Banks Transparency, Financial Disclosure through Corporate Governance and Its Financial Performance in Nigeria

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Abstract
This paper elucidate in the context of Nigeria’s banking sector, Banks transparency, financial disclosure through Corporate Governance and its financial performance in Nigeria. The increased incidence of bank failure in the recent period generated the current literature on quality of bank assets and also emphasized good governance as means of achieving banks objectives. This study made use of secondary data obtained from the financial reports of nine (19) banks for a period of ten (10) years (2006- 2016). Data were analyzed using multiple regression analysis. Findings revealed that the earning quality might be influenced primarily by some factors other than those considered in this study. This shows that irrespective of the level of disclosure by banks in Nigeria, the earnings do not improve at all they both followed inverse directions. It is recommended that banks should make known both financial and pertinent non-financial information on their official websites to permit stakeholders (such as researchers, media professionals, shareholders, and supervisors) to have easy access to important information.

Keywords: Agency theory, Banks transparency, Corporate Governance, Financial Disclosure, Financial Performance, Stakeholders theory.

Introduction
The global events concerning high-profile corporate failures have put back on the policy agenda and intensified debate on the efficacy of corporate governance as a means of increasing organization financial performance. The financial meltdown which occurred globally in 2008 led to the closure of several big businesses and unearthed gross financial misconduct in some commercial organizations. That phenomenon has warranted the discussion of the essence of sound corporate governance practices in all financial organizations worldwide. As financial intermediaries, banks are answerable for funds deployment from extra spending units at a price for headlong loaning of such funds to the scarce spending units at a price. Corporate governance is an arrangement used by business corporations to run and regulate their establishments in order to upturn shareholder value and fulfill other stakeholders’ expectations (CBN, 2006).

Corporate governance is the organization of the relationship between the owners (principals) and the managers (agents) in the control of a corporation. In a standardized organization, good corporate governance system will be able to tackle the conflicts of interest between (principals) and the managers (agents) of a corporate organization and resolve issues amicably. Although other stakeholders, such as the workforce, government agencies, banks, suppliers, and customers, or the public at large, have an interest in corporate control, ultimately, it is the shareholder-manager relationship which is the most essential in corporate governance and which best lends itself to international comparison.

The concept of corporate governance has become a vital topic for discussion in business circles, more so in an environment like Nigeria where unethical conduct thrives. Nevertheless, corporate governance in the banking industry is of utmost importance because of the significant financial intermediation role which the industry plays in any economy (Matama, 2008). As financial intermediaries, banks are answerable for funds deployment from extra spending units at a price for headlong loaning of such funds to the scarce spending units at a price. Corporate governance is an arrangement used by business corporations to run and regulate their establishments in order to upturn shareholder value and fulfill other stakeholders’ expectations (CBN, 2006). The lack of effective corporate governance in Nigeria has worked to the decrement of shareholders and created a class of stakeholders’ who have lost interest in the system (Adegbite & Nakajima, 2011b). The corporate
governance culture in Nigeria has persistently failed to be responsible to the stakeholders and has no deep-rooted mechanisms to a balance among the major players (board of directors, shareholders, and management) in the system or economy.

Furthermore, one aspect of corporate governance which has attracted attention in the academic circle is the transparency and financial disclosure of banks. There is a scarcity of literature that delineates the veracity of the link between transparency and financial disclosure of banks and their financial performances in the Nigerian context. Almost all the bank failures are the result of the combined effect of failures in governance and financial reporting (Umoren & Peace, 2011). Sanda, Mukailu, and Garba (2005) observed that the need for a study of this nature is even more important in an environment like Nigeria, which is characterized with growing calls for effective corporate governance and financial reporting, particularly for public limited liability companies. According to Akpan (2007), data from the National Deposit Insurance Commission report (2006) shows 741 cases of attempted fraud and forgery involving N5.4billion, while Soludo (2004) was of the opinion that a good corporate governance practice in the banking industry is imperative, if the industry is to effectively play a key role in the overall development of Nigeria.

The governance of a successful corporation typically includes an effective board of directors that carries out its responsibilities with integrity and competence. An effective board must put in place systems to ensure that the organization obligations to its shareholders are met. They must ensure full and timely disclosure of performance of the business to its owners and the investments community at large (Demsertz & Lehn, 1985). This study is thus geared at unfolding the possible relationships that exist between the various corporate governance mechanisms and financial performance with special reference to the Nigerian Banking Industry.

It is in the light of the above problems that this research work studied banks transparency and financial disclosure through Corporate Governance and its financial performance in Nigeria and also reviewed the annual reports of the listed banks in Nigeria to find out their level of compliance with the code of corporate governance for banks in Nigeria.

2.0 Literature Review
Bacon (1993), transparency can be defined as a sharing of information and acting in an open manner. In economics and finance, transparency is defined very broadly as “a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable” Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership, and voting of shares. Insufficient or unclear information could hamper the ability of markets to function, increase the cost of capital and result in a poor allocation of resources (OECD, 2006). Vishwanath and Kaufmann, (2001) revealed that a working understanding of transparency should encompass such attributes as access, comprehensiveness, relevance, quality, and reliability. Thus Transparency describes the increased flow of timely and reliable economic, social, and political information about investors' use of loans, creditworthiness of borrowers, monetary and fiscal policy, and the activities of international institutions. Alternatively, a lack of transparency may exist if access to information is denied, if the information given is irrelevant to the issue at hand; or if the information is misrepresented, inaccurate, or untimely. Disclosure can be defined as a sharing of information and acting in an open manner. In economics and finance, the disclosure is defined very broadly as “a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable.

Transparency and disclosure are integral to corporate governance. Higher transparency and better disclosure reduce the information asymmetry between a firm’s management and financial stakeholder’s equity and bondholders, mitigating the agency problem in corporate governance. The focus on transparency and disclosure has increased in the wake of recent events beginning with the Asian crisis in the latter half of 1997 and continuing with the recent discussions in the USA equity markets (Patel, Balic & Bwakira 2002).
There are some divergences among findings which could be attributable to the fact that different regulations, country legal environment differences, market conditions, government policies, different measures of corporate governance and corporate performance were used in different studies (Zahra & Pearce, 1989). Diamond and Verrecchia (1991) argued that revealing public information to reduce information asymmetry can reduce a firm’s cost of capital, the major reason being that disclosure of information reduces information asymmetries and therefore attracts increased demand from large investors. This line of argument is in line with the Healy and Palepu (2001) ‘increased information intermediation.’ Bhushan (1989) and Lang and Lundholm (1996) argued that voluntary disclosure lowers the cost of information acquisition for analysts and hence increases their supply of information. The expanded disclosure enables financial analysts to create valuable new information such as superior forecasts, thereby increasing demand for their services.

The concept of corporate governance is concerned with the ways in which all parties interested in the well-being of an organisation (the stakeholders) attempt to ensure that managers and other insiders take measures or adopt variables that safeguard the interests of the stakeholders. According to Bilal & Brown (2014), Corporate Governance (CG) is the mechanism which includes a code of conduct, laws, management techniques, different rules and regulations which direct the affairs of a corporation. These tools are used to protect the individual as well as collective interest. The investors and other stakeholders realized that good CG practices are very important in protecting their interests (Bilal et al. 2014). In the contemporary business, the key external stakeholders include suppliers, social communities, debt holders, shareholders, customers and trade creditors. All these stakeholders have a direct effect on the corporate decisions. Decisions taken by corporations affect all the stakeholders, but only a few of these stakeholders have an influence over the judgments of companies. (Dar, Naseem, Niazi, & Rehman, 2011; Ehikiyia, 2009).

According to international organizations including OECD, “the corporate framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities” (Monks & Minow, 2008). Therefore, for economies that intend to adhere to the tenets of the effective corporate governance framework, they must develop policies that will foster stakeholders’ participation and compliance to the healthy corporate governance ethics, but such compliance should be associated with incentives which would create and sustain integrity among market participants. Legal regimes guiding corporate governance practices should be transparent, enforceable adhere and align with the rule of law. There should be a clear demarcation of the hierarchy and statuses in the various regimes. Furthermore, sufficient resources should be allocated to the supervisory authorities so that they will uphold their vows and to fulfill their duties in a professional manner.

According to Monks and Minnow (2008), the adopted framework must “facilitate the effective participation by shareholders in the nomination, and election of board members and the equity component of compensation schemes for board members and employees should be subject to shareholder approval.” Furthermore, the “information concerning mergers and sales of a substantial portion of the firm’s assets should be disclosed to shareholders in an efficient and transparent manner, and transactions should take place at transparent prices that guarantee the interest of shareholders” (Monks and Minnow, 2008). Furthermore, the framework should “guarantee the exercise of ownership rights of all shareholders including institutional investors, and allow shareholders to consult with each other on issues regarding their basic rights” (OECD, 2004).

It is vital that the stakeholders’ role should be “recognized as well as being part of the framework, which is established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises” (OECD, 2004).
Ultimately, the corporate governance framework should ensure that disclosure and transparency are made on all material matters regarding the corporation, including firm objectives, major share ownership, voting rights, the financial situation, operational results, foreseeable risk factors, issues regarding employees and other stakeholders, and governance structure and policies of the firm (OECD, 2004). Information and reports should be delivered in accordance with high-quality standards. Besides, an annual audit should be carried out by an independent and qualified auditor to provide an external assurance that the financial statements precisely represent the financial position and performance for the firm. Channels for disseminating information to relevant users should offer equal and cost-efficient access.

The framework should “ensure as well, the effective monitoring of management by the board, and the board’s accountability to the firm and the shareholders; that implies that the board should treat different shareholder groups fairly, applying high ethical standards” (OECD, 2004). It is the duty of the board to carry out oversight functions by monitoring the corporate governance practices and make needed changes when required with a view to ensuring transparency when selecting and nominating its member, and to re-examine all the risk policies, plans annual budgets, and performance objectives of the firm.

Beeks & Brown (2005) provide evidence that firms with better corporate governance make informative disclosures. Their findings show that better-governed firms make price sensitive disclosures. They also found that disclosure on the ranking of the board and management structure and process could explain the implied cost of capital. Chiang (2005) also provide evidence on the relationship between Standards and Poor’s scores of transparency and disclosure and operating performance that companies in Taiwan that are the technology industry revealed that scores of financial transparency and information disclosure had a positive significance for firm performance.

Financial transparency is the extent to which investors have ready access to information about company financial information Barako (2007). A positive relationship between good corporate governance has long been linked with good firm performance. Financial transparency includes the board to disclose their dividend policy it’s accounting policies if in line with the generally accepted principles and also any information regarding company’s share transactions. Higher transparency and better disclosure reduce the information asymmetry between a firm’s management and financial stakeholder’s equity and bondholders, mitigating the agency problem in corporate governance.

Finally, good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor performance can lead to failure and crisis which have negative repercussions on the economic growth.

2.1 The Role of Government in the Corporate Governance of Banks in Nigeria

It must be noted that the government has traditionally aided private sector corruption, given the significant extent of public sector corruption in Nigeria. Nevertheless, following the sustenance of democracy in the country, Nigeria has made strides in reducing (or managing) public corruption and has since moved from being the world’s second-most corrupt nation with a corruption perception index score of 1.6 in 2005, to 2.4 in 2011 (Transparency International, 2011; Adegbite & Nakajima, 2011). Given this improvement, it is worth exploring the extent to which the government can effectively engage with the governance of banks in ways which promote rewards for performance, dynamism, flexibility, entrepreneurship, and minimize corporate corruption and fraud. It is thus worth emphasizing that the scandals of the past two decades transformed the global corporate governance regulatory landscape, further highlighting the weaknesses of self-regulation for the banks. In particular, recurring corporate scandals have led to increased demands for stricter regulation in order to guide corporate behavior and limit the reoccurrence of scandals in banking institutions.

Consequently, countries across the world including Nigeria have revised their corporate governance codes of conduct or initiated legal reforms with significant governmental participation. In Australia, for example, poor corporate governance practices and a number of high profile corporate collapses in the 1980s have led to the government’s continued fine-tuning of disclosure requirements in corporations laws and accounting standards,
which are aimed at achieving best corporate governance practices through transparency and disclosure and by ensuring the substantive rights of numerous stakeholders (Hockey, 2001). Similarly in China and Taiwan several problems which characterize many commercial banks including the lack of transparency in their reporting practices and several other organizational problems have led to more governmental participation in order to ensure a good corporate governance model which fosters Chinese companies’ competitiveness in their domestic and international markets (AFDC, 2007; Adegbite et al., 2011). As a result, whilst corporate self-regulatory bodies have prominently regulated corporate conduct with the role of government being that of an overseer, recent occurrences are presenting opportunities for more governmental involvement in corporate governance regulation. Indeed, the public uproar over the scandals in the last decade has made it clear that the status quo is no longer acceptable; government’s role should thus be to restore corporate integrity and market confidence without undermining the dynamism that underlies a strong economy (Coglianese, Healey, Keating & Michael 2004). In Nigerian banks, this is further based on the premise that the recent corporate scandals are indicative of their endemic fraudulent behavior which has plagued the modern corporation under the watchful eyes of self-regulation.

There is a need for government’s increasing intervention in the corporate governance regulation of banks due to the need to regain the lost confidence of investors in self-regulation and the capital markets. The role of government should be to ensure that there exists a proper, efficient and a workable structure through which banks can be run by effective and honest management in the pursuit of the interests of the company’s multiple stakeholders. ROSC (2004) recommends that the Nigerian Government should improve the framework of corporate governance regulation by enhancing the following: enforcement mechanisms, the capacity of regulatory institutions, and the training requirements of professionals. The role of the Nigerian Government in the regulation of corporate conduct is, however, more daunting as it has to address corruption which has been an impediment to the enforcement of existing legislation and the effectiveness of self-regulation. In doing this, the government must recognize that the challenges of corporate governance are manifestations of a larger problem of the Nigerian society, which is characterized by political instability and bad leadership, firmly rooted in corruption (Adegbite, Amaeshi & Amao 2012). Furthermore, government’s responses should be well measured. The excessive regulatory burden on banks as a result of regulatory convergence pressures from foreign investors and international regulatory agencies could seriously undermine the competitive advantage of indigenous firms. Regulation should, therefore, aim to improve investors’ confidence but must not limit the productivity and flexibility of companies. This is based on the premise that resources ‘wasted’ in complying with ‘over intrusive and too demanding’ regulations could better be used to benefit the company’s success. Good corporate governance brings competitive advantage with respect to attracting investments which is good for the banks and for Nigeria (Arun & Turner, 2004; Causey, 2008). Government’s role in corporate governance should be locally-conceived to tackle country and sector-specific challenges (such as the aforementioned regulatory/enforcement laxity and corruption) as well as internationally competitive in attracting trade and finance. As a result, government’s response to corporate failures should be well considered as regulatory reforms that over-react or those that address symptoms whilst ignoring underlying causes can be expensive and counterproductive (Coglianese et al., 2004).
2.2 Conceptual Framework of Banks transparency and financial disclosure through Corporate Governance and its financial performance in Nigeria

The model above shows the path of the study which is aimed at examining the impact of corporate governance variables employed in this analysis are Board Composition (BC), CEO Succession Plan (CSP), Annual Strategic Retreat (ASR), Term Limits for Directors (TLD), Corporate Governance Culture (CGC) and Transparency and Financial Disclosure (TFD). The financial performance is proxies by return on asset (ROA), return on equity (ROE) net profit before tax (NPBT), Tobin’s Q, earnings quality (EQ) and return on capital employed (ROCE). The model computed is subjected to pooled, fixed and random estimation in table 4.1.

2.3 Theoretical Framework
This study has adopted the stakeholders’ theory for its theoretical framework, a theory made well-known by Freeman (1984) and agency theory.

2.3.1 Stakeholders’ Theory
Stakeholder theory identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups Freeman, (1984). In short, it attempts to address the "Principle of Who or What Really Counts." In the traditional view of the firm, the shareholders view the shareholders or stockholders are the owners of the company, and the firm has a binding fiduciary duty to put their needs first, to increase value for them.
The stakeholder view of strategy is an instrumental theory of the corporation, integrating both the resource-based view as well as the market-based view, and adding a sociopolitical level. (Blattberg, 2000) has criticized stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. He argues that this is a product of its emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests.

In the input-output models of the corporation, the firm converts the inputs of investors, employees, and suppliers into usable outputs which customers buy, thereby returning some capital benefit to the firm. By this model, firms only address the needs and wishes of those four parties: investors, employees, suppliers, and customers. However, stakeholder theory argues that there are other parties involved, including governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees, prospective customers, and the public at large. Sometimes even competitors are counted as stakeholders. Therefore the model makes it a responsibility of the board members to disclose all information that will have an effect on the decision making of all stakeholders.

2.3.2 Agency Theory

The agency theory is considered the starting point for any debate on the issue of corporate governance (Coleman, 2007). The theory considers fundamental agency challenges in modern corporations due mainly to the differentiation between the financing source and management. In corporate governance research, agency theory has been used to investigate corporate governance disclosure (Brennan & Solomon, 2008; Cohen, Krishnamoorthy, & Wright, 2004; Healy & Palepu, 2001). The basic assumption about the agency theory is that managers’ (agents) and the owners’ (principals) interest are not aligned (Jensen & Meckling, 1976).

In Agency theory the central issue of corporate governance is equal to the problem of agents’ self-interest behavior in a universal principal-agent relationship everywhere. Where the principal (shareholder) delegates work to the agent (director and manager), who performs that work on behalf of the principal (Eisenhardt, 1989). Based on the assumption of individuals maximizing their own utility, the theory asserts that managers as agents will not always act in the best interests of the shareholders and may pursue their own interest at the expense of the shareholders. The principle by which performance is determined in this theory is simply the market value (i.e., shareholder value) of the business (Ahmad & Tukur, 2005). Therefore, managers and directors have an inherent duty to make sure those corporations to the shareholders’ best interests. The basic difficulty of corporate governance in this theory stems from the relationship between principal and agent emanating from the distinguishing of beneficial ownership and executive decision-making.

Agency theory concerns two problems occurring in the principal-agent relationship. The first is the difficulty or expense involved in the principal monitoring the agent’s behavior and routine actions. Secondly are the different preferences concerning interactions between the principal and the agent because of their different attitudes toward risk (Eisenhardt, 1989). Those problems lead to a particular type of management cost ‘agency cost’ incurred as principals/owners attempt to ensure that agents/managers act in principals’ interests (Jensen and Meckling, 1976).

The agency theory then focuses on solving the above problems by determining the most efficient contract governing the principal-agent relationship. Agency theory posits that the firm is not a reality, but a legal fiction created by a ‘nexus of contracts’ of the principal-agent variety (Jensen & Meckling, 1976). Contractual relations are the essence of the firm, not only between shareholders, but also with employees, suppliers, customers, creditors, and other stakeholders. As the agency problem exists for all of the contracts, thus, writing a contract must provide safeguards for both the principal and the agent to align their interests.

When the agent’s behavior is not fully observable, the principal has two options: to purchase information about the agent’s behaviors’ and reward those behaviors’ and to reward the agent on the basis on outcomes (e.g., profitability). Thus, the most efficient contract is the trade-off between the cost of measuring behavior and the cost of measuring outcomes and transferring risk to the agent (Eisenhardt, 1989). The agency issue continues to
be significant in governance terms because it influences the arrangement and composition of boards, the necessities for disclosure, and on the balance of power between shareholders and managers (Cadbury, 2002). Finally, transparency in the form of increased corporate governance disclosure is considered an important instrument for aligning management and shareholders’ interest (Brennan & Solomon, 2008). Also, it serves as a means of mitigating the information asymmetry that exists between management and shareholders. Corporate governance mechanisms are designed to cope with agency problems. Firms with better corporate governance mechanisms have higher performance. Do to the principal-agent relation where all have different interests the agent may not feel obligated to disclose valuable information to the principal making the principal make his decisions based on the little information he has.

3.0 Methodology

In this study, the primary research was carried out using a survey design. Questionnaires which were administered to staff of the selected banks for primary data collection. The primary research was validated and consolidated through the secondary research. Secondary data were derived from annual reports to examine the performance of the selected banks. The data were basically the trend data which aids in examining how corporate governance has affected the financial performances of banks culture.

The study adopted the sampling size determination model of Krejcie & Morgan (1970). The size of the population of the bank employees to be worked upon is 12,402. The researchers’ picked out of a sample of 12,402 number of middle level, top-level managers and a number of the employees of the banks at random. Different scholars have given a different perspective in determining sample size. However, for the purpose of this study, to ensure the accuracy of the study the Krejcie & Morgan’s formula was employed in determining sample size.

The Krejcie and Morgan’s Formula is a statistical formula concerned with the application of normal approximation with 95 percent level of confidence and 3.5 percent level of error tolerance. The formula is given below in determining the sample size;

\[
n = \frac{X^2 \times N \times P \times (1-P)}{(ME^2 \times (N-1)) + (X^2 \times P \times (1-P))}
\]

Where:
- \( n \) = sample size
- \( X^2 \) = Chi - square for the specified confidence level at 1 degree of freedom
- \( N \) = Population Size
- \( P \) = population proportion (.50 in this table)
- \( ME \) = desired Margin of Error (expressed as a proportion)

Where \( n = 727 \)

\( N = 12,402 \) (Within the range of 10,000 to 25,000)

Therefore to determine the sample size for a number of participants to distribute its questionnaire upon, the researcher makes use of 727 participants.

4.0 Discussion of the results

The mean and standard deviations, from the 160 observations are computed in this section of the data presentation. This reveals the average values as well as the deviation from the mean for the variables in each model. The mean and standard deviations, from the 160 observations are computed in this section of the data
presentation. This reveals the average values as well as the deviation from the mean for the variables in each model.

4.1 Regression Result Model where the dependent variable is Earnings Quality

Table 4.1: Regression Output Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Pooled</th>
<th>Fixed-effects</th>
<th>Random effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff.</td>
<td>Coeff.</td>
<td>Coeff.</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>25.7435(-0.645382)</td>
<td>0.2311</td>
<td>-23.25673(-0.249063)</td>
</tr>
<tr>
<td>CSP</td>
<td>0.0712054(0.819678)</td>
<td>0.6573</td>
<td>0.062118(0.447481)</td>
</tr>
<tr>
<td>ASR</td>
<td>0.0641030**(0.040482)</td>
<td>0.0824</td>
<td>0.043478(0.469842)</td>
</tr>
<tr>
<td>TLD</td>
<td>0.0949301(2.432098)</td>
<td>0.3254</td>
<td>0.014983(0.142457)</td>
</tr>
<tr>
<td>CGC</td>
<td>0.565093**(0.011742)</td>
<td>0.9416</td>
<td>0.538745(0.984174)</td>
</tr>
<tr>
<td>TFD</td>
<td>-0.095010**(-0.023910)</td>
<td>0.0001</td>
<td>-0.005287(-0.05793)</td>
</tr>
<tr>
<td>BC</td>
<td>-0.032819(0.482155)</td>
<td>0.7479</td>
<td>-0.057852(-0.268974)</td>
</tr>
</tbody>
</table>

Note that**,***denotes significance at 10.5 and 1 percent significant levels respectively while values in parenthesis are t-statistics.

Note also that the model tests bank’s financial performance using discretionary accruals.

Source: Researchers’ computation.
Discussion

The result from the regression equation is shown in Table 4.1. The equation used earnings quality (EQ) as its dependent variable while Board Composition CEO, Succession Plan, Annual Strategic Retreat, Term Limits for Directors, Corporate Governance Culture, Transparency and Financial Disclosure are the independent variables. For the models, the F-values which are significant at 1 percent and 10 percent level indicate that our models do not suffer from specification bias. The coefficient of determination (R^2) for the pooled estimator indicates that about 57 percent of change in return on asset is accounted for by the explanatory variables.

Board Composition

Interpretation
Board Composition shows a contrary result with a priori (βBC > 0). This implies that return on equity decreases when more outside directors are introduced to the board. The result of the pooled, fixed and random estimates show that EQ would decrease by 3.0 percent, 5.8 percent, and 8.7 percent respectively when boarding composition increases by 1 percent. However, the relationship is significant.

Discussion
The results of the studies on the relationship between board composition and financial performance are mixed. In 54 empirical studies of board composition and its relationship to firm financial performance conducted by Daily & Dalton (1992) little evidence was established. However, the outcome of this study is consistent with the work of Staikouras, Staikouras & Agoraki (2007) where they examined a sample of 58 out of the 100 largest, in terms of total assets, credit institutions operating in Europe for the period between 2002 and 2004. Their analysis inferred that bank Earnings Quality and Tobin’ s Q is negatively related to board composition. Furthermore, Pathan, Skully, and Wickramanayake (2007) posits that the board members tend to become involved in dysfunctional conflicts where the board is not cohesive (board members are not working optimally to achieve a single goal) deteriorating the value of a firm. This result, however, the result is a departure from the findings of Attiya and Robina (2007), China, Liang and Li (1999), Kyereboah-Coleman and Biekpe (2005).

CEO Succession Plan

Interpretation
Table 4.1 shows the result of the relationship between CSP and EQ. The pooled, fixed and random estimates show that there is a positive and significant relationship between CSP and Banks financial performance. The result indicates that 1 percent increase in CSP would lead to 7.1 percent, 6.2 percent and 3.4 percent increase in earnings quality.

Discussion
This result is in line with the findings of Huson, Malatesta and Parrino (2001) and Naveen (2003), Micco, Panizza, and Yanez (2004). Furthermore, Pi and Timme (1993) examine a sample of 112 banks, 25 percent of which have dual leadership and succession plans, overthe1987–1990 period. After controlling for firm size and other relevant variables, they find evidence that costs are lower and earnings quality is higher for firms with separate CEO and chairman titles. Similarly, Rechner and Dalton (1991) examining the differential financial implications of succession plans leadership decisions for 141 corporations over a six-year time period, find that firms opting for dual leadership consistently outperform the firms with unitary leadership and who do not have clear CEO succession plans.

Annual Strategic Retreat
The result shows that the annual strategic retreat has a positive relationship with discretionary accruals of Nigerian banks. However, the result is only significant for the pooled estimator. The study shows that 100 percent increase in annual strategic retreat for the directors results in 6.4 percent, 4.3 percent and 3.8 percent
increase in earning quality (proxied as discretionary accruals) for the pooled, fixed and random effect estimator.

Discussion
Management decisions are the product of the strategic retreat which is part of the governance structure. Thus, the annual strategic retreat of banks lies in a strong positive connection with performance because strategic management retreats aid firms organizations in exploring opportunities and fostering the decisions of management to ensure that prudent measures are employed in ensuring optimal productivity.

The frequency of board meetings may be viewed as a key element in board effectiveness. Indeed, there are explanations both for and against a positive relationship between the frequency of meetings and corporate financial performance.

Term Limits for Directors
Interpretation
The regression output shows that the term limit of directors has a positive but insignificant relationship with firm’s financial performance. A unit rise in the term limits for directors would lead to 0.095, 0.014 and 0.016 increase in earning quality of Nigerian banks.

Discussion
The outcome of this analysis is in line with the empirical research of Nworji, Abebayo, and David (2011) and Nair and Gogula (2003) who posit that the ill-observance of corporate governance principles in the context of setting term limits of directors results in failure of banks arising from poor earning quality. However, proper observance of the code (CCG) leads fair rotational policy and board terms which will foster improved quality of earnings and eventually, protection of banks going concern tendency.

Furthermore, Watts and Zimmerman (1986) argue that the imbalance of information can be reduced with the help of effective financial reporting and consequently, the problem of adverse selection and moral hazard can be reduced as well.

Corporate Governance Structure
Interpretation
The regression output shows that there is a significant positive relationship between corporate governance culture and earning quality of firms. The study shows that 100 percent increase in the corporate governance culture would lead to 57 percent, 54 percent and 54 percent increase in the discretionary accruals of commercial banks in Nigeria.

Discussion
The findings of the study further revealed a positive relationship between corporate governance and financial performance. This indicates that the more the governance mechanisms are in place, the better the financial performance. This is in agreement with Johnson, Boone, Breach, & Friedman (2000) and Durnev and Kim (2003) who suggests that insiders expropriate more when the market is bad, and take less when the market is good. Corporate governance mechanisms assure investors incorporations that they will receive adequate returns on their investments (Shleifer & Vishny, 1997). Shleifer etal. (1997) urged that concentration groups with large shareholdings; check the manager’s activities better. However, only the check and balance not only causes to reduce the agency cost but as well resolves the issues between managers and owners. Furthermore, Williamson (1988) examined the relationship between corporate governance and securities. Jensen (1986) seems to be quite keen to analyze how corporate governance directly or indirectly influences the capital structure and firm value. Driffield, Mahambare, and Pal (2007) stated that higher ownership concentration has a positive impact on the capital structure and firm value. Claessens, Djankov, Fan, and Lang (2002) also maintain that better corporate
governance frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. Corporate governance affects the development and functioning of capital markets and exerts a strong influence on resource allocation.

### Transparency and Financial Disclosure

**Interpretation**
The study shows that there is a significant negative relationship between transparency and disclosure and discretionary accrual. The result shows that 100 percent increase in financial disclosure results in a 1 percent, 0.5 percent and 0.8 percent decrease in earning quality proxied as discretionary accruals.

**Discussion**
The result provides additional evidence to the findings of Klein (2002) which revealed that disclosure in developing economies results in poor earning quality. The reason can be attributed to the fact that board independence leads to lower level of accrual management thereby suggesting the importance of board independence in increasing board vigilance. However, the impacts of regulated disclosure on banking system stability are intricately complex. On the one hand, the informational asymmetry and the positive externality explanations of regulated disclosure predict that disclosure and the consequent transparency enhance banking system stability by enabling market participants to better assess bank risk and performance. This is the “Transparency-Stability” view.

#### 4.2 Hypotheses Testing

**Table 4.2:** There is no significant relationship between transparency and financial disclosure of banks and its financial performance.

<table>
<thead>
<tr>
<th>Models</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>Prob. (t-stat)</th>
<th>&gt; or &lt; 0.05</th>
<th>Inference</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model V</td>
<td>-0.008124</td>
<td>-0.038972</td>
<td>0.0412</td>
<td>&lt;</td>
<td>Significant</td>
<td>Reject</td>
</tr>
</tbody>
</table>

Source: Researchers’ Computation.

From Table 4.2 the probability associated with the t-stat of the coefficient of TFD in give significant values-which P(t δ=0.0412<0.05). Therefore with respect to TFD, H₀ is rejected for the model.

The result was obtained for the relationship between TFD and banks financial performance for in Nigerian. The result is positive and insignificant with ROA but significant with ROE. The findings also reveal an inverse relationship between the corporate governance disclosure and earnings quality, implying that increased corporate governance has not improved the earnings quality as expected. This clearly indicates that the earning quality might be influenced primarily by some factors other than those considered in this study. This shows that irrespective of the level of disclosure by banks in Nigeria, the earnings do not improve at all they both followed inverse directions. This corresponds to the study of Roger (2008) who finds a negative relationship between credit risk as a measure of disclosure and financial performance of banks in Uganda, but this is contrary to the view of Verrecchia (2001), who finds that the liquidity of stock market will be improved if disclosures area dequate. In that way, the cost of equity capital will be reduced either through reduced transaction costs or increased demand for a firm’s securities.

### 5 Summary and conclusion

In reinforcing transparency and disclosures, banks should make known both financial and pertinent non-financial information on their official websites to permit stakeholders (such as researchers, media professionals, shareholders, and supervisors) to have easy access to important information. Other than disclosing the financial information of the bank, the bank’s annual report should also include vital non-financial information such as shareholders’ rights protection, board charter, risk management framework and policy, corporate social

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responsibility practices, remuneration policy, corporate social responsibility, ownership structure, etc. The disclosure policy of the bank should be shared and approved by all shareholders at annual general meetings. Finally, banks should quicken the pace of applying international accounting conventions in all its financial operations, i.e., IFRS.

References

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