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Effect of Corporate Governance on Asset Quality of Banks (Evidence from Nigeria)

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Abstract

The study examined the effect of corporate governance dynamics on the asset quality of Nigerian banks. The objectives of this study are to examine the extent to which board size affects asset quality of banks in Nigeria; ascertain the degree to which board credit committee size has effect on asset quality; assess the effect of shareholders' role on asset quality and analyse the effect of depositors' role on asset quality of Nigeria banks. To achieve these objectives, four research questions and four hypotheses stated at 5% level of significance were formulated. The study adopted the ex-post facto research design while data for the study were sourced from the financial statements of the ten (10) banks selected using convenience sampling, essentially considered on the basis that they are quoted on the Nigeria Stock Exchange (NSE) and also had complete records within the period. The hypotheses were tested using the Ordinary Least Square (OLS) regression analysis. The study found that board size had significant positive influence on asset quality of Nigerian banks; credit committee composition had insignificant negative effect on asset quality; shareholders' role had significant positive effect on asset quality; and depositors' interest had significant positive effect on bank performing loans. The study concludes that while board size and credit committee composition had insignificant influence on asset quality, the role of the shareholders and depositors were positive and significant. As part of the recommendations, banks should appoint people with the right exposure, qualification and sense of commitment to the board as it was shown that asset quality matrix is not a function of size of the board or number of members in the credit committee. The study contributed to knowledge by modifying existing models and also updating literature in this area.

Keywords: Asset Quality, Corporate Governance, Board Size, Depositors' Interest, Shareholders' Role, Credit Committee.

Introduction

The association between corporate governance and firm performance has attracted wide research work primarily because the financial sector has witnessed some issues that induced corporate governance practices Egungwu, Akobi & Okpala (2016) in (Kolk and Pinks, 2010) and partly because the banking sub-sector requires an efficient banking system, conducive operating environment and observance of good regulatory and governance mechanism locally and internationally (Ahmad, 2006). Nations including Nigeria have enacted corporate governance principles and expected that they should be observed to protect the interest of the stakeholders in an organization.

The banking sub-sector is one of the institutions that have enjoyed this protective cover, having encountered sub-optimal practices that resulted to system failures, mergers, acquisitions and regrettably loss of depositors' confidence. The essence of corporate governance is therefore to reduce insider abuse, ensure fair practice in agency relationship, ensure compliance with code of conduct on corporate ethics (OECD, 2004).

The BASEL committee guideline on corporate governance for banks as part of the corporate governance principles states that the members of the board should be appointed based on qualification,, vision and have the ability to exercise sound judgment about the affairs of the bank. Thus, corporate governance may be viewed as a process by which the power of a corporation is exercised in accounting for a company's resources necessary to increase the value of shareholders' investments.

Corporate governance has become a global issue over the last decade, leading to countries around the world amending their legal system and stock exchange listing requirements to conform to corporate governance principles as well as developing new codes of best practices. Recently, there has been considerable interest in the corporate governance practices of modern corporations, particularly since the high profile collapse of a number of large U.S. firms such as *Enron* Corporation and WorldCom (Adedipe, 2004:56). The development has forced national government and regional economic organizations to come up with various guidelines and codes to get businesses to be managed decently. One of such institutions is the Organization for Economic Cooperation and Development (OECD), which has undertaken much work on corporate governance for a number of years. The OECD is an ideal forum for putting together an international framework on corporate governance. The first international code of good corporate governance standard of the 1999 OECD Principles of Corporate Governance, focused on publicly quoted companies, while coming to assist government in improving the legal, institutional and regulatory framework that underpins corporate governance.

Corporate governance arrangements and institutions however vary from one country to another. There is therefore no single framework that is appropriate for all countries. The Corporate governance code covers every aspect of the organizational set up, right from how resources are generated and how they are utilized. In an attempt to restructure the entire Nigeria economy, the Obasanjo Administration in Nigeria (1999-2007) introduced a vast number of reforms, with the financial sector reforms being the anchor for other sectors reform and also being the focus of this study.

However the financial crises that engulfed the world financial market in 2008 further heightened the worries on the implementation of the above principles. As observed by Abdulazeez, Ndibe and Mercy

(2016), the Central Bank of Nigeria in collaboration with other agencies issued a code of corporate governance in 2006 a measure designed to achieve viable and successful banking practice in Nigeria. This was preceded by a banking sector recapitalization mandate in 2005 that reduced the number of banks to 25 (twenty-five) as well as the 1990 prudential guideline on risk assets which was amended in 2010 to also accommodate issues like know your customer (KYC), anti-money laundering, etc.

These measures were designed to ensure appointment of a management team that would manage the company affairs with assiduousness, transparency, responsibility and accountability in order to maximize the shareholders wealth (Gorowa and Igyo, 2017). They further observed that banks ascertain the level and size of credit risk to take as these will likely place emphasis on the quality of loans that could guarantee earnings for the bank.

The hallmark of the reform phenomenon carried in the Nigerian Banking sub-sector is aimed at ensuring efficiency and financial stability in the industry as it allows corporate bodies to be properly directed, guided, and controlled and by extension held accountable for their deeds. Thus, the presence of corporate governance in the banking sub-sector as a major stakeholder in the financial intermediation process between the various economic agents of developing economies of the world needs to be taken seriously considering the several cases of bank collapses that have occurred which is largely attributed to sharp practices and non-adherence to the tenets of corporate governance as their failure could become the failure of the entire system.

Given the fury of activities that have affected the efforts of banks to comply with the various consolidation policies and the antecedents of some operators in the system, there are concerns on the need to strengthen corporate governance in the banking system as this will boost public confidence and ensure efficient and effective functioning of the sector. Hence the numerous reforms that have characterized the Nigerian banking sector has resulted to the general overhaul of the system, ranging from the structure and general governing principles. The need to protect the banking system from near collapse, cause the central Bank of Nigeria in 2009 to inject #620 billion into eight (8) banks it had earlier bailed out. Among these banks were spring bank, Afri bank and Bank PHB. Two years after, in August 2011, the CBN sacked the management of the three banks above and handed them to AMCON (Asset management company of Nigeria) who through the bridge banking system created three companies to take over the assets and liabilities of the failed banks, manage them and sell to interested buyers. The companies were Enterprise Bank, for Spring, Mainstreet Bank for Afribank and Keystone Bank for Bank PHB. Apart from Keystone Bank which still operates in its name, the other two, Enterprise and Mainstreet have been acquired by Heritage and Skye Bank respectively. The foregoing could suggest that the board of directors of these banks may have failed to apply the code of corporate governance effectively in conducting the affairs of the banks thus resulting to sub-optimal results. Extant studies have also found mixed results. For instance (Tijani & Anifowose 2013; Adigwe Nwanna, 2015) found positive effect of corporate governance variables on performance while (Uwuigbe 2013; Akhaleemeh, Ohiokha- Ohiokha 2011) found no positive effect of corporate governance characteristics on the performance of companies in Nigeria. In essence, the Nigeria banks do not seem to have adequately benefited from the corporate governance principles as envisaged. Thus, further studies like this one should be carried out to not only extend the time scope but also introduce related variables like credit committee size, shareholders' role and

depositors' role. It is in line with this expectation that this study examined the effect of corporate governance on asset quality of banks in Nigeria.

Statement of the Problem

The issue of corporate governance and banking sector performance has attracted a wide discourse among researchers and analysts. Extant studies have therefore produced a divergence and in some cases a convergence of results. For instance, Emeka and Alem (2016); Abdulazeez, Ndibe and Mercy (2016); Danoshana and Mohameed (2015); and Olayinka (2010), found positive and significant association between corporate governance variables and firm performance. On the other hand, Odili, Ezendu and Orikara (2015); Aminu and Mohammed, (2015); and Karam and Sonia (2015) found negative interaction between corporate governance and firm performance, while Abata (2014) found that asset quality had significant relationship with banks performance.

Apart from the above conflict in findings, most of the studies failed to include variables that could reasonably address the interest as well as the influence of the depositors and the owners of the banks respectively. Few studies reviewed used either non performing loan as percentage of total loan or loan deposit ratio as surrogates for asset quality. Again, a good number of previous works reviewed used board audit committee index instead of credit committee as one of the independent variables. To the best of our knowledge, there are no known prior studies in Nigeria on effect of corporate governance on asset quality of Nigerian banks that used these variables board credit committee size, shareholders role and depositors' role as independent variables. The board credit committee members are by the provisions of code for corporate governance assigned the responsibility to advise the board on credit related matters. The quality of loans granted measured as the proportion of performing loans over total loans is thus one of the functions they are expected to perform as members of the committee. In the light of the foregoing, this study aims to investigate the effect of corporate governance on asset quality of Nigerian banks in addition to board size the study used board credit committee size, shareholders role (total equity) and depositors' role (total deposit) as independent variables and ratio of performing loans to total loans as surrogate for asset quality.

Objectives of the Study

The main objective of the study is to examine the interaction between corporate governance variables and asset quality of Nigeria Banks.

The specific objectives are to:

1. Examine the extent to which board size affects asset quality of banks in Nigeria
2. Ascertain the degree to which board credit committee size has effect on asset quality
3. Assess the effect of shareholders role (interest) on asset quality of banks
4. To analyse the effect of depositors' role on asset quality of banks in Nigeria

Statement of Hypotheses

To address the above objectives the following null hypotheses are formulated for the study:

H₀₁: Board size does not have significant effect on the asset quality of Nigeria banks.

H₀₂: Credit committee size does not have significant affect on asset quality of banks in Nigeria.

H₀₃: Shareholders' interest does not have significant effect on the asset quality of banks in Nigeria.

H₀₄: Depositors' role does not have significant affect on the asset quality of banks in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

Corporate Governance

Corporate governance is defined by the Organization for Economic Co-operation and Development (OECD, 2004) as a system of rules, practices and processes by which a company is directed and controlled. Gorowa and Igbo (2017), opines that corporate governance relates to the process by which the resources of an organization are employed to attain the objectives of the organization. It relates to the various ways a company applies its policies, customs, systems, laws and regulation (Akingunola, Adekunle, and Adedire, 2013). As observed by Truong, Thai and Ngugen, (2015), corporate governance is a necessary tool for the maintenance and improvement of public confidence especially in the banking system. Other studies that saw need for corporate governance principles as necessary tools for organization success includes (Ene and Bello 2016; Afolabi and Dare 2015; Nworji, Adebayo and olaREWaju, 2011; and Mohammed, 2012).

Corporate governance is designed to promote a diversified strong and reliable banking sector which will ensure the safety of depositor's money as well as play active developmental roles in Nigeria's economy. Corporate governance is used to monitor whether outcomes are in accordance with plans and to motivate the organization to be fully informed in order to maintain organizational activity. It is also seen as a mechanism by which individuals are motivated to reconcile their actual behaviours with the overall objectives of the organization. It ensures that the values of all stakeholders are protected and also minimizes asymmetric information between bank's managers, owners and customers.

Asset Quality

This could be seen as a process of evaluating the risk associated with the credit which banks extend to their customers and is often considered as one of the most critical areas in determining the overall condition of a bank. Wincop (2001).

The two main factors that usually affect overall asset quality are the quality of the loan portfolio and the credit administration process. Thus, asset quality rating is an important factor in loan administration as it involves a review or evaluation of the credit risk a borrower takes by acquiring an asset thus is associated with the credit worthiness of the borrower. Asset quality is one of the parameters that are used to assess then overall performance of a bank via the CAMELS Rating (C = capital adequacy, A = Asset quality, M = management efficiency, E =Earning capacity, L =- Liquidity and S= Sensitivity). These measures often translate to asset quality ratios which in addition to those mentioned above includes profitability ratio. Asset quality is an evaluation of asset to measure the credit risk associated with it. en.wikipedia.org/wiki/asset_quality. An asset quality rating evaluates the various risks such as credit, to a pool of assets. Quality. Asset quality is the quality of the loan portfolio and the credit administration programme.

Board Size

The Board of directors of an organization is a key mechanism to monitor manager's behavior and to advise them. The largely shared wisdom regarding the optimal board size is that the higher the number of directors sitting on the board the less is performance. This leans on the idea that communication, coordination of tasks, and decision –making effectiveness among a large group of people is harder and costlier than it is in smaller groups, ((Lipton and Lorsch, 1992). Limiting board size to a particular level is widely believed to improve the performance of the firm at all levels. Benefits arising from increased monitoring by larger boards are outweighed by poorer communication and cumbersome decision –making. Empirical studies on board size seem to provide the same conclusion: A big board is likely to be less effective in substantive discussions of major issues among themselves in monitoring management. Large boards are less effective and are easier for CEO to control (Lipton and Lorsch, 1992). In this case, Board size plays a major role on the performance of every prospering organization.

This refers to the total number of directors on the board of any corporate organization. It is one of the factors considered when the structure of the board is being considered. The structure of a board could be small or large and in some cases, the choice of board size is industry specific. As Adams and Mehran (2003) posit, the banking system tend to have larger board size than manufacturing firms. Olaynika (2010) sees board size as a crucial characteristic of the board structure that could provide the diversity that would enable companies to secure procure the essential resources needed to surmount environmental challenges.

Credit Committee Size

This could be regarded as a group of people who are assigned the responsibility of assessing the credit standing of prospective borrowers as well as the ability of the borrowers to repay the amount loaned to them by credit institutions. In the discharge of their mandate, the committee members identify the possible risks the bank assumes for different types of transactions.

The Credit committee should realize that lending is giving out what belongs to you (deposits held in trust) to somebody else for use over a time frame with the promise that the borrower will repay the money with the agreed interest within the stipulated time. The borrower should not develop cold feet not to pay (unwillingness to pay) and should not divert funds.

A credit appraisal is an important part of determining the eligibility for a home loan, and the quantum of the loan. A prospective borrower has to go through the various stages of the credit appraisal process of the bank. Each bank has its own criteria to satisfy itself on the credit worthiness of the borrower. The eligibility for the loan that a person can get depends on his credit worthiness, determined in terms of the norms and standards of the bank. Being a crucial step in the loan process, a borrower needs to be careful in planning his financing modes. The credit worthiness, basically, assures the repayment capacity of the borrower - whether the borrower is capable of repaying the loan and dues on time.

Shareholder

Shareholder is any person, company or other institution that owns at least one share in a company and may also be referred to as a stakeholder.

Shareholder is an individual, group or organization that owns one or more shares in a company, and in whose name the share certificate is issued. A Shareholder or stockholder is an individual or institution (including a corporation) that legally owns one or more shares of stock in a public or private corporation. [En.wikipedia.org/wiki/sh](http://en.wikipedia.org/wiki/sh).

Shareholders earn dividend on each share held when such is declared. In addition, they are entitled to bonus issues, and rights issue as these are made available. Another attraction available to a shareholder is capital appreciation and this happens when the current market price of each share is higher than the nominal value or the value it was purchased earlier. This is one of the parameters to measure the value of a firm. Another is earnings per share (EPS) which is the ratio of net profit over total number of shares outstanding. Shareholders usually elect people into the board during the annual general meeting. The board is therefore expected to make policies that will promote efficiency and effectiveness in order to allow the shareholders maximize their wealth. It is however important to note that the board is allowed a certain degree of independence in the exercise of its powers. As observed by Whincop (2001), in the exercise the corporation cannot be managed by shareholder referendum as the board is not subjected to shareholder direction. This principle is reflected in the OECD principles of corporate governance (1999) the role of shareholders in a company thus reflects by the value of shares they hold in the company.

Shareholders' Role

The directors and not the shareholders are responsible for the management of the corporation. However, under the corporate statutes, certain matters are considered so fundamental that they require the approval of the shareholders. Under the Canada Business Corporations Act these matters include:

- Effecting certain amalgamations or reorganizations;
- Selling all or substantially all of the corporation's assets;
- Adding or removing any restrictions on the business that the corporation may carry on;
- Changing the corporation's share capital;
- Increasing or decreasing the number of directors or the minimum or maximum numbers of directors;
- Confirming by-laws; and,
- Adding or changing restrictions on the issue, transfer or ownership of shares.

If a fundamental change affects holders of certain series of classes of shares differently than others, the change must also be approved by a majority of the series or class of shares whose existing rights may be affected by the change, whether or not the shares otherwise carry voting rights.

As noted above, public corporations must also comply with the requirements of the provincial securities commissions and the stock exchanges which impose requirements for shareholder approval.

Finally, there may be issues which the directors determine should be put to the shareholders as a matter of good corporate governance, whether or not they are legally required to do so. The issue of whether shareholder approval was necessary to put a shareholder rights plan in place was commonly debated when shareholder rights plans first came into use in Canada. A number of boards of directors determined that the advice of the shareholders through a shareholders' vote was essential well

before the view of the regulators to the same effect was known. Similar considerations will certainly arise in the future in the context of other decisions facing public companies.

Shareholders are entitled to elect, as well as to remove, directors by ordinary resolution (in the case of public companies). However, the specific electoral procedures are largely unregulated, and there are substantial discretions over the specific procedures to be applied. As a general principle, the standard for collective choice in this area is simple majority rule. The appeal of such a rule is obvious — a very low representational requirement (self-appointment being the extreme case) could result in excessively large boards. There is no evidence that board effectiveness increases monotonically with board size. A very high representational requirement, requiring a very high degree of support, has the opposite problems. Where the tenure of a director is limited to a certain number of years before re-election, a high representational requirement could result in a board without directors, since there may be no candidate meeting such an onerous standard. Simple majority rule prevents either outcome.

Depositors' Role

Bank deposits consist of money placed into banking institutions for safe keeping and are made to savings accounts, checking accounts and money market accounts

www.investopedia.com/terms/b/bank.

A depositor is therefore a person who is making a deposit with the bank. In essence, the principal aim of keeping money in the bank is for safekeeping.

It is therefore an obligation on the part of the bank to safeguard the money so deposited. Demand deposit requires that the bank can withdraw his money without a prior notice to the bank. Time deposit on the other hand requires that the bank should be notified before any withdrawal. Before the creation of NDIC in 1988, there was high erosion of confidence on the banks. The creation of NDIC was not intended to resolve the problem completely as only a certain percentage of the deposit (insured deposit) could be redeemed if a bank went into liquidation. To further strengthen the confidence of depositors, the central Bank of Nigeria (CBN) on Nov. 7 1990 issued circular No BSD/DO/23/Vol.1/11 of 1990 that address the requirements for asset classification and disclosure, provisioning for bad and doubtful debt. The guidelines according to the circular were based on global banking standards. This guideline was amended, effective May1 2010. In addition to the loan provisioning and disclosure requirements the new guideline provided for know your customer (KYC), anti- money laundering, counter financing of terrorism etc.www.proshareg.com/oo/10584.

As part of the corporate governance challenges, the board of directors is expected to maintain fair and confident oriented practices by ensuring that depositors funds are safe and interest on such deposits are paid as directed by the regulatory authorities.

Theoretical Framework

This study is anchored on the agency theory that reasonably segregates the two major stakeholders in a business i.e the owners and the management. In essence, the management merely acts as an agent appointed to ensure effective control of the organization.

As posits Kiel and Nicholson (2003), ownership is separated from control since the professional managers merely manage the firm on behalf of the owners. it is however pertinent to note that

shareholders are not expected to exert over bearing influence that could undermine the ability of the management to exercise the desired control. Consistent with this fact, Whincop (2001) observes that the corporation cannot be managed by shareholder referendum as the board is not subjected to shareholder direction. To a reasonable extent therefore, the board sees itself as a steward appointed to steer the company to great success more so as members of the board are encouraged to own some shares in the company. The quality of asset is therefore paramount in the health of a bank as poor asset quality will not only breed loss of confidence but will also undermine the value of owners' fund.

Empirical Review

Sani, Gorowa and Ali (2016) used descriptive and inferential statistical tools, employing multiple regression analysis carried out a study on effect of corporate governance on Asset Quality: performance Evaluation of the Nigeria Banking sector in the post consolidation era in Nigeria for a period 2006-2014 and found that 2004 reforms caused an improvement on bank asset quality.

Akingunola, Adekunle and Adedipe (2013) investigated Corporate Governance and bank's performance in Nigeria. (post-Bank's Consolidation) in Nigeria, for a period 2002-2006 using constructive questionnaire and least Square regression analysis. The study reveal that banks total credit was positively related but not significantly a determining factor of bank's performance and deposit was found to be positively related to bank's performance but was insignificant in Nigeria economy

Adeoye and Amupitan (2015) adopted a Survey design to investigate the role of Corporate Governance in the Nigeria Banking Sector: Issues and Challenges. The study found that lack of presentation of information is common among the banks in pre consolidation era, fraud, override of internal control and non-adherence to limit of authority in a bid to meet set targets and that recapitalization of banks plays a vital role in promoting effective corporate governance.

Osuagwu (2013) in a study on Implication of corporate governance on the performance of deposit money Bank's in Nigeria for 2005-2010 and posits that non- compliance to corporate governance code in the Nigeria banking industry hampers banks performance.

Mohammed, (2012) in a study on impact of corporate governance and Bank's performance in Nigeria, for 2001-2010 adopted multiple regression analysis and the study reveals that corporate governance positively affects performance of banks.

Adewale, Atanda and Oyerinde (2014) in a study on Corporate Governance and Bank's performance in Nigeria: further evidence from Nigeria adopted Panel data analysis and found that while size of board was significant and positive, insider loan is negatively related to bank performance.

Adegbeni, Ofoegbu, and Fasanya (2012) in a study on Corporate Governance and Bank's performance: A pooled study of selected banks in Nigeria, used ordinary least square regression analysis and found that corporate governance has impacted negatively on bank performance.

Shungu, Itianganipai and Ndioru (2014) studied the Impact of Corporate Governance on the performance of commercial banks in Zimbabwe. For a period 2009-2012 and used Multiple Regression Analysis and the result indicates that unidirectional causal relationship exist between Corporate Governance and Bank's performance.

Odili, Ezendu, and Orikara (2015) in a study Does Corporate Governance influence banking sector performance in Nigerian for a period 2006-2014 used ordinary least square and the result reveals that Board independence, director shareholding and audit committee meeting had positive and significant effect on banking sector's performance while board size showed negative and significant effect on the performance of the banking sector in Nigeria.

Abdulazeez, Ndibe and Mercy (2016) in a study on Corporate Governance and financial performance of listed deposit money banks in Nigeria for a period 2006-2012 used regression analysis and posit that larger board size contribute positively and significantly to the financial performance of deposit money banks in Nigeria.

Abata, (2014) targeting on Asset quality and banks performance: A study of commercial banks in Nigeria for the period 1999-2013 used Regression and correlation matrix and the findings reveal that Asset quality had a statistically significant relationship and influence on banks performance.

DUCVO and THUY PHAN (2013) measured Corporate Governance and firm performance: Empirical evidence from Vietnam for a period 2006-2011 and used regression and correlation matrix and The findings indicate that elements of Corporate Governance such as presence of female board members, the duality of the CEO, the working experience of board members have positive effects on the performance of firms, as measured by the return on Asset.

Aminu and Tanko (2015) shifted their attention to the effect of board size and composition on the financial performance of banks in Nigeria for a period 2002-2011 and used Multivariate regression analysis and The findings indicate that board size has significant negative impact on the performance of banks in Nigeria.

Danoshana and Ravivathani, (2013) using correlation regression and descriptive statistics conducted a study on Impact of corporate governance on firm performance: A study of financial institution in Sri Lanka, for a period 2008-2012 and the findings indicate that corporate governance significantly impact on firms performance and Board size, and, audit committee size has positive, impact on firms performance.

Ponnu and Karthigeyan (2010) tested the Board independence and corporate performance: Evidence from Malaysia for a period, 2002-2006 using descriptive analysis, correlation analysis and the result indicates that there is no convincing evidence that the provisions as outlined in Malaysian code of corporate Governance as regards outside directors has any positive effect on corporate performance.

Karam and Jindal (2015) studied the impact of corporate governance on profitability: An empirical study of Indian Textile Industry in India using correlation matrix and ordinary least square The result indicates that positive association is observed between directors remuneration and profitability, audit committee members, board size and board meetings and non executive directors had negative significant association with profitability.

Kwanbo and Abdl- Qadir, (2013) analysed board composition executive duality and performance of banks in the post- consolidation era in Nigeria using multiple regression The findings revealed the absence of a significant relationship and impact that was not attributable to the mechanism of corporate governance.

Olayinka, (2010) analysed the impact of board structure on corporate financial performance in Nigeria using Pearson correlation analysis and linear multiple regression and found that there is a positive association between board size and corporate financial performance.

Nworji, Adebayo and Adeyanju (2011) investigated Corporate Governance and bank failure in Nigeria: Issues, challenges and opportunities using correlation analysis. The result of the findings reveal that the new code of corporate governance for banks is adequate to curtail bank distress and that improper risk management, corruption of bank officials and over expansion of banks are the key issues why banks fail.

Truong, Thai and Nguyen (2015) in a study on The Impact of Corporate Governance on Financial Risk in Vietnamese and using Multiple linear regression analysis found that Board size had insignificant negative effect on board composition, reflected by non-executive board members had positive effect on financial risk and information disclosure had significant effect on financial risk. Board, audit committee, depositors' role and shareholders role have significant impact on financial risk management in the banking industry.

METHODOLOGY

Research Design

This study is factored on an ex-post-facto research design because the data were secondary data extracted from the financial statements of the affected banks and the researchers do not have the capacity to change the state or direction.

Population of the study

The population of this study comprises all the money deposit banks operating in Nigeria for the period 2011-2016. The total number of the banks is 20 (twenty).

Sample and Sampling technique

The sample consists of ten (10) banks that are quoted on the floors of the Nigeria stock exchange. Researchers used the convenience sampling technique to select the ten quoted banks based on the fact that they had complete records for all the data within the period. The selected banks are Access bank, Diamond bank Plc, Fidelity bank Plc, First bank Plc, Union bank Plc, Unity bank Plc, UBA Plc, Zenith bank Plc, GT Bank Plc, Sterling bank Plc.

Nature and Sources of Data

This study used secondary data which were generated from the selected bank's annual report for five years (2012-2016). The variables in the bank's statement of financial position that were drawn as sample for the study are Board size (BDS), credit committee size, shareholders' role (total equity), Depositors' role (total deposit).

Variables for the study

The variables for this study were grouped under the dependent variable (y) and the independent variables, x_1 , x_2 , x_3 , and x_4 (in line with the objectives of the study). The variables are stated below:

Y= Asset quality

X_1 = Board size

X_2 = Board credit committee size

X_3 = Shareholders role

X_4 = Depositors role

Dependent variable (Asset Quality)

The dependent variable for this study is banks performing loans and is derived as the ratio of each bank's performing loans over her total loans. This is justified on ground that extant studies (Truong, Thai and Nguyen, 2015; Gorowa and Lgyo, 2017) used ratio of non- performing loans to total loans and loan to deposit ratio as surrogates for credit risk and asset quality respectively.

Independent Variables:

The independent variables are:

- Board size (BDS): represented by the total number of the members of the board (executive directors, non-executive directors and the independent directors).
- Credit Committee Size (BCS): These are the members of the credit committee in the board created to handle all matters relating to exercise of all board assigned responsibilities on credit issues, ensuring compliance with regulatory requirements on credit related issues, etc.
- Shareholders Role (interest) SHR: The shareholders' role is represented by the total equity of each bank. The right of a shareholder is determined by the number of shares he holds in the company. These are right to dividend payment, bonus issues, rights offering, capital appreciation etc. Erosion of loan quality resulting from bad loans will increase the provision for loan losses which results to low profit or loss which in itself will produce impairment in owners' equity (Hifza Inam, 2014).
- Depositors Role (DPR): These are the major providers of the fund from which the banks generate their loanable funds which constitute the banks' largest asset size. Depositors' role is represented by the total deposit held by each bank within the period. Generally, these variables were extracted from the financial statements of the affected banks.

Model Specification

The model for this study is in alignment with the one of Truong and Nguyen (2015) which models the relationship between three indicators of financial risk faced by banks and a vector of corporate governance factors.

$$Y_i = C_i + \sum_{k=1}^n \beta_{jk} X_{jk} + \epsilon_i$$

The model is also an adaptation and modification of Gorowa and Iggyo (2016) which expressed loan deposit ratio (LDR) as a function of board size (BOS), corporate governance disclosure index (CGDI), and risk assessment management (RAM). $LDR = F(BOS, CGDI, SHR, RAM)$

This study expressed bank performing loan (BPL) as a dependent variable and surrogate for asset quality and board size (BDS), board credit committee size (BCS); shareholders' role (SHR) and depositors role (DPR), Tsorhe, Aboagye and Kyereboah- Coleman (2011) and Truong et.al (2015) as explanatory variables.

$$BPL = F(BDS, BCS, SHR, DPR) \text{ -----1}$$

The above model is expressed in econometric form as:

$$BPL = x_0 + x_1 + x_2 + x_3 + x_4 + \mu_i \text{ ----- 2}$$

Where:

BPL = Bank Performing Loans

X_1 = BDS (Board size)

X_2 = BCS (Board credit committee size)

X_3 = SHR (Shareholders' Role)

X_4 = DPR (Deposits' Role)

μ = error term

x_1 = estimation coefficient

A prior expectation is that $x_1, x_2, x_3, x_4 > 0$

Techniques of Data Analysis

The main statistical tool employed by the study is Ordinary Least Square (OLS) regression analysis which was used to test the hypotheses at 5% level of significance. The results of the tests conducted were interpreted around the statistical notations including p-value (level of significance), coefficient of determination (directional relationship between variables), R^2 (measure of explanatory power of the independent variables on the dependent variable) and F-test (measure of overall significance).

Presentation and Interpretation of Results

In this section, the data generated were processed for descriptive statistics and pearson correlation matrix while the Ordinary Least Square (OLS) was used to test the hypotheses.

Table 1: Descriptive Statistics of our Variables

Variables	Mean	Max	Min	Std. Dev	JB(P-values)
PERFL	788283.5	2153044	136510.0	546500.2	8.003010(0.02)**
BODSIZ	15.32000	20.00000	10.00000	2.402720	0.860594(0.65)
CRECOM	8.420000	15.00000	4.000000	3.037789	1.925802(0.38)
SHURF	442977.4	1298141	28212.00	352146.8	7.429599(0.02)**
DEPOSINT	1298047	3104221	231441.00	804586.2	4.696241(0.13)
No. of Cross Sections	10				
All data observation	50				

Source: Researcher's computation (2017): Note *1% level of significance, **5% level of significance, ***10% level of significance.

Table1 shows the mean (average) for each of the variables, their maximum values, minimum values, Standard deviation and Jarque-Bera (JB) statistics (normality test).The result in Table 1 provided some insight into the nature of the selected Nigeria quoted Banks that were used in this study. Firstly, the large difference between the maximum and minimum values of Shareholders fund(SHUDRF) and Depositors interest(DEPOSINT) values of (1298141;28212) and (3104221;231441.0) respectively shows that the sampled quoted Banks in this study are not dominated by either banks with large shareholders fund or large depositors interest. This wide variation in DEPOSINT and SHUDRF values therefore justify the need for this study, as we expect companies with high DEPOSINT or high SHUDRF) value to perform better.

Similarly, on the average, over the five year period covered by this study, the Bank Performing Loan (PERFL) average stood at 788283.5.This shows that all the quoted banks used in this study disclosed a high performing Loan value and invariably performed well during the period covered by the study.

Also, most of the banks used for this study have between 10 to 20 Board Size (BODSIZ) composition and between 4 to 15 Credit Committee Composition (CRECOM), which are within the size recommended by the code of Corporate Governance in Nigeria and therefore are suitable for this study. Lastly, in Table 1, the Jarque-Bera (JB) which test for normality or the existence of outlier or extreme values among the variables, shows that most of our variables are normally distributed and significant at 5% level and the result could be generalized. This also implies that a least square regression can be used to estimate the pooled regression models.

Correlation Analysis of the Sampled Banks in Nigeria

In examining the association among the variables, we employed the Pearson correlation coefficient (correlation matrix) and the results are presented in Table 2.

Table 2: Pearson Correlation Matrix Result of our Variables

	PERFL	BODSIZ	CRECOM	SHUDRF	DEPOSINT
PERFL	1.00	0.32	0.27	0.24	0.83
BODSIZ	0.32	1.00	0.06	0.28	0.24
CRECOM	0.27	0.06	1.00	0.13	0.27
SHURF	0.24	0.28	0.13	1.00	0.05
DEPOSINT	0.83	0.24	0.27	0.05	1.00

Source: Researcher's computation (2018)

The use of correlation matrix in most regression analysis is to check for multi-collinearity and to explore the association between each of the explanatory variables and the dependent variable. Table 2 focused on the correlation between Asset Quality, proxy as Bank performing loan (PERFL), as our dependent variable and our explanatory variables which consist of board size (BODSIZ), credit committee composition (CRECOM), Shareholders Role (SHURF) and Depositors Role (DEPOSINT). The findings from the correlation matrix table shows that all our explanatory variables were positively and weakly correlated with our dependent variable (PERFL, BODSIZ=0.32; PERFL, CRECOM=0.27 and PERFL, SHURF=0.24), except Depositor's interest which is moderately correlated with our dependent variable (PERFL, DEPOSINT=0.83).

In checking for multi-collinearity, we noticed that no two explanatory variables were perfectly correlated. This means that there is the absence of multi-collinearity problem in our model. Multi-collinearity between explanatory variables may result to wrong signs or implausible magnitudes in the estimated model coefficient, and the bias of the standard errors of the coefficients.

Test of Hypotheses formulated using Pooled Ordinary Least Square Regression Method (OLS)

However, to examine the effect relationships between the dependent variable, Bank Performing Loan (PERFL) and our independent variables and to also test our formulated hypotheses, we used an Ordinary Least Square (OLS) regression analysis since the data had both time series and cross sectional properties. The pooled interaction based OLS regression results obtained is presented and discussed below while detailed result is presented as appendix 2.

Bank Performance Loan (PERFL) Model

The Bank Performing Loan (PERFL) pooled OLS regression results examined the effect of corporate governance on assets quality of quoted banks in Nigeria. It investigates the effect of Board size on Asset quality, Credit Committee Composition (CRECOM), Shareholders fund (SHUDRF) and Depositor's Interest (DEPOSINT) on Assets quality. The results obtained are presented in Table 4.

Table 4: PERFL Regression Result of our Sampled Banks in Nigeria.

Variable	Coefficient	t-statistic	Prob (P-value)
BODSIZ	17859.53	0.965498	0.34
CRECOM	-13146.26	-0.914013	0.37
SHUDRF	0.291366	2.344483	0.02**
DEPOSINT	0.532496	9.670975	0.00*
R-Squared	0.74		
Adjusted R-squared	0.72		
F-statistics	32.156532	Akaike Infor Criteriun	28.09061
Prob (F-statistics)	0.00	Durbin Watson	0.756916

Source: Researcher's computation (2018): Note: * 1%, ** 5%, ***10% level of significance

In testing for cause-effect relationship between the dependent and independent variable in PERFL Model, we reported the OLS pooled regression results in Table 4. In table 4, we observed that the R-squared and adjusted r-squared values were 0.74 and 0.72 respectively. This indicates that all the independent variables jointly explain about 74% of the systematic variations in PERFL of our sampled companies over the period (2012-2016). The F-statistic value stood at 32.156532 and its p-value (0.00). The result further confirms the goodness of fit of our model as it is significant at 1% level. Although, the Durbin Watson value stood at 0.75 which is not approximately 2? In addition to the above, the specific findings from each explanatory variable from the OLS regression model are provided as follows:

Board Size and Bank Performing Loan, based on the coefficient of 17859.53, with a t-statistics value of 0.965498 and p-value of 0.34 was found to have a positive influence on our sampled companies' bank performing loan (PERBFL) and this influence is not statistically significant since its p-value is more than 0.10. This therefore suggests that we should accept our null hypothesis one (H_{01}) which states that board size does not have significant effect on the assets quality of Nigeria banks. This implies that for every one percent (1%) increase in board size of quoted banks in Nigeria, it can lead to about 96% increase on assets quality of such firms. However, this effect is not statistically significant and therefore should be ignored as it has no policy implication. This means that on the basis of the use of assets quality, those firms with high level of board size does not perform better.

Credit Committee Composition and Bank Performing Loan, based on the coefficient of -13146.27, t-statistics value of -0.914013 and p-value of 0.37 was also found to have a negative influence on our sampled companies PERFL but this influence is still not statistically significant since its p-value is more

than 0.10. This therefore suggests that we should accept our null hypothesis two (H_{02}) which states that credit committee composition does not statistically affect asset quality of banks in Nigeria. This result therefore implies that for every unit increase in credit committee composition, there is a decrease of 91.4 unit in assets quality of banks. This means that on the basis of the use of credit committee composition (CRECOM) to generate Assets Quality, companies with higher credit committee composition does not perform statistically better.

Shareholders Fund and Bank Performing Loan, based on the coefficient value 0.291366, t-statistics value of 2.344483 and p-value of 0.02 it was found to have a positive influence on our sampled companies bank performing loan (PERFL) and this influence is statistically significant at 5% level since its p-value is less 0.05.. This therefore suggests that we should reject our null hypothesis three (H_{03}) which states that Shareholders Fund does not statistically affect asset quality of banks in Nigeria. This result therefore implies that for every 1% increase on Shareholders Fund, there is an increase of 234% in assets quality of banks. This means that on the basis of the use of Shareholders fund to generate assets quality, companies with higher Shareholder fund perform statistically better.

Depositor's Interest and Bank Performing Loan, based on the coefficient value of 0.532496, t-statistics value of 9.670975 and p-value of 0.00 was found to have a positive influence on our sampled companies bank performing loan (PERFL) and this influence is statistically significant at 1% level since its p-value is less 0.05.. This therefore suggests that we should reject our null hypothesis four (H_{04}) which states that depositor's interest does not statistically affect asset quality of banks in Nigeria. This result therefore implies that for every 1% increase on Depositor's Interest, can lead to an increase of 967k in assets quality of banks. This means that on the basis of the use of Depositors Interest to generate assets quality, companies with higher Depositors Interest perform statistically better.

Discussion of Results

This study investigated the effect of corporate governance on assets quality of banks in Nigeria, using a pooled data, ranging from 2012-2016. The data generated were subjected to different statistical tests such as descriptive statistics, correlation analysis and Ordinary Least Square regression analysis. The descriptive statistics revealed the individual characteristics of the variables used in this study which also revealed that the variables were normally distributed at 1% significant level. The correlation result shows that none of our explanatory variables is perfectly correlated with our dependent variable and hence, has no multi-collinearity problem.

The regression result shows that Board size (BODSIZ) has no significant effect on Asset quality, proxy as Bank Performing Loan (PERFL) of our sampled company in Nigeria. This finding negates our a priori expectation and also agrees with the findings of Mansion et al (2013), but negates the findings of Emeka, et' al. (2016), Abdulazeed et' al. (2016) and Zani et' al. (2016). The regression result also shows that Credit Committee Composition (CRECOM) has no significant effect on Asset quality, proxy as PERFL of our sampled company in Nigeria. This finding supports our aprori expectation but negates the findings of Egungwu, et' al. (2016) Furthermore; the regression result shows that Shareholders Fund (SHUDRF) has a significant effect on PERFL of our sampled company in Nigeria. This finding supports our aprori expectation and also agrees with the findings of Truong et' al. who found positive association between stockholders role and corporate governance index. Finally, the regression result

also shows that Depositors Interest (DEPOSINT) has a positive effect on PERFL of our sampled company in Nigeria and this effect is statistically significant. This finding confirms our a priori expectation but negates the findings of Truong et' al. who found significant negative association between depositors' role and liquidity risk.

Summary of Findings

The study found that:

Board size had insignificant positive influence on bank performing loan (a surrogate for asset quality); Credit committee composition had insignificant negative effect on asset quality of the selected banks; Shareholders' fund had significant positive effect on asset quality of Nigerian banks; Depositors' interest, represented by the banks' total deposit had significant positive effect on bank performing loan; The R- squared value of 0.74 indicated that the independent variables jointly explained 74% of the systematic variations in performing loans over the period.

Conclusion

The study concludes that while board size and credit committee composition exert insignificant influence on asset quality, such influence is negative for credit committee and positive for board size. The roles of the shareholders as well as the depositors were positive and significant indicating that such roles increases the quality of loans secured by the banks.

Recommendations

- Banks should review the number of persons appointed on the board as it was shown that it is not necessarily the size that determined the quality of asset. It is likely that experience, qualification and other factors could be considered before appointing someone to the board.
- Credit committee membership should also be done in line with one's professional exposure and not in terms of number as it was found that the effect was negative and insignificant.
- Shareholders role was found to be significant and positive, which implies that the banks should continue in their drive to avoid any form of impairment on the shareholders fund.
- Depositors' role was also found to have positive and significant effect on asset quality. The banks should thus continue with the drive to direct loanable funds (deposits) to projects that have capacity to earn reasonable returns that will guarantee debt servicing.

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