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Article

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The journal of accounting and management

Influence of Corporate Governance Mechanisms on Quoted Banks Financial Performance: Evidence from Nigeria

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Abstract: This paper aims at investigating the influence of corporate governance mechanisms (board independence, ownership concentration and disclosure) on financial performance of the banks quoted on Nigeria Stock Exchange. The study also includes recommendations for boards, shareholders and regulators. The study considered the entire 21 banks listed on the Nigeria stock exchange for a ten years' period between 2006 and 2015. The study relied on secondary data extracted from Nigeria Stock Exchange fact book and annual audited financial reports of quoted banks in Nigeria. The results of the analysis revealed that out of the three variables, only board independence has significant influence on financial performance. We therefore recommend that listed banks may improve her performance by ensuring that the recommended proportion of executive and non-executive directors appears on the company's board of directors.

Keywords: corporate governance mechanisms; financial performance; Nigeria Stock Exchange

JEL Classification: G30

Introduction

In the wake of Enron collapse in the United State and series of corporate scandals and failure for companies all around the world that were thought to be too big to fail, most regulators and capital market supervising authorities from United State, United Kingdom, European Union and Organisation for Economic Cooperation and Development (OECD) countries came up with an improved corporate governance codes to enhance control and efficient management of companies. Corporate governance is a system by which agent of shareholders direct and run the organisation from day to day. According to Organisation for Economic Cooperation and Development (OECD, 2004) corporate governance as system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedure for making decisions on corporate affairs. Corporate governance code was issued to enhance the highest standards of transparency and accountability without unduly inhibit enterprise and innovation (SEC, 2011).

According to Soludo (2004) The Central Bank of Nigeria, has introduced reforms that have fundamentally altered the outlook, operation and nature of the banking system in the country. This has not only brought sanity to the industry but has equally brought into existence stronger, more viable and more versatile banking institutions in Nigeria. Soludo (2004) also opined that Nigeria boasts one of the strongest banking systems in Africa and this fact has been all too evident in the fact that many banking institutions indigenous to Nigeria have established offshore operations in many other African economies. As part of regulatory requirements Nigerian banks and other companies quoted on the

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Nigerian Stock Exchange are required to submit quarterly, half yearly and yearly reports to the exchange, while banks are required in addition to submit daily, weekly monthly, quarterly, half yearly and yearly reports to Central bank of Nigeria, Securities and Exchange Commission and Nigerian Deposit Insurance Corporation depending on the information need of the regulatory authority. This is to ensure proper monitoring and control based on established rule of engagement.

However, According to Sanusi (2010) banks reports to Central Bank of Nigeria, Securities and Exchange Commission, Nigerian Stock Exchange, Nigerian Deposit Insurance Corporation and investors often were inaccurate, incomplete and late, depriving the other regulators and Central Bank of Nigeria of the right information to effectively supervise the industry and depriving investors of information required to make informed investment decisions. The interdependent factors led to the creation of an extremely fragile financial system that was tipped into crisis by the global financial crisis and recession.

Years after corporate governance code was issued, gear towards high quality management and transparent process of managing quoted companies, there are still issues of inaccurate financial reports and Nigerian investors and stakeholders are bedevilled with, poor financial report, which have eroded the level of confidence of these stakeholders. Accordingly, the problem necessitating this study is three-fold.

Firstly, based on empirical evidences, it can be inferred that there is no clarity on impact of corporate governance practice on financial performance of quoted companies (Adeyemi & Fagbemi, 2010). Board independence shows contrary positions on impact of financial performance of quoted companies. Frankel, McVay and Soliman (2011) findings shows that board independence is positively linked with non-GAAP earnings quality. The organisations with board that are not independent are more likely to exclude recurring items from non-GAAP earnings. Srinidhi, Gul and Tsui (2011) findings show that gender enhances board independence with lead to improvement in the financial performance. While other studies show contrary results, Ararat, Orbay and Yurtoglu (2010) results shows that board independence is ineffective, not capable of curbing the high scope of related party transactions and has negative influence on firm performance in Turkish companies. Furthermore, empirical studies also show that ownership concentration affects financial performance than where share ownership is widely dispersed (Anderson, Duru & Reeb, 2009).

Secondly, there is little knowledge about the level of corporate governance disclosure and financial performance among Nigerian quoted banks yet actual investors, potential investors and other stakeholders rely on financial information released by quoted banks for crucial investment decision. Prior studies on corporate disclosure show divergent findings on influence of corporate disclosure on financial performance, Cassell, Myers and Seidel (2015) the findings shows that there is well-built evidence that the level of accruals-based earnings management is lower among organisation with transparent disclosures than among organisation without transparent disclosures. Also, Yeh, Chen and Wu (2014) findings show there is a strong significant association between the level of information transparency and each of these earnings attributes, implying that a disclosure mechanism design can influence earnings quality of financial reporting.

Thirdly, empirical studies on corporate governance and financial performance from an African perspectives and particularly on Nigeria environment are very scanty. To this end, the general objective is to study the influence of corporate governance mechanisms on financial performance released by quoted Nigerian banks for ten years.

Objectives of the Study

The following are the specific objectives of this study:

i. To ascertain the influence of Board independence on financial performance of quoted banks on Nigeria stock exchange;

ii. To examine the effect of ownership concentration on financial performance of quoted banks on Nigeria stock exchange;

iii. To investigate the effect of disclosure on financial performance of quoted banks on Nigeria stock exchange.

Research Hypotheses

To successfully proffer answers to the objectives of this study, the following hypotheses will be tested and are stated in the null form:

i. H_{01}: There is no significant effect of board independence on financial performance of quoted banks on Nigeria stock Exchange;

ii. H_{02}: There is no significant effect of ownership concentration on financial performance of quoted banks on Nigeria stock Exchange;

iii. H_{03}: There is no significant effect of disclosure on financial performance of quoted banks on Nigeria stock Exchange.

Significance of the Study

This study contributes to existing body of knowledge and further extends current literature in corporate governance mechanisms and financial performance. The study's findings will offer results on the influence of corporate governance mechanisms on financial performance of quoted banks in Nigeria based on the nation's distinctive legal, regulatory, economic and market operational idiosyncrasy. The result will aid regulators, investors and stakeholders to be able to make new regulatory framework and better investment decision by investors and stakeholders.

This study investigates the influence of corporate governance mechanisms on financial performance of quoted banks on Nigeria Stock exchange over a ten years period spanning January 2006 through December 2015. This study focuses on quoted banks that are in operation at end of December 31 2015.

The rest of this paper is ordered as follows. Section 2 provides a summary of review of literature. The intension is to offers framework for the analysis of results. Section 3 outlines the method. Section 4 discusses the analysis of the findings and Section 5 concludes, recommends and identifies areas for future research.

Literature Review

This section presents a critical appraisal of the theories related to corporate governance mechanisms. Thereafter, the section evaluates empirical literature along the lines of the research objectives presented in section one.

Theoretical Framework

There are several theories that explain the influence of corporate governance practice on earnings quality.

Agency Theory

Agency theory postulates that because people are, in the end, self-interested they will have conflicts of interests over at least some issues any time they attempt to engage in any cooperative endeavours. The major concern of agency relationship is to align the interest of shareholders and mangers with a view to resolving inherent conflict between the agent and principal (Meckling, 1976; Fama & Jensen, 1983). The agent problem has to do with decisions to act either in the principal's interest, his own interest, or compromise between the two when they do not coincide (Delves & Patrick, 2010). Policing instruments are instruments and incentives intended to limit the agent's discretion, such as board of director's surveillance on management activities and mandatory compliance to code of corporate governance covering all key area of company's operation. Incentive systems are mechanisms that offer rewards to the agent for acting in accordance with the principal's wishes, such as executive compensation, bonuses and increased pay (positive incentives) or fear of punishment (negative incentives). The relevance of this theory to the study is that, it will help to explain how preparers of accounting information (agents) help shareholders (principals) to prepare compliance-based financial reports that can properly position the investors. Management as the agent will be expected to perform their ideal fiduciary duty of releasing asymmetric free financial report to the market. Thus, agency theory is believed to offer solid foundation for objectives one to three of this study.

Stakeholder Theory

Phillips, Freeman and Wicks (2003) posits that stakeholder theory addresses morals and values explicitly as a central feature of managing organizations, and that attention to the interests and well-being of those who can assist or hinder the achievement of the organization's objectives is the central admonition of the theory (Phillips et al., 2003). Therefore stakeholder theory is as organizational management's theory that emphasizes the morals and values in business organization and emphasizes responsibilities of company management to balance the shareholders financial interest against the interest of stakeholders.

Stakeholder theory arises out of a combination of four ideas: the separation fallacy the fallacious belief that business and ethics are separate realms; the open question argument the claim that it always makes sense to ask whose interests, values, and rights are enhanced or undermined by any business decision; the integration thesis the claim that it makes no sense to talk about either business or ethics without talking about the other as well; and the responsibility principle the claim that people usually want to accept responsibility for the effects of their actions on others (Freeman, Harrison, Wicks, Parmar & De Colle, 2010).

Stakeholder's theory has three aspects that are equally supportive and are normative, descriptive and instrumental. Normative aspect deals with acceptable behaviour of quoted company's management attitudes to fiduciary relationships between management and other stakeholders. Descriptive aspect describes how organizations manage or interact with stakeholders and instrumental aspect express that, if you want to maximize shareholder wealth, you should pay attention to key stakeholders (Donaldson & Preston, 1995; Freeman, 1999).

For the purpose of this study, stakeholder provides theoretical foundation for explaining how different individuals and institutions within and outside the quoted companies require quality earnings information can be assure through strict adherence to mandatory compliance with corporate governance code and other regulatory directives. Thus, the theory is foreseen to provide theoretical explanation for all the specific objectives in that, if board of directors and management have interest of all stakeholders at heart, they will fully comply with corporate governance code and ensures that financial performance presented to stakeholders are relevant and reflecting the true economic situation of the quoted bank without putting any stakeholder at a disadvantage. Board of director and management must be able to take into account the divergent needs of the various stakeholders and maintain a balance so that one group does not feel neglected (Choi, 2008).

Stewardship Theory

Stewardship Theory arises as an important counterweight to Agency Theory. Stewardship theory holds that manager's objective is primarily to maximize the firm's performance because a manager's need of achievement and success are satisfied when the firm is performing well. This theory argues against the agency theory and states that managerial opportunism is not relevant (Donaldson & Davis, 1991; Davis, Schoorman & Donaldson, 1997; Muth & Donaldson, 1998). The major distinguishing feature of stewardship theory over agency theory is that it replaces the lack of trust to which agency theory refers, with respect for authority and inclination of mangers to act ethically. Stewardship theory posits that concern for their own reputations and career progression inhibits mangers of quoted companies from acting against the interests of shareholders, thus agency costs should be inherently minimised (Donaldson & Davis, 1991).

According to Muth and Donaldson (1998) posit that an insider-dominated board is more effective due to more in-depth knowledge of organisational operations, such as access to data and technical expertise as a result of Stewardship theory. Compensation motivate agent of shareholders to work for the benefit of stakeholders. Executive as true stewards follow code of corporate governance, regulatory directive and disclose the true earnings quality to stakeholders (Chen, Liu, Yang & Chen, 2016). Earnings' reporting is all about communication of the activities of the quoted companies by stewards, the content of what is communicated by stewards must be accurate and shows the correct economic position of the entity at the particular time without the intension to misrepresent and misinform the stakeholders. The written rules, laws, regulations, guidelines, and contracts are for smooth communication externally and internally (Lammers & Barbour, 2006; Phillips *et al*., 2003).

For the purpose of this study, stewardship theory is found relevant so as to offer compliment for stakeholder's theory since the latter captures all other vital stakeholders apart from management such as shareholders, regulators, creditors, employees, financial analysts, and potential investors etc, who rely on earnings reports to make economic decisions. It provides theoretical foundation for explaining how effective stewards who are managers of quoted companies, also manage their own careers by discharging their responsibility with utmost integrity, mandatory compliance with corporate governance code and disclose report at given intervals that are accurate, relevant and useful to all stakeholders without putting any stakeholder at a disadvantage.

Review of Prior Study

In the light of corporate financial scandals, there is an ever increasing attention on application of corporate governance codes and regulation. This is probably because it was considered as a panacea to financial performance as observed by Basel committee on banking supervision (2006). According to

Abu-Tapanjeh (2006) good corporate governance is a fundamental necessity to keep on running a firm successfully. It has long been played a crucial role for enhancing the long-term value of stakeholders in the business environment.

In this study, corporate governance mechanisms will be limited to Board independence, ownership concentration and disclosure this is because these three variables have the tendency to influence financial performance of quoted banks. Berle and Means (1932) posit that the concentration of ownership and the dispersion of shares between shareholders would influence corporate activities and performance.

Board Independence and Financial Performance

Kajola (2009) examined corporate governance and firm performance in Nigeria and found that that there is significant relationship between return on equity (ROE) and board size as well as chief executive status. A positive and significant relationship between Profit Margin (PM) and chief executive were also found.

Also, Alves (2014) examines the influence of board independence on financial performance in Portuguese listed firms using ordinary least square (OLS) and two stage least squares (2SLS) techniques to control potential simultaneity problems between board independence and earnings quality. It was discover that Portuguese listed companies with independent board increase monitoring of management work thereby leading to better earnings quality. Therefore appointing more independent board members enhances financial performance of Portuguese listed firms.

Khalil and Ozkan (2016) investigated the relationship between board independence, audit quality and earnings management of Egyptian non-financial publicly listed companies from 2005 -2012. The findings cast doubt on the notion that board independence is associated with lower financial performance. Impact of Board independence on financial performance is dependent on the levels of ownership held by executive directors and large shareholders.

Ownership Concentration and Financial Performance

Chandrapala and Guneratne (2012) conducted a study on the impact of ownership concentration on the financial performance of listed firms on the Colombo Stock Exchange using both pooled and ordinary least squares regressions method in the analysis of data. The return on assets (ROA) was used as the measure of financial performance. The study finding was that ownership concentration within these listed companies does not have a statistically significant positive relationship with the ROA. However, the study observed that other factors such as the firm size, quick ratio and ratio of inventory investment to total assets have positive impacts on the ROA. But the debt ratio was found to be negatively related to the profitability of the selected companies.

Kun and Greg (2009) study focuses on disentangling the relationship between ownership concentration and firm performance measured by profitability and liquidity in emerging markets: a meta-analysis. The study started with the construction of a comprehensive database of 313correlations and their corresponding study characteristics obtained from 27 primary studies, which investigate the relation between ownership concentration and firm performance in emerging markets. The results indicate that study characteristics are sufficient to explain a large portion of the heterogeneity of results in their sample which was similar to the results of Mehran (1995) and Milton (2002).

According to a study by Ongore (2011) on the effects of ownership structure on performance of listed companies in Kenya using agency theory as an analytical framework, a negative significant relationship exists between ownership concentration and return on assets. Ownership structure was operationalized in terms of ownership concentration (percentage of shares owned by the top five shareholders) and ownership identity (actual identity of shareholders). Measures of performance used in the study were return on assets, return on equity and dividend yield. Forty two (out of fifty four) listed companies were studied using both primary and secondary data. Reliability of data was tested using Cronbach's Alpha, while tolerance and variance-inflation factor were used to test multicolinearity. Using Pearson's product moment correlation and logistic regression, the study found that ownership concentration and government ownership have significant negative relationships with dividend yield. On the other hand, the study reported that foreign ownership, diffuse ownership, corporation ownership, and manager ownership were found to have significant positive relationships with return on equity.

Disclosure and Financial Performance

Cassell, Myers & Seidel (2015) investigate the the relation between the transparency of disclosures about activity in valuation allowance and reserve accounts and accruals-based earnings management, the findings shows that there is well-built evidence that the level of accruals-based earnings management is lower among organisation with transparent disclosures than among organisation without transparent disclosures. It was also revealed that exclusion of transparent disclosures rather than the exclusion of a comprehensive schedule outlining activity in the allowance and reserve accounts that affects earnings management. Thus level of discourse influences financial performance. Naser (2002) showed that the level of compliance with the IASs is related with corporate liquidity ratio, audit firm status, profitability, gearing, and size. Suwaidan, (2004) also evaluated the level of social responsibility disclosure practices of 65 industrial Jordanian firms using 37 items of information. The results of the study identified that social disclosure is associated with corporate size, profitability, and risk.

Iatridis (2008) examines the disclosure of accounting information in the financial statements of UK firms. The study also examines the financial attributes of firms that disclose key accounting issues such as risk exposure, changes in accounting policies, use of international financial reporting standards and hedging practices. The result reveals that firms that provide informative accounting disclosures appear to display higher size, growth, profitability and leverage measures.

Espinosa (2005) examined the relationship between disclosure and liquidity using a sample of 238 Spanish listed firms for a period between 2000 and 2003 with both descriptive and inferential analysis on the information obtained through the coverage index. They found a positive relationship between disclosure and liquidity using Amihud (2002) liquidity model.

Methods

Adopting quantitative research method, the study relied on secondary data extracted from Nigeria Stock Exchange fact book and audited financial reports of quoted banks on Nigeria Stock Exchange. The data for this study was collected through the use of a well-structured data collection matrix form. It is also the most widely used instrument for data collection relating to secondary data and it is also a quick means of extracting needed information on a wide range of subjects.

The study used only secondary data from all quoted banks audited financial report covering the period January 2006 to December 2015. The data is restricted to banks that are traded at the Nigeria Stock

Exchange. This is because the data is easily available and that since they are quoted banks and their corresponding financial statement data that is needed for this study is also available. Zikmund, Babin, Carr and Griffin (2010) posit that data analysis is the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. Data collected via the data collection matrix was analysed using both descriptive and inferential statistics with the aid (SPSS 24.0 version). The study tested three assumption of ordinary least square under diagnostic tests in order to determine whether the data collected were suitable for statistical analysis.

The two models expressing the relationship between the variables is formulates as:

$ROCE = \beta_0 + \beta_1 OCON_t + \beta_2 BIND_t + \beta_3 DISC_t\ \varepsilon_t$

$EPS\ \beta_0 + \beta_1 OCON_t + \beta_2 BIND_t + \beta_3 DISC_t\ \varepsilon_t$

Where:

ROCE= Return on Capital Employed in time t

EPS= Earnings per Share in time t

OCON= Ownership Concentration in time t

BIND= Board Independence in time t

DISC= Disclosure in time t

β_0 = Represents the Constant

ε_t= is the error term assumed to be normally distributed with zero mean and constant variance.

β_1- β_3= Represents the Coefficient of the Independent Variables

Results and Discussion

To ascertain the usefulness of the data collected before proceeding into the real analysis, the data was subjected to certain diagnostic tests. The diagnostic tests conducted in this study are normality test, test for independence otherwise known as autocorrelation test and homoscedasticity test. The results of the diagnostic test, descriptive statistics and inferential analysis were presented in this section. The section also contains the detailed interpretations as well as the discussion of empirical findings.

Normality Test

According to Kothari and Garg (2014), the assumption of linear regression analysis requires that the data should be normally distributed before accepting it for statistical analysis. Therefore to test the normality of the dependent variable return on capital employed and earnings per share, a One-Sample Kolmogorov-Smirnov Test (KS) was conducted. The Kolmogorov-Smirnov test (also known as the K-S test or one sample Kolmogorov-Smirnov test) is a non-parametric procedure that determines whether a sample of data comes from a specific distribution, i.e., normal, uniform, Poisson, or exponential distribution. It is mostly used for evaluating the assumption of Univariate normality by taking the observed cumulative distribution of scores and comparing them to the theoretical cumulative distribution for a normally distributed variable. The null and alternative hypotheses are therefore stated as follows:

H_o: The data is normally distributed

H_1: The data is not normally distributed

The rule is that if the p-value is greater than 0.05, H_o is accepted and H_1 is rejected, if the p -value is less than 0.05, H_o is rejected and H_1 is accepted.

The results obtained for return on capital employed indicate that Kolmogorov-Smirnov Z statistic is 0.538(p-value=0.337) since the statistic is high with the p-value greater than 0.05, the null hypothesis was accepted and concluded that the data was normally distributed and therefore fit for linear regression analysis. Also for earnings per share, the null hypothesis was equally accepted indicating that the data was normally distributed and thus fit for regression analysis since the Kolmogorov-Smirnov Z statistic and p-value are 0.852 and 0.432 respectivelly.

Table 1. One-Sample Kolmogorov-Smirnov Test

		ROCE
N		210
Normal Parameters[a,b]	Mean	.767017
	Std. Deviation	3.9121538
Most Extreme Differences	Absolute	.413
	Positive	.375
	Negative	-.412
Kolmogorov-Smirnov Z		0.538
Asymp. Sig. (2-tailed)		.337

a. Test distribution is Normal.

Table 2. One-Sample Kolmogorov-Smirnov Test

		EPS
N		210
Normal Parameters[a]	Mean	16.2132
	Std. Deviation	3.1008
Most Extreme Differences	Absolute	.065
	Positive	.044
	Negative	-.056
Kolmogorov-Smirnov Z		.852
Asymp. Sig. (2-tailed)		.432

a. Test distribution is Normal

Test for Autocorrelation-Durbin Watson Statistic for Return on Capital Employed and Earnings per Share

To test for autocorrelation in the data collected before accepting it for regression analysis, Durbin Watson Statistic was conducted. According to Kothari and Garg, (2014), Autocorrelation occurs when the residuals are not independent from each other. In other words, when the value of y(x+1) is not independent from the value of y(x). Therefore, the null hypothesis that there was no autocorrelation in the data collected for this study was tested with use of Durbin Watson Statistics. The results as presented in table 2 revealed that the Durbin Watson Statistics for lag 1 was 1.975538 with a p-value of 0.239 while the Durbin Watson Statistics for lag 2 and 3 were 1.847643 and 1.831225 with a p-value of 0.344 and 0.156 respectively. Since the p-value was greater than 0.05, the null hypothesis which states that there was no autocorrelation in the data was not rejected.

Similarly, the results of autocorrelation test for earnings per share presented in table 4 revealed that Durbin Watson Statistics for lag 1 was 2.201918 with a p-value of 0.162 while the Durbin Watson

Statistics for lag 2 and 3 were 2.171619 and 1.992443 with a p-value of 0.271 and 0.988 respectively. Since the p-value was greater than 0.05, the null hypothesis which stated that there was no autocorrelation in the data was taken to hold. The result implies that the residuals were independent from each other. Similarly, the rule of thumb which states that values of $1.5 < d < 2.5$ show that there is no auto-correlation in the data was satisfied by this result (Barley, 2009). It can therefore be said that the return on capital employed for year 2006 was not a function of return on capital employed for the year 2005. Return on capital employed for 2007 was also not a function of return on capital employed for 2006 and soon. In like manner, earnings per share for year 2006 were totally independent from earnings per share for the year 2005. Earnings per share for 2007 was also totally independent from earnings per share for 2006 and so on.

Table 3. Durbin Watson Statistics for Autocorrelation

Lag	D.W Statistics	P-Value
1	1.975538	0.239
2	1.847643	0.344
3	1.831225	0.156

Table 4. Durbin Watson Statistics for Autocorrelation

Lag	D.W Statistics	P-Value
1	2.201918	0.162
2	2.171619	0.271
3	1.992443	0.988

Test for Homoscedasticity- Bruisch Pagan Statistics for Return on Capital Employed and Earnings per Share

Another assumption of linear regression analysis tested in this study is homoscedasticity which implies that the error terms along the regression line were equal. According to Barley (2009), the violation of homoscedasticity which is otherwise known as heteroscedasticity make it difficult to gauge the true standard deviation of the forecast errors, usually resulting in confidence intervals that are too wide or too narrow. Particularly, if there is increase in the variance of the error term over time, confidence intervals for out-of-sample predictions will tend to be unrealistically narrow. In that case, heteroscedasticity may also have the effect of giving too much weight to a small subset of the data (namely the subset where the error variance is largest) when estimating coefficients. Therefore, to prevent such occurrence when conducting a research, it is expedient to test for homoscedasticity before conducting a regression analysis.

Therefore, this study tested the null hypothesis that the data collected was homoscedastic in variance using Bruisch Pagan test. The result of the test presented in table 5 for return on capital employed revealed that the test statistics was 221.3488 while the p-value was 0.999 indicating that the data collected was not heteroscedastic in variance and thus necessitating the acceptance of null hypothesis that the data collected was homoscedastic in variance and can be relied on for regression analysis. The result of the test for homoscedasticity for earnings per share presented in table 5 revealed that the test statistics was 201.8317 while the p-value was 0.982 indicating that the data collected was not heteroscedastic in variance and thus necessitating the acceptance of null hypothesis that the data collected was homoscedastic in variance and can be relied on for regression analysis.

Table 5. Bruisch Pagan Test for Homoscedasticity

Test Statistics	Degree of Freedom	P-Value
2221.3488	2	0.999

Table 6. Bruisch Pagan Test for Homoscedasticity

Test Statistics	Degree of Freedom	P-Value
162.6865	2	0.982

Descriptive Statistic

This subsection reports the results of the descriptive statistics conducted on the data extracted from the financial statement of the selected companies. The descriptive statistics intends to describe the behaviour of the data. The descriptive statistic conducted includes the mean, standard deviation, minimum and maximum value for the variables.

As presented in table 7, we report the result of descriptive statistics for ownership concentration in the first line. The result shows a mean value of 6.82, indicating that an average bank in Nigeria has about 7% of its equity contributed by a single investor. It can also be observed that the minimum figure owned by a large investor is 6.12. Going by the assertion in OECD (2014) that ownership is concentrated when 5% of the equity is owned by an individual, we can conclude that equity of the Nigerian listed banks is concentrated. The standard deviation of 1.42 revealed a significant variation in the level of ownership concentration across the listed banks in Nigeria.

Next, we report in the second line the result of descriptive statistics for board independence. According to Sudarat (2006), non-executive directors, especially independent ones, are a mainstay of good governance. Their presence forms a balance with executive directors to ensure that an individual person or group cannot unduly influence the committee’s decisions. Also, their independence enables them to act objectively and to exercise independent judgment regarding their tasks where there is a potential conflict of interest. In that regard OECD (2014) and SEC (2011) provide that non-executive directors should make up about three-quarter of the board membership on average. Thus, the mean value of 58.55 suggests a low compliance level with the provision of code of corporate governance by the listed banks in Nigeria. The minimum value of 48.25 indicates that certain number of banks have more executive directors that the non executive directors, a policy contrary to the provision of the code of corporate governance.

Line 3 provides descriptions of data on disclosure used in our study and key summary statistics of this variable. The number of disclosure item is 25. Consistent with Asley and patel (2003); Brown and Marcus, (2006); Mitton, (2002), the results revealed that the volume of information disclosed ranges from 18 to 23 with a mean score of 21.92 and standard deviation of 0.27 showing a marginal variation in the disclosure of information across the listed banks in Nigeria.

This result indicates a trend toward a better transparency in Nigerian banks reporting practices.

Table 7. Descriptive Statistics

	Mean	Median	Max.	Min.	Std. Dev.
OCON	6.82	6.00	13.25	6.12	1.42
BIND	58.55	50.00	75.00	48.25	0.94
DISC	21.92	18.49	23.00	18.00	0.27
ROCE	0.51	0.545	0.81	0.04	0.23
EPS	0.73	0.59	6.31	-0.23	0.12

Inferential Statistics

To further investigate the nature of relationship between board independence and financial performance, the study employed a multivariate linear regression analysis. According to Kothari (2014), regression is the determination of a statistical relationship between two or more variables. In simple regression, there are two variables, one variable (defined as independent) is the cause of the behavior of another one (defined as dependent variable). The R-square also known as coefficient of determination is 0.450 suggesting that the variables considered in this study accounted for about 45% of the variation in financial performance of the listed banks in Nigeria measured by the return on capital employed while the remaining 55% can be attributed to the other variables not captured by this study model. The overall probability is positive and significant at 1% level of significance.

Contrary to the assumption in agency theory which indicates that ownership concentration curtails managerial self-interest and protects shareholders interest, thereby resulting in better performance, the regression results in table 8 reveals an insignificant relationship between ownership concentration and financial performance. The result however supports that of Fama and Jensen (1983) who argue that ownership concentration above a certain level will allow managers to become entrenched and expropriate the wealth of minority shareholders, poor performance and less patronage.

Board independence has a statistically significant and positive relationship with the return on capital employed and thus, leading to the rejection of the null hypothesis which states that board independence has no significant relationship with financial performance. The positive and significant relationship between board independence and financial performance suggests the presence of efficient directors on the board of the listed banks in Nigeria whose monitoring activities positively impacted the financial performance. The findings of this study contradict with Bhagat and Black (2002) who reported that firms that hired a higher proportion of outside directors showed significantly lower financial performance, after evaluating their Return on Equity (ROE) over a period of ten years covered by his study. The results however support that of Ararat, Orbay and Yurtoglu (2010) and Pang (2004) where positive relationships were reported.

Furthermore, the relationship between disclosure and return on capital employed produce a t-statistics of 0.715 and p-value of 0.288 which indicates a positive but insignificant relationship between the variables. This result suggests that disclosure of significant accounting information does not have much influence of the level of financial performance in the Nigerian listed banks. The results contradicts several existing literatures such as Ferrarini & Recine; 2006, Moloney, 2007; Chiu, 2007; Jackson, 2009; Posner & Véron, 2010). It also implies that the code of corporate governance by OECD (2014) and SEC (2011) compelling the management of corporate entities to provide more information in the annual report cannot be defended by this study.

To examine more rigorously the relationship that seems to exist between the dependent variable and independent variables, regression analysis was conducted using another financial performance indicator (Earnings per Share). As a matter of facts both statistical analyses provided almost identical results. The main difference is that R-square is greater for earnings per share which indicates that the overall model is more compact for earnings per share. It is therefore straightforward to state that increasing the level of board independence increases the financial performance for listed banks in Nigeria and vice versa. It is also clear that variables like ownership concentration and disclosure do not have explanatory power on the financial performance.

Table 8. Regression Results for Corporate Governance Mechanisms and ROCE

	R				**R²**
	0.671				0.450
	SS	**DF**	**MS**	**F**	**Sig.**
Regression	1439.457	3	228.344	76.115	0.000
Residual	2017.225	206	11.023		
Total	3456.682	209			
	Beta	**Std. Err.**	**T**		**Sig.**
Ownership Concentration	0.449	0.283	1.587		.116
Board Independence	0.308	0.081	3.802		.000
Disclosure of Information	0.153	0.214	0.715		.288

Dependent Variable: Return on Capital Employed

Table 9. Regression Results for Corporate Governance Mechanisms and EPS

	R				**R²**
	0.738				0.545
	SS	**DF**	**MS**	**F**	**Sig.**
Regression	1239.458	3	377.163	125.721	0.000
Residual	2217.223	206	12.116		
Total	3456.681	209			
	Beta	**Std. Err.**	**T**		**Sig.**
Ownership Concentration	0.823	0.742	1.109		.407
Board Independence	0.596	0.101	5.901		.000
Disclosure of Information	0.359	0.228	1.575		.329

Dependent Variable: Earnings per Share

Conclusion and Recommendations

In this study, we develop new evidence that links the corporate governance mechanisms to the financial performance. Specifically, we examine whether and how the quality of a firm's corporate governance mechanisms manifests in improved financial performance. The corporate governance was measure with three variables as ownership concentration, board independence and disclosure. The financial performance was also measured with return on capital employed and earnings per share. Based on this we developed two econometric models linking the two measures of financial performance to the corporate governance variables.

Our finding provides a direct link between the board independence and financial performance for the two models. To be precise, the beta coefficient of 0.308 implies that about 30% of the variation in financial performance of the listed banks in Nigeria is attributable to a unit change in board independence. The remaining two variables (ownership concentration and disclosure) do not have significant impact on the financial performance. Thus, listed banks may improve her performance by ensuring that the recommended proportion of executive and non-executive directors appears on the company's board of directors.

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