FUNAI JOURNAL OF ACCOUNTING,

BUSINESS AND FINANCE (FUJABF)

Vol. 1. N0. 1. 2017. Pp 140-150. Maiden Edition

Federal University
Ndufu-Alike Ikwo
Ebonyi State Nigeria

Implications of Corporate Governance on Banking System Stability in Nigeria: 2004 – 2014

Chioma Iheruome Ibiam and Justin E. Nwogo

Department of Accountancy, Banking and Finance, Ebonyi State University, Abakaliki – Nigeria
Corresponding Email: alunmachioma@yahoo.co.uk

ABSTRACT

The broad objective of this study is to investigate the implications of poor corporate governance practice on the banking system stability in Nigeria and other specific objectives. To achieve these objectives, ex-post facto research design and panel regression analysis were adopted. The dependent variable is non-performing loan to total assets and the independent variables are board composition, board size, bank size, and net income; the following findings were made at 5 percent level of significance; the study accepted the first alternate hypothesis that board composition has no significant effect on banking system stability in Nigeria. For the second hypothesis, the study accepted the second null hypothesis and rejected the alternate hypothesis that board size has significant effect on banking system stability in Nigeria. The study rejected the third hypothesis which states that bank size has no significant effect on banking system stability in Nigeria. The implications of these findings are that when the composition of the board increases, it affects the banking system stability so much as it increases the allowances to be paid thereby increasing the expenses to be incurred by banks. It was also seen that stability of the banking system does not really relied on the size of a bank. Higher number of non- executive independent directors promotes rational decisions and creates value for the shareholders. Based on the above findings, it was recommended that the regulatory and supervisory authorities should monitor banks closely to ensure that banks comply with the corporate governance codes especially when it has to do with board size since it have a significant effect on stability of the banking system.

Keywords: *Bank Size, Banking System Stability, Board Size, Corporate Governance, Non performing Loan, Total Assets.*

Introduction

The increasing rate of failure among reputable companies around the world has necessitated a lot of enquiry as to the reason why good established, reputable companies should fail. Globally, it has witnessed the collapse of big companies like Enron, WorldCom, Rank Xerox, Parmalat, Bank of Credit and Commerce International (BCCI) (Eleje and Olopade, 2014). In Nigeria, corporate breakdown has been occurring frequently in the financial service sector which led to the death of many banks like; Abacus Merchant Bank Limited, African Continental Bank Limited, Royal Merchant Bank Limited, Rims merchant Bank Limited, Financial Merchant Bank Nigerian Limited, Progress Bank PLC and had led to the merging and acquiring or taking over of some banks such as Intercontinental Bank PLC, Fin Bank PLC, Spring Bank, Afrik Bank and Bank PHB (Alfaki, 2006). Recently Heritage Bank has taking over Enterprise bank (Spring Bank) and the other two to be sold soonest.

Soludo (2005) states that as at 1998 a total of 26 banks had been liquidated and at the time of consolidation in 2005, 11 banks were dead literally. According to John (2006) the banks that failed had common features such as; violation and non compliance with the internal control of the company by the Chief Executive, leadership of the company is being vested on the shoulder of an individual(being the chairman and chief executive with domineering power) irregular board meetings, improper board composition, fraud, lack of disclosure of the account of the company. In Nigerian banking industry also, according to Eleje 2014, issues like lack of integrity, decency, honesty, transparency, accountability, manipulation of figures in the statement of financial position with unearned income amounting to high non-performing loan, week capital base, unskilled board of directors and management team may have contributed a lot to the failure of banks. In an attempt to design a code that will be appropriate to stop these failures, corporate governance came into play.

Cadbury Report, 1992 states that Corporate Governance includes practices and procedures to assure that a company is managed in such a way that it achieves its objectives. The term can also be referred to the rules, processes, or laws by which institutions are operated, regulated and governed with its primary purpose to promote a transparent and efficient banking system that will engender the rule of law and encourage division of responsibilities in a professional and objective manner (Okafor 2011). These objectives would be to maximize the returns to its shareholders. However, deferent interest of other stakeholders is recognized. In addition, the organization has to function within its environmental guidelines and constraints which include behaving in an ethical manner and in compliance with laws and regulations. According to Heidi and Marleen (2003), banking supervision cannot function well if sound corporate governance is not in place. Boards of directors have responsibility for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to make sure that an appropriate governance structure is in place. The purpose of corporate governance is to facilitate effective and prudent management that can lead to the long-term success of banks. It is particularly important in the banking sector because the integrity of bank management defines the quality of banking service delivery and influences the overall performance of the sector. Poor corporate governance reflect more on issues relating to bank size, inappropriate board composition and size, incept bank managers, high non performing loans (Anyanuw, 1993).

Banking system stability refers to a state in which the banking system functions properly and participants such as firms and individuals have confidence in the system (Bank of Japan, 1998).The term can also be seen as the state in which the financial system, i.e. the financial institutional system is resistant to economic shocks and is fit to smoothly fulfill its basic functions such as the intermediation of financial funds, management of risks, the arrangement of payments. It is the resiliency of the financial system to unanticipated adverse shocks while enabling the continuing smooth function of the financial system intermediation process (CBN, 2010). Stability is a necessary condition for effective economic growth and banking system development. Banking industry will not work properly when there is instability in the system; as it disturbs performance and impedes the healthy development of economy (William, 2013). Banking system stability is very important as it would contribute to broader economic growth and rising standard of living of the citizens of a country. Banking system performs one of the most important functions in the welfare of its citizens by supporting the ability of households and firms to hold and transfer financial assets with confidence.

Effective corporate governance practice provides a structure that works for the benefit of stakeholders by ensuring that the enterprise cleaves to accepted ethical standards and best practices as well as formal laws (Bollard, 2003). It is the back bone of a country's economic growth and stability. For instance, sectors like banking industry, the capacity to deliver their core mandates is dependent on the strength of the corporate governance practice in place. Corporate governance has received increased attention because of high-profile financial scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers (CBN, 2006).

The recent financial crisis further reinforced the message that corporate governance practices of firms especially that of financial institutions is very important and should always aim at protecting the interests of all stakeholders, which include shareholders, depositors, creditors, regulators and the public (American Law Institute, 1992). The overall objective of corporate governance is to achieve defined corporate objectives and in the process maximize shareholders' value while satisfying the legitimate expectations of the shareholders.

Specifically, the code provides that the board of directors should be composed of qualified people of proven integrity, knowledgeable in business and financial matters. The government's direct and indirect equity holding in any bank shall be limited to 10% and all equity holding of above 10% by any single investor in a bank shall require the approval of the CBN (Okafor 2011).

In the banking industry, the retention of public confidence through the enthronement of good corporate governance remains utmost importance given the role of the industry in the mobilization and the allocation of credit from the surplus to the deficit sector of the economy, the payment and settlement system and the implementation of monetary policy. In this study the research variables that were used are board composition; making up total number of non executive directors to total directors, board size measured as total number of directors, bank size measured as total deposit to total assets and banking system stability which was proxied as non performing loan to total assets this is in line with work carried out by Angahar and Mejabi (2014).

Statement of Problem

Banks are at the heart of the world's recent financial crisis (Uwuibe 2011). To a large extent, these problems were as a result of poor corporate governance in the banking industry. In Nigeria before the consolidation exercise, the banking industry had 89 banks whose performance nearly led to sinking of customer's confidence (Akpan, 2007). A study conducted by Okafor (2011) indicated that poor corporate governance was implicated in most known cases of bank distress in the country. Weak corporate governance manifested in the form of weak internal control system, excessive risk management, insider abuses and fraudulent practices, absence of or non compliance to credit limits given by the authority, deliberate disobedient to the principles of prudent lending (Soludo 2004). This claim is supported by the Nigeria Security and Exchange Commission (SEC) survey carried out in 2004, which shows that corporate governance was at a minimal stage, as only about 40% of quoted companies including banks had as at that date approved and operational codes of corporate governance (CBN, 2006). Deep changes in this area are necessary to reinforce the banking sector stability. The boards of directors were further criticized for the diminution in shareholders' wealth and corporate failure. They were said to have been in the highlight for the fraud cases that had resulted in the failure of major corporations, such as Enron, WorldCom and Global Crossing. It was in reaction to the poor governance statures in the Nigerian banking system that the CBN in 2006 came up with the code of corporate governance. Despite this code, a lot of governance issues have continued to challenge the stability of the banking system.

The series of widely publicized cases of accounting improprieties recorded in the Nigerian banking industry in 2009 (for example, Oceanic Bank, Intercontinental Bank, Union Bank, Afri Bank, Fin Bank and Spring Bank) were related to the lack of vigilant oversight functions by the board of directors, the board surrendering control to corporate managers who pursue their own self-interests and the board being negligent in its accountability to stakeholders (Uadiale, 2010).

In August 2009 and October 2009 several CEOs and directors of banks in Nigeria were arrested and some removed from their positions because of the observed non-performing loans that were given to themselves, relations and friends and numerous incidence of fraud (CBN, 2006). Some of the banks that could not meet the Central Bank of Nigeria (CBN) recapitalization requirement in 2006 were found to be encumbered with non-performing loans that were given to directors and their friends (CBN

2006). Following the wide industry audit of all commercial banks in Nigeria, on August 2011, the CBN revoked the operating license of Bank PHB along with that of Afri Bank and Spring Bank because they were badly managed and undercapitalized.

Sanusi (2010) agreed that the weak corporate governance and unbridled corruption in financial institutions were at the root of the banking sector crisis that almost led to the collapse of the system in 2009. It is in the light of the above problems, that this research work tends to study the implications of poor corporate governance practice on the banking system stability in Nigeria.

Objectives of the Study

The broad objective of the study is to assess the implications of poor corporate governance practice on banking system stability in Nigeria.
The specific objectives of the study will be as follows;

i. To evaluate the effect of board composition on the banking system stability in Nigeria.
ii. To examine the effect of board size on the banking system stability in Nigeria.
iii. To ascertain the effect of bank size on the banking system stability in Nigeria.
iv. To evaluate the effect of net income on the banking system stability in Nigeria.

Review of Related Literature

Conceptual Review

Banking system can be characterized as stable in the absence of excessive volatility, stress or crises. According to European Central Bank (2007), financial system stability can be defined as a condition in which the financial system – comprising financial intermediaries, markets and infrastructures is capable of withstanding shocks and the unraveling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities. Banking instability on the other hand can be defined as entailing heightened risk of banking crisis – a major collapse of the banking industry, inability to provide payment services or to allocate credit (Davis 2003 Deutsche Bundesbank (2003) opines banking system stability as "steady state in which the financial system efficiently performs its key economic functions, such as allocating resources and spreading risk as well as settling payments". In other terms, we relate banking system stability to a sound banking system that primary constitutes of solvent financial institutions fulfilling above named functions. According to IMF (2003) and Segoviano et al. (2009) banking system instability can arise either through idiosyncratic components related to poor banking practices adversely affecting an individual bank's solvency, from systematic components initiated by aggregate shocks entailing financial strains for the banking system or a combination of both.

Issing (2003), states that banking system stability has two different positive definitions emerging from literature. First, those taking a systematic view and emphasizing on the residence of the banking system as a key component of stability. According to him, an individual banking failure is not necessarily a proof of banking system instability. That such event can even contribute to more efficient financial intermediation and thus help maintain or enhance stability. Mishkin (1991) says that banking system stability originates from the quality of the banking system that is able to provide on a durable basis, and without major disruptions, an efficient allocation of savings to investment opportunities. The second approach to defining banking system stability is to liken it to situation without banking crises and with assets price stability.

Crockett (1997) opines that stability requires that banks are stable, in that there is a high degree of confidence that they can continue to meet their contractual obligations without interruption or outside assistance . For the purpose of measurability, the study will replace banking system stability with banking system soundness as it reflects the resilience elements, measurable and constitutes a major component of the overall concept of banking system stability. It will be proxied as non performing loan to total asset.

Nonperforming loans (NPLs) has no common definition since different country sees it in different ways.Since what is recognized acceptable in one nation may not be so in another. There is, however, some similar opinion on this concept. Non-performing can be defined as loans which have stayed for a long period of time without payment. It does not generate income; the principle and /or interest on these loans have been left unpaid for at least ninety (90) days (Caprio and Klingebid, 1999). Accordingly the IMF's Compilation Guide on Financial Soundness Indicators, NPLs is defined thus:

“A loan is said to be nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons such as a debtor filing for bankruptcy to doubt that payments will be made in full" (IMF, 2005).

Besides, the Ethiopian banking regulation also defines NPLs as follows: “Nonperforming loans and advances are loans whose credit quality has deteriorated and the full collection of principal and/or interest as per the contractual repayment terms of the loan and advances are in question” (NBE, 2008).Loan is deemed non-performing when the recoverability is threatened as a result of failure to meet the servicing or income earnings expectations of the loan. Nworjietal (2001) are of the view that the persistent raise in the figure of non-performing loan of Banks in Nigeria presently has made many to question the reliability of the laws governing the banking sector. Similarly, Olayiwola (2010) is of the opinion that the banking crisis that hit the banking industry is mainly caused by the big figure of non- performing loans in bank's financial reports. According to Abdullahi, (2011) the high level of nonperforming loans seen in the bank's financial reports are caused by weaknesses in corporate governance practices such as Board Directors not been competent, inefficient audit committee, board size not been appropriate, non-discloser of information and bank size.

Corporate governance refers to the processes and structures by which the business and affairs of institutions are directed and managed, in order to improve long term shareholder's value by e n h a n c i n g c o r p o r a t e p e r f o r m a n c e a n d accountability, while taking into account the interest of other stakeholders (Jenkinson and Mayer, 1992). The organization for economic corporation and development (OECD, 1999) also defined corporate governance as a system on the basis of which companies are directed and managed. Corporate governance is therefore, about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate performance.

Governance refers to the process through which an organization is governed and controlled. Hence, corporate governance connotes the processes involved in the discharge of the mandate of governance in corporate entities (Okafor 2011). The ultimate objective of corporate governance is to achieve defined corporate objectives and in the process maximize shareholder's value while satisfying the legitimate expectations of other shareholders.

According to Zandi 2009; Lahart 2009; Faber 2009 in Okafor 2011, the increasing necessity for good corporate governance in banks and other financial institutions is emphasized by the wave of financial scandals which led to the collapse of big financial institutions around the world. A survey carried out by the SEC in April 2003, as quoted by the Central Bank of Nigeria in CBN Report of 2006, revealed that only about 40% of quoted companies in Nigeria, including banks had as at that date approved and operational codes of corporate governance. The study further indicated that poor corporate governance was implicated in most known cases of distress in the banking sector in the country. Corporate governance is decomposed into these variables; board composition, board size, bank size and net profit.

Board Composition: These are Board of directors that supervises the management of banks. The structure differs among countries. In Nigeria they are grouped into Executive Directors and Non Executive Directors (Gugong, 2011).). This is one of the characteristics of the board structure. There is a view that many directors are better for corporate achievement because they have so many experts to help and make good decisions and hard for influential chief executive office to dominate

Board Size: This is one of the relevant elements of the board structure. Jensen (1993) opines that gigantic board size is good for corporate performance because the board has many professionals to help make good decision and they

make it very difficult for Chief Executive Officers (CEOs) that look so powerful to prevalent. Lipton and Losh (1992) have argued that large boards are less effective and easier for CEOs to control.
Bank Size: this has to do with assets of the bank. Assets of a bank are broken into two; current assets and capital assets.

Empirical Review

Different studies have been carried out on corporate governance both within and outside Nigeria. Prior to the new code of corporate governance for banks in Nigeria which became effective in 2006, a survey carried out by SEC in 2006 revealed that only about 40% of Nigeria quoted companies recognized code of corporate governance in place (CBN 2006). This means that most corporate bodies including banks did not adhered to the role of the code in the management of their corporations. With the initiation of the new code by the CBN and the preceding reform in the banking industry some of the issues affecting corporate governance have been tackled.

Chris and Dimitrios (2010), carried out a study on corporate governance and board practices in the Nigerian banking industry using a combination of questionnaire and interviews, about 250 questionnaires were sent out and 110 responses were gotten they find out that the board of directors in Nigerian banks are actively involved in the determination of their banks' vision and mission and also the determination and enforcement of the banks' policies. These factors are critical for the long-term success of firms. However, boards of directors of Nigerian banks seem to be reluctant in evaluating their CEOs and in management development and succession. This could imply that CEOs have a strong hold on their boards.

Ankit (2012), conducted a study on corporate governance practices in the banking sector using Indian banking system as her case study, she said that the Corporate Governance philosophy of banks has to be based on pursuit of sound business ethics and strong professionalism that aligns the interests of all stakeholders and the society knowing that strengthening of public confidence in banks is a vital requirement. She concluded that sound Corporate Governance would lead to effective & more meaningful supervision and could contribute to a collaborative working relationship between bank management & bank supervisors.

Ojeka, Iyoha and Ikpefan (2014) carried out a study on CEOs removal and bailed-out banks in Nigeria: does absence of good corporate governance practices responsible? The study used data collected from the annual reports of the six bailed-out banks in Nigeria from 2003 - 2009. The data were analyzed using the Ordinary Least Square (OLS). The results showed that there was no significant positive relationship between audit committee, board size, board independence and return on assets. He made a recommendation that banks should adhere strictly to the existing code of corporate governance for the provisions (especially in terms of composition) to have a maximum and significant impact on the firm's financial performance.

Akpan and Rimon (2012) observed the relationship between corporate governance and banks profitability in Nigeria. The study used Return on Assets (ROA), Return on Equity (ROE) and Non-performing loans (NPLs) as the Variables that measure bank performance. Adopting the work of Berger et al (2004), corporate governance index was measured using the size of Board of Directors (SBOD) and the Number of Shareholders while Total Assets and Total Equity served as control variables. Used both descriptive and correlation analysis, the study discovered that good corporate governance and not total assets value of banks determine the profitability of banks in Nigeria

Furthermore, Jegede, et al, (2013) assessed the implication of corporate governance on bank's performance in Nigeria, secondary data was used and regression analysis applied to ascertain the impact of corporate governance on bank performance. The study showed that board size has positive significant to bank performance while bank age and board committee have a negative effect on bank performance.

Theoretical Framework

Two theories namely stakeholders theory and agency theory were used to explain the implication of corporate governance practices in the banking stability in Nigeria.

Stakeholders Theory: This theory was proposed by Edward Freeman in 1984. The theory assumes that a company owes a responsibility to a wider group of stakeholders, other than just the shareholders. A stakeholder is defined as any people/group which can affect/be affected by the actions of a business. It includes employees, customers, suppliers, creditors, and even the wide community and competitors. The profounder recognised that stakeholder's theory is an important element of corporate social responsibility (CRS). The theory assumes to recognise the responsibilities of corporations be it banks, legal, ethical, among others and arises from a more social oriented perspective on corporate governance. Freeman (1993) as cited in Freeman (1999) suggests that if organizations want to be effective, they will pay attention to all and only those relations that can or be affected by the achievement of the organization's objectives. Sundaram and Inkpen (2004) opines that stakeholder's theory attempts to address the question of which groups of people deserves and requires management attention.

Agency Theory: Agency theory suggests that the firm can be viewed as a nexus of contracts between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents. The primary agency relationships in business are those (1) between stockholders and managers and (2) between debt holders and stockholders. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. This has implications for, among other things, corporate governance and business ethics. Agency theory originated in the early 1970s, but the concepts behind it have a long and varied history. Among the influences are property-right theories, organization economics, contract law, and political philosophy, including the works of Locke and Hobbes. Some noteworthy scholars involved in agency theory's formative period in the 1970s included ArmenAlchian, Harold Demsetz, Michael Jensen, William Meckling, and S.A. Ross.

The bases for looking at the two theoretical frameworks are that the theories have different theoretical view for the specific objectives; it gives explanations on the impact of good corporate governance practices in banking system stability. In relation to the research objectives, this study will adopt the agency theory because, it focuses on the board of directors as a mechanism which dominates the corporate governance literature. This is also in accordance to the works of Ross (1973); Fama (1980); Sanda, Mukaila and Garba (2003) and Anderson, Becher and Campbell (2004).

It also explains that banks as a company have responsibilities to a wider group of stakeholders other than shareholders. Once banks enthrone sound corporate governance practice it is anticipated that interests of the stakeholders will be held supreme and will no longer be sacrificed for the selfish interest of the management thus making banks to be more profitable.

Methodology

The study employed ex-post facto quantitative research design. Ex-post factor research design has to do with any investigation using existing data.The population for this study consists of all Deposit Money Banks in Nigeria. Specifically, six banks were used as the sample size of the study. The time frame considered for this study is 2004 to 2014.The data used for this study were secondary data derived from the audited financial statements of banks selected for the study for the period 2004 through 2014.The study used panel data regression analysis.
Description of Research Variables

The study employed two variables that is Dependent and independent variables.
The banking system stability (dependent variable) is measured as the ratio of Non-performing Loans to Total Assets. Mathematically, this is written as
BSS = NPL/TA ----------
Four independent variables were used in this study. The following explanatory variables were used,they include; Board composition, board size, net income and bank size. Board composition is defined as the distinction between Executive Directors and Non Executive directors. It was measured as percentage of Non Executive director on board (Geogen and Renneboog 2000). Executive directors are members of the board that have management responsibilities within the bank. Non Executive directors are members of the board that have no management responsibilities within the bank. A high ratio of non executive directors to total number of director on board shows the capacity to take decisions without fear or unrestricted by executive directors who may want

to cover up their own excesses (Gugong 2011). Board Composition = NED/TNDOB × 100/1 ----- 2
Board size: board size has to do with total number of board of directors (executive and non- executive directors) on the board of a bank. According to Jensen (1993), Lipton and Losch (1992) as stated in Angahar and mejabi (2014), argue that large boards are less effective and easier for the CEO to control. Board Size = TNDOB × 100/1 ------- 3
Bank Size was measured by total deposits to total assets. Total assets comprises of non-current assets and the current assets. Many studies have used various measures, but in line with the kind of the study, measure used by Coleman and Nicolas –Biekpe (2006) has been adopted.
Mathematically it is stated thus Bank Size =
Total Deposits/Total Assets------- 4

Model Specification
The study used panel data regression analysis. This is because the study combined time series and cross sectional data. Mathematically, it will be specified as follows:
BSSi,t = âo+â1BCi,t+ â2BSi,t+ â3BNS+ â4NI+ ni+µi,t ------- 5
BSS = Banking System Stability (dependent variable); BC = Board Composition (explanatory variable); BS = Board Size; BKS = Bank Size, NI = Net Income, âo = intercept term; µi = Error term over correlation and time; â1-â5 = Regression coefficient to be determined; i,t = Index of banks and annual time effect; ni = Banks specific fixed effect that vary across banks but do not vary over time. Adopting the proxy used by Sundarajan, Marston and Basu (2001), banking system stability will be proxy to Non-Performing loans to Total Assets. Substituting this in equation 1, we have; NPL/TAi,t = âo+â1BCi,t+ â2BSi,t+ â3BKSi,t+ â4NIi,t+ ni+µi,t ------- 6
This equation was used for the hypothesis test. Descriptive Result

1 Descriptive Statistics

Table 1: Descriptive Statistics

Banks	Obs	Mean	Max	Min	Std. dev.
ACCESS					
NPT	66	0.157577	1.080825	0.019577	0.309012
PAT	66	0.015561	0.033912	0.004223	0.008815
TD	66	0.606850	0.725046	0.340933	0.114805
BC	66	0.586600	0.666600	0.533300	0.041712
BS	66	12.36364	16.00000	7.000000	2.873072
DIAMOND					
NPT	66	0.172554	1.057209	0.004042	0.299559
PAT	66	0.657799	0.807262	0.062839	0.206135
TD	66	0.019758	0.080851	-0.032025	0.025854
BC	66	0.564873	0.642900	0.428600	0.079171
BS	66	14.54545	16.00000	10.00000	1.694912
ECO BANK					
NPT	66	0.240724	1.089615	0.000108	0.336510
PAT	66	0.015736	0.024649	0.006558	0.006192
TD	66	0.602171	0.766903	0.033854	0.276582
BC	66	0.650036	0.888000	0.533300	0.113778
BS	66	13.54545	18.00000	9.000000	2.659460
FCMB					
NPT	66	0.051645	0.104094	0.002594	0.033519
PAT	66	0.018809	0.045845	-0.019667	0.017735
TD	66	1.492420	5.577223	0.004842	1.996519
BC	66	0.702621	0.900000	0.583330	0.102418
BS	66	12.18182	16.00000	9.000000	2.482667
UBA					
NPT	66	0.405830	1.449310	0.016448	0.603763
PAT	66	0.031385	0.200258	-0.004812	0.056797
TD	66	0.796561	0.889768	0.727608	0.047410
BC	66	0.525064	0.562500	0.425800	0.041309
BS	66	17.63636	20.00000	14.00000	1.963300
ZENITH					
NPT	66	0.029446	0.069350	0.002482	0.020896
PAT	66	60.09136	643.2280	0.000693	193.4234
TD	66	1.807025	18.81038	0.011674	5.642897
BC	66	0.530282	0.666600	0.461500	0.069556
BS	66	12.36364	14.00000	12.00000	0.674200

Sources: Researcher's compilation from E-view (version 9.0)

Note: NPT means Non performing Loans/Total Assets, PAT is the Profit After Tax, TD represents Board Size, BC is the Board Composition and BS means the Bank Size.

Table 1 reports the bank-specific parameters 'mean (NPT, PAT, TD, BC and BS) computed from E-views 9. The cross-bank descriptive analysis cut across, Access bank, Diamond bank, ECO Bank, FCMB, UBA and Zenith. In the first of the banks considered (Access Bank), there is no gainsaying that mean is the average value of the series which is gotten by dividing the total value of the series by the number of observations. The mean scores of the series on NPT, PAT, TD, BC and BS in Access Bank are 0.157577, 0.015561, 0.606850, 0.586600, and 12.36364 respectively. In Access Bank, the maximum values from the series for all the variables are 1.0808025, 0.033912, 0.725046, 0.666600 and 16.00000 respectively while their minimum values are 0.019577, 0.004223, 0.340933, 0.533300 and 7.000000 respectively. Another descriptive statistic is the standard deviation which is the variability of the data. As observed from table 1, standard deviation gives an appreciation of the spread of values around the mean, also known as the variation in a distribution of values. Thus, the variability of the data for NPT, PAT, TD, BC and BS in Access bank are 0.309012, 0.008815, 0.114805, 0.041712 and 2.873072 respectively. These values show the spread of values around the mean.

From the above table we see that the mean of NPT, PAT, TD, BC and BS for Diamond bank are 0.172554, 0.657799, 0.019758, 0.564873 and 14.54545 respectively. The parameters range from 0 to 0.15. The cross-sectional variation is observed for all the variables, for which the parameter [NPT] ranges from a maximum of 1.057, to a maximum of 0.807 (for PAT). The parameter [TD] ranges from a maximum of 0.081, to a maximum of 0.643 and 16.00 (BC and BS respectively). However, the minimum values for NPT, PAT, TD, BC and BS are 0.004, 0.063, -0.032, 0.429 and 10.00 respectively. The spread of the data around the mean indicated that for NPT, PAT, TD, BC and BS, the standard deviations are 0.299, 0.206, 0.026, 0.079 and 1.695 respectively.

The descriptive analysis for Eco Bank shows that the maximum values for NPT, PAT, TD, BC and BS are 1.089615, 0.024649, 0.766903, 0.88000 and 18.00000 respectively. However, the minimum values for the respective parameters are 0.000108, 0.006558, 0.033854, 0.533300 and 9.000000. The mean value for NPT is 0.240724 while it standard deviation which measures the spread of the data around the mean is 0.336510. The mean value for PAT is 0.015736 while its standard deviation is 0.006192. The mean value for TD is 0.602171 while its standard deviation is 0.276582. The means values for BC and BS for Eco bank are 0.650036 and 13.54545 while their standard deviations which capture variation in a distribution of values are 0.113778 and 2.659460 respectively.

The analysis for FCMB shows that the maximum values for NPT, PAT, TD, BC and BS are 0.104094, 0.045845, 5.577223, 0.900000 and 16.000000 respectively. However, the minimum values for the respective parameters are 0.002594, -0.019667, 0.004842, 0.583330 and 9.000000. The mean value for NPT is 0.051645 while it standard deviation which measures the spread of the data around the mean is 0.33519. The mean value for PAT is 0.018809 while its standard deviation is 0.017735. The mean value for TD is 1.492420 while its standard deviation is 1.996519. The means values for BC and BS for Eco bank are 0.702621 and 12.18182 while their standard deviations which capture variation in a distribution of values are 0.102418 and 2.482667 respectively.

The analysis for UBA shows that the maximum values for NPT, PAT, TD, BC and BS are 1.449310, 0.200258, 0.889768, 0.562500 and 20.00000 respectively. However, the minimum values for the respective parameters are 0.016448, -0.004812, 0.727608, 0.425800 and 14.00000. The mean value for NPT is 0.405830 while it standard deviation which measures the spread of the data around the mean is 0.603736. The mean value for PAT is 0.031385 while its standard deviation is 0.056797. The mean value for TD is 0.796561 while its standard deviation is 0.047410. The means values for BC and BS for Eco bank are 0.525064 and 17.63636 while their standard deviations which capture variation in a distribution of values are 0.041309 and 1.963300 respectively.

The descriptive analysis for Zenith Bank shows that the maximum values for NPT, PAT, TD, BC and BS are 0.069350, 643.2280, 18.81038, 0.666600 and 14.00000 respectively. However, the minimum values for the respective parameters are 0.002482, 0.000693, 0.011674, 0.461500 and 12.00000. The mean value for NPT is 0.029446 while it standard deviation which measures the spread of the data around the mean is 0.020896. The mean value for PAT is 60.09136 while its standard deviation is 193.4234. The mean value for TD is 1.807025 while its standard deviation is 5.642897. The means values for BC and BS for Zenith bank are 0.530282 and 12.36364 while their standard deviations which capture variation in a distribution of values are 0.069556 and 0.674200 respectively.

Conclusion

The objective of the study is to analyze the implications of poor corporate governance on banking system stability in Nigeria. Specifically, the study seek to examine the effect of board composition, bank size, board size and net income on banking system stability in Nigeria using 6 Deposit Money Banks in Nigeria for the study. Ex-post facto research design was employed. Data generated were analyzed using descriptive statistics. Panel data regression analysis was used to test the statistical significance of the hypothesis of the study. The findings of the study are; Board size has significant effect on banking system stability while Bank size, board composition and net income have no significant effect on banking system stability in Nigeria.

Recommendations

Based on the findings of the study, the following recommendations were made.

* The regulatory and supervisory authorities should monitor banks closely to ensure that banks comply with the corporate governance codes especially the aspect that has to do with board size since it have significant effect on banking system stability.
* There should be improved board structure, administrative procedures and disclosure requirements. All these can result to good corporate governance of banks.
* Since other variables (board composition, bank size and net income) have no significant effect on the banking system stability, emphasis should be shifted from these explanatory variables to other corporate governance variables.

References

Anyanwu, J.C (1993): Monetary Economics: Theory, Policy and Institutions, Hybrid Publishers Ltd, Onitsha.

American Law Institute (1992), Principles of Corporate Governance: Analysis and Recommendations. The Institute of Philadelphia publishers, Philadelphia.

Angahar, P. A. And Mejabi S.K (2014), The Impact corporate Governance Variables on Non-performing Loans of Nigeria Deposit Money Banks, *Journal of Asian Economic and Social Society, 2 (4) 26-31* .

Ankit, K. (2012). Corporate Governance Practices in the Banking Sector: *National Monthly Referred Journal of Research in Commerce and Management*. 4 (2); 34 - 41

Basel Committee on Banking Supervision (1999) "Enhancing Corporate Governance for Banking Organizations" *Switzerland: Bank for International Settlements*.

Baysinger, B. D and Butter, H.N (1985): Corporate Governance and Board of Directors: Performance Effects of Changes in Board Composition. *Journal of Law, Economics and Organization. 1; 101-124*.

Bosch, H. (1995): Corporate Practices and Conduct, 3rd Ed F. T. Pitman, Melbourne.

Cadbury, A, (1992): *Report of the Committee on the Financial Aspects of Corporate Governance. Gee and co. Publishing, London.*

Cadbury, A. (2002): Overview of Corporate Governance: A Framework for Implementation. *The World Bank Group; Washington. D.C.*

CBN (2006): Central Bank of Nigeria Code of Corporate Governance for Banks in Nigerian Post Consolidation. Issued on 1st March (http://www.google.com.nig).

CBN (2009): Banking Sector; the Turmoil, the Crisis Retrieved from www.nigerialatestnews.com on 15th April 2016.

Davis, P. (2003): Sources of Instability in Financial System; Brunel University Press, West London.

CBN (2010): Financial Stability Report.

Chris, O. and Dimitrios, N.K. (2010). Corporate Governance and Board Practice in the Nigerian Banking Industry: *Journal of Strategic Change, Journal of Business Finance and Accounting, 29; 519 – 611*.

Dehaene, A, Devuyst, V. And Ooghe, H. (2001): Corporate Performance and Board Structure in Belgian Companies, Long Range Planning, *Journal of Law and Economics 34, 383 – 398*

Donaldson, L and Davis, J.H (1991): Stewardship Theory or Agency Theory: CEO Governance and Shareholders Returns. *Australian Journal of Management, 6, 11-19*

Eleje, E. O and Olopade, D. O (2014), Corporate Governance and Equity Ownership Clause for Banks in Nigeria: An Empirical Performance Assessment; 4th International Accounting and Finance Research Association Conference Abakaliki.

Evans, Owen, Alfredo, M, Leone<Mahinde, G. And Pual, H. (2000), Macro prudential Indicators of Financial System Soundness, IMF Occasional paper No 192 (Washington: International monetary Fund).

Fatimoh, M. (2011). Impact of Corporate Governance on Banking Sector Performance in Nigeria. *International Journal of Economic Development Research and Investment*.. 2, 23-31

Greenbury Committee Report (1995): Directors Remuneration, London Gee Publishing, London.

Gugong, B. K. (2011): Impact of Corporate Governance Mechanism on the Performance of Nigerian Insurance Industry. PhD Thesis. (Unpublished), Department of Economics, Nigeria Defence Academy, Kaduna.

IMF, Annual report 2005

Issing, O. (2003), Monetary and Financial Stability; Is there a Trade off? "in Monetary Stability" Financial Stability and Business Cycle, five Views. BIS papers No 18

Mishkin, Fredeis, (1991), "Antatomy of Financial Crises. NBER Working Paper No 3934. (Cambridge: Natioanl Bureau of Economics Reserch)

Mishra, R., Majumdar, S. and Bhanda, D. (2013), Banking Stability: A precursor to Financial System Stability: Reserve Bank of India.

OECD (1999): OECD Principles of Corporate Governance. Ad-Hoc Task force on Corporate Governance, OECD, Paris

Ogbechie, C. (2006): *Corporate Governance A Challenge For Nigerian Banks.*Retrieved from www.Businessdayonline.com on 7/8/2007

Okafor F. O. (2011), 50 Years of Banking Sector Reforms in Nigeria (1960 – 2010) Past Lessons, Future Imperatives, Ezu Books Ltd Enugu. Jayashree, S. (2006).Some Views on Corporate Governance. India Management Review, India School of Management Studies Publications, Pune Tattawade.

Jenkinson, T. and Mayer, C. (1992), The Assessment: Corporate Governance and Corporate Control, *Oxford Review of Economic Policy,* 8, (3); 138- 156.

Jensen, M.C. (1993): The Modern Industrial Revolution: Exit and Failure of Internal Control System. *Journal of Finance,* 48 (30); 513-542.

Sanusi, L. S. (2010), The Nigeria Banking Industry: What Went Wrong and the Way Forward, 2010 convocation lecture, Bayero University Kano, Feb. 26, 2010.

Soludo, C.C (2005), Towards the Repositioning of the CBN for the 21st Century. A key note Address Delivered at the Annual Dinner of the Chartered Institute of Bankers of Nigeria, Held at the Muson Centre, Onikan, Lagos. November.

Uwuigbe O. R. (2011): Coprporate Governance and Finance Performance of Bank: A study of Listed Banks in Nigeria; Thesis submitted to the Department of Accountancy, Covenant University Ota-Ogun State. Valerie, J. E. And John, H. M. (2006): Statistics Glossary, London Publisher, London.

The World Bank Group (1999), *Corporate Governance: A Framework for Implementation*.