THE EFFECT OF CORPORATE GOVERNANCE PRACTICES ON BANK PERFORMANCE.

NAME: Victor Onuorah Dike.

Abstract

Banks as financial intermediaries are at the heart of the financial system of any economy. It is therefore of concom that despite the various measures by governments and regulators across the globe, corporate governance remains a key contributor to national and global financial crisis. In Nigeria, there were 89 banks as at end of 2004 which went down to 26 banks as at end of 2017 owing mainly to liquidations, mergers and acquisitions. Despite the challenges posed by corporate governance practices in Nigerian banks, the key variables of the concept remain under-explored for knowledge and solutions thus providing the incentive for this study.

The comporte governance variables investigated are board sine, board independence and board committees. The study evaluated the intervening roles of female representation and foreign directors on the relationship between corporate governance variables and bank performance. It adopted the sequential mixed method approach to answer the research questions and test the hypotheses. The results of the factor and regression analyses showed that board size, heard committees (audit, remuneration and nomination) are positively and significantly related to bank performance. On the contrary, board independence is negatively and significantly related to bank performance

The result revealed that female representation did not have a moderating effect on the relationship between board size, board independence and bank performance. Female representation negatively and significantly moderated the relationship between audit and remuneration committees and bank performance. However, female representation positively and significantly modemted the relationship between nomination committee and bank performance

The study result revealed that foreign nationality had a positively moderating effect on the relationship between board independence and beak performance and the audit committee and bank performance relationship. However, foreign nationality negatively moderated the relationship between board size, nomination committee, and bank performance. The result further indicated that foreign directors did not moderate the relationship between remuneration committee and bank performance. Foreign directors were found to be particularly influential in improving governance practices and effectiveness of controls. The study especially found the agency and resource dependence theories advocacy for large board size as effective in enhancing bank performance.

Following from the findings, banks are encouraged to optimize the upper board size limit set by the Central Bank of Nigeria to enhance performance. The study suggests that board independence is unsuitable for improving bank performance in the absence of well- balanced managerial empowerment and creativity. In order to obtain maximum shareholders value, the study further recommends that boards of banks should give greater attention to their strategic advisory role rather than focus almost exclusively on monitoring management. It is advised that the proportion of executive directors should be consciously increased to enhance managerial autonomy and performance. Board committees are recommended for use in enhancing bound effectiveness and performance.

The study advocates the need to increase the proportion of female directors on bank boards. This will enable banks optimize the benefits inherent in their unique attributes, as female directors appear more effective in the company of other women. To address the dearth of female director candidates, banks are encouraged to institutionalize a leadership pipeline for female talents which should focus on developing and increasing the stock of future female directors. Given the need to improve contribution of foreign directors, the study recommends that banks that are desirous of nominating and retaining foreign directors, should engage the foreign directors in tailored induction and integration programs to improve their understanding of local governance settings.