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Does bank size affect the relationship between corporate governance mechanisms and financial performance of banks in Nigeria?

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ABSTRACT

The study examines the impact of bank size on the relationship between corporate governance mechanisms and financial performance of listed banks in Nigeria. The research design is ex-post facto. Pearson Correlation analysis was used in analyzing the data sourced from published financial statement of the banks under study. A significant outcome of the study is that bank size impact positively and significantly on the relationship between corporate governance mechanisms and financial performance of listed banks in Nigeria. A major implication of the findings is that compliance with code of governance as issued by regulatory authorities will support enhanced and superior financial performance among other things. Conclusively, the study has shown that right application of corporate governance mechanisms in Nigeria will be of great benefit to all corporate stakeholders and that bank size is a significant factor that affect the financial performance of listed banks in Nigeria..

Keywords: Bank size, corporate governance mechanisms, financial performance, corporate governance

INTRODUCTION

The incessant collapse of high profile corporations all over the world has shaken the faith of investors, and this has made the issue of corporate governance a catch phrase in development debate. More so, the rapid growth in technology has heightened the need for effective corporate governance system which is capable of not only protecting the interest of shareholders but all other stakeholders, and establishes confidence in the heart of investors. For proper attainment of these goals, the government on her own has through legislation allowed complete freedom of economic activities and the attendant effect has been the winding up of some corporations. [1] opined that corporate governance deficiencies manifested itself in the New York stock exchange as it removed its Director (Dike Grasso) on the basis of excessive compensation. Corporations like IBM, Kodak and Honeywell in 1977 dismissed their chief executive officers on basis of inefficient corporate governance [2]. [3] opines that Continental Bank of Kenya, Capital Finance Ltd, Consolidated Bank of Kenya and Trust Bank of Kenya and several others was reported to have been adversely affected by the deficiencies in corporate governance.

In Nigeria, Several Corporations like NITEL, NNSL, NEPA and NRC were either dead or simply drain pipes of public resources [4]. The mega banks were also a mess as they collapsed in their numbers leaving a trial of woes for investors, stakeholders, suppliers, depositors, employees and other stakeholders.

Bad corporate governance has hindered the attainment of corporate objectives and economic growth in banking sector and the economy in general [5]. According to [6] fraud and forgeries, unprofessional conduct and customer's disloyalty tends to reduce shareholders wealth, lending to a weak and unreliable banking sector. In addition, the

relationship between bank size, corporate governance and bank financial performance has not received adequate consideration and has not been subjected to vigorous empirical analysis as it has relied on statements which do not represent true position of the strength of banks.

Based on the challenges identified above, the question that comes to mind is do Bank size impact on the relationship between corporate governance mechanisms and financial performance of bank listed in Nigeria. Hence, the main objective of this study is to find out the impact of Bank size on the relationship between corporate governance mechanisms and financial performance of listed banks in Nigeria.

LITERATURE REVIEW

The place of corporate governance in ensuring survival of corporation cannot be over ruled. This is because business confidence usually suffers each time a corporate entity collapses [5]. [6] opined that corporate governance is the processes and structure by which the business and affairs of institutions are directed and managed in order to improve long term shareholders value by enhancing interest of other stakeholders. It provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance [7]. Good application of corporate governance mechanisms enhances the financial performance of a firm and will have a positive link to national economic growth and development [8]. [9] opined that the efficiency of corporate governance structure and practice on the corporation operating on higher volatile environment in Nigeria is yet to be investigated.

Corporate performance is an essential concept that relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization, which in turn keeps the organization in business and creates a greater prospect for future opportunities [10]. The single purpose of corporate governance is to ensure that corporations are managed in the best interest of their owners and shareholders [11], [12]. Corporate governance ensures the establishment of transparency and accountability [13]; [14]; [15]. This is obtainable as corporate governance system is promised on a struck division of power and responsibilities between the shareholders through the annual general meeting, the board of directors, the executive management and the auditors [16]. [17] asserted that emerging economics employed external corporate governance in order to institute confidence of investors and attract and retain foreign and local investment to expand the trade. The International Monetary Fund, World Bank as well as Organization for Economic Corporation and Development indirectly mandates developing countries to improve their external corporate governance mechanisms and regulatory infrastructure [18]. However, corporate sectors in emerging countries still lag behind the bench mark for sound corporate governance [19]

Bank size

Bank size refers to the total asset of the bank. Bank size will be used apparently to control for size effect or the economics of scale. [20] opines that large firms are associated with superior performance when compared with small firms. The larger a bank, the greater it's potential to diversify its assets risk and reduce losses and enhance performance [21]. Suffice to say that lower risk premium could induce negative impact on performance.

Financial performance

The target of financial management is to maximize investors' economic welfare as reflected by management performance. Organizations aim at maximizing shareholders wealth and to generate enough profit to continue in business and to grow higher in the future.

Financial performance is used to track and review an organization progress against its strategic plan and specific performance goals [22]. Financial performance measures is important to drive a company or individual projects to ensure that deadlines are met and costs are controlled. It is intended to assist operators analyze their activities from a financial stand point and provide useful information needed to make good management decisions. Firm financial performance relates to the various subjective measures of how well a firm can use its given assets from primary mode of operation to generate profit.

THEORETICAL REVIEW

Stewardship theory

This theory asserts that managers motivated by a desire to achieve and gain better satisfaction by performing challenging task. The theorist upholds that there will not be any agency cost since managers are naturally trustworthy [23]; [24]. [25] pended that managers are inherently trustworthy and faithful stewards of the corporate resources entrusted to them, hence, aims at maximizing corporate profits and shareholders return. [26] added that managers strive to successfully achieve the objectives of the firm, and resulting satisfaction accorded to investors or owners, as well as other participation in the enterprise. This theory believes more on specialist executive directors than majority non-executive directors.

Stakeholder's theory

The theorist opines that managers in organizations have a network & relationship to serve, this include employees, shareholders, suppliers, business partners and contractors. This theory emphasis the need for managers to be accountable to any group of people that can affect or is affected by the achievement of a corporation's purpose (Stakeholders) [27]. Stakeholder interest can be adequately protected upon representative of various interest groups on the organization's board for proper consensus building, avoid conflicts, and harmonize efforts to achieve organizational objectives. The stakeholder theory was propounded by Lan Mitroff in 1983.

Business ethics theory

This theory is concerned with the rights and wrongs decision making situations in business. It is of the opinion that as business makes a greater impact on the society by offering products and services to the society, which accounts for its survival.

EMPIRICAL REVIEW

[28] investigated the "impact of corporate governance on financial performance of microfinance Bank in North Central Nigeria". The challenge was on the non compliance of microfinance banks with the provision of code of corporate governance which led to weak internal control system, absence of or non adherence to limits of authority, disregards to Canons of lending insider abuses and fraudulent practices. The study covered 23 Microfinance Banks for the period 2011-2013. The study utilized secondary data obtained from annual report and accounts of the 23 microfinance banks. The data were later analyzed with Pearson correlation co-efficient, ordinary least square regression. The Pearson correlation showed that significant relationship exists between Earning for share and corporate governance (Board, composition and composition of Board committee), while the regression analysis shows that no significant relationship exists between corporate governance and bank's financial performance. However, there are areas of non compliance which include the appointment of Executive Director and Managing Directors and sometimes Chief Executive officer as Board Committee members. He therefore concluded that Board of directors of microfinance banks should as a matter of urgency adhere strictly to the provisions of code of corporate governance on Board Composition (BC) and composition of Board Committees (CBC).

[13] carried out a research on corporate governance practices and firms' financial performance of selected manufacturing companies in Lagos State, Nigeria. The issue off concern was how the practices of corporate governance have influenced financial performance in the manufacturing sectors of the economy and to ascertain to what extent corporate governance practices explain the dynamism of the performance of manufacturing firms. The focus of the study was mainly on manufacturing firms in Lagos State, Nigeria. The study covered an eight year period which Span from 2003 – 2010. The study employed a comparative analysis to gauge the changes to corporate governance practice by manufacturing companies. Secondary data gotten from annual report as publish by stock exchange were used. Descriptive statistics and economic tonic method of analysis, using E-views 7 statistical software and Ordinary Least Square (OLS) method of analysis were also

employed. The result of the descriptive statistics showed that majority of the companies implemented the code of conduct that emphasis appropriate composition of the board of directors and forecast of operations. Further analysis showed a positive relationship between return on equity and legal compliance, but there was a weak relationship between refund or equity and legal compliance. The researcher concluded that manufacturing companies obey the regulations in terms of board composition, legal compliance and production projections.

[23] studied Corporate Governance mechanisms and financial performance of listed firms in Nigeria: A content Analysis. The challenge of the study was to examine empirically the impact of corporate governance mechanisms and firm financial performance using listed firms in Nigeria. The study averred a period 2010 to 2011 focusing on 33 listed firms in Nigeria across these sectors: manufacturing, financial and oil and gas. The study employed descriptive statistics to analyze the data gotten from the firm's corporate website of respective financial firms and website of securities and Exchange Commission. The result of the study showed that banking sector has the highest level of compliance of corporate governance. And that there was no significant difference among firms with low corporate governance quotient and those with higher corporate governance in terms of their financial performance. The study concluded that deliberate steps be taken in mandatory compliance with SEC code of best practice for all sectors in Nigeria. Also, deliberate efforts should be made in setting up a follow-up and compliance team to make sure that listed firms across Nigeria sectors do not only comply but meet up with the different expectations of the regulatory body as mandated in code of corporate governance.

[12] investigated the influence of good corporate governance, ownership structure and Bank size to the Bank performance and company value in Banking Industry in Indonesia. The period of the study was 2007 – 2012. They covered 16 banks with foreign capital concentration listed in Indonesian Stock Exchange. Partial least square was employed using Tobin's. The findings showed that good corporate governance had a significant effect on bank's performance, ownership structure; there is no positive effect on bank's performance. The study concludes that foreign ownership participation directly influences the bank management and is not giving negative influence to bank performance but gives direct influence to the bank size.

[9] investigated evaluating the effects of corporate governance on the performance of Nigerian Banking sector. The challenge of the study was to explore the relationship between internal corporate governance and financial performance. Secondary data gotten from the audited financial statement of the quoted banks concerned were used in examining the level of corporate governance disclosure of the sampled banks. The study covered a five year period from 2006 – 2010. The data was analyzed with person correlation and regression analyses. The proxies for corporate governance in this study were Board size, directors' Equity Interest and corporate governance disclosure index, while the financial performance variables were measured by return on equity and return on assets. The study find out that a negative but significant relationship exist between board size and the financial performance of these banks while positive and significant relationship was also observed between directors' equity interest, level of corporate governance disclosure index and performance of the banks. The study therefore recommends that efforts to improve corporate governance should focus on the value of the stock ownership of board members and that steps should be taken for mandatory compliance with the code of corporate governance.

In 2012, Uwuigbe and Fakile carried out a study on the effects of Board size on financial performance of Banks ''A study of listed banks in Nigeria'' The major challenge was to find out the relationship between corporate governance and financial performance of banks though the researchers never mention the duration of the study but regression model and the Pearson correlation was used to measure the degree of association between corporate governance and financial performance of listed banks in Nigeria. Corporate governance was measure with Board size as proxy whiles the proxies for financial performance was return

on equity, secondary data gotten from Nigeria stock exchange fact book 2008 were employed. The study observed that banks with board size below 13 are more viable than those with board above 13. Hence it observed that banks with higher board size recorded profit lower than those with smaller boards. The study concluded that there is a negative significant relationship between board size and financial performance and recommends a smaller board size for better financial performance and to reduce the problem of free – rider of banks in Nigeria.

From the empirical studies above, the study of [10] though in banking sector and considered bank size but was not in Nigeria and was for a short period. [18] was in Nigerian banking sector but did not consider bank size. More so, their study was for a short period. Again, [9] a study in Nigerian banking sector also did not consider bank size and was for a short period also. It is evident that there is no study on corporate governance in Nigeria banking sector that has considered the impact of bank size on the relationship between corporate governance and financial performance hence the urgent of this study.

Research methods

The research design for this study is ex-post facto research method. Secondary data used for analysis spanned a 10year period (2006 – 2015). The dependent variable is financial performance while the independent variable is corporate governance mechanisms and Bank size is used as a moderating factor. The data were analyzed with SPSS 22.0 using Pearson Correlation to determine the effect of Bank size on the relationship between corporate governance mechanisms on financial performance of listed banks in Nigeria.

Model specification

$BS_{it} = (\beta_0 + \beta CGM_t : FP_t)$

$BS_{it} = \beta_0 + \beta_1 CGM + \beta_2 FP + e_t$

Where BS = Bank Size

CGM = Corporate Governance Mechanisms

FP = Financial Performance

e_t = Error term

DISCUSSION OF FINDINGS

Ho: The relationship between corporate governance mechanisms and financial performance is not significantly affected by Bank size.

Table 1: showing corporate governance mechanisms and financial performance as affected by Bank size.

Variable	Statistical index	GORPGOVMECH.		
FINPERF	Pearson correlation	Co-efficient	Sign.	Decision
		.730	.000	Accept.
Bank size	Partial correlation	.052	.528	Reject.

Source: Author's computation, 2017

From table 1 above, the result of the correlation indicates the moderating influence on corporate governance mechanisms and financial performance. The co-efficient of correlation β showed .730 at 0.05 significant levels of 1 tailed. This implies that the relationship between corporate governance mechanisms and financial performance is very strong and significantly positive, but with the advent of Bank size as control variable, a positive partial correlation co-efficient of β value of 0.052 influences on corporate governance mechanisms and financial performance relationship at 2 tailed levels. This implies that Bank Size did influence the relationship between corporate governance mechanisms and financial performance of listed banks in Nigeria.

Therefore, the relationship between corporate governance mechanisms and financial performance is strong, positive and significant as justified by the result. However, the introduction of control variable (BSIZE) altered this relationship. However, the relationship is insignificant at 0.05 levels.

Therefore, we reject the null hypothesis and accept the alternative hypothesis that the relationship between corporate governance mechanisms and financial performance is significantly affected by Bank size.

The implication of this finding is the bigger the size of a bank, the better its performance and it becomes more potential for it to diversify its risk and reduce losses. [17] opined that bigger banks have a potential to diversify risk and reduce losses. The finding of this study is in line with the finding of [6] [7]. But it contrasts with the studies of [25] [26].

CONCLUSION AND RECOMMENDATIONS

From the findings of this study, it can be concluded that bank size impact positively and significantly on corporate governance mechanisms and financial performance of listed banks in Nigeria. Hence, the study makes the following recommendations:

- That the board of directors of listed banks in Nigeria should as matters of urgency adhere strictly to the provision of corporate governance.
- That management of listed banks should as a matter of urgency be compelled to establish good number of branches of their banks to enhance their financial performance.
- That regulatory authority should by way of legislation stimulate a high minimum number of branches expected of every listed bank in Nigeria.

Contribution to knowledge

This study has been the recent and has the longest duration on the subject of corporate governance when compared to previous studies that has only 2 – 5 years.

Also, the study considered four corporate governance mechanisms unlike previous studies that considered one or two. This helped the researchers to draw inference in the areas of interest

Suggestions for further studies

The study explored corporate governance and financial performance of listed banks in Nigeria in broader context, hence further research could be carried out in other sectors of Nigerian economy other than the banking sector such as Insurance companies, Manufacturing companies and Non trading organizations.

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