Corporate Governance and Banking System Stability in Nigeria

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DOI: 10.56201/ijbfr.v10.no2.2024.pg111.130

Abstract
The study of corporate governance and banking system stability in Nigeria became necessary as banks are failing, acquired and/or merged from time to time. The reason behind the failure or merger/acquisition may not be far from mismanagement and abuse of trust which lead to erosion of asset values of the banks involved as a result of non-performing loans. The study adopted ex post facto research design and used annual time series for the period ranging between 2001 and 2022. Growth rate of banks' total assets (GTA) was used as dependent variable and proxy for corporate governance while loans-to-deposit ratio (LDR), non-performing loan ratio (NPLR), loans loss provision (LLP) and liquidity ratio (LIQR) were used as bank stability variables. Results show that LDR and LIQR have positive relationship with corporate governance whereas LLP and NPLR exhibit negative relationship with corporate governance. It is recommended that Banks management should be transparent and ethical in all their dealings in order to attain increase in value and wealth maximization for the owners of the banks. Besides, banks should work in consonant with policies and directives of the regulators from time to time to enhance the health of the banks and continuous stakeholders' welfare.

***Keywords**: Corporate Governance, Non-performing Loans, Bank Stability, Loans-to-Deposit Ratio, Liquidity Ratio*

INTRODUCTION
1.1 Background to the Study

In every economy, the standard of corporate governance and the stability of the banking system cannot be neglected. As a management mechanism, corporate governance has to do with the smooth working of any firm or organization in ways that guarantee its owners and stakeholders are receiving good returns on their investment. It also means that such organization must be characterized by real owners who work together earnestly to achieve financial goal and progress of the firm (Abdullah, 2008). In contemporary terms, it is often seen that corporate governance is one of the main strategies through which stakeholders in business attend to their

financial goals and objectives. Financial instability in some financial institutions in Nigeria has been attributed to the failure in corporate governance. It is fully pronounced and in each of these cases corporate matters was directly linked to corporate governance failures (Hussin and Othman, 2012).

Corporate governance is viewed as the system of rules, ethics, practices and processes through which an institution is controlled and managed. It essentially revolves around balancing the interests of a bank and other financial institutions major players, management, customers and the business environment in which they operate. Thus, corporate governance also provides the needed framework in meeting up with the bank's goals and objectives. It encompasses practically, layers and spheres of high level in management, denoting from action plans and other controls internally to the maximum performance, measurement and corporate information opening in form of disclosures (Hoskisson, 2010). Corporate governance aims to allocate resources in such a manner that maximizes value for all participating stakeholders, including the various employees, customers, the community to a large extent and holds those at the high echelon to account by evaluating their decisions on accountability, transparency, equity and responsibility.

Poor corporate governance manifests itself in many ways. The World Bank (2011) identified key indicators of governance which are used as a method to measure bad governance. Bad governance is centered around the idea of not only corruption within a system but also the financial statistics of the banks in terms of non-performing loans, ratio of non-performing loans to loans and advances, the ratio of non-performing loans to total credit, the quality of assets measured by the ratio of non-performing loans to total assets, a lack of transparency and accountability, arbitrary policy making and the cheating of those who are governed. In measuring corporate governance, Onwe (2019) and Subedi (2018) also used the ratio of non-performing loans to loans and advances, and the assets quality of banks measured by the ratio of nonperforming loans to total credit as variables representing poor corporate governance.

On the consequences of poor corporate governance, it can be recalled that following periodic audit exercise conducted by the Central Bank of Nigeria's (CBN) examiners, five banks had accumulated margin loans of over ₦500 billion, among other loans that had gone bad and eroded their shareholders' funds. The primary factors responsible for the situation are laxity of control by the regulatory authorities, corruptions, inactive boards and greed on the part of the executives. The regulatory functions of the CBN to say the least have been non-existent, which may be due to dearth of qualified personnel experienced in the art of bank supervision and examination (Chima, 2012). Alternatively, the bank supervisors would have been compromised to issue clean bill reports for banks over these years. The inability of the board of directors to effectively supervise top management of these banks has contributed more to this ugly situation. Most members of the board of these banks were composed of surrogates of the chief executives and at times chairmen. It is either they were unilaterally nominated by the managing director or the chairman who holds controlling interest in the bank as the suppliers of capital (Ifeanyi and Adeyanju, 2011). To this end, board members have no financial contributions to the bank as their names were supplied to CBN in order to comply with statutory requirements. It is therefore imperative for such members to rubber stamp all decisions of their benefactors. After all, they are friends or business associates.

In Nigeria, various empirical studies conducted revealed that accounting reports of Nigerian banks have been found to be deficient over time. Umoren, (2010) and Adeyemi and Fagbemi (2010) highlighted that some of the observed cases of failure and cases of financial instability of some Nigerian Banks and other quoted firms like Lever Brothers (now known as Unilever Plc), former Skye Bank and African Petroleum, among others, have been connected to weak corporate governance. These are all attributing factors to either partial or total negligence to the code of corporate governance in Nigeria by financial institutions, for example, banks fully connected to some corporate failures. It is often said that corporate governance in the financial sector requires a prudent and judicious management of resources in terms of current and fixed assets owned by such financial institutions and this ensures that ethical and professional standards are maintained in pursuance of corporate governance goals and objectives. Corporate governance also seeks to ensure that customers are satisfied by all measures, increase employee morale, and the maintenance of financial landscape discipline which stabilizes and rejuvenate the sector paving way for healthy financial performance.

There are various measures in place for measuring banking system stability. Most studies such as Onwe (2019), Subedi (2018) and others have used variables such as buffers (capitalization and returns on assets) and risk (volatility of returns). In an effort to curb these cases of corporate governance, banks and other financial institutions are now expected to comply with the set-up and established rules and various codes of corporate governance. This compliance is meant to improve on the collective financial right standings of banks and other financial institutions in Nigerian financial system. This compliance standard will ensure that there is adequate disclosure in the annual financial statement upon the end of each year.

There is a code of corporate governance guiding institutions in the financial system of Nigeria (developed by the Stock Exchange Commission in September 8, 2011), designed to meet with the International Best Practices on Corporate Governance and to observe and identify various flaws and limitations to good corporate governance in Nigeria. The intention of the code was to address the observed loopholes and issues relevant in promoting good corporate governance practices in Nigeria and also effect greater compliance rate among financial institutions.
Evidently, the provisions of the 2011 CBN directive on Corporate Governance Law, and Business and other incidental matters were focused and designed to improve a healthy corporate performance in Nigeria financial sector (Ifeanyi and Adeyanju, 2011). In addition, the splitting of ownership of business organizations from the management brought about lots of divergent interest among various parties in the financial sector. The massive outcry of investors and other stakeholders concerning high level of mismanagement of funds and lack of accountability has heightened the desire for corporate governance procedures in organizations (Mudashiru, 2014).

The study of corporate governance and banking system stability in Nigeria became necessary as banks are failing, acquired and/or merged from time to time. The reason behind the failure or merger/acquisition may not be far from misrepresentation of facts, mismanagement and abuse of trust which lead to erosion of asset values of the banks involved as a result of non-performing loans.

Various authors have reported that corporate governance makes no significant impact on the stability and performance of the Nigerian financial system especially the banks. However, some other researchers have made empirical findings that corporate governance bears a very significant effect on the performance of the banks. Okonkwo, et al. (2019) and Onwe (2019) found that asset quality (proxied by ratio of non-performing loans to total asset) was a significant variable in explaining banking system performance. Also, Umoren (2010); Subedi (2018) and Maharjan (2017) found corporate governance variables (including board size) to be very positive and significant on the banking system stability. In contrast, Alkhawaldeh, *et al.* (2021) found no significant impact of corporate governance variables on the selected banks studied. With these different positions, researchers in this study decided to probe further by using quantitative financial data/variables to assess the impact of corporate governance on the stability of the banking system. Accordingly, variables with aggregate data were selected to represent corporate governance and bank stability in Nigeria. The choice of the variables was based on the researchers' hands-on industry experience. Growth rate of banks' total assets was chosen as proxy of banking system stability believing that the impact of non-performing loans and loans losses provision are directly on banks' total assets. Loans-to-deposit ratio, ratio of non-performing loans and Liquidity ratio also play major roles in banks stability.

The broad objective of the study is to assess the impact of corporate governance on banking system stability in Nigeria. In line with this objective, a null hypothesis which states that 'there is no significant relationship between Loans-to-Deposit Ratio, Loans Loss Provision, Non-performing Loans Ratio, Liquidity Ratio and Growth Rate of Banks' Total Assets in Nigeria' was formulated to guide the study.

The study is structured into five sections and is expected to benefit many stakeholders in the Nigerian banking sector and students in banking, finance and economics, among others.

REVIEW OF RELATED LITERATURE

This section of the study will be sub-divided into three sections encompassing conceptual literature, theoretical literature, and empirical literature.

2.1 Conceptual Review:

In this subsection, topics like corporate governance, pillars of corporate governance, challenges of corporate governance in Nigerian banks and corporate governance and banking stability, among others will be discussed.

2.1.1 Corporate governance

The concept of corporate governance has been variously defined. Corporate governance is defined as the way of governing a firm in order to increase its accountability and to avoid any massive damage before it occurs. Such damage in terms of the banking system may be in form of effects of non-performing loans, loan losses, low assets quality due to poor non-performing loan to total credit, etcetera.

The World Bank defines corporate governance as the exercise of political authority and the use of institutional resources to manage society's problems and affairs (Blake, 2009). However, corporate governance represents a set of processes, policies, laws, practice and institutions

affecting the way a corporation (or bank/financial institution) is being directed, administered, managed or even controlled. In recent times, certain business corporations and the external stakeholders are often time affected by the corporation's mode and ways of operations. Internal stakeholders who are the inclusive members of financial institution are often times those in high echelon of leadership as the board of directors, executives and other top employees. So, it is important to note that there are different models of corporate governance around the world (Cadbury, 2012). These models differ according to the variety of capitalism in which they are embedded by the host and existing countries. The Anglo-American "model" tends to emphasize the interests of shareholders only, while the coordinated or multi-stakeholder model emphasizes the interest of all stakeholders (Oman, 2003).

2.1.2 The Pillars of Corporate Governance

The pillars of successful corporate governance are: accountability, fairness, transparency, assurance, leadership and stakeholder management. All the six pillars are critical in successfully running an entity and forming solid professional relationships among its stakeholders. The stakeholders include Board of Directors, managers, employees, customers, regulators and most importantly, shareholders, who are the residual owners of the corporation. Those charged with governance should identify the key stakeholders and how they interact with the business and how they are engaged with to ensure the best outcome for the organization. The responsibility an individual assumes when he became charged with governance of an entity is considerable and one that should only be taken with a clear understanding of, and commitment to, fulfilling this responsibility to the best of their ability in the interest of the stakeholders. Having a clear understanding of the principles and practices of good governance will enhance the performance of both the individual and the organization.

2.1.3 Determination of Good and Bad Corporate Governance

The problems faced by researchers is not only on defining the term “Corporate Governance” but also what level of corporate governance leads to good or bad corporate governance. Factors that best define good corporate governance have been identified by different authors differently. The issue of firms’ performance which, over the years, has also received wide range of interpretations has been addressed. Some look at a firm’s performance to mean the development of share prices, while others have the view that a firm is performing when it has made a lot of profit or it has increased its present value. Corporate governance has been identified in previous studies for instance, Bhagat and Black (2007) to influence the capital structure decisions of firm (especially large and listed firms).

The extant literature identified the main characteristics of corporate governance to include board size, board composition, CEO duality, tenure of the CEO and CEO compensation. However, empirical results on the relationship between corporate governance and capital structure appear to be varied and inconclusive. The board of directors is charged with the responsibility of managing the firm and its operation. Bhagat (1999) found that firms with larger board membership have low leverage or debt ratio. They assume that larger board size translates into strong pressure from the corporate board to make managers pursue lower leverage or debt ratio rather than have larger boards.

2.1.4 Challenges of Corporate Governance in Nigerian Banks

Wilson (2006) opines that in the context of Nigeria, it is difficult to overlook the circumstances under which the twenty-five (25) banks emerged at the close of the consolidation exercise. The fact that a good measure of mergers consummated was forced and the time available posed great challenge to the banks. The CBN acknowledged those challenges of Corporate Governance for Banks and these are: Technical Incompetence of Board and Management Relationship among Directors Increased Levels of Risks, Ineffective Integration of Entities, Inadequate Management Capacity, Resurgence of High-Level Malpractices, Insider-Related Lending, Rendition of False Reports, Continued Concealment, Ineffective Board/Statutory Audit Committee, Inadequate Operational and Financial Controls, Absence of a Robust Risk Management System, Transparency and Adequate Disclosure of Information.

2.1.5 The Loan-to-Deposit Ratio (LDR)

This is a simple measurement used to assess a bank's liquidity by comparing its total loans with its total deposits for the same period. One useful metric for evaluating the current state of bank health and credit markets is the loan-to-deposit ratio (LDR), which measures the proportion of a bank's total loans to its total deposits. LDR is often used as an indicator of a bank's risk level by some authors, implying that with a high ratio suggesting that the bank is taking on more risk because it has less cash reserves on hand to cover unexpected losses. This can also indicate that the bank is relying heavily on borrowing from other institutions to fund its lending activities, which can be risky during periods of economic instability.

2.1.6 Corporate Governance and Banking System Stability

Corporate governance has much to do with being ethical in conduct and following laid down rules in discharging one’s responsibilities while having the best interest of stakeholders at heart. It is guided by transparency, accountability, integrity, fair-mindedness and propriety. Akinsulire (2011) listed some principles of corporate governance that should guide organizations intending to compete in the global space as follows: laying solid foundation for management and oversight; structuring the board to add value; promoting ethical and responsible decision making; safeguarding the integrity of financial reporting; making continuous, timely and balanced disclosure to Stock Exchange; respecting the rights of shareholders; recognizing and managing risk; encouraging enhanced performance evaluation; fair and responsible remuneration; and recognizing the legitimate interest of stakeholders, among others. Corporate governance means the system by which companies are directed and managed in the best interest of owners and investors (Akinsulire, 2011).

In July 2023, the CBN released ‘corporate governance guidelines for commercial, merchant, non-interest and payment service banks in Nigeria’ through a circular referenced FPR/DIR/PUB/CIR/001/078 to all commercial, merchant, non-interest and payment service banks, and financial holding companies. This set of guidelines is the latest in Nigeria and was meant to take effect on August 01, 2023. The document covers some broad issues such as Board structure and composition, roles and responsibilities of the Board, officers of the Board, access to independent professional advice, meetings of the Board and its committees, Board meetings, cool-off period, cumulative tenure, Board evaluation, remuneration, risk

management function, internal audit function, compliance function, and treatment of shareholders, among other issues of interest.

According to Ozili (2021), Banking stability can be viewed from many perspectives. Firstly, it connotes the absence of banking crises, that is, when all banks are individually stable. The second perspective views banks based on their independence. It assesses the stability of banks linked to each other either directly through the interbank deposits market and participation in syndicated loans, or through lending to common sectors and proprietary trades. Thirdly, banking stability can also be viewed as the absence of abnormal disruption in credit supply, payment systems and banking services (Ozili and Thankom, 2018).

2.2. Theoretical Framework

The study is supported by the following theories.

2.2.1 Agency Concept of Corporate Governance

One of the conceptual principles underlying the issue of corporate governance is the Agency Concept developed by Oman (2003) resulting out of the separation of ownership and control. Investors have surplus funds to invest but due to technical constraints, such as, inadequate managerial expertise and time to manage the funds, employ the services of managers. The investors thus assume the responsibility of investing their funds in profitable ventures to generate good returns and to adequately reward the managers for their services.

There is a problem with agency concept arising from the fact that the actions of managers are not always in consonance with the interest of the financiers. Some of their actions are even completely detrimental to the fortunes of the financiers. Thus Agency problem focuses on the consumption of perquisites by managers and other types of employees. It is interesting that these managers often tend to entrench themselves in power. According to Klapper and Love (2002), managers can expropriate shareholders' funds by entrenching themselves and staying on the job even if they are no longer competent or qualified to run the firm. Managerial misappropriation of funds can also take more elaborate forms than just taking cash out, such as transfer pricing. Such practices as transfer pricing, asset stripping, and investor dilution, though often legal, have largely the same effect as theft. Furthermore, managerial misappropriation could also take the form of diversion of corporate opportunities from the firm, installing possibly unqualified family members in key managerial positions, or over-paying executives, using the profits of the firm to benefit themselves rather than returning the money to the investors (La Porta, 2000).

As a result of the interest of the opportunistic, selfish managers, there is sometimes agency loss which is the extent to which returns to the residual claimants, the owners fall below what they would be if the owners, exercised direct control over the company. The remedies to this conception of the agency problem within corporate governance involves the acceptance of certain agency costs involved either in creating incentives or sanctions that will align executive personal interest with the interest of the shareholders (Roberts, 2004). Thus, the principles of corporate governance are meant to control the internal and external entrenchment practices of executives through internal and external control mechanisms.

2.2.2 **Bad Management Hypothesis**

Bad Management hypothesis was proposed by Berger and De Young (1997). It postulates that poor management in the banking institutions brings about bad quality loans and lower incomes, leading to an increase in the level of non-performing loans. This increase will lead to higher provision for loans losses and will also lead to decrease in the value of the banks. Meanwhile, if due diligence is carried out in loans administration, the value of bad loans would reduce, and profitability and the growth rate of the banks will increase. According to this hypothesis, in a bid to mitigate rising NPLs, poor managers usually allocate more resources to underwriting and monitoring bad loans. This causes an increase in the operating expenses over interest income, which in the long-run, lead to higher cost-to-income ratio (low-cost efficiency). Based on this premise, a negative relationship between non-performing loans and growth rate of asset is envisaged in the study.

2.3 Empirical Review

Ehimare *et al*. (2013) investigated the role of corporate governance in the growth of Nigerian Banks. Following several observed cases of breach of trust by Board of Directors in some banks, corporate governance was identified as a better tool to reducing the menace. Correlation analysis was employed in analyzing responses generated from the questionnaire administered to members of staff of banks on the subject. Instability of board tenures, board squabbles, ownership crises, high level of insider dealings were the governance issues revealed by the findings of the study. Weaknesses of corporate governance were identified to include ineffective board oversight functions, disagreement between boards and management giving rise to board squabbles, lack of experience on the part of the Board of Director's members and weak internal control. It was recommended that issues bordering on poor corporate governance which come to notice should be promptly tackled while stakeholders should report such issues to regulatory authorities.

Nepali (2022) examined the linkages of corporate governance with the performance and risk-taking of Nepalese banks. Balanced panel data collected from annual reports of 19 selected banks for the period covering 2010-2018 was used in the study. OLS regression technique was adopted. Results revealed that more number of Board and audit committee meetings leads to better performance and lower risk. The study suggested that regulators should emphasize the provisions relating to board size, audit committee size and their respective meetings for enhancing financial stability.
Agha (2023) investigated the impact of Board independence, liquidity risk management and other bank specific factors on the sustainable growth rate of banks in a developing economy. Data on 12 banks listed on the Nigerian Stock Exchange from 2008-2021were used and Feasible Generalized Least Squares (FGLS) regression technique was employed in data analysis. It was revealed that the sustainable growth rate of banks was significantly affected by the interaction between corporate governance variables such as dividend payout ratio, liquidity risk, bank size, operating margin and asset quality.

Adegboye *et al.* (2020) assessed the effect of corporate governance structure and bank externalities on non-performing loans in Nigeria. the study covered the period 2009-2017 and employed a panel analysis technique of data analysis. It was found that corporate governance structure of banks in Nigeria has an inverse and significant influence on non-performing loans in Nigerian banks. Loans quality and bank stability are enhanced by sound corporate

governance. Corporate governance, as intended, should help banks curb excessive risk appetite that could mutilate performance and loans quality.

Okonkwo *et al*. (2019) investigated effectiveness of corporate governance in Nigerian banks for the period 2006-2018. The study used secondary data obtained from annual reports of banks, Central Bank of Nigeria and Nigeria Stock Exchange Bulletins. The Granger Causality test was applied to determine the direction of causality. The findings show that board audit committee has positive effect on net profit margin while block-shareholding and board composition has negative relationship on growth in revenue and growth in net income. It recommends optimum proportion of outside directors for effective governance impact and positive performance.

Nwosu *et al*. (2020) examined the extent to which non-performing loans affect commercial banks profitability with mind of proffering solutions towards reducing their impact on the banking sector in Nigeria. they collected data on 18 commercial banks, covering first quarter of 2014 to fourth quarter of 2018. Data were analysed using the panel fixed effect and auto-regressive distributed lag models. Results revealed a negative, and statistically significant impact of non-performing loans on banks' profitability. The study showed that higher volume of non-performing loan, increased liquidity ratio and inflation can explain lower bank profitability, while increase in bank size and capital adequacy ratio can explain higher profitability. In line with the findings, it was advised that risk management teams of banks should strengthen their credit management strategies, and consider offering professional services to loan customers in order to reduce loan losses arising from inefficient investment of loans proceeds.

Alkhawaldeh *et al.* (2021) investigate the impact of capital structure, firms' size, and competitive advantages of firms as control variables on credit ratings. They investigate the role of corporate governance in improving the firms' credit rating using a sample of Jordanian listed firms. The study used both the binary logistic regression (LR) and the ordinal logistic regression (OLR) to model credit ratings in Jordanian environment. The empirical results show that the control variables are strong determinants of credit ratings. When they evaluated the relationship between the governance variables and credit ratings, they found interesting results. The board stockholders and board expertise are moderately significant. The board independence and role duality are weakly significant, while board size is insignificant.

Li *et al*. (2020) investigated whether bank stability and corporate governance variables have a robust linkage. They employed fixed effect estimator and GMM method, sampling 23 commercial banks' data from 2008–2019 for their analysis. They found that board size, ages of board members, the financial experience of board members, and CEO duality have a strong positive effect on bank stability measures. They also suggest evidence that corporate governance variables help decrease bank's risk/insolvency. For the generalized method of moments setting, they found that board size has a mixed effect on banks' stability.

Fazel *et al.* (2016) examined the effect of board structure on banks financial performance by moderating firm size in Malaysia using regression models. Board size, Board independence, return on assets were the variables studied. The findings showed that determinants of board structure have a significant effect on performance. In the same vein,

Naushaud and Malik (2015) ascertained the effect of corporate governance denoted by board size, duality, agency cost, among others on the performance of selected 24 GCC banks. The results indicate that smaller boards are more capable for monitoring the management closely in GCC banking sector. The presence of block holders in ownership structure of GCC banks tends to have a positive effect on the performance of banking sector.

Zadollah and Mohsen (2015) examined the relationship between corporate governance and earnings management in banks listed on Tehran Stock Exchange. They used ownership structure, board composition and block shareholding as variables and adopted multivariate regression analysis technique in the analysis. They concluded that corporate governance has no significant effect on profit management.

Srairi (2015) investigated the impact of the level of corporate governance disclosure on bank performance by constructing a corporate governance disclosure index (CGDI) for 27 Islamic banks operating in five Arab Gulf countries. Using content analysis on the banks' annual reports for 3 years (2011-2013), the composite index construction uses information on six important corporate governance mechanisms, namely board structure, risk management, transparency and disclosure, audit committee, Sharia supervisory board and investment account holders. The result indicates that board audit committee increases the net income of Islamic banks

METHODOLOGY

Under methodology, research design, nature and sources of data, methods of data analysis, model specification, among others are considered.

3.1 Research Design

The study is empirical in nature, and it focuses more on time series analysis of the variables. It is basically a regression analysis in view of the assessment of impacts and relationships among the variables derived from the regression models, hence the adoption of the *ex-post facto* research design. In this design, the use of past values to explain future outcomes is the order of the day. It combines theory and empirical exercises in estimating the impact of the explanatory variables on the explained variable.

3.2 Nature and Sources of Data

Data used in the study are annual time series obtained from various editions of Nigeria Deposit Insurance Corporation (NDIC) annual reports and the 2022 edition of the Central Bank of Nigeria (CBN) Statistical Bulletin.

3.3 Model Specification

In an attempt to determine the impact of corporate governance on banking system stability in Nigeria, the following model was specified based on the researchers' practical experience in the banking industry.

The functional form of the model is as follows:

GTA = f(LIQR, LDR, LLP, NPLR) ………………………………………….. Model 1

Where:

GTA = Growth rate of Banks' Total Assets (%)
LDR = Loan-to-Deposit Ratio (%)
LLP = Loan Loss Provision (₦ Bn)
NPLR = Non-Performing Loan Ratio (%)

GTA = $\beta_0 + \beta_1$ LIQR + β_2 LDR + β_3 LLP + β_4 NPLR + μ_t ……………… Model 2
Where: β_0 = constant
β_{1-----} β_4 represent coefficients of the independent variables
μ_t = error term (representing other variables not included in the model)
GTLA, LDR, LLP and NPLR are as earlier described.

3.4 Method of Data Analysis

Various tools were employed in analyzing the data used in the study. The tools included statistical and econometric tools. Descriptive statistics, normality and stability tests, Augmented Dickey Fuller Unit Root test, Johansen Co-integration test, correlation test, Breusch-Godfrey Serial Correlation LM Test and regression analysis using Ordinary Least Square (OLS) technique of multiple regression.

4. RESULTS PRESENTATION AND DISCUSSIONS

In this section, results of various tests carried out were presented and discussed by the researchers.

4.1 Descriptive Analysis

The descriptive statistics analysis was conducted using measures of central tendency, measures of dispersion, and data normality measure. The result obtained from the
descriptive analysis is presented in Table 4.1.

Table 4.1: Results of Descriptive Analysis

DESCRIPTIVE STATISTICS

	GTA	LDR	LLP	LIQR	NPLR
Mean	19.92446	65.6941	600.6348	51.98522	11.56974
Median	13.3107	63.19099	277.8989	50.325	8.111009
Maximum	58.8648	96.81702	1789.064	104.2024	32.79571
Minimum	0.0926	37.55947	0	26.39276	2.810258
Std. Dev.	15.9422	14.65772	559.7965	17.10467	8.317351
Skewness	1.191176	0.115444	0.622826	1.306685	0.921523
Kurtosis	3.353621	2.761798	2.122072	5.353485	2.9648
Jarque-Bera	5.317263	0.100879	2.128875	11.33787	3.114888
Probability	0.070044	0.950811	0.344922	0.003452	0.210674
Sum	438.3381	1445.27	13213.96	1143.675	254.5342
Sum Sq. Dev.	5337.231	4511.826	6580815	6143.966	1452.745
Observations	22	22	22	22	22

Source: Authors' Eviews Computation (2024)

Table 4.1 shows that the average growth rate of banks' total assets for the period spanning 2001 and 2022 was 1.92 per cent while that of LDR, LIQR, NPLR was 65.69, 51.99, 11.57 per cent, respectively. Loan Loss Provision (LLP) measured in naira billion was 600.63 billion naira. The maximum growth rate was 58.86 per cent while LDR, LIQR, NPLR had 96.81, 104.20,

32.80 per cent, respectively. The maximum provision for loan loss made during the period was 1,789.06 billion naira. All the variables had positive skewness and kurtosis. Probability of Jacque Bera statistic show that all the variables have normal distribution except LIQR. A total of twenty-two (22) observations were used in the study.

4.2 Unit Root for Stationarity

The unit root test was conducted using the Augmented Dickey Fuller (ADF) test, to determine the adequacy of the data used in the study and also to determine the regression technique to be adopted based on the order of integration of the variables.

Table 4.2: Results of ADF Unit Root Test

Variables	ADF value	Critical value @		Order of Integration	P-values
		1%	5%		
GTA	-4.747104	-3.808546	-3.020686	I(1)	0.0013
LDR	-3.811194	-3.886751	-3.052164	I(1)	0.0116
LLP	-4.902777	-3.808546	-3.020686	I(1)	0.0010
NPLR	-5.127522	-3.808546	-3.020686	I(1)	0.0006
LIQR	-5.502441	-3.808546	-3.020686	I(1)	0.0003

Source: Authors' Eviews Computation (2024)

The results in Table 4.2 show that the variables did not attain stationarity at level, thereby justifying the need for differencing. After differencing for the first time however, all the variables became stationary and integrated at first difference [that is, of order I(1)]. Based on the order of integration of the variables, ordinary least square (OLS) technique of regression was considered suitable for the study.

4.3 Stability and Normality Tests

To assess the level of stability of the variables used in specifying the models of the study, cumulative sum (CUSUM) of squares test was conducted and it has clearly revealed that the variables used in the models are stable. Figures 4.1 attests to the stability of the model and Figure 4.2 affirm the normality of the model. The affirmation is based on Jacque-Bera probability statistic of 0.895672 which is greater than 5 per cent level of significance.

4.3 Test of Stability of Variables

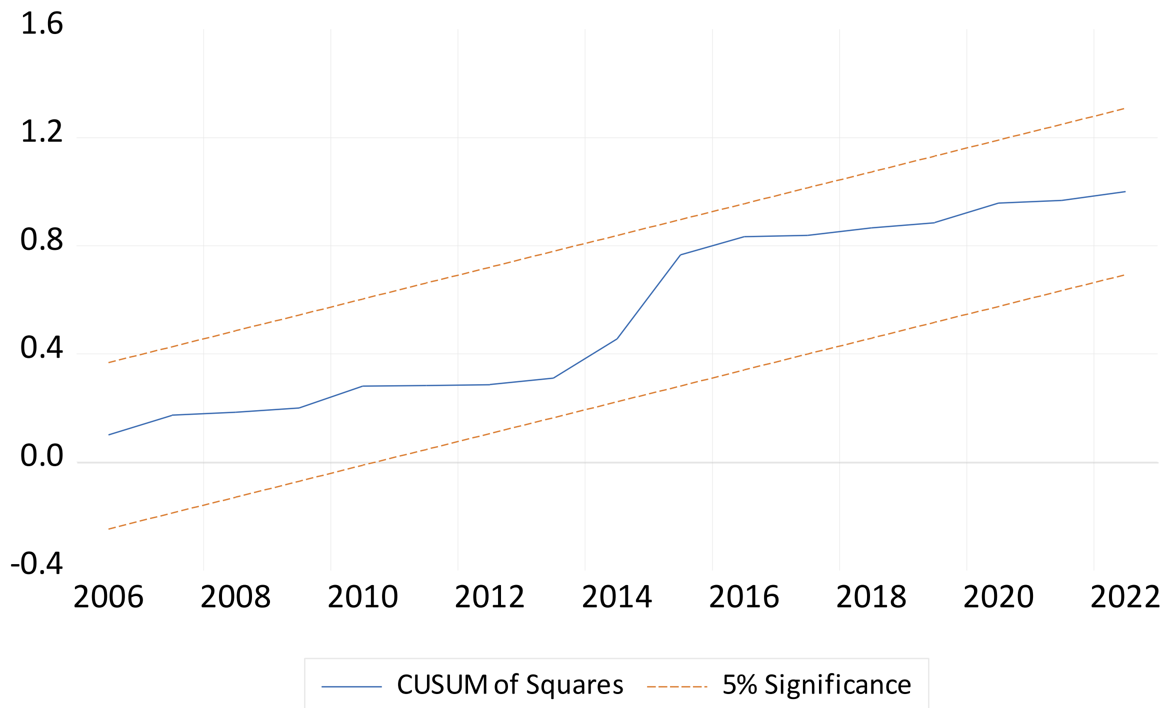

Figure 4.1: Result of CUSUM Square Test of Stability
Source: Authors' Eviews Computation (2024)

4.4 Histogram Test of Normality of Variables

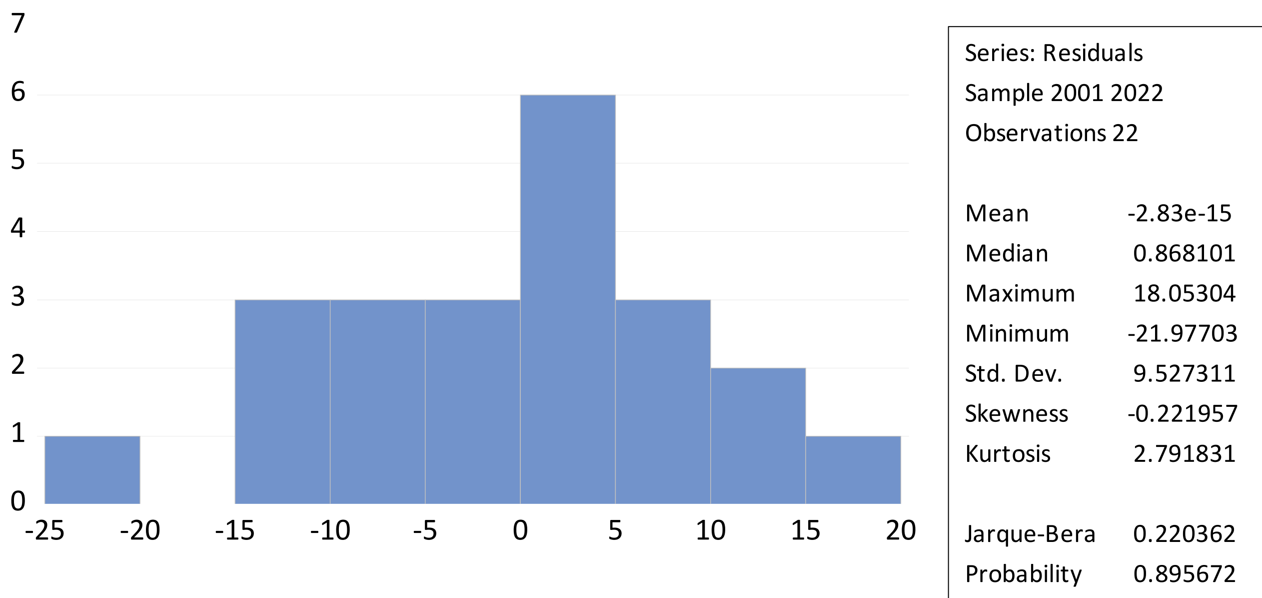

Figure 4.2: Result of Histogram Test of Normality
Source: Authors' Eviews Computation (2024)

4.5 Correlation Analysis

Correlation analysis was undertaken to ascertain if the variables of the study correlate with one another.

Table 4.3: Correlation Matrix

	GTA	LDR	LLP	LIQR	NPLR
GTA	1	0.584984422	-0.425240963	0.202872344	-0.067939
LDR		1	0.050334124	0.007917754	0.315858968
LLP			1	0.099374435	0.058040088
LIQR				1	-0.267189557
NPLR					1

Source: Authors' Eviews Computation (2024)

From Table 4.3, it is clear that two variables (Loan to Deposit ratio and Liquidity Ratio) relate positively with the dependent variable (Growth rate of Banks Assets) and also two variables (Loans Loss Provision and Non-Performing Loan Ratio) relate negatively with the dependent variable. Besides, only LDR has the highest coefficient of correlation among the variables.

4.6 Cointegration Test

Cointegration test was carried out to confirm the existence of long run relationship among the variables.

Table 4.4: Results of Johansen Cointegration Test

Series: GTA LDR LLP LIQR NPLR
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.801229	74.58983	69.81889	0.0198
At most 1	0.672178	42.27780	47.85613	0.1511
At most 2	0.500492	19.97212	29.79707	0.4247
At most 3	0.207680	6.089480	15.49471	0.6849
At most 4	0.069175	1.433686	3.841466	0.2312

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

The result of unrestricted cointegration trace test in Table 4.4 shows that there is one (1) cointegrating equation and this confirms the presence of long run relationship among the variables of the study. This test was an additional effort at proving the presence of long run relationship, since all the variables of the study already cointegrated at first difference in the unit root test.

4.7 Regression Analysis: Long Run Estimation Coefficient

In order to determine how changes in the independent variables affect the dependent variable, regression analysis was done. The analysis was done to present the long run relationship among the variables. The results obtained for the model of the study is presented in Table 4.5, showing the variables, coefficients, standard error, t-Statistic and probability values of the variables, among others.

Table 4.5: Results of OLS Regression Analysis

Dependent Variable: GTA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-24.74957	12.87583	-1.922172	0.0715
LDR	0.729527	0.167044	4.367267	0.0004
LLP	-0.013275	0.004166	-3.186926	0.0054
LIQR	0.177005	0.141878	1.247585	0.2291
NPLR	-0.387187	0.306296	-1.264098	0.2233
R-squared	0.642856	Durbin-Watson stat		1.366758
F-statistic	7.649946			
Prob(F-statistic)	0.001023			

As shown in Table 4.5, Growth Rate of Banks assets (GTA) will reduce by about 24.75 per cent if all the independent variables (LDR, LLP, LIQR, NPLR) remain constant. In addition, Table 4.5 revealed that LDR and LIQR have positive relationship with GTA while LLP and NPLR exhibit negative relationship with GTA. Moreover, only LDR and LLP exhibit statistically significant relationship with the GTA while LIQR and NPLR exhibit non-significant relationship with the GTA. The R-squared statistic of 0.642856 implies that about 64.29 per cent of variations occurring in GTA is associated with the independent variables. Furthermore, the probability of F-statistic of 0.001023 implies that the overall model is significant and this means that the combination of LDR, LLP, LIQR and NPLR pose significant impact on the growth rate of banks' assets in Nigeria.

4.8 Discussion of Findings and Policy Implications

Bearing in mind the objective of the study and the hypothesis formulated to guide the study which states that 'there is no significant relationship between Loans-to-Deposit Ratio, Loans

Loss Provision, Non-performing Loans Ratio, Liquidity Ratio and Growth Rate of Banks' Total Assets; findings from the study are discussed in this sub-section. Findings from the results of regression analysis showed that loan-to-deposit ratio (LDR) has a positive and significant relationship with the growth rate of banks' assets. According to Adenuga *et al.* (2021), LDR has both liquidity and solvency implications in the short to medium and long-term. Increase in LDR is to enhance credit to the economy in general or key sector as in the CBN policy of September 30, 2019. Let it be recalled that loans and advances remain the major source of income to banks; accordingly, increase in the proportion of deposits that is granted as loans means more income to the banks and that brings about increase in the value and growth rate of banks' total assets. A non-significant ratio means low earnings to the banks and consequently leads to retarded growth rate of banks' total assets. This finding is backed by the CBN's policy. Also, the findings show that liquidity ratio has a positive though not significant relationship with growth rate of banks assets. Increase in liquidity ratio means the banks' ability to meet their maturing short term obligations. This finding is in line with Tukur (2019) and CBN's existing policy. It should be noted that a liquid bank is a growing bank. Meanwhile, Nwosu, et al. (2020) found that increase in LDR reduces profitability.

On the contrary, loans loss provision and ratio of non-performing loans have negative relationship with growth rate of banks assets. While LLP exhibits a significant relationship, NPLR exhibits a non-significant relationship. Their signs are in line with theoretical expectations. Increase in NPLR increase the amount voted or provided for loans losses and these consequently inhibit the growth of banks assets. They lead to reduction in banks capital and hence reduction in assets. Michael *et al*. (2018) and various policies of the CBN support these findings. Meanwhile, Ikram *et al.* (2016) posit that since Non-performing loans (NPLs) depicts credit risk, operational risk and efficiency in resources allocation, it appears to be the most significant indicator of financial stability. Adegboye *et al*. (2020) corroborate this when they asserted that non-performing loan is a significant factor used by regulators to determine financial stability and bank asset quality.

Corporate governance is meant to increase efficiency in banks operations. The efficiency leads to increase in the values and wealth of the organization and reduction in losses and wastages, thereby enhancing the well-being and welfare of stakeholders. Increase or growth in total assets of banks signifies existence of corporate governance (good corporate governance).

5. Summary, Conclusion and Recommendations

The study investigated the impact of corporate governance on the banking system stability in Nigeria. Annual time series data for the period covering 22 years were used. Ordinary Least Square technique of regression was employed in the study. It was found that loans-to-deposit ratio and liquidity ratio exhibited a positive relationship with the growth rate of banks' total assets while loans loss provision and non-performing loans ratio relate negatively with the growth rate of banks' total assets. Only loans-to-deposit ratio and loans loss provision have significant impact on the growth rate of banks' total assets in Nigeria.

It is recommended that Bank management should be transparent and ethical in all their dealings in order to attain increase in value and wealth maximization for the owners of the banks. Besides, banks should work in consonant with policies and directives of the regulators from time to time to enhance the health of the banks and continuous stakeholders' welfare.

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