Risk Management Through Corporate Governance: Implications on the Performance of Banks in Nigeria

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ABSTRACT

Corporate governance consists of a system through which organisations are governed and organised to increase the firm's value and protect stakeholders interest. The study examined corporate governance as a risk management tool in the Nigerian banking sector. It also considered implications of corporate governance practices on the performance of banks in Nigeria. In addition to the literature, a structured questionnaire was administered to senior managers and top management staff of 15 selected banks in Nigeria. Data collected were analysed with a simple percentage to illustrate relevant relationship, and the study's hypotheses were validated using Chi-square (X^2) statistical analysis. The findings revealed that enforcement is the primary challenge associated with the banking sector regulatory surveillance procedures. The findings suggested that good corporate governance is beneficial because it enhances public confidence in Nigerian banks; banks' financial performance can be enhanced through good corporate governance practices; banks' boards and shareholders can pressurize banks management to act in their interest, and good corporate governance practice can enhance competitive capacity of banks in Nigeria. The findings imply that inadequate supervision contributes to low level of compliance with corporate governance provisions, and CBN and other regulators need to improve their supervision and monitoring activity to ensure that banks embrace good corporate governance practices. It was recommended that the government should enhance corporate governance provisions to enhance public confidence in the Nigerian banking sector, and CBN and other regulators should be more business like to ensure that supervision and enforcement of corporate governance provisions are strengthened in the Nigerian banking sector.

Keywords: *Corporate governance, Banks, Risk management, Nigeria*

1. Introduction

Financial scandals on a global scale and the collapse of some large corporate entities in the United States of America (USA) and Europe have made corporate governance a topical issue. Corporate governance consists of a system through which organisations are governed and organised to increase the firm's value and protect stakeholders interest. Sustaining public confidence is integral to the survival of the financial sector because of the critical role the sector

plays in every economy. Good corporate governance practices help improve investors' confidence and encourage better business decisions, thereby stimulating the economy (Gugler, 2003; Uwuigbe, 2011). In a study jointly carried out by the CBN and NDIC on distress in the Nigerian financial institutions in 1995, bad management and board over-riding interference were identified as the two precarious factors responsible for distress of banks and other financial institutions in Nigeria (Okpara, 2009). Before 2006, there were not much documented codes of corporate governance for banks in Nigeria. If any, these were contained in the corporate statutes for companies registered in Nigeria (Companies and Allied Matter Act (CAMA) or in Banking and Other Financial Institutions (BOFI) Act which relate to all the operators within the financial services system.

In March 2006, a code of corporate governance for banks was announced by the CBN to stress the need for sound governance practices in the wake of major financial scandals around the globe (CBN, 2006, p. 2). In 2008, the Nigerian Securities and Exchange Commission also alluded to the need for sound corporate governance practices, noting that 'weak corporate governance was responsible for some recent corporate failures in Nigeria' (SEC, 2008). At the beginning of the 2007 – 2008 global financial crisis, the Nigerian banking industry was not significantly impacted by the global crisis. However, the special audit ordered by the Central Bank of Nigeria in June 2009 revealed that there was crisis brewing in the industry, caused by significant loopholes in the Nigerian financial services sector. Board members and executives of some banks had been engaging in financial malpractices and reckless practices. Directors and top management of these banks were relieved of their roles because of the high ratio of non-performing loans in the banks, with the immediate cause of this being poor corporate governance practices (Sanusi, 2009). According to Sanusi (2009), one of the factors that accounted for an extremely fragile financial system in Nigeria during the crisis was significant failure in corporate governance of some banks. He also noted other causal factors that contributed to the state of the financial system at that period as inadequate regulatory framework and regulations, and weak governance and management processes at the CBN. This study views corporate governance as a form of risk management tool in the Nigeria's banking sector.

The study examined corporate governance as a risk management tool in the Nigeria's banking sector. The study also considered implications of corporate governance practices on the performance of Nigerian banks. Objectives of the study are to:

i) Discuss the role of corporate governance as a risk management tool in the Nigerian banking sector to protect the interest of stakeholders.
ii) Determine whether good corporate governance practice can be used to improve banks' performance.
iii) Ascertain whether good corporate governance can be used to gain competitive edge in the banking industry.

2. Literature Review

2.1 Corporate Governance

Corporate governance encompasses the manner a board oversees the operation of a company management, and how board members are answerable to shareholders. It bestows enoumous responsibilities on the board to act responsibly not only to shareholders; but also to other stakeholders (internal and external). Stakeholders comprise of people who are directly or indirectly linked to a company, including shareholders, directors, management, employees, customers, and the society (Akinpelu, 2011; Fadun, 2013; Ejuvbekpokpo & Esuike, 2013; Jensen, 2001). According to Nworji, Olagunju and Adeyanju (2011), corporate governance is targeted at reducing conflict of interests and increase a firm's value. The United Nations (UN) Global Impact buttressed this by proposing that the composition of a corporate governance monitoring system should include the board (which should provide oversight function on management), and external auditor (which should be responsible for expressing an opinion on the financial statements' reliability) (Larcker & Tayan, 2011). However, some studies have argued that a much broader group comprising of shareholders, customers, suppliers, labour unions, creditors, media, investment analysts as well as regulators influence the governance systems of organisations, especially financial institutions.

Considering perculiarities of the banking sector, adoption of broader view of corporate governance is beneficial to banks. Macey and O'Hara (2001) asserted that owing to the uniqueness of banking business, corporate governance mechanisms designed for banks should incorporate depositors and shareholders. Arun and Tuner (2002) went a step further by advocating that, while supporting that banks adopt the broader view of corporate governance, government intervention is necessary to provide a form of restraint to curtail the conduct of bank management. Arun and Tuner (2002) also suggested that effective regulation is a critical tool for protecting bank depositors and financial system. The Basel Committee on Banking Supervision (1999) described corporate governance as relating to the way banks' business and

activities are overseen by their Boards of Directors and Senior Management. Solomon (2010) described corporate governance concept from a regulatory point of view expressing that an organisation's internal regulations in compliance with responsibilities placed on it by ownership, legislation and control make up its governance structure. Oyebode (2009) summarised the concept of corporate governance as entailing companies adhering to their memoranda and articles of association as well as different laws, rules, and regulations that brought about their existence. Lemo (2010) described the concept of corporate governance as the set of rules through which companies are directed and managed by the board of directors to protect the interests and financial stakes of owners who ordinarily do not engage in the day-to-day management of the organisation. Relevant corporate governance theories are discussed in the next sub-section.

2.2 Theoretical Framework

Some theories relevant to corporate governance (agency theory, stakeholders' theory, and stewardship theory) are discussed below.

2.2.1 Agency Theory

The agency theory views shareholders of a firm as the principal, while the firm's management is regarded as stakeholders agent. Eisenhardt (1989) opined the presence of lopsidedness of information make agents pursue personal interest that may be detrimental to the principal's interest. Agency theory is relevant to the study because pursuance of dual interest simultaneously can stir up conflict between the interest groups. This is because agency theory sees managers as an instrument to boost principal's objective rather than enhancing or pursuing multiple goals. Hence, agency theory supports the view that a relationship exists between corporate governance and a firm's performance because a firm performance can be enhanced by attaining the principal's objectives, performance is enhanced (Jensen & Meckling, 1976). Agency theory describes the agency complications resulting from separation of ownership and control. Eisenhardt (1989) identified principal-agent and positivist as the two streams of agency theory that have existed over time. Principal-agent channel deals with a prevailing theory of the principal directly dealing with the agent relationship (Alexander, 2006; Eisenhardt, 1989). This chain of association has been widely accepted and useful around the world today. The positivist channel focuses on observing a situation where principal and agent tend to have conflicting goals (Eisenhardt, 1989). Agency theory advocates the use of compensation and incentives to support concentration of control and delegation in the board of directors. In this

regard, Jensen and Meklings (1976) asserted that agency relationship is all about the principal delegating some decision-making power to the agent.

2.2.2 Stakeholders' Theory

Stakeholders' theory tends to address the narrowness of agency theory which regards the shareholder as the only interest group of concern in any organisation (Coleman, 2007). Organisations have numerous stakeholders; but, it is essential to identify primary stakeholders and address their interest appropriately. A firm's stakeholders may include customers, creditors, banks, government, employee and the larger society with each group with different objectives (Freeman & Evans, 1990). Stakeholders theory is relevant to the study because corporate governance aimed at reducing conflict of interests and increase a firm's value. Sustainance of public confidence is integral to the survival of banks; hence, good corporate governance practices can help to improve investors' confidence and encourage better business decisions, thereby stimulating the economy. Stakeholders' theory emphasised that an organisation represents a system of stakeholders functioning within a more significant system of the society that offers necessary legal and conducive market environment for the firm to succeed. Information management and provision should aimed at satisfying not only shareholders and management staff; but also the interest of the public at large.

2.2.3 Stewardship Theory

This theory has its origin in both psychology and sociology. It disapproves the agency theory that managerial role is irrelevant (Davis, Schoorman & Donaldson, 1997). The theory views a manager as a follower or servant, as opposed to a leader of a firm who is persistent and working towards attainment and maximization of shareholders' value. Stewardship theory is relevant to the study because the manager is responsible for managing a business on behalf of the principal (the owner). Attainment of an organisation goals should be paramount to business owners and managers. The stewardship theory is based on the notion that managers, including non-executive directors, are purely driven by their achievements. The theory is relevant to the study because it advocates combination of the role of board's chairman and the chief executive officer to bridge the cost of agency thereby ensuring an improved performance as a steward to protect investors' interest. However, corporate governance aimed at mitigating against the risk of an MD becoming too dominant and overbearing influence on the board. The relevance of stewardship theory is evident as a steward (MD and CEO) can abuse power conferred on them; but, corporate governance seeks to avoid gross abuse of powers by MD/CEO of banks.

2.3 Corporate Governance Regulation in Nigeria

Two regulators are relevant regarding corporate governance in the Nigerian banking sector, which are CBN and Securities and Exchange Commission (SEC). Regulators roles in entrenching sound corporate governance are discussed below.

2.3.1 The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria was established by the CBN Act of 1958 to serve as the apex regulatory body for banks and other non-banking financial institutions. CBN, which commenced operations in July 1959, is responsible for: (1) ensuring monetary and price stability; (2) issue legal tender currency in Nigeria; (3) maintaining external reserves to safeguard the international value of the legal tender currency; (4) promoting a sound financial system in Nigeria; and (5) acting as banker and provide economic and financial advice to the Federal Government (CBN, 2015). The CBN is also responsible for ensuring a high level of banking ethics in the banking industry, and financial stability is sustained through its on-site and off-site supervision of banks' activities, and promoting a payment system that is efficient.

2.3.2 Securities and Exchange Commission (SEC)

The repeal of the Investments and Securities Act (ISA) No. 45 of 1999 and enactment of Investments and Securities Act (ISA) No 27 of 2007 created an agency known as Securities and Exchange Commission (SEC) act as the apex regulatory body for the capital market. The objective of SEC includes regulation of the capital market transactions and operations, protection of investors, and maintaining transparency and efficiency in the market to limit systemic risks. The SEC also monitors and enforces compliance of all parties, being supervised by the Ministry of Finance, with relevant rules. All publicly quoted companies in Nigeria, including banks, are regulated by the SEC.

2.4 Code of Corporate Governance Practices for Banks in Nigeria

Effective enforcement of codes of best practices on corporate governance in Nigeria is necessary to ensure that shareholders and investors interest are protected (Akinyomi, 2012; Ejuvbekpokpo & Esuike, 2013; Okoye & Siwale, 2017). Following the new risks posed by reforms introduced by regulators, the CBN issued a Code of Corporate Governance in April 2006 which highlighted governance practices that should be imbibed by banks, failing which appropriate sanctions would be meted out (CBN, 2006). The code structure covered the

following subheadings: equity ownership, organisation structure, and quality of board membership. However, the Code acknowledged that adherence to principles of corporate governance alone might not be sufficient for a satisfactory performance of the boards (CBN, 2006). Hence, specific provisions on how to appraise the performance of board were included to ensure that the right oversight function is provided to achieve desired results. In May 2014, the CBN saw the need to review the Code of Corporate Governance for banks due to some ambiguity observed while implementing the 2006 code. Apart from weaknesses noted in the initial code, the gross abuse of powers by Managing Directors (MDs)/Chief Executive Officers (CEOs) of 5 banks discovered during the 2009 joint examination of banks also necessitated the need to strengthen the code to ensure a more robust and sound corporate governance practices among banks. While the review of the Code was apparently necessary due to developments that followed the initial Code of 2006, the timeliness of the review remains an issue for debate. The regulators merely reacted to an apparent problem after taxpayers have had to cough out funds to bail out banks whose MDs had run its operations recklessly. The significant addition to the Code of Corporate Governance in 2014 includes: clearer definition of the roles and responsibilities of the Board; specification of the maximum allowable tenor of office of the MD/CEO as two terms of five years each - to mitigate against the risk of an MD becoming too powerful as to have an overbearing influence on the board; explanation of directors' access to enjoying other compensation options, mainly shares/stocks; rights and functions of shareholders, as well as the protection of their rights; and precise definition of rights of other stakeholders (CBN, 2015).

2.5 Corporate Governance and Performance of Banks in Nigeria

There are several causes of ineffective monitoring of banks by regulators in Nigeria, including: reliance on banks' information (manipulated or concealed information); inadequate regulatory sophistication and capability; ineffective coordination of cross-regulation; regulatory complicity; weak policies enforcement; and corporate governance at CBN (Adeyemi, 2010; Akinyomi, 2012; Omankhanlen, Taiwo & Okorie, 2013; Sanusi, 2010; Sanyaolu & Sanyaolu, 2009). This suggests that non-conformity with the code of corporate governance remains a major challenge threatening the actualization of sound corporate governance practices within the Nigerian's banking sector. The result of Kajola's (2008) study on corporate governance and firms' performance in Nigeria revealed that a significant relationship exists between return on equity (ROE), board size and chief executive status. Akinyomi (2012) emphasised that causes of financial crisis in the Nigerian banking sector include poor corporate governance,

weak risk management practices, inability to manage expansion, low assets quality, inadequate supervisory framework and unethical practices among top banking chiefs. Also, Omankhanlen et al. (2013) study revealed that problems of corporate governance in the Nigerian banking sector include: instability of board tenures, board disputes, ownership crises, and high level of insider dealings.

Previous studies on agency theory and corporate governance indicated that there is positive relationship between a firm's performance and the percentage of outside directors on the board of organisations (Akingunola, Adekunle & Adedipe 2013; Andres & Vallelado, 2008; Duke & Kankpang, 2011; Ejuvbekpokpo & Esuike, 2013; Weisbach, 1998). However, some studies have argued that no positive relationship between board composition (regarding size and proportion of outside directors) and the performance measure can be statistically proven (Bhagat & Black, 2002; Ejeagbasi, Nweze, Ezeh & Nze, 2015; Hermalin & Weisbach, 1991). According to Nworji, Olagunju and Adeyanju (2011), actions and inactions of those governing banks' impacts on banks performance. In this regard, Nworji et al. (2011) viewed corporate governance as an important internal regulatory tool that can be deployed by banks to safeguard against failure. Transparency and accountability are essential to ensure sound corporate governance (Ejeagbasi et al., 2015; Hassan, 2016; Microsoft, 2011; Okoye & Siwale, 2017).

Based on the literature review, we posed the following hypotheses:

Hypothesis 1

Ho: There is no positive relationship between corporate governance practice and financial performance of banks in Nigeria.

H_1: There is a positive relationship between corporate governance practice and financial performance of banks in Nigeria.

Hypothesis 2:

Ho: There is no positive correlation between good corporate governance practice and competitiveness (competitive capability) of banks in Nigeria.

H_1: There is a positive correlation between good corporate governance practice and competitiveness (competitive capability) of banks in Nigeria.

These hypotheses are tested in section 4 of the paper. Having reviewed salient literature in this section, research methodology is discussed in the next section.

3. Research Methodology

This study is a survey research that considered corporate governance as a risk management tool and its impacts on the performance of Nigerian banks. A structured questionnaire was used to collect data for the study. The survey is appropriate for the study because of its credibility in the simultaneous examination of factors and relationship analysis (Easterby-Smith, Thorpe & Jackson, 2012). A comparative study of the corporate governance policies implemented by banks within the sample was undertaken to determine trends of similarities and significant differences in the governance practices implemented. Beside the literature used for the literature review, primary data was collected from participants through structured questionnaire.

The study population consist of all banks in Nigeria. One hundred and fifty (150) participants were selected from fifteen (15) banks, through purposive sampling technique, for the study. These banks were selected based on their size (regarding assets) and how long they have been in existence in Nigeria. Regarding asset size, these banks contributed over 90% of deposit money banks' total assets as at 31st December 2016; and regarding existence, these banks have been in operation for not less than 11 years. The staff comprised of all categories of managers currently working in the corporate planning department at the banks' head offices. The selected staff (participants) comprised of top management and senior staff, as well as all categories of managers currently working in the corporate planning department at the banks' head offices. Ten (10) copies of the questionnaire each were administered to employees of fifteen (15) selected banks in Nigeria. Banks used for the study are: Guaranty Trust Bank Plc, Zenith Bank Plc, First Bank Plc, Union Bank Plc, Fidelity Bank Plc, Access Bank Plc, Sterling Bank Plc, Diamond Bank Plc, Stanbic IBTC Bank Plc, United Bank for Africa Plc, FCMB Plc, Unity Bank Plc, Ecobank Plc, Skye Bank Plc and Wema Bank Plc. These banks were selected based on their size (regarding assets) and how long they have been in existence in Nigeria. Regarding asset size, these banks contributed over 90% of deposit money banks' total assets as at 31st December 2016; and these banks have been in operation for not less than 11 years.

Copies of the research questionnaire were administered in Lagos, which is the major commercial centre of Nigeria, via physical and electronic distribution to respondents who expressed preference for this method. The questionnaire consists of two sections (respondents' bio-data and research specific questions sections), containing eighteen (18) questions in all. A

five-point rating option scale was used for specific questions section (Section B). The study relied on content validity which 'asks whether the content of a measure covers the full domain of the content' (Anon, 2009). The comprehensive nature of the questionnaire made up for any shortcoming. The confidentiality guaranteed in the covering letter of the questionnaire ensures that the researcher does not exert unnecessary influence on the participants. Data collected for the study was analysed using a simple percentage to illustrate relevant relationship. The study's hypotheses were validated using Chi-square (X^2) statistical analysis. The chi-square (X^2), used to test for significance where two or more nominal variables are involved and whether a link exists, is expressed as:

$$X^2 = \frac{(O-E)^2}{E}$$

Where:

X^2 = Chi-square (value of random variables).

O = Observation frequency.

E = Expected frequency, which is arrived at by:

$$E = \frac{\text{Number of respondents}}{\text{Number of responses}}$$

$$= \frac{120}{5}$$

E = 24

The application of X^2 test was carried out using the following steps:

i) Define null hypotheses (H_o) and the alternate hypotheses (H_1).

ii) Calculate X^2, using the observed and the expected value as check the corresponding X^2n-1 value with n-1 degree of freedom and at 0.05% level of significance, from the chi-square statistical table.

Determination of Critical Value

Degree of freedom (df) = (r – 1) (c – 1)

= (5 – 1) (2 – 1)

= 4

At 95% level of significance, i.e. 0.05 significance level, tabulated $X^2 = 9.49$.

Therefore, $X^2_t = 9.49$ (from X^2 statistical table).

Decision Criteria

Accept the Null hypotheses (H_0) if the calculated X^2 is less than tabulated chi-square. That is, if $X^2_c < X^2_t$, accept H_0; otherwise, reject H_0 and accept H_1.

4. Data Analysis and Discussions

Out of the 150 copies of the questionnaire administered, one hundred and twenty (120) were completed and returned. This represents 80% response rate which is considered adequate and reasonable for analysis purposes. The data collected for the study is analysed and discussed in the remaining part of the section. Respondents age group is shown in Table 1.

Table 1: Respondents Age Group

Age Group	Frequency	Percentage (%)
Below 25 Years	-	-
25 – 29 Years	18	15%
30 – 34 Years	53	44%
35 – 39 Years	36	30%
40 Years & Above	13	11%
Total	120	100%

Source: Field Survey, 2017

Table 1 shows that none of the respondents was below the age of 25 years; 15% were between the age of 25 and 29 years; 44% were between ages 30 to 34 years; 30% were between ages 35 to 39 years; while 11% were 40 years and above. Thus, 89% of the respondents fall within ages 25 and 39 years bracket.

Table 2: Respondents Designation

Respondents Designation	Frequency	Percentage (%)
Top Management Staff	32	27%
Senior Officer	88	73%
Total	120	100%

Source: Field survey, 2017

Table 2 shows that 27% of the respondents were top management staff, while 73% were senior managers. Hence, the primary data used for the study was collected from senior officers and top management staff of banks.

Table 3: Respondents Educational Background

Educational Qualification	Frequency	Percentage (%)
SSCE / WASC	-	-
OND / NCE	-	-
First Degree/Equivalent	62	52%
Masters' Degree	35	29%
Professional	23	19%
Total	120	100%

Source: Field survey, 2017

Table 3 shows all the respondents had minimum of first degree educational qualifications. 52% were graduates of various disciplines; 29% were Masters' Degree holders; while 19% had different professional qualifications. This shows that that majority of the respondents are intellectuals.

Table 4 shows respondents' responses on section B of the questionnaire. Likert scale with five options used are: Strongly Agree (SA), Agree (A), Undecided (U), Disagree (D) and Strongly Disagree (SD).

Table 4: Corporate governance and its implications on the Nigerian banking sector

S/N	QUESTIONS	SA	A	U	D	SD	TOTAL
1	Sound corporate governance practices can enhance public confidence in the Nigerian banking sector.	24 19%	52 43%	5 4%	38 32%	1 2%	120 100%
2	The code of corporate governance introduced by the CBN is effective.	58 48%	18 15%	13 11%	26 22%	5 4%	120 100%
3	CBN level of supervision is adequate to ensure compliance with corporate governance provisions.	8 7%	23 19%	18 15%	49 41%	22 18%	120 100%
4	Sound corporate governance practices can enhance banks financial performance.	27 22%	68 57%	5 4%	20 17%	0 0%	120 100%
5	Some factors may prevent banks from complying with all provisions of code of corporate governance.	46 39%	42 35%	5 4%	22 18%	5 4%	120 100%
6	Poor supervision is a major reason for low level of compliance with corporate governance provisions.	19 15%	73 61%	0 0%	26 22%	2 2%	120 100%
7	External factors, including politics, can reduce banks level of compliance with the code of corporate governance.	42 35%	55 46%	7 6%	11 9%	5 4%	120 100%

8	Sound corporate governance practice can assist to ensure protection of stakeholders' interests.	36 30%	71 59%	3 2%	10 9%	0 0%	120 100%
9	The level of enforcement of provisions of code of corporate governance by the regulators is adequate.	0 0%	24 20%	5 4%	80 67%	11 9%	120 100%
10	Good corporate governance practice can enhance a bank competitive capability within the industry.	24 20%	65 54%	11 9%	18 15%	2 2%	120 100%
11	Non-conformity with provisions of code of corporate governance can impact a bank's decision-making process.	5 4%	16 13%	13 11%	76 63%	11 9%	120 100%
12	Regulators provide necessary support to ensure that banks compliance with provisions of code of corporate governance.	7 6%	23 19%	34 28%	44 37%	13 11%	120 100%
13	Regulators impose sanctions promptly in the event of non-compliance with the code of corporate governance.	35 29%	31 26%	13 11%	36 30%	5 4%	120 100%
14	Boards and shareholders often pressurize banks to act in their interest.	16 13%	44 37%	16 13%	37 31%	7 6%	120 100%
15	Effective mechanisms have been put in place by regulators to prevent unethical insider trading and self-dealing in banks	11 9%	55 46%	7 6%	42 35%	5 4%	120 100%

Source: Field survey, 2017

Table 4 (Question 1) result shows that a total of 62% of the respondents agreed that public confidence in the Nigerian banks can improved through sound corporate governance practice; while, 34% disagreed and 4% were undecided. This implies that good corporate governance can enhance public confidence in Nigerian banks. The implication is that good corporate governance is beneficial to banks in Nigeria. Moreover, benefits of corporate governance have been emphasised in the literature (Adegbite, 2012; Adeyemi, 2010; Nwagbara, & Ugwoji, 2015; Oghojafor, Olayemi, Okonji & Okolie, 2010; Sanyaolu & Sanyaolu, 2009). Table 4 (Question 2) result shows that 63% of the respondents agreed that the code of corporate governance introduced by the CBN is effective; 26% disagreed and 11% were undecided. This suggests that the code of corporate governance is effective within the Nigerian banking sector. However, there is still room for improvement regarding implementation and enforcement of corporate governance in the sector (Sanusi, 2010). Table 4 (Question 3) result shows that 26%

of the respondents agreed that the level of supervision is adequate to ensure compliance with to the code of corporate governance; 59% disagreed, and 15% were undecided. This is an indication that CBN and other regulators need to improve their monitoring activity to ensure that banks embrace good corporate governance. Table 4 (Question 4) result shows that 79% of the respondents agreed that sound corporate governance practices enhance the bank's good financial performance; but 17% of the respondents disagreed, and 4% were undecided. This revealed that banks' financial performance may be enhanced through good corporate governance practices. The finding conformed with that of Kajola (2008). However, Simpson and Gleason (1999) asserted that there is no relationship between corporate governance and bank performance. Furthermore, Akingunola et al. (2013) argued that the relationship between corporate governance and bank performance is not statistically significant. Table 4 (Question 5) result shows that 74% of the respondents agreed that some factors may prevent banks from complying with all provisions of Code of corporate governance; but 22% of the respondents disagreed, and 4% were undecided. This shows that some factors may prevent total compliance with corporate governance regulations. The code of corporate governance made provision for such circumstances. This is because the comply-or-explain governance approach applies in Nigeria in that banks which are not able to comply with provisions of the code are required to publicly disclose and justify reasons for non-compliance (Solomon, 2010).

Table 4 (Question 6) result shows that 76% of the respondents agreed that poor supervision is a major reason for the low level of compliance with corporate governance provisions; while the remaining 24% disagreed. This suggests that inadequate supervision has contributed to low level of compliance with corporate governance provisions. In this regard, Sanusi (2010) stated that enforcement is the primary challenge associated with the banking sector regulatory surveillance procedures. Table 4 (Question 7) result shows that 81% of the respondents agreed that external factors, including politics, can reduce banks level of compliance with the code of corporate governance; while, 13% disagreed and 6% were undecided. The implication is that external factors, including politics, can impact on banks level of compliance with corporate governance provisions. Table 4 (Question 8) result shows that 89% of the respondents agreed that corporate governance practice could assist to ensure protection of stakeholders' interests; while, 9% disagreed and 2% were indifferent. This suggests that good corporate governance practice can promote protection of stakeholders' interest in line with findings of previous studies (Fadun, 2013; Haidar, 2009; Lemo, 2010; Macey & O'Hara, 2001. Table 4 (Question 9) results shows that 20% of the respondents agreed that the level of enforcement of provisions

of code of corporate governance by the regulators is adequate; but, 76% disagreed with that and 4% were indifferent. This suggests that the level of enforcement of provisions of code of corporate governance by the regulators is inadequate; hence, the need to further improve ways of enforcing of corporate governance practices within the Nigerian banking sector. This finding is in line with that of Adeyemi (2010) study. Hence, the CBN needs to find ways of ensuring that banks comply with corporate governance regulations. Table 4 (Question 10) result shows that 74% of the respondents agreed that good corporate governance practice can enhance a bank competitive capability within the industry; while, 17% disagreed and 9% were undecided. Hence, the result suggests that good corporate governance practice can be used to improve a bank's competitive edge in the banking industry. This is also emphasised by Shil (2008) that good corporate governance in today's business world is paramount for an organisation to be relevant and attain competitive advantage in the market place.

Table 4 (Question 11) result shows that 17% of the respondents agreed that non-conformity with provisions of code of corporate governance can impact a bank's decision-making process; while, 72% disagreed with this idea while 11% were undecided. This implies that compliance with corporate governance provisions can impact banks decision-making process. Table 4 (Question 12) result shows that 25% of the respondents agreed that regulators provide necessary support to ensure that banks compliance with provisions of Code of corporate governance; while, 48% disagreed and 27% were undecided. This suggests that regulators do not provide banks with adequate support to ensure compliance with provisions of Code of corporate governance. Sanusi (2010) asserted the regulators are ineffective in predicting and providing oversight for the massive changes in the banking industry. In addition, Adeyemi (2010) argued that the internal reporting system of the CBN is inadequate to provide effective and early warning system for banks surveillance in Nigeria. Hence, the CBN needs to improve ways of ensuring that banks comply with corporate governance regulations. Table 4 (Question 13) result shows that 55% of the respondents agreed that regulators impose sanctions promptly in the event of non-compliance with the code of corporate governance: but, 34% disagreed and 11% were undecided. The result suggests that regulators promptly sanction banks that breach to the code of corporate governance. Table 4 (Question 14) result shows that 50% of the respondents agreed that boards and shareholders often pressurize banks to act in their interest; but, 37% disagreed and 13% were indifferent. This implies that banks' boards and shareholders can pressurize banks management to work in their interest. However, banks management staff may sometimes assume risk or engage risky decisions because their careers may be dependent

on their ability to return profits to the board (Obamuyi, 2012; Osiyemi, 2006; Walter, 2016). This is more prevalent in the Nigerian business environment (including banks) where compensation-based agency agreement is prevalent (Utomi, 2010). The level of profit returned by the agent (management) ultimately determines the amount of compensation given by the principal (shareholders). This system supports short-termism. The impact may be enoumous if there is higher motivation for increased profit; particiularly if a management staff does not hold significant stake in the bank. Table 4 (Question 15) result shows that 55% of the respondents agreed that effective mechanisms had been put in place by regulators to prevent unethical insider trading and self-dealing in banks; while, 39% disagreed and 6% were undecided. This implies that effective measures have been developed by regulators to prevent unethical insider trading and self-dealing within the Nigerian banking sector.

Hypotheses Testing

Hypotheses, formulated in Section 2 of the paper, are validated with chi-square (X^2) in this section.

$$X^2 = \frac{(O - E)^2}{E}$$

Where:

X^2 = Chi-square (value of random variables).

O = Observation frequency.

E = Expected frequency, which is arrived at by:

$$E = \frac{\text{No. of Respondents}}{\text{No. of Responses}}$$

$$= \frac{120}{5}$$

E = 24

Hypothesis 1 Testing

Ho: There is no positive relationship between corporate governance practice and financial performance of banks in Nigeria.

H_1: There is a positive relationship between corporate governance practice and financial performance of banks in Nigeria.

Hypothesis 1 is validated using Table 4 (Question 4) result above. Based on Table 4 (Question 4), response observed and expected are presented in Tables 5 and 6.

Table 5: Hypothesis 1 response, observed and expected

RESPONSE	OBSERVED	EXPECTED
Strongly Agree	27	24
Agree	68	24
Undecided	5	24
Disagree	20	24
Strongly Disagree	0	24
TOTAL	120	120

Source: Researcher's Computation

$$X^2_c = \frac{(Oi - Ei)^2}{Ei}$$

Table 6: Hypothesis 1 X^2 Computation

Responses	O	E	O - E	$(O – E)^2$	$\frac{(0 - E)^2}{E}$
Strongly Agree	27	24	3	9	0.4
Agree	68	24	44	1936	80.7
Indifferent	5	24	- 19	361	15.0
Disagree	20	24	- 4	16	0.7
Strongly Disagree	0	24	- 24	576	24
Source: Researcher's Computation					120.8

$X^2_c = 120.8$

$X^2_t = 9.49$ (from X^2 Statistical Table)

Since X^2_c (120.8) is greater than X^2_t (9.49); the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) (which states that there is a positive relationship between corporate governance practice and financial performance of banks in Nigeria) is accepted. The result shows that there is a significant positive relationship between corporate governance practice

and financial performance of banks in Nigeria. This is consistent with findings of previous studies which asserted that financial performance of banks in Nigeria can be enhanced through good corporate governance practice (Akinyomi, 2012; Duke & Kankpang, 2011; Ejuvbekpokpo & Esuike, 2013; Kajola, 2008; Omankhanlen et al., 2013). Meanwhile, Simpson and Gleason (1999) asserted that there is no relationship between corporate governance and bank performance. Akingunola et al. (2013) also argued that the relationship between corporate governance and bank performance is not statistically significant.

Hypothesis 2 Testing

Ho: There is no positive correlation between good corporate governance practice and competitiveness (competitive capability) of banks in Nigeria.

H_1: There is a positive correlation between good corporate governance practice and competitiveness (competitive capability) of banks in Nigeria.

Hypothesis 2 is validated using Table 4 (Question 10) result above. Based on Table 4 (Question 10), response observed and expected are prosented in Tables 7 and 8.

Table 7: Hypothesis 2 response, observed and expected

RESPONSE	OBSERVED	EXPECTED
Strongly Agree	24	24
Agree	65	24
Undecided	11	24
Disagree	18	24
Strongly Disagree	2	24
TOTAL	120	120

Source: Researcher's Computation

$$X^2_c = \frac{(Oi - Ei)^2}{Ei}$$

Table 8: Hypothesis 2 X^2 Computation

Responses	O	E	O – E	$(O – E)^2$	$\frac{(0 - E)^2}{E}$
Strongly Agree	24	24	0	0	0
Agree	65	24	31	961	40.0

Indifferent	11	24	13	169	7.0
Disagree	18	24	6	36	1.5
Strongly Disagree	2	24	- 22	484	20.2
Source: Researcher's Computation					68.7

$X^2_c = 68.7$

$X^2_t = 9.49$ (from X^2 statistical table)

Since X^2_c (68.7) is greater than X^2_t (9.49), the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) (which states there is a positive correlation between good corporate governance practice and competitive capability of banks in Nigeria) is accepted. Hence, we conclude that good corporate governance practice can enhance competitiveness (competitive capability) of banks in Nigeria. This is in line with previous studies which emphasised that good corporate governance in today's business world is paramount for an organisation to be relevant and attain competitive advantage in the market place (Okike, 2007; Onakoya, Ofoegbu & Fasanya, 2012; Shil, 2008; Vitezic, 2006).

5. CONCLUSIONS, SUMMARY AND IMPLICATIONS OF FINDINGS

5.1 Conclusion and Summary of Findings

The study has examined corporate governance as a risk management tool in the Nigeria's banking sector. It also considered implications of corporate governance practices on the performance of Nigerian banks. Data were collected from 120 respondents selected, through purposive sampling technique, from 15 banks in Nigeria. Data collected was analysed with simple percentage to illustrate relevant relationship. The study's hypotheses were validated using Chi-square (X^2) statistical analysis. Generally, the findings suggested that: good corporate governance is beneficial because it enhances public confidence in Nigerian banks; the code of corporate governance is effective within the Nigerian banking sector; poor supervision contributes to low level of compliance with corporate governance provisions; CBN and other regulators need to improve their monitoring activity to ensure that banks embrace good corporate governance; banks' financial performance can be enhanced through good corporate governance practices; good corporate governance practice can enhance competitive capacity of banks in Nigeria; regulators do not provide banks with adequate support to ensure compliance with provisions of code of corporate governance; banks' boards and shareholders can pressurize banks management to act in their interest; and effective measures have been developed by regulators to prevent unethical insider trading and self-dealing within the

Nigerian banking sector. The results of hypotheses also revealed that there is a significant positive relationship between corporate governance practice and financial performance of banks in Nigeria; and good corporate governance practice can enhance competitiveness (competitive capability) of banks in Nigeria.

5.2 Recommendations

Based on findings of the study, the following recommendations are presented:

i) Based on the result that good corporate governance is beneficial, the government and regulators should improve corporate governance provisions to enhance public confidence in Nigerian banking sector.
ii) The regulator should be more business like to ensure that supervision and enforcement of corporate governance provisions are strengthened in the Nigerian banking sector.
iii) Regulators should provide banks with the necessary support to ensure compliance with provisions of Code of corporate governance.
iv) The government should prohibit boards from pressurizing banks management to act in favour of selected interest, rather than protecting all stakeholders interest.
v) The CBN and other regulators should ensure that effective measures are developed and introduced to prevent unethical insider trading and self-dealing within the Nigerian banking sector.

5.3 Implications of Findings

Generally, the findings of the results have enourmous implications for the Nigerian banking sector in that compliance with corporate governance provisions can impact banks decision-making process. Although the code of corporate governance seems to be effective within the Nigerian banking sector; but, there is still room for improvement regarding implementation and enforcement of corporate governance in the Nigerian banking sector. Considering the findings that poor supervision contributes to low level of compliance with corporate governance provisions; this implies that enforcement is a primary challenge associated with the banking sector regulatory surveillance procedures. This was also affirmed by Sanusi (2010). The level of implementation of provisions of Code of corporate governance by the regulators is inadequate; hence, the need to further improve ways of enforcing corporate governance practices within the Nigerian banking sector. This is an indication that CBN and other regulators need to improve their monitoring activity to ensure that banks embrace good corporate governance. From risk management perspective, formulation and implementation of

corporate governance measures would prevent unethical insider trading and self-dealing within the Nigerian banking sector.

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