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The Effects of Corporate Governance on the Performance of Commercial Banks in Nigeria

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Abstract

The paper takes a look at the effects of corporate governance on the performance of commercial banks in Nigeria. As a managerial tool for judicious, preservation and prudent management of resources, corporate governance contributes to the economic health of banks in Nigeria. This explains the public interest and debate on corporate issues in Nigeria. The paper therefore concludes in absolute terms that corporate governance does affect banks' performance and value of the firm. That strong governance standard is important for banks and increased governance quality leads to higher levels of investment as well as greater responsiveness of investment to growth opportunities. However, the paper avowed that substantial part of variability in corporate governance practices of commercial banks is due to interaction of forces from regulatory authorities, capital markets, government policies, environment factors as well as asset quality.

Key Words: Corporate Governance, Profitability, Banking Sector, Regulatory Authorities

Introduction

The concept of corporate governance has attracted a good deal of public interest in recent years, because of its apparent importance on the economic health of corporations and society in general. Basically, corporate governance in the banking sector requires judicious and prudent management of resources and the preservation of resources (assets) of the corporate firm; ensuring ethical and professional standards and the pursuit of corporate objectives, it seeks to ensure customer satisfaction, high employee morale and the maintenance of market discipline, which strengthens and stabilizes the bank

Recently, the banking industry in Nigeria has been undergoing serious reforms over the past three years arising from the central bank of Nigeria's requirement for banks to increase their capital base (share) to a minimum level of twenty five billion naira (N25B), (Ogbeche, 2006:1). This triggered off several merges and acquisitions that have reduced the number of players from eighty nine (89) to twenty five (25) banks as at the beginning of 2006 (Kama, 2006; 66). It is imperative to note that at the end of the consolidation exercise, the total capitalization (the value of all equities of the banks came to N775.0 billion compared to the figure of N327 billion before the commencement of this programme in July 2004. (Adedipe, 2004: 52).

However, the successful banks accounted for about 93.5% and 97% of the total deposit liabilities and assets of the banking system respectively. (CBN Annual report, 2007: 26). Before the consolidation exercise, the banking industry had 82 active banks whose overall performance led to sagging of customer's confidence, as there was lingering distress in the industry. The supervisory structures were inadequate, as they were cases of official recklessness amongst managers, and the industry was notorious for financial abuses. However, in November, 2005; the CBN blacklisted six officers of banks, including a chairman and a non-executive director, for unethical practices and professional misconduct. The same year, 110 cases of fraud and forgeries totaling N1.5 billion were reported by various Banks; and fifty six (56) of the cases amounted to N 1.38 billion, representing 91.8% of the total amount (N1.50B) {CBN annual report, 2006: 64). Poor corporate governance was identified as one of the major factors in virtually all the cases. Other forms of bad corporate governance were insider abuses, poor quality services and weak supervisory structures. The issue of corporate governance is important and indispensable for the realization of the basic corporate objective of profitability and liquidity.

Corporate governance is designed to promote a diversified strong and reliable banking sector which will ensure the safety of depositor's money as well as play active developmental roles in Nigeria's economy. Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be fully informed in order to maintain organizational activity. It is also seen as a mechanism by which individuals are motivated to reconcile their actual behaviours with the overall objectives of the organization. It ensures that the values of all stakeholders are protected and also minimizes asymmetric information between bank's managers, owners and customers.

Corporate governance has become a global issue over the last decade, leading to countries around the world amending their legal system and stock exchange listing requirements to conform to corporate governance principles as well as developing new codes of best practices.

Recently, there has been considerable interest in the corporate governance practices of modern corporations, particularly since the high profile collapse of a number of large U.S. firms such as *Enron* Corporation and WorldCom (Adedipe, 2004:56). The development has forced national government and regional economic organizations to come up with various guidelines and codes to get businesses to behave decently. One of such institutions is the Organization for Economic Cooperation and Development (OECD), which has undertaken much work on corporate governance for a number of years. The OECD is an ideal forum for putting together an international framework on corporate governance. The organization accounts for more than 90% of the world stock market capitalization. It is internationally competitive and attracts foreign direct investments. The first international code of good corporate governance standard of the 1999 OECD Principles of Corporate Governance, focused on publicly quoted companies, while coming to assist government in improving the legal, institutional and regulatory framework that underpins corporate governance

Corporate governance arrangements and institutions vary from one country to another. There is no single framework that is appropriate for all countries. The Corporate governance code covers every aspect of the organizational set up, right from how resources are generated and how they are utilized. Therefore, there is need to understand the concepts, processes and problems of corporate governance both from the perspective of those who direct, those concerned with returns and accountability as well as those concern with corporate regulation, because there is a growing consensus that corporate governance has a positive relationship with national growth and development (http://onlinelibrary.wiley.com/doi/10.1111/1467-8683.00251/abstract_br).

In fact, the influence of internal and external factors of insider abuse, inflation, political instability and others, alongside the influence of corporate governance practices will be greatly explored in this study. In an attempt to restructure the entire Nigeria economy, the Obasanjo Administration in Nigeria (1999-2007) introduced a vast number of reforms, with the financial sector reforms being the anchor for other sectors reform and also being the focus of this study. The Central Bank of Nigeria introduced a new code of corporate governance for Nigeria Banks in April 2006, which was a vast improvement on the former code of corporate governance (Financial standard September 3, 2007:37). However, a prognostic view shall be implored to examine the effect of corporate governance on the performance of Nigerian banks, with respect lo the code, measurement, principles, performance of corporate governance, the theories as well as structure of corporate governance in Nigeria.

In the past five years, corporate governance has become one of the most debated corporate issues in Nigeria. In 2001 the Securities and Exchange Commission (SEC) of Nigeria set up a committee that came up with a code of best practices for public companies in Nigeria ("the code" in 2003). In 2005 the Institute of Directors of Nigeria set up a Centre for Corporate Governance to champion the cause of good corporate governance amongst its members. In 2006 the Central Bank of Nigeria issued post-consolidation corporate governance guidelines for all banks operating in Nigeria; the Nigeria code of corporate governance is primarily aimed at ensuring that managers and investors of companies carry out their duties within a framework of accountability and transparency. This should ensure that the interests of all stakeholders are recognized and protected as much as possible. The code of best practices for public companies in Nigeria ("the code") is voluntary even though it is recommended that all Nigeria Public companies comply with the code and are required to state reason for non-compliance. Ogbeche (2006: 15) posits that corporate governance simply put, is ensuring good business behaviour. He further asserts that it is about "doing the right things and doing the things right". It is about the way in which boards oversee the running of a company, its managers, and how board members are in turn accountable to shareholders and the company. This has implications for company behaviour towards employees, shareholders, customers, and other stakeholders (http://www.oecd.org/corporate/ca/corporategovernanceprinciples/improvingbusinessbehaviourwhyweneedcorporategovernance.htm_br).

In a board culture of corporate governance business, author Gabriel O Donovan in Shleifer (1997: 25) defines corporate governance as "an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity. Sound corporate governance is reliant on external market place commitment and legislation, plus a healthy board culture which safeguards policies and processes".
O'Donovan goes on to say that the perceived quality of a company's corporate governance can influence its share price as well as the cost of raising capital. There is no single or simple definition of corporate governance and certainly no definition that all countries agree on (Myers, 1997: 148). Corporate governance is defined and practiced differently throughout the world, depending upon the relative power of owners, managers and providers of capital (Craig, 2005:1034).

Basically, different national systems of corporate governance reflect major differences in ownership structure of firms in different countries and particularly differences in ownership concentration (Shleifer and Vishny 1997: 36). Corporate governance, as a concept, can be viewed from at least two perspectives (Oluyemi 2007: 56). A narrow one in which it is merely as being concerned with the structures within which a corporate entity or enterprise receives its basic orientation and direction (Rwegasira, 2000: 51), and a broad perspective in which it is regarded as being the heart of both a market economy and a democratic society (Sullivan, 2000: 8). A narrow definition views the subject as the mechanism which shareholders are assured that managers would act in their best interests.

As far back as Adam Smith, as indicated in Henderson (1986: 16), it has been recognized that managers do not always act in the best interests of shareholders. For example, Jensen and Meckling (1976: 53-55) addressed the principal- agent problem, which occurs when managers with private information have incentives to pursue their own interest at the owner's expense. The broad view of corporate governance, however, refers to the process that seeks to direct and control the affairs of an organization so as to protect the interest of all stake holders in a balanced manner. The process is under-pinned by the principles of openness, integrity and accountability.

Nzota (2004: 464) opines that corporate governance is a term that is commonly used to describe the way business firms are managed. He further stated that corporate governance code covers every aspect of the organizational set up, right from how resources are generated and how they are deployed and utilized. Cook (1999: 26) in his journal, "A study of corporate governance of thrifts", posits that corporate governance primarily concern with how equity investors induce managers to provide them with an appropriate return on their invested capital. In another development, corporate governance refers to the mechanism through which private or state owned corporations and their management are governed, and that it provides a structure which the objectives and the performance of a corporation are determined and monitored (Lemo 2007: 233). However, governance is broad in concept touching on human issues, political, judicial and corporate issues. Getting good governance calls for improvement that touch virtually all aspects of the public sectors from institutions that set the rules of the game for economic and political interactions, to organizations that manage administrative systems and deliver goods and services to citizens, to human resources that staff government bureaucracies, to the interface of officials and citizens in political and bureaucratic areas (http://www.sarpn.org/documents/d0002342/index.php_br).

It is also imperative to note that corporate governance requires the cooperation of various parties such as the board of directors, the chief executive officer, management and shareholders. These stakeholders are called the regulatory body. Others are suppliers, employees, creditors, customers and the community at large. The corporate governance structure specifies the rule and procedures for making decisions on corporate affairs. It also provides the structure through which the company objectives are set as well as the means of attaining and monitoring the performance of those objectives. Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be more fully informed in order to maintain or to alter organizational activity. It is the mechanism by which individuals are motivated to align their actual behaviours with the overall participants (http://psychology.wikia.com/wiki/Corporate_governance_br).

Generally, the concept of corporate governance relate to the relationship between a company's management board shareholders and other stakeholders. From the perspective above, good corporate governance entails efficient management of resources and provision of responsible leadership; it requires the provision of timely and quality information and the enforcement of sanction for breaches in ethical standard, regulations and Code of conduct (Ogbeche, 2006: 2).

Suffice it to say that the whole essence of corporate governance is to ensure transparency, investor protection, full disclosure of executive action and corporate activities to stakeholders, assurance of performance related executive compensation and full disclosure of executive compensation (Myers, 1997: 149). Corporate governance as a multi-faceted subject has an important theme which deals with issues of accountability and judiciary duty, essentially advocating the implementation of policies and mechanisms to ensure good behaviour and protect shareholders (Financial standard, Sept 3, 2007: 39).

Relationship between corporate governance and bank's performance

The factors underpinning corporate governance mainly include shareholding structure, board composition, and senior management. The relationship between these factors and firm performance is the focal point for many scholarly studies (http://aut.researchgateway.ac.nz/bitstream/handle/10292/739/YungMF.pdf?sequence=4_br). Moreover, it can be argued that firm performance can be improved with better corporate governance controls in a company. Famma and Jenson (1983:39) argued that corporate governance does affect firm performance. It was discovered that the majority of larger firms with stronger governance controls are rewarded over the long- term.

Klein, Shapiro, and Young (2004:32) examined the relationship between corporate governance and firm value by using the corporate governance index (CGI) and Tobin's Q, which measures the firm's value. The results concluded that corporate governance does matter in a firm value. In addition Carse (2000:25) argued that a strong corporate governance standard is particularly important for banks. This is because most of funds that the banks use for business belong to creditors and depositors. The failure of a bank will affect not only its own shareholdings, but have a systematic affect on other banks. Therefore, it is important to ensure that banks are operating properly.

On the other hand, a large number of studies have investigated the relationship between ownership structure, and firm performance. Morck, Sheifer, and Vishny (1998:45) argued that higher ownership concentration has a positive impact on firm performance, because it increases the ability of shareholders to properly monitor managers. Notbrook (2009:65) on corporate governance mechanisms and firm performance revealed that separation of the posts of chief executive officer (CEOs) is vital for strong and viable corporate governance sustainability. The result added that a board size of ten is more concentrated as opposed to diffused equity ownership.

The relationship between corporate governance and foreign investment can be discussed through the direct effects of governance on the firm's investment level, and the firm's behaviour towards investment opportunities. Empirical studies according to (Notbrook, 2009:45) shows that well governed firms invest more than badly governed ones .Within a broad sample of United States manufacturing firms, the study finds that increased governance quality leads to higher levels of investment and greater responsiveness of investment to growth opportunities. Higher quality governance mitigates the under investment problem that arises from incentive problems between managers and shareholders.

Corporate governance mechanisms

Basically, one consequence of separation of ownership from management is that the day-to-day decision making power (that is the power to make decision over the use of capital supplied by the shareholders) rest and with persons other than the shareholders themselves. The separation of ownership and control has given rise to an agency problem whereby there is the tendency for management to operate the firm in their own interest, rather than those of shareholders (Jensen and Meckling 1976: 236, Fame and Jenson 1983: 73). These create opportunities for managers to build illegitimate empires and in the extreme, outright expropriation. Various suggestions have been made in the literature as to how the problem can be ameliorated (Hermolin and Weiisbach 2001: 697; Jensen and Meckling 1976:240; Shleifer and Vishny, 1997: 89). Some of the mechanisms and their impediments to monitor and shape banks behaviours are examined below:

a). Shareholders: Shareholders play a key role in the provision of corporate governance. Small or diffuse shareholders exert corporate governance by directly voting on critical issues, such as mergers, liquidation, and fundamental changes in business strategy and indirectly by electing the boards of directors to represent their interest and oversee the myriad of managerial decisions to be taken by the management of the organistaion (http://studyclue.com/uploads/corporate_governance_and_financial_performance_of_banks.doc_br). Incentives contracts are a common mechanism for aligning the interests of managers with those of shareholders. The board of directors may negotiate managerial compensation with a view to achieving particular results. Thus, small shareholders may exert corporate governance directly through their voting right and indirectly through the board of directors elected by them.

However, a variety of factors could prevent small shareholders from effectively exerting corporate control. There are large information asymmetries between managers and small shareholders as managers have enormous discretion over the flow of information. Also, small shareholders often lack the expertise to monitor managers accompanied by each investor's small stake which could induce free-rider problem. That is each investor relies on others to undertake the costly process of monitoring managers, so there is too little monitoring (http://studyclue.com/uploads/CORPORATE_GOVERNANCE_AND_FINANCIAL_PERFORMANCE_OF_BANKS.doc_br).

Large (concentrated) ownership is another corporate governance mechanism for preventing managers from deviating too far from the interest of the owners. Large investors have the incentives to acquire information and monitor managers. They can also elect their representative to the board of directors and thwart managerial control of the board. Large and well-informed shareholders could be more effective at exercising their voting rights than an ownership structure dominated by small, comparatively uninformed investors. Also, they could more effectively negotiate managerial incentive contracts that align owner and manager interests than poorly informed small shareholders whose representatives, the board of directors can be manipulated by the management. However, concentrated ownership raises some corporate governance problems. Large investors could exploit business relationships with other firms they own which could profit them at the expense of the bank. In general large shareholders could maximize the private benefits of control at the expense of small investors (De Angelo and De Angelo, 1985: 205; http://studyclue.com/uploads/CORPORATE_GOVERNANCE_AND_FINANCIAL_PERFORMANCE_OF_BANKS.doc_br). Thus, while concentrated ownership is a common mechanism for confronting the corporate governance issue, it has its own drawbacks (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004).

b). Debt holders: Debt holders provide return for a promised stream of payments and a variety of other covenants relating to corporate behaviour, such as the value and risk of corporate assets. If the corporation violates these covenants or default on the payments, debts holders typically could obtain the rights to repossess collateral throw the corporation into bankruptcy proceedings, vote in the decision to reorganize and remove managers. However, there could be barriers to diffuse debt holders to effectively exert corporate governance as envisaged. Small debt holders may be unable to monitor complex organization and could face the free-rider incentives, as small equity holders. Also the effective exertion of corporate control with diffuse debts depends largely on the efficiency of the legal and bankruptcy systems (http://studyclue.com/uploads/CORPORATE_GOVERNANCE_AND_FINANCIAL_PERFORMANCE_OF_BANKS.doc_br).

Large debts holders like large equity holders, could ameliorate some of the information and contract enforcement problems associated with diffuse debt. Due to their large investment, they are more likely to have the ability and the incentive to exert control over the firm by monitoring managers. Large creditors obtain various control rights in the case of default or violation of covenants. In terms of cash they can renegotiate the terms of loans, which may avoid inefficient bankruptcies. The effectiveness of large creditors however, relies importantly on effective and efficient legal and bankruptcy systems. If the legal system does not efficiently identify the violation of contracts and reorganize firms, then creditors may lose a crucial mechanism for exerting corporate governance (http://studyclue.com/uploads/CORPORATE_GOVERNANCE_AND_FINANCIAL_PERFORMANCE_OF_BANKS.doc_br). Also, large creditors, like shareholders may attempt to shift activities of the bank to reflect their own preferences. Large creditors for example as noted by Myers (1997: 147), may induce the company to forego good investment and take on too little risk because the creditor bears some of the cost but will not share the benefits.

c). competitions in product market and take over: Some economists have argued that competition in the product or service market may act as a substitute for corporate governance mechanism (Allen and Gale 2000: 96). The basic argument is that firms with inferior and expropriating management could be forced out of the market by firms possessing non-expropriating managers due to sheer competitive pressure. That is rather than focusing on the mechanisms via which equity and debt holders seek to exert corporate control, market competition can discipline a poorly managed firm. Also a fluid takeover market is noted by Jensen (1993: 325), could create incentives for managers to act in the best interest of the shareholders to avoid being fired in a takeover. Evidence however suggests that given the power of managers and the scarcity of liquid capital markets, takeover are essentially non-existent as a corporate governance mechanism outside the U S A and U K (Shleifer and Vishny, 1997: 90).

Structure of corporate governance in Nigerian commercial banks

Owing to the unique nature of banking, there are adequate corporate governance laws and regulations in place to promote good corporate governance in Nigeria. Some of the most important ones include: The Nigeria Deposit Insurance Corporation (NDIC) Act of 1988, the Company and Allied Matters Act (CAMA) of 1990, the Prudential Guidelines, the Statement of Accounting Standard (SAS 10), the Banks and Other Financial Institutions (BOFI) Act of 1991, the Central Bank of Nigeria (CBN) Act of 1991, the CBN Circular and Guidelines, etc. Also, there are some government agencies and non-governmental associations that are in the vanguard of promoting good corporate governance practices in the Nigerian banking sector. These organizations, apart from the CBN and NDIC, include the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE), Corporate Affairs Commission (CAC), Institute of Chartered Accountants of Nigeria (ICAN), Financial Institution Training Centre (FITC), Institute of Directors (IOD) Chartered Institute of Bankers of Nigeria (CIBN), etc (http://studyclue.com/uploads/corporate_governance_and_financial_performance_of_banks.doc_br).

Basically, corporate governance in the nation's banking system provides the structure and processes within which the business of bank is conducted with the ultimate objective of realizing long-term shareholders value while taking into account the interests of all other legitimate stakeholders. In meeting its overall commitment to all stakeholders, the various statutory and other regulations in the system impose the responsibilities with sanctions for breaches on bank (http://studyclue.com/uploads/corporate_governance_and_financial_performance_of_banks.doc_br) director to:

- Effectively supervise bank affairs by exercising reasonable business judgment and competence.
- Critically examine the policies and objectives of a bank concerning investment, loan asset and liability management et cetera;
- Monitor bank's observance of all applicable laws.
- Avoid self-serving dealings and any other malpractices;
- Ensure strict accountability; etc.

A critical review of the nation's banking system over the years, have shown one of the problems confronting the sector had been that of poor corporate governance. From the closing reports of banks liquidated between 1994 and 2002, there were evidences that clearly established that poor corporate governance led to their failures. As reveal in some closing reports, many owners and directors abused or misused their privileged positions or breached their judiciary duties by engaging in self serving activities. The abuses included granting of unsecured loans/credit facilities to owners, directors and related companies which in some cases were in excess of their bank's statutory lending limits in violation of the provisions of the law. The magnitude of insider abuse in some of the failed banks before the pronouncement of bank consolidation and reforms is presented in Table 1.1

TABLE 1.1: Extent of insider credits in some selected banks in liquidation as at the date of closure.

S/NO	Banks (in- liquidation)	Ratio of insider loans to total loans
1	ABC Merchant Bank Limited	50.66
2	Alpha Merchant bank Plc	55.00
3	Commercial Bank Plc	52.00
4	Commercial Trust Bank Plc	55.90
5	Credit Bank Limited	76.00
6	Financial Merchant Bank Ltd	66.89
7	Group Merchant Bank Ltd	77.60
8	Kapital Merchant Bank Ltd	50.00
9	Nigeria Merchant Bank Ltd	99.90
10	Prime Merchant Ltd	80.70
11	Republic Bank Ltd	64.90
12	Royal Merchant Bank Ltd	69.00
13	United Commercial Bank Ltd	81.00

Source: Closing Report, Receivership and Liquidation Department, NDIC.

The various corporate misconducts in the affected bank caused pain and suffering to some stakeholders particularly depositors and some shareholders for no fault of theirs.

A review of on-site examination report of some banks in operation in recent times continues to reveal that some banks had continued to engage in unethical and unprofessional conduct such as:

- Non-implementation of examiners' recommendation as contained in successive examination reports.
- Continual and willful violation of banking laws, rules and regulations.
- Rendition of inaccurate returns and failure to disclose all transactions thereby preventing timely detection of emerging problem by the regulatory authorities; etc.

Furthermore, some bank's examination reports revealed that many banks were yet to imbibe the ethics of good corporate governance. One of such issues bordering on weak corporate governance had been the prevalence of poor quality of risk assets. Apart from those of other debtors, large non-performing insider related loans and advances in some banks had persisted due to the inability of the respective board and management to take appropriate action against such insider debtors. From the various reports reviewed, internal audit functions were, in some banks not given appropriate backing of the board and senior management. Lack of transparency in financial reporting had equally been noted in some banks examination report.

The boards of some banks were also to be ineffective in their oversight functions as they readily ratified management actions even when such actions could be seen to violate the culture of good corporate governance. Many board committees were equally noted to have failed to hold regular meetings to perform their duties. From the forgoing, it is obvious that corporate governance in the system faces enormous challenges which if not addressed could have serious implications over the overall success of the bank exercise. If operators in the banking sector will keep to the rules as specified by the regulatory agencies and in individual banks' policies and transactions procedures all things being equal, financial sector stability could be guaranteed. However, when there is the possibility of flagrant abuse of the ethical and professional demands on operators as evidence. In some failed banks closing report and on-site examination reports of some banks in operation, the prospect of restoring public confidence in the Nigeria banking sector may be difficult to position (http://studyclue.com/uploads/CORPORATE_GOVERNANCE_AND_FINANCIAL_PERFORMANCE_OF_BANKS.doc_br).

The Banks' responsibilities in ensuring corporate governance

Emphatically, corporate governance system should ensure that corporate managers and their supervisors are accountable to the shareholders and a host of other constituencies. It is seen as the management of corporate business and affairs of a company effectively in order to add value to the company. Anaroke, (2004:3) in his paper "addressing the challenges of corporate governance and the role of relevant institutions" posited the responsibility in ensuring corporate governance as follows:

Banks should engage qualified experts to conduct an internal review of its corporate governance practices, identify areas of lapses, and make recommendations which the board should commit to enforcing. Such review should formulate in details the role and responsibilities of the board and recommend further steps a board should take to be on top of its responsibilities. Such should include. Development of clear position description for the chairman of the board and the chairman of committee, develop clear position description for the MD, which should include delineating management's responsibilities, designed to enable the MD meet pre-agreed corporate goals and objectives; ensuring that new directors receive comprehensive orientation, which should focus on the roles of the board and its committees and the contributions expected of directors. Emphasis here should be on commitment of time and other resources the board experts of directors; provision of continuing education for all directors, so that they can remain current on their expected roles in light of the changing business environment and challenges of the company they serve; adoption of written code of business conduct and ethics, applicable to directors, officers, and employees. The code should address the following issues: Conflict of interest including transactions and agreement in which a director or executive officer has a material interest; Protection and proper use of corporate assets and opportunities; Confidentiality of corporate information; Fair dealing with the company's securities, holders, customer, suppliers, competitors and employees; Compliance with laws and regulations; Prohibition of insider dealing and Reporting of any illegal or unethical behaviour (http://www.deloitte.com/view/en_CA/ca/services/corporategovernance).

Another responsibility is ensuing that it monitors compliance with the code and that if alone can approve any waiver from the code granted to directors or executives and ensuring that a procedure is in place for the affected officer to seek waivers from the board (Nzotta, 2004:149). One other key aspect of the IFC report as noted by (Tony, 2007:47) who addresses how boards can properly respond to the post consolidated corporate governance challenges is internal control. The report's comment that "risk management capabilities in the majority of banks are yet to go beyond credit risk management" may be attributed to inadequate understanding of the concept of internal control. This process of internal control is affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives following ways:

- Effectiveness and efficiency of operations.
- Compliance with applicable laws and regulation and
- Reliability of financial reporting.

Performance indicators on model specification

Accounting information can be used to measure performance of public and private organizations (http://www.redorbit.com/news/health/1450984/kofenya_the_role_of_accounting_information_in_managing_the_ risks/_br). That is corporate measurement which implies measure performance of division, measure performance of product or service, measure performance of equipment and persons. According to Ilaboya (2005:56) these performances can be measured in terms of profitability**,** liquidity and efficiency, etc. for the purpose of this research work, the above three ratios shall be used to assess the performance of commercial banks. Corporate governance causes improved economic activities of the bank leading to high earnings per share, liquidity, asset base (investment) and dividend per share. Therefore, corporate governance affects bank total profit.

Profitability is the relative tendencies of profit making in alternative courses of action or decision (Ilaboya, 2005: 56). Profitability is a relative measure showing a more profitable alternative. Profit is an absolute measure of the overall amount of Net Income earned by a transaction. Profit is used as an index to measure performance; it measures the net effectiveness and soundness of business efforts and an ultimate test of business performance (Okoli, 2006: 12-17). It is the risk premium that covers the cost of staying in a business, replacement of obsolescence market risk and uncertainty. The importance of distinction between profitability and profit lies in the fact that profitability can be judged from the net return as well as the cost saving of alternative transaction. In the concept of profitability, it is enough that a company knows that it is making profit. It also needs to know if it is making as much profit as it could. While theoretical studies aim at maximization of profit, it is accepted that perfection is rather impossible to attain in practice and this often requires were practical test. These test can be regarded as the test of profitability and consist of test of possible cost reduction and net return improvement through either increase in sales of production or production mix. Summarily, profit provides an objective statistical or quantitative evidence or profitability in alternative transactions by showing their absolute profit margin quantitatively.

Profitability in period t ($PROF_t$) and investment in period t: Investment decision is a function of retained earnings and external financing as already noted. If companies are concerned about the maximization of shareholders wealth, the deployment of cash into profitable investments should usually take priority over dividend payments. Hence, the profitability and investment are expected to be positively related (Fama, 1974: 26). Profitability in period t ($PROF_t$) and liquidity ratio in period t: Being profitable is not the same thing as being liquid, because the fund of a company may go into fixed assets and permanent working capital. Cash dividend represents a cash outflow, the greater the cash position and overall liquidity of a company the greater its ability to pay a cash dividend. The relationship between profitability in period t is positively related to the liquidity ratio in period t.

It is normally observed that current asset should cover current liabilities two times before business is considered strong. Other reasons why liquidity ratio enters into the linear model are based on the following. That the main purpose of commercial hanks is to lend money, accept demand, time and saving deposit, That the main purpose of commercial banks is to lend money, accept demand, time and saving deposit. The survival of commercial banks is based on the liquidity of the banks as it is a bad management policy to ignore liquidity in the pursuit of profitability. The central bank of Nigeria has a solemn responsibility of protecting depositors' money with the commercial banks regulatory instruments and options. The minimum liquidity ratio requirement is one of the potent regulatory instruments used. For commercial banks, the ratio is based specified liquid assets to deposit liabilities. The variable (liquidity ratio) is important because cash dividend represents a cash outflow.

Dividend per share (DPS_t) and Earnings per share in period t (EPS_t): One of the benefits of buying share in a company is the expectation of future dividends. As the earnings record of a company improves all things being equal increases in cash reflects concern by management for a reasonable payment for the use of the shareholders money as well as confidence in the company's future earnings potential. Given this, the relationship between dividend per share (DPS_t) and earnings per share (EPS_t) is positive (Akpan, 2006: 57). Earning per share ratio will be used in this work as one of the performance measurements of corporate governance in the banking sub-sector. This is because banks aimed at management of shareholders returns. Earning per share is performance indicator that is primarily of interest to existing and potential shareholders and their advisers. It is a crucial index to financial decision.

According to Adedipe (2004:56) earning per share refers to earnings per ordinary share. Basically, earning per share is calculated by dividing the operating profit after lax of a company for a financial year by the number of outstanding shares of the company during the financial year. It is worthy of note that operating profit/loss after income tax is the profit or loss for the financial year before extra ordinary items and after applicable tax expenses. It is an amount of profit of loss that includes exceptional items but excludes extraordinary items. The objective of the earning per share is to determine the amount of earning available to each ordinary share. Suffice it to say that, the fundamental question of corporate governance is how to ensure fund providers; including shareholders and depositors that get a reasonable return on their financial investment .It is the judicious and prudent use of management resources to maximize shareholders return.

Mbat (2001: 7} posits that wealth or economic value maximization refers to the generation of sufficient earnings in order to pay adequate dividends lo shareholders. He further stated that dividends represent one of the shareholder returns on investment and they exert pressure on the market prices of the share and implicitly shareholders wealth. The achievement of the wealth maximization objective is an indication of management effectiveness and efficiency. It shows a firm's ability to finance its growth as well as pay adequate dividends. Thus, growth in earnings per share represents the most preferred objective of financial management. The wealth maximization objective focuses on increasing the share prize of the stock. Shareholders wealth maximization therefore considers earnings per share, dividend yield and dividend growth rates as parameters for measuring the achievement of this objective.

In another development, Pandey (2005:14) stated three main implications of the wealth maximization objective of shareholders which corporate governance lay emphasis .These are,

- Confidence with objectives of shareholders. Shareholders always preferred more wealth to loss.
- In line with the objective of employees and as such leads to the maximization of the benefits of employees.
- Optimal allocation of society's resources leading to the maximization of social benefits.

Investment is used and needed in the study as a result of the following:-Section 22 (1) of BOFIA (1991) requires commercial banks to acquire shares in small and medium scale industries, agriculture enterprises and venture capital companies.

- Investments in subsidiary companies are held in order to exert a dominant role in developing policy or in directing operations of the subsidiary company.
- A commercial bank like any other business applies its funds on operating activities, investing activities and financial activities.
- Investment decision is a function of retained earnings and external financial dividend

payout reduces the amount of money available for investment.

In inflationary period shareholders may require higher dividends owing to the falling purchasing power. If this is the case, dividend in period t (DPS_t) will increase as inflation rate in period t (Inf_t). On the other hand, during the periods of inflation, the company may not be able to afford large distribution as it would need a higher retention policy on earnings to overcome its loss in purchasing power, reflected in the higher replacement cost of fixed assets and inventory (stock). Still, much of the profits made during inflationary period are inflated reported profits because the historical cost accounting matches current revenue with out-of-date cost. If the whole inflated reported profits are distributed, the operating capacity or scale of operation of the business will be reduced or impaired. To prevent this reduction in the scale of operation dividend per share in period t (DPS_t) must decrease with increase in inflation rate in period t (Inf_t). In this case, there is a conflict between what is good for the shareholders and what is good for the company. The shareholders want more cash divided during inflationary period while the company requires higher retention of profit in the company to maintain its scale of business. The net effect of these opposing influences on dividend retention ratio will depend on their strength. But as the board of directors of a company has a statutory duty to raise and maintain its capital, declare cash dividend along with its definite preference for retained earnings over the other source of funds, it follows that more funds will be retained in the company during periods of inflation. In this study, we assume that the relationship between dividend per share in period t (DPS,) and inflation rate in period t (Inf_t) is tentatively negative.

Effects of corporate governance on performance of banks in Nigeria

The hallmark of banking is the observance of high degree of professionalism, transparency and accountability which fundamental components for building strong public confidence. It is equally important to indicate some effects of good corporate governance on banks performance so as to maintain the safety and soundness of emerging bigger banks in the post consolidation era with a view to enhance public confidence in the nation's banking system. Myers (1997:147-150) investigated the determinants of corporate borrowing and highlighted the following effects on corporate governance:

Raising awareness and commitment to the value of good corporate governance performance among all stakeholders**:** An essential part of corporate governance concerns persons as well as groups which are considered as stakeholders. Awareness and commitment among banks, directors, shareholders and stakeholders as well as regulators are very critical for ensuring quality performance practices. Raising awareness means convincing people that good corporate governance is in their own interest. To improve the quality of corporate governance performance in a consolidated Nigerian banking system, there is the need for strict adherence to internationally recognized corporate governance codes/principles such as those of Central bank of Nigeria codes on corporate governance, the organization for economic corporation and development (OECD) and the Basel committee on banking supervision. To ensure good performance, banks should draw up a binding code of ethical and professional practice for all members.

Effect on the board responsibilities**:** The ultimate responsibility for effective monitoring to the management and of providing strategic guidance to the bank is placed with the board. The OECD principles provide that "board members should act on fully-informed basis, in good faith with due diligence and care, and in the best interest of the company and shareholders". For board to effectively perform its responsibilities, it must have the "right people" on the board who are independent, knowledgeable and ethical and whose integrity is unquestionable. Enhancement of internal control measures**:** The need for banks to continue to recognize internal and external auditors as important part of the corporate governance process can not be over-emphasized. Adequate internal control measures will help to discipline banks and enhance their daily business performance by ensuring compliance with internal and external rules as well as help the board to effectively evaluate the bank's risks and ultimately its future strategy. The external auditors of the banks should be oblique to commit themselves to clarify with regard to their independence, professionalism and integrity. They should strive and rebuilt confidence in the profession through the preparation and presentation of credible and reliable financial statements reports.

Effect on information disclosure and transparency: This has been discussed in corporate governance legislature. Transparency will enable the financial markets, depositors and other stakeholders to form a fair view of the bank's value and develop sufficient trust in the quality and performance of the bank and management. The quality of information disclosure depends on the standard and practices under which it is prepared and presented. Comprehension disclosure should also include non-financial information. Effect on implementation and enforcement of corporate governance laws and regulations: to improve the quality of corporate governance on performance of banks in a consolidated Nigeria banking sector, sanction for violation of judiciary duty should be sufficiently severe to deter wrong doing. The good faith requirement imposed on bank directors, oblique them to honour the substance as well as the form of their duties.

Enhancement of training of directors and shareholders to actualize performance: A well planned and properly executed continuous training programme will help directors and shareholders achieve their goals in the performance of judiciary obligation. This will contribute to the overall success of the banking sector. Protection of shareholders rights and equity treatment of all stakeholders: The protection of the rights is a pillar of an effective corporate governance system. Measures for protection include: strengthening disclosure requirements, clarifying and strengthening the judiciary duty of directors to act in the interest of the bank and all its shareholders.

Summary and Concluding Remarks

The study is concerned with the effect of corporate governance on the performance of commercial banks in Nigeria. This research work discusses the principles and mechanisms of corporate governance; the relationship between corporate governance and bank's performance; the stakeholders' theory; the banks responsibility in ensuring corporate governance, and corporate governance legislature.

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