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Relationship between Principles of Corporate Governance and the Nigerian Banking Industry

Okoro, Blessing Chineme*[1] and Adekitan, Rasheed Akanfe[2]
[1&2]Department of Management, Faculty of Business Administration,
University of Nigeria, Enugu Campus, Nigeria
**Corresponding Author:* Email: chinemeokoro2001@yahoo.com | Phone: 08067958377
[2]Email: rasheed.adekitan2012@gmail.com | Phone: 08155572148; 08188869232

Abstract: *Many of the chief executives were running the banks as if they were personal properties where they can do what they like. The objective of this study was to evaluate the extent to which principles of corporate governance are practiced in Nigerian banking industry. The target population of this study includes senior, junior and top management of the four selected banks in Enugu, namely: First Bank of Nigeria Plc, United Banks for Africa, Diamond Bank Plc and Eco Bank located in Enugu metropolis. The sample size (316) for this study was determined using Taro Yamani's formula. The study found that 790 (59%) indicated agreement while 220 (16%) indicated disagreement as regards the extent of adoption of the principles of corporate government in the banking industry in Nigeria is significant. The hypothesis test result shows that the adoption of the principles of corporate governance in Nigerian banking industry is significant ($Z_c = 6.817 > Z_t = 1.96; p<0.05$). The study concludes that adherence to corporate governance has positive impact on the performance of the banking industry. Corporate managers in the Nigerian banking industry are significantly adhering to the principles of good corporate governance and this has reflected on the positive returns on investment in the industry. Information should be available as at when due to investors. A situation whereby investors get stale information regarding their investment portfolio is not in the best interest of investment in Nigeria.*

Key words: *Principles of corporate governance, Nigerian banking industry*

1. Introduction

Kachru (2005) defines corporate governance as a system by which companies are directed and controlled. He posits that corporate governance leads the leaders because it determines the strategy of the organization and how it is to be implemented. It also determines who the organization is to serve and how the priorities of the organization are determined. Anyaoku (1991) stresses that there are strong and positive economic linkages and multiplier effects arising from the relationship between good corporate governance and enterprise culture.

Corporate Governance in the banking system has assumed heightened importance and has become an issue of global concern because it is required to lead to enhanced services and deepening of financial intermediation on the part of the banks and enables proper management of the operations of banks. To ensure this, both the board and management have key roles to play to ensure the institution of corporate governance. Governance and performance should be mutually reinforcing in bringing about the best corporate governance (Akpan, 2007).

According to Heidi and Marleen (2003), banking supervision cannot function well if sound corporate governance is not in place. Consequently, banking supervisors have strong interest in ensuring that there is effective corporate governance at every banking organization. According to Mayes, Halme and Aarno (2001), changes in bank ownership during the 1990s and early 2000s substantially altered governance of the world's banking organization.

A review of the poor adherence to corporate governance by many of the failed banks in Nigeria shows that the personality-centred management style of these banks contributed to their problems. Many of the chief executives were running the banks as if they were personal properties where they can do what they like. They failed to realise that they are more or less agents of various interest groups and stakeholders and the banks they are managing are "quasi public institutions". These scenarios have given rise to the need for a research on assessment of the adoption of corporate governance in the Nigerian financial sector.

1.1. Objective of the Study

The objective of this study was to evaluate the extent to which principles of corporate governance are practiced in Nigerian banking industry.

1.2. Research Question

To what extent are the principles of corporate governance adopted in the Nigerian banking industry?

1.3. Research Hypothesis

The adoption of the principles of corporate governance in Nigerian banking industry is significant.

2. Methodology

2.1. The Population of the Study

The population of a study is the entire aggregate of individuals or items relevant to a phenomenon under investigation (Franklin, 2011). The target population of this study includes senior, junior and top management of the four selected banks in Enugu, namely: First Bank of Nigeria Plc, United Banks for Africa, Diamond Bank Plc and Eco Bank located in Enugu metropolis. The breakdown of the population of the selected commercial banks is shown in table 2.1 below:

Table 2.1: Population Distribution

Name of Firm	Population
EcoBank	350

UBA Plc	350
First Bank	400
Diamond Bank	400
Total	**1,500**

Source: Field Survey, 2014

2.2. Sample Size Determination

Sampling is the act of selecting and observing only a specific subset of the population unit (Ugwu, 2003). Based on the above population, the sample size for this study was determined using Taro Yamani's formula. This formula is used where the population size for the study is known:

$$n = \frac{N}{1 + N(e)^2}$$

Where, n = Sample size
N = Population size
e = Degree of tolerance error
I = Statistical constant

Substituting in the above formular, we obtain:
n = unknown
N = 1,500
e = 5% or 0.05%
I = Constant

Therefore:

$$n = \frac{1500}{1+1500(0.05)^2}$$

$$n = \frac{1500}{1+1500(0.0025)}$$

$$n = \frac{1500}{1+3.75}$$

$$n = \frac{1500}{4.75}$$

$$n = 315.7894737$$

$$n \sim 316$$

A stratified sampling method was adopted so as to give a fair representation to the designated organizations using proportional formular. A stratified sampling method involves division of the population into classes or groups with each group or stratum having some definite (similar) characteristics or features.

Thus: $Q = A/N \times n/1$

Where:
Q = the number of questionnaire to be allocated to each bank.
A = the proportion of each bank
N = the total population of all the banks

n = the estimated sample size used in the study.

Thus:

Sample size for EcoBank

$$Q = \frac{350}{1500} \times \frac{316}{1} = 73.73 = 74$$

United Bank for Africa

$$Q = \frac{350}{1500} \times \frac{316}{1} = 73.73 = 74$$

First Bank of Nigeria

$$Q = \frac{400}{1500} \times \frac{316}{1} = 84.26 = 84$$

Diamond Bank

$$Q = \frac{400}{1500} \times \frac{316}{1} = 84.26 = 84$$

Table 2.2: Breakdown of the Sample Size

Name of Firm	Population	Sample Size
EcoBank	350	74
UBA Plc	350	74
First Bank	400	84
Diamond Bank	400	84
Total	**1,500**	**316**

Source: Field Work 2014

3. Data Presentation, Analysis and Interpretation

3.1. Questionnaire Distributed and Retrieval

The data generated from the field survey using the questionnaire as instrument were presented in tables and percentages. The Z-test, simple regression and Chi-square statistical techniques were used in testing the hypothesis.

Table 3.1. Extent of Adoption of the Principles of Corporate Governance in the Nigerian Banking Industry

S/N		A	SA	D	SD	Total
1	The banks are committed to the Code of Corporate Governance for Banks as issued by the Central Bank of Nigeria	183	34	40	13	270
2	There is succession plans in the banks to ensure that Chief	134	68	34	34	270

	Executive Officers do not stay beyond the mandatory 10-year term as stipulated by the Central Bank of Nigeria					
3	There are relevant Committees (e.g. Audit, Credit, Risk Management, etc) in place in the banks to exercise oversight on the activities of management	202	34	30	4	270
4	There are established protocols to which the board and management of banks are committed to ensure that there is no insider dealings either by the management or board or collusion of both the management and board	117	68	68	17	270
5	The extent of adoption of the principles of corporate governance in the Nigerian banking industry is significant	154	54	48	14	270
		790(59%)	258(19%)	220(16%)	82(6%)	1350

Source: Field Survey, 2014

From Table 3.1, 790 (59%) indicated agreement while 220 (16%) indicated disagreement. This shows that the extent of adoption of the principles of corporate government in the banking industry in Nigeria is significant.

Hypothesis Three

H_o: The adoption of the principles of corporate governance in Nigerian banking industry is not significant.

H_1: The adoption of the principles of corporate governance in Nigerian banking industry is significant.

Table 3.2: Contingency Table Referred Table 3.2 for Testing Hypothesis

S/N		Agreement	Disagreement	Total
1.	The banks are committed to the Code of Corporate Governance for Banks as issued by the Central Bank of Nigeria	183 (158)	53 (60.4)	270
2.	There is succession plans in the banks to ensure that Chief Executive Officers do not stay beyond the mandatory 10-year term as stipulated by the Central Bank of Nigeria	134 (158)	68 (60.4)	270
3.	There are relevant Committees (e.g. Audit, Credit, Risk Management, etc) in place in the banks to exercise oversight on the activities of management	202 (158)	34 (60.4)	270
4.	There are established protocols to which the board and management of banks are committed to ensure that there is no insider dealings either by the management or board or collusion of both the management and board	117 (158)	85 (60.4)	270
5.	The adoption of the principles of corporate governance in the Nigerian banking industry is significant	154 (158)	62 (60.4)	270
		790 (58.5%)	302 (41.5%)	1350

Source: Field Survey, 2014

Table 3.3: One-Sample Kolmogorov-Smirnov Test

	The adoption of the principles of corporate governance in Nigerian banking industry is significant.
N	1350

Normal Parameters(a,b)	Mean	3.7223
	Std. Deviation	2.4876
Most Extreme Differences	Absolute	.236
	Positive	.1223
	Negative	.3.543
Kolmogorov-Smirnov Z		4.414
Asymp. Sig. (2-tailed)		.000

a Test distribution is Normal.

b Calculated from data.

Table 3.3 is the output of the computed One-Sample Kolmogorov-Smirnov Test**,** the response options of agreement and disagreement based on the responses of the research subjects from the selected banks. Z-calculated Value (Z_c= 4.414) is greater than the Z- tabulated value (Z_t = 1.96)

Decision Rule

The decision rule is to accept the alternate hypothesis if the computed Z value is greater than tabulated Z value otherwise accept the null hypothesis.

Decision

Since the Z_c= 4.414 is greater than Z_t = 1.96, the null hypothesis is rejected and alternate hypothesis is accepted. Thus, we conclude that the adoption of the principles of corporate governance in the Nigerian banking industry is significant.

Discussions of Results

Hypothesis three was tested using Z-test. The result shows that the adoption of the principles of corporate governance in Nigerian banking industry is significant (Z_c = 6.817 > Z_t = 1.96; $p<0.05$).

4. Conclusion and Recommendations

4.1. Conclusion

The study concludes that adherence to corporate governance has positive impact on the performance of the banking industry. Corporate managers in the Nigerian banking industry are significantly adhering to the principles of good corporate governance and this has reflected on the positive returns on investment in the industry.

4.2. Recommendations

Based on the findings of this study, the following recommendations are proffered

i. Information should be available as at when due to investors
ii. A situation whereby investors get stale information regarding their investment portfolio is not in the best interest of investment in Nigeria
iii. Shareholders should fortify their unions in order to assert their rights and privileges regarding their investment
iv. Shareholders can lobby the national assembly to pass a law mandating corporate organizations to apportion some percentage of board and management positions to shareholders so that they (shareholders) will be fully abreast of what is happening with their investment
v. The creation of awareness on investment should not be left alone in the hands of the investment companies.

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