Asian Journal of Economics, Finance and Management

Volume 5, Issue 1, Page 152-161, 2023; Article no.AJEFM.1274

Corporate Governance and Bank Performance: A Study of Deposit Money Banks in Rivers State

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

Original Research Article

Received: 26/02/2023
Accepted: 01/05/2023
Published: 02/05/2023

ABSTRACT

This study investigates the relationship between corporate governance and firm value: a study of deposit money banks in Rivers State. Six null hypotheses were formulated from the study variables. The survey method was adopted to study sixty-eight (68) managers of deposit money banks in Rivers State. The null hypotheses were tested through the Spearman Rank Correlation coefficient statistical tool and the findings showed a significant positive relationship between the corporate governance and firm value. Thus, it was concluded that corporate governance influences the value of deposit money banks in Rivers State. Specifically, fairness and transparency of board members and the banks, significantly improves shareholders and investors' perception of value of a firm. In line with the findings, it is recommended that the management of deposit money banks should: ensure there is cordial interrelationship between the boards of the banks, the management and the shareholders through continuous consultations and carrying everyone along; and the government and regulators such as the CBN should have zero tolerance for below standard corporate governance practices by Nigeria banks. The central bank should be above board and transparent in dealings with the banks to ensure that all stakeholders' interests in the Nigeria banking sector are consistently protected.

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Keywords: Corporate governance; fairness; transparency; firm value; size; capital structure; profitability.

1. INTRODUCTION

The financial system relies heavily on banks to operate properly. Like a vein carrying blood, it is a conduit for the flow of money, the lifeblood of every economy. Approximately N168.4 trillion of GDP growth between 2017 and 2020 may be attributed to Nigeria's banking sector. Specifically, the industry is expected to contribute N37.8 trillion in 2018, N42.7 trillion in 2019, and N53.3 trillion in 2020 to the country's gross domestic product (GDP) [1]. “Even though these seem like good things for the economy, banks in this sector are facing problems that are getting worse because of the COVID-19 crisis. These problems include revenue pressure and low profitability (due to low interest rates and higher levels of capital), tighter regulations (because of the last financial crisis), and especially increasing competition from shadow banks and new digital entrants, which makes them even less valuable” [2].

“Firm value is of great importance since it determines the ultimate survival of a company” (Muruga, Somu & Mathivathani, 2013). According to Wahyudi and Pawestri (2006), “firm value is the amount the prospective buyers would be willing to pay if the firm was to be liquidated”. Sundaram and Inkpen (2004) describe “firm value maximization as a decision-making rule that brings benefits to all stakeholders. According to the shareholder theory, the primary goal of a company is usually defined as value maximization for the owners. This means maximizing the value of equity and thereby increasing the shareholder’s wealth”.

“According to the theory of firm, the main purpose for the existence of a firm is to maximize shareholder’s wealth or firm value” (Paminto, 2015). “By maximizing the firms value, shareholder’s wealth is maximized and thereby helping the organization to achieve the main goal of existence” (Dan, 2002). Ganesh et al. (2013) contends that “the value maximisation objective is considered superior to profit maximization objective. Maximizing the firm value is the basis upon which wealth maximization objective is based. Unlike the traditional profit maximizing goal, value maximization goal considers time value of money and is objective”. Lestari (2016) indicates that “firm value maximization is superior goal compared to other goals of a firm including profit maximisation, social responsibility and growth. Despite the significance of firm value in finance practice, it remains largely unclear if the same is significantly affected by corporate governance”.

It has been discovered that despite the corporate governance practices many companies claim to practice, most companies are still faced with corporate governance problems which have affected the performance of deposit money banks. This makes it necessary to investigate the effect of corporate governance on bank performance.

Previous research [3,4] has shown “a favourable and statistically significant relationship between good corporate governance practises and business performance”. According to the Institute of Chartered Accountants in England and Wales [5], the term "corporate governance" refers to a structure that guides and regulates the operations of an organisation or a firm. Numerous studies have been conducted on the topic of corporate governance and firm value over the years [6-10]. However, the vast majority of these studies have been conducted in developed nations. In these studies, good corporate governance was shown to be crucial to the success of any firm, whereas inadequate corporate governance was found to be an indicator of impending problems in businesses. Notwithstanding, cause of its focus on deposit money banks in Rivers State, Nigeria, and its aim to determine the association between corporate governance and firm value in a developing nation like Nigeria, this research is distinct from others of its kind.

1.1 Hypotheses

To guide the study, the following hypotheses were formulated:

H_{01}: There is no significant correlation between fairness and size.

H_{02}: There is no significant correlation between fairness and capital structure.

H_{03}: There is no significant correlation between fairness and profitability.

H_{04}: There is no significant correlation between transparency and size.

H_{05}: There is no significant correlation between transparency and capital structure.

H_{06}: There is no significant correlation between transparency and profitability.

2. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Agency theory

The concept of agency theory was first proposed by Jensen and Meckling in 1976, and it has since helped to shape the development of cutting-edge best practises in corporate governance. At the foundation of agency theory is the fact that managers and shareholders have distinct information demands. Those who depend on the expertise of corporate leaders but are not directly engaged in running the business should be very wary of the implications of this idea for corporate governance. In their roles as agents for the corporation, these executives must put the investors' interests first. In reality, however, professional managers often operate in their own self-interests, highlighting the need for a checking and balancing mechanism to guarantee that they are held responsible [11]. The separation of the CEO and the Chairman of the Board is an important method of monitoring the agency [12].

Adeusi [13] cites studies showing that poor performance stems from managers pursuing their own self-interest rather than the interests of the company's stakeholders when agency problems are high inside an organisation. The incidence of agency problems may be mitigated by using an efficient governance structure, according to a number of researchers [14]. However, new methods of corporate governance have been greatly influenced by the assumptions of agency theory. Effective organisational decision-making, according to agency theory, is dependent on incentives and self-interest. Agency theory exposes the hidden motivations behind company decisions: greed.

2.1.2 Corporate governance

According to Mong Dan Minow [15], "corporate governance" depicts the dynamic between all stakeholders in setting the company's strategy and evaluating its success. Company performance, regulatory compliance, risk management, and interpersonal connections all benefit from sound corporate governance practises. A decision-making framework used to manage and regulate the corporation; this is what Ferial [16] calls "good corporate governance." The goals of good corporate governance in a business are the protection of the company's stakeholders and the maximisation of profit. Therefore, excellent corporate governance may promote honest, ethical, and competent management inside an organisation. Therefore, effective corporate governance will entice shareholders to buy more shares. Consistency, responsibility, accountability, fairness, openness, and efficacy are the six tenets of good corporate governance, as outlined by Lukas and Basuki [17]. The values of fairness and openness are of particular relevance in our investigation.

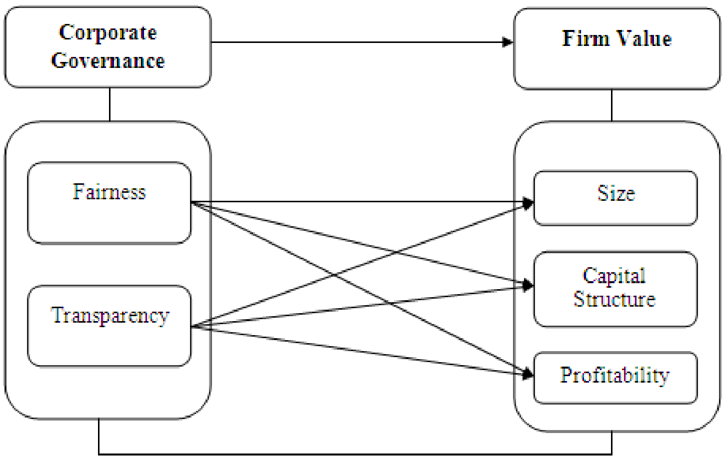

Fig. 1. A Model of the hypothesized relationship between corporate governance and firm value

2.1.3 Fairness

When we talk about fairness, we are referring to the practise of treating all parties involved fairly. Fairness to stakeholders is associated with a company's ability to withstand pressure from those parties (Pearse Trust, 2018). One of the tenets of good corporate governance is that businesses treat their shareholders and other stakeholders fairly, including the people and organisations who provide their resources [18]. Stakeholders have an obligation of fair dealing with the company's shareholders, suppliers, and customers [19].

2.1.4 Transparency

For a firm to be transparent, it must be open and forthcoming with information about itself and its operations to those who have a stake in the business [20]. Because it has such a significant impact on investor confidence and company success, transparency is crucial for every business. In addition, the corporation must be forthright with its stakeholders about its operations and all of its actions over the time frame in question [19].

2.1.5 Firm value

Management's effectiveness in executing the fiduciary duties given to them by shareholders is reflected in the firm's value [21]. Shareholders want the firm's worth to rise since it will improve their own financial situation. Maximising corporate value is a compromise between short-term profits and long-term returns for shareholders [22]. According to Jensen and Meckling [4], referenced in Suteja and colleagues [23], a company's primary objective is to maximise shareholder value.

The net cash flow from investment choices, growth, and the capital cost of the firm are all outcomes of management's efforts [24]. Investors place a high premium on the idea of firm value because it serves as a proxy for the market's estimation of the company's worth. Companies with strong core principles tend to do well financially [24]. Investors have a keen eye on the worth of the organisation. For the lender, the worth of a firm is proportional to its liquidity, or its ability to pay back the loan it has received [24]. If the investor does not believe in the company's indicated worth, they will assign a low value to the business [25].

2.1.6 Size

“A company's size is categorized based on its total assets and total equity, and this is known as its firm size. When a company's size is expressed in terms of total assets, it signifies that the more assets it has, the larger it is and the more value it generates” [26]. “When a firm has a lot of total assets, it shows that it is in a somewhat more stable situation and can make more money than a company with a small number of total assets” [27]. “Large total assets are an indication that a company has matured to the point where it generates positive cash flow and is thought to have promising prospects for a considerable amount of time” [28]. “Additionally, it shows that, compared to businesses with little total assets, the company is more reliable and capable of making a profit. Theoretically, larger businesses have more assurance than small businesses, which lowers the level of uncertainty over the business's prospects” [29].

2.1.7 Capital Structure

A company's capital structure may be determined by comparing the total debt to the total equity on the balance sheet at the end of the fiscal year [24]. The Debt to Equity Ratio (DER) is a useful indicator of capital structure. Until the DER reaches its optimal position in line with the tradeoff theory, a rise in the DER will lead to an increase in the firm's value. Adding more debt (raising the DER value) may boost profits, according to trade-off theory, but only if the extra funds are put to good use. The impact of capital structure on stock price has been studied by Ahmad et al. [30]. According to Antwi et al. [31], the capital structure of a firm does not significantly affect its value. This is in contrast to the claims of Rahman [25], Suffah and Riduwan [32], and Manoppo and Arie [33], all of whom argue that capital structure is a crucial factor in determining a company's worth.

2.1.8 Profitability

The extent to which an investment or sale generates a profit may be gauged by looking at its profitability [34]. Management's capacity to increase corporate profitability is another indicator of their efficacy [35]. High profitability is a favourable indicator for investors since it suggests the firm will continue to do well in the future [36,37]. The degree of financial liquidity and security is mostly determined by profitability. Investors consider a company's financial liquidity when making profit analysis decisions [23].

Table 1. Empirical review

S/No	Author/Year	Country	Topic/Objective	Method Used	Findings
1.	Perez de Toledo & Bocatto [38]	Canada	Does Corporate Governance Matter after All? Quality of Governance and the Value of Canadian Firms after 2008	They estimate the effect of governance on stock return by using different econometric approaches in order to control for the endogeneity of governance structures.	The results show that larger firms and firms with higher market value (measured by the Tobin's q ratio) adopt better standards of governance. However, the results also show a negative significant impact of governance on stock return.
2.	Emeka Nwokeji. N. A. [39]	Nigeria	Corporate Governance and Firm Value : Evidence from Quoted Nonfinancial Firms in Nigeria.	Specific corporate governance mechanism were the independent variables while Tobin's q was used to proxy firm market value. Data was extracted through content analysis from annual report of 93 non-financial firms listed on the Nigerian Stock Exchange from 2006 to 2015 base on availability of data. Data were analysed with pooled ordinary least square regression conducting diagnostic tests to confirm the assumptions of the regression.	Analysis revealed that: board size, board gender diversity and audit committee size positively and significantly affect firm market value. Board independence and board remuneration has significant negative effect on market value of sampled companies. Directors' shareholding has insignificant negative effect on market value while auditors' credibility has positive but insignificant effect on market value.
3.	Bhat et al. [40]	Pakistan	Corporate governance and firm value : a comparative analysis of state and non-state owned companies in the context of Pakistan.	This study opts for an unbalanced sample of state and non-state owned enterprises for the period 2010-2014. Panel data regression is adopted for estimation of main results. The suitable model, i.e. fixed and random effect model, is selected using Hausman specification test.	Board independence has a significant and positive relationship with firm value only for state-owned companies. Market capitalization and return on assets have a significant and positive association with firm value for both. state- and non-state-owned enterprises. All other variables are found insignificant for both state and non-state-owned companies, but the results are consistent with those reported in previous studies.
4.	Yanti & Patrisia [41]	Indonesia	The impact of Corporate Governance Mechanisms on Firm Value.	The population of this research is 539 companies which are registered in Indonesia Stock Exchange. By using purposive sampling method, they used 242 companies which are listed from 2013 to 2017. The analysis technique is multiple linear regression analysis	The results show that the size of director board, independent board, audit committee, and institutional ownership have positive and significant impacts on firm value.
5.	Bakay Ergene & Karadeniz [42]	Turkey	Corporate governance and firm value : Evidence from lodging companies.	The companies were analyzed separately using a classification and regression tree (CRT) analysis.	When the companies' governance scores were similar, corporate governance showed no distinguishing variable on firm value but is a hygiene factor. The analysis also found negative relationships between value and size. Also, positive relationships were found between value and the debt ratio of the lodging companies from the most valuable brands.

3. METHODOLOGY

"The study adopted the survey research design as it allows the researcher to collect wide range of data across place and time" (Baridam, 2001). The sample elements for the study comprised of all managers and supervisors of deposit money banks in Rivers State. Out of the one hundred and eleven (111) copies of the questionnaire distributed, on seventy-two (72) were responded to and returned; of which only sixty eight (68) were usable, representing 61.26% percent. The research instrument satisfied both face and content validity, and the items all recorded Cronbach Alpha (α) values above Nunnally and Bernstein's (1994) 0.7 minimum threshold. The data extracted from the responses were analyzed using Spearman Rank Order Correlation Coefficient was also applied to test the stated hypotheses at 0.05 level of significance. The study captured fairness, transparency as proxies of corporate governance while size, capital structure and profitability as proxies of performance.

4. RESULTS

4.1 Bivariate Level Analyses

This section is concerned with testing hypotheses stated earlier using Spearman's rank order correlation coefficient statistical tool and the p-values obtained. Hence the decision rule: reject null hypothesis if p-value obtained is less than the alpha value of 0.05 and accept the null hypothesis when p-value is greater than the alpha value (0.05).

H_{01}: There is no significant relationship between fairness and size.
H_{02}: There is no significant relationship between fairness and capital structure.
H_{03}: There is no significant relationship between fairness and profitability.

Table 2 presents Spearman's rank order correlation run to find out the relationship between fairness and measures of firm value as reported by sixty eight (68) respondents. A strong positive correlation coefficient value was reported between fairness and size which was statistically significant (rho = .966**, p = .000 < 0.05 (alpha value) this suggests that there is significant relationship between the variables; also fairness and capital structure reported significant values of correlation (rho = .982**, p = .000 < 0.05); also fairness and profitability reported significant values of correlation (rho = .979**, p = .000 < 0.05). Thus, the null hypotheses ($H0_{1-3}$) are rejected and we state that there is significant relationship between fairness and the measures of firm value of deposit money banks in Rivers State.

H_{04}: There is no significant relationship between transparency and size.
H_{05}: There is no significant relationship between transparency and capital structure.
H_{06}: There is no significant relationship between transparency and profitability.

Table 3 presents Spearman's rank order correlation run to find out the relationship between transparency and measures of firm value as reported by sixty eight (68) respondents. A strong positive correlation coefficient value was reported between transparency and size which was statistically significant (rho = .956**, p = .000 < 0.05 (alpha value) this suggests that there is significant relationship between the variables; also transparency and capital structure reported significant values of correlation (rho = .972**, p = .000 < 0.05); also transparency and profitability reported significant values of correlation (rho = .978**, p = .000 < 0.05). The null hypotheses ($H0_{4-6}$) are rejected and we state that there is significant relationship between transparency and the measures of firm value of deposit money banks in Rivers State.

5. DISCUSSION

The outcome of the analyses revealed a significant positive relationship between the dimensions of corporate governance and the measures of firm value of deposit money banks in Rivers State. This outcome is in tandem with existing studies as captured in the empirical review. For instance, Perez de Toledo and Bocatto [38] examined "whether corporate governance matter with respect to quality of Governance and the value of Canadian Firms after 2008. Their results show that larger firms and firms with higher market value (measured by the Tobin's q ratio) adopt better standards of governance. However, the results also show a negative significant impact of governance on stock return". Emeka-Nwokeji [39] undertook "a study on corporate governance and firm value, with evidence from quoted nonfinancial firms in Nigeria. Analysis revealed that: board size, board gender diversity and audit committee size

Table 2. Correlation between fairness and firm value

Correlations						
			Fairness	**Size**	**Capital Structure**	**Profitability**
Spearman's rho	**Fairness**	Correlation Coefficient	1.000	.966**	.982**	.979**
		Sig. (2-tailed)	.	.000	.000	.000
		N	68	68	68	68
	Size	Correlation Coefficient	.966**	1.000	.983**	.979**
		Sig. (2-tailed)	.000	.	.000	.000
		N	68	68	68	68
	Capital Structure	Correlation Coefficient	.982**	.983**	1.000	.989**
		Sig. (2-tailed)	.000	.000	.	.000
		N	68	68	68	68
	Profitability	Correlation Coefficient	.979**	.979**	.989**	1.000
		Sig. (2-tailed)	.000	.000	.000	.
		N	68	68	68	68

***. Correlation is significant at the 0.05 level (2-tailed).*
SPSS output, Version 20 – Field Survey, 2023

Table 3. Correlation between transparency and firm value

Correlations						
			Transparency	**Size**	**Capital Structure**	**Profitability**
Spearman's rho	**Transparency**	Correlation Coefficient	1.000	.956**	.972**	.978**
		Sig. (2-tailed)	.	.000	.000	.000
		N	68	68	68	68
	Size	Correlation Coefficient	.956**	1.000	.983**	.979**
		Sig. (2-tailed)	.000	.	.000	.000
		N	68	68	68	68
	Capital Structure	Correlation Coefficient	.972**	.983**	1.000	.989**
		Sig. (2-tailed)	.000	.000	.	.000
		N	68	68	68	68
	Profitability	Correlation Coefficient	.978**	.979**	.989**	1.000
		Sig. (2-tailed)	.000	.000	.000	.
		N	68	68	68	68

***. Correlation is significant at the 0.05 level (2-tailed).*
SPSS output, Version 20 – Field Survey, 2023

positively and significantly affect firm market value. Board independence and board remuneration has significant negative effect on market value of sampled companies. Directors' shareholding has insignificant negative effect on market value while auditors' credibility has positive but insignificant effect on market value".

Bhat et al. [40], who studied the link between corporate governance and company value, went even further and discovered that only state-owned enterprises benefited from a positive correlation between board independence and firm value. Firm value is significantly and positively correlated with market capitalization and return on assets for both state-owned and privately held businesses. The findings are comparable with those discovered in earlier research, where all other factors were shown to be unimportant for both state-owned and privately-held businesses. The effect of corporate governance measures on business value was investigated by Yanti and Patrisia [41]. The size of the board of directors, the number of independent board members, the presence of an audit committee, and institutional ownership all have positive and statistically significant effects on the value of the company. Bakay Ergene and Karadeniz [42] have evaluated the relationship between corporate governance and business value using data from the hospitality industry. Corporate governance was shown to be a hygiene component rather than a differentiating feature in firm value when the governance ratings of the organisations were equal.

Despite contradictory findings from the evaluated empirical research, this study's findings provide credence to others that have shown a statistically significant correlation between corporate governance and the firm value of Rivers State's deposit money banks.

6. CONCLUSION AND IMPLICATIONS

From the findings, it is concluded that corporate governance influences the value of deposit money banks in Rivers State. Specifically, fairness and transparency among board members and the banks significantly improve shareholders and investors' perceptions of the value of a firm. Overall, the study established and contributes to knowledge indicating that poor corporate governance is responsible for the persistent crises in the Nigerian banking sector. The study will be of importance to the banking sector and also to the government for policy making. In line with the findings, the paper recommends as follows:

i. There should be cordial interrelationship between the boards of the banks, the management and the shareholders through continuous consultations and carrying everyone along.
ii. The government and regulators such as the CBN should have zero tolerance for below standard corporate governance practices by Nigeria banks. The central bank should be above board and transparent in dealings with the banks to ensure that all stakeholders' interests in the Nigeria banking sector are consistently protected.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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