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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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BOARD SIZE, CHIEF COMPLIANCE OFFICER AND FINANCIAL PERFORMANCE OF BANKS IN NIGERIA

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ABSTRACT

In Nigeria, the need for the practice of good corporate governance, especially in banks has been recognized. Codes were issued by the security and exchange commission in 2003 before the banking consolidation and another code was also issued after the consolidation, in 2006 by the Central Bank of Nigeria(CBN) . A recent evaluation of the implementation of these codes by the Central Bank revealed that many banks were in breach of the provisions of the codes. As a result many banks were found to be unhealthy. The major objective of this study is to determine the relationship and impact of board size on the performance of banks considered healthy by the central bank of Nigeria. Furthermore, the study had also as an objective to establish whether such an impact was attributable to the existence of a corporate governance compliance officer. The 12 banks that emerged as healthy banks, made the sample of the study. Data covering the period 2006-2010 were extracted from their financial statements. The study employed two techniques (t-test and anova) to test for the three hypotheses formulated from the mathematical models outlined for the study; the multiple regression, was employed to establish the relationship between the variables. The independent samples t-test was used to concur with the impact revealed by the anova. Findings reveal, a large board size of 20 relates to profitability but does not significantly impact on financial performance.

KEYWORDS

Board size, Chief Compliance Officer, Financial Performance.

1. INTRODUCTION

Developed countries and developing economies like Nigeria had brought to the front burner, the need for the practice of good corporate governance. The need arose as a result of sudden failure of major corporate institutions. Existing literature, has explained corporate governance as a system by which corporations are directed and managed with a view to increasing shareholder value and meeting the expectations of other stakeholders. In Nigeria, corporations are directed by regulatory organs like the Securities and Exchange Commission (SEC), the Central Bank of Nigeria (CBN) and managed by their board of directors. In directing corporations, it was discovered by SEC in 2003, that poor corporate governance was one of the major factors in virtually all known instances of financial institutions' distress in the country. Corporate governance was still at a rudimentary stage, as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place.

Consequently, in 2003, the Nigerian Securities and Exchange Commission (SEC) released a Code of Best Practices on Corporate Governance for public quoted companies. Banks had been expected to comply with its provisions. In addition to that, banks were further directed to comply with the Code of Corporate Governance for Banks and Other Financial Institutions approved earlier in the same year by the Bankers' Committee. However, in 2006, the consolidation of the banking industry necessitated a review of the existing code for the Nigerian Banks. The new code was therefore, developed to compliment the earlier ones and enhance their effectiveness for the Nigerian banking industry. Compliance with the provisions of the Code was mandatory.

One of the provisions of the code is a maximum board size of 20 directors. This position did not uphold the board size of 15 of the earlier code issued by the Securities and Exchange Commission (SEC) in 2003. Another provision in the code is that of banks' Chief Compliance Officer (CCO). The officer is expected, in addition to monitoring compliance with money laundering requirements; to monitor the implementation of the corporate governance code. The CCO is required to make monthly returns to the CBN on all whistle blowing reports and corporate governance related breaches. The CCO together with the CEO of each bank should at the end of each year certify to the CBN that they are (not apart from) aware of any other violation of the Corporate Governance Code. The corporate governance compliance status report should be included in the audited financial statements.

From the discussions above, these reforms carried out by the CBN in the banking sector, as well as the code issued by the SEC were to bring about optimised corporate governance practices in the industry, if banks do actually comply with these codes in their entirety. However, recent development in the banking industry has shown that, noncompliance with the code by some banks in the industry, affected the quality of their operations which resulted in their being classified as unhealthy by the Central Bank of Nigeria. From this view, the following can be deduced; when banks do actually work with these directives, especially in the areas of having the stipulated board size and the existence of a Chief Compliance Officer (CCO), there is the possibility of banks, optimising their potentials through best corporate governance practices.

It is in this context that the study seeks to address the following questions; to what extent does board size significantly relate and impact on financial performance (FP) of the 12 banks that were considered healthy by the CBN, and whether the relationship and impact are attributable to the fact that, the CCO exists to discharge his/her duties?

Besides seeking to address these questions, there is an attempt by the study to contribute to bridging the existing gap in the available literature on the impact of corporate governance on financial performance in financial institutions, with particular reference to board size, compliance efforts and profitability. This is influenced by the fact that, most studies conducted in Nigeria focused on relationship between corporate governance and firm performance in mostly non-financial institutions, like Adenikinju and Ayorinde, (2001); Sanda, Mikailu and Garba, (2005); Kajola, (2008); and Iyiegbuniwe and Oghojafor, (2011). This study is a mono-sector, the 12 banks considered healthy by the Central Bank of Nigeria form the sample for this study. The remaining part of this paper is structured into five sections, section one is the introduction including this paragraph. Section two, presents the literature in concepts, prior studies and theoretical review. Immediately after that is the methodology, presenting the model and how the study defined and measured it variables. Afterwards, is the discussion of findings and based on the findings the paper concludes and proffer recommendation in the last section of the paper.

2. LITERATURE REVIEW AND CONCEPTUAL FRAME WORK

2.1 BOARD SIZE

Board size is the dimension or the number of individuals, in terms of how large or small the representation of the board is. As earlier mentioned, the code emphasizes that, the number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors (CBN code, 2006) and 15 directors (SEC code, 2003). What this implies is that, large board sizes are emphasized by both codes.

Extant literature though not in prosperity, has revealed mixed positions regarding board size and firm performance. Some studies posit that the smaller the board size of 7-8, the higher the performance, (Lipton and Lorsch 1992; Jensen 1993 ;). It is on this basis that Jensen (1993:865) contends that "keeping boards small can help improve their performance"; when boards are large it becomes easier for the CEO to control them. On the other hand, some studies posit that, the higher the number of directors that sit on the board the better the performance (Belkhir, 2008; Adams and Mehran, 2010). Studies like those of Fich and Shivdasani (2006) and Adams and Mehran (2010) revealed that corporate performance can only deteriorate when busier directors serve on the board. But there are studies that are indifferent to the number of directors that make a board size but preoccupied their research on the link between board size and performance. Examples include the studies conducted by Yermack (1996) and Eisenberg et al, (1998); both studies found a negative relationship between board size and firm Performance. Larger boards make coordination of tasks more difficult and therefore make decision making less effective. Furthermore other studies find that the negative relationship between board size and performance is not strong to the difference in performance measure (Bhagat and Black 2002).

Arguing differently, Mak and Li (2001) posit that, the sign and significance of the relationship between board size and performance is sensitive to the estimation method. They evidence that, board characteristics are endogenous and that failing to take endogeneity into account may reveal a significant relationship with performance that is not real.

3. METHODOLOGY

The objective of this study is to assess the relationship and impact of corporate governance (CG){board size} on corporate financial performance (FP){profitability} of the 12 banks that were considered healthy by the CBN, and to establish whether the impact and relationship is attributable to the fact that, the CCO exist.

To achieve this objective, content analysis was used to collect CG and FP data from the annual financial reports of 12 banks (Access, Fidelity, Guarantee trust, First, First city monument, Stanbic IBTC, Skye, Zenith, Sterling, Eco, Diamond, and UBA) for the period 2006-2010. The choice of this period is influenced by the fact that, the period covers five years immediately after the consolidation of the banking sector. The Nigerian government, through the Central Bank, undertook the consolidation of the banking sector with the aim of producing stronger and more virile banking system that will contribute to the development of the national economy. The study developed two models as the basis for testing the hypotheses formulated for this study. The study specified two accounting ratios (Profit before tax margin [PBTM] and Profit after tax margin [PATM]) as proxies for the dependent variable, corporate financial performance (FP). The choice of these proxies is based on the assertions that, they indicate whether or not the expenses of running a business are proportionate to the amount of trade. For the independent variable corporate governance (CG) {Board size [BS] and Chief Compliance Officer [CCO]} were used to represent it. The choice of these proxies is based on the objective of this study, which is to know whether the impact of GC on FP is attributable to it. SPSS version 17 was used to aid the analysis of data collected.

3.1 POPULATION AND SAMPLE OF THE STUDY

The population of the study is the 12 banks out of the 23 banks quoted on the Nigerian stock exchange. These 12 were considered healthy by the Central Bank of Nigeria after a stress test conducted on all the banks in the country. These banks are also the sample of this study. This implies n = N = 12. Where:

n = Sample size

N = Population size

Arising from the above, considering the period under review (2006-2010), a total of 60 annual reports and accounts of the following banks; First bank, Union bank, Guarantee trust bank, Sterling bank, Wema bank, FCM bank, Skye bank, Diamond bank, Eco bank, and Zenith bank were reviewed and required data extracted.

3.2 VARIABLE SPECIFICATION

Based on the objectives of this study, three hypotheses were formulated. For hypothesis one, the study specified two accounting ratios (Profit before tax margin [PBTM], Profit after tax margin [PATM]) as proxies for the dependent variable, financial performance (FP). The formula for the proxy, profit before tax margin is

$$\frac{\text{Profit before tax}}{\text{Gross earnings}} \times 100$$

The formula for the proxy, profit after tax margin is

$$\frac{\text{Profit after tax}}{\text{Gross earnings}} \times 100$$

The variables were specified to test the following null hypothesis:

Ho_1 Board size has no significant impact on profitability of healthy banks in Nigeria.

For hypothesis two and three, the proxies for the dependent variable (PBT & PAT) indices were used. While the independent variable proxies were treated as a dichotomous variable, i.e. binary number 1 was assigned to the years within the period under review, when the directives in the code for a board size of not more than 20 and the existence of a chief compliance officer are complied with, if other wise 0 was assigned. The following mathematical models: FP (Profitability {PBTM &PATM}) = F (BS) and

FP (Profitability {PBTM &PATM}) = F (CCO) was developed to test the following null hypotheses:

Ho_2 Board size is not significantly related to profitability of healthy banks in Nigeria.

Ho_3 The existence of a chief compliance officer does not significantly enhance profitability of healthy banks in Nigeria.

3.3 TECHNIQUES OF DATA ANALYSIS

The independent sample t-test was employed to analyse data gathered for hypothesis one. To achieve the independent samples for the study, the proxies for the dependent variable were grouped into 2 samples. Profit before tax was categorized as group one and it was assigned binary number 1. For group 2, profit after tax was assigned with binary number 2. Multiple Regressions (Analysis of variance [ANOVA]) was used to analyse hypothesis two and three.

4. DISCUSSION OF FINDINGS

Hypothesis were formulated to achieve the objective of this study, which is to determine whether board size significantly relates and impacts on profitability of banks considered healthy in Nigeria.

TABLE 4.1 a: GROUP STATISTICS

	Financial Performance (FP)	N	Mean	Std. Deviation	Std. Error Mean
Board Size (BS)	PBTM	5	21.7560	10.47358	4.68393
	PATM	5	15.8550	9.26951	4.63475

Source: spss out put listing 2012

In the table 4.1a above, the mean for group one (PBTM) is 21.7560 and that of group two (PATM) is 15.8550. The standard deviation for group one is 10.47358 with an error mean of 4.68393. For group two, the deviation is 9.26951 with an error of 4.63475. The result reveals the difference between the means of the two groups is not wide. This implies it is not significant.

TABLE 4.1 b: INDEPENDENT SAMPLES TEST

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
		Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower
Corporate Governance (CG)	Equal variances assumed	.101	.759	.882	7	.407	5.90100	6.69167	-9.92230	21.72430
	Equal variances not assumed			.896	6.877	.401	5.90100	6.58939	-9.73706	21.53906

Source: spss out put listing 2012

In the table 4.1b above, the F value is at 0.10, this means the levene's test is not significant. This translates into the t value calculated with the pooled variance estimate (equal variance) to be appropriate. With a 2- Tail significant value (i.e. p-value) of 0.40, the difference between the mean is not significant. This implies, board size does not have an impact on profitability of banks. Based on these results the hypotheses which states:

Ho$_1$ Board size has no significant impact on profitability of healthy banks in Nigeria, is accepted.

For the second hypothesis, tables' 4.2a-4.2b below were used to test the hypothesis.

In the anova table below, the F value is 5.358 with a significant level of 0.024. This implies the presence of a none genuine significant relationship between board size and profitability.

TABLE 4.2 a: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	1470.784	1	1470.784	5.358	.024
Residual	15920.417	58	274.490		
Total	17391.201	59			

a. Predictors: (Constant), Board size

b. Dependent Variable: Profit before tax

Source: SPSS output listing 2012

In the ANOVA table 4.2b below, the F value of 7.112 with a significant level of 0.010 reveals an ungenuine significant relationship between board size and profitability.

TABLE 4.2 b: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	1179.802	1	1179.802	7.112	.010
Residual	9622.225	58	165.900		
Total	10802.026	59			

a. Predictors: (Constant), Board size

b. Dependent Variable: Profit after tax margin

Source: SPSS output listing 2012

In the anova table below, the F value of 0.244 with a significant level of 0.623 indicates the absence of a significant relationship.

TABLE 4.3 a: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	72.900	1	72.900	.244	.623
Residual	17318.301	58	298.591		
Total	17391.201	59			

a. Predictors: (Constant), Chief Compliance Officer

b. Dependent Variable: Profit before tax margin

Source: SPSS output listing 2012

In the anova table below, the F value of 0.450 with a significant level of 0.505 indicates the absence of a significant relationship.

Table 4.3b ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	83.117	1	83.117	.450	.505
Residual	10718.909	58	184.809		
Total	10802.026	59			

a. Predictors: (Constant), Chief Compliance Officer

b. Dependent Variable: Profit after tax

Source: SPSS output listing 2012

From the tables 4.2-4.3 above, the findings reveal a significant relationship between board size and profitability of banks. However, the relationship is not attributable to the existence of a compliance officer. This implies the acceptance of hypothesis two which states:

Ho$_2$ Board size is not significantly related to profitability of healthy banks in Nigeria.

On the other hand, the third hypothesis: **Ho_3** the existence of a chief compliance officer does not significantly enhance profitability of healthy banks in Nigeria, was rejected.

5. CONCLUSIONS

In Nigeria, as earlier mention, the corporate governance code issued by the central bank of Nigeria (CBN) requires a maximum board size of 20 and also the existence of a Chief Compliance Officer (CCO). The officer is expected, in addition to monitoring compliance with money laundering requirements; monitor the implementation of the corporate governance code. The CCO is required to make monthly returns to the CBN on all whistle blowing reports and corporate governance related breaches. The CCO together with the CEO of each bank should certify each year to the CBN that they are (not apart from) aware of any other violation of the Corporate Governance Code. The corporate governance compliance status report should be included in the audited financial statements.

Based on this premise, the study had, as an objective to determine the relationship and impact of Board size (BS) on Profitability of the twelve banks that were considered healthy by the central bank of Nigeria and to know whether the relationship and impact is attributable to the existence of a chief compliance officer. Based on the findings, the study concludes that board size has a non genuine significant relationship with profitability of banks and it is not attributable to the existence of a chief compliance officer. This is in line with the findings of Belkhir (2008) and Adams and Mehran (2010). Secondly, board size has been found to have no impact on profitability of banks.

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals