ipmi INTERNATIONAL JOURNAL OF BUSINESS STUDIES

e-ISSN: 2622-4585 | p-ISSN: 2580-0132
Vol. 8 | No. 2 (June 2024)

Effects of corporate governance on banking system stability in Nigeria

Dare John Olateju[1]*, Bisi Riliwan Tijani[2], Olakunle Abraham Olateju[3], Patricia Onyemowo Agbo[4], Odumu Victor Ato[5]

[1245]Department of Banking & Finance FMS Complex, Naraguta Campus University of Jos
[3]Department of Accounting Osun State University Osogbo - Nigeria

ABSTRACT

This study investigates the relationship between corporate governance (CG) and banking system stability in Nigeria. While previous research has explored this connection, there remains a gap in our understanding of how specific CG practices influence stability in the Nigerian context. This study aims to address this gap by examining the impact of board size, gender composition, committee structure, and meeting frequency on the stability of Nigerian deposit money banks. Secondary data were employed for this study, collected from the audited annual reports of 13 listed deposit money banks in Nigeria over an eight-year period. STATA 14 software facilitated the data analysis, with random effect regression utilized to test the hypotheses. The Breusch-Pagan Lagrangian multiplier test and Hausman specification test ensured the appropriateness of the random effects model. The analysis using random effect regression revealed that board size, male-to-female director ratio, board committee composition, and the number of board meetings held did not exert a statistically significant influence on the model. Furthermore, the overall hypothesis testing the relationship between corporate governance and bank stability also yielded insignificant results. Given the insignificant effects observed for the examined variables, the study recommends a shift in focus towards exploring other corporate governance practices that might hold a more substantial association with banking system stability. Additionally, the research suggests the need for further studies in Nigeria that encompass a broader range of deposit money banks. This would provide a more

ARTICLE INFO

Article History:
Received : 2023-10-03
Revised : 09-01-2024
Accepted : 02-04-2024
Published : 30-06-2024

Keywords:
Agency theory
Corporate governance
Banking system stability
Asset quality, Board size
Board meetings

JEL: G01, G21, G34

*Corresponding Author E-mail:
djolateju@unijos.edu.ng

comprehensive understanding of how corporate governance contributes to banking system stability on a national scale.

Copyright © 2024 Authors. This is an open access article distributed under the Creative Commons Attribution License (CC-BY-SA 4.0) which permits use, distribution and reproduction in any medium, provided the original work is properly cited & ShareAlike terms followed.

INTRODUCTION

Banking system can be characterized as stable in the absence of excessive volatility, stress or crises. The growing rate of failure among reputable banks around the world has necessitated a lot of enquiries as to the reason why good established, reputable banks should fail. A stable banking system is capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy's natural rate, and eliminating relative price movements of real or financial assets that will affect monetary stability or employment levels (Mustapha et al., 2020). The true value of banking stability is best illustrated in its absence, that is in periods of banking instability. Major instability can lead to bank runs, hyperinflation, or a stock market crash, which can severely shake confidence in the financial and economic system. Banking system stability is the condition where the banking system operates effectively, ensuring confidence among participants such as firms and individuals. No norm can ignore the standard of corporate governance and the financial performance of businesses over time in any economy. According to Onwe, Joshua, and Chukwuma (2019), corporate governance is a system that has to do with the efficient operation of any company or organization in a way that ensures its owners and stakeholders are obtaining decent and random returns on their investment in such companies. Additionally, it implies that such a company must have genuine owners who collaborate diligently for the benefit of the company's growth. As a result, in modern terminology, corporate governance is frequently considered as one of the key strategic areas that business leaders and her joint owners as the stakeholders and shareholders attend to enquiries their financial goals and objectives.

The absence of good corporate governance has been blamed for the banking instability in the majority of banks, both inside and outside of Nigeria. It is clear that each of these instances had business issues that were directly related to shortcomings in corporate governance. In an effort to curb these cases of corporate governance and improve on the collective financial right standings of banks and other financial institutions in Nigeria, quoted banks and financial firms are now expected to comply with the set-up and established rules and various codes of corporate governance and thus make adequate disclosure in the annual financial statement upon the end of each year. As a result, the Nigerian Stock Exchange Commission issued a code of corporate governance guiding financial firms and quoted firms on September 8, 2011, which was created to comply with international best practices on corporate governance as well as to observe and identify various flaws and limitations to good corporate governance in Nigeria. By doing so, the observed loopholes and issues relevant to promoting good corporate governance practices in Nigeria were addressed.

Corporate governance has been noted as key to efficient and effective operations of the financial institutions, in the banking industry the board and managers are responsible for ensuring that banks activities are undertaken adequately and appropriately. In the case of maintaining good Asset quality in banks, it has been established that corporate governance has a key role to play both in loan disbursements, spread and recovery. Asset quality, a key stability indicator, categorizes credits based on their likelihood of repayment, thereby estimating potential losses from deteriorating credits.

The importance of corporate governance cannot

be overemphasized for several reasons. First, banks are at the nerve center of the financial system of any economy and they are engines of economic growth. Second, banks are financial intermediaries that move funds from the surplus to deficit ends of the economy. Third, banks are the main depository for the economy's savings and they provide the means for payment. In the Nigerian banking industry, there has been increased rate of failures/distress, frauds and questionable business practices that have negatively affected investors' confidence. The abuse of executive power more often than not, brings about disrepute be it at the organizational or political space (Power essentially is to direct, control and regulate activities of people but if not, properly exercise will not only lead to regulatory infractions but also chaos and anarchy. Executive directors of banks must exercise their powers within the ambit of the law. In recent decades, banking failures in Nigeria have underscored the imperative for comprehensive corporate governance practices across all banks.

Banking supervision cannot function well if sound corporate governance is not in place. Boards of directors have responsibility for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to make sure that an appropriate governance structure is in place. The purpose of corporate governance is to facilitate effective and prudent management that can lead to the long-term success of banks in the banking sector, it holds particular importance because the integrity of bank management defines service quality and significantly impacts overall sector performance.

Poor corporate governance reflects more on issues relating to bank size, inappropriate board composition and size, incept bank managers, high non-performing loans (Alade et al., 2020; Babatunde et al., 2021). Board size refers to the total number of directors on the board of any corporate organization. It is one of the factors considered when the structure of the board is being considered. The structure of a board could be small or large and, in some cases, the choice of board size is industry specific. The banking system typically maintains larger board sizes compared to manufacturing firms. In the Banking industry, the retention of public confidence through the enthronement of good corporate governance remains utmost importance given the role of the industry in the mobilization and the allocation of credit from the surplus to the deficit sector of the economy, the payment and settlement system and the implementation of monetary policy.

It is often said that corporate governance in the financial sector requires a prudent and judicious management of resources in terms of current and fixed assets owned by such financial institutions and this ensures that ethical and professional standards are maintained in pursuance of corporate governance goals and objectives (Onwe et al., 2019). It also seeks to ensure that customers are satisfied by all measures, increase employee morale, and the maintenance of financial landscape discipline which stabilizes and rejuvenate the sector paving way for healthy financial performance.

This study shall then focus on the relationship between corporate governance in Nigeria while accessing its effect on the stability of the financial sector. To understand the importance for this study, corporate governance will be a veritable tool for improved banking sector performance in Nigeria; this study thus aims at exploring the nature, scope of corporate governance and how it affects banking system stability in Nigerian financial sector.

While the study identified an insignificant relationship between CG and banking system stability, this finding stands in contrast to prior research that often emphasizes the positive impact of CG practices. This unexpected outcome opens avenues for exploring alternative CG mechanisms that might hold a more substantial influence on banking stability in the Nigerian context.

The study's findings highlight the need for further

research that refines existing theoretical frameworks, such as agency theory, to encompass these potentially influential, yet underexplored, dimensions of corporate governance. By incorporating these new considerations, future research can build more robust constructs of CG, leading to a deeper understanding of its role in maintaining a stable banking system.

Statement of The Problem

Banks are failing. The latest financial crisis affecting the entire world has its roots in banks. These issues were mostly brought on by the banking industry's inadequate corporate governance. Prior to the consolidation process, there were 89 banks in Nigeria's banking sector, and their poor performance almost caused a decline in client confidence. Most known occurrences of bank distress in the nation were attributed to inadequate corporate governance. Inadequacies in corporate governance functions afflict Nigerian banks. Poor corporate governance can manifest in various forms, including inadequate internal control systems, excessive risk-taking, insider fraud and abuse, lack of credit restrictions imposed by authorities, and deliberate disregard for prudent lending rules. The CBN created the code of corporate governance in 2006 in response to the subpar governance standards in the Nigerian banking system. Despite this code, a number of governance problems have persisted in posing a threat to the banking system's stability. The numerous widely reported instances of accounting irregularities that were discovered in the Nigerian banking sector in 2009 (including those at Oceanic Bank, Intercontinental Bank, Union Bank, AfriBank, and Spring Bank) were linked to the board's lack of vigilant oversight functions, its ceding of authority to corporate managers who act in their own self-interests, and its negligence in its duty of care to stakeholders.

Poor corporate governance and rampant corruption in financial institutions were the main causes of the banking sector crisis which nearly brought the system to its knees. Weak corporate governance also affects banks loans disbursements thereby leading to a large amount of non-performing loans (Babatunde et al., 2021). It is in the light of the above problems, that this research work tends to study the effect of corporate governance on the banking System stability in Nigeria.

Objective Of The Study

The study was designed to investigate the effect of corporate governance on banking system stability in Nigeria. The specific objectives are to:

1. examine the effect of board size on asset quality.
2. examine the effect of number of board meeting on asset quality.
3. examine the effect of number of board committee on asset quality.

LITERATURE REVIEW

Conceptual Review

The Concept of Banking System Stability

In the absence of extreme volatility, stress, or crises, the banking system can be classified as stable. Financial system stability is a state in which the financial system, comprising financial intermediaries, markets, and infrastructures, can withstand shocks and address financial imbalances. This stability reduces the likelihood of severe disruptions in the financial intermediation process, ensuring the efficient allocation of savings to profitable investment opportunities.

On the other hand, banking instability is characterized by a heightened risk of a banking crisis, which can lead to a significant collapse of the banking sector and its inability to provide payment services or allocate credit effectively. Banking system stability is defined as a steady state in which the financial system effectively performs its key economic functions, including resource allocation, risk distribution, and payment settlement. In other words, we equate a sound banking system-which is primarily made up of financially healthy institutions carrying out the aforementioned functions-with a banking system that is stable. The banking

system can become unstable in two ways: through idiosyncratic factors related to poor banking practices that negatively affect the solvency of individual banks, or through systematic factors triggered by broader economic activity.

Banking system stability involves taking a systematic view and focusing on the resilience of the financial system as a crucial component of stability. It is argued that the failure of a single bank does not necessarily indicate instability within the entire banking system. In fact, such an event may help preserve or enhance stability by promoting more effective financial intermediation. The stability of the banking system is attributed to its ability to consistently and without significant interruptions offer an efficient allocation of savings to investment opportunities. Another way to define banking system stability is to compare it to an environment free of banking crises and with stable asset prices. Stability requires that banks maintain a high degree of confidence in their ability to meet contractual obligations without interruption or external assistance. For the purpose of measurability, the study will replace banking system stability with asset quality, which will be proxied as non-performing loan to total asset. Non-performing loans (NPLs) has no common definition since different country sees it in different ways. Since what is recognized acceptable in one nation may not be so in another. There is, however, some similar opinion on this concept. Non-performing loans are those that have remained unpaid for an extended period, failing to generate income. Specifically, the principal and/or interest on these loans have been left unpaid for at least ninety (90) days. Banking system stability is defined as the ability of the banking system to withstand shocks, efficiently allocate resources, and effectively manage risk.

Concept of Asset Quality

Asset quality, being one of the indices for measuring bank stability is described as the classification of credits according to the probability of repayment which estimates the amount of loss that will probably be suffered on deteriorating credits The challenge of asset quality poses a potential future time bomb for banks if the principles of safety and soundness are not strictly followed. This issue is exacerbated by the leadership in Nigeria's banking sector, which has been found to violate corporate governance tenets. This necessitated the reforms that set up asset quality monitoring systems for identifying possible emerging problems of bank asset quality, and demanding banks to regularly present the asset quality reports to the board of directors so as to evaluate the risks associated with asset quality deterioration The deterioration of bank asset quality due to the lack of critical evaluation of loan quality is considered one of the immediate causes of the Nigerian financial crisis. Asset quality is a feature of bank management that calls for the appraisal of a company's assets in order to measure the degree and scope of the credit risk connected to its operations. Seven of the twenty-five key principles established by the Basel Committee on Banking Supervision to define sound banking supervision are designed to address issues related to bank asset quality or credit risk management. This underscores that asset quality is a universally important concern for financial regulatory institutions worldwide.

If the rules for safety and soundness are not carefully followed, the difficulties of asset quality could become a ticking time bomb for banks. This is because various banking sector leaderships in Nigeria have been found to have violated the rules of corporate governance. In order to assess the risks associated with asset quality deterioration, it was necessary to implement reforms that set up asset quality monitoring systems for spotting potential emerging problems with bank asset quality and requiring banks to submit asset quality reports on a regular basis to the board of directors. The operating and financial performance as well as the overall soundness of the financial system in which it is an entity are all impacted by the bank asset quality’s bad performance. It is essential for banking institutions worldwide, particularly

in developing economies like Nigeria with fragile banking systems, to pay extra attention to managing asset quality to ensure the sound development of the banking industry.

Concept of Corporate Governance

Corporate governance refers to the increase in long-term shareholder value by enhancing corporate performance and accountability with the organizational resources at their disposal (Sirine et al., 2020), while considering the interests of other stakeholders, the management of institutions' business and affairs (Jenkinson & Mayer, 1992). Corporate governance is a system for managing and directing businesses. Therefore, corporate governance focuses on establishing trust, ensuring accountability and transparency, and maintaining a reliable route for the disclosure of information that will support strong corporate performance.

The process of governing and controlling an organization is referred to as governance (Aleqedart, 2020). Therefore, corporate governance refers to the procedures and practices implemented to fulfill the governance mandate within corporate entities. The ultimate objective of corporate governance is to achieve defined corporate objectives and, in the process, maximize shareholder's value while satisfying the legitimate expectations of other shareholders.

Corporate governance is seen as the system of rules, ethics, practices and processes through which an institution is controlled and managed. Corporate governance essentially revolves around balancing the interests of a bank and other financial institutions major players, management, customers and the business environment in which they operate. Thus, corporate governance provides the necessary framework for achieving a bank's goals and objectives. It encompasses various high-level management spheres, from action plans and internal controls to performance measurement and corporate information disclosure. Corporate governance aims to allocate resources in such a manner that maximizes value for all participating stakeholders, including the various employees, customers, the community to a large extent and holds those at the high echelon to account by evaluating their decisions on accountability, transparency, equity and responsibility. The World Bank defines corporate governance as the exercise of political authority and the use of institutional resources to manage society's problems and affairs. However, corporate governance represents a set of processes, policies, laws, practice and institutions affecting the way a corporation (or bank/financial institution) is being directed, administered, managed or even controlled. Corporate governance involves shareholders, investors and stakeholders in the goals and objectives for which the financial institution is managed.

A survey carried out by the SEC in April 2003, as quoted by the Central Bank of Nigeria in CBN Report of 2006, revealed that only about 40% of quoted companies in Nigeria, including banks had as at that date approved and operational codes of corporate governance. The study further indicated that poor corporate governance was implicated in most known cases of distress in the banking sector in the country. Corporate governance is decomposed into these variables; board composition, board size, board committee, Age and board meetings. Corporate governance is also defined as the application of the right rules, practices, and processes in the administration, direction, and control of a company. It aims to protect and strengthen board and management accountability while building public trust in the company. The CBN 2014 revised Code of Corporate Governance for Banks and Discount Houses defined Corporate Governance as rules, processes, or laws, by which institutions are operated, regulated and governed. It is geared towards promoting a transparency amongst bank executives, the rule of law, division of responsibilities, and professionalism.

Corporate Governance Mechanisms

Concept of Board Size

Board size can be defined as the number of directors on the board. Solving the issues between

shareholders and executives, calls for the presence of the board of directors. From literature, the size of the board of large banks, particularly banks with many affiliates, has their board size being organizationally complex. Inferring that banks with more holdings demands more board representatives to observe activities of directors. These are Board of directors that supervises the management of banks. The structure differs among countries. In Nigeria they are grouped into Executive Directors and Non-Executive Directors. This is one of the characteristics of the board structure. There is a view that many directors are better for corporate achievement because they have so many experts to help and make good decisions and hard for influential chief executive office to dominate.

The board of directors can play a crucial role in enhancing corporate governance and increasing the value of a firm. The value of a firm is also improved when the board plays its fiduciary duties such as monitoring the activities of management and selecting the staff for a firm. The board can also assign and monitor the performance of an independent auditor to improve the value of a firm. The board of directors can resolve internal conflicts and decrease the agency cost in a firm. Board members should be accountable to shareholders for the decisions they make. The board consists of two types of directors; outsider (independent) and insider directors. The majority of directors in a board should be independent to make rational decisions and create value for the shareholders. The role of independent directors is important to improve the value of a firm as they can monitor the firm and can force the managers to take unbiased decisions. Independent directors can also act as referees, implementing corporate governance principles that protect shareholders' rights.

The agency theory supports that smaller board size may improve financial performance due to reduced asymmetry information (Olateju et al., 2024). Larger boards have been demonstrated to improve a firm's success in prior research (Fėlix & David, 2019; Mustapha et al., 2020). When there are too many persons involved in the decision-making process, there is a communication barrier that results in the larger board's inefficiency. As a result, Aprepitant & Randy (2019) recommended that the number of board of directors be restricted to ten. smaller boards create higher returns, have stronger monitoring, and are generally more friendly. Guest (2019) suggests the number of boards to a firm as large listed businesses should have 8 to 12 directors, medium-sized listed companies 6 to 8 directors, and small listed companies 4 to 6 directors because of their influence on firms. Australian Institute of Company Directors (Dias, Rodrigues, Craig, & Neves, 2019) also note that board size may have significant effect on firm's performance.

$H0_1$: Board size has no significant effect on bank stability.

Board Meeting

Agency theory is further illustrated by the board of directors' operational diligence, demonstrating their ability to uphold their responsibilities as transactional agents for the banking institution. Board meetings are an important governance tool that influences banks' risk profiles. They are crucial for monitoring and reporting systems, essential for reaching consensus on governance-related issues, and can significantly enhance responsible risk-taking behavior with more frequent meetings. Board meetings should be deliberately designed to increase member participation. Assigning responsibilities to committees within the board is crucial as it allows for the opportunity to address all issues and agendas effectively. While the number of board meetings is often debated, other pertinent issues hold greater importance for effective board governance.

$H0_2$: Number of board meeting has no significant effect on bank stability.

Board Committees

The boards of directors play a crucial role in the operational and strategic decision-making of banks. Because of this, they are essential in

determining how banks manage and mitigate risk. Board committees can enhance the efficacy of the board. From the agency's perspective, the nominating and pay committees play significant roles in the decision-making process. The Audit, Remuneration, and Nomination Committees provide empirical data and conduct impartial examinations of the corporation's business affairs. The board's organizational structure impacts the effectiveness of monitoring measures when dealing with inconsistent information. The audit, nominating, and compensation committees all contribute to the improvement of the company.

$H0_3$: Number of board committee has no significant effect on bank stability.

Agency Theory

The foundations of agency theory can be found in the economic theory presented by Alchian and Demsetz in 1972 and explored further by Jensen and Meckling in 1976. Ownership and control are separated in large businesses, leading to an inherent conflict of interest between managers and shareholders, as suggested by agency theory. The owners' goal of maximizing profits may conflict with the managers' sometimes-motivated pursuit of self-interest. The aim of agency theory is to solve two problems that may arise in agency relationships. The first is the agency Issue, which occurs when the principal's and agent's desires or interests clash, and second it is difficult or costly for the principal to check what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. It also explains that banks as a company have responsibilities to a wider group of stakeholders other than shareholders. Once banks enthrone sound corporate governance practice it is anticipated that interests of the stakeholders will be held supreme and will no longer be sacrificed for the selfish interest of the management thus making banks to be more profitable.

The agency theory has long been used to analyze the connection between corporate governance and bank stability. According to agency theory, good corporate governance should result in a substantial correlation between corporate governance and bank stability. The first attempt to test this theory was made by Jensen & Meckling (1976), and the results of the study demonstrated that good corporate governance improves performance and accounting outcomes.

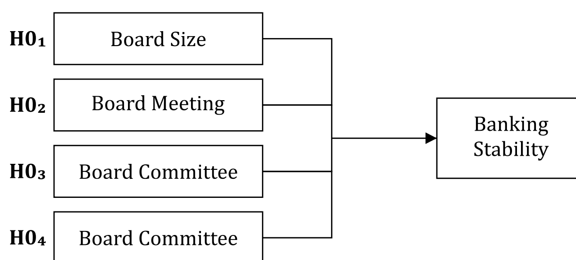

Figure 1. Theoretical/Conceptual Framework

Empirical Review

Numerous studies on corporate governance have been conducted in and outside of Nigeria. A survey conducted by the SEC in 2006 found that only around 40% of Nigerian listed businesses acknowledged a code of corporate governance in place prior to the new code of corporate governance for banks in Nigeria taking effect in 2006 (CBN 2006). This indicates that most corporate bodies, including banks, did not run their corporations in accordance with the role of the code. Some of the concerns impacting corporate governance have been addressed with the introduction of the new code by the CBN and the prior banking industry reform.

Osamor, Saka & Olatunji (2019) in their study corporate governance and asset quality: evidence from Nigerian listed deposit money banks (DMBs) evaluates the enigma between corporate governance indicators and asset quality of DMBs in Nigeria. Using ex-post facto research design, data of 2012 to 2017 were obtained from the annual reports of twelve (12) listed DMBs and analyzed using statistical tools such as simple average, ordinary least square, fixed effect, random effect techniques and decomposition of the selected DMBs. Findings revealed the empirical evidences in support of the relationship between corporate governance and asset quality. The study therefore concluded

that there is a significant relationship between corporate governance (in terms of board independent and board size) and asset quality (in terms of ratio non-performing loan to total loan). The study recommended that CBN should improve on its supervisory responsibilities of the DMBs in Nigeria, especially the ones that were ranked low in order to engender a robust banking sector and sound financial system.

Bulus & Lawal (2021) in their study Impact of Corporate Governance Mechanisms on Asset Quality of Selected Deposit Money Banks in Nigeria examines the impact of corporate governance mechanisms on the asset quality of selected deposit money banks in Nigeria for a period of ten (10) years. Data for the study were quantitatively generated as retrieved from the annual financial reports and accounts of some selected deposit money banks in Nigeria. Data was analyzed using regression analysis and it was discovered that audit committee and board composition contributes positively and significantly to assets quality of the deposit money banks in Nigeria. The study however, recommends among others that more efforts should be made to ensure adequate compliance to the reforms and to adhere to corporate governance principles, as well as its attractiveness and effectiveness towards improving performance.

RESEARCH METHODS

This study adopted causal research design; the panel data used for the study were extracted from secondary sources which is the financial statements of the selected banks. The population Is the total number of deposits money banks in the country. The population of this study comprises all the money deposit banks operating in Nigeria for the period 2014 - 2021. The total number of the banks is 23 (twenty-three), As at 2022 According to the CBN websites. Since no primary data have been used in the analysis the specification serves the purpose for the research.

S/N	Names Of Deposit Money Banks	Date Listed	Age
1	First Bank PLC	1894	127
2	Access Bank	1989	35
3	Guarantee trust Bank	1990	31
4	Sterling Bank	1960	61
5	Polaris Bank	2018	4
6	Union Bank plc	1917	104
7	Zenith Bank	1990	31
8	Unity Bank	1987	34
9	First city Monument Bank	1982	39
10	Fidelity Bank plc	1999	22
11	Eco Bank plc	1985	36
12	United Bank of African	1961	60
13	Citi Bank Nigeria limited	1984	37
14	Providus Bank	2016	5
15	Stanbic IBTC Bank plc	1989	6
16	Standard chartered Bank Nigeria Ltd	------	-----
17	Sun trust Bank Nigeria Ltd	2015	133
18	Wema Bank plc	1945	76
19	Titan Trust Bank Ltd	2018	3
20	Keystone Bank Ltd	2011	10
21	Parallex Bank Ltd	------	-------
22	Globus Bank Limited	2019	2
23	Heritage Bank plc	2006	15

Source: CBN (2022)

- Sample Size Determination

  For this study the sample size consists of thirteen (13) banks that are quoted on the floors of the Nigeria stock exchange. The study used the non-probability sampling technique to select the eleven quoted banks based on the fact that they had complete records for all the data within the period this study also adopted the inclusive and exclusive criteria

- The inclusive criteria;
  1. Must be listed in the NGX and recognized by CBN.

2. Has not undergone any Major reorganization for the past 5 years.

   Based on the set criteria 13 banks would be used as the study sample and data would be obtained from the annual report and financial statement for the data analysis.

S/N	Names of Deposit Money Banks
1	Access Bank Plc
2	Eco Bank Nigeria Plc,
3	Fidelity Bank Plc
4	First Bank Nigeria Ltd
5	First City Monument Bank Plc
6	Guarantee Trust Bank Plc
7	Stanbic IBTC Bank Plc
8	Sterling Bank Plc
9	Zenith Bank Plc
10	Unity Bank
11	Union Bank of Nigeria Plc
12	Wema Bank
13	United Bank of African Plc

Source: Author (2022)

- Sources and Instrument of data collection

  The study relies wholly on secondary data. The secondary data are published information, contained in the Annual report and Account of the Banks selected for the study as well as related information that is available or obtainable from the Annual Accounts, publications, circulars and other Relevant Communications of all by regulatory/ supervisory agencies including the CBN, SEC And NGX. Specifically, this Regulatory/Supervisory requires the bank to disclose all aspects of their corporate governance practices in their annual report. This have therefore Provided the Avenue for the extraction of the needed information. These details include the Board Size, board meeting, number of board committee and ratio of male to female.

Measures of Corporate Governance

Corporate governance is deposited as the independent variable of the study and it is measured using three variables; Board size, Board meetings and Ratio of male to female Number of boards committee.

BD = Total no board members

BM = Total no of board meetings

FM = No of Female directors/ No of Male directors

NC = Number of board committee.

Measures of Banking System Stability

Banking System Stability Is taken a taken as the dependent variable and it is measured as Asset quality.

AQ = non-performing loans/Total Assets

Methods of Data Analysis

The data used in this study was analyzed using STATA 14. In order to confirm the best technique among OLS, Fixed effect and Random effect, a post estimation test was conducted using Breusch and Pagan Lagrangian multiplier test. And Hausman test. The test was used to determine the better technique between OLS, Random and fixed effect technique. The test reveal that random effect was preferred to OLS and fixed effect. Random effect regression was used to test the hypotheses at 5% significances. Result of the test conducted were interpreted around the statistical notation including p-value (level of significance), coefficient of determination (directional relationship between variables), R2 (measure of explanatory power of independent variable).

Model Specification

The econometric function for this study is thus;

AQ = α1 + β1BS it + β2BMit + β3 FM it + β4 NC it €

Where;

AQ = represents the Asset quality

A1 = constant

B1, β2, β3 β4=Estimation parameters

BS = represents the Board Size

BM = represents number of board meetings

FM = represents the ratio of female to male on the board

NC = represent the number of board committees

€: = error term

Decision rule: when the probability value is greater than 0.05 which is a we reject the null hypothesis, but when the probability value is less than 0.05, we accept the null hypothesis.

RESULTS AND DISCUSSION

Table 1. OLS regression

```
. regress LogAQ LogNC LogFM LogBS  LogNBM
```

Source	SS	df	MS
Model	120.308031	4	30.0770077
Residual	593.714191	90	6.59682434
Total	714.022221	94	7.59598108

```
Number of obs   =       95
F(4, 90)        =     4.56
Prob > F        =   0.0021
R-squared       =   0.1685
Adj R-squared   =   0.1315
Root MSE        =   2.5684
```

LogAQ	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
LogNC	-.6082204	1.129618	-0.54	0.592	-2.852403	1.635962
LogFM	-.355345	.5360216	-0.66	0.509	-1.420246	.7095555
LogBS	5.587762	1.463988	3.82	0.000	2.679294	8.49623
LogNBM	-1.388695	.8005519	-1.73	0.086	-2.979131	.2017408
_cons	-16.74048	3.51849	-4.76	0.000	-23.73058	-9.750386

Table 1 above illustrate OLS regression results of the model which consist of dependent variable Banking system stability as represented by AQ and the independent variables (BS, BM, NC& FM). The result shows that all of the variable have insignificant positive relationship of 0.0021 with AQ, because their p values are above 0.05. The adjusted R square is 0.1315 which showed that 13% of the deviations in the dependent variable is explained by the independent variables of the study.

Table 2. Random effect GLS regression

```
Random-effects GLS regression                   Number of obs     =         95
Group variable: Bank_Id                         Number of groups  =         13

R-sq:                                           Obs per group:
     within  = 0.1002                                         min =          5
     between = 0.0016                                         avg =        7.3
     overall = 0.0197                                         max =          8

                                                Wald chi2(4)      =       8.45
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =     0.0765
```

LogAQ	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
LogNC	1.391738	.9635668	1.44	0.149	-.4968177	3.280295
LogFM	-.3859677	.3246433	-1.19	0.234	-1.022257	.2503214
LogBS	.6919876	.9032933	0.77	0.444	-1.078435	2.46241
LogNBM	.6099741	.5036704	1.21	0.226	-.3772017	1.59715
_cons	-11.13746	2.353586	-4.73	0.000	-15.75041	-6.524518
sigma_u	2.7428823					
sigma_e	1.0244125					
rho	.87758749	(fraction of variance due to u_i)				

Table 2 above illustrate random effect regression results of the model which consist of the dependent variable banking system stability as represented by AQ and the independent variables (BS, BM, NC& FM). The result shows that all of the variable have insignificant positive relationship of 0.0765 with AQ, because their p values are above 0.05

Table 3. Breusch-Pagan Lagrange Multiplier Test

```
Breusch and Pagan Lagrangian multiplier test for random effects

        LogAQ[Bank_Id,t] = Xb + u[Bank_Id] + e[Bank_Id,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+-----------------------------
                   LogAQ |   7.595981       2.756081
                       e |   1.049421       1.024412
                       u |   7.523403       2.742882

        Test:   Var(u) = 0
                             chibar2(01) =   130.48
                          Prob > chibar2 =   0.0000
```

In order to confirm the best technique among OLS and random effect regression, a post estimation test was conducted using Breusch-Pagan Lagrange Multiplier Test. From the test it is revealed that the random effect model is fit for the data analysis. Table 3 shows a p- value of 0.0000 which is significant, i.e. it is less than the p-value of 0.05. So therefore, the random effect regression is more fit and appropriate for the data analysis compared to the OLS regressions.

Table 4. Fixed effect regression

```
Fixed-effects (within) regression               Number of obs     =         95
Group variable: Bank_Id                         Number of groups  =         13

R-sq:                                           Obs per group:
     within  = 0.1019                                         min =          5
     between = 0.0002                                         avg =        7.3
     overall = 0.0097                                         max =          8

                                                F(4,78)           =       2.21
corr(u_i, Xb)  = -0.1153                        Prob > F          =     0.0753
```

LogAQ	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
LogNC	1.683008	1.014111	1.66	0.101	-.3359327	3.701948
LogFM	-.370166	.3280439	-1.13	0.263	-1.023251	.2829193
LogBS	.419055	.9162808	0.46	0.649	-1.40512	2.24323
LogNBM	.6922625	.5095301	1.36	0.178	-.3221339	1.706659
_cons	-10.95338	2.270671	-4.82	0.000	-15.47394	-6.432825
sigma_u	2.8487441					
sigma_e	1.0244125					
rho	.88549395	(fraction of variance due to u_i)				

```
F test that all u_i=0: F(12, 78) = 40.65                     Prob > F = 0.0000
```

Table 4 shows the overall r-squared value of 0.0097 which signifies that of the changes in the dependent variable asset quality is explained by the independent variables. the rho value is .88549 which shows a strong relationship between the variables of the study. The result also shows that all the variables have insignificant positive relationship of 0.0753 with AQ, because their p values are above 0.05.

Table 5. Random effect GLS regression

```
Random-effects GLS regression                   Number of obs     =         95
Group variable: Bank_Id                         Number of groups  =         13

R-sq:                                           Obs per group:
     within  = 0.1002                                         min =          5
     between = 0.0016                                         avg =        7.3
     overall = 0.0197                                         max =          8

                                                Wald chi2(4)      =       8.45
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =     0.0765
```

LogAQ	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
LogNC	1.391738	.9635668	1.44	0.149	-.4968177	3.280295
LogFM	-.3859677	.3246433	-1.19	0.234	-1.022257	.2503214
LogBS	.6919876	.9032933	0.77	0.444	-1.078435	2.46241
LogNBM	.6099741	.5036704	1.21	0.226	-.3772017	1.59715
_cons	-11.13746	2.353586	-4.73	0.000	-15.75041	-6.524518
sigma_u	2.7428823					
sigma_e	1.0244125					
rho	.87758749	(fraction of variance due to u_i)				

R-squared (R2) is a statistical measure that represents the proportion of the variance for a dependent variable that's explained by an independent variable in a regression model, the overall r-squared showed a value of 0.0197 which signifies that 19% of the changes in the dependent variable asset quality is explained by the independent variables. Spearman's Rho is a non-parametric test used to measure the strength of association between two variables, where the value r = 1 means a perfect positive correlation and the value r = -1 means a perfect negative correlation, the rho value is .8775 which shows a strong relationship between the variables of the study.

Table 6. Coefficients

	Coefficients (b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
LogNC	1.683008	1.391738	.2912694	.3161658
LogFM	-.370166	-.3859677	.0158017	.0471122
LogBS	.419055	.6919876	-.2729326	.1537261
LogNBM	.6922625	.6099741	.0822883	.0770521

```
                 b = consistent under Ho and Ha; obtained from xtreg
      B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test:  Ho:  difference in coefficients not systematic

            chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                    =        5.87
          Prob>chi2 =      0.2094
```

The table above represent the Hausman test used to select the best model between fixed and random effect regression which will be suitable for this study. The Hausman test was run and the result shows that the random effect test is more appropriate for the study. This can be confirmed from the Chi- square statistic of 5.87 with a p - value Prob 0.2094 which is significant at all level of significance i.e. it is lower than the p- value of 0.05. thus, the result shows that random effect regression is more fit and appropriate for the data analysis compared to the fixed effect regression.

Test of Hypothesis

The main analysis for the test of hypotheses is presented in Table 2. Each of the models produced a test statistic with its accompanying probability which serves as a basis of the decision as to whether to reject the Null hypothesis or not. The benchmark for comparison with the probability of the test-statistics (p-value) is the level of significance which usually lies outside the value of confidence that the null hypothesis will be rejected (in error) when it should not. Where the p-value of the test statistic is less than the assumed level of significance, in which case it is said to be statistically significant, the null hypothesis is rejected, otherwise it is upheld. For this research, the level of significance is 5% or 0.05.

Hypothesis 1 is concerned with the test of effect of board size on banking asset quality. The p-value of 0.444 indicates that the relationship is statistically insignificant since it is higher than the critical value of 0.05. Therefore, based on this and complemented by the various tests, there is enough evidence to accept the null hypothesis which state that board size has no significant effect on banking system stability.

Hypothesis 2 is concerned with the test of the effect of ratio of female and male and banking system stability. The p-value of 0.234 indicates that the relationship is statistically insignificant since it is higher than the critical value of 0.05. Based on this and complemented by the various tests, the null hypothesis which state that the number of female and male has no significant effect on banking system stability proxy by Asset quality is accepted.

Hypothesis 3 is concerned with the test of effect of number of board meeting and banking system stability. The p-value of 0.226 indicates that the relationship is statistically insignificant since it is higher than the critical value of 0.05.

Based on this and complemented by the various tests, the null hypothesis which state that the number of board meeting has no significant effect on banking system stability proxy by Asset quality is accepted.

Hypotheses 4 is concerned with the test of effect of number of board committee and asset quality. The p-value of 0.149 indicates that the relationship is statistically insignificant since it is higher than the critical value of 0.05. Based on this and complemented by the various tests, the null hypotheses which state that the ratio of female to male has no significant effect on banking system stability proxy by Asset quality is accepted.

The overall result indicated that the independent variable is statistically insignificant to asset quality as their overall, p-value showed a result of 0.0765, which is greater than 0.05 therefore there is enough evidence to accept the null hypothesis in favor of the alternate hypotheses. Hence the result proved that BS, BM, NC, F-M has no significant effect on banking system stability which is proxied as asset quality.

Findings

Arising from the analysis of the study, the study reveals that:

1. There is no significant relationship between board size and asset quality.
2. Ratio of male to female in the board do not significantly affects asset quality.
3. Number of board meeting do not significantly affect asset quality.
4. There is no significant relationship between the number of board committees and asset quality.

This study examined the influence of corporate governance practices on banking system stability within the Nigerian context. Panel data encompassing the period 2014-2021 was utilized for the analysis. The generated data underwent random effects regression analysis, with the Breusch-Pagan Lagrangian Multiplier test and Hausman test employed to confirm the model's appropriateness.

The regression results revealed no statistically significant impact of board size on banking system stability, which was proxied by the asset quality of the sampled Nigerian banks. These findings contradict those presented by Osamor, Saka, & Olatunji (2019), whose research demonstrated a significant association between board size and banking system stability.

Similarly, the number of board meetings, board committee composition, and the ratio of male to female directors exhibited no significant influence on banking system stability, as measured by asset quality. Overall, the study's findings suggest an insignificant relationship between the examined corporate governance mechanisms and banking system stability in Nigeria.

CONCLUSION AND RECOMMENDATION

The objective of the study is to analyze the effect of corporate governance on banking system stability in Nigeria using 13 deposit money banks in Nigeria for the study. Panel research design was employed. Data generated were analyzes using Stata 14, Random effect regression analysis was used to test the significance level of the hypothesis of the study. The overall, p-value showed a result 0.0765 which showed there is no significant effect between the variables of the study. the overall r-squared showed a value of 0.0197 which signifies that 19% of the changes in the dependent variable, asset quality is explained by the independent variables. The findings of this study are; Board size, board meetings, number of board committee and ratio of male-female on the board have statistically insignificant effect on banking system stability in Nigeria.

Based on the findings of the study, the following recommendations were made.

1. Adequate measures should be taken to enhance efficiency and effectiveness of governance frameworks in the banking sector. Stakeholders should be adequately knowledgeable on the relevant laws, rights,

responsibilities and ethical requirements.

2. Since the variables used in this study have no significant effect on the banking system stability, emphasis should be shifted from these variables to other corporate governance variables.
3. Banks should ensure that quality and experienced persons (non-executive Directors') are appointed as members of their Board of Directors to guarantee positive impact on performance.
4. Management should be transparent and ethical in order to promote the image of the banking sector. Non-compliance with the standard of reporting and disclosure requirement should be sanctioned.
5. Further studies should be taken on different financial subsectors like Insurance, Discount Houses and Stock Brokering firms. This is to further enrich the knowledge base on the impact of corporate governance in the wider finance sector.
6. This study is recommended for use by management of banks in Nigeria as they tinker with how to handle their individual firms' corporate governance mechanisms 83 effectively and efficiently, going by its rich content of intellectual literature and results.

Contribution to Knowledge

Theory- This study is another contribution to the existing literature in the study of corporate governance, but with particular emphasis on deposit money banks in Nigeria and it also provide literature material for other researchers.

Practical-The findings of this study provide answers to the problem arising from bank corporate governance and motivate banks to adopt a good corporate governance practice, in its overall operation.

Policy- Sound policy recommendation capable of driving deposit money banks performance Were also proffered in this study.

Limitation of the Study

The study adopted four constructs for the independent variable which although quite robust dose not encompass all the corporate governance mechanism that has an effect on banking system stability. Conversely, cost of doing the overall research in the current Nigeria economy limited the robustness of the work.

Suggestion for further studies

In view of the limitation of this study the following suggestion were stated.

1. This study calls for more comprehensive research to be undertaken in Nigeria, laying more emphasis on the effect of corporate governance on banking system in Nigerian.
2. More research on the study variable should be undertaken in Nigeria, this would throw more weight on the importance of corporate governance on in ensuring banking system stability.
3. Other researchers should look at the effect of corporate governance on banking system stability on a larger scale by incorporating all the deposit money banks in Nigeria
4. Finally, future studies should investigate reason for continuous collapse in banks despite the significant roles played by corporate governance codes.

REFERENCES

Abdulazeez, D. A. Tajudeen, L. & Mohammed, Y. (2019). Board structure and asset quality of listed deposit money banks in Nigeria. *jurnal riset akuntansi dan keuangan. 7*(1), 1-18.

Adegbie F. F., Akintoye, I. R. & Ashaolu, A. O. (2019). Corporate governance and financial stability of Nigeria quoted deposit money banks. *International journal of business and management review. 7*(5), 38-60

Alade, A. R., Femi, O. O., Olalekan, A. K., & Oluwole, O. S. (2020). Effects of corporate governance and credit policies on delinquency management. *International Academic Journal of Economics and Finance, 3*(5), 166–190.

Aleqedart, H. Q. (2020). The barriers and challenges of corporate governance in Jordanian companies: an evaluation of the reality of corporate governance in Jordan. *International Journal of Business Studies, 4*(2), 69–81. https://doi.org/10.32924/ijbs.v4i2.136

Babatunde, A. S., Eriki, P., Eburajolo, C. O., Cyril, U. M., Chinakpude, I. E., Alade, A. R., Femi, O. O., Olalekan, A. K., Oluwole, O. S., Galletta, S., Mazzù, S., Naciti, V., Vermiglio, C., Muhammad, R., Mangawing, M. A., Salsabilla, S., Ltifi, M., Hichri, A., Wu, C., … Hopt, K. J. (2021). Corporate governance and operational risk management of the listed deposit money banks (DMBS) in Nigeria. *Covenant University Journal of Politics & International Affairs, 9*(1), 2134. https://doi.org/10.1504/IJIE.2022.119626

Deutsche Bundesbank. (2023). Report on the Stability of the German Financial System. Monthly Report. Retrieved from www.bundesbank.de.

Elisabete Gomes Santana Fėlix, & David, D. S. T. (2019). Performance of family-owned firms: the impact of gender at the management level. *Journal of Family Business Management*. https://doi.org/10.1108/JFBM-10-2018-0051

Eriki, P. & Eburajolo, C. O. (2021). Corporate Governance and Bank Performance: a case of the Nigerian financial sub- sector. *Covenant university journal of politics & international affairs, 9*(1), ISSN: p. 2354-3558 e. 2354-3493.

Mustapha, U. A., Rashid, N., Bala, H., & Musa, H. (2020). Corporate governance and financial performance of Nigeria listed banks. *Journal of Advanced Research in Dynamical and Control Systems, January.* https://doi.org/10.5373/JARDCS/V12I1/20201002

Obafemi, D. S., Ezekiel, A. I & Obisesan, O. G. (2021). The impact of corporate governance on banks profitability in Nigeria. *International Journal of Innovative Science and Research Technology*. 456-2165.

Olateju, O. A., Olateju, D. J., Adebayo, A.O., Olowookere, J.K., & Adeyemi, A. A., (2023). Ownership structure and earnings management of listed consumers' goods in Nigeria. *Accounting and Taxation Review, 7*(2), 2023:74-87.

Alade, A. R., Femi, O. O., Olalekan, A. K., & Oluwole, O. S. (2020). Effects of corporate governance and credit policies on delinquency management. *International Academic Journal of Economics and Finance, 3*(5), 166–190.

Ololade, Elizabeth Balogun. (2021). Impact of Corporate Governance on Financial Performance of Consumers Goods Firms in Nigeria. *Bingham International Journal of Accounting and Finance* (BIJAF) Vol. 2, No. 1, ISSN: 2735- 9476.

Onwe, Joshua Chukwuma. (2019). Corporate governance in Nigeria on the financial system stability in Nigeria banking sector. Journal of Business & Economic Management 6(12): 000-000, DOI: 10.15413/jbem.2019.0700.ISSN 2315-7755.

Osamor, I. F., Saka, Q. A., Olatunji, T. E. (2019). Corporate governance and asset quality: evidence from Nigerian deposit money banks. *European Journal of Accounting, Finance & Business*, XI.

Rashid, M.H.U & Zobair, S.A.M & Chowdhury, M.A.I. (2020). Corporate governance and banks' productivity: Evidence from the banking industry in Bangladesh. bus res (2020). https://doi.org/10.1007/s40685-020-00109-x

Serah, L. B., Isah, A. L. (2021). Impact of corporate governance mechanisms on asset quality of selected deposit money banks in Nigeria. *Gusau International Journal of Management and Social Sciences 4* (3), 15-15.

Sirine, H., Andadari, R. K., & Suharti, L. (2020). Social entrepreneurship model: the impact of implementing corporate social responsibility (Case study of Sido Muncul Partnership Program). International Journal of Business Studies, 4(3), 171–183.