CORPORATE GOVERNANCE AND ORGANIZATIONAL EFFECTIVENESS OF SELECTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study examines the relationship between corporate governance (board size and board composition) and organizational effectiveness of selected listed deposit money Banks in Nigeria for the period 2006-2017. Secondary data were extracted from the annual reports of five (5) money deposit banks that form the sample of the study and analyzed using the panel multiple regression analysis. The result revealed that board size has a negative and significant association with organizational effectiveness (proxy by ROA) of the sampled banks during the study period. The study also revealed that board composition had a significant and positive association with organizational effectiveness. The study therefore recommended that banks should have adequate board size to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings.

Key words: Corporate Governance, Organisational Effectiveness, independence, Board size and Board Composition

Abstrait

Cette étude examine la relation entre la gouvernance d'entreprise (taille du conseil et composition du conseil) et l'efficacité organisationnelle de certaines banques de dépôt déposées au Nigeria pour la période 2006-2017. Les données secondaires ont été extraites des rapports annuels de cinq (5) banques de dépôt constituant l'échantillon de l'étude et analysées à l'aide de l'analyse de régression multiple en panel. Les résultats ont révélé que la taille du conseil avait une association négative et

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significative avec l'efficacité organisationnelle (proxy par le ROA) des banques échantillonnées au cours de la période d'étude. L'étude a également révélé que la composition du conseil avait un lien significatif et positif avec l'efficacité organisationnelle. L'étude a donc recommandé que les banques disposent d'un conseil d'administration adapté à la taille et à la complexité des opérations de la société et soient composées de manière à garantir la diversité des expériences sans compromettre l'indépendance, la compatibilité, l'intégrité et la disponibilité des membres pour assister aux réunions.

Mots clés: gouvernance d'entreprise, efficacité organisationnelle, indépendance, taille du conseil et composition du conseil

Introduction

Interest in corporate governance has grown tremendously in the last two decades. Corporate scandals, environmental concerns, globalisation and the recent global financial crisis have all played their part in raising renewed shareholder and public awareness of the governance of companies (Ranjbar, 2009).

According to Cadbury Committee (2012), corporate governance is simply the system through which the corporations can be directed and controlled in an effective way. The pursuance of corporate governance mechanisms ensures the financial viability of corporate business as through it all the affairs of the firm are managed effectively and directed towards the creation of value for the shareholders. The division of powers is explained, and it provides the mechanism for the accountability of management and corporate boards. Major corporate governance codes were developed in 2002 in the US and the UK after an increase in corporate collapses such as Enron, WorldCom, Royal Bank of Scotland, due to fraud in accounting practices and poor internal controls. The principle of corporate governance enforces firms for making timely and accurate disclosure of corporate information (OECD, 2004).

Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to proper functioning of the banking sector and the economy of a country as a whole. Poor corporate governance may contribute to bank failures, which could in turn lead to a run on the bank, unemployment and negative impact on the economy (Basel Committee, 1999). In addition, problems or failures of banks are likely to rapidly expand and have a disproportional adverse impact on the smooth operation of the financial system of a country (Allen & Herring, 2001). The board of directors has a significant role to play in ensuring good corporate governance in the bank and at the heart of the corporate governance debate is the view that the board of directors is the guardian of shareholders' interest (Dalton et.al., 1998). Boards are being criticized for failing to meet their governance responsibilities. Major institutional investors put pressure on (incompetent) directors and have long advocated changes in the board structure (Monks and Minow, 2001).

On the other hand, Richard, Devinney, Yip, and Johnson (2009) argued that organizational effectiveness captures organizational performance plus the myriad internal performance outcomes normally associated with more efficient or effective operations and other external measures. Odita and Egbule (2015) argued that organizational effectiveness is how effective an organization is in achieving the outcomes the organization intends to produce. To this end, a good corporate governance would assist in the best use of scarce resources to the best interest of the firm (Adegbite, 2012).

Adeusi, Akeke, Aribaba and Adebisi (2013) show positive correlation between board size and bank performance but a significant negative correlation between board composition and bank performance in Nigeria. In spite of conflicting evidence for corporate governance as a major driver of corporate performance, it is widely acknowledged that lax or inadequate corporate governance practices promote corporate failures. Similarly, the 2009 banking crisis that led to the 2010 banking reforms in Nigeria was attributed to weak corporate governance structures in the affected banks (Sanusi, 2009).

It is against this background that this study examines corporate governance and organizational effectiveness with a particular focus on the Nigerian Banking Industry. The remaining of this paper is structured as follows: section two covers the literature review, section three covers the research methods employed in the study, section four covers results and discussions, and finally, section five covers conclusion and recommendations.

Literature Review

Concept of Corporate Governance

The task of defining the concept of corporate governance is enormous, yet a clear definition of the concept is very essential in order to create the needed awareness and to achieve good practice in Nigeria and beyond. Basel Committee on Banking Supervision's (2006) describes the concept from a banking industry perspective that corporate governance involves the manner in which the business and affairs of banks are governed by the board of directors and senior management which, inter alia, affects how they: (1) set corporate objectives; (2) operate the bank's business on a day-to-day basis; (3) meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders (including, inter alia, supervisors, governments and depositors); (4) align corporate activities and behavior with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations; and (5) protect the interests of depositors

Wilson (2006) opined that corporate governance as the manner in which corporations are directed, controlled and held to account with special concern for effective leadership of the corporations to ensure that they deliver on their promise as the wealth-creating organ of the society in a sustainable manner. Jayashree (2006) defined corporate governance when used in the context of business organization is a system of making directors accountable to shareholders for effective management of the companies in the best interest of the company and the shareholders along with concern for ethics and values. It is a management of companies through the board of directors that hinges on complete transparency, integrity and accountability of management

Corporate governance is concerned with the establishing of a system whereby the directors are entrusted with responsibilities and duties in relation to the direction of corporation affairs. It is concerned with accountability of persons who are managing it towards shareholders. It is concerned with the monitoring based on ethics, values, parameters of conduct and behavior of the company and its management (Lai & Bello, 2012).

Larkan and Tayan (2011) view corporate governance as the collection of control mechanisms that an organization adopts to prevent or dissuade potentially self-interest managers from engaging in activities detrimental to the welfare of shareholders and other stakeholders. At a minimum, the monitoring system consists of a board of directors to oversee management and an external auditor to express an opinion on the reliability of financial statements. In most cases, however, governance systems are influenced by a much broader group of constituents, including owners of the firm, creditors, labour unions, customers, suppliers, investment analysts, the media, and regulators.

OECD (2004) conceives corporate governance to mean a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance outlines the structure through which the objectives of the company are set, the means of attaining those objectives as well as strategies for monitoring performance.

Hence, Okafor (2011) positED that corporate governance connotes the processes involved in the discharge of the mandate of governance in corporate entities. These processes enable the realization of the underlying objective of corporate governance, which is to maximize shareholders' value without compromising the legitimate expectations of other stakeholders.

Sayogo (2006) defined corporate governance as a process where rules and ethical standards govern the relationships in organizations. A legal framework is developed for achieving the corporate objectives as all aspects are covered from the stages of planning, internal control, performance evaluation and disclosure of corporate information

Concept of Organizational Effectiveness

Organizational effectiveness is the concept of how effective an organization is in achieving the outcomes the organization intends to produce (Odita & Egbule, 2015). Organizational Effectiveness groups in organizations directly concern themselves with several key areas. They are talent management, leadership development, organization design and structure, design of measurements and scorecards, implementation of change and transformation, deploying smart processes and smart technology to manage the firms' human capital and the formulation of the broader Human Resources agenda (Odita & Egbule, 2015).

Also, organizational effectiveness is a broad concept and is difficult to measure in organizations (Daft, 2003). It takes into consideration a range of variables at both the organizational and departmental levels. It evaluates the extent to which the multiple goals of the organization are attained. It is difficult for managers to evaluate performance on goals that are not precise or measurable. However, performance measurement that is tied to strategy execution can help organizations reach their goals (Amah, 2012). Daft (2003) has identified two major approaches to measurement of organizational effectiveness – the traditional and contemporary approaches. The traditional approaches include the goal approach, the system resource approach and the internal process approach. The goal approach to organizational effectiveness which this study considers is concerned with the outputs, whether the organization achieves its goals in terms of its desired level of outputs (Amah, 2012). This means that this approach identifies the organization's output goals and assesses how well they have been attained. It is based on the fact that organizations have goals they are expected to achieve. Hall and Clark, (1980) argue that the important goals to consider are the operative goals and not the official goals. The official goals tend to be abstract and difficult to measure while the operative goals reflect the activities the organization is actually performing.

Empirical Studies on Corporate Governance and Organizational Effectiveness

The debate on the relationship between corporate governance and organizational effectiveness has not attracted great attention from management researchers. This is evident in the number of empirical studies conducted from both developed and developing economies over the years. Some of these empirical studies are presented below:

Osik and Riza (2016) investigated the impact of board size and board composition on performance for a sample of 30 commercial banks from 2008 to 2012 in Turkey. Using the panel data regression analysis, the results of panel fixed effects regression suggest that board size has a significantly positive effect on bank's financial performance. This means that Turkish commercial banks may improve their financial performance by increasing their board size. Also, the findings revealed that there is no significant relationship between board composition (ratio of outside directors on the board) and banks' financial performance. Okoye, Evbuomwan, Achugamonu, and Araghan (2016) examined the effect of corporate governance on the profitability of banking sector in Nigeria. Return on equity (ROE) and return on assets (ROA) were adopted as proxies for banking sector profitability while capital adequacy ratio (CAR), liquidity ratio (LQR) and ratio of non-performing loans to total loans (NPL) were adopted as proxies for corporate governance. Inflation rate was introduced as a control variable. Empirical evidence from the study shows significant impact of corporate governance on the profit performance of the Nigerian banking sector.

Aminu, Aisha and Muhammad (2015) investigated the effects of board size and board composition on the performance of Nigerian banks. Using the multiple regression analysis, the result revealed that board size has significant negative impact on the performance of banks in Nigeria. This signifies that an increase in Board size would lead to a decrease in ROE and ROA. On the other hand, board composition has a significant positive effect on the performance of banks in Nigeria. This signifies that an increase in Board composition would lead to a decrease in ROE and ROA. In another study, Olannye and David (2010) examined corporate governance and organizational performance in the Nigerian Banking Industry. The survey research design method was employed. The research instrument was a validated structured questionnaire. The major analytical tools comprised the correlation and multiple regression analysis. It was revealed that unethical behavior by employees seems to affect individuals, work teams, and even the organization. The study concludes that corporate governance through ethical behavior has positive effect on employees' productivity. Corporate governance is about ensuring transparency, building credibility and ensuring accountability as well as maintaining an effective channel of information disclosure that would enhance good corporate performance.

Additionally, Adebayo, Ibrahim, Yusuf and Omah (2014) examined corporate governance and organisational performance. The study employed the regression analysis and Karl Pearson's correlation techniques to find the relationship between corporate governance and organizational performance. The findings showed that large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, dividend policy and annual general meeting are positively associated with the performance of organizations.

Ehikioya (2009) examined corporate governance structure and firm performance in developing economies: evidence from Nigeria. The study employed the regression model to analyze publicly available data for a sample of 107 firms quoted in the Nigerian Stock Exchange for the fiscal years 1998 to 2002. The empirical investigations showed that ownership concentration has a positive impact on performance. Although the results revealed no evidence to support the impact of board composition on performance, there is significant evidence to support the fact that CEO duality adversely impact firm performance. The result also suggests firm size and leverage to impact on firm performance. A new variable, identified as more than one family member on the board was found to have an adverse effect on firm performance.

Mamatzakis and Bermpei (2015) examined the effect of corporate governance on the performance of US investment banks. Using the regression analysis, the study revealed a negative association between the operational complexity and performance. Also, the CEO power asserts a positive effect on performance. In addition, an increase in the bank ownership held by the board has a negative impact on performance.

In another more recent study, Pillai, Al-Malkawi and Nizar (2017) examined the impact of corporate governance (CG) on firm performance (FP) in US. The study employed firm level panel data set of 349 financial and non-financial companies listed in the US stock exchanges for the period 2005-2012. The Generalized Least Squares (GLS) method was used to estimate the model parameters. The results showed that governance variables such as government shareholdings, audit type, board size, corporate social responsibility and leverage significantly affect the financial performance of listed firms in the US.

Romuald and Tham (2012) examined the impact of corporate governance mechanism and corporate performance of companies in Malaysia. Panel data was utilized and the data gathered were analyzed using descriptive statistics, correlation, and regression. Five main corporate governance variables were analyzed in terms of their relative impact on corporate performance as defined by Earnings per Share (EPS) namely: board size, board composition, audit committee, CEO status and Ownership structure. Based on the results of the study, it has been observed that both Board Size and Ownership structure variables have a significant effect on firm performance
Kajola (2008) examined the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and profit margin, PM), of a sample of twenty Nigerian listed firms between 2000 and 2006. Using panel methodology and OLS as a method of estimation, the results provide evidence of a positive significant relationship between ROE and board size as well as chief executive status. The implication of this is that the board size should be limited to a sizeable limit and that the posts of the chief executive and the board chair should be occupied by different persons. The results further reveal a positive significant relationship between PM and chief executive status. The study, however, could not provide a significant relationship between the two performance measures and board composition and audit committee. These results are consistent with prior empirical studies.

Theoretical Framework

Agency Theory

Agency theory focuses on the contract or governing relationship between the principal and the agent. It centers on addressing and resolving (1) the conflicting interests of the principal and the agent, (2) information asymmetry, and (3) risk propensity concerns (Jensen & Meckling, 1976). Agency theory, as applied to corporate governance, implies that "the major role of the board is to reduce the potential divergence of interest between shareholders and management, minimizing agency costs, and protecting shareholders' investments" (Hendry & Kiel, 2004: 503). Agency theory provides insight into how boards monitor the behavior of managers. However, it does not take into account how the external institutional environment can modify the board's ability to direct and control the firm.

Considering the characteristics of developed and developing markets, it can be said that agency theory is more applicable and relevant to the developing market due to existence of weak regulatory authorities, low level of economic development and low institutional and organizational infrastructure in these markets which can be likened in some way to the situation in Nigeria

Methodology

The objective of this study is to examines corporate governance and organizational effectiveness with a particular focus on the Nigerian Banking Industry. The correlational research design is adopted for this study. A correlation research design is used to describe the statistical relationship between two or more variables. The population of the research comprises twenty – two (22) deposit money banks listed on the Nigerian Stock Exchange (NSE) as at 31st December, 2016 and and the sample size for the study were five (5) DMBs are purposively selected as samples due to the fact that there most active Issuers of corporate bonds and availability of consistent data set over the period and are listed in NSE which includes First Bank, Access Bank Plc, Guaranty Trust Bank Plc, United Bank for Africa Plc, and Zenith Bank Plc. The study used secondary data extracted from published annual reports and accounts of the sampled firms and the Nigerian Stock Exchange (NSE) fact book for the relevant years. This study covers the period 2006-2016. The period is considered relevant for a study of corporate governance because of the global economic meltdown that rocks the world (Nigeria inclusive).

Operational Measure of Variables

Table 1: Study Variables and their Measurement

S/N	Variable	Definition	Type	Measurement
1.	ROA	Returns on Asset	Dependent	Profit Before Tax Divided by Total Asset
2.	BODSIZE	Board Size	Independent	This measured in terms of the number of directors on the board
3.	BODCOM	Board Composition	Independent	This is the ratio of independent outside directors to total board size

Source: Compilations by the Researcher (2019).

Specification of the Study Model

The model for this study is a multiple regression model. The panel methodology is adopted since the data to be analyzed has panel attributes. The model is as follows:

$ROA_{it} = b_O + b_1 BODSIZE_{it} + b_2 BODCOM_{it} + e_{it}$

Where:

ROA_{it} = Return on Asset

$BODSIZE_{it}$ = Board Size

$BODCOM_{it}$ = Board Composition

e = Error term

b_0-b_4 = Coefficient of independent variables

it = Individuals and Time

Results and Discussions

This section presents results and discusses major findings of the study. Descriptive statistics is discussed first, followed by correlation matrix, multicollinearity test and finally the regression result.

Table 2: Descriptive Statistics

	ROA	BODSIZE	BODCOM
Mean	39.60709	11	0.546364
Median	43.75000	12.	0.500000
Maximum	57.00000	15	0.900000
Minimum	6.000000	7	0.270000
Std. Dev.	14.03752	2.315796	0.170689
Skewness	-0.725196	-0.589358	0.597313
Kurtosis	2.368353	2.109761	2.461495
Jarque-Bera	5.213778	5.000183	3.935064

Probability	0.073764	0.082077	0.139801
Sum	**1980.354**	**624.1000**	**30.05000**
Sum Sq. Dev.	9655.552	289.5971	1.573273
Observations	**50**	**50**	**50**

Source: Eviews 8 Output, 2019

Table 4.1 present the descriptive statistics of two (2) measures of corporate governance variables (BODSIZE and BODCOM) and organizational effectiveness measure (ROA) containing mean, median, standard deviation, minimum and maximum, skewness, kurtosis and Jarque-Bera statistics. The following are important descriptive statistics to highlight;

The ROA was observed to have a mean of 39.61% and a standard deviation of 14.03. The maximum and minimum values were 57% and 6% respectively. This result indicates that, on the average, for every ₦1 invested in asset the selected banks for the period of ten (10) years would earn ₦39. 61..

The BODSIZE was observed to have a mean of 11 and a standard deviation of 2.3. The maximum and minimum values were 15 and 7 respectively. This result indicates that, on the average, the selected banks have 11 directors on their board. The BODCOM was observed to have a mean of 0.55 and a standard deviation of 0.17. The maximum and minimum values were 0.50 and 0.27 respectively. This result indicates that, on the average, the selected banks have 55% outside directors sitting on the board. In order to test the normality of the variables, the Jacque-bera statistics was conducted. An evaluation of the Jacque-bera statistics for the variables indicate that ROA, BODSIZE and BODCOM satisfy the normality condition with a p-value of the Jacque-bera statistics greater than 5%. (0.07, 0.08 and 0.13).

Also confirming the normality of the data set, both skewness and kurtosis values are within the tolerable range of +1 to -1, establishing the fact that the data are normally distributed in each construct. Given our results therefore, the skewness for all the variables: ROA, BODSIZE and BODCOM were all above 1 with values of -0.73, -0.59 and 0.60 respectively. Similarly, the Kurtosis values were not too high with values of 2.37, 2.11 and 2.46 for ROA, BODSIZE and BODCOM respectively. The values of the skewness and kurtosis for all the variables signify the absence of outliers in the data set.

Table 3: Correlation Matrix

Correlation	ROA	BODSIZE	BODCOM
ROA	1.000000		
BSIZE	-0.152856	1.000000	
BODCOM	0.516384	0.280271	1.000000

Source: Eviews 8 Output, 2019

From table 4.2 above, the ROA is observed to correlate negatively with BODSIZE (r=-0.15) and positively with BODCOM (r=0.51). In addition, Table 4.2 further shows the relationship between the regressors in the study model. The result shows that none of the correlation coefficients in the table above is greater than 0.8 (rule of the thumb), suggesting that there is no problem of multicollinearity in the explanatory variables.

Table 4: Multicollinearity Test

Variable	Coefficient Variance	Centered VIF
C	3.667801	NA
BSIZE	0.513023	1.085248
BODCOM	8.203671	1.085248

Source: Eviews 13 Output, 2019

In examining the multicollinearity among the study variables, Variance Inflation Factors (VIF) test was conducted and presented in table 4.3. According to Hair (2006), the common cut-off threshold is a tolerance value of 0.10, which corresponds to a VIF value less than 10. The results obtained indicate that multicollinearity does not exist among all independent variables because the VIF values for all the independent variables were less than 10. Therefore, the result suggests that the current study does not have any problem with multicollinearity. This is in line with the correlation matrix that reveals absence of multicollinearity among the repressors.

Table 5: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.211102	0.982995	2.249352	0.0002
BODSIZE	-0.806948	0.316256	-2.551565	0.0106
BODCOM	0.580610	0.209777	2.767748	0.0000

R-squared	0.662758	Mean dependent var	39.60709
Adjusted R-squared	0.635641	S.D. dependent var	14.03752
S.E. of regression	11.44174	Akaike info criterion	7.770537
Sum squared resid	6152.925	Schwarz criterion	7.885258
Log likelihood	-191.2634	Hannan-Quinn criter.	7.814224
F-statistic	13.37766	Durbin-Watson stat	1.866933
Prob(F-statistic)	0.000025		

Source: Eviews 13 Output, 2019

Table 4.4 above presents the summary of regression results of the dependent variable (ROA) and the independent variable, corporate governance (represented by board size and board composition). The result shows that the model is fit for estimation and the explanatory variables are properly selected, combined, and used. This can be confirmed by the value of F-statistics of 13.38 (p=0.00) significant at 1% level of significance. This implies that the explanatory variables included in the model of the study are sufficient to explain the relationship between corporate governance and organizational effectiveness (proxy by ROA) of selected banks in Nigeria. The coefficient of determination (R^2) is 66.3%. This shows that 66.3% of variation in the dependent variable is jointly explained by the explanatory variables specified in the study model. The Durbin-Watson statistics of 1.86 (approximately 2) implies absence of auto-correlation problem within the study period.

The result of regression analysis shows that board size (BODSIZE) has a negative (-0.81) and significant (p-value=0.01) relationship with organizational effectiveness (proxy by ROA) of the sampled banks during the study period. The possible reason for the negative relationship is because board size significantly engenders bank effectiveness in Nigeria. This finding suggests that a smaller board size can enhance banks' effectiveness as the smaller size can take quick and adequate decision for the performance of the banks as large boardrooms tend to be slow in making decisions, and hence can be an obstacle to change. The finding is consistent with the documentation of Aminu, Aisha and Muhammad (2015), Mamatzakis and Bermpei (2015), and Ehikioya (2009) that board size have a negative and significant effect on organizational effectiveness.

Table 4.4 above also reveals a positive (0.58) and significant (p-value=0.00) relationship between board composition (BODCOM) and bank effectiveness (ROA) of selected listed bank on the NSE. This finding suggests that banks with higher presence of non-executives or independent members in their boards perform better than the others. This is correct because outside directors have the incentive to act as monitors of management because they want to protect their reputations as effective, independent decision makers. This present finding collaborates prior findings by Aminu, Aisha and Muhammad (2015), Kajola (2008) and Romuald and Tham (2012) who documented a positive and significant association between BODCOM and organizational effectiveness (Proxy by ROA).

Conclusion and Recommendation

This study examines the relationship between corporate governance (board size and board composition) and organizational effectiveness of selected money deposit bank in Nigeria for the period 2006-2017. The study concludes that board size has a negative and significant association with banks effectiveness within the study period. The study also concludes that board composition had a significant and positive association with banks' effectiveness. The study therefore, recommends that banks should have adequate board size to the scale and complexity of the company's operations and be composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings. The board size should not be too large and must be made up of qualified professional who are conversant with oversight function. Also, the Board should comprise a mix of executive and non-executive directors, headed by a Chairman. The majority of Board members should be non-executive directors whom should be independent directors.

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