The Impact of Corporate Governance Chief Executive Officer (CEO) Succession Plan on Banks Financial Performance in Nigeria

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Abstract
This paper examines the impact of corporate governance Chief Executive Officer (CEO) succession plan on banks 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 Succession planning in the shadow of a long-term CEO contract is confounded not just by the prospect of losing some of the best possible candidates, but also by reaffirming the importance of the CEO in choosing a successor. It is recommended that bank boards should formulate succession plans to assure that the banks operate smoothly and also be aware of the benefits of having independent directors on the board.

Keywords: Agency theory, Chief Executive Officer (CEO), Corporate Governance, Financial Performance, Stakeholders theory, Succession Plan

1.0 Introduction

Corporate governance is regarded as an indispensable tool for organizations to take the lead in the industry of operations. It is about the effective, transparent and accountable governance of affairs of an organization by its management and board. It is about a decision-making process that holds individuals accountable, encourages stakeholder participation and facilitates the flow of information.

There has been a great deal of attention given to corporate governance in recent times in view of its importance to the success of any organization. Banking supervision cannot function as well if sound corporate governance is not in place, and consequently, banking supervisors have a strong interest in ensuring that there is effective corporate governance at every banking organization (Kyereboah & Biekpe, 2005).

Banks in Nigeria have been facing management tragedies and restructurings due to the failure of corporate governance, thus leading to the bank crises of the 1930s (Owolabi, 2010). Nwankwo (1994) stated that the crisis of confidence evident in Nigeria’s banking industry is not a new incidence; it has been a continuing condition. In the 1930s, all but one indigenous banks (National Bank) quit the business. In the 1940s, the banking industry experienced a “boom and crash” when all but four banks avoided liquidation. Between the 1952-1954 periods, sixteen indigenous banks out of 21 failed due to weak governance mechanisms and lack of performance.

As banks developed in size and complexity, bank’s boards often did not accomplish their functions and were lulled into a sense of comfort by the seeming year-over-year growth in assets and profits. In retrospect, the boards and executive management of some major banks were not fortified to run their institutions (Sanusi, 2010). CEOs and chairmen in some of the banks were noticed to have had a domineering influence on the board; some boards lacked independence, some directors did not make significant contributions to protect growth and development, and some banks had feeble ethical standards, the board committees were also often ineffective or inactive. According to Singh and Davidson (2003), larger boards are indirectly linked to firm’s performance.

A gap in the corporate governance mechanism in Nigeria is the separation of chairmanship position and CEO and lack of or delay in succession planning. The banking industry in Nigeria is not different from others as the
war for talent increases day by day. Human capital has become one of the vital resources to grow market share in the banking industry where business ideas are being copied (Ciuri, 2013). At least ten commercial banks have hired new Chief Executives while others have new personnel in their top tier management positions to bring in new ideas and vitality, as banks seek geniuses and strategies to drive growth in a competitive and fast-changing environment. There are several other, more concrete obstacles to leadership-succession planning: poor dynamics between the board and the CEO; the lack of a well-defined process; poorly defined ownership of succession-planning responsibilities; a scarcity of internal CEO-ready talent; and an inability to assess objectively any potential internal candidates.

It is in the light of the above problems, that this research work studied the impact of corporate governance Chief Executive Officer (CEO) succession plan on banks 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

The planning process for an executive officers’ succession has become a vital issue in the area of corporate governance ever (Stephen, Ojeka, Adetula, Mukoro, & Kpokpo, 2017). This act ensured that, in the event of having difficulty with one employee, the company will not have a threatened going concern and will remain fully functional. This creates tremendous value for shareholders. The concept of CEO succession has been described in various ways by different bodies and organizations.

The concept of CEO succession can be identified as the process by which a corporate board ensures that its organization is able to maintain sustenance of excellence in CEO leadership over time, with changes from one leader to the next. According to Animashaun and Oyeneyin (2002), succession in legal terminology is the passing of property to persons upon the death of the owner of the property.

In organizational theory, succession is the process of transferring management control from one generation of leaders to the next generation including the dynamics before, during and after the actual transition as cited by Shepherd & Zacharakis, (2000). Nigeria has witnessed different forms of CEO succession. While many have increased the performance of the firms in term of profitability, brands, goodwill and productivity level, many have eroded what the company initially stood for and shareholders’ wealth. The dynamics of CEO succession globally and especially in Nigeria comes with its intrigues and politics which necessitate an empirical review now that many firms (as a result of global liquidity) are either merging or acquiring one another and how this can improve the wealth of the owners and the value is created.

The corporate governance framework should “protect and facilitate the exercise of shareholders’ rights. Basic shareholder rights should include the right to secure methods of ownership registration; convey or transfer shares; obtain relevant and material information on the corporation on a timely and regular basis; participate and vote in general shareholder meetings; elect and remove members of the board; and share in the profits of the corporation” (OECD, 2004). The framework ought to expedite the shareholders’ right to be adequately up-to-date on resolutions linked to major corporate changes such as “releasing additional assets and any extraordinary transactions that may affect the sales of a firm” (OECD, 2004). Shareholders should be informed about “the voting procedures that govern general shareholder meeting including date, location, and agenda of general meetings, with the right to propose resolutions and adjustments to the agendas (OECD, 2004).

Furthermore, the framework “should ensure equitable treatment of all shareholders including minority and foreign shareholders” (OECD, 2004). The implication is that “all shares should carry the same rights, all
Investors should be updated on the rights attached to all series and classes of shares before they purchase, changes in voting rights should be approved by the classes of shares” (OECD, 2004). There must be equal opportunities for all the shareholders to obtain “effective redress for violation of their rights, as well as an opportunity to protect their legal rights and voting for major decisions” (OECD, 2004). Consequently, minority shareholders must be protected from the unethical threats of controlling shareholders and chances of self-dealing should be strictly eliminated. Furthermore, key executives and board members must reveal to all stakeholders their involvement in any financial transaction or interest in any issue that can affect the placement of firm’s value.

In addition to this, some researchers have noted that the CEO may influence the board through the selective use of information, control over board’s agenda, and personal persuasion through access to keyboard members (Zald, 1969; Mace, 1971) and this could have an adverse effect on the board’s oversight function. For good corporate governance, it is important that the CEO does not dictate the agenda for the board and control the outcomes of board decisions. The CEO should not be a member of keyboard committees, and not participate in the selection of new board members (Jeffrey, Fennell & Halpern, 1993).

Boards of directors, in performing their oversight role, are expected to supervise the actions of management, provide advice, and veto poor management decisions (Fama, 1980; Jensen, 1986). In their control capacity, boards of directors are also responsible for removing ineffective management. The propensity to engage in such actions, however, is often a function of influence relationship, cognition about performance, and/or political action than of boards’ actual effectiveness as a rational management control system (Mace, 1971; Baysinger and Hoskisson, 1990).

Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to proper functioning of the banking sector and the economy of a country as a whole. Poor corporate governance may contribute to bank failures, which could, in turn, lead to a run on the bank, unemployment and negative impact on the economy (Basel Committee, 1999). In addition, problems or failures of banks are likely to rapidly expand and have a disproportional adverse impact on the smooth operation of the financial system of a country (Allen & Herring, 2001; Sbracia & Zaghini, 2003). The board of directors has a significant role to play in ensuring good corporate governance in the bank, and at the heart of the corporate governance, the debate is the view that the board of directors is the guardian of shareholders’ interest (Dalton, Daily, Johnson & Ellstrand, 1998).

2.1 Challenges of Corporate Governance in the Nigerian Banking Industry

Corruption which has traditionally been at the center of corporate governance issues in Nigeria (and especially in Nigerian banks) thrived and became a ‘way of life,’ during the military regimes which followed the country’s independence from Britain. For example, in the early 1990s, the country’s financial sector experienced major turbulence which resulted in the collapse of several financial institutions and led to the erosion of investors’ confidence (ROSC, 2004). This was as a result of several corrupt practices and dealings which involved managers and directors of listed banks. Furthermore, this undermined customers’ trust and highlighted the importance of good corporate governance for corporate vitality and economic stability of banks. Thus, commensurate with the need to protect burgeoning investors’ wealth, corporate governance in Nigeria, and in particular Nigerian banks, has become a matter of serious concern for regulators, and especially the government which has led to significant corporate governance regulatory reforms aimed at improving the governance of listed corporations and attracting foreign investments to Nigeria (Adegbite & Nakajima, 2011).

Amongst other provisions, Nigerian banks are required to have their audited financial statements approved by the CBN. This must be done prior to publication in a national daily newspaper within four months of year-end.

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Auditors are also legally obliged to report matters related to breaches of legislation and irregularities, to the CBN. However, the CBN has been ineffective in its regulation of financial institutions, due to a lack of sufficient capacity. As Nmehielle and Nwauche (2004) noted, a major impediment of the statutory standards of corporate governance for banks is that the existence of these standards does not guarantee that they would be enforced. According to the ROSC (2004) report, outdated sanctions and reduced capacity undermines the effectiveness of the CBN in the enforcement of financial reporting requirements. The report further indicated that there is an occasional conflict of views between the CBN and the Nigerian Stock Exchange (NSE) with regards to the approval of financial statements of listed banks.

The Securities and Exchange Commission (SEC) which is the apex regulator of the Nigerian capital market also suffers from compliance monitoring and enforcement challenges according to the ROSC (2004). In strengthening the framework for corporate governance regulation in Nigeria, the Code of Corporate Governance in Nigeria (SEC Code) was developed in 2003 (with a revised version of the Code released on the 1st of April 2011) with adequate input from relevant stakeholders, including members of professional organizations, organized private sector and relevant regulatory agencies such as the Corporate Affairs Commission (CAC), NDIC and the CBN (Adegbite, 2012).

Furthermore, in the drafting of the code, the CBN envisaged additional corporate governance challenges which could arise from the inability of merged companies to integrate personnel and systems. Also, the CBN sought to address potential irreconcilable differences in corporate culture which could result in board and management misunderstandings. According to the CBN(2006), corporate governance related challenges resulting from the post-consolidation process include among others the technical incompetence of board and management to effectively redefine, re-strategize, and restructure to take advantage of the consolidation; boardroom squabbles as a result of different business cultures and high ownership concentration especially in banks that were formerly family owned or ‘one-man’ entities; squabbles arising from knowledge gaps, harmonization of roles and salary structure among staff and management; inadequate management capacity in terms of running a much larger organization; resurgence of high level malpractices in order to boost income as a result of intense competition and lack of enough viable projects; insider-related lending facilitated by lack of transparency in bank ownership and the pervasive influence of family and related party affiliations; ineffective board/statutory audit committees; inadequate operational and financial controls and lack of proper transparency and adequate disclosure of information.

Whilst the CBN code has been structured in ways which should tackle a lot of these fundamental issues, concerns remain on the degree of its enforcement and effectiveness. For example, despite CBN’s claim that the code has made it be on top of the situation, the secrecy which continues to surround the operations of banks in Nigeria is unhealthy (Financial Standard, 2008).

The CBN has also been criticized for encouraging operational secrecy which relates to losses incurred, for example, through robbery attacks; the CBN allows banks to state losses such as these in general (non-quantitative) terms (Financial Standard, 2008). Furthermore, despite the provisions contained in the 2003 SEC Code and the 2006 CBN Code, the global financial crisis revealed enormous weaknesses in the corporate governance practices of many Nigerian banks. In particular, these have been highlighted by the recent investigations into the several years of corrupt practices (including serious criminal offenses) perpetrated by the managers and directors of major Nigerian banks and their business collaborators, by the CBN and other relevant regulatory bodies (Adegbite and Nakajima, 2011). Following a preceding CBN audit of banks in 2009, the CBN under its new leadership dismissed the executive officers of Intercontinental Bank Plc., Union Bank Plc., Afribank Plc., Oceanic Bank Plc., Bank PHB Plc., Equitorial Trust Bank Plc., Spring Bank Plc. and FinBank Plc., for bad corporate governance, fraud and serious liquidity problems due to several billions of naira of...
unpaid and un-serviced loans by debtors including top business moguls and politicians (Adegbite Amaeshi & Amao, 2012; Adegbite & Nakajima, 2012). Despite injecting more than $4 billion into the failed banks in 2009, the CBN in August 2011 nationalized AfriBank, Bank PHB, and Spring Bank after they were unable to raise the fresh capital they required.

2.2 Conceptual Framework of Corporate Governance

Corporate Governance CEO Succession Plan on Banks Financial Performance in Nigeria

Fig 1: Source: Researchers’ Corporate Governance Corporate Governance CEO Succession Plan on Banks Financial Performance Model

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 tables 4.2 and 4.3 respectively.

2.3 Theoretical Framework
This study has adopted the stakeholders’ theory for its theoretical framework, a theory made well-known by Freeman (1984) who contended that the core principle of any corporation is to gratify all stakeholders’ interests and that corporate organizations have extensive accountability than the narrow-minded representation of corporation given by the agency theory.

2.3.1 Stakeholders’ Theory

One of the original advocates of stakeholder theory, Freeman (1984), identified the emergence of stakeholder groups as important elements of the organization requiring consideration. He suggests a re-engineering of theoretical perspectives that extends beyond the owner manager-employee position and recognizes the numerous stakeholder groups. Freeman (1984: 234), suggests, if organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization’s purpose. That is, stakeholder management is fundamentally a pragmatic concept. Regardless of the content of the purpose of the firm, the effective firm will manage the relationships that are important. Freeman (1984) emphasizes the importance of fully comprehending the dynamics of a business and argues that a successful firm necessarily has to create value for its stakeholders, i.e., for customers, suppliers, employees, communities, and financiers (shareholders, banks, etc.). The success of a firm cannot be measured by studying one stakeholder in isolation, but a wider approach including the full range of stakeholders is necessary to evaluate the performance of firm fully. Subsequently, the purpose of the firm is defined by the overall value creation for stakeholders (Freeman 1994).

Some schools of thought also hold the view that bigger boards can improve corporate governance practices, especially when it is considered that there is greater diversity in the board’s expertise, a factor which improves the managerial decision-making process and significantly limits the dominance of the CEO (Abor & Biekpe, 2007). Jensen (1993) contended that board effectiveness and CEO support was greatly improved when the number of directors on the Board was reduced since bigger boards needed greater levels of communications and greater efforts to facilitate and coordinate corporation activities. As a result, the principal role of bank management and oversight as a board is left for a few board members while the rest stop contributing efficiently; this last group of persons will hold an unfair advantage over the others. It is perhaps for this reason that Jensen (1993) specifically limited the number of directors to at most 8 as an element of six principles which help to enhance the governance structure of a firm (Jensen, 1993). But certain researchers agreed on restricting managers and board ownership as high-level insider ownership is inefficient, as all managers tend to seek out their self-interests instead of creating inventive, entrepreneurial prospects and shareholder value maximization (Monks & Minow, 2008).

Sundaram and Inkpen (2004) suggest that “stakeholder theory attempts to address the question of which groups of stakeholder deserve and require management’s attention.” Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognizant of the myriad participants who seek multiple and sometimes diverging goals (Donaldson & Preston 1995).

2.3.2 Agency Theory

Stephen Ross and Barry Mitnick are the first scholars to propose and begin the agency theory, according to Mitnick (2006). Stephen Ross is responsible for the origin of the economic theory of agency, and Barry Mitnick for the institutional theory of agency, though the basic concepts underlying these approaches are similar. Indeed, the approaches are complementary in their uses of similar concepts under different assumptions. In short, Ross introduced the study of agency in terms of problems of compensation contracting; the agency was seen as an incentives problem. Mitnick introduced the now common insight that institutions from around the agency, and evolve to deal with the agency, in response to the essential imperfection of agency relationships: Behavior never occurs as it is preferred by the principal because it does not pay to make it perfect. But society creates institutions that attend to these imperfections, managing or buffering them, adapting to them, or becoming chronically distorted by them. Thus, to fully understand agency, we need both streams -- to see the incentives as well as the institutional structures.
Mulili and Wong (2011) described agency theory as a structure of organizations that operates under imperfect information and ambiguity. Filatochev, Jackson, and Nakajima (2013) stated that the concept of agency theory had influenced some corporate governance discussions. Amran, Periasamy, Zulkafi (2014) expressed the same idea that agency theory dominates research on corporate governance. Agency theory has become the foundation of corporate governance (Segrestin & Hatchuel, 2011). Agency theory connects various facets of corporate governance with organizational performance (Filatochev & Wright, 2011). Jensen and Meckling (1976) stated that the fundamental idea embraced by agency theorists is, in any particular position, managers may not operate to maximize investors’ returns but instead follow their self-interests, unless proper governance systems are used to safeguard the interest of the investors. Agency theorists have asserted that to curb managerial exploitation and its harmful consequences on performance; investors should use a diversity of corporate governance mechanisms (Filatotchev & Wright, 2011). The mechanisms include the board of directors monitoring and sizable outside investors to improve the monitoring effectiveness of the managers and enhance organizational performance (Harford, Mansi, & Maxwell, 2012). Several corporate governance models revolve around principal-agency theory with links to divergence details of corporate governance with organization performance (Filatochev & Wright, 2011).

Jensen and Meckling (1976) described agency theory as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. According to this theory, shareholders who are the owners of the corporation appoint managers or directors and delegate to them the authority to run the business for the corporation’s shareholders (Clarke, 2004). The agency relationship between two parties is defined as the contract between the owners (principals) and the managers or directors (agents) (Jensen & Meckling, 1976). Based on the agency theory, shareholders expect the managers or directors to act and make decisions in the owners’ interests. However, managers or directors may not necessarily always make decisions in the best interests of the shareholders (Padilla, 2002). The separation of ownership and control produces an innate conflict between the shareholders (principals) and the management (agents) (Aguilera, Filatotchev, Gospel, & Jackson, 2008). This conflict of interest can also be exacerbated by ineffective management monitoring on the part of shareholders because of shareholders being dispersed and therefore unable, or lacking the incentive, to carry out necessary monitoring functions.

Consequently, the managers of a company might be able to pursue their own objectives at the cost of shareholders (Hart, 1995). Effective corporate governance can reduce agency costs and tackle problems related to the separation of ownership and control (Yunhong, Ailton, & Subhani, 2017). It can be viewed as a set of mechanisms designed to reduce agency costs and protect shareholders from conflicts of interest with agents (Fama & Jensen, 1983a). Corporate governance is viewed as a monitoring or control mechanism that is sufficient to protect shareholders from conflicts of interest with agents (Fama & Jensen, 1983b). The dominant proposition of agency theory hinges on the idea that shareholders and managers have varying access to firm-specific information that presents conflicting interests and risk preferences (Filatochev & Alcock, 2013). Managers (agents) may thus become involved in self-serving conduct severe to shareholders’ wealth maximization (Filatochev & Alcock, 2013). Filatochev and Wright (2011) reasoned that corporate governance involves securing accountability of the executive and empowering the regulatory manager to ensure that shareholders gain good returns on their investment in an organization.

According to agency perspective, top managers are responsible for on-going decision management, the board of directors is responsible for decision control which involves monitoring and evaluating management decision making and performance (Fama & Jensen, 1983). This in effect implies that the board is an efficient control device that can help align management decision making with shareholders’ interests (Beatty & Zajac, 1994).
Therefore, managers and directors have an inherent duty to ensure that firms are managed in the shareholders’ best interests. Indeed, the agency theory has provided a rudimentary conceptualization and approach to corporate governance matters in the Nigerian banking sector. However, it is typically restricted to the consideration of only one type of “principal” (financial capital providers) and to recognizing and recommending only “one-best-way” of governance (rather than several superior arrangements). The agency model has the assumption that both the principals and the agents behave reasonably and opportunistically. Additionally, the two are assumed to have contradictory goals (to some extents) and to lack information lopsidedness. From these assumptions, the position of the agency theory is that the principal-agent relationship is subject to ineptitudes, to the extent that lopsided information thwarts effective monitoring of the agents’ activities by the principals. The solutions to these problems in an agency theory-based agenda have been the advancement of formal incentives and control mechanisms and the tasking of a formal monitoring role to the board of directors (Fama and Jensen, 1983).

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. The 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

4.1 Descriptive Statistics

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.

Table 4.1: Descriptive Statistics for Dependent and Independent Variables. Computed by researcher using data extracted from annual reports of banks (2006-2016)

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Observations(N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ROA</td>
<td>0.083108</td>
<td>0.043711</td>
<td>160</td>
</tr>
<tr>
<td>2 ROE</td>
<td>0.321413</td>
<td>0.056407</td>
<td>160</td>
</tr>
<tr>
<td>3 TOBINQ</td>
<td>0.946748</td>
<td>0.010198</td>
<td>160</td>
</tr>
<tr>
<td>4 NPBT</td>
<td>0.786627</td>
<td>0.102878</td>
<td>160</td>
</tr>
<tr>
<td>5 ROCE</td>
<td>0.684321</td>
<td>0.013421</td>
<td>160</td>
</tr>
<tr>
<td>6 EQ</td>
<td>0.34521</td>
<td>0.028731</td>
<td>160</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Observations(N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 CSP</td>
<td>4.373786</td>
<td>0.905857</td>
<td>160</td>
</tr>
<tr>
<td>2 ASR</td>
<td>4.679612</td>
<td>0.507766</td>
<td>160</td>
</tr>
<tr>
<td>3 TLD</td>
<td>4.601942</td>
<td>0.490692</td>
<td>160</td>
</tr>
<tr>
<td>4 BC</td>
<td>3.733011</td>
<td>0.706471</td>
<td>160</td>
</tr>
<tr>
<td>5 CGC</td>
<td>4.126214</td>
<td>0.553122</td>
<td>160</td>
</tr>
<tr>
<td>6 TFD</td>
<td>4.237864</td>
<td>0.519591</td>
<td>160</td>
</tr>
</tbody>
</table>

Source: Researchers’ field survey.

By inspection of the 160 observations as seen in Table 4.1, the banks that are included in the research sample generates mean score of Return on Asset (ROA), Return on Equity (ROE), Tobin’s Q and Net Profit before Tax (NPBT) is 8 percent, 32 percent, 94.7 percent and 78.7 percent respectively. For the corporate governance variables, the mean score is 4.37, 4.67, 4.60, 3.73, 4.12 and 4.24 units for CSP, ASR, TLD, BC, CGC, and TFD respectively. The mean score is a measure of the average value obtained over a period of time. Hence, the study shows that average score of the financial performance variables by 20 banks over a period of 8yrs. The standard deviation shows the measure of the spread of the data and how farther away from the mean score our values are.

4.2 Regression Analysis

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
4.2.1 Regression Results for the Model Where Dependent Variable is ROA

Table 4.2: Regression Output for Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Pooled</th>
<th>Fixed</th>
<th>Random</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSTANT</td>
<td>26.870234</td>
<td>0.5135</td>
<td>-24.102843</td>
</tr>
<tr>
<td></td>
<td>(-0.583420)</td>
<td></td>
<td>(-0.250112)</td>
</tr>
<tr>
<td>CSP</td>
<td>0.087652</td>
<td>0.4768</td>
<td>0.068945</td>
</tr>
<tr>
<td></td>
<td>(0.523150)</td>
<td></td>
<td>(0.412778)</td>
</tr>
<tr>
<td>ASR</td>
<td>0.085532</td>
<td>0.5925</td>
<td>0.045634***</td>
</tr>
<tr>
<td></td>
<td>(0.050707)</td>
<td></td>
<td>(0.047211)</td>
</tr>
<tr>
<td>TLD</td>
<td>0.016882**</td>
<td>0.1501</td>
<td>0.015578</td>
</tr>
<tr>
<td></td>
<td>(0.012123)</td>
<td></td>
<td>(0.119845)</td>
</tr>
<tr>
<td>CGC</td>
<td>.674732*</td>
<td>0.1535</td>
<td>.136872</td>
</tr>
<tr>
<td></td>
<td>(.003789)</td>
<td></td>
<td>(.965632)</td>
</tr>
<tr>
<td>TFD</td>
<td>0.045897**</td>
<td>0.9321</td>
<td>0.005541**</td>
</tr>
<tr>
<td></td>
<td>(0.047886)</td>
<td></td>
<td>(0.006954)</td>
</tr>
<tr>
<td>BC</td>
<td>0.005841</td>
<td>0.4893</td>
<td>0.006124</td>
</tr>
<tr>
<td></td>
<td>(1.625901)</td>
<td></td>
<td>(1.297687)</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.543678</td>
<td></td>
<td>0.465432</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>6.670907</td>
<td></td>
<td>7.320097</td>
</tr>
<tr>
<td>F-statistic</td>
<td>2.431554***</td>
<td></td>
<td>1.683091*</td>
</tr>
<tr>
<td>Prob. (F-statistic)</td>
<td>0.057995</td>
<td></td>
<td>0.096072</td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>1.693874</td>
<td></td>
<td>2.147865</td>
</tr>
<tr>
<td>Number of Observations</td>
<td>160</td>
<td>160</td>
<td>160</td>
</tr>
</tbody>
</table>

Note that*, **and*** denote 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 return on assets (ROA).
Source: Researchers’ computation.

**Interpretation and Discussion**

Table 4.1 shows the static panel regression using pooled, fixed and random effects. The equation for model 1 shows that return on asset is the dependent variable while Financial Disclosure, Transparency, Corporate Governance Culture, Annual Strategic Retreat, CEO Succession Plan, Term Limits for Directors and Board Composition are the independent variables. The F-values are significant at 1 percent level to indicate that our models do not suffer from specification bias. However, from model 1, the coefficient of determination ($R^2$) for the pooled shows that the explanatory variables accounted for a 54 percent change in return on assets.

**Board Composition**

**Interpretation**

A cursory consideration of the results reveals that board composition has a positive impact on ROA for the three estimators. This is consistent with the a priori expectation. The interpretation of the regression output is that 100 percent increase in board composition would lead to 0.58 percent, 0.61 percent and 0.94 percent increase in return on assets for pooled, fixed and random effects respectively.

**Discussion**

The findings discussed above are in tandem with the findings of Kama & Chuku (2009), Bhagat & Black (2002) and Liang & Li (1999). However, the result establishes that the effect is insignificant; thus, the null hypothesis is accepted. This means that no significant relationship exists between board composition of banks and their financial performance. Preston (1995), Davis (1999) and Fich (2005) all agree with this finding, but Djankov & Hoekman (2000) does not concur with it. The study agrees with the principles of the agency, stewardship and stakeholders’ theories which promote a great degree of resource commitment to the organization by the board members and the deployment of both common pieces of knowledge (supervision skills and superior systems) and specific knowledge to enhance proficient service delivery and best financial performance.

Using ROA, self-governing directors have a significant relationship with firm profitability, in agreement with the studies of Conyon & He (2011) and Mangena & Chamisa (2008). The positive influence of board independence is elucidated in theory by the literature. It can be debated that independent directors are more able to alleviate the agency problem by decreasing managerial deviousness (Fama, 1980; Bebchuk & Weisbach, 2010). Also, results from the multivariate OLS regression reveal a positive relationship between Q-ratio and independent directors. An explanation for the positive relationship is the notion that the existence of independent directors can bring information irregularities to the market and to potential investors (Black, Love & Rachinsky, 2006). This result gives further backing to the studies of Gupta, Kennedy, & Weaver (2009), Mangena & Tauringana (2007), El Mehdi (2007), Millstein & MacAvoy (1998) and Weir, Laing & Mcknight, (2002).

**CEO Succession Plan**

**Interpretation**

The result of the regression analysis indicates that the CSP has a positive but insignificant effect on return on assets (ROA). With a 1 percent rise in its value, ROA will be increased by 8.7 percent, 6.9 percent, and 4.4 percent respectively for the results of pooled, fixed and random effects. This conforms to the a priori expectation although it has insignificant effects.

**Discussion**

The findings above are in tandem with those of Barber and Lyon (1997), Micco, Panizza, and Yanez (2004), Jossey (2005), Kyereboah and Biekpe (2006), who posited that stock performance of firms rises when there is provisional succession, plans. Furthermore, after-retirement retention of a CEO’s own board depends on the
accounting and stock performance of the CEO’s company while he was in office (Linck & Coles, 1999). The growth in the operating performance of the company after the provisional period ends provides proof of the existence of performance-based incentives for leaving CEOs as contended by Brickley, Linck & Coles (1999). In addition to the accounting and stock performance of the company, the character of a CEO also hinges on the strategies and business judgments he adopted. Therefore, the ex-CEO would have to ensure that strategies are implemented consistently. At the same time, the incoming CEO must make available incentives which will conform to the existing strategies and keep the existing state of affairs in order to gain the trust of the board members and complete the provisional period with minimum difficulties.

Annual Strategic Retreat

Interpretation
The results of the pooled, random and fixed estimates show that the 1 percent rise in annual strategic retreat yield 8.6 percent, 4.6 percent and 7.7 percent significant increase in return on assets. Thus, we reject the null hypothesis that culture of annual strategic retreat for top management does not significantly influence banks’ financial performance.

Discussion
The result does not have much significance to the findings of Kula and Tatogla (2006) who asserted that strategic management retreat helps companies to provide prospects for management to appraise performance and trends. According to them, retreats also help the organization to discuss and reach a consensus on action plans to enhance business performances. The aim of strategic retreats involves mission and vision development, strategic goal-setting and team building (conditional on pertinent issues in the organization). Kula and Tatogla (2006) further affirmed that there is a positive relationship between the regularity of board meetings together with strategic retreats and performance of firms.

This informs the recommendation that the contribution of directors in an organization’s everyday operations is not a necessity (Monks & Minow, 2011). However, directors should concentrate on executing lasting strategies (Vafeas, 1999) since the board is the highest level of the structure of the company (Jiraporn et al., 2009). However, the findings show that there is a positive relationship between regular board meetings and firm value. This is in tandem with the views of Lipton and Lorsch (1992), who contended that financial markets show positive reactions to companies with active boards of directors and Jackling & Johl (2009), who reported that regular board meetings and firm value have a positive relationship using Q-ratio.

Term Limits for Directors

Interpretation
The regression output for this shows that pooled, random and fixed estimates show that the 100% rise term limits for directors would increase ROA by 1.7 percent, 1.6 percent, and 1.3 percent respectively. The result shows a positive but insignificant relationship of the term limits for directors with firms’ financial performance.

Discussion
The finding here is in agreement with the views of Parker, Peters, and Turetsky (2002) who affirmed that board members could keep their places on the Board as long as they keep functioning at an efficient level. The researchers also found that companies which replaced their CEOs with a director from outside their organizations had twice the likelihood of experiencing bankruptcy. However, the most important thing is that effective corporate governance demands pro-activeness and a profound understanding of industry dynamics from the boards of directors.

Corporate Governance Culture
Interpretation
The relationship between corporate governance culture and firm’s financial performance is presented in the table. The regression output for the shows that pooled, random and fixed estimates shows that the 100 percent increase in corporate governance culture would increase ROA by 67.5 percent, 13.7 percent, and 55 percent respectively. The results also show that the relationship is positive and significant.

Discussion
There are mixed reports on empirical evidence bordering on the relationship between corporate governance and firm performance. Some authors have found evidence that higher firm performance is enhanced in nations where there is better protection of minority shareholders (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2002). Klapper and Love (2004) reported that improved corporate governance is closely linked with improved operating performance. They also reported that poor corporate governance is more evident in nations with weak legal environments. Black, Jang, and Kim (2003) gave empirical evidence of a positive correlation between corporate governance and performance, but they did not explain the fundamental relationship. Drobetz (2004) also found that higher corporate governance rating is related to high performance.

However, the above empirical studies are more concerned about examining the differences and correlations than about causal relationships. On the other hand, Drobetz, Schillhofer, and Zimmermann (2003) explore the relationship between firm-level corporate governance and firm performance. They suggest that good corporate governance leads to higher firm valuation (performance), hence, investors are willing to pay a premium, and bad corporate governance is punished in terms of valuation discounts.

Transparency and Financial Disclosure

Interpretation
Transparency and financial disclosure would affect return on asset positively going by the results of pooled, random and fixed estimator, which is consistent with theory. However, from the results only pooled and fixed estimators have a significant statistical impact; showing that about 4.6 percent and 5.5 percent significant increase in Return on Asset (ROA) respectively would be caused by100 percent increase in Transparency and financial disclosure.

Discussion
Gregory and Simms (1999) mentioned that when firms practice good corporate governance, they will be better placed to use their resources adeptly to achieve their internal and external goals. They have contended that effective corporate governance will guarantee the steady flow of equity capital and debt to the most efficient corporations; that is a corporation that is capable of making a proper and effective investment of the equity capital and debt to generate high return. Hence, effective or good corporate governance ensures the protection of resources of firms as well as the satisfaction of the needs of the community.

Jagannathan and Srinivasan (1999) examined whether product market competition reduced agency costs in the form of free cash-flow problems. If increased competition reduces agency costs and creates more peer comparison opportunities (including the supply of potential replacement executives), how is the design of incentive contracts impacted? Competition can impact the relative value of own-firm and peer-group accounting information as a function of competitiveness. It is also possible that the extent of competition influences the costs to disclose proprietary information, impacting the amount of private information and the relative governance value of public performance measures.

4.3 Hypotheses Testing
Table 4.3: The CEO succession plan of a bank does not significantly affect its financial performance.
<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>Prob. (t-stat)</th>
<th>&gt;or&lt; 0.05 significance level</th>
<th>Inference</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>0.064258</td>
<td>0.583756</td>
<td>0.4334</td>
<td>&gt;</td>
<td>Insignificant</td>
<td>Do not reject</td>
</tr>
</tbody>
</table>

Source: Researchers’ Computation.

From Table 4.3, the probability associated with the t-stat of the coefficient of CSP in the Model was greater than the specified 0.05 significance level $P(t_\alpha=0.4334>0.05)$. Therefore with respect to CSP, H0 is accepted for the model which is achieved.

**Discussion**

The result from model aligns with empirical evidence supporting the value of CEO succession planning. In a study of U.S. banks by Behn, Riley and Yang (2005), which covered the period 1984 to 2002, found that amongst companies whose CEO died unexpectedly, stock returns over the one-day, three-day and five-day window after the death were higher for those companies that had a succession plan in place compared to those that did not. As the authors explained:

“Management changes may cause more instability in companies with no heir apparent than in those companies with a formal succession planning process; thus, market participants … react more adversely to those firms with no apparent succession planning.” (Hyland & Hooper, 2005).

As articulated by Kesner and Sebora (1994):

“Over time … firms require more than one CEO. Consequently, what a firm becomes can be significantly influenced by how and to whom this power and authority are passed … This makes CEO succession a defining event for virtually every organization.”

Succession planning in the shadow of a long-term CEO contract is confounded not just by the prospect of losing some of the best possible candidates, but also by reaffirming the importance of the CEO in choosing a successor. There is a danger of an ‘adverse selection’ type result, where the company is left with internal candidates who failed to secure external opportunities; and of those, the ones who are in the mold of the incumbent CEO are supported for the top job. It may not be the case that the incumbent CEO’s choice of successor is the best internal candidate.

Studies have proved that CEO change is perceived to be good for company’s performance in future (Farrell and Whidbee, 2002; Rhim, Peluchette & Song, 2006) this is also the case with Nigerian banks. A possible explanation for the insignificant results is that more uncertainty prevails regarding the future performance of the firm and other variables that influence firm performance are weighty that the issues of CEO change. This uncertainty leads to the negative returns after CEO change. Another reason could be the mentality of investors that any firm changing its CEO is considered to be in downturn phase and thus new CEO is also considered a risky decision to boost up the firm’s performance. This risky situation leads the investors to reduce their demand for that company’s shares.

5.0 Summary and conclusion

The outcome produced mixed results; however, corporate governance practices have had positive but insignificant impacts on the financial performance of Nigerian banks. A contrasting of the test results with the primary and secondary research reveals that while a few of the corporate governance practices generated
positive outcomes, more insecurity prevails concerning the future performance of the Nigerian banks and other variables that affect firm performance. The results suggest a severance between corporate governance policy (in the area of CEO succession plan) and corporate governance practice among Nigerian banks. Also, term limits (or tenure) for directors is a frailer variable which seems to play an insignificant role in the performance of Nigerian banks. One major inference of the findings of this research work is that the banking consolidation and capitalization is not a strong indication of bank profitability. Efficient and effective use of these resources is another area which the management of banks should pay close attention. Added to this is the issue of compliance with the corporate governance codes as established by the controlling bodies—they are necessary and sufficient for the financial performance of companies.

This high level involvement for boards with the relatively high proportion of outside directors goes against the findings of Demb and Neubauer (1992) that there is less chance for non-executive directors to intervene or to submit their opinion in a firm’s strategy process. The boards of directors in Nigerian banks are actively involved in the determination of their banks’ vision and mission and also the determination and enforcement of the banks’ policies. These factors are critical to the long-term success of firms. However, boards of Nigerian banks seem to be reluctant in evaluating their CEO in management development and succession. This could imply that CEOs have a strong hold on their boards. The grooming process of apparent successors should be an act that should start even before the need arises. Training of apparent successors should begin early rather than wait until the CEO position is vacant.

Moreover, Nigerian banks should carry out their activities having in mind those emergency situations in which the CEO may be forced to vacate the position due to poor performance be a nip in the bud. The position of the CEO is so sensitive that investors want to know who calls the shot in an organization. The CEO determines the directions and coordinates strategic investment decisions that could either make or destroy the system hence, the reaction of the market. The CEO successor should be a person with capacity to drive the system and the people at work. The leadership style must command the attention of all and sundry within and outside the system.

To ensure good board practices, the boards should play a role in supervising the risk management and internal audit function of their banks. Board members should have correct information about the way their banks manage risks and how they conduct internal audit.

Bank boards should formulate succession plans to assure that the banks operate smoothly and also be aware of the benefits of having independent directors on the board. Appointment of independent director is of prime importance to the bank as they are expected to add value to the bank by protecting all stakeholders’ interests.

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