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Impact of Corporate Governance on Financial Performance of Microfinance Banks in North Central Nigeria

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Abstract: *This paper assesses the impact of corporate governance (CG) on microfinance bank's financial performance in Nigeria. The problem statement is on the non compliance of microfinance banks with the provision of code of CG which led to weak internal control system, absence of or non adherence to limits of authority, disregards to cannons of lending insider abuses and fraudulent practices. It utilizes secondary data which were obtained from the annual reports and accounts of the twenty three microfinance banks. The data generated for the study were analyzed using Pearson correlation coefficient, ordinary least square regression. The analysis of data determined whether the following corporate governance functions – Board Composition (BC) and the Composition of Board Committees (CBC) have significant relationship with banks financial performance. Earnings per share (EPS) and return on assets (ROA) were used as proxies for financial performance. The Pearson correlation shows that significant relationship exists between Earnings per share (EPS) and corporate governance (Board Composition and Composition of Board Committees) while the regression analysis shows that no significant relationship exists between corporate governance and bank's financial performance. However, there are areas of non-compliance which include the appointment of Executive Directors and Managing Directors and sometimes Chief Executive Officer as Board committee members. Finally, the study recommends that, board of directors of microfinance banks should adhere strictly to the provisions of the code of corporate governance on Board Composition (BC) and Composition of Board Committees (CBC).*

1. INTRODUCTION

In Nigeria, the issue of corporate governance gained importance in the post Structural Adjustment Program (SAP) era. This period, witnessed the growth of private ownership and financial institutions. Because of the weak corporate culture in these institutions, the country witnessed a very high rate of corporate failures (Hamid, 2009).To regain the confidence of the public, the Securities and Exchange Commission set up a committee in 2000 whose report was first to articulate a corporate governance code for companies in Nigeria. This was followed by a similar code by the Central Bank of Nigeria in 2000(CBN, 2006) to address corporate governance practices in Nigeria banks.

However, lessons from the corporate collapses and losses in the last few decades have highlighted the role corporate governance practices can play in maintaining viable entities and in safeguarding stakeholders' interests. Most of the corporate failures that were recorded in the Nigerian banking industry are examples of the risks posed by corporate governance breakdowns. This paper seeks to provide a perspective, which by assess whether or not corporate governance have effects on the Nigeria banks financial performance with a view to exposing the root cause(s) of corporate collapses, failures and losses so that the incidence of bank failure, can be a thing of the past in Nigeria.

1.1. Objectives of the Study

The main objective of this research is to assess the impact of corporate governance on the financial performance of microfinance banks in Nigeria. To meet the above objective, the research specifically seeks to:

- Ascertain the impact of board composition on EPS and ROA of microfinance banks.
- Examine the impact of the compositions of board committees on EPS and ROA of microfinance bank.

1.2. Statement of Hypotheses

The following Null hypotheses were stated for the study

Hypotheses One

H_o: The board composition insignificantly has impact on EPS and ROA of microfinance banks.

Hypotheses Two

H_o: The composition of Board committees insignificantly has impact on EPS and ROA of microfinance banks.

1.3. Concept and Nature of Corporate Governance

According to Rogers (2008), corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. Rogers (2008) further opined that, corporate governance is about how to build trust and sustain confidence among the various groups that make up an organization.

There is no generally accepted definition of corporate governance which enjoys consensus of opinion in all settings and countries of the world. The concept is thus defined and understood differently in different parts of the world, depending on the relative power of owners, managers and providers of capital. In other words, a number of scholars have viewed corporate governance differently (Rediker, Seth, 1995; Shleifer, Vishny, 1997; and Cai, Keasey, Short, 2006). Maher, Anderson (1999) view corporate governance from two contrasting angles that is, the shareholder and the stakeholder model. Corporate governance in its narrowest sense (i.e. shareholder model) is used to describe the formal system of stewardship of the board to the shareholders. In contrast, in its widest sense (i.e. stakeholder model) CG is used to describe the network of relationships between an organization and its various stakeholders. However, it can be argued that there is no need for such a distinction since both the models have identified corporate governance as a network of relationships between a company and its public through which the board is held accountable.

Similarly, the Cadbury Committee (1992) (as cited in Alexandra, Reed, Lajoux, 2005) defines corporate governance as the system by which companies are directed and controlled. The nature of corporate governance, therefore, going by this definition consists of two dimensions: direction and control. The direction side of corporate governance emphasizes the responsibility of the board to attend to strategic positioning and planning in order to enhance the performance and sustainability of the company. The control side of the definition, on the other hand, emphasizes the responsibility of the board to oversee the executive management of the company in the execution of the plans and strategies.

1.4. Corporate Governance in Nigeria

Nigeria has a legal framework derived from British Common Law and similar commercial codes to deal with shareholders rights and minority protection. (Sam, Vimal, Artivor, 2003). The main corporate code is the Companies and Allied Matters Act of 2004 which requires, among other things, that directors of every company must prepare and present financial statements (e.g. five-year summaries, balance sheets, profit and loss accounts) on an annual basis. It further gives outlines of various disclosure requirements like the disclosure of director's emoluments and any interest the directors have in transactions with the company.

1.5. The State of Corporate Governance for Banks in Nigeria

In Nigeria, there is a number of corporate governance provisions that every company is required to abide by. Specific provisions were made for the guidance of the operations of banks in Nigeria. In the banking sector, listed bank must with the provision of the Companies and Allied Matters Act (CAMA) 2004, the Banks and Other Financial Institutions Act (BOFIA) 1991, the Investment

and Securities Act (ISA) of 1999, the Nigerian Deposit Insurance Corporation (NDIC) Act 1988, the CBN Act of 1991, the various prudential guidelines issued by the CBN, the listing requirements of the Nigerian Stock Exchange (NSE) and the Securities and Exchange Commission (SEC) Rules and SEC Code of Corporate Governance, 2004. In 2006, the Central Bank of Nigeria (CBN) produced the code of corporate governance for banks in Nigeria's post-consolidation era which banks must also abide by Wilson, (2007), similarly, accounting Standards (SASs) and is to comply with the requirements of the relevant company laws. Each of these statutes imposes strict requirements on a bank to establish or identify, document, test, and monitor the internal control processes. The main regulators for listed banks are the CBN, the Nigerian Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the Corporate Affairs Commission (CAC) and the National Insurance Commission (NICON) of Nigeria. The SEC code of corporate governance 2004 for Publicly Listed Firms in Nigeria, produced by the Atedo Peterside led committee, precedes the CBN code of corporate governance for banks and other financial institutions 2003. The Code made provisions for best practices to be followed by publicly quoted companies registered in Nigeria. It is meant to exercise power over the direction of the enterprise; the supervision of executive action; the transparency and accountability in governance of the companies within the regulatory framework and market; and for other purposes connected therewith. Similarly, the Code made provisions covering the responsibilities of the board of directors and its composition; the positions of the Board chairman and Chief Executive Officer; proceedings and frequency of meetings; Board duties, the positions of the Executive Directors and Non-Executive Directors; compensation of board members, reporting and control, shareholders' rights and privileges. Others are institutional shareholders; the audit committee, its composition, qualification and experience of its members, its terms of reference and conduct of meetings. Thus, it is clear that the component of corporate governance that enjoys greater coverage by the Code is the Audit Committee. The following provisions as contained in the code of corporate governance of 2004 issued by the SEC for listed companies in Nigeria are found relevant to this study:

1.6. Codes of Corporate Governance

Codes of good governance are a set of best practices recommendations issued to address deficiencies in a country's governance systems by recommending a set of norms aimed at improving transparency and accountability among top managers and directors. (Hamid, 2009) In most legal systems, codes of good governance have no specific legal basis,and are not legally binding (Wymeersch, 2006). Thus, enforcement is generally left to the board of directors and external market forces. It is only in a few countries (e.g. Nigeria- in the case of the corporate governance for banks, Germany and the Netherlands in Europe) that the law attaches explicit legal consequences to the codes. Even if, compliance with code recommendations is traditionally voluntary (i.e. based on the "comply or explain" rule), empirical evidence shows that publicly quoted companies tend to comply with the codes more than non-quoted firms (Comyon, Mallin 1997; and Gregory, Simmelkjaer, 2002). Consequently, Fernandez-Rodriquez et al. (2004)" study suggests that the market reacts positively to announcements of compliance with the codes.

The content of codes has been strongly influenced by corporate governance studies and practices. This is because, they touch fundamental governance issues such as fairness to all shareholders, accountability by directors and managers, transparency in financial and non-financial reporting, the composition and structure of boards, the responsibility for stakeholders' interests, and compliance with the law (Gregory, Simmelkjaer, 2002). Since, the core of codes of good governance lies in the recommendations on the board of directors. However, following the dominant agency theory (Fama, Jensen, 1983) governance codes encourage the board of directors to play an active and independent role in controlling the behavior of top management. In particular, scholars and practitioners (Lorsch, Maclver, 1989; Demb, Neubauer, 1992; Charan 1998; and Conger, Lawler III, Finegold, 2001) recommend for increasing number of non-executive and independent directors; the splitting of Chairman and CEO roles; the creation of board committees (audit, credit and risk management, financial and general committees) made up of non-executive independent directors; and the development an evolution procedure for the board. The introduction of these practices is considered necessary factors in order to avoid governance problems, and to increase board and firm performance. In the next section, effort is

made to explain the state of corporate governance in the Nigerian banking industry with a view to highlighting the efforts made by the regulatory authorities to ensure that best practice prevails in the industry.

1.7. Relationship between Corporate Governance and Firm's Financial Performance

Findings from various studies examined show that as cited in Hamid (2009) include those of Dalton, Ellstran, Johnson (1998) who carried out a metal-analysis of 54 empirical studies of board composition and 31 empirical studies of board leadership structure to ascertain their relationship with firm's performance. Consequently, the study found little evidence of a relationship between board composition and leadership structure on one hand, and firm financial performance on the other. Furthermore, in a study of 526 Korean firms by black, Jang, Kim (2003), an attempt was made to find whether there is a significant relationship between corporate governance and share prices. The findings of the study show that there is a significant relationship between corporate governance and share prices, i.e. firms with better corporate governance structure. This is similar to the findings made by Gompers, Ishii, metric (2003), that firms with sound corporate governance practices enjoy higher valuations, higher profits and higher sales growth. In Nigeria, Hamid (2009), assesses the relationship between corporate governance and internal control system in the Nigerian banking industry, by relating activities at the level of the board with those at the level of management, with a view to understanding how the effectiveness of control mechanism can be enhanced, corporate scandals, frauds, and failures minimized, different risk exposure of banks mitigated, shareholders' wealth maximized, assets of depositors, shareholders and creditors protected and the value of banks enhanced. The study found out that a significant relationship exists between power separation and internal control system of bank in Nigeria. Sanda, Mikailu, Garba (2004) obtained data from 101 firms listed on the Nigerian stock exchange from the 1999 database of a Lagos-based stock broking firm and the Fact Book of the NSE for 2000 and used the correlation and regression analysis to examine the relationship between director shareholding, board size and firm financial performance in Nigeria. However, the evidence from the study suggested no significant relationship between director equity ownership and firm performance and a negative relationship between board size and firm performance. Other are those of Musa (2006), who uses the ordinary least squares with data obtained from 11 out of the 28 banks listed on the NSE as at December, 2003, examined the impact of corporate governance on the performance and value of banks in Nigeria. Accordingly, the evidence from the study suggested that corporate governance has a significant impact on the performance of banks in Nigeria, as measured by return on equity. The findings also suggested that power separation has a significantly positive impact on performance while board composition and board size have a significantly negative impact on performance. Kajola (2008) examines the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and profit margin, PM), of a sample of twenty Nigerian listed firms between 2000 and 2006. The findings show that significant relationship exists between corporate governance and firm's performance. The review of the empirical literature on corporate governance reveals that there is the need for separation of power between the position of the board chairman and the CEO in order to enhance independence of the board to serve as an effective monitoring device. Evidence from empirical studies on board size produced both positive relationships with the quality of managerial decisions, and the relation between board committees and board effectiveness and efficiency also produced mixed results. Similarly, findings have generally shown that the greater the stock of insider top management, the smaller the incentive to indulge in management fraud and hence the smaller the possibility of fraud. It can therefore be concluded that the relationship between corporate governance and firm's specific variables is not absolute but relative.

The chapter also concludes that even though there are a number of corporate governance provisions that every bank in Nigeria is required to abide by this include among others: CBN, the Nigeria Deposit Insurance Corporation (NDIC), the Securities and Exchange Commission (SEC), the Corporate Affairs Commission (CAC) and the National Insurance Commission (NICON) of Nigeria, SEC code of corporate governance 2004 and code of corporate governance for banks 2006 post consolidation. The result of the weakness in corporate governance before has been the need for greater regulatory functions. The policy initiation and management cannot be conceive by single person, hence the need of separation of power. The custody of a complete transaction is

essential in avoiding fraud and other losses and risk exposure of banks. Similarly, the presence of good corporate governance in organization is likely to ensure that sound and effective assets protection. The major objective of the reforms in the Nigerian banking industry over the last decades was to enhance the safety of deposits with a view to sustaining the confidence of depositors and other stakeholders and to enable Nigerian banks to become native domestic and global players in financial market. Greater oversight function is needed from regulators for the attainment of the reforms objectives. Corporate fraud in the Nigerian banking sector has remained high despite greater surveillance by the supervisory authorities. This in essence signals the sheer weaknesses in corporate governance practices on one hand and the deteriorating worker moral values on the other hand.

1.8. Theoretical Framework for Corporate Governance (Agency Theory)

The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily, Dalton, Canella (2003), point to two factors that influence the prominence of agency theory. Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea.

In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It "*provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system*" (Davis, Schoorman, Donaldson, 1997:24). In her assessment and review of agency theory, Eisenhardt (1989) outlines two streams of agency theory that have developed over time: Principal-agent and positivist.

1.9. Principal-Agent Relationship

Principal-agent research is concerned with a general theory of the principal-agent relationship, a theory that can be applied to any agency relationship e.g. employer employee or lawyer-client.

Eisenhardt describes such research as abstract and mathematical and therefore less accessible to organisational scholars. This stream has greater interest in general theoretical implications than the positivist stream.

1.10. Agency Theory And The Firm: A Positivist Perspective

Positivist researchers have tended to focus on identifying circumstances in which the principal and agent are likely to have conflicting goals and then describe the governance mechanisms that limit the agent's self-serving behaviour (Eisenhardt, 1989). This stream has focused almost exclusively on the principal-agent relationship existing at the level of the firm between shareholders and managers. For example, Jensen, Meckling (1976), who fall under the positivist stream, propose agency theory to explain, inter alia, how a public corporation can exist given the assumption that managers are self-seeking individuals and a setting where those managers do not bear the full wealth effects of their actions and decisions.

1.11. Agency Relationships in the Context of the Firm

The agency relationship explains the association between providers of corporate finances and those entrusted to manage the affairs of the firm. Jensen, Meckling (1976, p.308) define the agency relationship in terms of "*a contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent*".

Agency theory supports the delegation and the concentration of control in the board of directors and use of compensation incentives. The board of directors monitors agents through communication and reporting, review and audit and the implementation of codes and policies.

1.12. Agency Problem

Eisenhardt (1989 p.58) explains that the agency problem arises when "*(a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is actually doing*". The problem is that the principal is unable to verify that the agent is behaving appropriately.

Shleifer, Vishny (1997) explain the agency problem in the context of an entrepreneur, or a manager, who raises funds from investors either to put them to productive use or to cash out his holdings in the firm. They explain that while the financiers need the manager's specialized human capital to generate returns on their funds, the manager, since he does not have enough capital of his own to invest or to cash in his holdings, needs the financier's funds. But how can financiers be sure that, once they sink their funds, they get anything back from the manager? Shleifer, Vishny further explained that the agency problem in this context refers to the difficulties financiers have in assuring that managers do not expropriate funds and or waste them on unattractive projects.

Drawing on the work of Jensen, Meckling (1976), Fama, Jensen (1983) seeks to explain the survival of organizations characterized by the separation of ownership and control and to identify the factors that facilitate this survival. Their paper is concerned with the survival of organizations in which important decision agents do not bear a substantial share of the wealth effects of their decisions.

In relation to the research objectives, this study will adopt the agency theory because, it focuses on the board of directors as a mechanism which dominates the corporate governance literature. The theory, further explain the association between providers of corporate finances and those entrusted to manage the affairs of the firm. This is also in accordance to the works of Ross (1973); Fama (1980); Sanda, Mukaila, Garba (2003) and Anderson, Becher, Campbell (2004).

2. METHODOLOGY

2.1. Research Design

The instrument used by the researcher to collect data is the check list. The data gathered is from annual reports and accounts of the 23 microfinance banks selected for the study. It covered a three year period between 2011 and 2013.The Population and sample for the study would be determined through the data gathered and analyzed by a defined data analysis instrument.

2.2. The Population and Sample Technique

The population of the study is made up of 158 microfinance banks in north central Nigeria. Table 3, on appendix 'A' shows the statistics of microfinance banks in north central Nigeria including Abuja alongside other zones. Before drawing the sample, the study determined an adequate sample size, taking into consideration: the nature of the population and the degree of precision desired. Since the population of the study is large, and to ensure accuracy, validity and reliability of data, thereby eliminating chances of errors and bias in selection process, and due to current closure and license revocation of microfinance banks by CBN, therefore for the purpose of this research, 23 microfinance banks constitute the sample Size of the study. The data for the study was generated from the annual reports and accounts of the 23 microfinance banks through a checklist which was based on the corporate governance requirements of the code of corporate governance for banks and other financial institutions in Nigeria (2003) and the Code of corporate governance for banks post consolidation (2006).

The data generated from these sources were on Board Composition (BC) and the Composition of Board Committee (CBC). Other data that were obtained from this source were on the proxies of the two components of financial performance (Earnings per Shares and Return on Assets).
Data were analyzed using the ordinary least square regression analysis and the Pearson correlation.

Ordinary least square regression analysis was used to find out if there is significant impact of corporate governance mechanisms on the bank's financial performance. A simple model was employed to estimate the effects of corporate governance on earnings per share and return on asset. The ordinary least square regression analysis was computed using SPSS (Version 18.00) software package.

According to Klapper, Love (2002), Sanda, Mikailu, Garba (2004) and Musa (2006), the quality of corporate governance could be estimated as a function of the firm's agency characteristics, which have been defined in this study as Board Composition (BC) and the Composition of Board Committees (CBC). This is expressed as CG=F (BC, CBC). Financial performance, on the other hand, can be estimated as a function of the two (2) components namely Earnings per Share (EPS) and Return on Asset (ROA). This is expressed as:

FINP= f (EPS, DIV PAY) (1)
Thus, FINP= f (CG), which by expansion becomes:

The regression equation used to estimate the relationship is as follows:

FINP= άo + ά1 BC + ά2C BC +e
Where:
FINP= Financial performance
BC= Board Composition
CBC= Composition of Board Committees
ά1 = Parameters to be estimated (is the average amount the dependent variable increases when the independent variables increases by one unit and other independent variables are held constant).

e = an error terms assumed to satisfy the standard OLS assumption.

2.3. Pearson Correlation Coefficient

The correlation coefficient is a numerical measure of the degree or extent of relationship between variables (Agburu, 2007). Agburu (2007) further asserts that the coefficient of correlation is the extent of co variability existing between variables. This study uses the Pearson correlation coefficient all the hypotheses of the study. This is for the fact that all the hypotheses find the relationship between the corporate governance and financial performance.

The Pearson correlation coefficient (r) is given by

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

2.4. Decision Rule

Reject Ho if computed value of ‘r’ is greater than the critical (table value) r, otherwise Accept

2.5. Results and Discussion

The data relating to corporate governance and microfinance financial performance variables that are used in testing the hypotheses of the study were generated from the annual reports and accounts of the 23 microfinance banks as presented in appendices ‘C’ (tables 1 to 2). Table 1 shows the summary of the data used in the various analyses.

Table1. *Corporate Governance and Financial Performance Variables of the Twenty-Three (23) microfinance Banks*

YEAR	2011	2012	2013
BC	0.90	0.95	0.95
CBC	1.00	0.95	0.95
EPS	887.38	1133.86	701.38
ROA	0.046	0.047	0.049

Sources: Computed from the Annual Reports and Accounts of the Twenty-Three (23) microfinance Banks (2011 to 2013) see Appendix ‘E’ table 1.

Table 1 shows the corporate governance and the financial performance variables that are used in testing all the four hypotheses of the study. The variables shown on the table were obtained from the annual reports and accounts of the twenty-Three (23) microfinance banks, for the period of three years (i.e. 2011 to 2013).

2.6. Correlation Results

The correlation of EPS with independent variable of CBC is negatively correlated at -0.080, while BC correlation is positive at 0.080 points and is all significant at 0.10. The correlation of ROA with independent variable BC is positively correlated at 0.708 respectively while for CBC is negatively correlated of -0.708 all insignificant at 0.10. (See tables 2 and 3 below).

Table2. *Correlation of Earnings per Share (EPS) with Independent Variables*

	EPS	BC	CBC
EPS	1.000	0.080	-0.080
BC	0.080	1.000	-1.000**
CBC	-0.080	-1.000**	1.000

Source: Generated from the Data in Appendix E, Table 1 using Spss.

*** Indicates significant at 10%.*

Table3. *Correlation of Return on Asset (ROA) with Independent Variables*

	ROA	BC	CBC
ROA	1.000	0.708	-0.70
BC	0.708	1.000	-1.000**
CBC	-0.708	-1.000**	1.000

Source: Generated from the Data in Appendix E, Table 1 using Spss.

*** Indicates significant at 10%.*

2.7. Regression Results on Earnings per Share (EPS) as Dependent Variables

Table 1a and 1.1a below show the Analysis of Variance (ANOVA) of the variables. With E-values 0.007 (sig 0.949) and 0.007 (sig 0.949) for BC and CBC respectively with Earnings per Share (EPS) as performance proxy all insignificant at 0.10, it clearly show that there is no significant relationship between the dependent variable Earnings per Share (EPS), Board Composition (BC) and Composition of Board Committees (CBC). This is in contrast with the work of Hamid (2009) and Musa (2006).

Tables 1b and 1.1b show the results of the coefficient estimates. Board Composition (BC) has a coefficient of 0.080 (sig 0.949) which shows that there is a positive relationship between it and Earnings per Share (EPS) and Composition of Board Committees (CBC) has a coefficient of -0.080 (sig. 0.949) which indicates a negative relationship between it and EPS all insignificant at 0.10. These show that no significant relationship exists between the corporate governance and Earnings per Share (EPS).

Table1a. *ANOVA – EPS as dependent variable*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression Residual Total	609.638 93519.475 94129.114	1 1 2	609.638 93519.475	0.007	0.949[a]

a. Predictors: (Constant), BC

b. Dependent Variable: EPS

Table1b. *Coefficients of Regression for EPS as Dependent Variable*

Model	Unstandardized Coefficients		Standardized coefficients	T	Sig
	B	Std. Error	Beta		
(Constant)	312.566	7371.189		0.042	0.973
BC	635.294	7868.459	0.080	0.081	0.949

Dependent Variable: EP

Table1.1a. *ANOVA – EPS as Dependent Variable*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression Residual Total	609.638 93519.475 94129.114	1 1 2	609.638 93519.475	0.007	0.949[a]

Table1.1b. *Coefficients of Registration for EPS as Dependent Variable*

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1522.674	7620.812		0.200	0.874
CBC	-635.294	7868.459	0.080	-0.081	0.949

Predictors: (Constant), CBC

Dependent Variable, EPS

2.8. Regression Results on Return on Assets (ROA) as Dependent Variables

Tables **2.1a and 2.2a and** below show the analysis of variance (ANOVA) of the variables. With F-values 1.006 (sig. 0.499) and 1.006 (sig 0.499) respectively for BC and CBC with ROA as performance proxy all insignificant at 0.10. It clearly shows that there is no significant relationship between the dependent variable (ROA) and the corporate governance – Board Composition (BC) and Composition of Board Committees (CBC) as independent variable.

Table **2.1b and 2.2b below** show the results of the coefficient estimates. Board Composition (BC) has a coefficient of 0.708 (0.499) and the Composition of Board Committees (CBC) has a coefficient of -0.708 (0.499). These indicate that there is positive relationship between the dependant variable (ROA) and the independent variables but not significant at 0.10.

Table2.1a. *ANOVA – EPS as Dependent Variable*

Model	Sum of Squares	Df	Mean square	F	Sig.
Regression	0.000	1	0.000	1.006	0.499[a]
Residual	0.000	1	0.000		
Total	0.000	2			

a. Predictors: (Constant), BC

b. Dependent Variable: ROA

Table2.1b. *Coefficients of Regression for ROA as Dependent Variable*

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.015	0.032		0.468	0.721
BC	0.035	0.035	0.708	1.003	0.499

a. Dependent Variable: ROA

Table2.2a. *ANOVA – EPS as Dependent Variable*

Model	Sum of Squares	Df	Mean square	F	Sig.
Regression	0.000	1	0.000	1.006	0.499[a]
Residual	0.000	1	0.000		
Total	0.000	2			

a. Predictors: (Constant), CBC

b. Dependent Variable: ROA

Table2.2b. *Coefficients of Regression for ROA as Dependent Variable*

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.081	0.033		2.425	0.249
CBC	-0.035	0.035	0.708	-1.003	0.499

a. Dependent Variable: ROA

3. CONCLUSIONS

The following tables **1.1a, 1.2a, 1.1b, 1.2b, 2.1a, 2.2a, 2.1b and 2.2b** analyzes the data generated on the relationship between corporate governance - Board Composition (BC) and Composition of Board Committees (CBC) on one hand and financial performance – Earnings per Share (EPS) and Return on Assets (ROA) on the other hand. To test the relationship between corporate governance and microfinance bank's financial performance, Pearson Correlation analysis was carried out. Data relating to the variables as presented in table 4.1 were used to test the hypotheses of the study, which were stated in null form. Result of the correlation indicates that Earnings per Share (EPS) have significant relationship with Board Composition (BC) and Composition of Board Committees (CBC).Therefore hypotheses (1) and (2) were rejected.

The ordinary least square regression result accepts all the hypotheses as there is no significant relationship between Earnings per Share (EPS) and all the corporate governance variables used in the study – Board Composition (BC) and Composition of Board Committees (CBC).

The Pearson Correlation result on the relationship between Return on Assets on (ROA) as financial performance proxy with corporate governance indicates that Board Composition (BC)

and the Composition of Board Committees (CBC) correlate negatively with Return on Assets (ROA) but all in an insignificant level. Therefore, there is no significant relationship between Return on Assets (ROA) and all the corporate governance highlighted in the study. Hence all the hypotheses are accepted.

The regression result shows that Return on Assets (ROA) relates to corporate governance variables, but that the relationship is insignificant. This result therefore accepts the entire hypotheses.

The result of the Pearson Correlation coefficient shows that there is a significant relationship between corporate governance – Board Composition (BC) and the Composition of Board Committees (CBC) with Earnings per Share (EPS) as a component of financial performance of microfinance banks in Nigeria. This means that the ratio of executive directors to the non-executive directors in the membership of the board and that of the shareholders to directors in the membership of audit committee of microfinance banks in Nigeria can significantly affects the financial performance of these banks. And that whether the board size is less or more, it will have no significant impact on microfinance banks financial performance in Nigeria. The result also shows that Return on Assets (ROA) has no significantly effect on corporate governance.

Similarly, the ordinary least square regression analysis result which was used to test the hypothesis shows that all the corporate governance variables Board Composition (BC) and Composition of Board Committees (CBC) have no significant impact on Earnings per Share (EPS) as well as the Return on Assets (ROA) of microfinance banks in Nigeria. It therefore means that the composition of the board of directors, the board size and the composition of audit committee of microfinance banks in Nigeria cannot significantly determine the value of earnings per, the existing share and possible return on the existing assets of these banks' which shall in turn affect their financial performance.

4. Recommendations

Based on the conclusions, this study recommends as follows:

- Shareholders of banks operating in Nigeria should ensure that their banks' boards of directors comply with the provisions of the CBN codes of corporate governance, as well as other statutes. Although, the code of corporate governance 2006 allowed banks in Nigeria to have a board size of up to a maximum of seven (7) directors, microfinance banks should be cautious in unnecessarily enlarging the size of their boards beyond the optimum level, since optimum is relative but not absolute. A board size of 5 members, subject to the maximum of 7, as allowed by the code of corporate governance 2006, is recommended.
- Since the primary role of the Board committees is to ensure the integrity of the audit process and financial reporting and to maintain a sound risk management and control as stipulated in S. 359 of CAMA, 2004, that the CBN and NDIC should enforce the need for all microfinance banks to have approved policies in all their operation areas and strong inspection division to enforce these policies.
- Corporate governance should be used as a tool to help stem the tide of distress, as it entails conformity with prudential guideline of the government.
- Even though a lot of researches have been undertaken on this area, the relationship between corporate governance and financial performance in other sectors of this Nigerian economy requires more research effort. There the need to conduct of same research using a different source of data, employing similar or different corporate governance and financial performance proxies, and using similar or different scales of measuring variables and techniques for data analysis. Further research in these areas can complement this study and as well bring about improvement in corporate governance practices and better financial performance measures in the Nigerian microfinance banking industry.

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Appendix A

Table1a. *Numbers of microfinance banks in North central Nigeria: Distribution by states including FCT*

State	No of MFB
Abuja	53
Benue	11
Kogi	27
Kwara	26
Nasarawa	7
Niger	19
Plateau	15
Total	158

Source: *NDIC 2013 reports*

Table1b. *Shows the computation of sample size*

State	No of MFB	Sample size
Abuja	53	7
Benue	11	2
Kogi	27	4
Kwara	26	4
Nasarawa	7	1
Niger	19	3
Plateau	15	2
Total	158	23

Source: Generated by the Author from NDIC 2013 reports.

Table2. *Sample of the study*

S/NO	NAME OF MICROFINANCE BANK
1.	Lapo Microfinance bank Ltd Abuja
2.	E-Barclay Microfinance bank Ltd Abuja
3.	Fortis Microfinance bank Ltd Abuja
4.	BAM Microfinance bank Ltd Abuja
5.	Adazi-Ani Microfinance bank Ltd Abuja
6.	Halsa Microfinance bank Ltd Abuja
7.	Bmazahin Microfinance bank Ltd Abuja
8.	Otukpo Microfinance bank Ltd Benue
9.	Okpoga Microfinance bank Ltd Benue
10.	Idah Microfinance Bank Limited Kogi
11.	Nuyogba Microfinance bank Ltd Kogi
12.	Solid Base Microfinance bank Ltd Ko gi
13.	Gbede Microfinance bank Ltd Kogi
14.	Kwara Commercial Microfinance bank Ltd Kwara
15.	Osi Microfinance bank Ltd Kwara
16.	IIudun Oro Microfinance bank Ltd Kwara
17.	Iloffa Microfinance bank Ltd Kwara
18.	Unifund Microfinance bank Ltd Nasarawa
19.	Brass Microfinance bank Ltd Niger
20.	Endwell Microfinance bank Ltd Niger
21.	Baba Microfinance bank Ltd Niger
22.	Yeneng Microfinance bank Ltd Plateau
23.	Mwaghaval Microfinance bank Ltd Plateau

Source: Generated by the Author from CBN website.

Source: NDIC 2013

Appendix B

Questions on the checklist used in the assessment of corporate governance mechanisms

1. Board Composition

1.1. Does the Annual report of the bank have any section that shows the composition of board?

YES	NO

1.2. Is the number of non – executive directors equal to or higher than the number of executive directors?

YES	NO

2. Board Size

2.1. Does the annual report of the bank have any section that shows the number of persons in the board?

YES	NO

2.2. Does the bank comply with the requirement of the code of corporate governance as regard the number of the board member?

YES	NO

3. Separation f Power

3.1. Does the annual reports of the bank contain a charter that clearly state power and responsibilities of both the chairman and the CEO of the bank?

YES	NO

3.2. Does the power and responsibilities of the chairman differ from those of the CEO

YES	NO

4. Board Committees (Audit, Credit and Risk Management, Financial and General)

4.1. Does the annual reports of the bank contain information relating composition of Board committees?

YES	NO

4.2. Are the board committees members all non- executive directors

YES	NO

Appendix C

Table1. *Rating of Board Composition (BC) of the Twenty Three (23) Microfinance Bank*

Name of Banks	Year		
	2011	**2012**	**2013**
Lapo Microfinance bank Ltd Abuja	**1**	**1**	**1**
E-Barclay Microfinance bank Ltd Abuja	**1**	**1**	**1**
Fortis Microfinance bank Ltd Abuja	**1**	**1**	**1**
BAM Microfinance bank Ltd Abuja	**1**	**1**	**1**
Adazi-Ani Microfinance bank Ltd Abuja	**1**	**1**	**1**
Halsa Microfinance bank Ltd Abuja	**1**	**1**	**1**
Bmazahin Microfinance bank Ltd Abuja	**1**	**1**	**1**
Otukpo Microfinance bank Ltd Benue	**1**	**1**	**1**
Okpoga Microfinance bank Ltd Benue	**1**	**1**	**1**
Idah Microfinance Bank Limited Kogi	**1**	**1**	**1**
Nuyogba Microfinance bank Ltd Kogi	**1**	**1**	**1**
Solid Base Microfinance bank Ltd Ko gi	**1**	**1**	**1**
Gbede Microfinance bank Ltd Kogi	**1**	**1**	**1**
Kwara Commercial Microfinance bank Ltd Kwara	**1**	**1**	**1**
Osi Microfinance bank Ltd Kwara	**1**	**1**	**1**
IIudun Oro Microfinance bank Ltd Kwara	**1**	**1**	**1**

Iloffa Microfinance bank Ltd Kwara	**0**	**1**	**1**
Unifund Microfinance bank Ltd Nasarawa	**1**	**1**	**1**
Brass Microfinance bank Ltd Niger	**0**	**0**	**0**
Endwell Microfinance bank Ltd Niger	**1**	**1**	**1**
Baba Microfinance bank Ltd Niger	**1**	**1**	**1**
Yeneng Microfinance bank Ltd Plateau	**1**	**1**	**1**
Mwaghaval Microfinance bank Ltd Plateau	**1**	**1**	**1**
Mean	**0.904**	**0.952**	**0.952**

Source: *Annual Accounts and Reports of the Banks*

BC is a dichotomous Variable, 1 is assigned if there are (the same) or more non executive directors than executive directors on the board, otherwise 0.

Table2. *Rating of Board Committees (CBC) of the Twenty Three (23) Microfinance Bank*

Name of Banks	**Year**		
	2011	**2012**	**2013**
Lapo Microfinance bank Ltd Abuja	**1**	**1**	**1**
E-Barclay Microfinance bank Ltd Abuja	**1**	**0**	**0**
Fortis Microfinance bank Ltd Abuja	**1**	**1**	**1**
BAM Microfinance bank Ltd Abuja	**1**	**1**	**1**
Adazi-Ani Microfinance bank Ltd Abuja	**1**	**1**	**1**
Halsa Microfinance bank Ltd Abuja	**1**	**1**	**1**
Bmazahin Microfinance bank Ltd Abuja	**1**	**1**	**1**
Otukpo Microfinance bank Ltd Benue	**1**	**1**	**1**
Okpoga Microfinance bank Ltd Benue	**1**	**1**	**1**
Idah Microfinance Bank Limited Kogi	**1**	**1**	**1**
Nuyogba Microfinance bank Ltd Kogi	**1**	**1**	**1**
Solid Base Microfinance bank Ltd Ko gi	**1**	**1**	**1**
Gbede Microfinance bank Ltd Kogi	**1**	**1**	**1**
Kwara Commercial Microfinance bank Ltd Kwara	**1**	**1**	**1**
Osi Microfinance bank Ltd Kwara	**1**	**1**	**1**
IIudun Oro Microfinance bank Ltd Kwara	**1**	**1**	**1**
Iloffa Microfinance bank Ltd Kwara	**1**	**1**	**1**
Unifund Microfinance bank Ltd Nasarawa	**1**	**1**	**1**
Brass Microfinance bank Ltd Niger	**0**	**0**	**0**
Endwell Microfinance bank Ltd Niger	**1**	**1**	**1**
Baba Microfinance bank Ltd Niger	**1**	**1**	**1**
Yeneng Microfinance bank Ltd Plateau	**1**	**1**	**1**
Mwaghaval Microfinance bank Ltd Plateau	**1**	**1**	**1**
Mean	**1.00**	**0.952**	**0.952**

Source: *Annual Accounts and Reports of the Banks*

CBC is a dichotomous Variable, 1 is assigned if there are at least two non directors on boards committees, otherwise 0.

Table5. *Summary of the Corporate Governance (CG) Variables of the Twenty Three (23) microfinance Banks*

YEAR	Corporate	Governance Variable
	BC	CBC
2011	0.9048	1.00
2012	0.9524	0.9524
2013	0.9524	0.9524

Source: *Generated by the Author from Appendix C, Table 1 to 2*

BC =Board composition

CBC =Composition of Board Committees

Appendix D

Table1. *Index of Earning per Share (EPS) of the sampled Banks*

Name of Banks	Year		
	2011	2012	2013
Lapo Microfinance bank Ltd Abuja	007	087	173

E-Barclay Microfinance bank Ltd Abuja	006	102	131
Fortis Microfinance bank Ltd Abuja	269	156	223
BAM Microfinance bank Ltd Abuja	(005)	089	110
Adazi-Ani Microfinance bank Ltd Abuja	027	034	(003)
Halsa Microfinance bank Ltd Abuja	019	025	045
Bmazahin Microfinance bank Ltd Abuja	013	119	246
Otukpo Microfinance bank Ltd Benue	036	061	123
Okpoga Microfinance bank Ltd Benue	(107)	027	010
Idah Microfinance Bank Limited Kogi	145	163	173
Nuyogba Microfinance bank Ltd Kogi	110	138	183
Solid Base Microfinance bank Ltd Ko gi	10130	14000	(1000)
Gbede Microfinance bank Ltd Kogi	112	080	067
Kwara Commercial Microfinance bank Ltd Kwara	057	063	049
Osi Microfinance bank Ltd Kwara	004	006	052
IIudun Oro Microfinance bank Ltd Kwara	3104	7301	11201
Iloffa Microfinance bank Ltd Kwara	186	241	305
Unifund Microfinance bank Ltd Nasarawa	(182)	0.10	0.06
Brass Microfinance bank Ltd Niger	160	126	214
Endwell Microfinance bank Ltd Niger	080	036	024
Baba Microfinance bank Ltd Niger	191	189	345
Yeneng Microfinance bank Ltd Plateau	133	717	(86)
Mwaghaval Microfinance bank Ltd Plateau	180	1051	6052
Mean	701.38	1133.86	887.48

Source: *Annual Accounts and Reports of the Twenty three (23) microfinance Banks*

The index of earning per share (EPS) is obtained by dividing the total earnings after tax (profit) by the number of shares.

Table2. *Index of Return on Assets (ROA) of the sampled Banks*

Name of Banks	Year		
	2011	2012	2013
Lapo Microfinance bank Ltd Abuja	0.0042	0.0185	0.0154
E-Barclay Microfinance bank Ltd Abuja	0.0227	0.0278	0.0301
Fortis Microfinance bank Ltd Abuja	0.0155	0.0202	0.0188
BAM Microfinance bank Ltd Abuja	(0.0015)	0.0222	0.0196
Adazi-Ani Microfinance bank Ltd Abuja	0.0296	0.0239	0.0049
Halsa Microfinance bank Ltd Abuja	0.0158	0.0192	0.0244
Bmazahin Microfinance bank Ltd Abuja	0.0230	0.0241	0.0261
Otukpo Microfinance bank Ltd Benue	0.4001	0.4050	0.8022
Okpoga Microfinance bank Ltd Benue	0.2775	0.0146	0.00200
Idah Microfinance Bank Limited Kogi	0.0284	0.0272	0.0300
Nuyogba Microfinance bank Ltd Kogi	0.0238	0.0223	0.0247
Solid Base Microfinance bank Ltd Ko gi	0.0257	0.0166	(0.1916)
Gbede Microfinance bank Ltd Kogi	0.0211	0.0182	0.0118
Kwara Commercial Microfinance bank Ltd Kwara	0.0342	0.0228	0.0267
Osi Microfinance bank Ltd Kwara	0.0028	0.0043	0.0276
IIudun Oro Microfinance bank Ltd Kwara	0.0141	0.0124	0.0193
Iloffa Microfinance bank Ltd Kwara	0.0135	0.1800	0.0263
Unifund Microfinance bank Ltd Nasarawa	0.0100	0.0035	(0.0264)
Brass Microfinance bank Ltd Niger	0.0194	0.0196	0.0273
Endwell Microfinance bank Ltd Niger	0.0201	0.0194	0.0144
Baba Microfinance bank Ltd Niger	0.0188	0.0100	0.0202
Yeneng Microfinance bank Ltd Plateau	0.0107	0.0500	0.0256
Mwaghaval Microfinance bank Ltd Plateau	0.0020	0.0098	0.0075
Mean	0.0491	0.0472	0.0465

Source: *Annual Accounts and Reports of the Twenty three (23) microfinance Banks*

Return on Assets (ROA) was the percentage ratio of net profit after tax to the total value of assets for the year.

Table3. *Summary of Index of the Financial Performance Variables of the Sample of the (23) microfinance Banks*

	Financial Variables	Performance
YEAR	EPS	ROA
2011	701.58	0.0491
2012	1133.86	0.0472
2013	887.48	0.0465

Source: *Generated by the Author from Appendix D Table 1 and 2*

Appendix E

Table1. *Summary of the Corporate Governance (CG) and Financial Performance Variables of the Sample of the twenty three (23) microfinance Banks*

YEAR	Corporate	Governance	Variable		Financial Variables	Performance
		BC		CBC	EPS	ROA
2011		0.9048		1.00	701.58	0.0491
2012		0.9524		0.9524	1133.86	0.0472
2013		0.9524		0.9524	887.48	0.0465

Source: *Generated by the Author from Appendix C Table 5 and Appendix D Table 1*

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