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CORPORATE GOVERNANCE AND FINANCIAL STABILITY OF NIGERIA QUOTED DEPOSIT MONEY BANKS

Adegbie Folajimi Festus, Akintoye Iranola.Rufus and Ashaolu, A. Olawale
Babcock University, School Of Management Sciences, Department Of Accounting, Ilishan-Remo. Ogun State.Nigeria

ABSTRACT: *The development in corporate governance and the practice play important role in developing and enhancing the global economy, business firms and improving financial stability of deposit money banks. The rising of non-performing loans, decline in asset quality, credit concentration and high foreign exchange exposure and volatility have led to financial instability and financial distress in deposit money banks in Nigeria. The study examined the effect of corporate governance on the financial stability of deposit money banks in Nigeria. Ex-post facto research design was adopted for the study. The population of the study comprised the 21 listed deposit banks on the Nigerian stock exchange as at September 2016. The study made use of a total of 10 banks as sample size which was categorized under the listed deposit money banks in Nigeria. These banks were selected using stratified sampling technique. Data were collected from the annual reports for the period of ten years (2007-2016). Descriptive Statistics test were carried out, hausman test and cross-section random effect test were analyzed. The analysis revealed that all corporate governance variables have a positive and negative effect on capital adequacy at Adj.R^2 = 0.052 and F test score of 2.832, capital structure at Adj.R^2 = 0.088 and F test score of 4.187, and liquidity at Adj.R^2 = 0.004 and F test score of 1.149. Corporate governance has a positive and negative effect on financial stability with P-value of F statistics at 0.000 and Adjusted R^2 = 12.9%. The study concluded that corporate governance has a significant effect on financial stability. This means that as the content of corporate governance improves financial stability increases. The study recommended that to increase financial stability, management should focus on ensuring that there is effective corporate governance in the organization.*

KEYWORDS: corporate governance, financial stability, capital adequacy, capital structure and liquidity, volatility

INTRODUCTION

The development in corporate governance is playing an important role in developing and enhancing the global economy and business firms. This entails the patterns of behaviour among different agents in a limited liability corporation; the way managers, shareholders, employees, creditors, key customers and communities interact with one another to form the strategy of the company. The concept of corporate governance of firms has been a priority on the policy agenda in developed market economies for over a decade. The concept has gradually become a priority in the African continent. The sustainability and stability of a business organization are hinged on the practice of corporate governance in such organization as their two primary objectives are to maximize shareholders wealth and enhanced firm value. Al-faki (2005) opined that "stability and prosperity of any economy is to a large extent dependent on the integrity of its business and markets. Good corporate governance, which can be defined as the rules and practice that govern the relationship between managers and shareholders of companies as well as other stakeholders contributes to the growth and financial stability of corporate enterprise, but also promote financial markets integrity and economic efficiency" The corporate governance structure of the firm specifies how the rights and responsibilities of various participants are distributed in the corporation. The board, managers, shareholders and all other stakeholders are guided by specific rules and procedures for making decisions on corporate affairs Abdul-Qadir and Kwanbo, (2012). Central Bank of Nigeria (2014) defined corporate governance as the rules, processes, or laws by which institutions are operated, regulated and governed. It is developed with the primary purpose of promoting a transparent and efficient banking system that would engender the rule of law and encourage division of responsibilities in a professional and objective manner. Salloun, Sassine,Gebrayel and Chaanine (2015) averred that organization beliefs in entity practice is the separation of ownership from management to avoid jeopardizing the interests of shareholders through fraudulent financial reporting. That irregularity in accounting information has given concern to the issue of credibility of financial reporting. They further explained that the experience of USA unprecedented phenomenon of accounting frauds in Enron and Worldcom, influenced the need for effective audit committees increase significantly. It was discovered that in these scandals the personal objectives of the managers took priorities over that of the organizations. They opined that audit committee should include a minimum of three directors, should have required accounting and financial background for effectiveness. Using *ex-post-facto* research design, they found that there is a significant positive relationship between audit fee and audit committee.

Adegbite and Nakajima (2011) stated that the East Asian financial crisis occurred as a way of ensuring that corporate value would not be destroyed traditionally because of the relationship between the CEO and the board of directors such as unrestrained issuance of stock option not infrequently. In 1997 the East Asian financial crisis was seriously affected by the exit of foreign capital after the property assets collapse. This occurred as a result of lack of corporate governance mechanisms which highlighted the weakness of the institution in their economies. Also in early 2000s the massive collapse of corporations such as Enron and WorldCom made shareholders and governments develop an interest in corporate governance. This brought the passage of the Sabanes-Oxly Act of 2002 (Sarbanes-Oxley Act 2002, World Bank 2002, Organization for Economic Co-operation and Development 1999). Moreover, the Securities Exchange Commission (2006) explained that in the Africa region despite the diversity of the 53 countries with different colonial legacies, some pattern can be discerned with regard to corporate governance. As a result, the need for corporate governance among the listed, non-listed, and state-owned enterprises cannot be over-emphasized. Thus, it is obvious that corporate governance could contribute to the economic success of firms and to long-term stability, which in turn would attract local and foreign investors. The Securities Exchange Commission (SEC, 2006) revealed that a survey conducted by Mckinsey consulting group in 2002, found that eight-five per cent of respondents consider corporate governance in Sub-Saharan Africa to be more important than financial issues in deciding which companies to invest. Corporate governance in Nigeria can be traced to the colonial days through the independence that Nigeria obtained from Britain in 1960. Before the independent the British colonial government imposed an Anglo-Saxon base system of corporate law and regulation on the country. The conduct and governance of Nigerian firms which contain within the provision of the company legislation was originated from Britain. (Adegbite & Nakajima, 2011)

Omeiza-Michael (2009) explained the four pillars of corporate governance that are key to the success of the organization as accountability, fairness, transparency and independence which play out to prevent corporate collapse. Securities Exchange Commission SEC, Nigeria (2006) revealed that despite all these provisions there are corporate failures in financial and non-financial sectors in the country. There are indications that banking industry and other firms were collapsing in their numbers, leaving a trail of woes for investors, shareholders, suppliers, depositors, employees and other stakeholders. This was a result of the messy state of the nation then that led the government to make a bold step in initiating the corporate governance evolution. In addition, in order to address the problem and to align with international best practices the SEC inaugurated a committee on corporate governance in June 2000 and the Code of Best Practices on corporate governance in Nigeria was submitted in November 2003. The OECD (2011) stated that corporate governance reform is an important aspect of broader reforms aimed at securing an environment attractive to both domestic and foreign investors and that enhances the benefits of investment to society. The various reforms include: Legal, regulatory and institutional framework ,Equitable treatment, Protecting shareholder rights, Shareholder influence, Disclosure, The role of the board and the rights of stakeholders, Voluntary private initiatives, National reviews, State-owned enterprises. The Financial Reporting Council of Nigeria (2016) issued a Unified National Code of Corporate Governance for private sector, non-for-profit organization and the public sector. The codes are introduced in accordance with section 50 of the FRC Act, 2011, which requires the directorate of Corporate Governance of the FRCN to develop principle and practices of Corporate Governance applicable in Nigeria. The Code also makes provisions in shaping the relationship of the Board with the shareholders, Protection of Shareholder Rights; Role of Shareholders' Associations; and Institutional Investors. The Code puts "Sustainability Issues" at the core of the relationship of the board of private companies with other stakeholders outside.

Das, Quintyn and Chenard (2004) described Financial Stability as the ability of the financial system to withstand unsound market practices and occurrences of moral hazard, and thus improves system-wide risk-management capabilities, whereas dysfunctional government arrangements are supposed to undermine the credibility of the regulatory authority and could lead to the spread of unsound practices, jeopardizing the stability of the financial system. Quintyn (2007) argues that weak regulatory governance promotes weak financial sector governance in general, which in turn impairs the smooth functioning of the financial system, curbing economic performance and growth. Organization for Economic Co-operation and Development [OECD], (2015) stated that corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance. Corporate governance is important for financial stability and economic growth by ensuring credibility and reliability for investors and general stakeholders (OECD, 2004). Darweeh (2015) opined that corporate governance plays a significant role in financial market stability and economic development. He measured financial performance by return on assets, return on equity, and Tobin's q,while he measured corporate governance with board size, board independence, board committees, ownership structure and executive compensation in Kingdom of Saudi Arabia. He hinged the study on agency theory and institutional theory. He found out a significant relationship between corporate governance mechanism and both corporate financial performance and market value.

On August 14, 2009, the Governor of the Central Bank of Nigeria (CBN) in exercising his powers as contained in Sections 33 and 35 of the Banks and Other Financial Institutions (BOFI) Act 1991, as amended, announced the firing of the Chief Executive Officers (CEOs) and the board of directors of five commercial banks. Forty-eight days later, on October 2, 2009 to be precise, the CBN announced additional sack of three bank CEOs and their respective boards of directors and in their stead placed CBN-appointed CEOs and directors. In total, eight bank CEOs and their respective board of directors were fired from their jobs. The affected banks were Afribank Plc, Platinum Habib Bank (PHB) Plc, Equatorial Trust Bank Plc, Finland Plc, Intercontinental Bank Plc, Oceanic Bank Plc, Spring Bank Plc and Union Bank Plc (Chiejine, 2010).Most studies have reached substantially different conclusions on corporate governance and financial performance conclusive findings, generalization of results and findings in developed countries to developing countries. Thus, this study was designed to examine the impact of corporate governance on financial stability of deposit money banks in Nigeria, taking into consideration corporate governance and the financial stability indicators (Capital Adequacy (CA), Capital Structure (CS) and Liquidity (LIQ).

According to Feridum and Akande (2006),Nigeria is blessed with multifarious and multitudinous resources, but gross mismanagement, profligate spending, and adverse policies of various government, the resources have not been channeled towards profitable investment for sustainable economic growth. Accoding to Akindele,Chijioke,and Feridum (2006),states were created for their responsibility of maintaining political stability,promoting economic growth and development by expanding societal capacity or development of country's productive forces,and providing for well-being of the citizens by improving their standard of living. Ajibola (2018) opines that activities to improve the healthiness of the banking sector continued in the 2000s with the increase in Bank capital base to N20billion which led to the merger of banks and extinction of fourteen banks in 2005.He further explained that CBN reform in monitoring led to the declaration of distress banks in 2010.He concluded that financial sector has witnessed a lot of reformation with emphasis on financial literacy, financial inclusion inside financial system strategy (FSS) 2020.

The statement of the problem:

According to CBN (2002, 2006), the following number of banks experienced outright liquidation in Nigeria economy: Pre-independence- 22banks; 1992- 3banks; 1994- 4banks; 1998- 26banks and 2005- 14banks. Post 2005 bank consolidation also witnessed a number of events like the sacking of the board of Spring Bank Plc by CBN in 2007; Managing Directors of eight banks were sacked in August 14, 2009. To avoid waning of public confidence and runs in these affected banks, the CBN injected ₦620 billion in all the eight affected banks to keep them running (Ugwu, Olajide, Ebosede, Adekoya, & Oji, 2009). According to Emiefele (2017), the rising of non-performing loans, declining assets quality, credit concentration and high foreign exchange exposure has led to financial instability of deposit money banks in Nigeria. Out of the 18.53tn total loan portfolio of the deposit money bank operating in the country as at the end of last year, about 1.85tn or 10% of

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the amount had become non-performing loan based on statistics released by the NDIC. This is above the 5% regulatory threshold of the sector as stipulated by Bankers Committee. On the outlook of financial stability, the committee noted that the banking sector was becoming less resilient as a result of adverse macroeconomic environment. He agreed that the weak corporate governance and unbridled corruption in financial institutions were at the root of the banking sector crisis that almost led to the collapse of the system in 2009. The board members were found securing credits without adequate collateral which made it impossible for them to enshrine sound corporate governance practices in the banks and to also challenge the executives.(Sanusi, 2010). Kajola (2008) asserts that financial scandals around the world and the recent collapse of major corporate institutions in the USA, South East Asia, Europe and Nigeria have shaken investors' faith in the capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability. The loss of confidence by investors in the capital market is therefore an indicator of poor corporate governance practice in quoted companies (Oyebode,2009). Board size according to Lipton and Lorsch (1992); and Jensen (1993) suggested that larger boards are less effective than smaller boards due to co-ordination problems in larger boards. According to DeZoort (2002) the size of an audit committee measured as a figure has a positive effect on the audit committee effectiveness. This is because the number of the audit committee members of sufficient size is better than a small committee size. However, it is likely that audit committee effectiveness may be experiencing problems if the committee becomes too large. As a large committee may generate more losses, process and workload distribution is immoderate. Therefore, the previous studies have shown that the right size of the audit committee would provide a high quality of monitoring financial reporting.

Soludo (2004) explained that CBN sacked the Managing Directors of financially distressed banks due poor corporate governance as a result of unprofessional board members that could not discern the capital need of these banks. These banks experience weak capital inadequacy to continue to meet their financial obligations to their various customers and stakeholders. Poor board composition of the financial institutions gave rise to non-compliance with monetary and fiscal policies which resulted into creating accounting and insider abuse. CBN as the last resort inject capital loans to some of the financial institutions after eroding their capital base, which eventually resulted into poor capital structure. They relied only on soft capital injected by CBN which led CBN to sell these banks to stronger banks and investors. The unprofessional board size, the incompetent diversity in board composition and audit committee members who lacked knowledge of accounting and financial reporting resulted into poor lending habit, embarking on projects not supported with liquidity. They relied on interbank borrowing. When the minimum capital base was increased to N20billion, only three out of ninety one banks could stand on the new capital base. Mergers and acquisitions took place that brought the number of banks to twenty five. Fourteen banks that all corporate governance and financial stability mechanism were very weak were liquidated with sacking of the board members.

Moreover, while several studies have considered the effect of corporate governance on financial performance, limited attention has been paid on the possible effect that corporate governance could have on financial stability. In this light, this research was designed to study the effect of corporate governance on financial stability in Nigeria. CBN (2016) stated that foreign exchange transaction has led to total collapse of banks due to exchange rate of naira to dollars and affected banks in

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doing their daily business. Banks failure to remit dollars to Nigeria National Petroleum Commission (NNPC)/ Nigeria Liquefied Natural Gas (NLNG) through Federal Government Treasury Single Account when the CBN intervened has led to sanctions of banks. Therefore, this study aimed at examining the impact of Board Size, Board Composition and audit committee size on the financial stability of Nigeria using capital adequacy ratio, capital structure (Debt/Equity ratio) and Liquidity ratio in Nigeria deposit money banks.

The objectives of the study: The study was designed to investigate the effect of corporate governance on financial stability in Nigeria quoted deposit money bank. The specific objectives are to:

1. examine the effect of corporate governance on capital adequacy of quoted deposit money banks in Nigeria;
2. ascertain the influence of corporate governance on capital structure of quoted deposit money banks in Nigeria and
3. Determine the effect of corporate governance on liquidity of quoted deposit money banks in Nigeria.

1.4 Research Questions: The following questions were stated for this study

1. To what extent does corporate governance influence capital adequacy in quoted deposit banks in Nigeria?

2 How does corporate governance influence capital structure of quoted deposit money banks in Nigeria?

3. What is the effect of corporate governance on the liquidity of deposit money banks in Nigeria?

Research Hypotheses: The following hypotheses were tested

1.H_{01}: Corporate governance has no significant effect on capital adequacy of quoted deposit money banks in Nigeria.

2.H_{02}: Corporate governance has no significant influence on capital structure of quoted deposit money banks in Nigeria.

3.H_{03}: Corporate governance has no significant effect on liquidity of quoted deposit money banks in Nigeria.

LITERATURE/THEORETICAL UNDERPINNING

Conceptual Review:

Board size: Price (2017) opines that new best practices have a debate whether smaller groups of board directors are more effective than large board members. Australian Institute of Company Directors indicated that large listed companies should have 8 to 12 directors, medium-sized listed companies 6 to 8 director and small listed companies 4 to 6 companies. Price reported a research by GMI Ratings which found out that smaller boards are producing stringer returns, have stronger oversight, always more favorable, He concluded that “while considering board numbers and composition, the boards need to serve the unique needs of their businesses. That the company’s size, the type of industry, strategic needs and stage in the business cycle all factor into determining the smallest number of board directors that the company needs to still perform at its best”

Board composition: Valeur(2017) explained that the composition of listed companies needs diversity in order to have succession planning and think strategically in using proper skills analysis which needs to cover dimension of characteristics from professional skills to emotional intelligence. Financial Reporting Council of United Kingdom emphasized that "dialogue which is both constructive and challenging is essential to the effective functioning of any board, which can only be promoted through greater diversity on the Board which is critical to good governance and great performance. The heart of any board lies in its composition, a board with a balance of differing backgrounds, skills and experience will have deeper and richer discussions and bring appropriate expertise to as many of the challenges that it faces. Being able to see with different eyes also makes it easier for a board to see all opportunities and risks facing the organizations and reduces the risks associated with group-links"

Audit Committee: Velte **(2017)** opines that the composition and resourcefulness of audit committee play very important role in ensuring adequate corporate governance quality in the interest of investors and owners of the business. Sarbanes-Oxley Act 2002 as cited by velte stated that publicly quoted companies must implement an Audit Committee who are financial experts and independent which tends to separate executive and non-executive directors within the board. Audit Committee implementation is to drive professionalism and enhance corporate governance quality. The Act framework states that the mentoring functions of Audit Committee covers financial reporting quality, internal audit quality and external audit quality, which all will translate into good firm performance.

Financial Stability: Lupu (2015) stated that crises in organizations regarding financial reporting increased awareness on the importance of good corporate governance framework in order to enhance financial stability. Financial stability has relative or absolute size that cannot be neglected in profit making organizations. The Organization for Economic Cooperation and Development OECD(2004) as cited in Lupu (2015) emphasized that corporate governance is significantly important for financial stability and economic growth by ensuring reliability for investors and all stakeholders. That corporate governance will contribute to transparency, disposition to accurate disclosure in accountability and risk management.

Theoretical Review: Three theories relevant and used for this study were reviewed
The stakeholder theory which developed by Freeman in 1984 advocates that managers in organizations have a network of relationships to serve which, include employees, shareholders, suppliers, business partners and contractors. The theory is at variance with agency theory which advocates that there is contractual relationship between managers and shareholders; whereby managers have the sole objective of maximizing shareholders wealth. According to Donaldson and Preston (1995) corporate organizations have a contractual relationship with many entities apart from their stockholders, all of who are considered as stakeholders of the firm. To be considered a stakeholder, the relationship with the company needs not be contractual, but it should be limited to those that establish contact with the company and a relationship that is capable of producing mutual benefits. It is reasonable to assume that a company should expect stakeholders' support only if the firm undertakes projects that are seen as desirable by those who have a reasonable expectation that they would benefit or suffer harm from the actions of the corporations. Stakeholder theory offers a framework for determining the structure and operation of the firm that

is cognizant of the myriad participants who seek multiple and sometimes diverging goals Donaldson & Preston, (1995).

Stewardship Theory, developed by Donaldson and Davis (1991; & 1993) is a new perspective to understand the existing relationships between ownership and management of the company. This theory arises as an important counterweight to Agency Theory. Though this theory addresses some of the reductionist assumptions of Agency Theory, it suffers from being static as it considers the relationship of principal agent at a single point in time and assumes no learning of individuals as a result of their interactions. According to Akintoye (2010) the stewardship theory of corporate governance holds that, because people could be trusted to act in the public good in general and in the interests of their shareholders in particular, it makes sense to create management and authority structures that, because they provide unified command and facilitate autonomous decision making, enable companies to act (and react) quickly and decisively to market opportunities.

Agency theory has its roots in economic theory exposited by Alchian and Demsetz (1972), and further developed by Jensen and Meckling (1976). According to Wallis and Klein, (2015) the agency theory assumes a conflict of interest between managers and shareholders of large corporations as a result of the separation of ownership from control. The managers are sometimes motivated to pursue self-interest, which may conflict with the profit maximization objective of the owners. The summary, under the dominant paradigm, the agency relationship between shareholders (principals) and managers (agents) is thwarted by conflict. The agency problem arises primarily from the principals' desire to maximize shareholder wealth and the self-interested agents attempt to expropriate funds. Contracts partly solve this misalignment of interest. In a complex business environment, contracts covering all eventualities are not attainable. Where contracts fail to achieve completeness, principles rely upon internal and external governance mechanisms to monitor and control the agent.

In relation to the research objectives, this study adopted the agency theory because, it focuses on the board of directors as a mechanism which dominates the corporate governance literature. The theory, further explain the association between providers of corporate finances and those entrusted to manage the affairs of the firm. This is also in accordance to the works of Ross (1973); Fama (1980); Sanda, Mukaila and Garba (2005) and Anderson, Becher and Campbell (2004). The agency theory has been linked with the model which comprises of dependent (capital adequacy, capital structure and liquidity) and independent (board size, board composition and audit committee size).

Empirical Review: Fanta, Kemal and Waka (2013) examined Ethiopian Banks between 2005 and 2011 using Multivariate Regression Analysis and classical linear Regression model The study found an inverse relationship between capital adequacy ratio, bank size; audit committee in the board and bank performance. However positive linkage was established between Banks' size, Capital adequacy Ratio; Board size and Bank's profitability. On the other hand they observed that the existence of audit committee members in the Board, ownership type, loan loss position and loan to deposit Ratio have no significant influence on Bank performance. It discovered the negative effect of loan to asset ratio; Return on Equity and leverage ratio on capital adequacy ratio Fidanoski, Meteska and Simeonooski (2013) examined 15 banks out of 17 in Macedonia for a period of five years (2008 – 2011), they employed pool ordinary least square method of analysis. Their findings reveal positive relationship between supervisory and the managing board and banks profitability. Using Return on Equity as a performance indicator they discovered that there was no significant relationship between banks profitability and all the variables adopted. The findings further reveal significant positive relationship between size of managing board and cost-income ratio. In addition there was a significant negative relationship between board size and capital adequacy ratio. It was also discovered that there was a significant positive relationship between Age of bank and Capital Adequacy Ratio. They also observed significant negative relations between proportion of female member of supervisory board and bank performance whereas a strong positive linkage subsists between the proportion of women in supervisory board and bank performance (Cost-Income-Ratio). A positive significant relation was observed between the number of terms served by the CEO and bank performance. Akingunola, Adekunle and Adedipe (2013) examined a sample of five banks in Nigeria between 1992 and 2006. They employed Least Square Regression as a method of analysis. It was discovered that independence, fairness, reliance have less positive effect on bank performance. On the other hand accountability and transparency of bank staff have significant positive influence on bank's profitability. At the same time banks; total credit and deposits are positively related with bank performance. Gbadebo (2014) studied the implications of corporate governance on the performance of Deposit Money Banks in Nigeria using descriptive research design approach. He found among other things that non-compliance to corporate governance code in the Nigerian banking industry hampers banks performance. He recommended that the Deposit Money Banks should enforce full disclosure practices and transparency practices of corporate governance thereby enhancing trust in order to survive in the competitive financial environment in Nigeria. They recommended strategic training for board members and senior bank managers, most especially, courses that would promote corporate governance and banking ethics. From the findings, also we observe that corporate governance have been on the low side and have impacted negatively on bank performance.

Mwangi, Makau and Kosimbei (2014) investigated the relationship between capital structure and performance of 42 non-financial companies listed in the Nairobi Securities Exchange, Kenya. The study used secondary panel data contained in the annual reports and financial statements of the sampled listed firms, and employed panel data models (random effects) and feasible generalized least square (FGLS). The results showed that financial leverage is statistically negatively related to performance measured by return on assets and return on equity. Maina and Kondongo (2013) examined the effects of debt-equity ratio on performance of firms listed at the Nairobi Securities Exchange for the period 2002- 2011. The study found that firms listed at Nairobi Securities Exchange rely more on short term debt. The result also reveals that significant negative relationship exists between debt-equity ratio and all measures of performance. The result also provides support for MM theory that capital structure is relevant in determining the performance of a firm.

Akbari and Rahmani (2013) investigated the impact of the ownership structure and the corporate governance on the capital structure in Iran. This study was based on the non-financial firms while the corporate governance vectors such as board size, board composition, CEO / Chair duality, Managerial shareholding and Institution shareholding. They observed that the board size is insignificantly related to capital structure , the non-executive directors has negative correlation with the capital structure, however they concluded that corporate governance and ownership structure play an important role to determine the capital structure of the firm. In a recent research study that was conducted in Nigeria Uwuigbe, Uwuigbe and Daramola (2014) concluded that capital structure is negatively related to the board size and board composition while CEO duality has a positive relationship with the capital structure. Dimitropoulos (2014) studied how the quality of corporate governance affects the capital structure and level of debt for European football clubs. He found out that mechanisms of corporate governance such as larger boards of directors, independence, and dispersed ownership (managerial and institutional) reduce the level of debt, leverage, and, consequently, financial stability. Chechet and Olayiwola (2014) examined capital structure and profitability of the Nigerian listed firms from the Agency Cost Theory perspective with a sample of seventy (70) out of population of two hundred and forty-five firms listed on the Nigerian Stock Exchange (NSE) for the period of ten (10) years: 2000 - 2009. Panel data for the firms were generated and analyzed. Two independent variables which served as proxy for capital structure were used in the study: debt ratio and equity while profitability was used as the only dependent variable in the study. The result of the study showed that debt ratio was negatively related with profitability, while equity was directly related with profitability. Chung, Elder and Kim (2010) investigated the empirical relation between corporate governance and stock market liquidity. They found out that firms with better corporate governance have narrower spreads, higher market quality index, smaller price impact of trades, and lower probability of information-based trading. They showed that changes in our liquidity measures are significantly related to changes in the governance index over time. These results suggest that firms may alleviate information-based trading and improve stock market liquidity by adopting corporate governance standards that mitigate informational asymmetries. Owolabi and Obida (2012) examined the relationship between liquidity management and corporate performance of listed manufacturing companies in Nigerian Stock Exchange for the period of 2005 to 2009, using a sample of 12 manufacturing firms. The result of their findings showed a significant impact of liquidity management on corporate financial performance. They used descriptive statistics as their statistical tool of analysis which is so small compared to ordinary least square regression.

Justification for the study: Several empirical studies exist in literature on corporate governance and financial performance which cuts across different countries within and outside Africa. However, majority of these studies did not focus directly on the corporate governance and financial stability. Some of the researchers did research works on corporate governance and financial performance include Ibrahim, Abimbola and Blessing (2016); Peace (2011); Uwuigbe (2011). However, these researchers lumped up both corporate governance and firm/bank performance. Adegbie, and Fofah (2016) worked on Ethics, corporate governance and financial reporting in the Nigerian Banking Industry: Global Role of International Financial Reporting Standards. Owolabi, Owolabi and Olotu (2013), worked on Historical review and taxonomy of international corporate governance. Ajibade (2013), worked on Corporate Governance and Share Value of Nigerian and Ghanian listed Manufacturing Companies. Owolabi (2013), worked on Corporate Governance and Firms Performance of Selected Banks in Nigeria. Iulia- Lupua (2014), in their research work focused indirect corporate governance and financial stability but did not use Capital Adequacy (PR), Capital Structure (DER) and Liquidity (CR) to measure financial stability in their research work. This research work would contribute to existing Literature by studying the effect of each corporate governance vis-à-vis Board composition, Board size and Audit committee size on stability of the economy in Nigeria. Also this study employed the use of descriptive statistics and multiple regression test, to analyze and test the secondary data that would be retrieved for the purpose of the research work. This would contribute to existing literature by discovering the effects of corporate governance and financial stability on the economic growth banks in Nigeria in the long and short run. Adegbie and Fofah (2016) evaluated ethical issues and corporate governance in financial reporting in Nigerian banking industry with the integration of International Financial Reporting Standards(IFRS).The study which adopted survey research design discovered that ethical irregularities, poor corporate governance and weak regulatory supervisory level are major challenges of quality financial reporting system in the Nigeria banking industry.They recommended a major reform on ethical issues and corporate governance and ensure total compliance with IFRS.

METHODOLOGY

This study adopted ex-post facto design in which data were collected from annual reports of these banks and Central Bank of Nigeria (CBN). *Ex-post facto* design was used for the study.. An *ex post-facto design* was considered suitable for this study in assessing repeated observations of the same variable over a long period of time which are available in historical documentation of CBN statistical bulletin. The study covered Nigeria deposit money banks. The population of this study consisted all 21 Deposit Money Banks listed on the Central Bank of Nigeria (CBN) as at December, 2017,which are categorized into three categories by Central Bank of Nigeria viz: International, Regional and National. Stratified sampling method was adopted in selecting the banks. Table 1 shows the total of ten (10) banks that were selected out of the (21) banks based on classification of banks (International (8), National (2)). The main goal of using stratified sampling in this research was to divide the population into groups, called strata. Then a probability sample (often a simple random sample) is drawn from each group. The two regional banks were not selected because their operations are limited and cannot be compared on international level.

Table 1: Sampled Deposit Money Banks in Nigeria

S.N	Name of Banks	Banking Licence
1	Access Bank	International
2	Diamond Bank Plc	International
3	Eco bank Nigeria Plc	National
4	Fidelity Bank Plc	International
5	First Bank Nigeria Limited	International
6	First City Monument Bank Plc	International
7	Guaranty Trust Bank Plc	International
8	Stambic Ibtc Bank Plc	National
9	United Bank Of Africa Plc	International
10	Zenith Bank Plc	International

Source: listed deposit money banks in Central Bank of Nigeria Statistical Bulletin (CBN) 2017.

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The data used for this study were secondary data were sourced primarily from the published Annual reports the banks from Nigeria Stock Exchange and CBN statistical bulletin. The data were collected for the period 2007 to 2016. Data from these secondary sources were adjudged appropriate for this study due to the fact that; they are already validated by the independent auditors as required by Companies and Allied Matters Act 2004 as amended, sections 352 to 354. The study examined a cause and effect relationship between corporate governance and financial stability of Nigeria . The study examined the difference in means and standard deviations of dependent variables with subject to Stability of banks in Nigeria. To accomplish these, the descriptive statistics test was employed in this study. Multiple regression using Hausman test (Cross-section random effect) was used to predict current values of Financial Stability (the dependent variable) based on both the current values of Corporate Governance (the explanatory variable) and the lagged (past period) values of this explanatory variable. Multiple regression was used to predict the value of a variable based on the value of two or more variables. It was employed in examining the impact of corporate governance (explanatory) variables on the financial stability of Nigeria with the aid of E-views 7. The Adj R^2 was used as a measure of explanatory power of the various surrogates of corporate governance and financial stability in Nigeria. The R^2 is the proportion of the total variation in the dependent variable that is explained or accounted for by the variation in the independent variable. The multiple regression formula is: $Y_{it} = a_0 + b1cgit + b_2C_{it.....} + e_{it}$

Operationalization of variables and Model Specification

$Y = f(X)$
Y = Financial Stability
$Y = y_1, y_2, y_3$ (Dependent variable)
X = Corporate Governance
$X = x_1, x_2, x_3$ (Independent variable)
Where y_1 = (CA) = Capital Adequacy
y_2 = (CS) = Capital Structure
y_3 = (LIQ) = Liquidity
Where x_1 = BS = Board Size
x_2 = BC = Board Composition
x_3 = ACS = Audit Committee Size

Functional Relationships
CA = f (BS, BC & AC)……………………………….F1
CS = f (BS, BC & AC)……………………………….F2
LIQ = f (BS, BC & AC)…………………..………… F3

From the above function, the following models were derived:

$CA = \alpha_o + \beta_1 BS_{it} + \beta_2.BC_{it} + \beta_3 ACS_{it} + \mu_{it}$ ------------------------------ Model 1
$CS = \alpha_1 + \beta_1 BS_{it} + \beta_2 BC_{it} + \beta_3 ACS_{it} + \mu_{it}$ --------------------------------- Model 2
$LIQ = \alpha_2 + \beta_1 BS_{it} + \beta_2.BC_{it} + \beta_3 ACS_{it} + \mu_{it}$ ---------------------------- Model 3

Where:
$\alpha_0 - \alpha_2$ is the intercept for the models
$\beta_1 - \beta_3$ is the coefficients of the explanatory variables
μ as used in each model is the error or disturbance terms that absorbs the influence of omitted variables in the proxies used. And
i is used to represent the organization,

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t is used to represent the period of study.

Conceptual Model

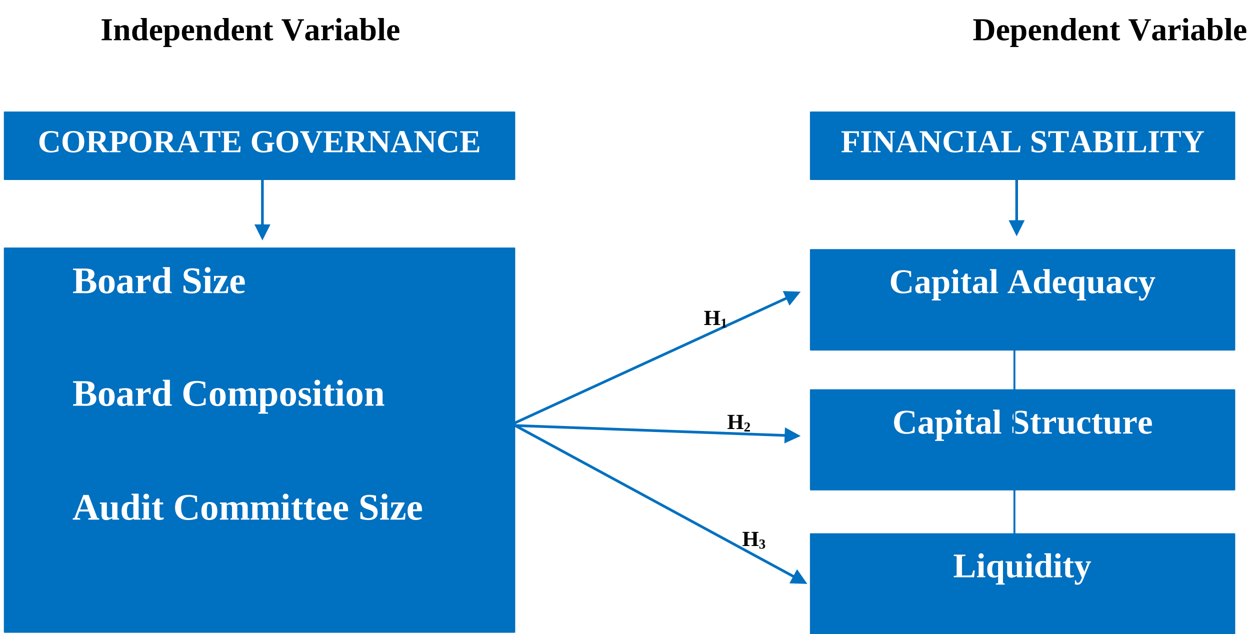

Figure 2.5 Researcher Conceptual Model (2018)

RESULTS/FINDINGS

Descriptive Statistics: The descriptive analysis of the panel series data obtained are based on the mean, maximum, minimum and standard deviation of the variables. The summary statistics of financial stability to corporate governance; the measures of financial stability of Capital Adequacy (CA), Capital Structure (CS) and Liquidity (LIQ), corporate governance measured by Board Size (BS), Board Composition (BC) and Audit Committee (AC) are shown in Table 4.1.1

Table 4.1.1 Descriptive Analysis

	CA	CS	L1Q	BS	BC	AC
Mean	0.139166	0.361898	1.344773	14.27000	0.599777	5.980000
Median	0.152904	0.300536	1.307193	14.00000	0.571429	6.000000
Maximum	0.382221	1.224109	2.382871	20.00000	1.000000	6.000000
Minimum	-0.02497	0.000000	1.064628	10.00000	0.250000	5.000000
Std. Dev.	0.126988	0.296297	0.203588	2.269050	0.131092	0.140705
Observations	100	100	100	100	100	100

Source: Researcher's Study, 2018

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Table 4.1.1 shows the descriptive statistics of the variables, the maximum values of financial stability measures of Capital Adequacy (CA), Capital Structure (CS) and Liquidity (LIQ) of 0.382221, 1.224109 and 2.382871 for their maximum values respectively. The financial stability of the sampled has a positive value for the long run. Also, the bank sampled value a maximum of (20) directors on their board. The maximum value of (1.00%) for Board Composition shows that all the Banks sampled have a mixture of independent directors on their board. The maximum value of (6) for Audit Committee (AC) shows that all the banks sampled have a mixture of directors in the committee. The minimum values showed -0.249797, 0.000000 and 1.064628 respectively. This implies that for the period under study, the financial stability of the sampled banks has a positive value for the short run. Also, the bank sampled value a minimum of (10) directors on their board. The minimum value of (0.25%) for Board Composition (BC) shows that all the Banks sampled have a mixture of independent directors on their board. The minimum value of (5) for Audit Committee (AC) shows that all the banks sampled have a mixture of directors in the committee. The relatively high standard deviation of the variables under study shows higher dispersion or spread in the data series for CA, CS, LIQ, BS, BC, and AC of 0.126988, 0.296297, 0.203588, 2.269050, 0.131092 and 0.140705 respectively (All the standard deviation are below 1 scale unit which means they are very close to the mean only BS with 2.269050 is showing higher dispersion from the mean).

Inferential Statistics

Hausman test

Table 4.2.1a shows the result of the Hausman test for the first model. It shows that the probability of Chi-sq statistics is not statistically significant at 5%, hence we reject the alternative hypothesis which says fixed effect is the appropriate estimation technique for the model, and analysed the model using random effect. Hence, the panel regression analysis suitable for model 1 was run based on random effect.

Correlated Random Effects - Hausman Test			
Test cross-section random			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.506749	3	0.9174

Source: Researcher’s Extracted Output, 2018

Table 4.2.1a: Hausman test Result

Test of Hypothesis one (H_{o1})

Research Objective 1: Examine the effect of corporate governance on capital adequacy of quoted deposit money banks in Nigeria.

Research Hypothesis 1 (H_{o1}): Corporate governance has no significant effect on capital adequacy of quoted deposit money banks in Nigeria.

Table 4.2.1b. Regression Analysis

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Variable	Model 1			
	Coefficient	**Std. Error**	**T**	**Prob.**
Constant	0.018118	0.407116	0.0450	0.965
BS	-0.008563	0.005405	-1.5842	0.116
BC	-0.252792	0.099660	-2.5365	0.013
AC	0.066030	0.072762	0.9074	0.367
Adjusted R-Square: Overall	0.052619			
F-Stat	2.832866(0.042)			

Source: Researcher's Extracted Output, 2018 ***significance at 5%**

Table 4.2.1b. Regression Analysis

$CA = \alpha_o + \beta 1BS_{it} + \beta 2BC_{it} + \beta_3 ACS_{it} + \mu_{it}$ -- Model 1

$CA = 0.018118 - 0.008563BS_t - 0.252792BC_t + 0.066030ACS_t$

Table 4.2.1b result shows that for the period, BS and BC have negative effect on the capital adequacy while AC has positive effect on capital adequacy (this is consistent with our a-priori expectation). The size of the coefficients showed that a 1% increase in Board Size will lead to a -0.008% (decrease) in Capital Adequacy, also a 1% increase in Board Composition will lead to a -0.252% (decrease) in Capital Adequacy and 1% increase in Audit Committee will lead to a 0.066% increase in Capital Adequacy of quoted deposit money banks in Nigeria. The probability of Board Size showed that 0.116 is higher than the acceptable 0.05 level of significance, which that Board Size has insignificant influence on Capital adequacy. The probability of Board Composition showed that 0.013 is lesser than the acceptable 0.05 level of significance which means that Board Composition has significant influence on Capital Adequacy. The probability of Audit Committee showed that 0.367 is higher than the acceptable 0.05 level of significance,which means that Audit Committee has insignificant influence on Capital Adequacy. Furthermore, the Adjusted R-squared which indicates 5.26% variations in Capital Adequacy can be attributed to Board Size, Board Composition and Audit Committee, while the remaining 94.74% is caused by other explanatory factors outside this model. Thus, the model has a weak explanatory power. The model shows that, at the level of significance of 0.05, the F-Statistics is 2.833, while the P-value of the F-Statistics is 0.042 which is less than 0.05 adopted for this work which reflects that the combined effect of Board Size, Board Composition and Audit Committee have significant effect on capital adequacy.. The null hypothesis is therefore rejected and the alternate is accepted. This shows that corporate governance has significant effect on capital adequacy of quoted deposit money banks in Nigeria

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Test of Hypothesis 2

Research Objective 2: Ascertain the influence of corporate governance on capital structure of quoted deposit money banks in Nigeria.

Research Hypothesis 2 (H_{o2}): Corporate governance has no significant influence on capital structure of quoted deposit money banks in Nigeria.

Variable	Model 2			
	Coefficient	**Std. Error**	**T**	**Prob.**
Constant	0.754928	1.192861	0.6328	0.528
BS	0.028271	0.014716	1.9210	0.057
BC	0.898800	0.271391	3.3118	0.001
AC	-0.223333	0.214003	-1.0436	0.293
Adjusted R-Square: Overall	0.088074			
F-Stat	4.187144(0.007)			

Source: Researcher's Extracted Output, 2018 ***significance at 5%**

Table 4.2.2. Regression Analysis

$CS = \alpha_1 + \beta_1 BSit + \beta_2 BC_{it} + \beta_3 ACS_{it} + \mu_{it}$ -- Model 2

$CS = 0.754928 + 0.028271BS_t + 0.898800BC_t - 0.223333ACS_t$

Table 4.2.2 shows that for the period, Board Size and Board Composition have positive effect on Capital Structure while Audit Committee has negative effect on Capital Structure (this is consistent with our a-priori expectation). The size of the coefficients showed that a 1% increase in Board Size will lead to a 2.8% increase in Capital Structure, also a 1% increase in Board Composition will lead to 89.8% increase in Capital Structure and 1% increase in Audit Committee will lead to a 22.3% decrease in Capital Structure of quoted deposit money banks in Nigeria. The probability of Board Size showed that 0.057 is higher than the acceptable 0.05 level of significance indicating that Board Size has insignificant influence on Capital Structure. The probability of Board Composition showed that 0.001 is lesser than the acceptable 0.05 level of significance indicating that Board Composition has significant influence on Capital Structure. The probability of Audit Committee showed that 0.293 is higher than the acceptable 0.05 level of significance indicating that Audit Committee has insignificant influence on Capital Structure. Furthermore, the Adjusted R-squared showed that 8.8% variations in Capital Structure on Corporate Governance can be attributed to the influence of all our Board Size, Board Composition and Audit Committee while the remaining 91.2% is caused by other explanatory factors outside this model. Thus, the model has a weak explanatory power. The model shows that, at the level of significance of 0.05, the F-Statistics is 4.1871, while the P-value of the F-Statistics is 0.007 which is less than 0.05 adopted for this work indicating that the combined effect of Board Size,Board Composition and Audit Committee have positive influence on corporate governance. The null hypothesis is therefore rejected and the alternate is accepted which shows that Corporate governance has significant influence on capital structure of quoted deposit money banks in Nigeria.

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Test of Hypothesis Three ($H_0$3)

Research Objective 3: determine the effect of corporate governance on liquidity of quoted deposit money banks in Nigeria.

Research Hypothesis 3 (H_{03}): Corporate governance has no significant effect on liquidity of quoted deposit money banks in Nigeria.

Variable	Model 3			
	Coefficient	**Std. Error**	**T**	**Prob.**
Constant	1.035427	0.802158	1.2908	0.199
BS	-0.005165	0.010257	-0.5036	0.616
BC	-0.349850	0.189090	-1.8502	0.067
AC	0.099138	0.143824	0.6893	0.492
Adjusted R-Square: Overall	0.004511			
F-Stat	1.149598(0.333)			

Source: Researcher's Extracted Output, 2018 ***significance at 5%**

Table 4.2.3. Regression Analysis

$LIQ= \alpha_2+ \beta 1BS_{it}+ \beta 2BC_{it}+\beta_3ACS_{it}+ \mu_{it}$ --- Model 3

$LIQ = 1.035427 – 0.005165BS_t – 0.349850BC_t + 0.0991381ACS_t$

Table 4.2.3 shows that for the period, Board Size and Board Composition have negative effect on liquidity while Audit Committee has negative effect on liquidity (this is consistent with our a-priori expectation). The size of the coefficients showed that a 1% increase in Board Size will lead to a 0.5% decrease in Liquidity also a 1% increase in Board Composition will lead to a -34.9% decrease in Liquidity and 1% increase in Audit Committee will lead to a 9.9% increase in Liquidity of quoted deposit money banks in Nigeria. The probability of BS showed that 0.616 is higher than the acceptable 0.05 level of significance indicating that Board Size has insignificant influence on liquidity. The probability of Board Composition showed that 0.067 is higher than the acceptable 0.05 level of significance indicating that Board Composition has insignificant influence on liquidity. The probability of Audit Composition showed that 0.492 is higher than the acceptable 0.05 level of significance showing that Audit Committee has insignificant influence on liquidity. Furthermore, the Adjusted R-squared showed that 0.45% variations in Liquidity on Corporate Governance can be attributed to the influence of Board Size, Board Composition and Audit Committee while the remaining 99.55% is caused by other explanatory factors outside this model. Thus, the model has a weak explanatory power. The model shows that, at the level of significance of 0.05, the F-Statistics is 1.1491, while the P-value of the F-Statistics is 0.333 which is higher than 0.05 adopted for this work. The null hypothesis is therefore accepted and the alternate is rejected which means that corporate governance does not have significant effect on liquidity.

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Combines effect with Multiple Regression Analysis on the main model

Variable	Combination of Independent variables on dependent variables			
	Coefficient	**Std. Error**	**T**	**Prob.**
Constant	0.920603	0.996412	0.9239	0.358
BS	0.025688	0.012303	2.0880	0.039
BC	0.910986	0.226875	4.0153	0.001
AC	-0.199675	0.178758	-1.1170	0.268
Adjusted R-Square: Overall	0.129994			
F-Stat	5.930758(0.000)			

Source: Researcher's Extracted Output, 2018 ***significance at 5%**

Table 4.2.4.Multiple Regression Analysis

$FS= \alpha_4+ \beta 1BS_{it}+ \beta 2BC_{it}+\beta_3ACS_{it}+ \mu_{it}$ ---------- Combination of Independent variables on dependent variables

$FS = 0.920603 + 0.025688BS_t + 0.910986BC_t – 0.199675ACS_t$

Table 4.2.4 showed the multiple regression result shows that for the period, Board Size and Board Composition have positive effect on corporate governance while Audit Committee has negative effect on corporate governance in consistent with the a-priori expectation. The size of the coefficients showed that a 1% increase in Board Size will lead to a 2.5% increase in Financial Stability, a 1% increase in Board Composition will lead to a 91.09% increase in Financial Stability while a 1% increase in Audit Committee will lead to a 19.97% decrease in Financial Stability of quoted deposit money bank in Nigeria. The probability of Board Size showed that 0.039 is lesser than the acceptable 0.05 level of significance indicating that Board Size has significant influence on corporate governance. The probability of Board Composition showed that 0.001 is lesser than the acceptable 0.05 level of significance indicating that Board Composition has significant influence on corporate governance. The probability of Audit Committee showed that 0.268 is higher than the acceptable 0.05 level of significance indicating Audit Committee has insignificant influence on corporate governance. Furthermore, the Adjusted R-squared showed that less than 12.99% variations on financial stability can be attributed to the influence of Board Size, Board Composition and Audit Composition while the remaining 87.01% is caused by other explanatory factors outside this model. Thus, the model has a weak explanatory power. At the level of significance of 0.05, the F-Statistics is 5.938, while the P-value of the F-Statistics is 0.000 which is less than 0.05 adopted for this work which shows that the combined effect of Board Size, Board Composition and Audit Committee have positive influence on Financial Stability. This result shows that corporate governance has significant effect on financial stability of Nigeria quoted deposit money banks thereby this study has achieved the main and the specific objectives of this study.

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DISCUSSION

The results show that corporate governance has significant positive influence on financial stability of deposit money banks in Nigeria. Model one showed that corporate governance influence capital adequacy positively,model two showed that corporate governance has positive impact on capital structure while model 3 also revealed that corporate governance does not influence liquidity which means liquidity management is internally influenced. The result of model one aligns with Fidanoski, Meteska and Simeonooski (2013) that examined 15 banks out of 17 in Macedonia for a period of five years (2008 – 2011).They employed pool ordinary least square method of analysis and found that there was a significant negative relationship between board size and capital adequacy ratio. It was also discovered that there was a significant positive relationship between Age of bank and Capital Adequacy Ratio, which differs from the result of Fanta, Kemal and Waka (2013) findings and their result did not align with the result of this study. The result of model two aligns with Abor (2007) who examined the relationship between corporate governance and capital structure decisions of Ghanaian Small and Medium Enterprises by using multivariate regression analysis. The results provide evidence about negative relationship between board size and leverage ratios and SMEs with larger boards generally have low level of gearing. The result of Akbari and Rahmani (2013) findings does not align with this result. The result of model three aligns with the works of Chung, Elder & Kim, (2010) which investigated the empirical relation between corporate governance and stock market liquidity. They found that firms with better corporate governance have narrower spreads, higher market quality index, smaller price impact of trades, and lower probability of information-based trading. They showed that changes in our liquidity measures are significantly related to changes in the governance index over time. While Ramiz (2011); Zhang (2011) findings does not align with the result of this study.

Implication to Research and Practice

The findings of this study have implications for the organizations, investors, government, general public and prospective researchers. This study provides empirical evidence that corporate governance has positive and negative effect on financial stability; hence, the implications are discussed here. The result of model one shows that corporate governance has positive/negative significant effect on capital adequacy measured by proprietary ratio (PR). This implies that the stakeholders and shareholders need to invest more on the bank capital in order to enhanced the financial position of the institutions . As such, organizations should establish policies to increase and decrease board of directors so as to promote stability. Model 2 shows that corporate governance has significant positive and negative effect on capital structure, this implies that the board of these banks and management have to invest more on their equity to avoid debt in the future i.e liquidation of firms by ensuring low leverage institutions. Regression estimates of model 3 suggested that corporate governance has an insignificant positive and negative effect on liquidity, thus implying that organizations should put policies in place to prevent their level of liquidity from being influenced by the shocks in the exchange rates. Plan should be in place to guide against volatility in exchange rates. The weak explanatory power of the main model (overall R-square of less than 1%) suggests that there exists policies within the organizations toward increasing and decreasing board of directors preventing breach of code of corporate governance, but the level of

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significance implies that these policies are inadequate; as such more stringent policies should be put in place on code of corporate governance. Since the model shows that corporate governance has a significant positive and negative effect on the overall financial stability. Corporate governance and banks' financial stability further provide an insight that if code of corporate governance is stable in Nigeria the financial performance of deposit money banks would be improved which would improve the overall economy and stability of financial institutions..

CONCLUSION

The study revealed that corporate governance is a financial strategy that will have positive effect on financial stability if effectively implemented. While corporate governance components of Board Size, Board Composition and Audit Committee have significant influence on capital adequacy and capital structure, they do not positively influence liquidity. This means that liquidity of deposit money banks is influenced by internal management of the banks.

FUTURE RESEARCH

This study focused on quoted deposit money banks in Nigeria, which was used to generalize among the banking institutions because of the homogenous nature of their services and products. It is therefore suggested that future studies should extend the scope of study and explore other sectors in Nigeria in order to be able to generalize the conclusions therefrom to other quoted organizations in Nigeria.In view of the concern of the regulators of Nigerian economy for the effective practice of corporate governance in order to ensure business sustainability and stability,study can be carried out in area of corporate governance and financial reporting in Nigeria economy.

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