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Effect of Corporate Governance on Financial Performance of the Nigeria Banking Industry

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Abstract: The main objective of the study is to examine the effect of corporate governance on financial performance of Nigeria banking industry. Specifically, the study sought to ascertain the influence of board gender, board size, board committee, board composition and frequency of board meetings on the liquidity risk of Deposit Money Banks (DMBs) in Nigeria. The study adopted ex-post facto research design. The data was obtained from annual reports of DMBs in Nigeria covering the period of 2006 through 2015. The dependent variable is financial performance and liquidity risk was used as the proxy while the independent variables are board gender, board size, board committee, board composition and frequency of board meetings. The effect of independent variables on the dependent variable was examined using multiple regression method that was computed with the aid of e-view 8.0 version. The results show that board gender, board size and board committee negatively but significantly influence the liquidity risk of DMBs in Nigeria while board composition and frequency of board meetings revealed a positive and significant effect on liquidity risk of DMBs in Nigeria. The study recommends that boards should meet at least once in two months in order to enhance their monitoring function and improve liquidity risk management.

Key words: Corporate Governance · Financial Performance · Board Size · Board Gender · Board Committee · Board Composition · Liquidity Risk

INTRODUCTION

The wave of various economic problems that led Enron, WorldCom and Cadbury to bankruptcy as well as the financial crisis witnessed globally in 2007 and 2008 especially in the banking industry have caused a lot of attention to be directed towards corporate governance. The recent focus of attention to corporate governance is to prevent a further occurrence of financial crisis in the banking industry that will occur as a result of management negligence to their duties. The goals and objectives of banking industry have not been achieved in its totality due to breakdown in the application of all parties in corporate governance. Management usually makes decisions and carries out strategies and policies that are in conflict with the interest of shareholders as board of directors often steps aside to management on their duties. Management desires to maximize profits at the expense of adhering to prudential guidelines results in financial crisis in the banking industry.

The financial crisis witnessed recently in the banking industry all over the world is due to inadequate practice of corporate governance. Consequently, the leaders of Group of Twenty (G20) Summit requested for stringent rules with regard to risk taking in the banking industry, improved mechanisms of corporate governance that will enhance financial performance at the long run as well as greater transparency and accountability in corporate governance practice [1]. The weakness in the existing corporate governance of banking industry was specifically the main focus of the G20 Summit held in Pittsburgh in 2009 [2]. Sequel to the systematic failures in the banking industry, bank regulators, directors as well as other necessary stakeholders of the financial sector understood where the problem of the banking sector was. As a result, a return to sound and efficient corporate governance practice in the financial sector was mandated by all stakeholders. It is expected that sound and efficient corporate governance practice will significantly influence the financial activities of the Nigeria banking industry

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through adequate accountability and transparency in their financial transactions in order to influence performance and improve their liquidity risk. Corporate governance does not only ensure transparency, accountability and credibility but also help in enhancing good liquidity risk in the Nigeria banking industry. Liquidity risk is a risk that will occur due to banks inability to meet up their obligations when they arise without sustaining significant losses. Banks are expected to maintain a sound liquidity in order to ensure that the needs of its numerous customers are met when they require it especially in the financial crisis period. Gianfranco and Pasquale [3] defines liquidity risk as "risk that a financial firm, though solvent, either does not have enough financial resources to allow it to meet its obligations as they fall due or can obtain such funds only at excessive cost." Liquidity risk can negatively have an effect on bank's capital and bank's income. Sanusi [4] posits that:

> The huge surge in capital availability occurred during the time when corporate governance standards at banks were extremely weak. In fact; failure in corporate governance at banks was indeed a principal factor contributing to the financial crisis. Consolidation created bigger banks but failed to overcome the fundamental weaknesses in corporate governance in many of these banks. It was well known in the industry that since consolidation, some banks were engaging in unethical and potentially fraudulent business practices and the scope and depth of these activities were documented in recent CBN examinations. Governance malpractice within banks, unchecked at consolidation, became a way of life in large parts of the sector, enriching a few at the expense of many depositors and investors. Corporate governance in many banks failed because boards ignored these practices for reasons including being misled by executive management, participating themselves in obtaining un-secured loans at the expense of depositors and not having the qualifications to enforce good governance on bank management.

However, the use of corporate governance in promoting liquidity risk in the Nigeria banking industry has not been as positive as can be necessarily expected. Both variables, corporate governance and liquidity risk, are considered to be very significant for financial stability but studies about their relationship has research gap as there are few or no empirical works on the effect of corporate governance on liquidity risk, particularly in Nigeria. In order words poor corporate governance remains a worrisome feature of the frequent cases of bank failures witnessed in Nigeria banking industry in recent years. It is seen manifesting in form of inefficient board size, poor board composition and other fraudulent practices [5]. Similarly, in [4] the liquidity problem witnessed in the Nigeria banking industry was due to negligence of boards of directors with regard to good corporate governance practices together with being misled by executive management, not having the necessary size in the board of directors to insist on good governance on bank management as well as taking part in gaining un-secured facilities at the detriment of depositors. Furthermore, the increase in size and complexity in banks during consolidation affected the performance of board of directors as they were not prepared to manage their banks and some boards' independence were impaired by the domineering influence of the Chief Executive Officer/Chairman. The collapse of the capital market wiped out these customer deposits amounting to hundreds of billions of naira [4]. The series of liquidity problem in the sector especially in 2009 was as a result of board of directors' negligence in their oversight functions. This is because the number of directors in a bank board was either inadequate or excessive for effective monitoring. As a result, the board of directors gave up their powers to managers who in turn pursued their own interest at the expense of the shareholders interest [6, 7]. This situation raises doubts on the importance of independent outside directors towards effective management of liquidity risk. In addition, board internal committees especially the board audit committee seems not to have been doing their duties as the liquidity risk of banks continue to deteriorate continuously. This permitted the robust profit declaration at the expense of the health of the banks [8].

Moreover, the composition of a board of directors of Deposit Money Banks (DMBs) in Nigeria says a lot about its tasks to liquidity risk management. Most board lack independence and objectivity with regard to liquidity risk management as they are made up of more executive directors who are in day to day contact with the senior management of Deposit Money Banks (DMBs) in Nigeria. Board losses integrity if its independence and objectivity are compromise by material shortcomings. Liquidity is poorly managed by substandard governance practices. Sequel to this, board size, board gender, board committee, board composition and board meetings needs to be changed more appropriately as recommended by various corporate governance reforms in order to enhance corporate performance [9]. Despite the emphasis placed on corporate governance in ensuring sound liquidity in the banking sector, the banking sector is yet to come on

the path of sound liquidity risk. Perhaps, the inability of the Nigerian banking industry to use corporate governance mechanisms effectively as part of the key measures of liquidity may be responsible for the alarming rate of liquidity problem in the banking industry as witnessed globally. Corporate failures have known no boundary as it cuts across both the very big organizations and the very small corporate entities. Hence, this study attempts to examine the effect of corporate governance on the liquidity risk of the Nigeria banking industry.

The major research questions generated by the study are: To what extent has board gender influenced liquidity risk of DMBs in Nigeria? To what extent has board gender influenced liquidity risk of DMBs in Nigeria? To what extent has board size influenced liquidity risk of DMBs in Nigeria? To what extent has board committee influenced liquidity risk of DMBs in Nigeria? To what extent has board composition influenced liquidity risk of DMBs in Nigeria? And to what extent has frequency of board meetings influenced liquidity risk of DMBs in Nigeria. Therefore, the study proposes the following hypotheses:

Ho_1: There is no significant influence of board gender on liquidity risk of DMBs in Nigeria.
Ho_2: There is no significant influence of board size on liquidity risk of DMBs in Nigeria.
Ho_3: There is no significant influence of board committee on liquidity risk of DMBs in Nigeria.
Ho_4: There is no significant influence of board composition on liquidity risk of DMBs in Nigeria.
Ho_5: There is no significant influence of frequency of board meetings on liquidity risk of DMBs in Nigeria.

The remaining sections of the paper are categorized into: conceptual review, theoretical framework, empirical review, gaps in literature, summary of empirical literature review, methodology, variable operationalization, model specification, results and discussions, conclusion and finally policy recommendations.

Conceptual Review

The Nigeria Banking Industry: The Nigeria banking industry started with the establishment of a branch of African Banking Corporation (ABC) in Nigeria in 1892 in order to fund the distribution trade of Elder Dempster & Co which carried out transactions involving Liverpool and West Africa Coast. The Bank headquarters was in South Africa [10, 11]. Following the collapse of African Banking Corporation, the industrial and commercial banks in London was acquired by a group of Nigerian business men who resided in London in 1924; and set up its branch in Lagos, Nigeria. This marked the beginning of the establishment of the first indigenous Bank in Nigeria. Regrettably the bank also liquidated in the year 1930 because of unprofessional conduct on the part of its management, even though, financial crisis of that time further led to its bankruptcy [11]. Sequel to the collapse of the first indigenous bank in Nigeria, the then colonial government set up a Commission of Enquiry chaired by Paton in 1948. The objective of the commission was to ascertain the reason(s) for the failure so as to guard and prevent future occurrence [12]. The Paton Report led to the establishment of Banking Ordinance by the colonial government of Nigeria in the year 1952 in order to guard against the establishment of unviable banks [13]. The enactment of the Banking Ordinance of 1952 did not have any significant impact in the banking industry as there were no regulators. However, in 1959 the Central Bank of Nigeria was established to regulate, enforce compliance and exercise other duties including oversight functions in the Nigerian banking industry [14, 15]. The passing of Baking Ordinance of 1952 and the establishment of Central Bank of Nigeria in 1959 led to an end of the period of free banking in Nigeria (Nwankwo, 1980 cited in [16]).

The Nigerian banking industry has witnessed a lot of changes between 1954 and 2011. The financial deregulation and economic liberalization policy of the 1980s altered the arrangement of the Nigerian banking industry from economically domineering and vastly regulated industry to one that is deregulated and exceptionally viable. Following the deregulation policy, there were six (6) merchant banks with twelve (12) branches and twenty (20) commercial banks in Nigeria with a network of seven hundred and forty (740) between 1980 and 1985 [17]. There were also over sixty commercial and merchant banks that either started operation or were given permission to start operation in Nigeria from 1986 to May 1989 [18]. The number of commercial banks and merchant banks in Nigeria grew from sixty (60) to one hundred and nineteen (119) in 1991 comprising of 65 commercial banks and 54 merchant banks [19]. However, the number of commercial banks and merchant banks in Nigeria was reduced to fifty one (51) and thirty eight (38) respectively in 1999 following the depression in the economic structure that took place in the mid-1990s (Tella, 2006) cited in [20]. Further development of the sector in the late 1990s saw the abolition of the commercial/merchant bank dichotomy in favour of the

implementation of universal banking in 2000. Universal banking was a term that allowed insurance, mortgage, stock broking, merchant banking, commercial banking and bureau de change to offer a range of financial services under one group. By the early 2000 the number of universal banking in Nigeria was 89. However, universal banking was stopped in 2010 by Central Bank of Nigeria (CBN). This was because banks through their subsidiaries were putting shareholders' funds at risk as a result of inadequate consolidated supervision and were not concentrating on their areas of core competence [4].

A further reform of the sector occurred through recapitalization in the year 2004/2005 which led to merger and consolidation contract between banks thereby condensing the number of the commercial banks in Nigeria to 25. The reason for the merger and consolidation was because of the huge rises in the capital requirement of banks from one billion naira to twenty-five billion naira in 2005 by Central Bank of Nigeria (CBN) [21]. In 2010 a further restructuring in the banking industry led to a spate of failures of nine banks. Bank PHB Plc, Equitorial Trust Bank Limited, Afribank Plc, Intercontinental Bank Plc, Spring Bank Plc, FinBank Plc, Unity Bank Plc, Union Bank and Oceanic Bank International Plc were among the banks that failed the joint test which led to the removal of their Chief Executives and Managing Directors as well as bail-out of five (5) of the affected banks (Union Bank, FinBank Plc, Afribank Plc, Intercontinental Bank Plc and Oceanic Bank International Plc) in order to prevent a lot of depositors from losing their money [7, 22]. However, Central Bank of Nigeria set 30th September, 2011 as a deadline for the affected banks to get new investors. Unfortunately Bank PHB Plc, Spring Bank Plc and Afribank Plc could not meet up with the September 30 deadline [23] cited in 22]. As a result of their inability to secure new investors, the Central Bank of Nigeria withdrew their licenses which were bridged by Asset Management Corporation of Nigeria (AMCON) that is expected to be wound down by 2024 and in their place Keystone Bank Limited, Enterprise Bank Limited and Mainstreet Bank Limited emerged [4]. However, Mainstreet Bank Limited and Enterprise Bank were acquired by Skye Bank and Heritage Bank respectively. Both Skye Bank Plc and Heritage Bank Plc were not allowed to use money from the depositors' funds.

These banks failed as a result of Board of Directors' negligence in their oversight functions. The Board of Directors gave up their powers to managers who in turn pursued their own interest at the expense of the shareholders interest [6]. Furthermore, [4] submitted that insider abuse was also responsible for their collapse. This is because Bank's Chief Executive Officers obtained unsecured loans for themselves in order to buy properties both in Nigeria and other part of the world or for the purpose of stock price manipulation. However, the government of Nigeria tried to eliminate structural deficiencies perceived to be evident in the Nigeria banking industry through bailout fund as well as the promotion of sound corporate governance practice in the banking sector. This was evident when the Boards of Directors of the affected banks were restructured [7].

Corporate Governance: Sequel to the recent financial crisis witnessed all over the world especially in the banking sector, the issue of corporate governance has become a talk about both in non academic settings and academic environment. As a result there is no clear and generally acceptable definition of corporate governance among scholars. Most of the studies reviewed have defined corporate governance in different ways especially as it concern power of owners, managers and providers of capital [24]. Cadbury Report [25] and the Sarbanes-Oxley Act of 2002 also narrowly described corporate governance as an arrangement through which the affairs of shareholders are managed and controlled. Furthermore, [26] defines corporate governance as the interaction involving shareholders and the senior management of companies with board of directors acting as the mediator. [27] asserts that corporate governance is a process that ensures responsibility, transparency and accountability functions of management in order to maximize shareholders' wealth and take decisions to boost its financial performance. A broader view of corporate governance entails incorporating the interest of stakeholders such as management, shareholders, customers, creditors, government and other stakeholders in the affairs of the organization. In this regard, corporate governance has been defined as a set of institutional arrangements for governing the interest of all the stakeholders who have contributed in one way or the order into the specific assets of the firm [28].

Pandey [27] opines that good corporate governance is all about setting up strategies that will ensure that the activities of board of directors are managed effectively; and while constituting the board, it should comprise of more non executive and independent directors that are technically competent in order to enhance accountability, fairness and transparency in the disclosure of information and other duties of the board so as to protect the interest of the shareholders.

Corporate Governance Mechanisms: Corporate governance mechanism relates to the strategies, procedures and tools that are employed in an organization in order to enhance accountability and transparency in the management of the organization. Corporate governance mechanism is also regarded as those instrument that are employed by suppliers of capital and other relevant stakeholders to align the activities and interest of managers with the corporate objectives and goals of the organization [29]. [30] also defined corporate governance mechanism as the processes and systems by which a country's company laws and corporate governance codes are enforced. These mechanisms are board experience, age of board members, Chief Executive Officer Duality, board committees, board size, board composition, board gender, board meetings among others. However, in line with literature, the study adopted board size, board committee, board composition, board gender and board meetings as corporate governance mechanisms for effective management of liquidity risk of Deposit Money Banks (DMBs) in Nigeria.

Liquidity Risk: Liquidity represents an ability of an asset to be converted to cash easily without any delay or uncertainty [31]. High level of trading activities is usually attributed to liquidity. This is because liquidity can be in a form of liquid assets or have market ability. The nature of banking business requires that banks structurally invest in assets having a different degree of liquidity. Therefore, the liquidity of a bank entail a lot of managerial aspects that are different in nature while a significant portion of assets are not liquid and is difficult to convert into cash without sustaining a significant loss. This implies that financial institutions need to be more cautious as it concerns the withdrawal of funds by depositors as banks liabilities are more liquid. As a result, [3] submitted that in order to analyze the liquidity position of a financial institution, banks must ensure that the confidence of depositors to withdraw their deposits on demand is maintained.

Risk is the reduction in value as a result of unexpected changes in the business environment [32, 33]. [34] submits that for a financial institution to achieve is financial performance objectives, the financial institution needs to manage its risk effectively by absorbing those risks that could be eliminated or transferred by the financial institution. [35] further submitted that risks such as market risk; credit risk; liquidity risk; operational risk; legal risk; business risk; reputational risk; strategic risk etc. are also different types of risk that originate from different situations that are capable of affecting the financial performance of a financial institution. However, the focus of the study is on liquidity risk management.

Liquidity risk is the likelihood that financial institutions will sustain unacceptable losses or cost due to their inability to meet up their obligations and fund increase in their assets requirements. It is the "risk that a financial firm, though solvent, either does not have enough financial resources to allow it to meet its obligations as they fall due or can obtain such funds only at excessive cost" [3].

Liquidity gap may arise in a financial institution as a result of mass withdrawal of deposits by customers [36]. Massive withdrawal of deposit is not necessarily the primary source of liquidity risk in a financial institution as they are other various types of scenarios that could cause liquidity risk in a financial institution [37, 38]. Such scenarios involve long-term lending and large commitment base [38]. This is due to the fact that large commitment and extensive long-term lending may push financial institutions into a liquidity risk especially in a period of liquidity pressure as they are bound to honour them as they become due.

Liquidity risk will affect both the reputation of a bank and its financial performance [39]. Depositors' confidence may be lost especially if bank is not liquid enough to meet up with their demand as at when they required it thereby affecting the image of the bank negatively. Therefore, maintaining a sufficient liquidity is not an option to any bank but a necessity as failure to do so will lead to massive withdrawal funds by the depositors. The inability of a financial institution to maintain appropriate liquidity will result in failures or financial crisis irrespective of their strong earnings, capital base and the quality of its assets [40]. It therefore, becomes imperative for financial institutions to put up measures that will help them to deal with the challenges that will arise due to fluctuations in monetary policy. The repayment of short term borrowing; bank own transactional requirements and liquidity trends are usually shaped by monetary policy [40]. Sequel to the recent financial crisis experienced all over the world it is clear that liquidity risk is a significant risk that does not only affect the banking industry but also affect all other financial intermediaries and other businesses.

Theoretical Framework: The study is underpinned by Agency theory. Agency theory can be traced to Jensen and Meckling in 1976. Risk sharing among individuals or groups was explored by Jensen and Meckling and it was discovered that risk sharing problem usually arise as a

result of differential attitude of co-operating parties towards risk. The risk sharing literature encompasses the agency problem that result when co-operating parties (individuals and or groups) have different objectives and attitude to division of labour [41]. [42] further explains that agency theory was extended to the areas of management in order to determine how the objectives of individuals in an organization could be harmonized and used to achieve the corporate goals of the organization. During the period of 1980s, agency theory was used extensively in managerial accounting in order to ascertain the inducement that exist among individuals or groups in an organization and use accounting mechanisms that is appropriate to control their behaviours and actions [43, 44, 45]. Using appropriate mechanisms to harmonize the interest of individuals in an organization towards enhancing organizational financial performance is the main concern of the study.

Agency theory involves the relationship or the interaction between the principal and the agent. Usually the principal employs the agent to function on his or her behalf. The agent is expected to represent the principal in a specific business activities and he or she is expected to do so without compromising the interest of the principal [43]. Agency theory assumes that if the principal and the agents are mainly concerned about maximizing their personal wealth, agents are likely going to act in his or her own self interest rather than the interest of the principal. In order to make agents to act in the interest of the principals, there is the need to make policies and put in place mechanisms, structures to scrutinize and manage the decisions of agents to ensure the objective of such decisions align with shareholders' interest (Jensen, 1983) cited in [46]. However, one of such mechanisms aimed at addressing agency problem is the corporate governance mechanisms [46].

In relation to the study, the agency theory is considered useful in explaining the effectiveness of corporate owner's strategy of using corporate governance as a means of reducing managerial excesses and waste of bank resources. There is thus an expected positive relationship between an effective corporate governance mechanism and liquidity risk management based on the predictions of agency theory.

Empirical Review:

Empirical Review on Effect of Board Gender on Liquidity Risks: The effect of board gender on liquidity risks has had conflicting results among few scholars. Nwanja *et al.* [47] observe no statistical effect of board gender on financial performance of commercial banks in USA. On the contrary the work of [48] examines corporate governance and enterprise risk management of commercial banks in Kenya. Primary data was collected using questionnaire and cross-sectional survey design was adopted in the study. Descriptive statistics was provided and data analysis was done using the multiple regression analysis. The study found that CEO presence in board of directors, banks board composition and board size had a significant and positive impact on the CAMEL rating, while the diversity of the board was negatively related on the CAMEL rating. The study recommended an increase in independent directors and expansion of the board size as these facets of corporate governance improved the banks' enterprise risk management.

Manini and Abdillahi [49] carried out a study to determine the influence of corporate governance on the financial performance of forty two (42) commercial banks in Kenya. Corporate governance mechanisms adopted in the study were board size; board gender diversity; bank size; and audit committee size. Employing multiple linear regression analysis, the study results indicated that board size negatively influenced financial performance; whereas bank size was positively associated with financial performance. The study suggested that in order to improve bank's performance, audit committee size, board gender diversity and size of the board as a mechanism of corporate governance should be improved upon.

Empirical Review on Effect of Board Size on Liquidity Risks: Uwuigbe and Fakile [50] did a study on the effects of board size on financial performance of quoted banks in Nigeria using regression analysis. The study result revealed that Nigerian bank's board size was large as such had a significant and negative influenced on their financial performance. In order to enhance financial performance in the Nigerian banking industry, the study recommended a small board size of at most 13. Also, Joe *et al*. [51] examined the relationship between corporate governance and organizational efficiency in Nigeria using one hundred and forty nine courier service firms in Nigeria. Using ordinary least square (OLS) regression analysis the study found that board size, board audit committee, CEOs duality and board composition were positively related with organizational efficiency.

Wangui [48] examines corporate governance and enterprise risk management of commercial banks in Kenya. Primary data was collected using questionnaire and cross-sectional survey design was adopted in the study. Descriptive statistics was provided and data analysis was

done using the multiple regression analysis. The study found that board size has a significant and positive impact on the CAMEL rating, while the diversity of the board was negatively related on the CAMEL rating. The study recommended an increase in independent directors and expansion of the board size as these facets of corporate governance improved the banks' enterprise risk management.

Assefa and Megbaru, [52] conducted a study on the effect of corporate governance mechanisms on the financial performance of commercial banks in Ethiopia between 2004 and 2010. The study used both primary and secondary data. Furthermore, primary data were collected through conducting focus group discussion with selected staff of banks of commercial banks in Ethiopia. Collected data were analyzed using correlation analysis and pooled panel time series data with cross-sectional nature. The result of the study show that, size of the board was significantly and negatively associated to bank's performance measures (ROA; ROE and NPM). The study recommended that regulatory authorities in Ethiopia should ensure that mechanisms of corporate governance are well implemented by all banks since it is capable of influencing financial performance of commercial banks in Ethiopia.

Trinh *et al.* [53] studied the effect of corporate governance on financial risk management of commercial banks in Vietnam using twenty six commercial banks in Vietnamese between 2009 and 2013. Multiple linear regression analysis was employed in the study. The results of the study unveiled that board strength was positively and significantly related to credit risk, capital risk and liquidity risk of commercial banks in Vietnam. Sequel to the findings, the study recommended that a small board size with few independent directors is necessary in order to encourage stakeholders' participation so as to improve financial risk management.

Ajibike and Aremu [54] investigate the impact of liquidity on Nigerian bank performance: a dynamic panel approaches using thirteen banks between 2004 and 2012. The study employed a Generalized Method of Moments (GMM) estimation technique and found a significant and positive impact of liquidity and bank's financial performance. The study concluded that bank liquidity, size of the board and debt structure were significant determinants of banks performance in Nigeria. On the basis of the findings, the study recommended that banks should increase their liquidity base to achieve higher performance.

Empirical Review on Effect of Board Composition on Liquidity Risks: Akinyomi and Olutoye [55] studied corporate governance and profitability of Nigerian banks. Data for the study was gotten from audited financial statements of the selected banks and was analyzed using regression analysis. The study observed insignificant and positive effect of board size and board composition on the financial performance of the Nigerian banks. The study recommended for constant review of codes of corporate governance so as to reduce financial crisis in the Nigerian banking industry.

Omankhanlen *et al.* [56] using primary data generated through questionnaire were analyzed using correlation analysis examined the role of corporate governance in the growth of Nigeria banks. The study results revealed that instability of board tenure; inexperience of the members of the board as well as crisis among the board members are the main issues affecting corporate governance in the Nigeria banking industry. The study suggested that bank customers and other relevant stakeholders should always report issues bordering on poor corporate governance to the relevant authorities promptly in order to enhance performance.

Aboubakr and Mohammad [57] studied the effects of corporate governance on stock liquidity: evidence from Tehran Stock Exchange using 66 selected companies quoted on Tehran Stock Exchange between 2005 and 2009. Board composition and ownership structure were used as corporate governance's mechanisms and illiquidity measure was used to measure stock liquidity. The study used regression analysis techniques and the results showed that an increase on the number of independent boards was associated with higher liquidity. In order to increase performance, the study recommended an increase in the number of independent directors in their board composition.

Wangui [48] examines corporate governance and enterprise risk management of commercial banks in Kenya. Primary data was collected using questionnaire and cross-sectional survey design was adopted in the study. Descriptive statistics was provided and data analysis was done using the multiple regression analysis. The study found that banks board composition and board size had a significant and positive impact on the CAMEL rating, while the diversity of the board was negatively related on the CAMEL rating. The study recommended an increase in independent directors and expansion of the board size as these facets of corporate governance improved the banks' enterprise risk management.

Empirical Review on Effect of Board Committee on Liquidity Risks: Sekhar [58] examines the impact of corporate governance mechanisms on financial performance of firms quoted on Bahrain Bourse. Mechanisms of corporate governance employed in the study were composition of the directors' board, gearing ratio; board audit committee; Chief Executive Officer (CEO) duality and ownership structure. Using multiple regression analysis method to determine the extent of relationship existing between the dependent variable and corporate governance mechanisms, the study discovered that board audit committee significantly and negatively influenced the financial performance of firms measured using return on asset, while the composition of the board of directors negatively influenced financial performance of firms traded in Bahrain Bourse. The study recommended that corporate governance mechanisms used in the study should be strengthened as they are all statistically significant.

Ishaya *et al.* [59] examine the relationship between the internal corporate governance mechanisms related to the board of directors, the audit committee characteristics and the performance of quoted Deposit Money Banks (DMBs) in Nigeria. The study covered the period of seven years (2005-2011), with the population of seventeen (17) and a sample of fourteen (14) Deposit Money Banks (DMBs) in Nigeria. Data generated from the annual financial statement of the sampled Deposit Money Banks (DMBs) in Nigeria was analyzed using multiple regression analysis method. The results indicated that board characteristics and audit committee characteristics were essential factors of internal control mechanism sequel to the fact that both board and audit committee characteristics had significantly influenced the performance of Deposit Money Banks (DMBs) in Nigeria during the period of the study. Consequently, the study recommended, among others, that management/shareholders in the Nigerian Deposit Money Banks to consider these board and audit committee characteristics using these variables of the study as benchmark of embarking on enhancing performance.

Khaled [60] using agency theory and stakeholder theory investigated the extent to which corporate governance had affected the financial performance of companies in the UAE. The study sampled 80 quoted companies on the Dubai financial market and the Abu Dhabi Securities Exchange during the period of 2010 through 2011. Ordinary least square and generalized least square multiple regression test with the aid of Stata 13 statistical package were used to analyze the data collected. The study result test showed that audit committee independence, board composition and leadership structure were positively and significantly related with financial performance measure (ROE). The study recommended for an improved corporate governance practices in order to enhance market value and financial performance.

Obasan [61] examined the impact of corporate governance on organizational profitability in Nigeria. The data for the study was sourced from primary source using questionnaire as the instrument and personal interview with some notable top management staff of WAPCO Plc. The result of the study revealed that strict adherence to corporate governance will positively impact any organization. Consequent on the review of the literature and results of the study, the study recommended that corporate governance framework ought to be planned in line with the circumstances surrounding each corporation according to changing circumstances and the performance of the board, its committees, individual directors and key executives should be reviewed regularly and the process for performance evaluation should be disclosed.

Abogun *et al.* [62] studied the effect of corporate governance on the liquidity of selected banks in Nigeria. The primary source of data was used and data were obtained through the use of questionnaire. Altogether, a total of one hundred (100) questionnaires were administered across the randomly selected banks out of which 70 were duly completed and returned. Using the Ordinary Least Square regression analysis, the study specifically found that banks liquidity was directly affected by audit committee independence and auditors' independence in a positive way. The study recommended that, for better bank liquidity performance in Nigeria, banks stakeholders should monitor and regulate the activities of bank's audit committee and auditors very closely.

Empirical Review on Board Meetings and Liquidity Risks: Velnampy [63] studied the impact of corporate governance on the performance of twenty eight (28) manufacturing companies in Sri Lanka during the period of 2007 through 2011. Corporate governance was measured with board size, non executive directors' independence, frequency of board meetings and board committee. The measures of financial performance were return on asset and return on equity. The multiple ordinary least square regression result revealed that corporate governance does not

Table 1: Summary of Literature

Author(s)	Year	Topic of Study	Country of Study	Dependent Variable	Method Used	Results
Uwuigbe and Fakile	2012	Effects of board size on financial performance of quoted banks in Nigeria	Nigeria	Financial performance	Regression analysis	Nigerian bank's board size was large as such had a significant and negative influenced on their financial performance
Joe, Kechi and George	2012	relationship between corporate governance and organizational efficiency in Nigeria	Nigeria	Organizational efficiency	OLS regression analysis	Board size, board audit committee, CEOs duality and board composition were positively related with organizational efficiency
Sekhar	2013	Impact of corporate governance mechanisms on financial performance of firms quoted on Bahrain Bourse	Bahrain Bourse	ROA	Multiple regression analysis	Board audit committee significantly and negatively influenced the financial performance while composition of the board of directors negatively influenced financial performance of firms traded in Bahrain Bourse
Akinyomi and Olutoye	2013	corporate governance and profitability of Nigerian banks	Nigeria	Financial performance	Regression analysis	Insignificant and positive effect of board size and board composition on the financial performance of the Nigerian banks
Omankhanlen, Taiwo and Okorie	2013	The role of corporate governance in the growth of Nigeria banks	Nigeria	Bank growth	Correlation analysis	Instability of board tenure; inexperience of the members of the board as well as crisis among the board members are the main issues affecting corporate governance
Ishaya, Francis and Solomon	2013	Relationship between the internal corporate governance and the performance of quoted Deposit Money Banks (DMBs) in Nigeria.	Nigeria	Financial performance	Multiple regression analysis	Board and audit committee characteristics significantly influence the performance of Deposit Money Banks (DMBs) in Nigeria
Velnampy	2013	Impact of corporate governance on the performance of manufacturing companies in Sri Lanka	Sri Lanka	ROA and ROE	Multiple ordinary least square regression	Corporate governance does not correlate with the financial performance of manufacturing companies in Sri Lanka
Abdurrahman	2014	Effect of corporate governance on CSR disclosure in the Nigerian petroleum marketing industry	Nigeria	CRS disclosure	Pooled Ordinary Least Square	Board composition, risk management committee composition, risk management committee meeting and block holders ownership exhibited a significant positive relationship with corporate social responsibility disclosure
Abogun, Fagbemi and Balogun	2014	Effect of corporate governance on the liquidity of selected banks in Nigeria	Nigeria	Liquidity	OLS regression analysis	Banks liquidity was directly affected by audit committee independence and auditors' independence in a positive way
Aboubakar and Mohammad	2014	Effects of corporate governance on stock liquidity: evidence from Tehran Stock Exchange	Iran	Illiquidity measures	Regression analysis techniques	An increase on the number of independent boards was associated with higher liquidity
Wangui	2014	Corporate governance and enterprise risk management of commercial banks in Kenya	Kenya	CAMEL rating	Multiple regression analysis	CEO presence in board of directors, banks board composition and board size had a significant and positive impact on the CAMEL rating
Assefa and Megbaru	2014	Effect of corporate governance mechanisms on the financial performance of commercial banks in Ethiopia	Ethiopia	ROA, ROE and NPM	Correlation analysis and pooled panel time series data	Size of the board was significantly and negatively associated to bank's performance measures
Khaled	2014	Effect of corporate governance on the financial performance of companies	UAE	ROE	Ordinary least square and generalized least square multiple regression	Audit committee independence, board composition and leadership structure were positively and significantly related with financial performance
Obasan	2014	Impact of corporate governance on organizational profitability in Nigeria	Nigeria	Profit	Content Analysis	Strict adherence to corporate governance will positively impact any organization
Maini and Abdillahi	2015	Influence of corporate governance on the financial performance of commercial banks in Kenya	Kenya	Financial performance	Multiple linear regression	Board size negatively influenced financial performance
Trinh, Duyen and Thao	2015	Effect of corporate governance on financial risk management of commercial banks in Vietnam	Vietnam	Financial risk	Multiple linear regression analysis	Board strength was positively and significantly related to credit risk, capital risk and liquidity risk of commercial banks in Vietnam
Ajibike and Aremu	2015	Impact of liquidity on Nigerian bank performance: a dynamic panel approaches	Nigeria	Financial performance	GMM estimation technique	A significant and positive impact of liquidity and bank's financial performance

Source: Authors' Compilation

correlate with the financial performance of manufacturing companies in Sri Lanka. The study recommended for an increase in the number of independent non executive directors in board composition in order to enhance performance.

Abdurrahman [64] assesses the effect of corporate governance on corporate social responsibility disclosure in the Nigerian petroleum marketing industry using seven (7) companies from 2008 to 2012. The technique of data analysis adopted was the pooled Ordinary Least Square. The study found that board composition, risk management committee composition, risk management committee meeting and block holders ownership exhibited a significant positive relationship with corporate social responsibility disclosure of Nigerian petroleum marketing industry while board meeting, risk management committee size and profitability revealed a significant and negative relationship with corporate social responsibility disclosure in the Nigerian petroleum marketing industry. Consequently, the study recommended among others; that the board of directors of petroleum-marketing companies should include corporate social responsibility disclosure programmes as part of their agenda to be discussed in the annual general meetings and also enlighten other stakeholders on the concept and its benefits when harmonized into the code of best practices.

Summary of Empirical Literature Review: The table below summarized the empirical literature reviewed in this study.

MATERIALS AND METHODS

Ex-post facto research design was adopted to enable the study to determine the cause and effect relationship between the variables studied. In order to ascertain the influence of corporate governance on the financial performance of Nigeria banking industry, the study used regression model. Based on this model, liquidity risk was used as a proxy for financial performance of banks (the dependent variable), while corporate governance mechanisms (board gender, board size, board composition, board committee and frequency of board meetings) served as the independent variables. The data used in the study were generated from the individual consolidated annual reports of ten (10) selected Deposit Money Banks (DMBs) in Nigeria covering the period of 2006-2015. These banks were selected based on their financial performance over the years. Data used was collected from the annual reports and financial statements of the DMBs for the various years.

Variable Operationalization: The study employed liquidity risk as the dependent variable while corporate governance mechanisms are the independent variables. In line with literature, the study adopted board size, board committee, board composition, board gender and board meetings as proxies for corporate governance mechanisms for effective management of liquidity risk of Deposit Money Banks (DMBs) in Nigeria.

Liquidity Risk: This is the likelihood that financial institutions will sustain unacceptable losses or cost due to their inability to meet up their obligations and fund increase in their assets requirements.

Board Size: This is the total number of directors on a firm's board in each accounting year. Ogbechie (2012:46) asserts that "Determining the ideal board size for bank is very important because the number and quality of directors in a bank determines and influences the board functioning and hence corporate performance".

Board Composition: This can be defined as the ratio of non-executive directors to the total number of directors on a firm's board at the end of each accounting year (Goergen and Renneboog, 2000). These non executive directors contribute very effectively in the management of liquidity risk of banks as a result of their independence from firm's management (Baysinger and Butler, 1985).

Board Gender: This is the combination of female directors and male directors in a board. It is measured as the total number of female directors divided by the total size of the board (Enobakhare, 2010).

Board Meeting: It is defined as the coming together of board members in order to discuss issues that relate to the company. It is measured as the number of times board directors meet in a fiscal year (Al-Matar, Al-Swidi and Fadzil, 2014).

Board Committees: These are internal committees that supervise and regulate the activities of board of directors in a more effective way (RBZ, 2004 cited in Progress, Hlanganipai and Godfrey, 2014). Board committee is

further defined as an additional mechanism usually employed by an organization in order to control and give confidence in the accountability function of management and the financial management of an organization so as to protect the interest of shareholders (Cadbury Report, 1992). They are calculated as the total number of board committees a bank has at the end of each accounting period.

Model Specification: To empirically investigate the effects of corporate governance on financial performance of Deposit Money Banks (DMBs) in Nigeria, the Equation 1 below was stated thus:

$$LR = f(BG + BS + BCC + BC + FMB) \quad (1)$$

The mathematical model is stated as:

$$LR_{it} = \beta_o + \beta_1 BG_{it} + \beta_2 BS_{it} + \beta_3 BCC_{it} + \beta_4 BC_{it} + \beta_5 FBMs_{it} + \varepsilon_{it} \quad (2)$$

where;
LR = Liquidity Risk
BG = Board Gender
BS = Board Size
BCC = Board Committee
BC = Board Composition
FBMs = Frequency of Board Meetings
b_0 = Constant parameter;
b_1 to b_5 = parameters to be estimated;
ε_1 = error term.
i = 10 cross sections and
t = periods 2006 to 2015

By implication, Equation 2 suggests that the volatility of liquidity risk of Deposit Money Banks (DMBs) in Nigeria is evaluated by the magnitude of the parameters $\beta_{o,}$ $\beta_{1,}$ $\beta_{2,}$ $\beta_{3,}$ β_4 and β_5 given marginal changes in (BG); (BS); (BCC); (BC) and (FBMs) respectively, holding other extraneous variables constant. Equation 2 accounts for a non-constant growth/decline rate over the study period. However, it further assumed that $\sum_{1=bi}^{5}$ will be less than or greater than unity one. In order to estimate the parameters and normalise the data, equation 2 was transformed into its linear and additive semi logarithm form such that;

$$Lr_{it} = \beta_o + \beta_1 \log(BG)_{it} + \beta_2 \log(BS)_{it} + \beta_3 \log(BCC)_{it} + \beta_4 \log(BC)_{it} + \beta_5 \log(FBMs)_{it} + e_{it...} \quad (3)$$

RESULTS AND DISCUSSION

The study employed ordinary least square regression technique stated in its multiple forms to analyze the data collected and this was computed via E-View 8.0

Table 2 relates LR (dependent variable) to BG, BS, BCC, BC and FBM (independent variables). The estimated regression relationship for LR model is: LR = 0.803 – 7.586BS – 1.804BG – 1.247BCC + 1.110BC + 0.558FBM. The equation shows that the independent variables (BS, BG, BCC, BC and FBMs) have significant impact on the LR. The Durbin Watson statistics is 2.951 as such suggests absence of positive or negative auto correlation. The coefficient of the independent variables indicates negative effect of board size, board gender and board committee respectively on the LR at 5 percent level of significance while board composition and frequency of board meetings positively influenced liquidity risk at 5% level of significance. The student t-test in the regression shows that board size, board gender, board committee, board composition and frequency of board meetings have the value of 10.967, 10.361, 7.128, 9.711 and 4.397 respectively which is significant at 5 percent while the adjusted coefficient of determination (R^2) offers better explanation of the variations in liquidity risk, as the value is 98.9 percent. Also, the value of the F-statistics is 169.4366 with a p-value of 0.000. The standard error of 0.6917, 0.1741, 0.1749, 0.1143 and 0.1268 for board size, board gender, board committee, board composition and frequency of board meetings respectively is less than half of the coefficients of the respective variables. Based on the results, the four null hypotheses of the study were rejected. This is because their p-values were less than 0.05 at 5 percent level of significance. The implication of the findings is that one percent increase in board gender, board size and board committee will have 1.804%, 7.586% and 1.247% decrease in the liquidity risk of DMBs in Nigeria respectively and one percent increase in board composition and the number of times a board meets will have 1.11% and 0.558% increase in the liquidity risk of DMBs in Nigeria respectively.

Table 2: OLS Regression Output /Result (E-views 8.0)

Dependent Variable: Risk
Method: Least Squares
Date: 21/09/17 Time: 13:31
Sample: 1 10
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.803196	0.159451	5.037261	0.0073
BS	-7.585866	0.691723	-10.96662	0.0004
BCC	-1.246662	0.174892	-7.128201	0.0020
BC	1.109807	0.114281	9.711247	0.0006
BG	-1.803880	0.174108	-10.36070	0.0005
FBMs	0.557516	0.126801	4.396763	0.0117
R-squared	0.995301	Mean dependent var		0.375000
Adjusted R-squared	0.989426	S.D. dependent var		0.218543
S.E. of regression	0.022472	Akaike info criterion		-4.469360
Sum squared resid	0.002020	Schwarz criterion		-4.287809
Log likelihood	28.34680	Hannan-Quinn criter.		-4.668521
F-statistic	169.4366	Durbin-Watson stat		2.951187
Prob(F-statistic)	0.000096			

Source: Authors' Computation using E-view 8.0

CONCLUSION

The main objective of the study is to examine the effect of corporate governance mechanisms on financial performance of Nigeria banking industry. Specifically, the study sought to ascertain the influence of board size, board gender, board committee, board composition and frequency of board meetings on the liquidity risk of Deposit Money Banks in Nigeria. The study adopted ex-post facto research design. The data were obtained from the annual reports of DMBs in Nigeria covering the period of 2006 through 2015 (10 years) through their web sites. The dependent variable was financial performance proxied with liquidity risk while the independent variables were board size, board gender, board committee, board composition and frequency of board meetings. The effect of independent variable on the dependent variable was examined using multiple regression method that was computed with the aid of e-view version 8.0. The result of the analysis shows that the model of the study is satisfactory with an R^2 of 98.9 percent. The result of the hypotheses tested in specific terms showed that board size, board gender and board committee negatively but significantly influences the liquidity risk of DMBs in Nigeria while board composition and frequency of board meetings revealed a positive and significant effect on liquidity risk of DMBs in Nigeria.

Policy Recommendations: The study with regards to the findings recommended the following that:

- The corporate governance mechanisms (board gender, board size, board committee, board composition and frequency of board meetings) used in the study should be improved upon to boast the financial performance of Nigeria DMBs as they are all statistically significant.
- There should be increase in the number of independent non executive directors in board composition in order to enhance financial performance in banks.
- The regulatory authorities such as Central Bank of Nigeria and Nigerian Deposit Insurance Corporation should strengthen and ensure compliance with corporate governance best practices as contained in the Cadbury Report (1992), the Sarbanes-Oxley Act (2002) and the Atedo Peterside Report of 2001. Ensuring adequate compliance will boost the level of firms' performance and thereby improving the overall trust and confidence of stakeholders in the financial sector.
- Board's minimum number of board meetings should be increased from four to six. That is boards should meet at least once in two months in order to enhance their monitoring function and improve liquidity risk management.

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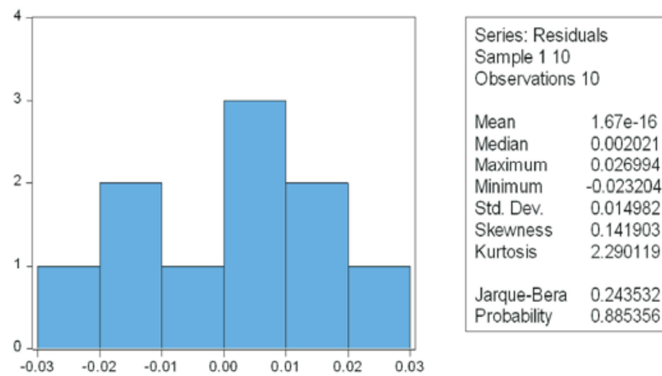
Appendix

Multicollenarity Test Table (Correlation Matrix)

	RISK	BS	BC	BCC	BG	FB
RISK	1.000000	-0.691335	0.276006	-0.567480	-0.789709	0.220597
BS	-0.691335	1.000000	-0.277152	0.130619	0.308167	0.213582
BC	0.276006	-0.277152	1.000000	0.308015	0.135650	-0.385529
BCC	-0.567480	0.130619	0.308015	1.000000	0.548840	-0.344874
BG	-0.789709	0.308167	0.135650	0.548840	1.000000	-0.369040
FB	0.220597	0.213582	-0.385529	-0.344874	-0.369040	1.000000

Normality Test



Heteroskedasicity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.317670	Prob. F(5, 4)	0.8799
Obs*R-squared	2.842254	Prob. Chi-Square(5)	0.7243
Scaled explained SS	0.293348	Prob. Chi-Square(5)	0.9978

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 21/09/17 Time: 13:46

Sample: 1 10

Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.002172	0.002178	-0.997369	0.3750
BS	0.003314	0.009447	0.350754	0.7435
BCC	0.001079	0.002389	0.451591	0.6750
BC	0.000413	0.001561	0.264791	0.8043
BG	0.000209	0.002378	0.088007	0.9341
FBMs	0.001706	0.001732	0.984963	0.3804
R-squared	0.284225	Mean dependent var		0.000202
Adjusted R-squared	-0.610493	S.D. dependent var		0.000242
S.E. of regression	0.000307	Akaike info criterion		-13.05625
Sum squared resid	3.77E-07	Schwarz criterion		-12.87470
Log likelihood	71.28126	Hannan-Quinn criter.		-13.25541
F-statistic	0.317670	Durbin-Watson stat		1.980447
Prob(F-statistic)	0.879864			

LM TEST (Autocorrelation Test)

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	9.323245	Prob. F(2, 2)	0.0969
Obs*R-squared	9.031312	Prob. Chi-Square(2)	0.0109

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 21/09/17 Time: 13:54
Sample: 1 10
Included observations: 10
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.132514	0.077457	1.710801	0.2292
BS	0.010144	0.314986	0.032204	0.9772
BCC	-0.478106	0.189650	-2.520983	0.1279
BC	-0.022189	0.050695	-0.437693	0.7043
BG	0.287534	0.124172	2.315605	0.1466
FBMs	0.165743	0.095560	1.734442	0.2250
RESID(-1)	-1.097824	0.285347	-3.847336	0.0614
RESID(-2)	-2.537258	0.814877	-3.113670	0.0895

R-squared	0.903131	Mean dependent var	1.67E-16
Adjusted R-squared	0.564091	S.D. dependent var	0.014982
S.E. of regression	0.009891	Akaike info criterion	-6.403758
Sum squared resid	0.000196	Schwarz criterion	-6.161690
Log likelihood	40.01879	Hannan-Quinn criter.	-6.669306
F-statistic	2.663784	Durbin-Watson stat	2.228158
Prob(F-statistic)	0.299952		