

# CORPORATE GOVERNANCE AND THE PERFORMANCE OF NIGERIAN BANKING SECTOR

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## **Abstract**

This study investigated the ways and manners in which the affairs of banking sector in Nigeria are managed by those charged with the responsibility. It showed the relationship between corporate governance and the performance of banks in Nigeria. The population of the study consisted of all the twenty four consolidated banks in Nigeria that met the requirement of ^25billion capital base as at today. A sample of five of them was considered adequate for generalization. One hundred and thirty questionnaires were administered on the management staff of those selected banks out of which 120 were returned and 10 were not properly filled. Statistical Package for Social Scientist (SPSS) was used to analyze the data collected and interpretation of data was done through simple percentages. Pearson Product Moment Correlation was used to test the relationship that exists between efficient Corporate Governance in the banking sector and the roles of external auditor and the composition of the board of directors. The study revealed that, lack of proper corporate governance is the bane of so many banks in Nigeria. The collapse and failure of many banks was as a result of both poor audit control and directors' negligence to observe due diligence and acceptable standard practices. However, banking sector has greatly contributed to the gross domestic product of Nigeria and consequently improved the economy. Therefore, transparency, honesty and objectivity have to be encapsulated in the running of banking operations so as to have a positive effect on the continuity of the organization.

**Key-words: Governance, performance, banking, survival**

## **Introduction**

There has been a recent revival of concern about the issue of corporate governance, which is as a result of the rampant demise of large corporations all over the world. This makes it look as if there was no cohesion in the way corporate organizations are being governed. Various corporations have collapsed e.g Enron Corporation in the USA, Polly Peck in US, Maxwell Communication and Bank of Credit and Commerce Industry (BCCI), National Bank of Nigeria, Societe Generale Bank etc. The event at Enron and other cases of spectacular failure have helped to bring to the limelight the important role that the strengthening of governance mechanisms could play to improve firm

performance. Bank failures in Nigeria dated back several decades and the consequence has been terrible until lately when the Nigerian Deposit Insurance Corporation (NDIC) and Central Bank of Nigeria (CBN) stepped up vigilance and loan recovery (Sanusi, 2009). Orogun (2009) painted a very interesting picture of the principles governing banking as a developing tool. Quoting the former Executive Secretary of the Economic Commission for Africa, Adeniji (2004) said "our banking system must be totally committed to the creation of favorable socio-economic environment for real productive investment and not for speculation". Therefore there seems to be a link between the mode of governance and the performance of corporations, which means that the way a corporation is directed, controlled and structured has some effects on the result the organization achieves in terms of its performance (Denis and McConnell 2003). Corporate governance in Nigerian organizations is not only an evolving concept, but is also tied in with the notion of corporations and their practices within the wider society. Clark and Thomas (2000) defined corporate governance as a set of processes, customs, polices, laws and institutions affecting the way in which a corporation is directed, administered or controlled. Corporate governance also includes the relationship among the many players involved (the shareholders and stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management, and the board of directors, the accountants and auditors. Other stakeholders include employees, suppliers, customers, lenders, regulators and the community at large.

Kala, (2005) asserted that corporate governance could also be said to be the consistent management, cohesive policies, processes and decision-rights for a given area of responsibility in a separate legal entity that is different from its owners, invisible, artificial and existing only in the contemplation of the law.

Parker (2002) considered corporate governance as the processes of activities involved in running an enterprise through the influence of the board of directors and top executive members of the enterprise. Parker noted that there is a direct and clear causal link between the actions of the board of directors and the success of the organizations measured in terms of such factors as profitability, reputation and share price. He asserted that this link to business performance is rarely strong ranging from satisfactory to weak. Corporate governance therefore refers to the way by which the board of directors sets the framework of action.

Parker (2002) noted that this involves the board of directors in eight key activities which include:

- 1) focusing on the core activities and being pragmatic
- 2) adding values and reducing cost
- 3) building a business culture that embraces change
- 4) moving with the market but not changing faster than the market
- 5) leading the market
- 6) integrating e-business activities, aligning and optimizing resources
- 7) managing risk and
- 8) Establishing and maintaining good corporate governance.

The above listed activities represent some of the issues involved in corporate governance and can be termed the "art of corporate governance" which ensures organizational effectiveness, performance or success in a health and conflict free corporate environment.

### **Statement of the Problem**

There seems to be some elements of doubt if the governance of corporate organizations is really effective considering the rate of bankruptcy and demise of large corporations all over the world, both in Nigeria and foreign countries (Inam 2006). In recent times, the world has witnessed the failure of large corporations; in particular, the Nigerian banking sector is currently experiencing insider abuses of reckless granting of credit facilities running into several billions of naira without adequate security. This is contrary to accepted practice which has been attributed to large scale fraud by directors in connivance with auditors. Also identified by (Mehra 2005) is the problem of window

dressing (eye-service) by the directors who are aided by the auditors, as well as the issue of negligence and misfeasance on the part of the auditors when auditing the financial statement of organizations which can be attributed to the lack of independence of the auditors. One will wonder at what was really wrong when a bank which has been declaring huge amount of profits and has been declaring dividends to shareholders is suddenly declared bankrupt (Mehra 2005). With this as the background, this study seeks to examine the nature of corporate governance in practice in the Nigerian banking system to see if those people charged with the responsibility of managing the affairs of the enterprise are religiously following the acceptable practices of corporate governance as stipulated by the regulatory authorities in Nigeria and that of other developed countries of the world.

### **Research Objectives**

- i)** To assess the significance of Auditor's independence and its role in corporate governance.
- ii)** To assess the relationship between corporate governance and the composition of the board of directors.
- iii)** to examine the organizational structure of the bank and its management.

### **Research Hypotheses**

The following Hypotheses shall be empirically tested through the adoption of Product Moment Correlation;

**Hypothesis 1:** There is no significance relationship between auditor's independence and the effective corporate governance.

**Hypothesis 2:** There is no significance relationship between corporate governance and the composition of the board of directors.

### **Literature Review**

Corporate governance refers to the processes, structures and information used for directing and overseeing the management of an institution (Duncan and Cameron, 2005). A good corporate governance framework establishes the mechanism for achieving accountability between the board, senior management and shareholders, while protecting the interests of relevant stakeholders and they also set structure through which the division of power in the organization is determined (Duncan and Cameron, 2005). Donaldson and Davis (2003) averred that corporate governance is a system by which corporate entity is directed. It relates to the functioning of the board of the company and the conduct of the business internally and externally. Theoretically, the control of a company is divided into two namely: the board of directors and the shareholders through the annual general meeting. Unlike in small private companies, in a public company, the board tends to exercise more of a supervisory role, and individual responsibility and management tends to be delegated downward to individual professional executive directors (such as a finance director or a marketing director) who deal with particular areas of the company's affairs (McNamara, 2009). Governance is considered as that organ of small or big organizations or even the large society, which is charged with the responsibility of controlling resources of all types, within the spheres of its influences, and also having power to rule over the human and material resources, of the organization or community (Ogundele, 2005). The governing of a business organization is vested in the headship of such enterprise usually the board of directors that formulate policies, to guide the behaviour of the members of the organization and relevant associates of the organization. The objective of corporate governance is to achieve corporate excellence and enhance shareholders' value, while not neglecting the need to balance the interests of all stakeholders (Chukwudire, 2005). Tricker, (1994) associated corporate governance with managing the organization in the interest of the shareholders. This implies the agency in the context of the separation of ownership and management in corporations. Dress and Lumpkin (2002) noted that modern corporation has the feature of the separation of ownership and management. There is a separation between those that own the corporation and those that manage, control, and

direct it. It is from those who own the corporation that the boards of directors are elected during the annual general meeting. Duncan and Cameron, (2005) asserted that shareholders at the company's Annual General Meeting legally appoint the directors. Hence, the directors individually and the board collectively should be responsible and answerable to the shareholders for their activities and practice. Furthermore, the directors should be willing to act as stewards of the corporation's assets and consequently work to maintain and enhance the value.

Frank and Graeme, (2005) asserted that corporate governance is seen as a set of processes, rules to be complied with, rather than the desired outcome of directors, that is the authority exercised with probity and unquestionable integrity over the corporation's affair. This means that the corporation has nurtured an opportunity for management to act more in its own interest rather than the shareholders' interest and this is the genesis of Modern Corporation in the Companies Act of 1844. It was not accidental that the 1844 Companies Act required annual accounts and reports which must be audited which will better protect the interest of shareholders. Effective stewardship relies on justice, trust of the owners in, and in the probity of the stewards (Frank and Graeme, 2005). However, when the managers are not the owners, agency problems drag firm performance in as much as the managers as the decision makers are not the residual claimants of wealth and as such, these managers may have a tendency to act for their own interests (Fama 1980).

### **Code of Corporate Governance**

According to Frank and Graeme (2005) the followings are considered essential for effective operations of corporate governance in any public limited liability company;

- 1) Half-yearly financial statement prepared by the management of the entity and subject to a limited scope review (not audited) by the external auditors. Such a review should be conducted and reported in accordance with International Standard on Auditing (ISA) 910. Auditors are also required to issue an engagement letter.
- 2) It is the responsibility of an auditor not to engage in an entity whose shares he holds, or his blood relatives hold. Hence, such auditor must disclose the interest to the company within 14 days of his appointment and divested within 90 days if he wishes to be engaged.
- 3) Auditor should not hold office unless they have been given a satisfactory rating under the quality control review programme of International Federation of Accounting Committee's (IFAC's) guidelines on code of ethics.
- 4) No auditor should hold an office for more than five (5) years. Where this becomes impracticable then, the partner in-charge of audit engagement must be rotated.
- 5) Auditor should furnish management with a letter to the board of directors of the entity not later than 30 days from the date of audit report.
- 6) Auditor should attend the Annual General Meeting at which the audited accounts shall be laid before the shareholders for considerations.
- 7) Auditor should not accept non-audit assignments from the company such as management consultancy, designing of accounting systems, compilation of accounts, share registrar services etc.
- 8) Auditor should review and certify the statement of compliance with best practice of corporate governance prepared by the management of the company before publication to the extent where such compliance can be objectively verified (wikipedia).

The above listed codes have been issued to serve as standards and guidelines for part of the governance of an organization that deals with certifying the truthfulness and fairness of financial statements (Kala 2005). They serve as the judge who either justifies or condemn the board of directors based on the information presented in the financial statement.

### **Pillars of Corporate Governance**

In all ramifications of human endeavor, the foundation of corporate governance is the attitude and practice of the society. Inam (2006) postulated that these values are based on the following:

- 1) Accountability of power, based on the fundamental beliefs that power should be exercised to promote human well-being.
- 2) Democratic values, which relate to the sharing of power, representation and participation;
- 3) The sense of right and wrong;
- 4) Efficient and effective use of resources;
- 5) Protection of human rights and freedoms, and maintenance of law and order and security of lives and property;
- 6) Recognition of the government as the only entity that can use force to maintain public orderliness and national security; and
- 7) Attitude towards the generation and accumulation of wealth by handwork.

### **Models of Corporate Governance**

There are two major models examined in this study and they are;

#### **Anglo–American Model**

Corporate governance around the world differs according to the variety of capitalism in which they are embedded. The liberal model that is common in Anglo-American countries tends to give priority to the shareholders' interest. It has also been embraced because it appears to be based on laws, rules and regulations. The coordinated model that one finds in Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. Each model has its own advantage and distinctive competitive disadvantage. The liberal model of corporate governance encourages radical innovation and cost competition, whereas the coordinated model of corporate governance facilitates incremental innovation and quality competition. However, there are important differences between the United State recent approach to governance issues and what has happened in the United Kingdom.

In the United States, a corporation is governed by a board of directors, which has the power to choose an executive officer, usually known as the chief executive officer. The Chief Executive Officer has broad powers to manage the corporation on a daily basis, but needs to get board approval for certain major actions, such as hiring his /her immediate subordinates, raising money, acquiring another company, major capital expansions, or other expensive projects. Other duties of the board may include policy setting, decision making, monitoring management's performance, or corporate control. The board of directors is normally selected by and responsible to the shareholders, but the bylaws of many companies make it difficult for all but the largest shareholders to have any influence over the make up of the board; normally, individual shareholders are not offered a choice of board nominees among which to choose, but are merely asked to rubberstamp the nominees of the sitting board. Perverse incentives have pervaded many corporate boards in developed world, with board members beholden to the chief executive whose actions they are intended to oversee. Frequently, members of the boards of directors are CEOs of other corporations, which some see as a conflict of interest.

The United Kingdom has pioneered a flexible model of regulation of corporate governance, known as the 'comply or explain' code of governance. This principle is based on code that lists out recommended practices, such as the separation of CEOs contracts, the introduction of a minimum number of non-executive directors, the independent directors, the designation, and audit and nomination committees. All the publicly listed companies in the United Kingdom have to either apply those principles or, explain in a designated part of their annual reports why they have decided not to apply those principles. The monitoring of those explanations is left in the hands of shareholders themselves. The tenet of the code is that one size does not fit all in matters of corporate governance and that instead of a statutory regime like that of the Sarbanes-Oxley Act in the United State. The best is to leave some flexibility to companies so that they can make choices most suited to their

circumstances. If they have good reasons to deviate from the sound rules, they should be able to convincingly explain to their shareholders.

### **Non Anglo-American Model**

In most of the East Asian countries, family-owned businesses dominate. A study by Claessens, Djankov and Lang (2000) showed that the top 15 families in East Asia were found to be dominated by listed corporate assets. In countries like Pakistan, Indonesia and the Philippines, the top 15 families controlled over 50% of public corporations through a system of family cross-holdings, thus dominating the capital markets. Family owned companies also dominate the Latin model of corporate governance, that is, companies in Mexico, Italy, Spain, France (to a certain extent), Brazil, Argentina, and other countries in South America. The state also has a significant input in corporate governance in a number of East Asian economies. In some economies, it dominates corporate governance completely. Aside from Vietnam and other socialist states that most likely have higher state control levels, China has a high level of state dominance with over 80% of listed companies with state control. Singapore also has a relatively high level of about 50% and Malaysia also has relatively high level. Accordingly, some renowned countries in East Asia have a relatively high degree of state ownership and control.

### **Corporate Governance in Nigeria**

Corporate Governance has become an acceptable international practice, which every country is embracing. Realizing the need to align with international best practices the Security and Exchange Commission (SEC) in collaboration with Corporate Affairs Commission (CAC) inaugurated a seventeen (17) member committee in June 2000, in Nigeria, which was headed by Peterside Atedo. The committee was mandated to identify weaknesses in the current corporate governance practices in Nigeria. Membership of the committee was carefully selected to cut across all sectors of the economy including members of professional organizations, organized private sector and regulatory agencies. The committee submitted a draft code of corporate governance which centered on Codes of Best Practice on Corporate Governance in Nigeria (ICAN, 2006).

### **Board of Directors' Composition**

The composition of the board as recommended by Companies and Allied Matters Act 1990 is as follows;

- A mixture of executive and non- executive directors headed by the chairman not to exceed 15 or less than 5.
- The board must not be dominated by an individual
- The position of chairman and chief executive officer should be separated to avoid undue concentration of power. In exceptional circumstance where the position is combined there should be a strong non executive independent director as vice chairman.
- The member should be upright, knowledgeable and have integrity.
- Executive director remuneration should be set by remuneration committee made up of non-executive directors.

### **Directors Responsibility**

The followings are the general responsibility of directors according to Companies and Allied Matters Act 1990;

- To ensure that the affairs of the company are conducted in a lawful and efficient manner to enhance value creation.
- To ensure that value created are shared among all stakeholder and in this regard its functions include.

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- Strategic planning
- Selection, performance appraisal and compensation of senior executive.
- Succession plans
- Communication with shareholders
- Ensure the integrity of financial controls and report
- Ensuring that ethical standards are maintained and that the company complies with the laws of Nigeria.

### **Shareholders Rights and Privilege**

To ensure good corporate governance the following rights and privileges are made available to the shareholders of Public Limited Liability Company in Nigeria (Companies and Allied Matters Act 1990);

- The shareholders statutory rights and general rights are protected all the time.
- The decisions made by shareholders at the general meeting must be well implemented
- The shareholders are given equal treatment while any holder of 20% and above is given a seat on the board. The board must use the general meeting to communicate with the shareholders and encourage participation.
- The shareholders are to elect the directors and approving the terms and their conditions of directorship.
- The venue of the meeting must be carefully chosen so as to make it possible and affordable for the majority of the shareholders to attend.
- The company should not discourage shareholders activities either by institutional shareholders or by organized shareholders group.
- Information made available to institutional shareholders should also be made available to other shareholders.

### **Determinants of Banking Performance**

Loon (2005) asserted that governance framework should reflect the home country's prevailing institutional arrangements and social economic climate with realities. Effective governance requires a more fundamental approach in which directors and other executives are enabled to develop their own personal governance systems and superimpose it on the corporate governance structure (Kala, 2005). The issues of governance deals with who really controls the activities of the company, for whose benefit is control exercised, and how are the demands for accountability of board met? The stewardship model views director and managers as responsible stewards who should be relied upon to run the firm unfettered in the interests of all stakeholders (Hawley and Williams, 1996).

In a Global Investors' Opinion Survey of over 200 institutional investors first undertaken in 2000, McKinsey found that 80% of the respondents would pay a premium for well-governed companies. They defined a well-governed company as one that has mostly outside directors, who had no management ties, undertook formal evaluation of its directors, and was responsive to investors' requests for information on governance issues. Other studies have linked broad perceptions of the quality of company to superior share price performance. In a study of five years cumulative returns of Fortune Magazine's Survey of most admired firms, Antunovich found that those most admired had an average return of 125%, whilst the least admired firms returned 80%. In a separate study Business Week enlisted institutional investors and experts to assist in differentiating between boards with good and bad governance and found that companies with the highest rankings had the highest financial returns. On the other hand, research into the relationship between specific corporate governance controls and firm performance has been mixed and often weak.

In a study carried out by Ahmadu, Aminu, Mikailu, and Garba (2005) attempted to address the question of the efficacy of corporate governance mechanism as a means of increasing firm financial performance, using pooled Ordinary Least Squares (OLS) regression analysis for a sample of 93 quoted companies on the Nigerian Stock Exchange for the period 1996 -1999. While making a case

for a board size of ten and for concentrated as opposed to diffused equity ownership, the results argue for the separation of posts of Chief Executive Officer (CEO) and Chairman. Moreover, although the results find no evidence to support the idea that boards with a higher proportion of outside directors perform better than other firms, there is evidence that firms run by expatriate CEOs tend to achieve higher level of performance than those run by indigenous Chief Executive Officers.

Empirical studies like those of Lasfer (2002) and Pass (2004) showed that the size of the firm tends to affect the extent to which board independence may influence corporate performance. According to them, in small firms, it is more likely for board independence to have significant effect on performance. Large firms tend to be more complex and the influence corporate governance mechanisms assure investors in the corporation that they will receive adequate returns on their investments and if these mechanisms do not exist or do not function very well, outside investors would not lend to firms or buy equity securities in such firms (Shleifer and Vishny, 1997). Williams (2000) argued that national corporate governance traditions are distinctive, deeply rooted, and difficult to change and that a country's legal traditions and its stage of economic development are important determinants of corporate governance institutions. Common law tends to provide more explicit investors' protections than civil laws in a country while, richer countries tend to enforce corporate governance laws stricter than poor countries. Broader and deeper financial markets emerge in the presence of strong investors' protections, fostering more outside financing and better corporate financial performance. Corporate governance system also influences resident firms' capital structures and ownership structures (Lasfer, 2002).

Finally, a broader perspective on corporate performance suggests that no country's system of corporate governance is without shortcomings. They however proposed with evidence that better investors' protections and a stronger rule of law are related both to better corporate performance of firms that require external finance and to several measures of aggregate economic out performance.

### **Methodology**

The data for this study were collected through the administration of a 5-point Likert scale questionnaire. The copies were administered with the assistance of two (2) well informed research assistants. The administration was done during the break time from 12 noon to 1.30 p.m each day when most of the respondents were on break and had time to attend to the researchers.

### **Population of the study**

The area of study for the purpose of this study is the Nigeria Banking sector. The population of this study consisted of all the Nigerian banks that were able to scale through twenty five billions capital base requirement by the Central Bank of Nigeria. The five selected banks were (i.e Oceanic Bank Plc, Union Bank of Nigeria, Inter Continental Bank Plc, Afri Bank Plc and Bank PHB) based on the recent restructuring in the management of those banks by the current Governor (Mr. Sanusi) of the Central Bank of Nigeria .

### **Instrument**

The questionnaire developed by the researchers was the instrument used to collect data for the study. The questionnaire which consisted of 12 items was designed to elicit opinions of respondents from those selected banks (Oceanic Bank Plc, Union Bank of Nigeria, Inter Continental Bank Plc, Bank PHB and Afri Bank Plc) on the effect of corporate governance on the performance of banking sector in Nigeria. The Statistical Package for Social Sciences (SPSS) version 15 of 2008 was used for data analysis. The reliability of the instrument was determined by split-half (internal consistency) method. The reliability coefficient was 0.86 which was considered high enough for the study.

**Table 1: Data Presentation and Analysis**

| S/N | Relevant Variables   | SA<br>%   | A<br>%    | UN<br>%   | D<br>%    | SD<br>%   |
|-----|--|-----------|-----------|-----------|-----------|-----------|
| 1   | The mode of corporate governance has helped your bank to achieve its vision                                    | 60<br>50% | 30<br>25% | 2<br>2%   | 18<br>15% | 10<br>8%  |
| 2   | A minority shareholder should be facilitated to context membership of board of directors                       | 30<br>25% | 10<br>8%  | 12<br>10% | 27<br>23% | 41<br>34% |
| 3   | Independent director should be members of board of directors   | 70<br>58% | 30<br>25% | 6<br>5%   | 12<br>10% | 2<br>2%   |
| 4   | My company prepared a mission statement after the introduction of corporate governance                         | 74<br>62% | 15<br>12% | 5<br>4%   | 16<br>14% | 10<br>8%  |
| 5   | Shareholders are well informed about the activities of the company   | 63<br>52% | 27<br>23% | 6<br>5%   | 12<br>10% | 12<br>10% |
| 6   | Shareholders have been satisfactorily responding to the publications of Annual Accounts and Reports            | 67<br>56% | 23<br>19% | 3<br>2%   | 15<br>13% | 12<br>10% |
| 7   | The external auditor of my company is independent of management  | 60<br>50% | 16<br>14% | 14<br>11% | 12<br>10% | 18<br>15% |
| 8   | The company's financial statement has to be qualified by the auditor anytime it is found inadequately prepared | 67<br>56% | 27<br>23% | 3<br>2%   | 12<br>10% | 11<br>9%  |
| 9   | My company's assets have grown over the years due to effective corporate governance                            | 60<br>50% | 27<br>23% | ----      | 23<br>19% | 10<br>8%  |
| 10  | The corporate governance of my company has positively affected its return on capital                           | 64<br>54% | 36<br>30% | 2<br>1%   | 15<br>13% | 3<br>2%   |
| 11  | Effective corporate governance is affected by the composition of the board of directors .                      | 61<br>52% | 29<br>24% | 3<br>2%   | 17<br>14% | 10<br>8%  |
| 12  | My company's auditors are regularly changed according to statutory requirement                                 | 67<br>56% | 23<br>19% | 2<br>1%   | 18<br>16% | 10<br>8%  |

Source: Field Work ,2010.

**Table 2: Calculation of Correlation (test of Hypothesis 1)**

| Options | Point (X) | Response (Y) | XY  | X <sup>2</sup> | Y <sup>2</sup> |
|---------|-----------|--------------|-----|----------------|----------------|
| SA      | 5         | 60           | 300 | 25             | 3,600          |
| A       | 4         | 16           | 64  | 16             | 256            |
| U       | 3         | 14           | 42  | 9              | 196            |
| D       | 2         | 12           | 24  | 4              | 144            |
| SD      | 1         | 18           | 18  | 1              | 324            |
| ∑       | 15        | 120          | 448 | 55             | 4520           |

Source; Question 7 from Field Work, 2010

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{[n\sum X^2 - (\sum X)^2][n\sum Y^2 - (\sum Y)^2]}}$$

$$= \frac{5(448) - (15 \times 120)}{\sqrt{[(5 \times 55) - (15)^2][(5 \times 4520) - (120)^2]}}$$

$$r = \frac{2,225 \text{ ó } 1,800}{\zeta(275-225) (22,600 -14,400)} = \frac{425}{640} = 0.66$$

**Decision**

Since r cal of 0.66 is greater than 0.5 level of significance, which suggests that there is a strong and direct relationship between the variables. The null hypothesis is therefore rejected and the alternative hypothesis that says "There is a significance relationship between auditor's independence and the effective corporate governance" is accepted.

**Table 3: Calculation of Correlation (test of hypothesis 2)**

| Options | Point (X) | Response (Y) | XY  | X <sup>2</sup> | Y <sup>2</sup> |
|---------|-----------|--------------|-----|----------------|----------------|
| SA      | 5         | 61           | 305 | 25             | 3721           |
| A       | 4         | 29           | 116 | 16             | 841            |
| U       | 3         | 3            | 9   | 9              | 9              |
| D       | 2         | 17           | 34  | 4              | 289            |
| SD      | 1         | 10           | 10  | 1              | 100            |
| ∑       | 15        | 120          | 474 | 55             | 4960           |

Source; Question 11 from Field Work, 2010

$$r = \frac{n \sum XY - \sum X \sum Y}{\zeta [(n \sum X^2 - (\sum X)^2) (n \sum Y^2 - (\sum Y)^2)]}$$

$$= \frac{5(474) \text{ ó } (15 \times 120)}{\zeta [(5 \times 55) \text{ ó } (15)^2] [(5 \times 4960) \text{ ó } (120)^2]}$$

$$= \frac{2,370 \text{ ó } 1,800}{\zeta (275-225) (24,800 -14,400)} = \frac{570}{721} = 0.79$$

**Decision**

Since r cal of 0.79 is greater than 0.5 level of significance, it suggests that there is a strong and direct relationship between the variables. The null hypothesis is therefore rejected and the alternative hypothesis that says "There is a significance relationship between the effective corporate governance and the composition of the board of directors" is accepted.

**Findings**

The following findings were carefully made;

- a) Based on the deductive analysis from the questionnaire, it was discovered that most of the workers are not so conversant with the contents or issues and concerns considered by corporate governance codes.
- b) Many do not know the number of shares held by the executive directors in the company
- c) Through the questionnaire administered, it was discovered that there is a relationship between the corporate governance and the organizational performance.

- d) Good corporate governance well put in place in the Nigerian banking sector and positively influence the sectors performance will subsequently result in the economic growth and development.
- e) There is a need for every worker in the organization to know how the organization is fairing in terms of performance, whether they are improving or not. One of the ways to determine this is through increase or decrease in the company's shareholding in the hand of shareholders. It was discovered that many of the members of staff were not really conversant with their organizational performance in terms of the level of the shareholdings in the company after the publication of the previous year's financial statement.

### **Conclusion**

The role corporate governance plays in the performance (financial and non-financial) of a public limited liability company is imperative and highly significant. This is because the concept deals with the processes, policies, rules, regulations, customs, laws and institutions affecting the way in which a corporation is directed, controlled through the influence of the board of directors and top executive members of the enterprise. Hence, for corporate governance to have a positive significant effect on organizational performance, honesty transparency and objectivity are highly required; due to the fact that the effectiveness and efficiency of the company in terms of generating increased profits, returns on capital employed, goodwill and shareholding anchor on the effectiveness and efficiency of the organization's corporate governance.

The review of literature on the concept of corporate governance and performance of Limited Liability Company in Nigeria showed that many banks in Nigeria lack transparency on the part of the stewards (Board of Directors) who always fail to disclose detailed information on the state of affairs and financial health of the organization probably due to the fear of appointment of new Board members or the need to look more efficient in the eyes of the shareholders and be applauded make them to usually window dress the financial statement and thereby living out vital information that will serve as signal to the financial sickness of the organization. This singular act has led to the demise of so many giant corporations which should have been re-engineered and restructured for better performance simply because the management does not give corporate governance the priority it deserves. Weakness of the internal control system and management overriding control often renders corporate governance ineffective. The management of these banks should know that a lot of benefits are embedded in corporate governance if accorded the right place in management of the affairs of the enterprises.

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