

EMPIRICAL STUDY OF THE IMPACT OF CORPORATE GOVERNANCE ON THE PERFORMANCE OF FINANCIAL INSTITUTIONS IN NIGERIA

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Abstract

This study investigates the effect of corporate governance on the performance of commercial banks in Nigeria, and the determination of governance effect on profitability of banks. This came as a result of the fact that corporate governance has been relied on statements which do not represent a true situation of the strength of banks. Four research hypotheses were formulated based on these variables - capital adequacy, asset base, policy shift, investment, liquidity ratio, inflation and their relationship with profitability. Descriptive research design was used for this study. Data were obtained from published annual reports and account of the selected commercial banks and the publication of Central Bank of Nigeria. Ordinary Least Square (OLS) technique was used to estimate the variables using multiple linear regression models. The result of the analysis revealed that the estimation of capital adequacy, asset base, policy shift, investment, liquidity ratio and inflation are prime determinants of corporate governance. The findings revealed that the profitability of banks increased within the years under review as assets base of the banks increased. It further shows that as policy shift and investment increases profitability of banks also increases. Consequently, it was recommended that the regulatory authority should restructure their regulatory framework and strengthen their supervisory capacity to ensure a smooth working relationship with banks, prevent distress and failure in the post-consolidation era. Finally, there should be a provision of heavy sanctions for those that violate banking regulation and other laws that guide bank business.

Key Words: Corporate Governance, Performance, Commercial Banks, Capital, and Profit

Understanding the problem

Banks are ordinarily catalytic and developmental institutions, for a developing economy like ours. The issue in Nigeria however, is that they are not too effective and efficient in their functions. In fact, large non-performing insider related loans and advances have been identified as one of the major problems, in virtually all known instances militating against the performance of commercial banking activities in Nigeria.

Agene (1999: 64) posits that poor credit administration, lack of transparency and accountability as well as the tendency for banks to engage in 'window-dressing' financial statements, led to a large overhang of non-performing loans in many banks. In the same vein, bad corporate governance has hindered the attainment of corporate objectives and economic growth in the banking sector and the economy in general. This has also led to the loss of public confidence and loss of customers' funds in the banking industry; it is generally believed that bad corporate governance is the "Achilles heels" of many corporations in both rich and poor nations. This is particularly true of Nigeria where corruption is endemic (Financial Standard, Sept 3, 2007: 56).

Furthermore, Oluyemi (2007:26) noted that bad corporate governance such as fraud and forgeries, unprofessional conduct and customer's disloyalty tends to reduce shareholders wealth, leading to a weak and unreliable banking sector. Many owners and directors abuse or misuse their privileged position by engaging in self-serving activities.

Corporate governance in the banking industry has been complex, when new generation banks streamline corporate governance issues as their main policy thrust, other banks have generally ignored the issue of bringing to the fore strategic corporate governance philosophies, making clear understanding of the issues at stake to be vague. Moreover, several banks in Nigeria have relied on profitability, liquidity, asset quality and capital adequacy as criteria for measuring performance, yet there exist other crucial performance variables like

investment, policy shift and inflation. Furthermore, the relationship between corporate governance and performance of banks has not been adequately considered even within the banking industry. In fact, the effects of corporate governance on bank performance have not been subjected to vigorous empirical analysis. Corporate governance and performance issues have relied on statements which do not represent a true situation of the strength of the banks. It is in this vein that this study intends to identify what actually is the effect of corporate governance on bank performance in Nigeria. What actually is the code of corporate governance and how it works will be made clearer in this study.

Objectives of the study

The general objective of this study is to determine the effect of corporate governance on the performance of commercial banks in Nigeria while specifically pursuing the following objectives, to: identify the existing corporate governance structures in the banking system; determine the relationship between corporate governance and bank performance overtime; analyze the effects of corporate governance on capital adequacy of banks overtime; determine the relationship between corporate governance and investment overtime and make recommendations.

Research questions

The following research questions are pertinent for this study:

- a. What constitute corporate governance structures in Nigerian banks?
- b. What is the relationship between corporate governance and bank performance?
- c. What is the relationship between corporate governance and profitability, assets, investment and capital adequacy?

Research hypotheses

- Ho₁: Corporate governance has not greatly influenced bank performance measure (profitability) within the period under review
- Hi₁: Corporate governance has greatly influenced bank performance measure (profitability) within the period under review.
- Ho₂: There is no significant relationship between corporate governance, assets, investment and capital adequacy within the period under review.
- Hi₂: There is significant relationship between corporate governance, assets, investment and capital adequacy within the period under review.

Significance of the study

Financial scandals have shaken investors' faith in banks as well as capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability. Corporate governance faces the challenges of unprofessional conduct, fraud and forgeries, weak internal control measures, non implementation of penalty measures by regulatory and legal frame work among others. These afore-mentioned problems have affected the relative performance of the banking sector; leading to inefficiency and reduced profit margin. This has also reduced the inflow of foreign direct investment in the banking sector.

Secondly, the 'supposed' findings of the study should be seen to benefit the industry through improvement on corporate governance vis-a -vis capital adequacy, investment, assets base and profitability. The study shall also promote and improve good corporate governance practice in governmental outfits. The organizations that will benefit from the study are the Securities and Exchange Commission (SEC), the Nigerian stock exchange (NSE), Corporate Affairs Commission (CAC), Chartered Institute of Bankers of Nigeria (CIBN), Institute of Chartered Accountants of Nigeria (ICAN), Institute of Directors (IOD), financial institutions Training centre etc. Other stake holders that shall benefit from this study are the policy makers in government and those in the banking sector as well as the shareholders, employees and the general public; especially at

this period that the banking industry is undergoing unprecedented turn around in banking reforms and restructuring. Finally, it is intended to contribute to knowledge and further the frontiers of knowledge in the area of corporate governance performance; concepts, principles and processes to make informed decisions in the academic and business world. Students will also find this work relevant and will ginger them for further studies.

Scope of the study

This study is meant to cover all commercial banks operating in Nigeria, with the study span being 1980 - 2007 (28 years). The most important events which the period covers are mentioned below. Increase in minimum paid up capital for commercial banks

1985	-	#2million
1992	-	#50million
1997	-	#500 million
2000	-	#1 billion
2005	-	#2 billion
2006	-	#25 billion

In studying the effect of corporate governance on commercial banks, the researcher uses time series data that required information from several years to establish a defined trend. So in choosing from the twenty five existing banks, fifteen commercial banks have been randomly selected and used for the study.

Theoretical framework

The theoretical framework upon which this study is based is agency theory, which posits that in the presence of information asymmetry the agent (in this case, the director and manager) is likely to pursue interests that may hurt the principal, or shareholders (Rose, 1999:7; Fame, 1983:21). Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called the principals, hire one or more other individuals, called agents, to perform some services and then delegate decision-making authority to the agents. However, this has implications for, corporate governance, business ethics, among other things. Agency theory suggests that, in imperfect labour and capital markets, managers will seek to maximize their own utility at the expense of corporate shareholders.

At first the theory was applied to the relationship between managers and equity holders with no explicit recognition of other parties interested in the well-being of the firm. Subsequent research efforts widened the scope to include not just the equity holders but all other stakeholders, including employees, creditors, government, debtors etc. This approach, which attempts to align the interests of managers and all stakeholders come to be regarded as the stakeholders' theory.

The stakeholders' theory has been a subject of some investigation; John and Senbet (1998:371) provide a comprehensive review of corporate governance, with a particular focus on stakeholders' theory. The authors noted the presence of many parties interested in the well-being of the firm and that these parties often have competing interests. While equity holders might welcome investments in high yielding but risky projects, for example, such investment might jeopardize the interests of debt holders especially when the firm is teetering on the edge of bankruptcy.

In an article extending the stakeholder theory, Jensen (1976:325) also recognizes the multiplicity of stakeholders. He concurs with John and Senbet (1998:386) that certain actions of management might have conflicting effects on various classes of stakeholders. This implies that the managers have a multiplicity of objectives functions to optimize, something that Jensen sees as an important weakness of the stakeholders theory "because it violates the proposition that single-valued objective is a prerequisite for purposeful or rational behaviour by any organization" (Jensen,1993:10). In search of a single valued objective function that conforms to rationality,

Jenson suggest a refinement of the stakeholder theory- the enlightened stakeholders' theory. This Theory offers at least two advantages. First, unlike the earlier version with multiple objectives, the modified form of the theory proposes only one objective that managers should pursue: the maximization of the long-run value of the firm .If the interest of any major stakeholder was not protected, the objective of long-run value maximization would not be achieved. A second, related appeal of the enlightened stakeholder theory is that it offers a simple criterion to enable managers to decide whether they are protecting the interests of all stakeholders: invest a dollar of the firm's as long as that will increase by at least one dollar the long-term value of the firm. There is an important caveat; however, Jenson cautions that the criterion may be weakened by the presence of a monopoly situation or externalities.

The simplest albeit highly impractical way to solve the agency problems is to eliminate the separation between ownership and control in a company. However, the separation of ownership and control is to benefit of the company as its represents the optimal competitive response to the formation of the company's ownership structure.

Regulatory model to capital adequacy of commercial banks in Nigeria

Another theory on which this work is based on is the regulatory model. This is known as capital cushion theory. The idea of capital cushion as a contingency was mentioned by Barnes and Blanco (2000) in Offiong (2006:52). In this case, banks would maintain this cushion to prevent the stochastic capital ratio from reaching values below the permitted minimum in order to avoid sanctions. When regulatory guidelines exceed market requirement, the regulation is binding and the bank is operating in the regulatory model. Otherwise the bank is operating in the market model. Regulation of capital base provides a close control of all banks by the government or its authorized agencies. Banks must meet minimum capital requirements before they can be chartered and they must uphold the minimum required capital throughout their whole corporate life. As a need for the regulatory authorities to uphold the minimum capital requirements, ten industrial nations came together and adopted a regulatory framework called the Basle Accord.

The Basle Accord I framework, presumes that a bank's minimum capital requirement is linked by a formula to its credit risk as determined by the composition of assets. The greater the credit risk the greater the required capital (Kock and Macdonald, 2000: 128). This framework is based on the credit mode. It was discovered that the Basle Accord I presumes a linear relationship between a bank's assets and its capital and this can be linked to the portfolio diversification and Slusky's theory (Osota, 1994:49). The portfolio diversification theory upholds that a firm should invest in both low and high risk assets; and this means that financial assets acquired by banks should have a combination that yields maximum return but not at the detriment of a bank's capital base. The Basle Accord I according to Onoh (2006: 258) makes it clear that carrying the most risky assets implies the provision of huge capital cover at the expense of profitable investment opportunities.

In Nigeria as in other countries, the monetary authorities specify from time to time subject to economic dictates; the minimum capital requirement for licensed banks in the system. Banks failure has convinced government of the necessity of establishing minimum capital requirements for insured banks. The binding rules on minimum capital for banks generally, is that banks should have a sound capital to give reasonable assurance of the maintenance of a protection to depositors as well as other creditors (Oluyemi, 2007:53-59). However, banks supervisors', as agents of the public, try to maximize society's welfare by choosing capital ratios representing the optimal trade off among the three objectives of bank regulation. These are to protect depositors, to promote a stable money supply by preventing financial panic; and to foster an efficient and competitive banking system that facilitates financial intermediation (Mitchell, 1984:26).

Generally, the regulation of bank capital in Nigeria started when the first banking ordinance was enacted in 1952. This became necessary because of rampant bank failures, which characterized

the 1892- 1952 free for all banking era in Nigeria. The main causes of the failure during this period were attributed to under capitalization and inefficient management of financial resources (Mbat, 2000: 49). This ordinance provided that banks have a minimum of #50,000 as authorized capital and at least #25, 000 as paid up capital. Expatriate banks were however supposed to show evidence that they had #200, 000 paid up capital. Banks were also mandated to put aside 20% of their profits as reserves as well as make provision for bad and doubtful debts. These requirements were meant to help strengthen banks (Mbat, 2001: 42 - 43).

In 1958, another ordinance that increased the paid up capital for indigenous banks to #50, 000 and raised that of expatriate banks from #200, 000 to #400. 000 came into existence. It also increased the level of profit to be transferred to reserve fund from 20% to 25% (Osubor, 1984: 302). In 1969, the banking Act raised minimum paid up capital for indigenous banks to ₦600,000 and for expatriate ones to ₦1.5 million (Ekezie, 2002: 98). A good innovation of the Act was that commercial banks should maintain a ratio of 1 : 10 between paid up capital plus reserves and total deposit liabilities (Mbat, 2001:46).

However, between 1988 and 1991 three increases in bank capitals were recorded (Onoh, 2006: 109), In February 1988, paid up capital was increased to ₦ 5 million for commercial banks. This went up eight months later in October 1989 to ₦10 million. In October 1989 and February 1991 the capital base was increased to ₦20 million and N50 million respectively (Adimorah, 1988: 105). Anaroke (2004; 80) posits that these increases set the stage for introduction of a uniform capital base requirement of ₦ 500 million for both types of banks until 2001 when it was reviewed to ₦1billion and ₦ 2 billion. However, in what have become the twelve times in the history of the banking industry in Nigeria the Central Bank of Nigeria has announced ₦ 25 billion capitalization for banks and December 31ST 2005 as deadline. However, it is imperative to note that at the end of the consolidation exercise in 2005, a total of 25 banks emerged as at the beginning of 2006.

In another development, the regulatory model or theory is supported by the issuance of Central Bank of Nigeria code (post consolidation corporate governance guidelines). At the conclusion of the banking consolidation in 2005, the CBN felt the need to put in place specifically for the financial sector a framework for ensuring that banks and other operators in the sector are properly managed. The code covers new provision governing equity ownership (capital adequacy), organizational structure, industry transparency and disclosure of requirements, as well as roles of the auditors.

Research methodology

Once a problem is identified in any research effort, the researcher's next task is to determine the type of research design he would use to enable him analyze and interpret his data to solve the problem at hand. As a result, decision has to be made as to the procedures to be adopted to collect, analyze and interpret the data. These could be referred to as design decision or commonly called research methodology.

Balsley and Clover (1988: 38) defined research design as the plan, structure and strategy of investigation conceived by a researcher, so as to obtain answers to research questions and control variances. The plan is the overall scheme or programme of research. Consequently, the study on the effect of corporate governance on the performance of commercial banks in Nigeria is aimed at doing a thorough investigation on ways of improving the performance of banks through various structures and mechanisms. Nevertheless, the research design adopted in this study is empirical and exploratory in nature. Materials explored were from published and unpublished works, reports, journals, reviews and magazine; as well as financial statements of the selected banks.

Sources of data

The data for this research were collected from secondary sources. They include financial statements and of the selected banks for a good number of years. Also extensive and intensive library research

was carried out in order to obtain data for this study. This provided an avenue for establishing a sound critical and analytical framework for the study. The secondary data of the selected banks had been extracted from their annual reports and statements of accounts, although other sources include:

- a. Publication of the central bank of Nigeria (Bullion) for various years.
- b. Annual reports and statement of accounts of Nigeria deposit insurance cooperation (NDIC).
- c. Publication of federal office of statistics, namely annual abstract of statistics (various issues)

Techniques of data analysis

The analytical tool used in this study is the ordinary least squares (OLS) regression analysis. This was used to estimate the relationship between profitability and Assets, as well as the relationship between dividends per share and profitability, earnings per share and investments. Four hypotheses were estimated using the OLS model.

Model Specification: The implicit form of the equation or model is given as:

$$Y_i = f(x_1, x_2, x_3, x_4, x_5, x_6)$$

Where: Y_i = Profitability of banks at a time t

x_1 = Capital adequacy at a time t

x_2 = Asset base at a time t

x_3 = Policy shift at a time t

x_4 = investment at a time t

x_5 = liquidity ratio at a time t

x_6 = Inflation at a time t

It is expected that $dy_i/dx_1, dy_i/dx_2, dy_i/dx_3, dy_i/dx_4, dy_i/dx_5, dy_i/dx_6 < 0$.

The criteria used in selecting the lead equation include the conformity of the signs of the regression coefficient with economic theories, the coefficient of multiple determinations (R^2), and the significance for the model, F –test and that of the coefficient of the independent variables through the t – test. The statistical significance of the coefficients and F – test were tested at 1%, 5% and 10% respectively.

Data presentation, analysis and discussion of findings

This section of the study through data analysis discusses the performance indicators of banks; the relationship between profitability of banks and capital adequacy, asset base, policy shift, investment, liquidity as well as inflation of banks. To test the time series properties of the variables employed for the estimation of our models, the stationarity test was conducted. Augmented Dickey Fuller (ADF) test was employed to determine the order of integration of the variables in the model and this is done to determine whether the series follow a non-stationary pattern.

According to Nyong (2005:145), when the series are non stationary, the use of orthodox method of estimation such as ordinary least square will lead to the acceptance of meaningless result. As such, when the series are non-stationary around the mean, we adopt the traditional practice of differencing the series which leads to stationarity which allows the researcher to adopt the conventional econometric methods which explains the long-run relationships. The unit root results which indicate the order of integration of each of the variables is presented in table 4.1. The test revealed that the variables: LPROF, LCAD, LAB, INV.LIQR, and INFL all stationary at first difference, the variables are.

TABLE4. 1: Test for stationarity and order of integration of the series

Variables	ADF		Order of Integration	Lag
	Levels	1 st difference		
LPROF	-3.07	-5.89	1(1)	2
LCAD	1.66	-6.81	1(1)	2
LAB	0.64	-8.36	1(1)	2
LINV	-1.74	-5.40	I(1)	2
UQK	3.02	-5.74	1(l)	2
INFL	-2.81	-5.27	1(1)	2

Source: fieldwork, 2011

Integrated of order 1 (I). This implies that the null hypothesis of non stationarity for all the variables is rejected. Given the unit root properties of the variables, we proceed to establish whether or not there is a long run relationship among the variables in the equation using ordinary least square method.

Data presentation

TABLE 4.2: Relationship between profitability and capital adequacy, asset base, policy shift, investment, liquidity and inflation in Nigeria between 1980-2007

Year	Profitability	Capital adequacy	Asset Base	Policy shift	Investment	Liquidity	Inflation
1980	12.3	389.1	16340.4	0	344.8	47.6	9.9
1981	13.654	497.4	19477.5	0	2350.2	38.5	20.9
1982	15.654	667.7	2261.8	0	3406.9	40.5	7.7
1983	18.324	845.1	26701.5	0	5730.4	54.7	23.2
1984	19.684	966.7	30066.7	0	9237.9	65.1	39.6
1985	20.8	1128.7	31997.9	0	10875	65	5.5
1986	27.2	1298.7	39678.8	0	5.223	36.4	5.4
1987	46.1	1545.1	49828.4	0	8.712	46.5	10.2
1988	34.7	1932.4	58020.2	0	7.565	45	38.3
1989	27	2692.3	64874	0	4.606	40.3	40.9
1990	15.4	3712.7	82957.8	0	10.067	44.3	7.5
1991	14.6	4300.8	117511.9	0	7.454	38.6	13
1992	31.3	8157.3	15190.8	0	6.767	29.1	44.5
1993	12.59	5637	226262.8	0	31.192	42.2	57.2
1994	5.29	6669.5	295033.2	0	40.444	48.5	54
1995	49.38	11777.1	385141.8	0	22.695	33.1	72.8
1996	77.15	13824.6	458777.5	0	49.751	43.1	29.3
1997	103.3	24200.2	584375	0	42.861	40.2	8.5
1998	1290	21734.4	694618	0	52.994	46.8	10
1999	108.3	71211.8	1070080	1	193.413	61	6.6
2000	120.1	103202.5	1589269	1	285.294	64.1	6.9
2001	150	198025.2	2247040	1	192.732	52.9	18.9
2002	155.5	248140.2	2766880	1	435.601	52.5	12.6
2003	180	223082.7	537207.8	1	434.299	50.9	24.9
2004	164.4	2235611	553426	1	277.957	50.5	15
2005	190.2	229347.1	545636.9	1	799.389	49.2	17.9
2006	198.5	1232479	549371.5	1	895.489	45.6	8.2
2007	204.8	1730913	547344.5	1	847.444	43.8	13.05

Source: CBN annual report and statement of account 2008

PROF= Profitability ratio, CAD = Capital adequacy, AB= Asset base, PS = Policy Shift, INV= Investment, LIQR = Liquidity ratio, INFL= Inflation

From Table 4.2 and Figure 4.1 show the profitability ratio of the banks used for the study. The figure and table show that from 1987 to 1993, profitability index of these banks declined steadily. This may be due to the financial crisis that got so many banks distressed during this period. From 1994 the profitability index of the banks rose steadily with slight decrease in 1997 and another steady increase from 1997 to 2002. This increase could however be attributed to several monetary and financial policies put in place to stabilize the banks. The figure shows that there was a sharp decrease in 2004 with an upshot from 2005 to 2007. This upshot may have been due to the recapitalization policy of the central bank of Nigeria introduced by Professor Chukwuma Soludo in 2005. On the whole, the results indicate that the profitability index of banks in Nigeria has not been stable for the past decades.

From Table 4.2 capital adequacy of the banks under consideration shows that there has been a progressive increase from 1980 - 1992. It decreases in 1993 and pickup again in 1994. In 2000, it shows a sharp increase of 44.92 percent. In 2005, it decreases by 1.47 per cent. In 2006 and 2007 it pick up again by 0.74% and 0.37% respectively.

In Table 4.2 from 1980-1998 it could be noted that political instability and government policies represented by dummy variables for policy shift.

The trend of asset base in Table 4.2 shows that 1980-1999 there has been a remarkable increase of asset quality of banks under review. In 1990 and 1991 the percentage increase was 28 percent and 41 percent respectively. In 2000 and 2001, the percent increase change to 49 percent and 41 percent respectively while in 2005 and 2006 it was 20 per cent and 42 percent respectively

The investment trend of the banks under consideration is given in Table 4.2 and Figure 4.2. The trend shows that from 1990, the banks may not have experienced a significant increase in investment as the banks may have paid dividends to share-holders leaving with little to invest (Akpan, 2006:35). However from 1998 to 2006, there was a sharp increase in banks investments implying that the retain earnings and external financing profiles of the banks have increased therefore enhancing the banks investment decision as also noted by Akpan (2006:37).

Liquidity ratio as indicated in Table 4.2 and Figure 4.3 shows the stability and solvency of the bank overtime. This indicates Liquidity fluctuation within the period under review. This might indicate that the Banks were highly undercapitalized from 1987 to 2007. Despite the recapitalization policy of government, the banks standing in terms of liquidity ratio still show declining figures as indicated in table 4.1. This reveals that some banks in Nigeria are still facing some liquidity problems which may be reversed either through re-capitalization or by mergers with stronger banks.

Inflation was also considered by the study as a performance indicator for banks. Table 4.2 and figure 4.4 shows that from 1987 to 1994 inflationary figures for Nigeria have been rising above two digits with sharp decrease from 1996 from where it has fluctuated steadily from 1997 to 2007. This indicates that as inflation increases or rises the propensity to save decreased and to invest in shares also reduces. The high cost of goods and services reduces investors' propensity to invest in shares or save to raise banks liquidity. Moreover, during inflationary periods, banks capacity to boost their investments and enhance their capacity reduces. In the same vane, other variables that contribute to the fluctuation trend were the maturing treasuring bills and increase in government spending within the period under review.

Data analysis

The ordinary least square regression results of the relationship between capital adequacy and profitability is presented. The linear function of the equation was based on the criteria stated in the methodology. This is mathematically expressed as;

$$Y = b_0 + b_1X_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6$$

Where,

$$Y = -52.78^{**} - 0.733x_1^{***} + 13.39x_2^* + 91.12x_3 + 5.46x_4^* - 1.79x_5^* - 0.30x_6^{**}$$

(60.49) (8.03) (8.98) (24.06) (2.68) (0.72) (0.30)

$R^2 = 0.91$

Adjusted $R^2 = 0.88$

$F = 36.26$

$DW = 1.39^*$

*, ** and *** represents statistical significance of coefficient at 1%, 5% and 10% respectively, while the figures in parenthesis are standard errors.

An R^2 (coefficient of multiple determination) value of 0.91 connotes that 91% of the variability in profitability of banks is accounted for by the regressors included in the model. In addition, both the F - Value and DW statistics were all significant at 1% each. The negative sign of the coefficient of capital adequacy (CAD) indicates an indirect relationship. This is not in line with existing studies such as Lintner (1956: 243), Oluyemi (2007:67). In addition, all the coefficients were significant at 5%. It follows therefore that the profitability of banks will decrease in the given years as asset base of the banks increase. Furthermore, this shows that for the period under review the capital base of banks operating in Nigeria was low thus affecting their profitability over the years. This marries the research work carried out by Offiong (2006:86)

The estimated coefficient of asset base (AB) is positive. This indicates that there exist a direct relationship between asset base and profitability of banks. This implies that when asset base of banks increases profitability of banks also increases. This is in line with economic a priori condition. The result is also in line with research work carried out by Offiong (2006:86). This result is statistically significant at 1 percent. The estimated coefficient of policy shift is positive which is in line with economic a priori expectation. This indicates that over the years there have been gradual shifts in banking policies despite the instability in the system. However, the result indicates that this shift in policies have impacted positively and significantly on the profitability of the banks. This is in line with assumption of the study.

Investment estimated coefficient is positive which is in line with economic a priori condition. This means that when investment in banks increases the propensity of banks to increase their profitability level also increases. This is statistically significant at 1 per cent. Moreover, the coefficient of inflation indicates a negative sign showing that it is decreasing as profitability increases. This result is statistically significant at 5 per cent and in order with our economic a priori expectation. This implies that during inflationary period the.

Profitability ratios of banks are highly affected as more money in circulation tends to affect banks propensity to mop-up savings.

However, the estimated coefficient for liquidity ratio has a negative sign. Though this result is significant at 1 per cent it is inconsistent with economic theory. This is in line with research work carried out by Akpan (2006: 65). Hence it obvious that for the period under review the liquidity ratios of the banks were low relative to their profitability ratios as a result of high cost of operational expenses insider loans and lack of proper risk management

Discussion of findings

Based on the foregoing analysis it was discovered that a direct relationship exist between profitability of banks and asset base, policy shift and investment of banks. In order words as this variable increased as shown in Table 4.2, the profitability ratio also increases. This finding is in agreement with Offiong (2006:112) who found that increase in investment and asset base of a bank also increase the level of profit of a bank which invariably affect the profitability of the banking industry. The finding of this study is also in agreement with Obafemi (2008:115) who discovered that the structural policies and regulations made by government significantly affect the profit of banks.

It was also observed that an inverse relationship exists between profitability and capital adequacy, liquidity and inflation. This means that when these variables increase, the profitability of the industry will reduce; despite the fact that profitability has a direct relationship with

liquidity according to economic theories. The inverse relationship between liquidity and profitability observed in this study could be attributed to the fact that most Nigerian Banks experience high cost of operational costs, insider loans and lack of proper risk management. This finding is in corroboration with Okoli (2006:15) who found out that when a bank has high operational cost and unable to manage its risk asset there is a tendency of being insolvent. The finding of this study is also in line with Akpan (2006:50) who noted that there exist a negative relationship between profitability and inflation. This is because during inflationary period the profitability ratios of banks are highly affected as more money in circulation tends to affect banks propensity to mop-up savings.

Summary and Conclusion

The study is concerned with the effect of corporate governance on the performance of commercial banks in Nigeria. The profitability ratio was used as dependent variable. While capital adequacy, asset base, policy shift, investment ratio, liquidity ratio and inflation rate were used as independent variables. The ordinary least square method was the estimation technique. The empirical evidence presented in the last section of the study shows the following quantitative and deductive results:

1. The prime determinants of corporate governance of commercial banks are capital adequacy, asset base, policy shift, investment, and liquidity ratio as well as inflation rate.
3. In this study, we have adopted both the economic criteria and statistical criteria for accepting or rejecting the null hypothesis. However, the coefficients of asset base, policy shift and investment have a direct relationship with profitability while capital adequacy, liquidity ratio, and inflation have inverse relationship with profitability

Based on the findings of the study as contained in the data analysis, the following were obtained: Capital adequacy, asset base, policy shift, investment, Liquidity and inflation are among the variables determining corporate governance of commercial banks. It is believed that from the analysis so far, Finally, this research work discusses the principles and mechanisms of corporate governance; the relationship between corporate governance and bank's performance; the stakeholders theory; the banks responsibility in ensuring corporate governance, and corporate governance legislature,

Recommendations

Based on our findings, the following recommendations are put forward.

1. The regulatory authority, on their part, would be required to further restructure their regulatory framework as well as strengthen their supervisory capacity to ensure its execution. In this regard, there will be need to properly monitor the activities and performance of emerging mega banks to prevent distress and failure in the post-consolidation era.
2. Perhaps most important of all is the provision of heavy sanction for those that contravene banking regulations and other laws that guide the business. The general pattern in all human societies is that where there are no sanctions or they exist but they are poorly enforced, the incentive for breaking the law is very high. This is why the sanction for erring institutions and operators must by far outweigh the gains they make from violations.
3. Banks boards should address corporate governance by designing and documenting robust internal control frameworks that will reflect each bank's needs and situation and against which they will conduct regular reviews of their performances.
4. There must be continued emphasis on providing the bank with all the resources and

support that will foster the training and development of skilled banking staff to meet the challenges posed by the ₦ 25 billion recapitalization.

5. Moreover, the banks themselves can ensure a minimum risk of loan losses by providing technical and managerial assistance facilities of various kinds to their customers instead of shying away from innovative venture. This will promote and enhance good corporate governance.
6. Finally, the Central Bank of Nigeria and other regulatory authorities should make a law to prevent banks from boarding every bit of information needed at their disposal, as all necessary information needed for this research were deemed classified and as such were not made available to the researcher. The CBN as a regulatory authority should insist on full disclosure of information and more diligent reporting standards by the banks. Individuals bank also need to reassure their customers by raising their level of performance while the regulatory authorities must embark on the task of rebuilding market confidence and standards .The CBN- inspired ratings and models of all financial institutions in the Nigerian markets should be in force.

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FIGURE 4.1: Graph showing profitability ratio

Scale: 2cm rep. 50 units on y-axis
0.5cm rep. 1 unit on x-axis

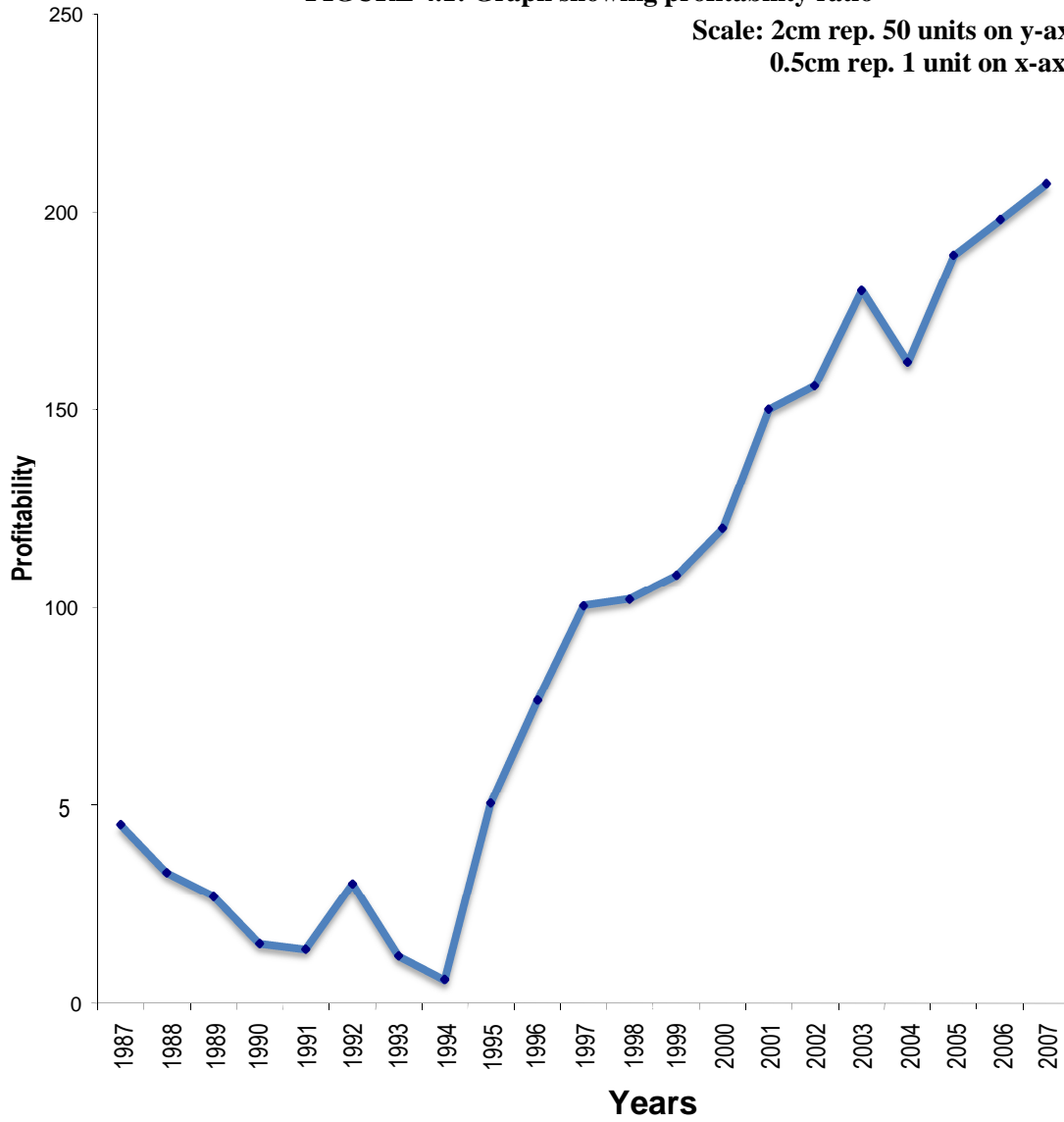


FIGURE 4.2: Graph showing Investment

Scale: 1cm rep. 100 units on y-axis
0.5cm rep. 1 unit on x-axis

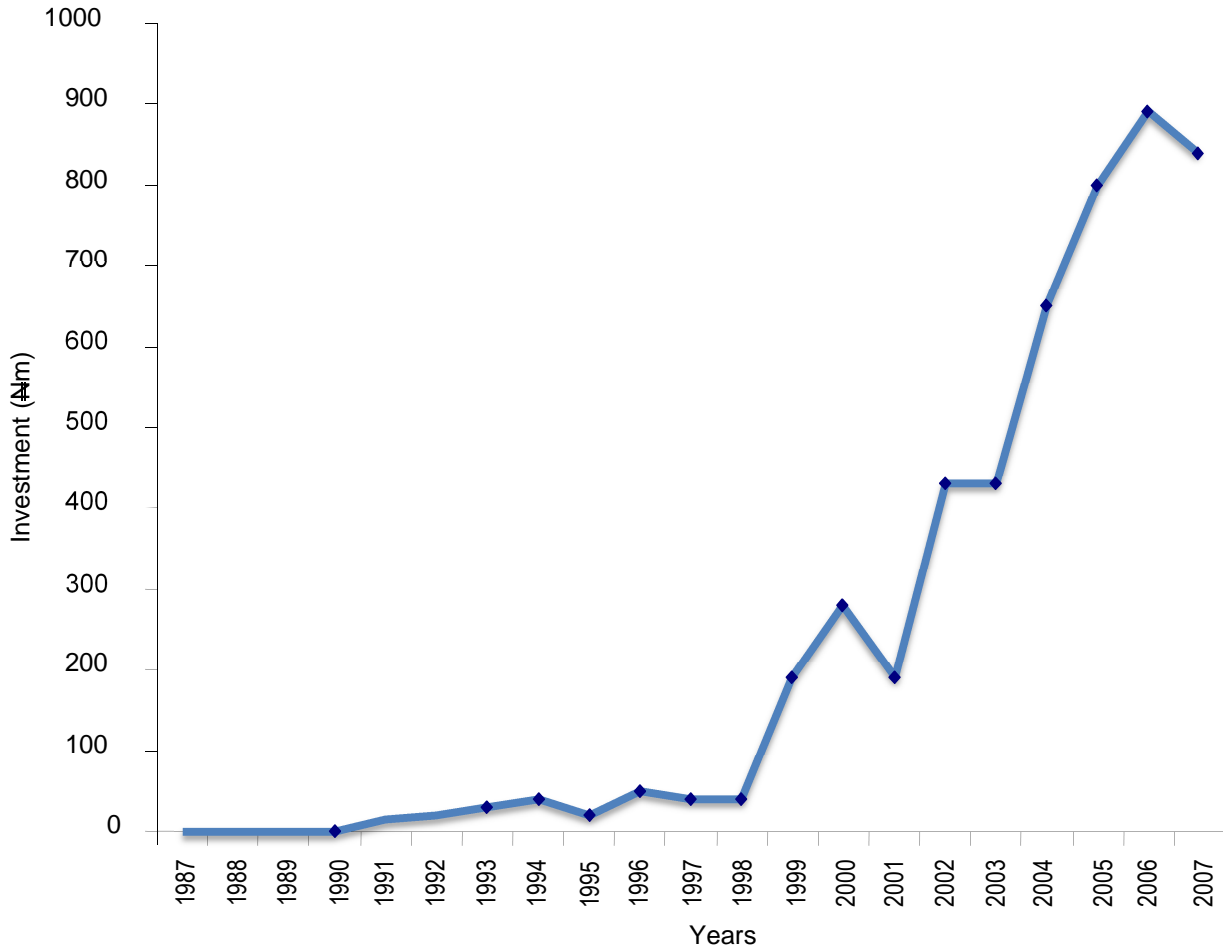


FIGURE 4.3: Graph showing liquidity

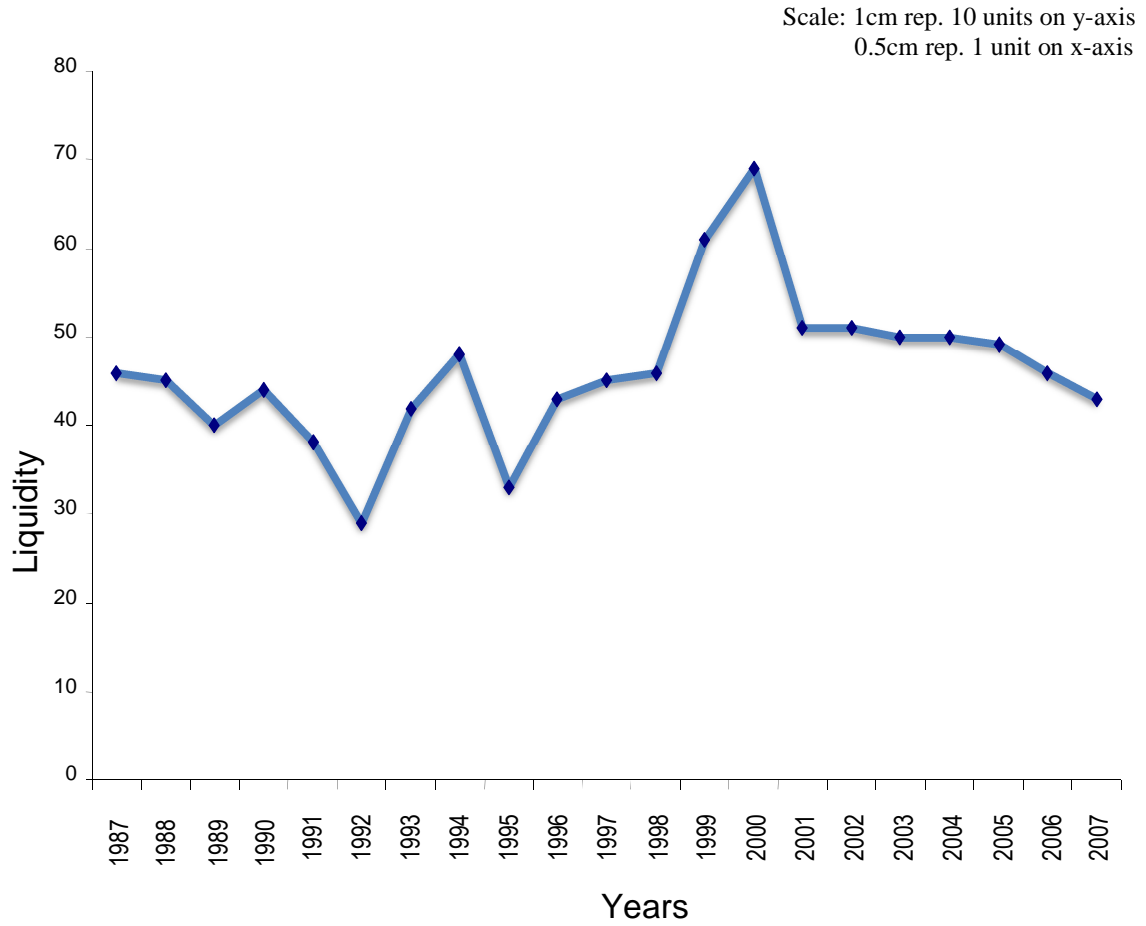


FIGURE 4.4: Graph showing inflation

