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Research Paper

Corporate governance in Nigeria on the financial system stability in Nigeria banking sector

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ABSTRACT

In this study, an empirical investigation into the quantitative corporate governance in Nigeria to financial system stability in Nigeria banking sector over the period of 12 years (2006 to 2017) is examined. Commercial banking firms were selected on a cross sectional basis for eleven years. Panel model analysis was used to estimate the determinants of the financial stability function. The results showed that the effect of corporate governance on financial stability measured by the Return on Assets of banks is cross-sectional invariant. Findings revealed that there is a significance impact between corporate governance in Nigeria to financial system stability in Nigeria banking sector as reviewed by the Individual test of the T-statistics tested. Based on our findings, it is recommended that the government through her various regulatory authorities on Corporate governance ensure the need for active corporate governance in the Nigeria Banking sector so as to improve efficiency of the organisation and financial stability.

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Key words: Commercial banking, corporate governance, financial system, financial stability.

INTRODUCTION

Over the years, the standard of corporate governance and the performance of firms financially in any economy cannot be neglected by any standard. Corporate governance stands as a mechanism that has to do with the smooth working of any firm or organization in a way that guarantees its owners and stakeholders are receiving good and random returns on their investment invested in such firms. It also means that such organization must be characterized by real owners which work together earnestly to achieve financial goal and progress of the firm. Therefore, in contemporary terms it is often seen that corporate governance is one of the main strategic at which business owners and her joint owners as the stakeholders and shareholders attend to their financial goals and objectives.

However, due to financial instability in most financial institutions both within the landscape of Nigeria and outside such as First bank Plc, Union Bank Plc, Eco bank Plc, United Bank for Africa Plc and Zenith bank Plc etc have in one time or the other been attributed to the failure in corporate governance. It is fully pronounced that each of these cases corporate matters was directly linked to corporate governance failures (Hussin and Othman, 2012; Abdullah et al., 2008).

In an effort to curb these cases of corporate governance and improve on the collective financial right standings of banks and other financial institutions in Nigeria, quoted banks and financial firms are now expected to comply with the set-up and established rules and various codes of corporate governance and thus make adequate disclosure in the annual financial statement upon the end of each year. In accordance with this, the code of corporate governance guiding financial firms and quoted firm as issued by the Nigerian Stock Exchange Commission in September 8, 2011, was designed to meet with the International Best Practices on Corporate Governance and to observe and identify various flaws and limitations to good corporate governance in Nigeria, thereby, addressing the observed loopholes and issues relevant in promoting good corporate governance

practices in Nigeria and effect greater compliance rate among quoted firms. It is of evidence, that the provisions of the 2011 CBN directive on Corporate Governance Law, and Business and other incidental matters were focused and designed to improve a healthy corporate performance in Nigeria financial sector (Ifeanyi and Adeyanju, 2011).

In addition, the splitting of ownership business organizations from the management spurs out lots of a divergence interest among various parties in the financial sector. This divergence of interest of the management and her owners has helped in reducing the morale investors and their confidence in the Board undermine. Thus, investors are most interested about the level of transparency and accountability exhibited by the board of directors. The massive outcry of investors and other associate stakeholders upon the high level of mismanagement of funds and none show of accountability in disclosing the financial standings of such financial firms has deemed it necessary for every financial institution to accept the course of corporate governance procedures (Mudashiru et al., 2014).

In Nigeria, various empirical studies conducted revealed that accounting reports of Nigerian banks have been found to be deficient over time these studies (Umoren, 2010). Adeyemi and Fagbemi (2010) highlighted that some of the observed cases of the failure and cases of financial instability of most Nigerian Banks and other quoted firms, the case of Lever Brothers (now known as Unilever Plc), former Skye bank and African Petroleum etc has been connected to weak corporate governance. These are all attributing factors to either partial or total negligence to the code of corporate governance in Nigeria by financial institutions, for example, banks fully connected to some corporate failures.

It is often said that corporate governance in the financial sector requires a prudent and judicious management of resources in terms of current and fixed assets owned by such financial institutions and this ensures that ethical and professional standards are maintained in pursuance of corporate governance goals and objectives; it also seeks to ensure that customers are satisfied by all measures, increase employee morale, and the maintenance of financial landscape discipline which stabilizes and rejuvenate the sector paving way for healthy financial performance. Chima (2012), while upholding these measures opines that several groups of people have interest in banks due to their corresponding investments or anticipated investments with such banks, hence, the need to understand why firms make available information as well as, disclosures that outrightly affects the business will be very significant to them for the benefit of the investors.

Nevertheless, the researcher carefully noticed that although there are many empirical studies on the impact of corporate governance of performance in Nigeria financial sector, its expedient to note that there seems to be little or no empirical study on the effect of corporate governance on the financial system stability in Nigerian banking system. This paper shall then focus on the relationship between corporate governance in Nigeria while accessing its impact on the performance of the financial sector.

To understudy the importance for this study, corporate governance will be a veritable tool for improved banking sector performance in Nigeria; this study thus aims at exploring the nature, scope of corporate governance and how it affects financial system stability in Nigerian financial sector.

LITERATURE REVIEW

Corporate governance is seen as the system of rules, ethics, practices and processes through which an institution is controlled and managed. Corporate governance essentially revolves around balancing the interests of a bank and other financial institutions major players, management, customers and the business environment in which they operate. Thus, corporate governance also provides the needed framework in meeting up with the banks laid goals and objectives, it encompasses practically tiers spheres of the high level in management, denoting from action plans and other controls internally to the maximum performance, measurement and corporate information opening in form of disclosures (Hoskisson et al., 2010).

Corporate governance aims to allocate resources in such a manner that maximizes value for all participating stakeholders, including the various employees, customers, the community to a large extent and holds those at the high echelon to account by evaluating their decisions on accountability, transparency, equity and responsibility. The World Bank defines corporate governance as the exercise of political authority and the use of institutional resources to manage society's problems and affairs (Blake, 2009).

However, corporate governance represent a set of processes, policies, laws, practice and institutions affecting the way a corporation (or bank/financial institution) is being directed, administered, managed or even controlled. Corporate governance involves shareholders, investors and stakeholders in the goals and objectives for which the financial institution is managed. In recent times certain business corporations and the external stakeholder groups are often time affected by the corporation's mode and ways of activities upon which it operates. Internal stakeholders who are the inclusive members of financial institution are often times those in high echelon of leadership as the board of directors, executives and other top employees. Therefore, it is important to note that there are different models of corporate governance around the world (Cadbury, 2012). These models differ according to the variety of capitalism in which they are embedded by the host and existing countries. The Anglo-American "model" tends to emphasize the interests of shareholders only, while the coordinated or multi-stakeholder model

Table 1: ADF Unit root result test at level and first difference.

Test	Variables	At levels		First differences		Order	Remark
		T- statistic	Critical	T- statistic	Critical		
ADF	ROA	-2.045243	-4.008157	-4.656444	-4.246503	1(1)	Stationary
	CPGOV	-2.176609	-4.008157	-5.112055	-4.246503	1(1)	
	AQB	-2.752550	-4.008157	-5.150670	-4.008157	1(1)	

N/B: 5% Level of significance. **Source:** Researcher`s compilation from E-view (version 9.0).

associated with Continental Europe and some Asian countries as Japan trends to recognize the interests of managers, workers, suppliers, customers, and the operating climate which is the community upon which such financial institution strives.

METHODOLOGY

For this paper, causal comparative or *ex post Facto* Research Design fits perfectly. This is because the study attempts to explore cause nature that affects relationships, where causes already exist and cannot be manipulated. The study intends to use what already exist and look backwards to explain why. In every research work, there is every need to examine the specification of procedures. These procedures involve decisions on what information to generate, the data collection method, measurement approach and the way in which the data are to be analyzed with respect to the master plan for executing the research work; efforts are made to proffer solutions to the issue of corporate governance in Nigeria banking sector. However, due to conventional reasons, the researcher used E-view statistical package with the help of computer for a reliable result.

Model specification

Hypothesis has earlier been stated in this study with the view of evaluating the implications of corporate governance on the financial system stability in the Nigerian banking sector (2007 to 2016). In capturing the study, the study is anchored on scientific management theory. The choice of this theory largely depends on its explanatory model to explain the effectiveness of the managing firm. Thus, the model is symbolically represented in its functional form as:

$$ROA = f(CPGOV, AQB) \quad (1)$$

Where:
ROA = Return on Asset will be proxy for financial stability for Nigeria banking sector;
CPGOV = Corporate governance measured by non-performing loan to loan and advance;
AQB = Asset quality of bank measured by non -performing loan to total credit Ut is error term.

The linearized model specification for the analysis is given as:

$$logROAt = \alpha + \beta 1CPGOV + \beta 2\ AQB + Ut \quad (2)$$

Where:
log(ROA): Return on asset will be proxy for financial stability for Nigeria banking sector;
CPGOV: Corporate governance measured by non-performing loan to loan and advance;
AQB = Asset quality of bank measured by non-performing loan to total credit Ut is error term.

RESULTS AND DISCUSSION

The attempt to study the implications of corporate governance on the financial system stability in Nigerian banking system led the researcher to subject the data collected to descriptive statistics test and the ordinary least square (OLS) (Tables 1 and 2).

It was observed from the unit root test conducted that three of the variables were non-stationary at different levels (Table 1). Nevertheless, the five variables employed in the study became stationary at first difference order of co-integration.

The result of the vector error correction model (VECM) revealed that there is a negative relationship between the dependent variable corporate governance in Nigeria and financial system stability in the Nigeria banking sector.

The coefficient of determination indicates that about 81% of the variations in financial system stability in Nigeria banking sector are explained by changes in corporate governance variables in Nigeria and these factors are attributed to uncertainty in the banking sector, managerial abilities and other side factors.

From the test for parameter significance through the application of the T-test and the F-test, the result revealed that loan and advances to total deposit was significant (Table 2). in impacting financial system stability in Nigeria banking sector at 5% level of significance. From the F-test the overall impact indicates an insignificant level of corporate governance to financial system stability in the

Table 2: Dependent variable: ROA.

Variable	Coefficient	Standard error	T-Statistic	P-value	Remarks
C	9.397205	3.354028	2.801767	0.0231	Reject H_0
CPGOV	-14.21524	6.226290	-2.283099	0.0418	Reject H_0
AQB	-16.65925	7.587129	-2.195726	0.0394	Reject H_0

Reliability test				
R^2	Adj-R^2	F-statistics	Prob(F-stat)	Durbin- Watson
0.815951	0.769939	2.848	0.116	1.962

N/B: 5% Level of significance. **Source:** Researcher`s compilation from E-view (version 9.0).

Nigeria banking sector. The findings is in line with the findings of Blessing (2016) which restates that corporate governance in Nigeria has a large impact on the financial system stability of Nigeria banking sector given that this significant impact may be as a result of the fact that the monetary authority have embarked on tight corporate governance and has financial stability in the Nigeria banking system.

CONCLUSION AND POLICY RECOMMENDATION

Based on the conclusion drawn from the analysis carried out in this research work one can conclude that, in contemporary times the level of corporate governance has, indeed raised discussions on the financial sector recently, to massive corporate impact failures witnessed and observed not only within the business environment but within the country and international wise. The government through her various monetary authorities have taken out time in curbing to a large extent the influx of these failures in the financial sector of Nigeria. However, government efforts through her policy and directive in making the financial sector to be stable have all failed in terms of the fact and expected outcome of the goals that ought to be attained through corporate governance and its impact on the financial climate of Nigeria.

It is now based on these findings as observed that it is necessary to provide a set of policy guiding recommendations that would stimulate the need for accepted management that can reveal transparency, accountability and prudence among financial institutions in Nigeria. The government regulatory authorities as the Central Bank of Nigeria, and The Securities and Exchange Commission should as a matter of urgency and concern enforce the need for financial institutions and most importantly the banks on corporate governance so as to consolidate, or possibly, ensure that the gains from the corporate governance is enjoyed. There is need for active corporate governance so as to improve efficiency of the organization.

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