CORPORATE GOVERNANCE AND THE NIGERIAN BANKING SECTOR’S SHARE PRICE

Matthew Adeolu Abata, PhD.
Department of Accounting Faculty of Management Sciences, Lagos State University Lagos, Nigeria
Corresponding Email: abatamat@gmail.com

Omokehinde, Joshua Odutola, PhD.
Department of Accounting, Banking & Finance Olabisi Onabanjo University, Ago Iwoye, Nigeria

Olakunle Tijani
Department of Accounting, Faculty of Management Sciences, Lagos State University, Lagos, Nigeria

Abstract
Different corporate governance reforms have emerged from Nigerian corporate regulatory bodies to spur Nigerian banks into adopting sound corporate governance practices in the salutary interest of the Nigerian banking sector. This study therefore investigates the extent to which the corporate governance metrics impact on the share price performance of Nigerian banks. The control variables of firm performance and growth were also employed, as these are key determinants of share price performance. Explanatory research design was employed to expound the links between the dependent and independent variables. Secondary data were gathered from the annual reports of these banks from 2007 to 2014 to test five formulated hypotheses. Among other things, the study found that the coefficients of Audit Committee Size, Growth and Firm performance (surrogated by ROA) were significantly negatively related to share price performance, while the other variables are positively related to share price performance. It was concluded that corporate governance metrics, together with the controls variables are determinants of share price performance of Nigerian listed banks. It is therefore recommended that corporate governance manuals should be circulated to bank employees to ensure enforcement of consistent compliance in every transaction. Equally, bank regulatory bodies such as CBN, SEC, NSE, should sustain reform efforts that will employ the best corporate governance practices that will enhance international competitiveness.

Keywords: Corporate Governance, Share Price Performance, Banking Sector, Regulatory bodies, Return on Asset.

Gel classification: G 32 & F 65

Introduction
The extent to which corporate governance indices influence the price of shares traded at the capital market, is of concern to every player in the market. Coupled with this is the sensitivity of the banking sector to the economic development and growth of any nation. The success or failure of the banking sector can make or mar the economy – or even affect the global economy like the 1997 Asian (Pathan et al., 2008) and 2008 United States financial crises (Peni & Vahamaa,
2012). Sanusi (2012), while providing anecdotal evidence of account manipulation in the Nigerian banking sector, claimed that one of the major reasons for the banking crisis in 2008 was “inadequate disclosure and transparency about the financial position of banks and lack of respect for corporate governance procedures”. Governmental monetary policies can only be effective with a sound and reliable banking system. Good corporate governance is naturally deemed to result in better corporate performance – even though empirical results globally are mixed (Carcello & Neal, 2003; Attiya & Robina, 2007). Numerous factors account for why better governed banks may perform better. The cost of capital will be reduced with better governance, through the employment of lesser debt financing. Furthermore, board and management roles are separated in a better governed firm – thereby translating into more efficient operations. Better governed practices encourage checks and balances and prevent abuses in operational transactions. Corporate governance depicts the body of guidelines that foster managerial application of the principles of value-based management (Brigham & Ehrhardt, 2005). It means organisational decision-making and control – especially the board structure and its operational rules by which bank stakeholder interests are protected by insider managers (Al-Baidhani, 2011). The financial management literature distinguishes banks’ governance from other firms, due to: (i) the different stakeholders, including depositors and creditors; (ii) the complexity of operations of banks (Macey & O’Hara 2003; Devriese et al., 2004; Levine 2004; Graham, Harvey & Rajgopal, 2005); and (iii) the singular banking laws and regulatory framework (Heremans, 2007; Ungureanu, 2008; Hopt, 2012).

Several authors have explored the impacts of corporate governance on the Nigerian banking sector’s performance – with various results (Akingunola, Adekunle & Adedipe, 2013; Jegede, Akinlabi & Soyebo, 2013; Uwuigbe, 2013; Onakoya, Ofoegbu & Fasanya, 2014; Oyerinde, 2014). Akingunola et al. (2013) found bank deposits to be positively related to bank performance and that corporate governance promotes transparency, accountability, fairness and high ethical standards. Jegede et al. (2013) found board size to be positively significantly related to bank performance, while bank age and board committees have a negative effect on performance. Uwuigbe (2013) found ownership structure to be negatively related to share price, while audit committee is positively related to share price. Onakoya et al. (2014) found that corporate governance practices impacted negatively on bank performance. Oyerinde (2014) found that board size is significantly positively related to bank performance, while insiders loan was negatively related.

Despite these studies and implications, very little attention has however been directed at the significance of good corporate governance in relation to the increase or decrease of a banks’ value in the capital market in the management decision process. Most of the earlier studies regressed corporate governance metrics against the profit after tax, dividend payout, return on asset and return on equity leaving the share prices (which is the banks actual market value) out. Considering its sensitivity, firm’s share prices reveals investors’ wealth, the level of business confidence, certainty or uncertainty about households and firm’s future economic situation. To bridge this knowledge gap therefore, this study examines the impact of corporate governance indicators on the share prices of Nigerian banks.

**Literature review and development of hypotheses**

**Corporate Governance in Nigeria**

Corporate governance practices of caring for the government, shareholders and the public interest in a balanced manner, were absent for a long time in the Nigerian banking industry. The regulation and its agent (the regulator) have a different relationship with the firm compared to the market,
bank management and shareholders (Uwuigbe, 2012). According to Quadri (2010), the corporate governance culture in Nigeria has been irresponsible with regard to the stakeholders and shareholders. There is no grounded mechanism to maintain a balance among the major players (board of directors, shareholders and the management) in the banking industry. Excessive powers are concentrated in the Managing Director, who usually is the Chairman of the Board – and hence checks and balances are absent. These shortcomings have generated persistent illiquidity, under-capitalisation, and a high level of non-performing loans in the existing banks. This has triggered consistent clamouring for best practice in corporate governance. Responding to this, the different regulatory agencies started working out ways to resolve the challenges.

Various reform efforts took place regarding corporate governance in Nigeria. For instance, the Securities and Exchange Commission (SEC) constituted a committee that produced a set of rules of best practices for public companies tagged “the code” in 2003. In 2005, the Institute of Directors of Nigeria established a Center for Corporate Governance to advance the cause of good corporate governance amongst its members. In 2006, the Central Bank of Nigeria (CBN) issued post-consolidation corporate governance guidelines, for all banks operating in Nigeria. The CBN later revised “the code” in May 2014 – to cover key indicators like size and composition of the board, separation of powers, appointment and tenure, board committees, equity ownership, mandatory disclosure for reporting, and a compliance report by external auditors. The Nigerian code of corporate governance is designed to ensure that managers and investors conduct their activities accountably and transparently. This ensures that stakeholders’ interests are acknowledged and defended. Even though the code is recommended to all Nigerian public companies, the application is, however, voluntary for companies.

In another vein, the Convention on Business Integrity (CBi), along with the Nigerian Stock Exchange, on 3 November 2014 constituted the foremost Corporate Governance Rating System (CGRS) in Nigeria. The essence is to rate quoted firms based on their corporate governance and anti-corruption culture – in order to enhance the overall perception of, and trust in, the Nigerian capital market and business practices. According to Apampa (2014), this rating system is holistic with a multi-stakeholder approach that uses a diverse information collection and verification approach – which relies on firms’ self-assessment and on the experiences of stakeholders and experts. Companies will be rated based on the quality of their corporate integrity, corporate compliance, understanding of fiduciary responsibilities by directors, and corporate reputation. In allocating weight, corporate integrity attracts the highest rate – with corporate reputation the least. The Financial Reporting Council of Nigeria (FRCN) – in addition to the Act of 2011 – recently released an Exposure Draft on the National Code of Corporate Governance.

The aforementioned efforts show that deliberate attempts are being made by professional and regulatory bodies, to enforce compliance. It is generally believed that the quality of financial reporting in a firm depends on its corporate governance compliance, and hence efforts are necessary to enforce corporate governance as a controlling mechanism – leading to achieving reliability in corporate financial reporting.

**Board Independence**

The most fundamental notions in corporate governance are that the board of directors should be independent of management and the company (Hermanson & Rittenberg, 2003). Oyejide et al. (2001) established that in Nigeria the practice whereby directors (executive or non-executive) are handpicked, means they are not independent and not necessarily bound (legally or by default) to work towards placing priority on increasing shareholders’ value or protecting the business interest
– let alone the interests of stakeholders. Fama and Jensen (1983) define board independence as the involvement of external directors with the aim of increasing the board’s potential for better efficiency in monitoring management. Beasley (1996) argues that the inclusion of grey directors who have affiliations with management, may impair board independence. The independent directors must be solely outside directors, who have no other relationship with the company – except for being on the board of directors. Several studies have reported a positive link between having a higher proportion of independent non-executive directors sitting on the board, and financial reporting quality. Beasley (1996) provides evidence of a strong relationship between the independence of board members and the likelihood of fraud incidence. Baysinger and Butler (1985) found a positive relationship between several outside directors and accounting performance measures. Bonn, Yoshikawa and Phan (2004) similarly found that a higher proportion of independent directors on the board leads to stronger firm performance. Bhagat and Black (2000, 2002) found an inverse interplay between board independence and firm performance and shareholder wealth. A negative correlation was equally found between the percentage of external directors and existing Tobin’s q (Yermack, 1996). Bhagat and Bolton (2008) contribute to the claim that a negative relative relationship exists between independent directors and the value of the firm. They maintain that bringing external directors to a board will negatively affect shareholder wealth – as they do not have proper understanding of happenings in the company.

H0: There is no significant relationship between Board Independence and Share Price Performance of Nigerian banks

Board Size
In line with the CBN Code of Corporate Governance of Banks and Discount Houses in Nigeria, 2014, the size of the Board of any bank shall be limited to a minimum of five (5) and a maximum of twenty (20). Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime. The Board shall consist of Executive and Non-Executive Directors. The number of Non-Executive Directors shall be more than that of Executive Directors. Board size has been singled out as the most outstanding factor in firm valuation (Mak & Kusnadi, 2005). The proxy employed for good governance is usually the number of independent directors. Beasley (1996) investigated some corporate houses that indulged in fraudulent practices and observed that the incidence of such practices was lower when non-executive directors are on the board. The independent directors are perceived to be unbiased monitors and reduce the chance of fraudulent practices (Broadways & Shah, 2009). Some authors have, however, argued that external directors do not have the needed time and knowledge needed to make a necessary contribution that will improve shareholder wealth creation (Patton & Baker, 1987). The role of institutional directors is also key, because the percentage of institutional directors is related inversely to the level of fraud (Beatriz & Belen, 2007). Institutional ownership is considered to be a part of good governance practice by various researchers, since institutional investors can control resources and influence corporation performance. Ali Shah (2009) and Byard et al. (2010) observed a direct interplay between board size and firm performance, while Meca and Ballesta (2009) and Jayati Sarkar (2006) found that large board size restrains abuse.

H0: Board Size is not a determinant of share price performance of Nigerian banks
Audit Committee Size
The audit committee works as another internal control mechanism in the board’s structure, “the impact of which should bring improvement to the quality of the financial management of the bank and hence improvement in its share performance” (Weir et al., 2002). The way to understand the effectiveness is not by its mere existence – but the total number of meetings held in a year have been used as a proxy internal control mechanism to judge the effectiveness of the committee in some studies. A significant inverse correlation was found by Archambeault et al (2008) between committee size and suspicious auditors’ practices, but Abbott, Paker and Peters (2000) find an insignificant relationship between audit committee and earnings’ manipulation. A direct association was found between audit committee size and profit misstatement by Abdul Rahman and Ali (2006). However, Spira (1999) claims that audit committee size does not improve financial report quality. The CBN code of Corporate Governance in Banks and Discount Houses, 2014, mandates change in the CEO after 10 years believing that this will improve corporate governance practices in the banking industry – provided it is a change to a more competent CEO.

H0: There is no significant relationship between Audit committee size and the share price performance of Nigerian banks

Audit Committee Independence
Various studies on the relationship of Audit committee independence with firm share price performance have had mixed findings. Sharma et al. (2009) state that fewer industrial activities are seen when audit committee members are fully independent and this will impact negatively on the monitoring level of the managers. Klein (2002) and Jaggi and Leung (2007) however found that corporate performance is enhanced – and share price is improved by the presence of board directors sourced from outside. A direct cross-sectional correlation was found between the proportion of Audit committee members from inside and the value of the firm. Brown and Caylor (2004) established a direct interplay between independent Audit committees and dividend yield – but not with operating performance or firm valuation. Defond and Francis (2005) found that insider directors are less effective in monitoring management than independent directors. Likewise, directors appointed from outside act in the shareholders’ interest – which brings significant returns (Sanda, Garba & Mikailu, 2011). This is particularly true when independent directors are members of the Audit committee.

H0: There is no significant relationship between Audit committee independence and the share price performance of Nigerian banks

Ownership Structure
Ownership concentration is the degree of presence of large shareholders in a company (Pedersen & Thomsen, 2003). Concentrated shareholders enjoy greater rewards for monitoring management, because the benefits inherent in their large shareholding in the company far outweigh the cost (Ramsey & Blair, 1993). The fixed charges of monitoring management and gathering information can easily be borne by the benefits derivable from large ordinary shareholders (Demsetz & Lehn, 1985; Stiglitz, 1985).

On the other hand, when owners hold low stakes in the company, there is no inherent benefit to shareholders for monitoring managers. Other studies also affirm that diffuse ownership brings about lower incentives for the monitoring of management (Ramsay & Blair, 1993; Hart, 1995; Maher & Anderson, 2000). Stiglitz (1985) and Bebchuk (1994) claimed, to the contrary, that concentrated ownership often leads to abuse – whereby majority shareholders dominate the
minority in decision-making, thereby affecting the firm’s value negatively. Klein (1998) found no correlation between a company’s ownership structure and its value.

**H0**: There is no significant correlation between ownership structure and the share price performance of Nigerian banks.

**Bank Performance**

Bank performance can be financial or non-financial. The non-financial issues are customer retention and customer penetration, while financial performance indicators are asset quality, capital adequacy and loan loss (PriceWaterhouseCoopers, 2007). Bank performance generally refers to improvement in share price, productivity, profitability or current value in banking (Jeon & Miller, 2006; Melvin & Hirt, 2005). Bebchuk and Hamdani (2009) claim that the value of corporate governance practices and stakeholders’ protection, significantly enhances bank behaviour and performance (Bebchuk & Hamdani, 2009). Better governance provides companies with an easy opportunity to access capital market on favourable terms, which adds value to firms that intend to raise capital (Doidge, Karolyi & Stulz, 2004). Equally, better governed companies trade at a better market price that will improve investors’ returns (Gompers, Ishii & Metrick, 2003).

In Uganda, Rogers (2006) studied corporate governance and financial performance of selected commercial banks. He found that corporate governance accounts for 34.5% of the difference in the overall financial performance of commercial banks, and that credit risk has a negative relationship with financial performance. Balaputhiran and Nimalathashan (2013) investigated corporate governance and banking performance in the public and private banking sectors in Sri Lanka. They found that all corporate governance variables are significantly positively associated with ROE at 5% in both types of banks. In addition, except for board meeting frequency, other variables have a strong negative relationship with ROA. Himaj (2014) investigated the governance of banks and its consequences on risk and performance. He established that corporate governance and investor protection significantly impacts on firms’ performance (Bebchuk & Hamdani, 2009). Employing a sample of 107 Russian banks and 50 Ukrainian banks, Love and Rachinsky (2009) found a significant, but economically irrelevant interplay between governance and operating performance – and a weaker association with succeeding performance.

**Research Methods**

The study adopted an explanatory research design, which is justified because it attempts to explain the linkages between two or more dependent and independent variables (Osuagwu, 2006; Saundere, Lewis & Thornhill, 2007). In this study, the dependent variable is share price performance, while the independent variable is corporate governance, operationalised into board independence, board size, audit committee independence, audit committee size, and ownership structure. In order to account for other key variables that also affect share price performance, the control variables of firm performance (surrogated by return on assets), size (operationalised as a natural logarithm of the banks’ total assets) and growth (operationally defined as percentage change in total assets) were factored into the model for robustness. These variables are as defined below:
Table 1: Variables and their definitions

<table>
<thead>
<tr>
<th>Variables</th>
<th>Operational Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Price Performance</td>
<td>Average monthly returns of share prices</td>
</tr>
<tr>
<td>Board Independence</td>
<td>Ratio of non-executive directors to total numbers of directors on the board</td>
</tr>
<tr>
<td>Board Size</td>
<td>Total numbers of directors on the board</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>Ratio of non-executive directors to total numbers of directors on the board</td>
</tr>
<tr>
<td>Audit Committee Size</td>
<td>Total numbers of directors in the audit committee</td>
</tr>
<tr>
<td>Ownership Structure</td>
<td>Proportion of the largest five shareholders to the total outstanding shares</td>
</tr>
<tr>
<td>Firm Performance</td>
<td>Return on Asset (Profit Before Interest &amp; Tax/Total Assets)</td>
</tr>
<tr>
<td>Size</td>
<td>Natural logarithm of total assets</td>
</tr>
<tr>
<td>Growth</td>
<td>Percentage change in total assets</td>
</tr>
</tbody>
</table>

Furthermore, the study focused on Nigeria listed banks, the population of which was fifteen (15) (NSE Official List of 10 May, 2016). From this, ten (10) banks were selected as samples, representing 66.7% of the population. This study considered the sample size as being representative enough of the population. The selected banks are therefore as follows:

Table 2: List of selected banks

<table>
<thead>
<tr>
<th>S/n</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Access Bank of Nigeria Plc</td>
</tr>
<tr>
<td>2</td>
<td>Diamond Bank of Nigeria Plc</td>
</tr>
<tr>
<td>3</td>
<td>First Bank Nigeria Plc</td>
</tr>
<tr>
<td>4</td>
<td>First City Monument Bank Plc</td>
</tr>
<tr>
<td>5</td>
<td>Guaranty Trust Bank Plc</td>
</tr>
<tr>
<td>6</td>
<td>Sterling Bank Plc</td>
</tr>
<tr>
<td>7</td>
<td>United Bank of Nigeria Plc</td>
</tr>
<tr>
<td>8</td>
<td>Union Bank Nigeria Plc</td>
</tr>
<tr>
<td>9</td>
<td>Wema Bank Plc</td>
</tr>
<tr>
<td>10</td>
<td>Zenith Bank Nigeria Plc</td>
</tr>
</tbody>
</table>

NSE Daily Official List, May 2016

In addition, secondary data were gleaned from the annual reports of the banks. The data spanned 2009-2014. The period covered by the study was informed by the fact that the corporate governance code was first formulated for banks in Nigeria in 2006. An empirical attempt to evaluate the effectiveness of this code in terms of how it can impact on the performances of their share prices, stridently requires the initial delineated period of 2007-2014. It is pertinent to note that the years 2007-2008 were further excluded because of the distorting impact of the credit crunch of 2007-2008 on share prices. It is salient to add that the data collected were pooled into a panel, in order to facilitate a robust empirical analysis.

To test the formulated hypotheses, multiple least square regression analysis aided by E-views version 9 was employed. Also, facilitated by the same statistical package, descriptive analysis was carried out on the data using mean, standard deviation, skewness, kurtosis, and Jarque-Bera – to describe some properties of the data collected. The Jarque-Bera test was carried out to determine the normality or otherwise of gathered data.
The model formulated to guide the analysis of data and interpretation of the results, is as empirically specified below:

$$SPP = \beta_1 BI_u + \beta_2 BS_u + \beta_3 ACI_u + \beta_4 ACS_u + \beta_5 OS_u + \beta_6 ROA_u + \beta_7 G_u + \beta_8 S_u + \varepsilon 
\quad \ldots (1)$$

where:

- $SPP =$ Share price performance;
- $BI =$ Board independence;
- $BS =$ Board size;
- $ACI =$ Audit committee independence;
- $ACS =$ Audit committee size;
- $OS =$ Ownership structure;
- $FP =$ Firm performance;
- $S =$ size and $G =$ growth.

Analysis of data and interpretation of results

Results of descriptive statistics

The results in Table 3 (below) revealed that the average returns on the shares of the selected banks fell by 0.4% between 2009 and 2014. This computed performance index conforms to the general depressing performance of the entire Nigerian stock market – even after the supposed recovery of the Nigerian economy from the credit crisis of 2007/2008. Also, shown in Table 3, and for the period under review, the board independence of these banks averaged 0.6213. This suggests that the non-executive directors numbered more than executive directors on the boards of these banks. With respect to board size, these banks had an average of fourteen (14) directors on their boards. Arguably, a fourteen (14) member board is a fairly large one, and so these selected banks had fairly large board sizes. Perhaps, the compelling need for diversity in terms of experience, specialisations, qualifications, expertise and value-adding capabilities might have driven these fairly large board sizes. Expectedly, these should enhance the performances of these boards in providing effective oversight for executive management and the overall strategic directions of these banks.

| Table 3: Descriptive statistics of the variables for the selected banks |
|--------------------------|----------------|----------|----------|----------|----------|----------|----------|----------|
|                          | SPP  | BI    | BS      | ACI     | ACS     | OS       | FP       | Size     | Growt    |
| Mean                     | -    | 0.621 | 14.133  | 0.730   | 5.2667  | 0.285    | 0.005    | 27.725   | 0.1746   |
| Median                   | 0.000| 0.585 | 14.000  | 0.666   | 6.0000  | 0.310    | 0.000    | 27.791   | 0.1418   |
| Maximum                  | 0.041| 0.900 | 20.000  | 1.000   | 9.0000  | 0.860    | 0.049    | 29.099   | 1.0531   |
| Minimum                  | -    | 0.400 | 7.0000  | 0.272   | 2.0000  | 0.003    | -        | 25.899   | -        |
| Std Dev.                 | 0.026| 0.105 | 2.9828  | 0.230   | 1.4598  | 0.178    | 0.010    | 0.8206   | 0.2670   |
| Skewness                 | 1.039| -0.250| -0.076  | -0.5369 | 0.575   | 2.104    | -0.5078  | 1.0385   | -        |
| Kurtosis                 | 7.513| 3.989 | 3.2385  | 1.476   | 2.5971  | 3.787    | 7.104    | 2.4775   | 5.5179   |
| Jarque-Kumar              | 72.29| 13.24 | 0.7670  | 5.862   | 3.2885  | 4.862    | 86.40    | 3.2607   | 26.634   |
| Probabilit               | 0.000| 0.001 | 0.6815  | 0.053   | 0.1932  | 0.087    | 0.000    | 0.1959   | 0.0000   |
| Sum                      | -    | 37.27 | 848.00  | 43.80   | 316.00  | 17.13    | 0.298    | 1663.5   | 10.476   |
| Sum Sq. Dev.             | 0.040| 0.657 | 524.93  | 3.146   | 125.73  | 1.882    | 0.007    | 39.728   | 4.2072   |
| Observati                | 60   | 60    | 60      | 60      | 60      | 60       | 60       | 60       | 60       |

Source: Author’s computation aided by E-views Version 9

Furthermore, the computed average audit committee independence figure of 0.7301, arguably indicates that the banks’ audit committees were highly independent – given that the number of independent directors outweighs the number of executive directors. Other things being equal, this should improve the financial reporting process of the banks – in terms of accountability, transparency and the overall integrity of the process. The audit committee size was approximately
five (5). If the Code of Corporate Governance of 2006 for banks is benchmarked, the average size of five (5) pointedly suggests that some of the selected banks have fewer than six members in their audit committees – against the minimum of six (three independent directors, and three executive directors) required by the Code.

Also, from Table 3, the ownership structure revealed that the five largest shareholders owned an average of 28.56% of the total shareholdings. Concentrated ownership is thus suggested. The control variable of firm performance proxied by returns on assets was 0.5% for the banks under empirical review. This clearly demonstrates that these banks were unable to generate high returns on the vast amounts of assets at their disposal between 2009 and 2014. Similarly, growth in their total assets during this period averaged 17.56% – while the average total asset was ₦1.099 trillion (exponential of 27.7255).

The calculated skewness statistics, kurtosis and Jarque-Bera probabilities for five of the eight variables, demonstrated that the nature of the distribution of the collected data is substantially normal. The normality of the data provides statistical and econometric support for the use of ordinary least square regression analysis.

**Results of correlation analysis**

As shown in Table 4 (below), although at weak levels, board independence, audit committee independence, audit committee size, ownership structure, firm performance and growth, are all negatively related to share price performance. The implication is that the variables of board independence, audit committee independence, audit committee size, ownership structure, firm performance and growth, decrease as share prices of the selected banks rise. However, the sizes of the boards of these banks and their overall sizes (natural logarithm of the total assets) are positively associated with their share price performances during the period under review. This means that the bigger the board size and their overall size (natural logarithm of the total assets) – the higher was the performances of their share prices.

<table>
<thead>
<tr>
<th></th>
<th>SPP</th>
<th>BI</th>
<th>BS</th>
<th>ACI</th>
<th>ACS</th>
<th>OS</th>
<th>FP</th>
<th>Gro</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPP</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BI</td>
<td>-</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BS</td>
<td>0.168</td>
<td>-</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACI</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACS</td>
<td>-</td>
<td>-</td>
<td>0.240</td>
<td>0.666</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OS</td>
<td>-</td>
<td>0.141</td>
<td>-</td>
<td>0.086</td>
<td>-</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FP</td>
<td>-</td>
<td>0.161</td>
<td>-</td>
<td>0.068</td>
<td>0.014</td>
<td>0.106</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gro</td>
<td>-</td>
<td>0.024</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>0.190</td>
<td>-</td>
<td>0.335</td>
<td>-</td>
<td>0.304</td>
<td>-</td>
<td>0.325</td>
<td>0.07</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Author’s computation aided by E-views Version 9

**Results of test of hypotheses**

Table 5 (below) shows the results of multiple ordinary least square regression analysis. The computed statistics from Hausman’s Test indicate that the random effect is appropriate, as compared to fixed effects. This is because the p-value is far greater than 0.05, the level of significance. From the random effect results, coefficients of audit committee size, growth, and
firm performance (represented by returns on assets) revealed that these variables are negatively related to share price performance, while other variables are positively related to share price performance. These relationships are, however, not statistically significant at 5%. In addition, none of the coefficients of the corporate governance variables of board independence, board size, audit committee independence, audit committee size, and ownership are statistically significant at 5%. In contrast, while the control variables of firm performance and size are statistically significant at 5%, – those of growth are statistically significant at 10%.

Table 5: Results of regression analysis on share price performance, corporate governance, and control variables for the selected banks

<table>
<thead>
<tr>
<th>Variables</th>
<th>FIXED EFFECTS</th>
<th>RANDOM EFFECTS</th>
<th>HAUSMAN TEST</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff. T-Stat P-Value</td>
<td>Coeff. T-Stat P-Value</td>
<td>Statistic P-Value</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.9190 3.0759 0.0037*</td>
<td>0.466136 2.722961 0.0088*</td>
<td></td>
</tr>
<tr>
<td>Board Independence</td>
<td>-0.0044 0.0821 0.9350</td>
<td>0.000955 0.022704 0.982</td>
<td></td>
</tr>
<tr>
<td>Board Size</td>
<td>0.0022 1.2595 0.2148</td>
<td>0.000714 0.471444 0.6393</td>
<td></td>
</tr>
<tr>
<td>Audit Committee Independence</td>
<td>-0.0229 0.6075 0.5468</td>
<td>0.009567 0.380088 0.7055</td>
<td></td>
</tr>
<tr>
<td>Audit Committee Size</td>
<td>-0.0024 0.4492 0.6556</td>
<td>0.004585 1.124502 0.2661</td>
<td></td>
</tr>
<tr>
<td>Ownership Structure</td>
<td>0.0077 0.2631 0.7938</td>
<td>0.024025 1.082936 0.2839</td>
<td></td>
</tr>
<tr>
<td>Size</td>
<td>0.0334 2.9490 0.0008*</td>
<td>0.016989 2.697226 0.0095*</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>-0.0317 2.3980 0.021*</td>
<td>-0.02169 1.767349 0.0832**</td>
<td></td>
</tr>
<tr>
<td>Firm Performance</td>
<td>-1.2526 3.6037 0.0052*</td>
<td>1.110145 3.319768 0.0017*</td>
<td></td>
</tr>
<tr>
<td>F-Statistics</td>
<td>1.691667 *</td>
<td>2.169188 *</td>
<td>0.083584*</td>
</tr>
<tr>
<td>R-Square</td>
<td>0.40643</td>
<td>0.253879</td>
<td></td>
</tr>
</tbody>
</table>

*Significant at 5%, **Significant at 10%

Source: Author’s Computation aided by E-views Version 9, 2016

It is noteworthy that regardless of the above results, the overall fitness of the model is unquestionable, as the $p$-value of the F-Statistic is less than 5%. This shows that the corporate governance variables, when combined with control variables, significantly impact on share price performance. Extending this position, this study submits that board independence, board size, audit committee independence, together with concentrated ownership structure, significantly and positively affect the share price performance of Nigerian listed banks, while audit committee size, growth, and firm performance, surrogated by return on assets, are significantly negatively related to the share price performance of these banks.

Discussion of findings
As revealed from the above findings, the average board independence of the selected banks was 0.6213 during the period under review – demonstrably indicating that there were more non-executive directors (disinterested parties) than executive directors on the boards of these banks. This conforms to the postulations of Fama and Jensen (1983), who claimed that the involvement of disinterested parties will increase the board’s competence in terms of better efficiency in monitoring top management. The findings that board independence is positively related to share price performance, stands in contrast to the findings of Bhagat and Black (2002), who established
no interplay between the number of independent directors and numerous measures of firm performance – including share prices.

The board size of the selected banks was around fourteen (14) directors. In addition to the board size of these banks being fairly large, the findings suggest compliance by banks with the requirement of The Code of Corporate Governance of Banks and Discount Houses (2014), which specifies a minimum of five (5) and a maximum of twenty (20) members. The study therefore suggests that the salutary effects arising from diversity in terms of experience, specialisations, qualifications, expertise and value-adding capabilities of members of the boards, might have persuaded these listed banks to have these fairly large board sizes. Expectedly, these should enhance the performances of these boards in providing effective oversight for executive management, and overall strategic directions of these banks. Indeed, the share price performance of these banks was positively affected by the large size of these boards, as indicated in the results of the test of hypothesis – conforming with the findings of Ali Shah, Butt & Hassan (2009) and Donal Byard et al. (2010).

Furthermore, the computed average audit committee independence figure of 0.7301, arguably indicates that the banks’ audit committees were highly independent, because the number of independent directors outweighs that of executive directors. It was revealed from the findings of the tested hypotheses, that audit committee independence is positively related with the share price performance of these banks, concurring with Brown and Caylor (2004), who showed a positive relationship between independent audit committees and dividend yield, but a negative relationship to operating performance and firm valuation. In addition, the audit committee size of these banks was noted to be approximately five (5). If benchmarked against the Code of Corporate Governance of 2006, this pointedly indicates that some of the selected banks perhaps have fewer than six members in their audit committees – less than the minimum of six (three independent directors, and three executive directors) required by the Code. Besides, a negative interplay was established between audit committee size and the share price performance of these banks. This finding is clearly against the submission of Weir et al. (2002), who opined that the work of the audit committee should improve the quality of the financial management of banks and their performances.

As also noted from Table 3, the ownership structure of these banks showed that the five largest shareholders owned an average of 28.56% of the total shareholdings – suggesting concentrated ownership. Concentrated ownership structure is also noted to be positively related to share price performance from the results of the test of hypotheses. This means that these large shareholders can effectively monitor management because the anticipated benefits associated with monitoring management far outweigh the cost. This is consistent with the findings of Ramsey and Blair (1993), Demsetz and Lehn (1985), Stiglitz (1985), Hart (1995) and Maher and Anderson (2000). They all posited that the shareholders’ potential to receive greater rewards is enhanced by a higher shareholding concentration as this can accommodate the fixed charges of gathering information and embarking on management monitoring.

The study revealed that board independence, board size, audit committee independence and audit committee size between high and low market-capitalised Nigerian listed banks are comparatively the same. What this implies is that corporate governance practices using these metrics are not at variance in these banks. However, ownership structure is remarkably different in these two categories of banks. These findings have implications for investors, the management of these banks, government through their regulatory agencies and future research works.
Implications
Board structure and the committees of the board of any firm are arguably the most important elements in any corporate governance framework. By any stretch of argument, the success or otherwise of corporate governance structure depends on the extent to which they are effective. Studies have demonstrated that the board size, board independence, audit committee size and audit committee independence take pre-eminence as indicators of boards’ and audit committees’ effectiveness. Therefore, the primacy of their place is underscored by the wide-ranging responsibilities entrusted on its members by different Codes of Corporate Governance, especially the roles external directors or members have to play.
For instance, Nigerian Codes of Corporate Governance for Public Companies 2011 specifies that the principal objective of the Board is to ensure that the company is properly managed, oversee the effective performance of the management in order to protect and enhance shareholder value and to meet the company’s obligations to its employees and other stakeholders. In this regard, investors would be concerned about board independence and board size as these determine the overall success of corporate governance structure. As this study revealed when combined with control variables that board independence, board size, audit committee independence and audit committee size significantly impact on share price performance of banks in Nigeria, the implication of these findings to investors is that they should place high premium on good corporate practices anchored on good board and audit committee structures in making investment decision or divestment.
For government, through regulatory agencies such as Securities and Exchange Commission (SEC), Central Bank of Nigeria and Financial Reporting Council of Nigeria, these findings are practically significant in terms of policy formulation in the areas of corporate governance. These agencies have formulated different codes for banks especially the listed ones. Practically, what this study has demonstrated through its findings is that regardless of the size of these banks, corporate governance best practices should be mandatory with a view to improving and making them more impactful and result-oriented.

Conclusions and recommendations
This study explored the relationship between corporate governance indicators (independent variables) and Nigerian bank share price performance (dependent variables) - in order to find out whether the variables of Board Size, Board Independence, Audit Committee Size, Audit Committee Independence and Ownership structure, are determinants of bank share prices. Based on the analyses above, the following conclusions were drawn:
The study establishes a positively insignificant relationship between board independence and banks share price performance. The study also discovers a positively insignificant interplay between board size and bank share price performance. Audit committee size was revealed to have a negative correlation with bank share price performance. Audit committee independence is shown to have a positively insignificant association with bank share price independence. Ownership structure is established to have a positive, though insignificant, interplay with bank share price performance.
In connection with the control variables employed, the study finds a statistically significant positive relationship between firm size and firm performance, on one hand, and bank share price performance on the other hand. At 5% level of significance, growth control variable and share price performance was discovered to have statistically insignificant positive relationship.
To further entrench sound corporate governance practices in the Nigerian banking sector, the
following recommendations are made:

- Regulatory bodies such as the Central Bank of Nigeria (CBN), Security and Exchange Commission (SEC), Nigerian Stock Exchange (NSE), and the Financial Reporting Council of Nigeria (FRCN), should continually improve on their supervisory roles and work out modalities for mandatory compliance, in order to safeguard stakeholders’ interest.

- The publication and circulation of corporate governance manuals to banks’ employees and the enforcement of consistent compliance in every transaction will go a long way to improve performance.

- Both the government and the bank regulatory bodies should embark on efforts that will ensure that Nigerian banks employ the best corporate governance practices, in order to promote international competition.

- Investors should pay close attention to the corporate governance practices of the firms especially the ownership structure before investing as concentrated ownership firms are better rewarded and stable due to the management monitoring activities which has even proved to be positively associated with share price performance.

The audit committee size inverse relationship result with share price performance might be due to number which fall short of CBN governance code 2006. Banks should therefore increase the size to comply with guideline and accommodate others with wealth of experience in order to improve the banks’ performance which will ultimately lead to increase share price.

References


