



## Corporate Governance and Firm Performance: Evidence from the Deposit Money Banks in Nigeria

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### Abstract

Corporate failure especially in the millennium across the world has propelled the corporate environment towards the quest for a solution and strategy to build sustainable corporate system; and the most prominent among these strategies is the corporate governance system. Consequently, this study investigated the effect of corporate governance on firm performance in Nigeria between 2014 and 2018. The study randomly considered 10 deposit money banks out of the existing 22 deposit money banks in Nigeria as at June 15, 2020. Analysis for the data collected was carried out using the panel data regression technique. Findings from the study revealed that board size, audit committee, number of independent directors and directors' shareholding were found to exert insignificant effect on firm performance while debt had a significant negative effect on firm performance. Thus, the study concluded that corporate governance exerts an insignificant effect on firm performance. Nonetheless, the study recommended among others that board size, debt and directors' shareholding should be cautiously monitored as governance tools because indiscriminate increase can affect the firm recklessly; therefore, limits should be fixed as regards the extent of board size, debt and directors' shareholding in a bid to safeguard the firm from possible collapse.

**Keywords:** Corporate Board, Corporate Governance, Corporate Governance Framework, Deposit Money Banks, Stakeholders

**JEL Classification:** G21, G34, G25

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### Introduction

A firm is a complex system that seeks to integrate the interests of various stakeholders into its activities. However, in most cases, these interests are divergent and conflicting especially when managers and owners are involved. Although, corporate governance (CG), which remains an extant issue, is not a recent development as the Cadbury Committee established in the United Kingdom in 1992 considered it as its focal point as reflected in its report, yet, little attention has been paid to it prior to the global corporate failure in the early twentieth century. Therefore,

corporate governance evolved to be a necessity in boosting investors' confidence and guaranteeing the going concern of the organization in the long run due to the major corporate collapse just like that of the Worldcom and Enron. Hence, providing a solution to the agency problem that tends to exist between firm owners and managers has strengthened the debate on corporate governance in literature. That is, corporate governance has been considered as an appropriate strategy to protect the owners of the firm from the self-aggrandizing tendencies of their agents (Ali, 2014); thus, necessitating an enforced compliance with codes and guidelines of corporate governance across the world especially in developed economies like the United Kingdom and USA.

Meanwhile, Nigeria has not been exempted from the global experience of corporate failures as large organizations like the defunct Oceanic and Intercontinental Banks Plc were discovered to suffer similar fate (Ozili, 2020). This agency problem, which finds its roots in self-aggrandizing tendencies of the managers has necessitated the inclusion of corporate governance policies in company related laws like the Companies and Allied Matters Act CAP. C20 LFN, 2004 (CAMA). However, the need to establish a regulatory framework wholly devoted to corporate governance necessitated the establishment of Code of Corporate Governance by the Securities and Exchange Commission (SEC) in 2008 which was later reviewed recently in 2019 as implemented and enforced by the country's Financial Reporting Council of Nigeria. However, is this incessant review and attention given to corporate governance necessary? Thus, this seeks to empirically justify the attention given to corporate governance if it really deserves the attention accorded to it in practice.

Furthermore, in literature, corporate governance has its roots in various theories, which attempt to explain the relationship between the various relevant stakeholders of a firm and the approaches to manage such relationships. These theories as cited by Ilemobayo, Oke and Yusuf (2020) include the agency theory advocated by Jensen and Meckling (1976) and the Stakeholders Theory by Freeman (1984) among others. However, a close review of such contributions in literature revealed the presence of mixed empirical contributions in literature where an analytical school of thought as evidenced by the findings of Bezawada (2020), Saha and Kabra (2019) and Akinleye, Olarewaju and Fajuyagbe (2019) among others discovered significant impact of Corporate Governance on firm performance, some others as substantiated by the discoveries of Rejeb and Missaoui (2019), Siyanbola, Obegbor, Okeke and Okunade (2019) to mention a few discovered otherwise. Therefore, this study adds to the ongoing debate by presenting empirical evidence on the subject matter with special inclination to the banking sector in Nigeria.

Also, contrary to some other contributions in literature such as Wijaya, Welson and Murhadi (2020) as well as Ilemobayo *et. al.* (2020) among others which have exclusively tested some governance variables in isolation, this study captures the three governance variables as recommended by the agency theory viz; debt, directors' equity and non-executive directors with emphasis on the deposit money banks (DMBs) in Nigeria.

## Literature Review

### CG and Firm Performance: An Overview

Corporate governance is a phenomenon with divers' kinds of definition, although there exists no consensus on its definition yet (Ali, 2014). However, the Cadbury committee(1992) in its code of corporate governance construed corporate governance to be the system used in managing firms. According to OECD (2004), it is the relationship that exists between the owners, management and other relevant stakeholders of a firm, which influences the formation of its objectives and how

performance is measured. In addition, it broadly captures the set of techniques used by the owners of the firm in keeping the agents in check in a bid to defend their interests (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000). Furthermore, Corporate Governance has been defined in terms of accountability and assurance to relevant stakeholders of the firm. It is in this light that Solomon and Solomon (2004) defined Corporate Governance as the mechanisms of control adopted by firms to ensure accountability to all relevant stakeholders in all aspects. Similarly, Monks and Minow (2004) considered corporate governance as the measures adopted by firm boards to tailor the activities of the organization and its stakeholders including agents and workers in line with value maximization. Also, Bezawada (2020) defined corporate governance as the organizational structure that seeks to enhance the achievement of corporate objectives.

In literature, several corporate governance techniques have been developed to handle the problem arising from divergent interests due to segregation of ownership and control in a firm because this is the goal of corporate governance (Shleifer & Vishny, 1997). These techniques for controlling agents or managers can either be considered as internal or external control techniques. The internal control system as suggested by Jensen and Meckling (1986) as well as Agrawal and Knoeber (1996) captures the establishment of a self-governing board of directors outside the influence of the managers while more debt can be introduced to the firm as its service obligations will reduce the amount of funds available for self-aggrandizing tendencies. However, the external techniques as expounded by Bushman and Smith (2001) are factors that can be initiated outside the firm that can keep the managers in check; these include government policies, legal restrictions, factor input as well as the market.

As regards firm performance, there is no universally acceptable explication as performance means a lot to various stakeholders. For instance, performance to the government may mean tax and production capability, it may mean high credit rating for a creditor or stock price for an investor, it may mean high profit or earnings per share or dividends for the shareholders among others. However, from the perspective of the firm for the purpose of this study, firm performance is the profit of a firm after tax in relation to its assets also known as return on assets.

Specifically, in relating corporate governance to performance, Adams, Hermalin and Weisbach (2010) averred that smaller board size as a component of Corporate Governance is more effective than large one because large boards tend to experience too many conflicts in decision making which may then slow down the decision making process and dampen performance. However, small boards also suffer from the large pool of expertise and experience which may be available in large boards. Meanwhile, independent directors are those directors who are external to the running of the organization but crucial to its decision-making system. They include experts in various fields, former or current CEOs of other firms, government, legal or corporate luminaries among others. The independent directors have been considered to improve firm performance because they have no special interest or ulterior motives in the firm. As such, their lack of self-aggrandizing tendencies helps them to make free and fair decisions which are unbiased in the overall interest of the organization. Thus, agency problem is easily circumvented with their presence. However, they really do not have access to insider information, which therefore necessitates the inclusion of executive directors in the board (Karanja, 2017). In addition to these, governance structure includes audit committees, gender diversity in the board and CEO duality. These all contribute to the performance of every firm in diverse ways.

## Corporate Governance in Nigeria

In the country, CG has been entrenched into the CAMA as well as the other regulatory

frameworks like the BOFIA, ISA and SEC Acts. However, in 2003, the Corporate Affairs Commission (CAC) in collaboration with the SEC established a commission to look into the formulation of a CG code specifically meant for governance purposes within the country; this necessitated the establishment of the 2008 SEC code of CG in the country (Sani, Aliyu & Bakare, 2019). However, in 2019, the Financial Reporting Council of Nigeria (FRCN) issued another new code of CG as an improvement on the former. This new Code which was directed majorly at private companies, public firms and NGOs hinged on seven pillars viz; audit, relationship with shareholders, directors' board, business conduct and ethics, sustainability (Social and Environmental Concerns), definitions and transparency. The Principle-Based Code was to be implemented and enforced by the FRCN. The new Code improved on the former by specifically addressing whistle blowing guidelines for illegal activities, enforcing sustainability issues and reporting as well as ensuring full disclosure and transparency although it had been condemned for its absolute application to all firms irrespective of their nature either as NGOs or private or public firms (Ozili, 2020). However, enforcing corporate governance guidelines in Nigeria has been mainly ineffective due to the multifaceted interpretations given to the Code of Corporate Governance as well as corruption tendencies that make defaulting firms evade sanctions (Adegbite, Amaechi & Nakajima, 2013).

## Agency Theory

The agency theory was postulated by Jensen and Meckling (1976) as an explanation of the rapport between the owners (principals) of a firm and its managers who are the agents employed by the owners of the firm to manage the firm in their stead. The theory assumes that since ownership and management exist in different hands, conflict of interests becomes highly plausible as managers and owners may pursue different objectives. This divergence of interest which is equally referred to as the agency problem therefore leads to agency loss for the owners of the firm. In the light of the tenets of the theory, managers (agents) seek self-aggrandizing objectives, which may include building a dominant empire at the expense of the owners' objectives which is wealth maximization (Padilla, 2002). As such, the objectives of the owners of the business are hampered due to the self-aggrandizing tendencies of the agents such as increased salaries, job security and welfare scheme. Thus, firm owners according to the theory adopt several methods to reduce the agency problem and consequently, the loss emanating from such. Prominent among such solutions is the separation of power; this assumes that different people should hold the CEO and board chair positions (Chen, Chen & Wei, 2005). Another prescribed solution is that owners should ensure that managers maintain a significant shareholding in the total firm's shareholding, this will therefore compel the agents to work in the line of maximizing firm value (Jensen & Meckling, 1976).

## Stakeholder Theory

Freeman (1984) propounded the stakeholder theory in an attempt to explain the complex relationships that exist in a firm. The theory assumed that a firm is not just existing as a product of the relationship between the manager and the owners but also a network of relationships with other interest groups such as employees, government, creditors, debtors and suppliers (Kock, Santalo & Dlestre, 2012). As such, managers are supposed to consider the interest of all stakeholders in its governance and are obliged to explain themselves to the stakeholders through its full disclosure (Hill & Jones, 1992). Thus, the major challenge confronting governance is to reconcile the conflicting and divergent interests of all the stakeholders and interest groups. As such, looking outside the firm, that is, incorporating the external forces has been considered a

means to tailor governance in line with stakeholders' interest. Most prominent among the external forces include government rules and regulations which can compel the managers to satisfy all stakeholders in an equitable manner (Wakaisuka-Isingoma, Aduda, Wainaina & Mwangi, 2016).

However, this study will be anchored on the agency theory as the theoretical framework because it narrows its explanation on the complex relationship in a firm that exists between the managers and the owners – the bedrock of CG. The corporate governance measures as prescribed by the theory include directors' shareholding and debt. Thus, based on the theory, directors' equity shareholding as well as total debt to assets ratio will be considered as major variables in the study model.

## Empirical Review

In Europe, Balios and Zaroulea (2020) investigated the influence of CG and internal audit on profitability between 2011 and 2016. The study which used pooled regression analysis for Portugal, Italy, Greece and Spain revealed that CG exerts positive effect on firm profitability. Although, the effects vary depending on the macroeconomic and cultural tendencies of the country. Similarly, Bangladesh, Rashid, Zobair, Chowdhury and Islam (2020) studied the link between corporate governance and productivity of 30 banks between 2013 and 2017. Adopting the pooled OLS technique, the study revealed that corporate governance advances firm performance, although board size proved otherwise. Ilemobayo, Oke and Yusuf (2020) considered six oil companies from 2009 to 2018 in their analysis of the nexus between CG and organizational performance in Nigeria. The study used cross sectional regression analysis revealing that corporate governance especially through board size and composition depraves firm performance. In Indonesia, Wijaya and Murhadi (2020) scrutinized the influence of ownership structure and CG on firm performance between 2013 and 2017. The study as analysed through the pooled regression technique revealed that CG has a direct influence on firm performance.

In Pakistan, PelZhi and Ramzan (2020) studied the connection between CG and performance of 45 firms between 2013 and 2017. The study made use of the OLS and GMM techniques for analysis revealing that corporate governance significantly improves performance. In the Indian context, Bezawada (2020) studied the nexus between CG and bank profitability between 2009 and 2018. The study using the panel regression technique divulged that corporate governance practices improve firm performance although board size has an inverse link with firm performance. Also, evidence from India as regards the impact of CG on firm performance was analysed by Saha and Kabra (2019) between 2014 and 2018. The study considered 100 firms through the use of the two stage least squares revealing that CG has a largely positive effect on performance although board independence affirmed otherwise. In the Tunisian context, Rejeb and Missaoui (2019) examined the link between CG and firm performance between 2006 and 2015. The study used the pooled regression technique and discovered that CG wields insignificant effect on firm performance.

In Nigeria, Akinleye, Olarewaju and Fajuyagbe (2019) examined the link between CG and firm performance between 2012 and 2016. The study used the panel data regression technique for estimation, it was discovered that corporate governance has a deleterious effect on financial performance. Siyanbola, Ogbemor, Okeke and Okunade (2019) studied the affiliation between CG and earnings quality of 10 banking firms in Nigeria between 2008 and 2017. The study adopted the pooled regression technique for analysis revealing that CG has an insignificant effect on earnings quality. In Nigeria, Sani, Aliyu and Bakare (2019) scrutinized the influence of CG on financial performance of banking firms between 2011 and 2018. The study used the pooled OLS technique revealing that CG has a direct link with firm performance. Buallay, Hamdan and Zureigat

(2017) examined the subject matter from the Saudi Arabian perspective. The study empirically considered 171 firms between 2012 and 2014 using the panel OLS technique; it was revealed that CG has no substantial influence on firm performance. Okoye, Evbuomwan, Achugamonu and Araghan (2016) examined the subject matter in the Nigerian context by considering the banking industry between 2003 and 2015. Applying the OLS technique, it was revealed that CG has no substantial effect on firm performance. Ahmed and Hamdam (2015) with empirical evidence from Bahrain explored the CG’s effect on performance of 42 quoted firms between 2007 and 2011. They used the pooled OLS technique for data estimation disclosing that CG has no substantial effect on earnings performance (Earnings per share) but it increases firm value (Return on Equity).

### Research Methods

The study made use of pooled data culled from the annual reports of 10 DMBs in Nigeria for the period spanning between 2014 and 2018. The term deposit money banks as used in this research refers to the banks that accept deposits and are commercial in nature. The 10 deposit money banks were randomly selected out of the 22 deposit money banks presently operating in Nigeria as at June 15, 2020. However, the data will be analysed using the panel data regression technique to test for the effect of CG on firm performance.

### Model Specification

The model adapted for the study was the model used by Ilemobayo, Oke and Yusuf (2020). The study, which focused on the subject matter as it pertains to the oil sector in Nigeria used only board size, audit committee and non-executive directors as regressed against return on assets by the OLS technique.

However, this study differs from the adapted model considering its focus on the banking sector as well as the introduction of other independent variables such as directors’ equity holdings as well as total debt to total assets ratio. Hence, the model used by this study is therefore specified as:

$$ROA = f(BZE, DEH, AUDCOM, NED, TDTA) \dots\dots\dots \text{equation 1}$$

The model in equation 1 can be expressed explicitly as:

$$ROA = (\beta_0 + \beta_1 BZE + \beta_2 DEH + \beta_3 AUDCOM + \beta_4 NED + \beta_5 TDTA + \mu) \dots\dots\dots \text{equation 2}$$

Where:

		<i>Return on Asset</i>
<i>BZE</i>	=	<i>Board Size</i>
<i>DEH</i>	=	<i>Directors’ Equity Holding</i>
<i>AUDCOM</i>	=	<i>Audit Committe Size</i>
<i>NED</i>	=	<i>Number of Independent Directors</i>
<i>TDTA</i>	=	<i>Total Debt to Total Asset</i>
$\mu$	=	<i>Error term</i>
$\beta_0 - \beta_5$		

According to *A-Priori* expectations, board size as well as total debt to total asset is supposed to exert a negative effect on firm performance while directors' equity shareholding, number of audit committee members and number of independent directors are supposed to exert positive effect on firm performance.

**Table 1: Measurement of Variables**

Dependent Variable	Independent Variables	Measurement	Expected Relationship
Return on Asset (ROA) as measured by Profit divided by total assets	Board Size	Number of board members	-
	Directors' Equity Shareholding	The value of shares held by directors	+
	Audit Committee	Number of audit committee members	+
	Number of Independent Directors	Number of independent directors on the board	+
	Total Debt to Total Asset	The ratio of total liabilities to the total asset of the firm	-

Source: Authors' Design (2020)

## Analysis and Discussion of Findings

### Presentation of Results

Table 2 revealed that directors' shareholding is higher than other corporate governance indices on the average as denoted by their mean values while the same variable was found to deviate the most as indicated by its standard deviation. However, the skewness revealed that all variables except number of independent directors and return on assets were negatively skewed, that is, these variables were concentrated on the right tail side of the distribution graph because the left tail was longer. That is, their respective mean values as negatively skewed variables are lower than their median values except for directors' equity shareholding and return on asset. Meanwhile, the Kurtosis as corroborated by the JarqueBera statistics and its probability value revealed that there exists a mix of leptokurtic and mesokurtic distributions as well as a mix of normal and abnormal distribution within the data set.

**Table 2: Descriptive Statistics**

Statistics	ROA	BZE	DEH	AUDCOM	NID	TDTA
Mean	-3.935258	2.594431	19.88220	1.739066	2.157987	-0.723040
Median	-4.009296	2.639057	20.60020	1.791759	2.138333	-0.159577
Maximum	-1.353105	2.944439	22.99640	2.079442	2.484907	-0.084522
Minimum	-5.209745	1.945910	9.755741	1.098612	1.791759	-3.895476
Std. Dev.	0.908653	0.249182	2.597001	0.225408	0.171180	1.202265
Skewness	0.894434	-0.652728	-1.452904	-1.555758	0.192619	-1.743278
Kurtosis	3.564173	2.877382	5.938494	5.020482	2.315202	4.231366
Jarque-Bera	7.329871	3.581774	35.58013	28.67474	1.286159	28.48403
Probability	0.025606	0.166812	0.000000	0.000001	0.525671	0.000001
Sum	-196.7629	129.7215	994.1098	86.95330	107.8993	-36.15199
Sum Sq.Dev.	40.45682	3.042489	330.4764	2.489639	1.435820	70.82663
Observations	50	50	50	50	50	50

Source: Authors' Computation (2020)

However, before proceeding to the regression analysis, it is imperative to conduct pre-estimation tests. The table 3, which presents the panel unit root test through all parameters, revealed that the data is stationary at level excluding the ADF test, which revealed stationarity at first difference.

**Table 3: Pre-Estimation Test (Panel Unit Root Test)**

Unit Root Test at Respective Stationarity Levels			
Method	Statistic	Prob.	Order of Integration
Levin, Lin & Chu t*	-34.9887	0.0000	I(0)
Im, Pesaran and Shin W-stat	-4.14300	0.0000	I(0)
ADF - Fisher Chi-square	186.085	0.0000	I(1)
PP - Fisher Chi-square	126.188	0.0211	I(0)
Hadri Z-Stat	14.0150	0.0000	I(0)

**Source:** Authors' Computation (2020)

Table 4 revealed through the Hausman test that the most suitable effect for this study is the fixed effect. Hence, the discussions emanating from this study will be centred on the fixed effect model as expressed above depicting that CG has an insignificant effect on firm performance.

Meanwhile, evidence from the fixed effect result showed that the coefficient of multiple determination also known as R-Squared was valued at 88.03 per cent which after further adjustments stood at 83per cent implies that 88per cent of the behaviour of the dependent variable can be accounted for by the independent variables while the remaining 12per cent can be accounted for by the white noise or error term while after further adjustments have been made, 83per cent in the behaviour of the regressand can be explained by the regressors while the remaining 17per cent can be explained by the stochastic variable. Also, the test for the overall significance of the model as indicated by probability value attached to the F-Statistics at 0.0000 implies that the whole model is significant and viable for conclusions and recommendations. In addition, the Durbin-Watson statistics for the selected fixed effect model which tests for serial or auto correlation is valued at 2.1204 units. This therefore reveals that serial correlation is absent in the study model

**Table 4: Ordinary Least Squares Results (Presented with all effects)**  
**Explained Variable: ROA**

Explanatory Var.W	Pooled LS	Fixed Effects	Random Effects
BZE	-0.4867 (1.2609)	-0.9005 (1.3687)	1.3938 (1.1032)
DEH	-0.0177 (0.0455)	-0.0103 (0.0348)	-0.0125 (0.0333)
AUDCOM	-1.2298** (0.5295)	0.1516 (0.4163)	-0.0756 (0.3946)
NID	0.1181 (1.3145)	1.0477 (1.5041)	-1.5533 (1.1986)
TDTA	-0.2901 (0.1738)	-1.4911*** (0.2227)	-0.9571*** (0.1690)

C	-0.6465 (2.0951)	-4.9962 (1.9388)	-4.5123 (1.8336)
R-Squared	0.3073	0.8803	0.4102
Adjusted R <sup>2</sup>	0.2286	0.8325	0.3432
F-Statistics	3.9035	18.3909	6.1198
Prob. (F-Stat.)	0.0051	0.0000	0.0002
Durbin Watson	1.0053	2.1204	2.0111
Hausman Test Stat.	17.1976	Prob.(Hausman Test)	0.0041

**Note:** Captured in the parenthesis is the standard error while \*, \*\*, and \*\*\* stands for respective significance level at 10 per cent, 5 per cent, and 1 per cent

Source: Authors' Computation (2020)

## Discussion of Findings

The study examined the effect of CG on performance of ten DMBs in Nigeria between 2014 and 2018. Adopting the panel data regression method, it was disclosed that CG has no significant effect on firm performance. The implication of this is that an advancement or depletion in corporate governance cannot significantly cause a change in the performance of a firm. This result, which corroborates the findings of Rejeb and Missaoui (2019), Siyanbola *et. al.* (2019) as well as Buallay *et. al.* (2017) is conceivable because in Nigeria, corporate governance became pronounced a few years back and has only found strong footing in recent years contrary to what is obtained in the advanced nations of the world like the United Kingdom where corporate governance had been the tradition prior to 1992. Thus, firms are majorly in a transitional period from the traditional mode of governance to the "new normal" – corporate governance. As such, substantial changes may not yet be felt in their output. Also, the corporate governance system adopted within the country has only deviated slightly from the already existing mode of governance with a few changes; hence, significant effects may not be visible in a short while. However, this result negates the findings of Balios and Zaroulea (2020), Ilemobayo *et. al.* (2020) and Akinleye *et. al.* (2020).

In specific delineation, despite its insignificance, board size in line with the discovery of Rashid *et. al.* (2020), was discovered to exert a negative effect on firm performance denoting that an increase in the number of directors will ultimately reduce performance. This is because overcrowding the board will lead to conflicting interests and delay in decision making as well as increase in costs associated with the board; these factors will ultimately deplete performance. Similarly, directors' shareholding was found to reduce performance. Although, it was found to be insignificant implying that an increase in the number of shares held by shareholders will decrease the performance of the firm. This is equally plausible as an increase in directors' shareholding beyond a particular threshold may cause a threat to the ownership structure of the firm and dampen the commitments of the shareholders.

On the other hand, audit committee size was found to positively affect performance. Although, in an insignificant way, this implies that an increase in the number of audit professionals will boost the firm's output. This is because auditors are considered the doctors of corporate organizations; as such, they can easily diagnose problems when it is still latent and prescribe solutions all in a bid to improve the health and overall performance of the firm. In the same vein, the number of executive directors expressed a direct relationship with firm performance despite its insignificance. This connotes that when independent directors are increased in an organization, performance will be improved. This is the case because their autonomy will cause them to make decisions in favour of the owners and in the interest of the firm as a whole. Hence, the higher

their number, the higher the power they can wield at the board to tailor firm activities in line with the overall interest of the firm. Meanwhile, the ratio of total debt to assets in the firm was found to significantly affect firm performance negatively. This means that the higher the debt introduced into the firm, the lower the performance of the firm will be. This is because when debt is introduced into a firm beyond a threshold, the highly levered firm channels its resources to debt servicing and have only a little left for running the organization with nothing left as dividends to shareholders. More also, the firm runs the risk of liquidation and winding up where such debtors hold the first claim to the properties of the firm.

## Conclusion and Recommendations

Corporate organizations have found corporate governance essential in the light of several fraud, liquidation and winding up cases existing in the corporate sphere across the globe. Therefore, this study in its examination of the effect of corporate governance on firm performance in Nigeria contributes to extant literature on the subject matter. Using 10 deposit money banks in Nigeria randomly selected between 2014 and 2018 for the study coupled with the utilization of the panel data regression technique, the study concluded that corporate governance has an insignificant effect on firm performance in Nigeria.

This is probably because corporate governance is the “new normal” and firms are in a transition phase from the traditional means of governance in the early twentieth century to this new normal. An evidence authenticating this transition is the frequent modifications to the corporate governance framework in Nigeria in a quest to provide the most suitable framework for the nation. The latest modification in 2019 still proved defective due to its absolute application to all firms contrary to the previous framework and as such, pointing to a high possibility of another modification again very soon. Thus, such transition and volatile governance system may cause an insignificant effect on performance until governance framework finds a stable and solid footing in the country.

However, debt and directors’ shareholding were found to exert significant and insignificant negative effect on firm performance respectively. Thus, it is recommended that the use of debt and directors’ shareholding as a governance mechanism should be cautiously used and not recklessly adopted while corporate authorities should fix a threshold (limit) for directors’ shareholding and debt in the corporate governance framework to keep firms sound. In addition, the new governance code in the country should be made stable and relatively applied to firms rather than its absolute application irrespective of their nature.

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