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Bank Performance and Corporate Governance: The Adjustment Profile of Bank Performance to the Shocks and Dynamics of Corporate Governance Indicators

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Abstract: *The main objective of the study was to examine the adjustment profile of bank performance to the shocks and dynamics of corporate governance indicators for the period 2000-2019 using evidence from banks listed on the Nigerian Stock Exchange. The study utilized The study utilized board size, board independence, Government Effectiveness, ownership structure (directors and institutional ownership), and percentage of board members with industry experience as independent variables and return on equity (ROE) as a dependent variable. The study used secondary data obtained from banks' annual reports from 2000 to 2019. The Panel Autoregressive-Distributed Lag (Panel ARDL) technique of data analysis was employed. The findings of the study show that bank Performance adjusts to the shocks and dynamics of the studied corporate governance indicators.*

Key words: *Bank Performance; Corporate Governance Indicators; ROE; Board Size*

1.0. INTRODUCTION

Corporate governance is very fundamental in managing firms' especially banks around the globe. A robust corporate governance structure remains a critical enabler of a firm's ability as an institution to enhance the interests of its stakeholders. The term corporate governance could perhaps be seen from diverse standpoints; one as a form of transparency in business management or corporate function, by protecting the investors' interest and the other as concerned with appropriate risk management system in place (Jensen and Meckling, 1976). It can also be seen from a banking industry dimension, as to how the banks and activities of individual institutions are directed by their senior management thus affecting how banks establish corporate goals as well as creating economic benefits to proprietors. This transmits to how the operations of the institution are conducted, considering the interest of recognized

stakeholders, align corporate activities and behaviors with the expectation that banks will function safely and soundly, and compliance with appropriate rules and guidelines, and protecting the interests of depositors and investors.
Corporate governance could also be described as the combination of the adoption of best practices, creation, and maximization of wealth enhanced accountability and protection of investors. Corporate governance is vital to the existence of institutions as it guarantees commitment to higher growth, profits as well as inspires and strengthens investors' confidence (Gopalsamy, 2006). According to Claessens (2003), corporate governance is considered to be a process, not a state. Its principles are said to center around three key basic principles of; integrity and fairness, transparency and disclosures, and accountability and responsibility (Gopalsamy, 2006). Sound corporate governance is essential towards building market confidence and the establishment of long term investment relations (Pintea, 2015). He maintains that several nations depend on the implementation of good corporate governance practices to improve the performance of the economy.
Corporate governance progressively adds to the economy of any nation. Thus, Nigeria needs to assess its corporate governance culture to draw in internal and external investment because of corporate governance impacts the safety, stability, and development prospects of firms and consequently, the nation. In light of these, this study aims to vigorously investigate the adjustment profile of bank performance to the shocks and dynamics of corporate governance indicators using evidence from the Nigerian banking industry during the period 2000-2019.

2.0. REVIEW OF RELATED LITERATURE

Datta (2018) examined the impact of corporate governance on the performance of insurance companies in Bangladesh using a sample of 10 insurance companies listed in DSE during 2010-2016. The variables for the study are board size, board composition, board meetings, and board audit committee. The study applied multiple linear regression and Pearson correlation in data analysis. The findings of the study show that corporate governance has an impact on the performance of the insurance sector in Bangladesh. Using Pearson correlation, the results offer evidence of a positive association between board sizes and performance including board meetings. The result also shows that a negative relationship between performance and board composition but could not provide any association between performances of the insurance and board audit committee.

Rahman and Saima (2018) examined the efficiency of board composition through board size, independent directors, and female directors on firm performance using a sample of 162 listed manufacturing firms in Bangladesh during 2011 - 2016. The study applied a multivariate regression model in data analysis. The results of the study confirm that a large board size is a significant explanatory variable in improving firm performance. The study also discovers that board independence and female directors have no significant association with a firm

performance which implies that the instrument of corporate governance mechanism particularly board composition is very weak.
Osho and Ogodor (2018) studied the influence of corporate governance culture of banks' on financial performance in Nigeria using a sample of 19 banks during the period of 2006-2016. The analysis of data was done using multiple regression method. The findings of the study show that poor asset quality and loan deposit ratios negatively affect financial performance and vice visa in the banking sector. Adeyeni (2018) examined the dynamic interactions among ownership structure, corporate governance, risk management, and performance of Nigerian banks using a sample of 20 banks during 2005-2011. The data were on Return on Equity (Bank Performance); Capital Adequacy Ratio (Corporate governance); the proportion of the board members' share capital to total bank capital (Ownership structure) and Bank Risk Behaviour (Risk Management Practices). The analysis of data was done using multiple regression method. The findings of the study show that without interacting ownership structure with corporate governance and bank risk behavior, corporate governance has a positive and significant effect on bank performance. The study resolved that decent risk management procedures and appropriate ownership structure boost corporate performance.

Adesanmi et al (2018) examined the effect of corporate governance on the financial performance of manufacturing companies and banks in Nigeria from 2005 to 2014. The variables used in the study are the size of the board, the audit committee, and board independence. The data for the study were evaluated by means of the pooled least square method of regression and the paired t-test. The findings of the study show that there was a positive and significant relationship between Board Size, Board Independence, and ROA of the studied companies in the manufacturing and banking sectors. The study also discovers from the result of the paired t-test that there is no significant difference in the corporate governance structures of Nigerian banks and manufacturing companies.

Balagobei (2018) investigated the impact of corporate governance on firm performance of listed companies in Sri Lanka using a sample of 50 companies during 2010-2015. The corporate governance variables used in the study are board size, board independence, CEO duality, director's ownership, and audit committee as the independent variable while firm performance which is captured by Return on Assets and Tobin's Q as the dependent variable. Multiple regressions and Pearson's correlation analyses were employed in data analysis. The findings of the study show that board size and audit committee have a significant impact on ROA and board size has a significant impact on Tobin's Q, while board of directors independence, CEO duality, and director's ownership have an inconsequential influence on firm performance as measured by ROA and Tobin's Q. The also discovers that board size and audit committee have a negative relationship with firm performance.

Sultan (2018) examined the effects of corporate governance on an organization's performance using a sample of 30 companies listed on the Karachi stock exchange during 2004 – 2016. The panel data were analyzed using multiple linear regression models. The findings of the study show that there is a significant impact of all the independent variables which are firm size, board meeting, non-executive directors, and leverage on the dependent variable which is ROE. The study, therefore, concludes that there is an impact of corporate governance on organization performance

Aktan et al (2018) explored the relationship between corporate governance and performance of the financial firms in the Kingdom of Bahrain during 2011- 2016. The governance variables used in the study include; board size, the percentage of independent directors, CEO duality, ownership concentration, auditor's reputation, and the number of board meetings. The data was analyzed by employing multiple linear regression analysis. The discoveries of the study indicate that board size, ownership concentration, and auditor's reputation have a positive and significant impact on firms' return on assets, while the percentage of independent directors and the yearly number of board of directors meetings have a negative and significant impact on firms' return on equity. The study also discovers that CEO duality is not an important determinant factor of firms' performance, as the results suggest that it shows an insignificant effect on ROA, ROE, and stock returns (SPR).

Uzma et al (2018) examined internal corporate governance and financial performance nexus in Pakistan using a sample of 30 banks during 2008-2014. The governance variables used in the study are board structure and ownership structure. The panel data were analyzed using Pearson's Correlation matrix and Regression models. The findings of the study show that the board size and institutional ownership are insignificantly related to ROA, ROE, and EPS. A portion of non-executive directors and managerial ownership is insignificantly related to ROA and negatively significantly related to ROE and EPS. The annual general meeting is having an insignificant relationship with ROA and EPS and a negative significant relationship with ROE. Leverage and size are having a significant relationship with financial performance. Overall, the study depicts mixed results.

Buallay et al (2017) examined the impact of Corporate Governance on Firm performance of listed companies in the Saudi stock exchange during 2012- 2014 using a sample of 171 companies. The study applied a pooled data gathered from the Saudi stock exchange. The pool data were analyzed using the regression method. The results of the study demonstrate that there is insignificant effect on corporate governance implementation on a firm's operational and financial performance of listed companies in the Saudi stock exchange. The study also ascertains that there is insignificant influence on the ownership of the leading shareholder and board independence on a company's market performance. However, a significant impact was found for the ownership and the size of the Board of Directors on the firm's performance.

Hove-Sibanda et al (2017) examined the impact of corporate governance adoption on the firm competitiveness and performance of SMEs in South Africa using a sample 152 SME. Data were analyzed by employing a structural equation modeling system and Partial Least Squares (PLS). The findings of the study show that the implementation of corporate governance by SMEs significantly and positively affected their competitiveness and performance.

Falah (2017) examined the relationship between Corporate Governance and firms' performance of listed companies in the Palestine Stock Exchange using a sample of 32 firms during 2008-2016. The study utilized OLS regression models in data analysis. The findings of the study show a negative and significant impact of board size on firm performance in ROA, ROE, and Tobin Q. The study also discovers that CEO duality has a negative and significant impact on ROE, ROA, and Tobin Q respectively, whereas the independent directors found to have a significant positive relation with firms' performance.

3.0. METHODOLOGY

The study employed the *ex post facto* analytical research designs, as it examined the adjustment profile of bank performance to the shocks and dynamics of corporate governance indicators. The panel data of the listed banks on Nigeria stock exchange (NSE) were used to carry out the statistical analysis. Fourteen banks listed banks in Nigeria were used for the exercise. They comprised the population of the total listed banks in Nigeria stock exchange. the researcher employed the modified version of the Panel Autoregressive Distributed Lag (ARDL Model) bound testing method bound method by Pesaran, Shin, and Smith (2001), to analyze the impact of the corporate governance proxies on the performance of the 14 listed banks on the Nigerian Stock Exchange during the period 2000-2019.

Hypothesis (null): Bank Performance does not adjust to the shocks and dynamics of Corporate governance indicators.
Model specification

In this study, we utilized the Panel causality test while five were tested using error correction representations from the Panel ARDL. The model specification is informed primarily by the works of Pesaran, Shin, and Smith (2001). We consider the following general ARDL (p; q) model:

$$Z_{it} = \sum_{j=i}^{n} \gamma_{i\,j} Z_{i,t-j} + \sum_{j=0}^{m} \partial_{ij} X_{i,t-j} + \mu_i + \varepsilon_{it}$$

This model is reparametrized in a Vector Error Correction Framework as:

$$\Delta Z_{it} = \sigma_i\left(Z_{i,t-1} - \beta_i\, X_{i,t-1}\right) + \sum_{j=1}^{n-1} \delta_{ij} \Delta Z_{i,t-j} + \sum_{j=0}^{m-1} \delta'_{ij} X_{i,t-j} \mu_i + \varepsilon_{it}$$

Z = the dependent variable (ROE) with its associated lag length
X = the independent variables with the associated lag length listed thus:

ROE = Return on Equity
BSIZE = Board Size
BINDP = Board Independence
GVTEFF = Government Effectiveness
BOWNER = Directors Ownership
INSOWN = Institutional Ownership

CBONW = % Board Members with Industry Experience
ε = Error term.
Δ = Difference operator
Where *i* and *t* represent banks (individual cross-sections) and time -period, respectively.

4.0 ANALYSIS AND RESULTS

Table 4.1:Panel Stationarity Test

Variables	Test Statistic	Probability Value	Inference
BCOMMS	-2.19667	0.0140	I(1)
BINDP	-3.42569	0.0003	I(1)
BSIZE	-3.47941	0.0003	I(1)
CBONW	-4.02629	0.0000	I(1)
DOWNER	-1.930036	0.0268	I(1)
GVTEFF	-1.86124	0.0314	I(0)
INSOWN	-4.54698	0.0000	I(1)
ROE	-4.88034	0.0000	I(0)

Source: Author's Estimation – See Appendix 2.

From the obtained results, all the variables were found to have mixed stationarity properties. BCOMMS, BIND, BSIZE, CBOWN, DOWNER, and INSOWN were discovered to be order 1 variables I(1) while GVTEFF AND ROE proved to be stationary at levels hence integrated of order zero, I(0). This justifies the use of Panel ARDL methods that accepts a combination of I(1) and I(0) variables.

Test of Hypotheses

Error correction representations from the Panel ARDL.

Table 4.2 Summary of Panel ARDL Results

Dependent Variable: ROE				
Method: PANEL ARDL				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
Long Run Equation				
BINDP	-0.164974	0.013749	-11.99880	0.0000
BSIZE	1.785159	0.212215	8.412045	0.0000
GVTEFF	12.74644	0.527146	24.18008	0.0000
Short Run Equation				
COINTEQ01	-0.794370	0.129734	-6.123072	0.0000
D(BINDP)	-0.150445	0.574428	-0.261904	0.7938
D(BSIZE)	-0.461477	0.722964	-0.638312	0.5245
D(GVTEFF)	-17.07527	34.45321	-0.495608	0.6211

CBONW	-0.398651	0.254601	-1.565786	0.1200
DOWNER	1.992767	1.534357	1.298763	0.1965
INSOWN	0.439491	0.218271	2.013514	0.0463

Source: Researcher's extract from E Views 10.0 output (See Appendix 3).

We report the short-run and long-run dynamics of the Panel ARDL framework following the ECM approach. Conclusions are drawn based on the dynamic adjustment of short-run deviations of the dependent variable to their long-run state in response to shocks emanating from the independent variables.

We found evidence in favor of convergence to long-run equilibrium from short-run deviations as shown by the error correction coefficient. The coefficient of the error correction term which is the first lag of the residual is negatively signed and statistically significant. This shows that Bank Performance adjusts to the speed and dynamics of corporate governance indicators. The speed of adjustment is 79% implying that deviation from equilibrium in the short run is restored over the long run at 79% per annum connoting that it takes about $1\frac{1}{4}$ years for such disequilibrium to be restored to full equilibrium between the short run and the long run. Besides, the ECM falls within a predictable limit as it is below unity (1).

Discussion of Findings

Objective: To determine the effect of bank performance adjusts to the shocks and dynamics of corporate governance indicators.

There is evidence to the effect that Bank Performance adjusts to the shocks and dynamics of corporate governance indicators. A similar result is posted by Mohamed, Ehab, and Ahmed (2014) indicating that bank performance fairly responds to the composition and performance of boards. Also, since corporate performance epitomizes the strategic management architecture of financial institutions, it is undoubted that bank profitability and other performance indicators will always likely respond to the adjustments in corporate governance indicators.

5.0: IMPLICATIONS OF RESULTS AND CONCLUSION

The study is on the effect of bank performance adjusts to the shocks and dynamics of corporate governance indicators with particular reference to listed commercial banks in Nigeria. This study has systematically covered a extensive range of topics relating to corporate governance mechanisms and firm performance. The specific objective of the study was to examine the adjustment profile of bank performance to the shocks and dynamics of corporate governance indicators. The result shows that bank Performance adjusts to the shocks and dynamics of the studied corporate governance indicators. The findings of this study are in agreement with the literature identified from different developing countries over the years. The stakeholder theory has demonstrated to be a valuable framework that can be applied to corporate governance research in general; above all concerning developing countries such as Nigeria.

Good corporate governance practices could assist firms and investors to build a confident relationship to develop a firm. An improvement in firm performance is among the prospective benefits of corporate governance; therefore, the corporate governance debate in Nigeria has drawn the attention of all stakeholders to the linkages between corporate governance mechanisms and firm performances particularly among listed firms.

It can be concluded that corporate governance needs cooperation between the public and private sectors to create more competitive democratic markets, help maintain local investment in Nigeria, and to attract foreign investors. The truth is excruciating as a lot of boards are fashioned in the same old manner even if the outside layer is normal and seems to work for the best interests of shareholders. It is largely unambiguous, however, that government intercessions usually arrive late and are not pre-emptive, or even preventive measures. Due to this, the occurrence of wrong decisions is pervasive and they frequently occur daily. Continuous failures have made Nigeria's as brittle as any poor developing country. Indeed, these alarming facts call for more government control and adherence to official regulations.

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