International Journal of Business and Management Review
Vol.10, No.4, pp.59-74, 2022
Print ISSN: 2052-6393(Print),
Online ISSN: 2052-6407(Online)

Corporate Governance and Organizational Performance: A Study of Selected Banks in Nigeria

Isidore Godwin Usendok
M.Sc. Student, Department of Business Administration,
Akwa Ibom State University, Obio Akpa Campus

Citation: Isidore Godwin Usendok (2022) Corporate Governance and Organizational Performance: A Study of Selected Banks in Nigeria, *International Journal of Business and Management Review*, Vol.10, No.4, pp.59-74

ABSTRACT: *An indebt study of the performance of Nigerian Banking sector is deplete with litany of woes and failures. This necessitated the need to examine the factors responsible for this sad scenario against the background of the role of corporate governance on organizational performance. The study adopted a combination of both descriptive design and ex-post facto research methodology; Secondary data were sought from published annual reports of selected Banks for the period under review (2014-2020), and was analyzed using descriptive statistics and ratio analysis. Hypotheses were tested by multiple regression and Pearson product moment correlation methods. The finding of the study revealed that there is a positive relationship between Audit Committee Size, Board Composition with performance of selected Banks, while Board Size and Board Meetings showed negative significant relationship with performance of selected Banks respectively. The study concluded with recommendations that Corporate Governance Mechanism and Code of Best practices contributed a good deal to the performance of Banks – that the managers of Selected Banks should adopt Corporate Governance principle and best practices as integral parts of managing banks for both effective and efficient service delivering, thus striking a balance between organization's objective and the stakeholder's interest.*

KEYWORDS: Corporate governance, corporate structure, financial performance, stakeholders

INTRODUCTION

The issue of corporate governance has gained prominence in all sectors of the economy. This has been caused by corporate failure and the recognition of the critical role of corporate governance in the success of organization Barako, (2010). As a result, different stakeholders in corporate organizations are often eager to know whether or not the activities of their corporations conform to established standard Inyang, (2004). Corporate governance is about building credibility and ensuring transparency, accountability, as well as maintaining an effective information channel disclosure that will foster good corporate performance. Corporate governance therefore refers to the processes, structures and mechanisms, which ensure that business or institutions are directed and managed in a way that enhances long term shareholders' value through accountability of managers for

improved organizational performance Ogbechie, (2006). It is an ethical and moral duty of organization Gomspers, (2013).
Shliefer and Vishny (1997) view the concepts of Corporate Governance as "dealing with the ways in which suppliers of finance to corporations ensure themselves of getting a return on their investments". It deals precisely with problems of conflict of interest, ways of preventing corporate misconduct and alignment of the interests of stakeholders using incentive mechanisms.

Corporate governance focuses on the principal-agent problems arising from the dispersed ownership in modern corporation BERLE and MEANS, (1998). They view corporate governance as a mechanism, where a Board of Directors is an essential monitoring device to minimize the problems brought by principal-agent relationships. In this context, agents are the managers; principals are the owners and board of directors' act as the monitoring mechanism. Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be fully informed in order to maintain organizational activity. It is seen as a mechanism by which individuals are motivated to reconcile their actual behaviours with the overall objectives of the organization, which ensures that the values of all stakeholders are protected and also minimizes asymmetric information among managers, owners and customers.

The corporate governance mechanism is mainly concerned with boardroom, issues such as board sizes, composition, audit committee sizes and board meetings, while the performance variables are market share, return on assets, return on investments and return on equity.

Central Bank of Nigeria (2006) in the code of corporate governance for banks identified industrial transparency, due diligence in due process, data integrity and disclosure requirement as the core attributes of good corporate governance practices in banks. Hence, timely and detailed disclosure of material financial information is desirable in assessing the viability and financial performance of the banks. Given this background, this study examines the efficacy of corporate governance to determine it role on organizational performance and providing measures to enhance business practices.

Statement of the Problem

The current global and national economic realities indicate that the corporate economic environment is becoming harsher; competition is getting tougher, coupled with the increasing complex demands of the various stakeholders.

This suggests that without transparency, accountability, fairness and responsibility, in the determination of a firms' true value, business survival and growth will be impossible Heracleous, (2001). A fundamental feature of the information environment is corporate transparency, defined as the widespread availability of relevant, reliable information about the periodic performance, financial position, investment opportunities, governance, value and risk of publicly traded firms Bushman, Piotroski & Smith, (2001). The absence of this fundamental features explains organizational performance amidst governance crises

Bushamn & Smith, (2003). Using these reports as a fair basis of ascertaining the value of these banks has remained an unresolved issue.

Although studies have been conducted in the area of corporate governance mechanism and organizational performance, some studies revealed negative correlation relationship between corporate governance mechanism and organizational performance Fama & Jensen, 1993; Yermack, (1996); and similar results were put forth by Uchida (2011) and Bhagat and Bolton (2013) as well.

Some studies conducted by other scholars revealed positive correlation relationship between corporate governance mechanism and organizational performance Kiel and Nicholson, (2003); Park and Yoo (2007). Similar results were obtained by Kyereboah-Coleman (2006) and Kleim (2013) as well. Most of the studies neglected the managerial operating variables as proxies for performance and were conducted outside Nigeria. The present study sets out to employ operating performance variables to examine the experience with particular reference to banks.

Objectives of the Study

The broad objective of the study is to find out if corporate governance of selected banks in Nigeria has significant effect on organizational performance. Specifically, the study intends to:

1. Find out the relationship between board size and market share;
2. Examine the relationship between board composition and return on asset;
3. Ascertain the relationship between audit committee size and return on investment;
4. Identify the relationship between board meeting and return on equity.

Research Questions

1. Does board size affect market share?
2 Does board composition affect return on asset?
3. Does audit committee size affect return on investment?
4. Does board meeting affect return on equity?

Research Hypothesis

Ho: There is no significant relationship between board size and market share.
Ho: There is no significant relationship between board composition and return on asset.
Ho: There is no significant relationship between audit committee size and return on investment.
Ho: There is no significant relationship between board meeting and return on equity.

LITERATURE REVIEW

This section presents a review of the literature connected to the objective of the study, and is prearranged conferring to the following objectives of the study. The paper was undertaken in order to remove repetition of what has been done and offer a clear thoughtful of existing knowledge base in the problematic area. The works is grounded on convincing, recent. And original sources such as journals, books, and dissertations.

Corporate governance is a broad concept and it is not easy to describe due to continuous expansion of the boundaries of the concept. The definition may vary based on the different perspectives of researchers. In literature, the basic definition of corporate governance can be defined as the system by which companies are directed and controlled Cadbury (1992) as cited in Delima & Regel, (2017)

Jayashree (2006) opines that 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. Lai and Bello (2012) concord that 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.

Osundina, Olayinka and Chukuma (2016) opined that corporate governance epitomizes the system of controls, processes, policies, rules and proceedings set up by the Board and Management of a company to ensure the smooth running of the company, maximize shareholders wealth and satisfy the interest of every stakeholder. Corporate governance relates to the legal way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization Tukur & Bilkisu, (2014).

Basic Tenets of Corporate Governance

The basic tenets of good governance are accountability, efficiency and effectiveness, integrity, fairness, probity, responsibility and transparency. All of these must be considered as imperatives to organizational growth and survival.

A good accountability is a strategic tool used for getting the business organized and maintaining the organization. The key to business survival, creating and maintaining wealth for the organization has primarily on systems of accountability built into governance structures of corporations. This has placed top managers in a very difficult situation, as they attempt to devise strategies that will enable their firms to survive and prosper in a turbulent environment that demands both financial performance and effective shareholder responsiveness Kaheru, (2001).

Fairness

In corporate governance, fairness refers to the principle that all shareholders should receive fair treatment from the Directors. This principle implies that all the equity shareholders in the company should be entitled to equal treatment such as vote per share at general meeting of the company, as well as right to the same dividend per share.

Accountability
Accountability is the stewardship owed to the constituency or employees and the stakeholders Akpama, (1999). Accountability in the context of corporate governance is an explanation to the shareholders and other stakeholders by the directors on how they have done their work with regard to the terms of service under the regulations, which govern the organization. Directors are supposed to account to the shareholders who appoint them as to how they have performed in their duties with regard to the fairness and objectivity in which they have made decision that govern the organization, the manner in which they have managed the material and financial resources, the extent to which they have carried out the services they undertook to execute and the extent to which they have adhered to the ethical demands of their offices. To make the system of accountability work, it is essential to ensure that relationships are at arm's length keeping professional and corporate ethics. The movement towards more democratic forms of corporate governance by empowering owners is important not only for creating wealth, but it also cuts directly to our ability to maintain a free society.

Accountability and Business Survival
The key to business survival, creating and maintaining wealth for the organization lies primarily on systems of accountability, built into governance structures of corporations. Organizational failures have become common phenomena in organizations in recent years. Although many organizations that have failed are private businesses, they are crucial in the overall success of the national economy. Survival of businesses in the private sector plays a crucial role in the development of the national economy.

The corporations that embrace such dialogue should be better equipped to create wealth and compete in global markets. The pattern of corporate shareholding in organization is dominated by private investors. Under such situation, the difference between the owner and management gets thinner and the independence of non-executive directors becomes obscured.

Transparency
Clearly and accurately reporting is an order to command respectability and credibility. Transparency is the equalization of appropriate disclosure with levels of scrutiny demanded by a particular stakeholder Apampa, (1999), it is in fact, part of probity. The corporate organization that accepts and adheres to these tenets would achieve good corporate governance.

According to Kwakwa and Nzekwo (2003), good corporate governance is necessary to attract investors; both local and foreign, and assure them that their investments will be secured and efficiently managed and in a transparent and accountable process.

Transparency of board activities, disclosure of facts and figures helps to upgrade credibility of governance inclusive management, and public understanding of corporate structures, functions and processes with respect to business and social environment. The bottom line of disclosure is mandated by law through independent audit, annual reports, records in the official corporate register and further information requested for security trading. Well run corporations recognize the advantages of an increased openness for public goodwill, new capital inflow and stockholders support.

In principle, transparency and disclosure should provide information of omission or misstatement which could mislead the economic evaluation and decision taken by interested people. There are indeed, limits to disclosure like untimely identification of future policies and innovations, facts or figures which could endanger corporate competitiveness.

Integrity

This is uprightness or honesty “It is the will and willingness to stand openly against what one believes to be wrong” Kolade, (1999). It also involves the will and willingness to do what one knows he ought to do. As you join an organization you willingly accept to conform to its requirements and remain loyal and committed to its aims and values and act accordingly in the interest of organization. It is in this respect that Ejiofor (1987) defines integrity as “the aspect of one’s character rooted in his conviction which serves to deter him from taking advantage of his position to gain at the expense of his organization, client or subordinate investor activist” goals in the organization.

Challenges of Corporate Governance in Organizations

There is no doubt that the challenges of corporate governance in the banking industry are enormous. Specifically, with Nigerian Business environment which is characterized by weak legal and enforcement framework for contractual obligations and redress for breaches, ownership structure with pranced duality and socio-cultural setting is critical to corruption and unethical practices in public and private life among others, the enthronement of sound corporate governance will remain a daunting task. As Oboh (2005) posits the challenges of corporate governance to be as follows;

Societal Norms and Socio-Political Environment

An important precondition for the existence of effective corporate governance is a supportive cultural and socio-political environment, where the social norms and political structures reinforce the formal institutions of corporate governance. Cooler (1996) argues that where laws are inconsistent with social norms, the law is obeyed out-of respect and private citizens under such system supplement official enforcement of law.

The corollary is that legal infrastructure will simply be ignored where it is inconsistent with the social norms. Similarly, prevailing political culture could also play a facilitating role in corporate governance. Public policies of openness, accountability and transparency will set the standard of corporate governance. The point here underscores the significance of the challenge posed to corporate governance in company by fraud, unethical practices and social pressures on board members in an environment with endemic poverty and erroneous or exaggerated public opinion of income of company’s including the directors.

Weak Legal Protection and Enforcement of Rights

Effective legal and judicial infrastructure specifying procedures and remedies for common breakdowns and violations are crucial to corporate governance. The legal power allocates power and provides credible threats to replace insiders whether as managers or controlling shareholders.The problem of weak legal protection could be seen in the area of ownership structure of banking in the country. It has been noted that the nature of ownership of corporate entity can exacerbate corporate control problem Turnbull, (1997). Banking structure in Nigeria exhibits strong duality.

Inadequacy of the Supporting Information Accreditation Institutions

External auditors, stock exchanges, securities dealers, credit and bond rating agencies are important institutions providing support for anonymous investments in the equity market. The services of these agencies on accredited information available to the public on corporate governance. Our supporting information accreditation institutions and intermediaries are not only grossly inadequate. For instance, the paucity of rating services in the country, but also that their effectiveness is less than desirable. This has continued to affect the cost and availability of reliable information as an input into the corporate governance process. Many industries whose companies were certified by approved auditors consecutively failed. Also periodic returns rendered to the regulatory authorities by some companies are noted to be low integrity, hence of very limited use. These problems compound information asymmetry for the industry as well as individual company and others stakeholders. This is a major challenge, especially for the regulatory/supervisory authorities with shared responsibility for sound corporate governance in the sector.

METHODOLOGY

This chapter outlines the procedures adopted to carry out the study. These include the research design, sources of data collection, population, sample size, research instrument, model specification, method of data analysis and decision rule.

Research Design

The design adopted for the study is a combination of descriptive research design and ex-post facto research method. The choice of this research design was informed by the nature of the research problems and objectives of the study. Specifically, the ex-post facto research designs according to Kerlinger (1994).

Population of the Study

The population for this study consists of thirty three (33) banks declared by the Central Bank of Nigeria (CBN) in February, 2020.

Sample Size and Sampling Technique

Based on the nature of the study, purposive or judgment sampling method was used to select six (6) Banks as sample size for the study. This sampling technique was used to facilitate easy data collection from the banks. The selection was subjected to critical scrutinized and examination of Audited financial performance reports of banks on the basis of strong and weak performances, similar structure of operations and practices of corporate governance, while the six selected banks have distinctive features which provide a basis by which an acceptable generalization about the population of the study would be made without prejudice. The banks for the study were First Bank Plc, Zenith Bank Plc, United Bank for Africa, Access Bank Plc, Guarantee Trust Bank Plc, Union Bank Plc and their audited financial statement was drawn from the period (2014 to 2020).

Source of Data Collection

This study used secondary data from audited annual financial report and accounts statements of the selected consolidated banks from the period (2014 to 2020) and the data also obtained from relevant textbooks, journals, newspapers, bulletins, Central Bank of Nigeria (CBN) publications and the internet. Some of the annual reports of the selected consolidated banks that were not available in the Nigerian Stock Exchange Fact Books were either collected from the corporate offices of the concerned banks or downloaded from the banks corporate websites.

Research Instruments

In determining the level of corporate governance disclosure among the selected banks, the study used content analysis as a means of eliciting data from the audited financial reports of the selected banks and ascertained the level of disclosure of each bank with code of corporate governance best practices issued by Central Bank of Nigeria (CBN); while descriptive statistics and ration analysis is used to obtain values for selected banking performance variable of Market Share (MS), Return on Equity (ROE), Return on Asset (ROA), and Return on Investment (ROI) precisely from their profit and loss account, balance sheet, statement of changes in equity and statements of cash flow.

Model Specification for the Study

To ascertain the direction and the nature of the relationship and how significant the degree of effect of corporate governance on bank performance, the study employed a multiple regression statistic/ model stated in econometric standard form shown below:

$$Y = a + b_1X1 + b_2X2 + b_3X3 + b_4X4 + e \text{ ------------ } (1)$$

Model Notation

Y represent performance variables of dependent variables of selected banks performance and is denoted by these variables, Market share (MS), return on Equity (ROE), return on Asset (ROA) and return on Investment (ROI) of banks in Nigeria. The performance variable of return on Equity is decomposed as Net income/Total equity. Net income is for the full fiscal year before any dividends are paid to common stockholders, but after dividends are paid to preferred stock. Return on Assets is decomposed as Net income/Total assets and return on Investment is decomposed as Net worth plus interest/Equity plus Total debt.

a = y intercept (constant factor)

b_1 b_2 b_3 b_4 = the regression coefficients attached to the four independent variables.

X1 - X4 = Represent independent variables of Corporate Governance Mechanism decomposed as Board size denoted by (BS), Board composition (BCOMP), Audit committee size (ACS), Board meeting (BM).

e = error term or Standard error of Estimate.
And data relating to variables specified therein was extracted from the financial statement of the studied banks.

METHOD OF DATA ANALYSIS

In analyzing the relationship between corporate governance and organizational performance, the descriptive and ratio analysis was used for the study and the multiple regression and Pearson Product Moment Correlation analysis was adopted, and will be compared with the t and f statistics respectively.

Decision Rule

Reject the null hypothesis, if the p – value is less than the level of significance, accept the null hypothesis if otherwise. The rejection of the Null hypothesis shall be based on the P – value as the null hypothesis is rejected of P-value 0.05.

RESULTS

Hypotheses One

There is no significant relationship between board size and market share.

Table 4.2 Correlations Analysis for Hypothesis One

		Market Share	Board Size
Market Share	Pearson Correlation	1	-.560**
	Sig. (2-tailed)		.000
	N	42	42
BOARD SIZE	Pearson Correlation	-.560**	1
	Sig. (2-tailed)	.000	
	N	42	42

Source: Researcher's Computation (2022)

The null hypothesis one states that there is no significant relationship between board size and market share of banks in Nigeria. Based on the decision rule of the study, the null hypothesis one of the study is rejected and the alternate accepted because the p-value of 0.000 shown in Table 4.2 is less than 0.05.

Hypothesis Two

There is no significant relationship between board composition and return on asset.

Table 4.3 Correlations for Hypothesis Two

		Board Composition	ROA
Board Composition	Pearson Correlation	1	.379*
	Sig. (2-tailed)		.013
	N	42	42
ROA	Pearson Correlation	.379*	1
	Sig. (2-tailed)	.013	
	N	42	42

Source: Researcher's Computation (2022)

The null hypothesis two states that there is no significant relationship between board composition and return on asset. Based on the decision rule of the study, the null hypothesis two of the study is rejected and the alternate accepted because the p-value of 0.000 shown in Table 4.3 is less than 0.05.

Hypothesis Three

There is no significant relationship between audit committee size and return on investment.

Table 4.4 Correlations for Hypothesis Three

		AUDIT COMMITTEE SIZE	ROI
AUDIT COMMITTEE SIZE	Pearson Correlation	1	.276
	Sig. (2-tailed)		.077
	N	42	42
ROI	Pearson Correlation	.276	1
	Sig. (2-tailed)	.077	
	N	42	42

Source: Researcher's Computation (2022)

The null hypothesis three states that there is no significant relationship between audit committee size and return on investment of banks in Nigeria. Based on the decision rule of the study, the null hypothesis three of the study is accepted and the alternate rejected because the p-value of 0.000 shown in Table 4.4 is greater than 0.05.

Hypothesis Four
There is no significant relationship between board meeting and return on equity.

Table 4.5 Correlations for Hypothesis Four

		BOARD MEETING	ROE
BOARD MEETING	Pearson Correlation	1	-.549**
	Sig. (2-tailed)		.000
	N	42	42
ROE	Pearson Correlation	-.549**	1
	Sig. (2-tailed)	.000	
	N	42	42

Source: Researcher's Computation (2022)

The null hypothesis four states that there is no significant relationship between board meeting and return on equity. Based on the decision rule of the study, the null hypothesis four of the study is rejected and the alternate accepted because the p-value of 0.000 shown in Table 4.5 is greater than 0.05.

DISCUSSION OF FINDINGS

The result of the analysis presented in Table 4.2 shows that there is a significant relationship between market share and the board size of selected banks in Nigeria. The result showed that there is a negative relationship between market share and board size of the selected banks. This was revealed by the correlation coefficient which stood at -0.560. The result implies that an increase in the number of board members of the selected banks will decrease the market share of the selected banks. Invariably, the result of the analysis shows that the higher the number of directors on the board of the sampled banks, the lower the financial performance of the banks. Evaluating the coefficient of determination (r^2) of the analysis, it was discovered that the coefficient of determination was 0.3136, which implies that 31.36% of the variation in the market share (performance) of the selected banks is accounted by the board size of the selected banks. This finding is in line with the finding of Yermack (1996) who argued that a large board is slow in decision making and time wasting and this causes communication problems and affects the firm performance negatively.

The result of the analysis presented in Table 4.3 shows that there is a significant relationship between board composition and the return on assets of selected banks in Nigeria. The result showed that there is a positive relationship between board composition and the return on assets of the selected banks. This was revealed by the correlation coefficient which stood at 0.379. The result implies that an increase in the number of executive directors in the board of the selected banks will increase the return on assets of the selected banks. Invariably, the result of the analysis shows that the higher the number of directors on the board of the sampled banks, the higher the financial performance of the banks. Evaluating the coefficient of determination (r^2) of the analysis, it was discovered that the coefficient of determination was 0.1436, which implies that 14.36% of the variation in the return on assets (performance) of the selected banks is accounted by the board composition of the selected banks.

The result of the analysis presented in Table 4.4 shows that there is a significant relationship between audit committee size and the return on investment of selected banks in Nigeria. The result showed that there is a positive relationship between audit committee size and the return on investment of the selected banks. This was revealed by the correlation coefficient which stood at 0.276. The result implies that an increase in the number of audit committee members of the selected banks will increase the return on investment of the selected banks. Invariably, the result of the analysis shows that the higher the number of directors in the audit committee of the sampled banks, the higher the financial performance of the banks. Evaluating the coefficient of determination (r^2) of the analysis, it was discovered that the coefficient of determination was 0.1436, which implies that 14.36% of the variation in the return on investment (performance) of the selected banks is accounted by the audit committee size of the selected banks.

The result of the analysis presented in Table 4.5 shows that there is a significant relationship between board meetings and the return on equity of selected banks in Nigeria. The result showed that there is a negative relationship between board meetings and the return on equity of the selected banks. This was revealed by the correlation coefficient which stood at -0.549. The result implies that an increase in the number of board meetings of the selected banks will increase the return on investment of the selected banks. Invariably, the result of the analysis shows that the higher the number of board meetings of the sampled banks, the higher the financial performance of the banks. Evaluating the coefficient of determination (r^2) of the analysis, it was discovered that the coefficient of determination was 0.3014, which implies that 30.14% of the variation in the return on equity (performance) of the selected banks is accounted by the number of board meetings of the selected banks.

CONCLUSION

Based on the findings of the study, it can be concluded that the corporate governance mechanism significantly affects the organisational performance of banks in Nigeria. From the analysis it is concluded that board size and board meetings negatively relate with organisational performance while audit committee size and board composition relate positively with organisational performance. Therefore, the higher the number of directors and board meeting, the lower the performance of the banks and vice versa. This also applies to audit committee size and board composition which showed positive correlations.

Recommendations

Based on the findings of the study, the following recommendations were raised.

i. The number of directors on the board of the banks should be reduced because of the huge fees paid to the directors which ultimately reduce the financial performance of the banks.
ii. The number of members in the audit committees of the selected banks should be increased as the have significant positive influence on the performance of the banks

iii. The number of executive directors on the board of the selected banks should be increased as this implies that there will be more hands to man the affairs of the organization.
iv. The number of the board meetings held by the banks should be minimized because the cost of hosting such meeting has negative impact on the return on equity of the selected banks.
v. Finally, the management team of the bank should be made stronger to help in accomplishing the task of effective corporate governance practices. This is because corporate governance is one of management responsibilities than any other persons in the organization. It is strategic that they required concerted efforts in enthroning the culture of good ethics and morality which are critical to effective corporate governance practices.

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