International Journal of Managerial Studies and Research (IJMSR)
Volume 3, Issue 1, January 2015, PP 49-56
ISSN 2349-0330 (Print) & ISSN 2349-0349 (Online)
www.arcjournals.org

Corporate Governance Disclosure Practices and Bank Performance in Nigeria: An Empirical Investigation

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Abstract: *The study investigates the impact of corporate governance disclosure practices on bank performance in Nigeria. The study used secondary data from the annual reports of banks listed on the Nigerian stock exchange. Empirically, the study used panel regression technique to determine the influence of corporate governance disclosure practices on the performance of banks in Nigeria. The regression result indicates that the extent of disclosure is positively related with performance that is banks that had higher degree of disclosure also posted better performance.*

Keywords: *Accountability, Corporate Disclosures and Annual Reports.*

1. INTRODUCTION

Corporate governance disclosure is critical and fundamental in modern banking management. It encompasses providing information by the banks or companies to the public and regulatory authorities. According to Bhasin (2010: pp151) communication via corporate governance disclosure is evidently very important in the sense that adequate disclosure enhances good corporate governance. Whittington (1993) in Bhasin (2010) lucidly states: “Published annual reports are used as a medium for communicating both quantitative and qualitative corporate information to stakeholders, and other users”. Although publication of an annual report is a statutory requirement, companies normally voluntarily disclose information. This according to Bhasin (2010) is because company management recognize that there are economic benefits to be gained from a well-managed disclosure policy.

Accountability on the other hand is best understood as a norm of governance, stipulating particular mode of wielding power. Societies that endorse accountability norm in the public or private sector expect power holders to provide full disclosure and be liable for misdeeds. According to Dragoniur (2007) accountability is a means of concretizing relations between institutions, delineating responsibilities, controlling power, enhancing legitimacy and ultimately promoting democracy. “The aim of devising accountability is creating trust in governance institutions”. Sweal and Vincent Joue (1997) in Dragonuir (2007) argue that the need for trust is especially acute in shaping long-term relationships. Any organization that claims sustainability can not refrain from keeping business and corporate disclosure at moderate levels. Accountability may be held as the trade of corporate governance particularly corporate Disclosure. In Nigeria, the recent insider trading, massive and prevalent frauds, mandatory retirement of chief executive officers of banks due to corrupt practices and the collapse of the Nigerian stock exchange market have combined to signal the failure of existing corporate governance structure as well as a pointer to a system devoid of control and accountability. Hence, the paper explains true justification for corporate governance disclosure.

The remaining part of the paper is organized as follows: The next section addresses a review of the literature, followed by a discussion of the methodology and the results. The paper ends with conclusions.

2. Literature Review

According to Healy and Palepu (2001), in Bhasin (2010) "disclosure comprises all forms of voluntary corporate communications, including management forecasts, analysts' presentations, the annual general meetings, press releases, information placed on corporate Websites and other corporate reports, such as, stand-alone environmental or social reports." Thus, appropriate corporate disclosure systems means that a good company is able to impress the markets with its integrity. Collett (2005) asserts that corporate governance issues have become so significant that it is likely firms use information about them for "impression" management. However, it is universally accepted that all material issues relating to corporate governance of the enterprise should be disclosed in a timely fashion; the disclosure should be clear, concise, precise, and governed by the substance over form principle." As a matter of principle, Baek, Johnson, and Kim (2009) in Bhasin(2010) pointed out that "all the relevant information should be made available to the users in a cost-effective and timely way." Whatever disclosures are made and whatever channels are used, a clear distinction should be made between 'audited' and 'non-audited' financial information, and matters of validation of other non-financial information should be provided (OECD, 2004). The Organization for Economic and Cooperation and Development (OECD, 2004) code and the Central Bank of Nigeria (CBN,2006) code quoted in Maimako (2010) provided that governance disclosure should include all material matters regarding the corporations financial situation, performance, ownership and governance of the company. The following benchmarks were however adopted in this paper. They include disclosure of financial and operating results, company objectives, major share ownership and voting rights, remuneration, related party transactions, foreseeable risk factors and issues regarding employees and other stakeholders. Company managements, across the globe, thus recognize that there are economic benefits to be gained from a well-managed disclosure policy. A detailed and structured system of disclosure enables investors to understand, and obtain accurate and reliable information of companies in order to make better investment decisions (Ho, et. al., 2008). Some research studies have shown that with increased corporate disclosure, firms experience a reduction in cost of equity capital (Botosan & Plumlee, 2002), as well as, the cost of debt (Sengupta, 1998). Similarly, Healy, Hutton, and Palepu (1999) quoted in Bhasin (2010) found a beneficial increase in the firm's stock liquidity and performance. Moreover, information disclosure in itself is a strategic tool, which enhances a company's ability to raise capital at the lowest possible cost (Lev, 1992).

Collett and Hrasky (2005) in Bhasin (2010:152) analyzed the relationships between voluntary disclosure of corporate governance information by the companies and their intention to raise capital in the financial market. In the study, a sample of 299 companies listed on Australian stock exchange had been taken for the year 1994 and Connect-four database had been used for collection of annual reports of companies. The study found out that "only 29 Australian companies made voluntary CG disclosure, and the degree of disclosures were varied from company to company." Similarly, Barako et al., (2006) examined the extent of voluntary disclosure by the Kenyan companies over and above the mandatory requirements. This study covered a period of 10 years from 1992 to 2001. The results revealed that "the audit committee was a significant factor associated with level of voluntary disclosure.

Recently, CG has received much attention in the Asian countries due to its financial crisis. Gupta, Nair and Gogula (2003) quoted in Bhasin (2010 pp 152) analyzed the CG reporting practices of 30 selected Indian companies listed in BSE. The CG section of the annual reports for the years 2001-02 and 2002-03 had been analyzed by using the content analysis, and least square regression technique was used for data analysis. The study found "variation in the reporting practices of the companies, and in certain cases, omission of mandatory requirements.

Another study undertaken by Subramanian (2006), in Bhasin (2010), identified the differences in disclosure pattern of financial information and governance attributes. A sample of 90 companies from BSE 100 index, had been taken. The data with respect to disclosure score had been collected from the annual reports of the companies for the financial year 2003-04. The study used the Standard & Poor's "Transparency and Disclosure Survey Questionnaire" for collection of data. The study finally concluded that "there were no differences in disclosure pattern of public/private sector companies, as far as financial transparency and information disclosure were concerned."

Similarly, Gupta (2006) traced out the differences in CG practices of few local companies of an automobile industry. The data with respect to governance practices had been collected from the annual report of the companies for the year 2004-05. The study "did not observe significant deviations of actual governance practices.

In Nigeria, empirical assessment of corporate governance disclosure practices and its impact on bank performance and accountability is generally sparse. Most empirical assessments have been predicated on data from developed countries, notably Anglo-American and Europe. The few reported Nigerian studies-Adenikinju and Ayorinde (2001), (Sauda, Mikailu and Garba (2005) quoted in Ezi-Hrebert and Tsegba (2011),and Umoren (2011) all examined the relationship between ownership concentration, insider ownership, firm performance and corporate factors influencing disclosures which yielded conflicting results that does not even address the issue of disclosure practices and accountability. This paper seeks to address these lapses.

3. DATA AND METHOD

This research work uses secondary data obtained from corporate governance indicators from the 10 listed banks in Nigeria annual reports and accounts for 2000 to 2009. These banks are currently listed on the Nigerian stock exchange and are operating in Nigeria. The banks are: Access bank Nig. Plc, Diamond Bank Nig. Plc, ECOBank Nig. Plc, First Bank Nig. Plc, FinBank Nig. Plc, Guarantee Trust Bank Nig. Plc, Union Bank Nig. Plc, United Bank for Africa Plc, Unity Bank Nig. Plc and Zenith Bank Nig. Plc. These banks were conviniently chosen primarily based on availability of published information for the period of the study. The banks also mentained their identity even after the 2005 bank consolidation exercise in Nigeria. Appendix A captures the constructs used in the analysis.

The secondary data are analyzed using the multiple regression method.

Regression panel data analysis was also used in this study to determine the influence of corporate governance disclosure practices and accountability on the performance of banks in Nigeria. If the cross-section data was used, which observed variables at one point of time, the influence due to time of corporate governance on bank performance cannot be seen. Consequently, time series model alone would pose a challenge of small sample size. Hence, panel data which is the use of both cross-section and time series was used. Torres-Reyna, (2009)

The study used a one way error component model of the panel data analysis. The Hausman test was also conducted to decide between the random effects models and the fixed effects model. The following model was also estimated using the STATA software econometric tool. The study adopted robust standard error to correct for the problems of auto-correlation and heteroscedasticity. Torres-Reyna (2009)

$$\mathbf{Bp_{it}} = \beta_{1i} + \beta_2 CorGov_2 it + \beta_3 \mathbf{DisCL_{3it}} + U_{it} \quad (1)$$

$$\beta_{1i} = \beta_1 + v_i \quad (2)$$

Substituting equation 2 into 1, It becomes

$$\mathbf{Bp_{it}} = \beta_1 + \beta_2 \mathbf{CorGov_{2it}} + \beta_3 \mathbf{DisCL_{3it}} + \varepsilon_{it} \quad (3)$$

But $\varepsilon_{it} = U_{it} + v_i$

Where

$\mathbf{Bp_{it}}$ **=** which is the dependent variable is measured by the ratio of net income of banks and the operation cost. The bank performance variable here represents the return on investment for shareholders. This is known as the return on equity or net profit margin. This study uses the net profit margin (NPM) as the bank performance variable; it is calculated as

Net Profit Margin (NPM): $= \dfrac{\text{Net } Income}{Operating\ Income}$

(As in Tandelilin, Kaaro, Mahadwartha and Suprinyatna. 2007)

$CorGov_2it$ = Corporate governance (CG). It is proxied by the Capital Adequacy Ratio (CAR), and is measured

It is measured as:

$$\text{Capital Adequacy (CAR)} = \frac{\text{Core Capital}}{\text{Total Asset}}$$

as in Tandelilin, Kaaro, Mahadwartha and Suprinyatna(2007).

$DisCL_{3it}$ =Disclosure policies and practices. It is proxied by the following construct from the codes of both the CBN and OECD. These are financial and operation results, company objectives, major share ownership and voting rights, remuneration, related party transactions, forseable with risk factors and issues regarding employees and other stakeholders. Thus we used Dummy variable to measure the disclosure practices. Disclosure index = $\sum d_i$. If $\mathbf{d_i = 1}$ disclosed $\mathbf{d_i = 0}$ undisclosed as in Tandelilin, Kaaro, Mahadwartha and Suprinyatna (2007)

β_1= Intercept of the model

β_2= Coefficient of corporate governance

β_3= Coefficient of disclosure practices

v_i= cross section random error component of the individual banks

ε_{it} = Unobservable combined error component

4. Estimation of the Econometric Model

The following hypothesis was tested;

There is no significant relationship between corporate governance disclosure practices and the performance of banks in Nigeria.

The Hausman test was conducted between the random effects and the fixed effects models. The result is shown in appendix B. The low value of the Hausman test 0.33 identifies the random effects model as better than the fixed effect model.

Results from appendix B above shows the impact of corporate governance disclosure practices on the performance of banks in Nigeria. The regression result shows that the more corporate governance disclosure practices is adhered to, the better the performance of bank and hence on the industry. The value of corporate governance disclosure from our computation is very low; this is as a result of low level of compliance by banks in Nigeria over the years. Therefore, improved corporate governance disclosure practices in the Nigeria banks will better their performances and enhanced accountability.

Also, the level of disclosure practices and accountability in the banking sector shows a positive but not significant value. This means that increase in the level of disclosure practices and accountability impact on the level of bank performance in Nigeria. The insignificance value of the variable is attributed to the non-compliance of total disclosure practices in Nigeria over the years. With increase in the level of total disclosure practices and accountability in Nigerian banks, the banks tend to perform better.

The coefficient of determination is very low; 1.6 per cent, variation of the performance of banks in Nigeria is attributed to the changes in the level of corporate governance and disclosure practices and accountability. The low value of the R-squared is seen from the little or no practice in corporate governance disclosure practices among Nigerian banks in the recent times. Constant practice of full disclosure will improve the R-squared.

The F-statistic computed showed that disclosure practice is significant at 5 per cent as seen from the table. The F-statistic accepted that there is a significant relationship between corporate governance disclosure practices and accountability on the performance of banks in Nigeria.

5. Conclusion

The study investigate the impact of corporate governance disclosure practices and accountability on the performance of the Nigerian banks using secondary data from published account of 10 banks listed on the Nigerian stock exchange. We expected that banks that fully disclose corporate governance issues will perform well in terms of profit and good will than those who are without a clear and effective governance disclosure practices and that corporate governance disclosure practices should impact on bank profitability and enhance their integrity and rating.

Empirically, the study used panel regression techniques to establish the impact of corporate governance disclosure practices and accountability on the performance of Nigerian banks. We validated the hypothesis that says there is no significant relationship between corporate governance disclosure practices, accountability and the performance of banks in Nigeria. The result though not robust enough offer evidence of significant impact consistent with previous study and findings of Bhasin (2010), Sareen (2009), Sharma and Singh (2009).

The conclusions from this research have three major policy implications. First, the challenges and failure of corporate governance disclosure practices and accountability stems from the culture of corruption and lack of institutional capacity to implement the codes of best practices. Secondly, policies and procedures required to ensure efficient internal controls are often disregarded. Quadric(2010). Thirdly, is the complete absence of transparency, disclosure, controls and accountability which has helped to cast a bleak shadow on the primary responsibility of board of directors?

For Nigeria banks to be repositioned in line with international best practices in corporate governance and accountability, adequate measures must be put in place to ensure transparency, proper disclosure, and effective control mechanism as panaceas for corporate accountability.

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Appendix A: Data showing Bank performance, corporate Governance and Disclosure

Banks	YEAR	Bp	CorGov	DisCL
Access	2000	0.126	0.539636	1
	2001	0.188	0.603965	1
	2002	0.250	0.171365	1
	2003	0.312	0.104745	0
	2004	0.374	0.086238	1
	2005	0.397	0.210287	0
	2006	0.575	0.165525	0
	2007	0.521	0.086378	0
	2008	0.604	0.164371	1
	2009	0.625	0.42274	1
Diamond	2000	0.497	0.07345	1
	2001	0.509	0.060481	1
	2002	0.521	0.077091	1
	2003	0.533	0.01824	1
	2004	0.545	0.068922	1
	2005	0.557	51.04019	1
	2006	0.569	0.091453	1
	2007	0.539	0.109687	1
	2008	0.489	0.085115	0
	2009	0.564	0.17191	1
EcoBank	2000	0.407	0.116463	1
	2001	0.428	0.045936	1
	2002	0.449	0.045189	1
	2003	0.47	0.128832	1
	2004	0.529	0.117245	1
	2005	0.436	0.380811	1
	2006	0.571	0.221974	1
	2007	0.491	0.111825	1
	2008	0.489	0.07343	1
	2009	0.453	0.143605	1
FirstBank	2000	0.470	0.12332	1
	2001	0.487	0.080286	1
	2002	0.504	0.000612	1
	2003	0.521	0.078109	1
	2004	0.538	0.123322	1
	2005	0.573	0.105779	1
	2006	0.535	0.101316	0
	2007	0.607	0.091754	1

	2008	0.557	0.230236	1
	2009	0.624	0.166875	1
FinBank	2000	0.408	0.212747	1
	2001	0.208	0.123218	1
	2002	0.008	0.123218	1
	2003	0.808	0.463603	1
	2004	0.609	0.447053	1
	2005	0.405	0.430503	0
	2006	0.209	0.413953	0
	2007	0.354	0.397403	1
	2008	0.547	0.380853	1
	2009	0.333	0.364303	1
GTB	2000	0.362	0.096548	1
	2001	0.391	0.096548	1
	2002	0.420	0.134081	1
	2003	0.449	0.115969	1
	2004	0.478	0.097061	1
	2005	0.499	0.183488	1
	2006	0.551	0.118537	1
	2007	0.557	0.102748	1
	2008	0.565	0.247432	1
	2009	0.589	0.184797	1
UnionBank	2000	0.863	0.1027	1
	2001	0.826	0.064155	1
	2002	0.790	0.110111	1
	2003	0.731	0.099307	1
	2004	0.731	0.085941	1
	2005	0.714	0.081552	1
	2006	0.614	0.151537	1
	2007	0.559	0.153528	1
	2008	0.64	0.138096	1
	2009	0.702	0.060328	0
UBA	2000	0.875	0.056523	1
	2001	0.797	0.045004	1
	2002	0.719	0.049235	1
	2003	0.641	0.068494	1
	2004	0.563	0.075619	1
	2005	0.485	0.168201	1
	2006	0.484	0.114058	1
	2007	0.558	0.097657	1
	2008	0.588	0.207185	1
	2009	0.985	0.412317	1
UnityBank	2000	0.910	0.391093	1
	2001	0.835	0.369868	1
	2002	0.760	0.348644	1
	2003	0.633	0.327419	1
	2004	0.713	0.306195	0
	2005	0.483	0.28497	0
	2006	0.203	0.263746	1
	2007	0.767	0.242521	1
	2008	0.743	0.221297	1
	2009	0.720	0.200072	1
ZenithBank	2000	0.696	0.178848	1
	2001	0.673	0.157623	1
	2002	0.650	0.136399	1
	2003	0.624	0.115174	1
	2004	0.601	0.09395	1
	2005	0.589	0.074646	1
	2006	0.55	0.047659	1

	2007	0.588	0.032197	1
	2008	0.574	0.022486	1
	2009	0.573	0.215156	1

Appendix B: The result of the estimated model

	Dependent variable (Bp)	
	Fixed Effects	Random Effects
Corpgov	0.0004583	0.0000148
Disclos	0.0623706	0.0681966
Constant	0.4904177	0.4855424
R^2	0.0166	0.0168
F	10.13*	10.42*
Hausman	0.33	
Corr (ui, X)	0.0408	0

** significance at 0.05*

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