporate social responsibility is also seen as a limitation to previous studies.

Objectives of the study

i)To determine compliance level of listed deposit money banks in Nigeria to corporate governance.

ii)To ascertain the importance of corporate governance variables to performance of the listed deposit money banks. .

1.3 Research Hypothesis

The following hypothesis formulated and tested

H_{01}: Listed deposit money banks in Nigeria do not comply with corporate governance.

H_{02}: There exist no difference in the corporate governance variables' importance.

Literature Review

The last three decades has witnessed increased debates on corporate governance, reason for this is not far-fetched, collapse of predominantly big organizations both in the developed as well as developing nations led to increase curiosity of researchers in this area. Corporate governance are the rules, principles that guides how an organization is controlled and directed (Cardury 2009). Corporate Governance is made up of policies, instructions, regulations and laws dictating the way and manner a corporate organization is managed and controlled. (Duru *et al* 2016; Buallay *et al* 2017).

Major areas of Corporate Governance includes;

Board size and composition

The board size for bank and discount house is minimum five (5) and maximum of twenty (20 The board shall be shall comprise of both executive and non-executive directors. Non-executive directors must be more than the executive directors. The board size should be directly proportional to the size of the business organization, this is because greater effort will be needed to understand, interpret and make decisions. Big and complex organization need more expertize. (Farag and Malling 2017) Boone *et al* (2007) reported that smaller boards require a lower cost

Board meetings

Board meetings should be minimum of four (4) times in a period or year, that is, the Board must meet at least once a quarter. It is mandatory for all directors to be present at all meetings of the Board and Board committees in which they are member.

Corporate Social Responsibility

Nigerian Extractive Industry Transparency Initiative (NEITI) Act 2007 introduced corporate social responsibility (CSR) as a compulsory element of corporate governance in order to erase the old belief that CSR is a voluntary practice. Organization that participate in CSR is expected to have a win-win situation and can also reduce employees turnover (Grafland, 2002, Alberto willi, 2014).

Audit committee: Audit committee is needed to ensure oversight of the process of reporting, compliance with law and regulations, also to ensure a good internal system. (Chong and Lai 2003, Nobes and Parker,2004; Dorner, 2005) .

Emperical Review

Nibedita (2018) examined the impact of corporate governance on insurance companies' performance in Bangladesh. The variables used as proxies for corporate governance were board size, board composition, board meetings and board audit committee. Ten listed insurance companies in Bangladesh were used. Multiple Linear Regression and Pearson Correlation were used. Secondary data was employed for the 2010 – 2016. Study revealed that corporate governance has impact on performance of insurance firms. Pearson Correlation result showed that positive relationship exist between board size, board meetings and Return on Equity

Kashif and Nadeem (2015) studied the impact of corporate governance on performance of commercial banks and financial services in Pakistan from 2009 to 2011. Corporate governance was represented by board attributes, Audit committee attributes and ownership attributes. Performance was measured by Return on Equity and Return on Assets. Nine commercial banks and nine financial service companies were looked into. Multiple regression was used. The study found that Board Independence has significant impact on Return on Equity of the firm while Board size and Audit Committee independence have significant impact on Return on Assets. The period looked into is very short, only three years, which cannot give a clear impact of corporate governance on performance.

Surprisingly Bohren and Staubo (2010) found that a negative significant relationship exists between proportion of females on board (gender diversity) and firm's performance. Darmadi (2011) also reported that there is no significant relationship between gender diversity and firm performance.

Baxter (2014) studied the relationship between corporate governance ratings of publicly listed companies in Australia and financial performance for the years 2006 to 2008. He measured the variable for corporate governance by the Horwath Corporate Governance Report (HCGR). The variables used for financial performance are Tobin's Q, ROA and ROE. The findings from the study showed that corporate governance ranking are positively associated with financial performance. The result cannot be totally relied on because it only made use of three years.

Khamis *et al* (2015) studied the relationship between institutional ownership structure and corporate performance in Bahraini listed companies in the years 2007 – 2011. The result showed that institutional ownership structure has negative relationship on company performance.

Ueng (2016) reported that firms with good corporate governance policy are better off in terms of financial performance. The study investigated the relationship between quality of corporate governance policy and financial performance of organizations while, Kumar and Singh (2013) reported an insignificant relationship between board size and Tobin's Q of publicly held companies from Indian Stock Exchange.

Buallay *et al* (2017) researched on the impact of corporate governance on performance of listed companies in Saudi. The study sampled one hundred and seventy one listed companies. Firm performance was measured by Return on Asset (ROA), Return on Equity and Tobin's Q. The result showed that the governance level in Saudi Stock Exchange was 61.4%, it also showed that there is no significant impact of corporate governance practices on firm's operational and financial performance.

Onakoya *et.al.* (2014) looked into the impact of corporate governance practices on bank performance in Nigeria, the study examined nine banks. Regression analysis was employed. He reported that structure of ownership and Board size had effect on Return on Equity.

GSJ: Volume 9, Issue 11, November 2021
ISSN 2320-9186

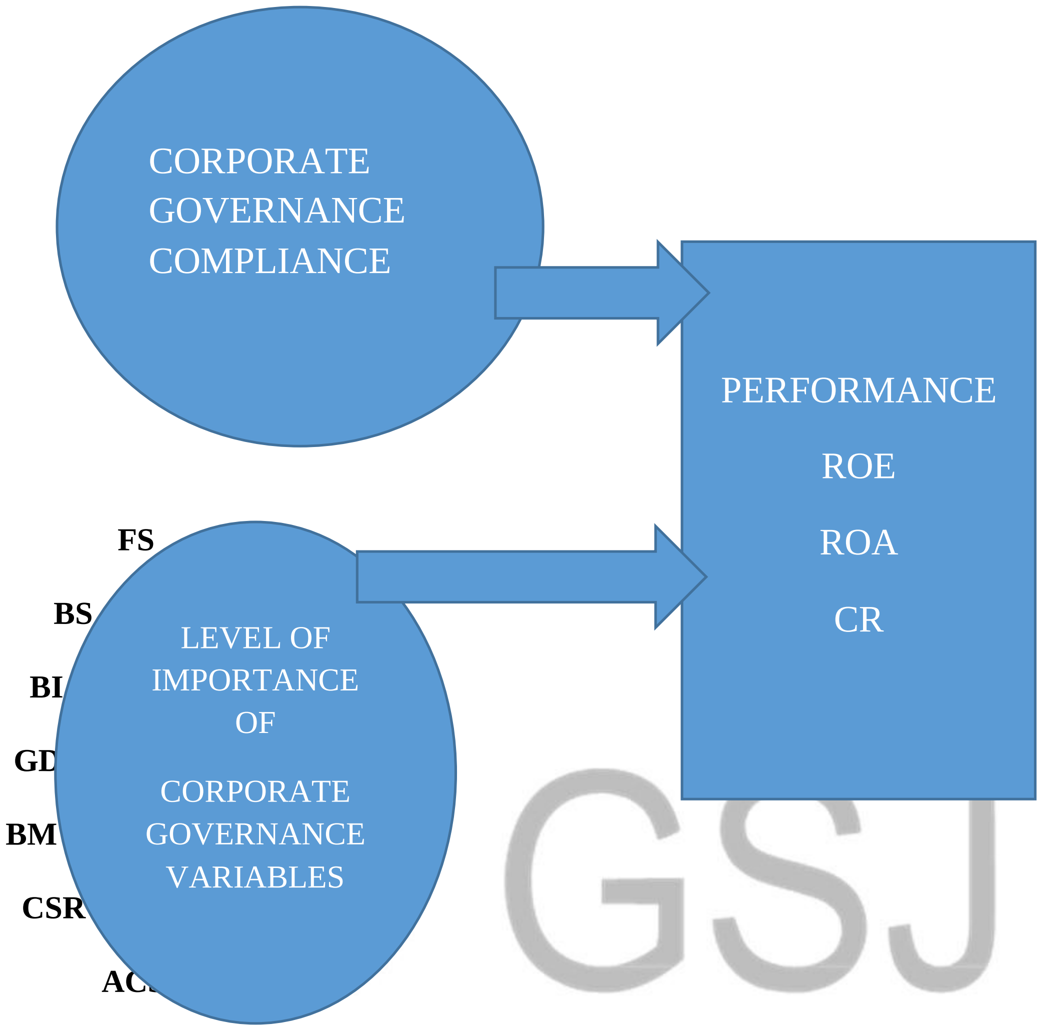

Figure 2.1 Conceptual Framework

Source: Researcher's Conceptualization, 2021

3. Methodology

Total number of Listed Deposit Money Banks in Nigeria was fourteen as at June 2021 formed the study population, thirteen banks were sampled. The sampled thirteen banks were: Access Bank Plc, Ecobank Nigeria Plc, Fidelity Bank Plc, First Bank of Nigeria Limited, First

City Monument Bank Plc, Guaranty Trust Co, Stanbic Bank, Sterling Bank, Union Bank of Nigeria Plc, United Bank for Africa Plc, Unity Bank, Wema Bank and Zenith Bank Plc. Ex-post facto design was applied. Data for the study were extracted from published financial statements of the banks. Table and percentage were employed for objective one, while optimal scaling correlation with level of importance was used to determine the level of importance of corporate governance variables to performance in objective two. Compliance to corporate governance variables are measured using six(Board independence, Board Size, Number of board meetings per annum, Corporate Social Responsibility, Audit Committee presence and Gender Diversity.).Thedisclosure in the financial statement about the variable are compared with what is stipulated in the corporate governance code. This study was anchored by Stewardship and Stakeholder's theory.

Model 1 for objective 2

The model of Zahroh and Hamidah (2017) was adapted for this study, instead of using only ROA to proxy for financial performance (dependent variable), three ratios were employed which were ROA, ROE and CR. Audit committee meeting, number of outside directors and audit quality were replaced by Gender diversity, Corporate Social Responsibility. The intervening variables introduced were inflation and exchange rate instead of leverage (LEV) and firm size used by Zahroh and Hamidah (2017) .

$ROEit = \beta 0 + \beta_1$ BIit + β_2GDit + β_3BMit + β_4 BSit+ β_5CSRit + β_6FS $_{it}$ + β_7AC it+ β_8I$_{it}$ + β_9EXC it + εit. . . . . eqn 1

$ROAit = \beta 0 + \beta_1BIit$ + β_2GDit + $\beta_3 B$Mit + β_4BSit + β_5 CSRit + β_6FSit + β_7AC + β_8I$_{it}$ + β9EXC it + εit. eqn2

GSJ: Volume 9, Issue 11, November 2021
ISSN 2320-9186

$CRit = \beta 0 + \beta_1 BI it + \beta_2 GD it + \beta_3 BM it + \beta_4 BSit + \beta_5\ CSR it + \beta_6 FS it + \beta_7 AC it + \beta_8 I_{it} + \beta_9 EXC\ it + \varepsilon it$. . . . . eqn 3

Where,

ROA (Return on Assets) and ROE (Return on Equity) represent financial performance

ROA = (EBIT) / total assets incorporating inflation.

ROE = (EBIT) / total equity incorporating inflation.

GD = Gender diversity (the proportion of female directors on the board.)

BS= Board size (total number of people on the board).

BI= Board independence (number of non-executive directors on the board.)

BM= Number of Board meeting per annum

FS = Firm size (the natural logarithm of total assets of the firms).

CSR = amount spent on corporate social responsibility per annum

AC= Audit committee's size

B_0 represents constant.

β_1 to β_6 are the coefficients, slope or parameter estimates for the independent and control variables.

I= inflation

EXC = exchange rate

t = a particular year

Ɛi represents the error term.

Source: Rresearcher's Computation 2021

RESULTS AND DISCUSSION

Compliance percentage of the listed banks in Nigeria showed a mean of 92 percent, it denotes that the listed deposit money banks in Nigeria are highly compliant to corporate governance codes, Individual compliance percentage are Access Bank Plc 82%, Ecobank Nigeria Plc 83%, Fidelity Bank Plc 99%, First Bank of Nigeria Limited 94%, First City Monument Bank Plc 93%, Guaranty Trust Co 90%, Stanbic Bank 98%, Sterling Bank 95%, Union Bank of Nigeria Plc100%, United Bank for Africa Plc 88%, Unity Bank 88%, Wema Bank 92% and Zenith Bank Plc 94%..

Table 1: Compliance level of listed deposit money bank in Nigeria.

S/N	NAME OF BANK	COMPLIANCE LEVEL (%)	RANKING
1	Access Bank Plc	82	12
2	Ecobank Nigeria Plc	83	11
3	Fidelity Bank Plc	99	2
4	First Bank of Nigeria Limited	94	5
5	First City Monument Bank Plc	93	7
6	Guaranty Trust CO	90	9
7	Stanbic Bank,	98	3
8	Sterling Bank	95	4
9	Union Bank of Nigeria Plc	100	1
10	United Bank for Africa Plc	88	10
11	Unity Bank	88	10
12	Wema Bank	92	8
13	Zenith Bank Plc	94	5

GSJ: Volume 9, Issue 11, November 2021
ISSN 2320-9186

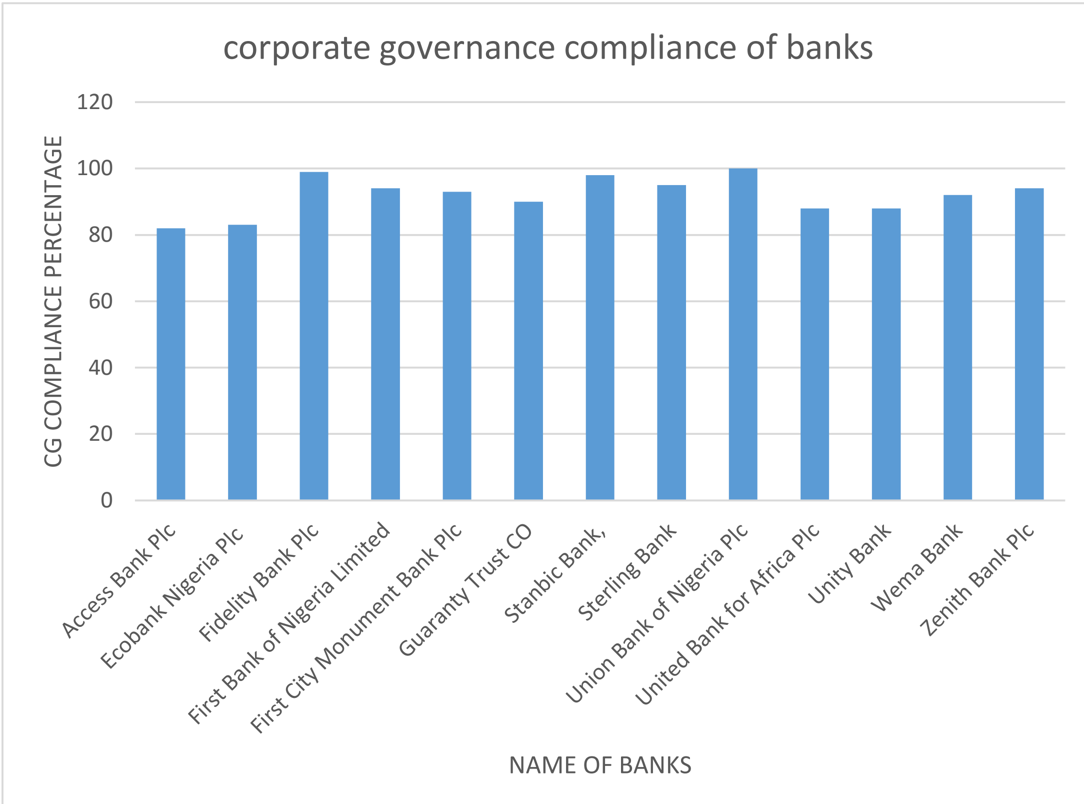

Figure 1: Level of Compliance of Banks to Corporate Governance Variables.

Source: Researcher's Computation, 2021

Level of importance of corporate governance variables on Return on Asset (ROA)

The relevance level as shown from optimal scaling correlation showed that the corporate governance variables that is most important to the financial performance of the banks using ROA is corporate social responsibility with 0.214, followed by firm size 0.209, board independence 0.207, number of board meetings 0,187, gender diversity 0.075, board size 0.042, auditor size, exchange rate in that order, and the least; Inflation rate with 0.013 (Table 1).

Table 2: Correlation and level of importance of corporate governance on ROA

	Correlations			Importance	
	Zero-Order	Partial	Part		**Order of importance**
Board Independence	.188	.245	.225	.207	**3**
Gender diversity	-.131	-.127	-.113	.075	**5**
No of Board Meetings	-.195	-.220	-.200	.187	**4**
Board Size	-.153	-.060	-.053	.042	**6**
Total Donations CSR(000)	.194	.230	.210	.214	**1**
Firm Size	-.188	-.226	-.205	.209	**2**
Auditor Size	.075	.107	.095	.034	**7**
Inflation rate	-.025	-.115	-.103	.013	**9**
Exchange rate	.068	.059	.053	.020	**8**

Level of importance of corporate governance variables on Return on Equity

Table 2 showed the level of corporate governance variables' importance to the financial performance of the banks (ROE), number of board meetings takes a lead with 0.402 ,board independence came second with 0.288, followed by CSR with 0,148 and the board size the least important..

Table 3 Correlations and Importance of Corporate Governance variables on ROE

	Correlations			Importance	
	Zero-Order	Partial	Part		**Order of importance**
Board Independence	.282	.274	.247	.288	**2**
Board Women	.137	.104	.091	.055	**4**
No of Board Meetings	-.320	-.333	-.306	.402	**1**
Board Size	-.029	.046	.040	-.005	**9**
Total Donations CSR(000)	.196	.201	.178	.148	**3**
Firm Size	-.083	-.117	-.102	.043	**5**
Auditor Size	.063	.110	.096	.025	**7**
Inflation rate	.109	.029	.025	.013	**8**
Exchange rate	.092	.089	.078	.030	**6**

Level of importance of corporate governance variables on Current Ratio

The level of importance of the corporate governance variables to the financial performance of the banks, taking inflation rate and exchange rate as control variables, Firm size takes a lead followed by board independence, number of women in the board, auditor size, total donation and board size in that order

Table 4 : Correlations and level of importance of Corporate Governance variables on CR.

	Correlations			Importance	
	Zero-Order	Partial	Part		**Order of importance**
Board Independence	.182	.230	.210	.183	**3**
Board Women	-.208	-.176	-.158	.171	**4**
No of Board Meetings	-.017	-.053	-.047	.004	**7**
Board Size	-.051	.110	.098	-.026	**9**
Total Donations CSR(000)	-.019	.100	.089	-.008	**8**
Firm Size	-.301	-.158	-.142	.261	**2**
Auditor Size	.036	.090	.080	.014	**6**
Inflation rate	.301	.180	.162	.281	**1**
Exchange rate	-.191	-.135	-.121	.122	**5**

Conclusion and Recommendations

The findings from the research showed that listed deposit money banks in Nigeria are corporate governance compliant, the union bank has the highest compliance percentage of 100, followed by Fidelity 99, Stanbic Bank 98, Sterling Bank 95 and Zenith Bank Plc 94.while Access came last with 82. It was shown that the level of importance of the corporate governance variables differs to financial performance, it revealed that Board meetings, Board independence, corporate social responsibility, Firm size are the most important variables to financial performance of banks. The result of the research is in line with Onakoya *et.al.* (2014) and Beatrice *et al* (2018)

The Financial Reporting Council ('FRC') need to put hands on deck to ensure strict compliance to corporate governance codes in other to improve buoyancy of the sector, especially Board meetings, Board independence, corporate social responsibility, Firm size that have significant impact on the financial performance of the listed deposit money banks.

REFERENCES

Adeoye, A. A. (2015). Examining corporate governance practices in Nigerian and South African firms. *European Journal of Accounting Auditing and Finance Research, 3(1),* 10-29.

Akpan, E. O. (2015). Corporate board meetings and company performance: Empirical from Nigerian quoted companies. Global Journal of Commerce & Management Perspective, 4(1), 75-82.

Albert, H. C. (2018) Concentrated ownership and long-term shareholder value. Retrieved from https://www.ssrn.com/abstract=2619462. on 23rd April 2018.

Al-Ghamadi, M., and Rhodes, M.(2015): Family ownership, corporate governance and performance, evidence from Saudi Arabia. *International journal of economics and finance.* 7(2) : 78- 90. Doi10.5539/ijef.v7n2p78

Appiah, K .O. (2013*)*.The impact of corporate board size on firm performance: evidence fromGhana and Nigeria. *Research in Business and management*, *4*(2), 1-12.

Baxter (2014). Baxter Sustainability Report ; Governance ethics and compliance. 19-28. Retrieved from https://econnet.baxter.com/assets/downloads/baxter-sustainability-report-2014-pdf. on 6th June, 2018

Bøhren, O. and Staubo, S. (2013). Does mandatory gender balance work? Changing organizational form to avoid board upheaval, *Journal of Corporate Finance*, 28(2): 152–168.

Boone, A. L., Casares Field, L., Karpoff, J. M., and Raheja, C. (2007). The determinants of corporate board size and composition: An empirical analysis. *Journal of Financial Economics, 85(1)*, 66–101.

Buallay, A., Hamdan, A., and Zureigat, Q. (2017). Corporate Governance and Firm Performance: Evidence from Saudi Arabia. . *Australasian Accounting, Business and Finance journal, 11*(1), 78-98

Cadbury Report (1992). Retrieved from: https://en.wikipedia.org/wiki/Cadbury_Report Retrieved, May 28, 2018 .

Chong, T. P., and Lai, M. M. (2003). An empirical evidence of factors in equity selection process in Malaysia. ***African*** *Journal of Business Management*, *5*(15), 6221-6232.

Darmadi, S. (2011). Board compensation, corporate governance, and firm performance in Indonesia. Retrieved from http://dx.doi.org/10.2139/ssrn.1907103. I6/06/18

Dorner, A. (2005) "Stock market reactions to finanncial information", *Journal of Human Resource Costing and Accounting.* 9 (2). 94 -111

Duru, A., Iyengar,R.J., and Zampellic,E.M, (2016). The dynamic relationship between CEO duality and firm performance: the moderating role of board independence. *Journal of business research*, 69(10), 4269-4277.

Farag, H., and Mallin, Ch (2017). Monitoring corporate boards: Evidence from China. *The European Journ al of Finance*. doi:10.1080/11351847X.2017x1369138. Retrieved 21-12-2019.

Kashif A . and Nadeem, A.(2015). Impact of corporate governance on performance of a firm: a comparism between commercial banks and financial services companies of Pakistan. *European journal of business and management.* 7(10), 54-60.

Khamis. R., Hamdan. A., and Elali. W.(2015) The Relationship between Ownership Structure Dimensions and Corporate Performance: Evidence from Bahrain, *Australian Accounting, Business and Finance Journal,* 9(4), 38-56. doi:10.14453/aabfj.v9i4.4

Kumar, N., and Singh, J.P. (2013). Effect of Board Size and Promoter Ownership on Firm Value: Some Empirical Findings from India. *Journal of Corporate Governance, 13(1), 88-98.*

Nibedita, D. (2018): Impact of Corporate Governance on Financial Performance: A Study on DSE listed Insurance Companies in Bangladesh. *Global Journal of Management and Business.*18 (2), 33-39.

Nobes, C. and Parker, R. (2004), *"Comparative international accounting"*, (8th Ed) Prentice-Hall, Pearson Education limited, Harlow, England.

Onakoya, A. B. O., Fasanya, I. O., and Ofoegbu, D. I. (2014). Corporate governance as Correlate for firm performance: A pooled OLS investigation of selected Nigerian banks. *IUP Journal of Corporate Governance, 13*(1), 7-18.

Sarpong-Danquah, B., Gyimah, P., Afriyie, R. O and Asiamah, A (2018) : Corporate Governance and Firm Performance: An Empirical Analysis of Manufacturing Listed Firms in Ghana *Journal of Accounting and Finance Research* 7(3) , 1- 8

Ueng,C. J. (2016). The analysis of corporate governance policy and corporate financial Performance *Journal of Economics and Finance 40(1):514–523 DOI: 10.1007/s12197-015-9316-8*

Oktari, V., Surya, R. A. S., & Zarefar, A. (2020). Implementing Good Corporate Governance to Improve Company Performance. *International Journal of Academic Research in Business and Social Sciences, 10*(6), 419–429.

Zahroh; N and Hamidah (2017)The Role of Corporate Governance in Firm Performance *EDP Sciences.* Retrieved from (http://creativecommons.org/licenses/by/4.0/). June 16th, 2018