Corporate Governance and Firm Performance in Nigeria: First Bank Nigeria PLC as a Case Study

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BENIN CITY

March, 2026

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Being a Thesis Presented to the Department of Business Administration, Faculty of Management Sciences, University of Benin, Benin City in Partial Fulfillment of the Requirements for the Award of Master of Business Administration (MBA)

March, 2026

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We the undersigned hereby certify that this thesis was carried out by **Doris Otailobhegbe APEH** of the Department of Business Administration, Faculty of Management Sciences, University of Benin, Benin City, under our supervision, and approved as adequate in scope and quality in partial fulfillment of the requirements for the award of Master of Business Administration (MBA.).

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Supervisor

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Dr. D.O. Ogbeide

Ag. Head of Department

DATE…………………..………..

DEDICATION

This project is dedicated to Almighty God for His infinite grace, mercy, wisdom, and guidance throughout my academic journey and also to my beloved parents for their unwavering love, sacrifices, and constant support. You have been my pillars of strength and my greatest inspiration.

ACKNOWLEDGMENTS

My unreserved appreciation goes to God Almighty for the success of this programme in this great institution, University of Benin.

I want to sincerely appreciate my Project Supervisor, Prof. J.E. Agbadudu who took pains and time to read every bit of the scripts. I also appreciate his useful comment, reviews, assistance, guidance and counseling throughout the various stages of the research studies. My unreserved appreciation also goes to my H.O.D., Dr. Darlington Ogbeide for the smooth administration of the department. My profound gratitude goes to my lecturers in the Department for molding me to become a better person in the society.

It is normally said that every success recorded anywhere there are people who must have contributed to this work. I must therefore say that whatever success l have made in life was not solely out of my own effort, many have contributed morally and otherwise and l shall avail myself of this opportunity to express my profound gratitude to my darling husband, Barr. Elaigwu Emmanuel Apeh esq for the encouragement and support both morally and financially and my lovely children, Apeh Aizighode, Ehinomen and Daniella thanks for your immense support.

Also, my sincere appreciation goes to my mother, Mrs. Victoria Oseghale for her prayers and support.

My heartfelt gratitude goes to my lovely sister, Mrs. Agbons Akhale for her care and support during my academic pursuit.

I also appreciate my friends and course-mates, and all those whose names I could not mention, but have encouraged and supported me, thank you all for your support and encouragement. May God richly bless you all.

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ABSTRACT

The research study is to examine the influence of corporate governance on firm performance of First Bank Nigeria PLC. It made use of board committee, audit committee, board size and corporate governance disclosure index as corporate governance predictive variables.

The research design adopted is the longitudinal survey research design. The model parameters were estimated using Ordinary Least Squares with time series data for the period 2006 to 2016 for First Bank Nigeria PLC. The stationarity, stability, co-integration and causal-relationship between the explanatory variables and the dependent variable in the model were performed. The study employed the application software E-View 7.0.

The results of ADF and PP roots tests indicate that the series are unit roots free. The co-integration of the variables using Residual Unit Roots test, which is appropriate in this study, indicates long run relationships among the series. The use of Recursive Residual Technique shows that the variables are stable. The model has an explanatory power of 78 percent specifically adjusted for the degrees of freedom with regard to the explanatory variables. The D-W statistics value of 1.82 indicates the absence of serial correlation. The F- probability value of 0.0000 reports that there is a simultaneous linear relationship between the dependent variable and all the explanatory variables combined. This suggests that the joint effects of all the included variables in the model are significant in explaining firm performance of First Bank Nigeria PLC. The study revealed that the explanatory variables significantly impact on firm performance of First Bank Nigeria PLC. In view of the research findings planning the improvement in board committee, audit committee, board size and corporate governance disclosure index will help to increase firm performance of organizations among others.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate governance is all about running an organization in a way that guarantees that its owners as stakeholders are receiving a fair return on their investment. It is the process of a virtuous circle that links the shareholders to the board, to the management, to the staff, to the customer and to the community at large (Clarkson & Deck, 1997). They observed that a company is a separate legal entity which no one actually owns. It can therefore be implied that shareholders do not own a company (Ofiafoh & Imoisili, 2010). A typical firm is characterized by numerous owners having no management function and managers with no equity interest in the firm. Shareholders or owners of equity are large in numbers and an average shareholders control a minute proportion of the shares of the firm. This gives rise to shareholders to take no interest in monitoring of managers, who are left to themselves and maybe pursuing interest different from those of the owners of equity.

Corporate governance has found a way to address this problem which arises and a number of significant researches have been conducted towards resolving it. For instance, Magdi and Nedareh (2002) emphasize the need for organization managers to act in the interest of the firm, core stakeholders particularly minority shareholders or investors by ensuring that only action that facilitate delivery of optimum returns and other favourable outcome are taken at all times. This study will further empirically explore this subject matter by finding the relationship between some selected corporate governance mechanisms and financial performance of quoted firms in Nigeria.

Governance is basically concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders are always taking appropriate measures or adopt mechanisms that safeguard the interests of the stakeholders. Such measures are necessitated because of the separation of ownership from management, an increasingly vital feature of the modern corporations. Corporate Governance is defined as the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholder long term value while taking into account the interest of other stakeholders (CMA Act, 2002).

Corporate Governance is the system by which organizations are directed and controlled. It’s a set of relationships between company directors, shareholders and other stakeholder’s as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2009). Corporate Governance is also defined as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity (Mangunyi, 2011). Corporate governance has, in more recent years, become one of the most commonly used terms in the modern corporation. The empirical research and literature has burgeoned and the field is highly interdisciplinary. Stakeholders in the corporate governance arena are many and wide-ranging and their participation in this field has spawned a rich and varied range of information resources pertaining to distinct disciplinary fields and practitioner interests. The corporate governance researcher thus needs to have an in-depth understanding of the diverse roles various stakeholders play and how they “fit” together in the complex arena of corporate governance as it exists today.

Corporate governance has come to underpin systematically the work of many business academics and practitioners alike, and their information and research needs present challenges not only for them, but also for the information professionals who assist them.

Governance refers to the manner in which power is exercised in the management of economic and social resources for sustainable human development initiative (McCord, 2002). According to McCord (2002) corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation total portfolio and resources with an objective of obtaining increasing stakeholders value with a satisfaction of other stakeholders within the context of individual organizations corporate mission and vision as spelt out in the strategic plan of an institution.

In today's world governance has assumed critical importance in the socio-economic and political systems. A typical firm is characterized by numerous owners having no management role, and with managers with no equity interest in the firm. Shareholders, or owners' equity, are generally large in number, and an average shareholder controls a minute proportion of the shares of the firm. This gives rise to the tendency for such a shareholder to take no interest in the monitoring of managers, who, left to themselves, may pursue interests different from those of the owners of equity. The compatibility of corporate governance practices with global standards has also become an important part of corporate success.

The practice of good corporate governance has therefore become a necessary prerequisite for any corporation to be manage effectively in the globalize market. The term "corporate governance" is relatively new terminology used in both public and academic debates, although the issues it addresses have been around for much longer. In the last two decades, however, corporate governance issues have become important not only in the academic literature, but also in public policy debates. During this period, corporate governance has been identified with takeovers, financial restructuring, and institutional investors' activism Ross, Shleifer and Vishny (1973) define corporate governance by stating that it deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Corporate-governance mechanisms assure investors in corporations that they will receive adequate returns on their investments (Shleifer & Vishny, 1997). If these mechanisms did not exist or did not function properly, outside investors would not lend to firms or buy their equity securities. As thus, businesses would be forced to rely entirely on their own internally generated cash flows and accumulated financial resources to finance ongoing operations as well as profitable investment opportunities. Therefore the overall economic performance likely would suffer because many good business opportunities would be missed and financial distress at individual firms would spread quickly to other firms, employees, and consumers.

1.2 Statement of the Research Problem

Despite tight regulatory framework, Corporate Governance continues to weaken in Nigeria (Mang'unyi, 2011). According to Muriithi, (2009), many companies have been characterized by scandals.

Directors have acted illegally or in bad faith towards their shareholders. Indeed, the Insurance Regulatory Authority identified poor Corporate Governance in insurance Companies as one of the threats to achieving its strategic plan 2008-2012. This is worrying especially in the banking and insurance sector since the industry has witnessed in the past, the collapse of firms.

The main Corporate Governance themes that are currently receiving attention are adequately separating management from the board to ensure that the board is directing and supervising management, including separating the chairperson and chief executive roles; ensuring that the board has an effective mix of independent and non-independent directors; and establishing the independence of the auditor and therefore the integrity of financial reporting, including establishing an audit committee of the board.

1.3 Research Questions

1. To what extent does board composition (proportion of representation of non-executive directors on board) significantly influence firm performance?
2. To what extent does audit committee (proportion of audit outside to total audit committee) significantly influence firm performance?
3. To what extent does board size (total number of the directors on board) significantly influence firm performance?
4. To what extent does corporate governance disclosure index significantly influence firm performance?

1.4 Objectives of the Study

The broad objective of the study is to examine the influence of corporate governance on firm performance of First Bank Nigeria Plc. The specific objectives are to:

i. ascertain the extent to which board composition (proportion of representation of non–executive directors on board significantly influence firm performance;

ii. determine the extent to which audit committee (proportion of audit outside to total audit committee) significantly influence firm performance;

iii. to investigate the extent to which board size (total number of the directors on board) significantly influence firm performance;

iv. examine the extent to which corporate governance disclosure index significantly influence firm performance.

1.5 Research Hypotheses

The hypotheses of the study stated in the null form will guide the direction of this study:

Ho_1: Board composition (proportion of representation of non–executive directors on board does not significantly influence firm performance;

Ho_2: Audit committee (proportion of audit outside to total audit committee) does not significantly influence firm performance;

Ho_3: Board size (total number of the directors on board) does not significantly influence firm performance;

Ho_4: Corporate governance disclosure index does not significantly influence firm performance.

1.6 Scope of the Study

In pursuance of the objective of the study; attention shall be focused on corporate governance and corporate performance in Nigeria, using First Bank Nigeria Plc. From 2015-2025. As a case study, which is based on the recent restructuring in the management of those banks by the current Governor.

1.7 Significance of the Study

This research investigate the relationship between corporate governance and the financial performance of firms listed at Nigerian Stock Exchange in Nigeria. The study would be invaluable to the various stakeholders in the Nigerian economy.

The treasurer would identify how various aspects of corporate governance practices affect the operations of various firms in Nigeria as well as determine the extent to which this and other factors affect operations of firms. They would also identify the impediments that face firms in approaching various corporate governance practices that affect their financial performance.

The central bank of Nigeria (CBN) would obtain knowledge of the various firm dynamics and the responses that are appropriate; they will therefore obtain guidance from this study in designing appropriate practices that would regulate the shareholders participation in affecting the financial performance of the firms in Nigerian.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, efforts will be made to look at the concept of organizational performance with emphasis on return on asset, concept of corporate governance, dimensions of corporate governance, such as board composition, audit committee, board size, corporate governance disclosure index, etc., theories of corporate governance, empirical review of relevant literatures, etc.

2.2 Concept of Organization Performance

Organizational performance or effectiveness holds a central position in the management of private and public organizations as well as in the field of organizational research. Over the last decades, concerns for efficiency, productivity, excellence and total quality have become increasingly widespread in Western organizations (Lewin & Minton, 1986). These concerns are often motivated by the perception of threats to the durability of the organization. They also seem to be justified by the ever-greater international competition for market shares and resources (Maltz, 2003).

However, the concept of organizational performance is too often restricted to its financial facet. As a matter of fact, most evaluations of organizational performance are based on indicators such as return on investments, sales, profit per share (Morin, 1989). Nevertheless, an organization has many other facets; among them are the people who work for it, the processes they use to achieve its objectives, and the environment in which the organization evolves. Consequently, one would expect that the organizational performance assessment would take these other dimensions into account. Unfortunately, this is not often the case. In this paper, we argue that the restriction of the concept of organizational performance to its financial dimension could lead to the lost of meaning at work through the kind of management practices that derive from this restricted perspective. The current organizational assessment practices generate three major consequences (Morin, 1995):

1. Overvaluation of financial performance, organizational growth and competition to the detriment of sustainable development, social cooperation and human dignity;
2. Restriction of the attention to three classical stakeholders: the shareholders, the customers and the employees (with this hypothesis that satisfied employees lead to satisfied customers which in turn lead to satisfied shareholders),
3. Depersonalization of employees and other social partners.

The restricted perspective of organizational performance assessment makes one think of the statistical concept of «restricted range». In general, one could say that the greater the variability among the observations, the better is the measurement. A restricted variability leads to a misinterpretation of the assessment, so it has to be corrected to make it valid. The same idea could apply to the assessment of organizational performance. Since its assessment is restricted to its financial indicators, it could lead to misinterpretation of its results (Ittner & Larcker, 1998). A good example would be the story following the famous AOL and Time Warner merger. When AOL financial value was at the top, its health on other indicators was not so equally gleaming. Afterwards, it seems that some strategic choices have not been made (such as shifting to high-speed Internet) and resulted to a net loss of 100 billions $US in 2002. If the managers would have taken into account other dimensions such as long-term durability, this case could have been different.

2.1.1 Return on Asset

Return on asset is an indicator of how profitable a company is relative to its total assets. It gives an idea as to how efficient management is at using its assets to generate earnings, that is, it measures efficiency of the business in using its assets to generate net income. It is a profitability ratio. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment". Return on assets is the ratio of annual net income to average total assets of a business during a financial year. Net income is the after tax income. It can be found on income statement. Average total assets are calculated by dividing the sum of total assets at the beginning and at the end of the financial year by 2. Total assets at the beginning and at the end of the year can be obtained from year ending balance sheets of two consecutive financial years.

The formula to calculate return on assets is:

$$ROA = \frac{\text{Annual Net Income}}{\text{Average Total Assets}}$$

2.3 Concept of Corporate Governance

Anya (2003) opines that although corporate governance has attracted a great deal of public interest in recent times due, largely, to its importance for the economic health of corporations and society, the concept is rather poorly defined globally since it covers a large number of distinct economic phenomena. Different individuals have explained corporate governance according to their own perception or interest. Notable among them include: Wolfensohn (1997) cited by Anya (2003) who asserts that corporate governance is about promoting corporate fairness, transparency and accountability. Dyck (2001) conceptualizes it as the ability of the outsiders (shareholders, non-executive directors and other stakeholders) to curtail the grabbing hands of the insiders (directors and managers). Shleifer and Vishny (1997) see corporate governance as a concept by which the suppliers of finance to corporations assure themselves of getting a return on their investments. Larkan and Tayan (2011) view corporate governance as the collection of control mechanisms that an organization adopts to prevent or dissuade potentially self-interest managers from engaging in activities detrimental to the welfare of shareholders and other stakeholders. At a minimum, the monitoring system consists of a board of directors to oversee management and an external auditor to express an opinion on the reliability of financial statements. In most cases, however, governance systems are influenced by a much broader group of constituents, including owners of the firm, creditors, labour unions, customers, suppliers, investment analysts, the media, and regulators.

OECD (2004) conceives corporate governance to mean a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance outlines the structure through which the objectives of the company are set, the means of attaining those objectives as well as strategies for monitoring performance. Cadbury (1992) defines corporate governance as the system by which companies are directed and controlled. He explains that the shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. Okafor (2011) posits that corporate governance connotes the processes involved in the discharge of the mandate of governance in corporate entities. These processes enable the realization of the underlying objective of corporate governance which is to maximize shareholders' value without compromising the legitimate expectations of other stakeholders.

Coulson-Thomas (1993) quoted by Adeola (2003) conceptualizes corporate governance thus: Determining what needs to be done; Creating the capability to do what needs to be done; Deciding how to do what needs to be done; Ensuring that what needs to be done is actually done; Ensuring that what is done and how it is done satisfies legal and other requirements; Reporting to shareholders what has been done.

Corporate governance is key to enhanced operational efficiency in banks as it promotes two growth-propelling factors namely, transparency and accountability in an atmosphere of clearly established reporting relationships. Efficiently run banks promote stability of the banking system and thereby support the growth of the economy. Effective corporate governance system ensures that different stakeholders are fairly treated. In a liberalized or market economy, corporate governance promotes the flow of capital (foreign and domestic) for enhanced economic growth and development due, largely, to its capacity to engender increased investor confidence and goodwill as well as promotion of transparency, accountability, fairness and responsibility.

Frost *et.al* (2002) and Donaldson (2003) note that improvements in corporate governance practices promote market liquidity, investor confidence and capital formation due to improved financial disclosures. For the economy as a whole, effective corporate governance systems present a very effective solution to issues of financial crime thereby promoting the achievement of an investor-friendly environment, a necessary requirement for the inflow of foreign capital. Also, since efficiency of corporate governance structures are directly linked to corporate profit performance, corporate governance has immense potential to drive capital formation through tax revenue. Evidence in the literature shows that a good system of corporate governance in banks enhances the efficiency of fund allocation, promotes savings thereby reducing not only the cost of funds but also enhancing their access by the ultimate users. Gompers et al (2003) aver that good corporate governance practices increase firm value and boosts profitability.

2.3.1 Dimensions of Corporate Governance

Board Composition

Prior research on board composition mainly focused on firms in advanced economies (Guest, 2008). Studies for example by Kaplan and Reishus (1990), Byrd and Hickman (1992), Brickley et al. (1994), and Beasley (1996) found a positive impact from appointing outside independent directors onto the board. Cotter et al. (1997) studied the role of independent outside directors during takeover attempts by tender offer. They found that independent outside directors enhance target shareholder's gains from tender offers and a majority of independent directors are more likely to use resistance strategies to enhance shareholders' wealth. Cho and Kim (2007) could not find any relationship between board composition in the form of representation of outside independent directors and firm performance. Baysinger and Butler (1985) argued that these differences in findings may occur due to various factors such as corporate law, managerial talent, capital markets and the internal capital structure of the firm. In addition, Zahra and Pearce II (1989) pointed to several reasons for such inconsistencies, as summarized by Finkelstein and Hambrick (1996, p 239). These include the consideration of several contextual factors; life cycle, corporate strategy and effective interaction among board members in decision making. Finkelstein and Hambrick (1996) also argue that despite such variances, a board may indirectly influence the firm's performance by quality of monitoring. Due to the high degree of diversity of the results of earlier studies on board composition and firm performance, Dalton and Daily (1999) viewed these results as 'vexing', 'contradictory', 'mixed' and 'inconsistent'. As has been stated earlier, the CGN (2006) requires the appointment of at least one tenth of the total directors, subject to a minimum of one independent director. Given this requirement, there will be an imbalance of power between inside and outside directors, dependent upon the board size. A smaller board is manageable and plays a controlling function, whereas a larger board is non-manageable and may have greater agency problems and may not be able to act effectively leaving management relatively free of being controlled (Chaganti et al., 1985; Jensen, 1993; Hermalin and Weisbach, 2003). Del Guercio et al. (2003) reveal that smaller boards with a higher proportion of independent directors are more effective.

Audit Committee

Corporate governance which is everybody's business, however, owes its emergence to serious concerns about fraudulent practices in the preparation of financial statements and reporting thereon by the auditors. Due to those fraudulent practices, the stakeholders in companies such as shareholders, creditors, potential investors and the general public have lost confidence in the credibility of audited financial statements. In order to restore the lost confidence, the concerned parties have taken steps to initiate better governance. Corporate governance is a system by which business corporations are directed and controlled with the purpose of creating safeguards against corruption and mismanagement, while promoting fundamental values of market economy in a democratic setting. These values include: accountability, transparency, rule of law, fairness, responsibility and ownership.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the means through which the company objectives are set, and the means of attaining those objectives as well as monitoring performance. Also, corporate governance is generally defined in the context of issues and problems that result from separation of ownership and control in organizations. Corporate governance sets up a system or institutions that govern the relationship between investors and creditors on one side, and managers on the other side. What it does is very important for companies trying to succeed not only in domestic markets, but also in markets abroad. It provides for competition that is based on fair, transparent and responsibility between managers and other stakeholders, protection of shareholders, rights and independent supervision over activities of a business entity. Importantly, corporate governance sets up a system where rules are reinforced not only by written regulations, but also by moral standards of business ethics and by responsible corporate behaviours.

Board Size

Board size is the total number of directors sitting on each company's board. Several scholars have asserted that small boards operate more efficiently compared to large boards because of the high corporate costs and free rider problem associated with large boards. Lipton and Lorsch (1992, p. 65) argue that "when a board has more than ten members it becomes more difficult for them all to express their ideas and opinions". Similarly, Jensen, (1993) are of the same view, and they concluded that the mean board size should be seven or eight people, beyond which they are less likely to function effectively.

Larger board size has the advantage of increased monitoring. However, it leads to poor communication and poor decision which may impact negatively on the performance of the organisation Therefore, larger board size is not in the favour of the service firms (Amarjit & Mathur, 2011). The major advantage of larger boards is the presence of heterogeneous resources which may impact positively on the performance of the firm whether at the advisory (Haleblian & Firkelstein, 1993) or monitoring (Adres & Vallenlado, 2008).

Board size refers to the size of a firm and it is measured by the natural logarithm of each firm's total assets for each year under review. Even though the size of the firm can also be proxy using the logarithm of the firm' revenue or the total number of the firm' employee for the period under review. Using bank size as a proxy for complexity, Ting (2011) found a positive relationship between bank size and board size. The positive relationship was justified by the scope of operation hypothesis which posits larger board size for more complex firms.

Leaning on the same assumption (Boone, Field, Karpoff & Raheja, 2007) and Guest 2008) also found a positive relationship between firm size and board size. Larger companies are involved in more diverse activities, increase external contracting higher geographical spread and involved in more cases of mergers and acquisition. These activities are likely to result in more intense monitoring which will require more numbers of directors. Hence, a positive relationship is said to exist between firm size and board size (Lehn, Patro & Zao, 2009; Linck & Yang, 2008; Monem, 2013 and Ting, 2011).

Corporate Governance Disclosure Index

Corporate governance disclosures practices adopted by a firm can influence the value of the firm. A number of studies were based on the fact that higher disclosures by the firm improve corporate performance. Disclosures play a significant role in ensuring integrity, transparency and accountability. Companies' annual report serves as the source of information leading to disclosures. From Agency perspective increased disclosure on corporate governance practices can enhance firm performance by aligning the interests between the owners and the mangers. Such disclosures help management in reducing managerial expropriation in the form of high perquisites and excessive remuneration and make them more accountable for their actions. Higher disclosures can also enhance firm performance by inducing investor's confidence resulting from information symmetry. On the other hand, greater disclosures by the firm can bring costs associated with greater public scrutiny. But these costs are overweighed by the benefits associated with the increased credibility among the investors.

Nair and Gogula (2003) examined the corporate governance reporting practices of 30 BSE listed companies and found that the significant determinants of corporate governance disclosures in BSE listed companies are number of independent directors, size of the company and overseas listing status when analyzed using OLS regression. In a similar study, Sen (2011) examined the annual reports of 50 listed companies in order to determine the extent of corporate governance disclosure by developing an index consisting of 67 parameters in accordance with the clause 49 of listing agreement. It concluded that there is significant difference between the quantum and quality of corporate governance disclosures made by the listed companies.

Sarkar, Sarkar and Sen (2012) constructed a Corporate Governance Index for 500 large listed firms for the period 2003 to 2008 and found evidence of strong relationship between Corporate Governance Index and market value of companies. Based on the internal control mechanisms, Varshney, Kaul and Vasal (2012) constructed a corporate governance index using a sample of 105 Indian firms for two years: 2002-03 and 2008-09. Using Economic Value added as a measure of firm performance, they found a positive association between corporate governance index and firm performance.

However they could not find association of positive relationship with other firm performance measures used. Ben (2014) studied the impact of compliance with non-mandatory disclosures in corporate governance on the performance of Indian firms in the context of guidelines given by

Securities and Exchange Board of India (SEBI) by constructing a self-index represented by DSCORE. Firm performance is measured using Price-to-book value and Return on Capital Employed (ROCE). The results of Ordinary Least Square for a sample of 100 BSE listed companies found evidence of a significant and weak relationship between the corporate governance index and firm performance, using market based measure. However the relationship was found insignificant in the case of ROCE.

2.4 Theories of Corporate Governance

There is the need to view the concept and practice of corporate governance within the framework of certain theories. These theories include: Agency theory, Ethical theory, Stakeholder theory, Stewardship theory, Political model and Corporate Social Responsibility theory. Basically, this work is anchored on agency theory.

2.4.1 Agency Theory

Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more individuals called agents, to perform some services and then delegate decision-making authority to agents (Bamberg and Klaus, 1987). The scholars both opined that, the primary agency relationships in business are those: (1) between stockholders and managers and (2) between debt holders and stockholders. These relationships are not necessarily harmonious; indeed agency theory is concerned with so called agency conflict or conflict of interest among other things, corporate governance and business ethics. Agency theory which in the formal sense originated in the early 1970s actually emerged as a dominant model in the financial economics literature and is widely discussed in business ethics texts (Uwuigbe, 2011).

From the ethicists' point of view, "it is pointed out that the classical version of agency theory assumes that agent (that is, managers) should always act in principals' (owners') interests. However, if taken either (a) the principals interest are always morally acceptable ones or (b) managers should act unethically in order to fulfill their "contact" in the agency relationship. Clearly, these stances do not conform to any practicable model of business ethics (Bowie and Freeman 1992 as cited in Uwuigbe, 2011). In view of the above vis-à-vis the practice of corporate governance, it clearly shows that huge responsibility is placed on the neck of the agents by the principals. To fulfill the ultimate goal of the agency theory by the so-called agents, the need to apply corporate governance is such that it is inevitable to the whole process and operations of the corporate organizations. The recent Nigerian experience of failed banks is a reflection of poor understanding and application of agency theory which led to bad practice of corporate governance.

2.4.2 Ethical Theory

Ethical theory as it were, is a build-up on the concept of ethics in general. The term ethics comes from the Greek ethos meaning something like morals. It is defined as the systematic reflection on what is moral. By this simple submission, morality is the whole of opinions, decisions and actions with which people express what they think is good or right. Hence, one of the major cardinal thrusts of ethical theory is utilitarianism. It implies, as widely cited from the popular work of Jeremy Bentham (1748-1832) by Schofield (2006) that ethical theory sometimes focuses not on actions but majorly on consequences. The name utilitarianism is derived from the Latin "Utilis" meaning "useful". Therefore, in utilitarianism, the consequences of actions are measured against values. These values can be happiness, welfare, high productivity, expansion etc. By way of emphasis, the cardinal point in this theory is that, it is essential to give the greatest happiness to the greatest number of people.

So, for a successful practice of corporate governance in Nigeria and beyond, practical application of utilitarianism is a core requirement.

The utility of the shareholders and other stakeholders should be paramount in the minds of the corporate managers. The agents should make all efforts to ensure that principals have satisfactory values with regards to their investment.

The actions of the agents will be adjust morally right in the process of running the corporations on behalf of the owners if the latter's interest is well represented whereas it will be adjudged wrong if their actions inflict pain on the interest of the principals.

2.4.3 Stakeholder Theory

Stakeholder theory is a further development on the concept of stakeholder and its relationship to any business corporation. Freeman (1984) offers a traditional definition of a stakeholder thus, "any group of individual who can affect or is affected by the achievement of the organization's objective". Therefore, the general idea of stakeholder theory is a redefinition of the organization. That is, what the organization should be and how it should be conceptualized. The theory as noted by Friedman (2006) states that the organization itself should be thought of as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. This stakeholder management is thought to be fulfilled by the managers of a firm. The managers should on the one hand manage the corporation for the benefit of its stakeholders in order to ensure their rights and participation in decision making and on the other hand, the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long term stakes of each group. Dabiri (2012) equally observes that stakeholders' theory takes account of a wider group of constituents rather than focusing on shareholders.

Where there is an emphasis on stakeholders, the governance structure of the company may provide for some direct representation of the stakeholders groups. According to Friedman (2006), the main groups of stakeholders are: customers, employees, local communities, suppliers and distributors, shareholders, the media, general public, business partners, future generations, past founders, academics, competitors, NGOs, trade unions, competitors, regulators and governments. In other to achieve the overall corporate objectives (with the practice of good corporate governance) managers of business corporations need to understand, appreciate and conscientiously apply the propositions of stakeholders' theory. For every individual or group that have stake in the organization, effort must be made by the so-called agents to preserve and protect their interests for the survival of the corporations.

2.4.4 Stewardship Theory

In the stewardship model, managers are good stewards of the corporations and diligently work to attain high level of corporate profit and shareholders' returns (Donaldson and Davis, 1994). Donaldson and Davis noted that managers are principally motivated by achievement and responsibility needs and given the need of managers for responsible, self-directed work; organizations may be better served to free managers. They also observed that most researchers into boards had as their prior belief the notion that independent boards are good and so eventually produce the expected findings. However, supporting stewardship theory are individuals who contribute their own money and other resources to non-profit organizations to become directors. In analyzing the welfare distributed to shareholders through introducing a Tabelini (1996) made provision into their equations to include the welfare contributed by controllers. In commenting on stewardship theory, Hawley and Williams (1996) state that, “the logical extension is either towards an executive dominated board or towards no board at all”.

2.5 Empirical Review

Findings of reputable researchers on corporate governance and how it affects performance of banks were critically reviewed in this section of our research work. Their views, location, methodology used, results of findings and their recommendations were discussed.

Adegbemi et al (2013) examined the impact of corporate governance on banks’ performance in Nigeria. They conducted analysis on six selected banks using a pooled data from these banks plus extracted data from stock exchange fact book (2009) and CBN’s annual statistical bulletins. Pooled OLS and fixed-effects methods were used in the analysis. They find out that corporate governance during the period in review (2005 – 2009) was catastrophic and has negative effects on the performance of the banking sector. This reduces the confidence of the public on the financial (banking) sector. This resulted into a fall in savings, bank productivity, profit and even investible funds. The researcher recommended that: 1. Strategic training of board members and senior managers should be embarked upon, especially, courses that promote corporate governance and bank ethics. 2. The regulatory/supervisory authorities should be cautious in scrutinizing the books of banks and make more frequent examining of banks’ asset base and liquidity position.

Ajala et al (2012) studied the effect of corporate governance on the performance of the Nigerian banking sector. The judgmental sampling technique was used in selecting the 15 listed banks out of 24 banks that met the consolidation date line of 2005. These banks were considered because they were listed in the Nigerian Stock Exchange market which therefore enables them to have easy accessibility to their annual reports which is the major source of their secondary data. A positive correlation was observed between the level of corporate governance items disclosed by the banks and return on equity which is the proxy for performance. This means that banks who disclose more on corporate governance issues are more likely to do better than those that disclose less. More so, a positive correlation was observed between the directors' equity interest and corporate governance disclosure index. This indicates that individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. This invariably is expected to improve the performance. But board size has strong negative correlation with return on equity. This implies that how large the size of a board is does not have a positive effect on the level of financial performance of commercial banks in Nigeria but a negative effect.

Uwuigbe (2011), researches on corporate governance and financial performance of banks in Nigeria. This study made use of secondary data in establishing the relationship between corporate governance and financial performance of the 21 banks listed in the Nigerian Stock Exchange. A panel data regression analysis method was adopted in analyzing the relationship that exists between corporate governance and the financial performance of the studied banks. The Pearson correlation was used to measure the degree of association between variables under consolidation. From the analysis: 1. An inverse correlation between board size and ROE was seen. This indicates a significant negative effect of board size on the financial performance of the listed banks. 2. Outside directors do have significant but negative impact upon bank performance as measured in terms of ROE (Regression result showed a negative association between the variables). 3. The more banks' equity owned by the directors, the better the banks' financial performance (a strong significant positive correlation). 4. Banks who disclose more on corporate governance issues are more likely to do better than those that disclose less (a positive correlation).

They recommended that: 1. Effort to improve corporate governance should focus on the value of stock ownership of board members, since it is positively related to both future operating performance and to the profitability of disciplinary management turnover in poorly performed banks. 2. Steps should also be taken for mandatory compliance with the code of corporate governance. Also an effective legal framework should be developed that specifies the rights and obligations of a bank, its directors, shareholders, specific disclosure requirements and provide for effective enforcement by the law.

Mohammed (2012) assesses the impact of corporate governance on the performance of banks in Nigeria using secondary data obtained from the financial reports of nine (9) banks for a period of ten (10) years (2001 – 2010). Data were analyzed using multiple regression analysis. The panel data regression, using STATA, showed that poor asset quality (defined as the ratio of nonperforming loan to credit) and loan deposit ratios have negative effect on the financial performance. The study depicted that poor loan policy and management of assets were to a large extent, contributory to bank failures. Thus, control processes that will safeguard the quality of their services and products should be secured in the interest of the shareholders and market efficiency. He also recommends that continuous review of governance codes is imperative due to the complexity and constant changing environment of banking sector in Nigeria. The international codes of corporate governance should be properly adopted to meet the needs of Nigerian governance environment.

Anyanwu et al (2007) examined the relationship between corporate governance practices in Nigeria Money Deposit Banks (DMBs) vis-à-vis their financial performances. Data were collected through the use of questionnaire administered to corporate affairs managers in twenty-four deposit money banks and from the Central Bank of Nigeria (CBN) annual reports and statement of accounts and the Nigeria Stock Exchange (NSE) fact books. The data were descriptively and quantitatively analyzed and the hypotheses tested using Statistical Package for Social Sciences (SPSS). The regression result indicated a significant relationship and positive correlation between corporate governance and banks' performance. It was therefore recommended, among others that deposit money banks in conjunction with the regulatory authorities should model various functions performed by banks and factor in all aspects of corporate governance variables as it may concern a highly regulated industry like the banking industry. Adding that, this will go a long way in the designing of an optimal governance mechanism for the money deposit banks in Nigeria and beyond.

Ben et at (2009) examined poor corporate governance and its consequences on the Nigerian banking sector. They made use of structured questionnaire to elicit responses from conveniently selected respondents comprising of investment experts, academics, bank customers, public and policy analysts within Lagos metropolis. It was hypothesized and the study confirmed that poor governance culture and supervisory laxities were majorly responsible for the current banking crisis. Chi-square was used to test the hypothesis. The result showed that the calculated value of chi-square is greater than the tabulated value in testing hypothesis one, hence the rejection of null hypothesis and the acceptance of the alternative hypothesis, which states that poor corporate governance culture precipitated the current banking sector crisis. In hypothesis two, the calculated value of chi-square is equally greater than the tabulated value, hence the rejection of the null hypothesis and acceptance of the alternative hypothesis, which states that supervisory laxity has significantly contributed to the present banking crisis.

Chris (2011) looks at the level of compliance of the Nigerian banks to the Central Bank of Nigeria (CBN) corporate governance guidelines. The methodology used in the research included a combination of questionnaire and interviews, and was in three stages. 250 questionnaires were mailed to bank chairmen and directors who are resident in Nigeria in October 2007. After 4 months and two reminder letters, a total of 108 valid responses were received. This represents 43.2 percent response rate. The result showed that all banks complied with the CBN's code of corporate governance guidelines on board size, board leadership (duality), board independence, board diversity, but not all banks have all the board committees. The study recommends that: 1. The issue of diversity of Nigerian boards should be taken seriously as to female representation. Nigerian banks should appoint more women into their boards. 2. Investor relationship issue should also be taken more seriously as more Nigerian banks have foreign and institutional investors. 3. Greater disclosures and transparency will give a bank competitive advantage in the emerging environment.

Ahmad et al (2012) examined corporate governance and financial performance of banks in the post-consolidation era in Nigeria. Data were sought from sixty annual reports of 12 banks for the period of 2006 – 2010. The independent samples t-test was employed to analyze data gathered for the study. Multiple regressions (Analysis of Variance) was used to further analyze hypotheses two and three. Findings revealed that Dispersed equity holding does have an impact on the earnings and dividend of banks. Also, board size does not have an impact on profitability of banks. The existence of a chief compliance does not significantly enhance profitability of healthy banks in Nigeria. The study recommends the practice of restrictive equity holding in banks, be upheld. Secondly, the need to strengthen managerial policies so that financial performance can be improved is important as the stress test conducted by CBN and NDIC revealed only a positive operational performance. Also, the compliance status needs to be identified in banks that are yet to comply with this provision, so that efficiency and effectiveness in management is complimented with other internal controls.

Ashenafi et al (2013) examined corporate governance and impact on bank performance in Ethiopia. A quantitative method of data analysis was employed which involved descriptive and inferential statistical analysis and multivariate regression analysis. The descriptive statistics were used to analyze the means and standard deviations of regression variables. In addition, before conducting regression analysis, various tests were conducted for Classical Linear Regression Model (CLRM) assumptions. The regression results show that explanatory variables such as capital adequacy ratio (CAR), board size (BDSZ), and existence of audit committee (AUDC) have statistically significant negative effect on bank performance while square of capital adequacy ratio (CAR2) and bank size (BKSZ) have a statistically negative effect on performance measured using ROE. Ownership type (OWTP), loan loss provision (LLP) and loan to deposit ratio (LDR) are found to have no significant effect on bank performance.

Therefore, the study recommends the following: 1. As a means to strengthen the commercial banks in Ethiopia, the government of National bank of Ethiopia should be concerned about the level of both the internal and external corporate governance mechanisms of banks. 2. Shareholders should actively take part in establishing good corporate governance in the banks they own in order to earn better and sustainable profits. 3. The National Bank of Ethiopia should encourage banks to implement good corporate governance practices through enacting rules and regulations. 4. Keeping the number of directors in a bank board to a minimum size is recommended, as long as the minimum size enables the board to perform its supervision activities properly. 5. Commercial banks should increase their branches as well as their size in order to improve profitability due to economies of scale. 6. The government and financial institutions as well as business community should work towards the establishment of a formal capital market institutions especially stock exchange which enhances corporate governance, and competition among businesses in the country. 7. Finally, future research should focus on assessing corporate governance mechanisms and firm performance from the perspective of different stakeholders such as employees, management, shareholders and depositors of commercial banks.

Suberu et al (2010) studied corporate governance and merger activity in the Nigerian banking industry. The data used were essentially secondary and descriptive method was used. The major finding revealed that the banking sector is partly responsible for the poor state of the Nigerian economy through support for the import dependence nature of the economy rather than financing of sustainable economic development through shareholder values maximization. The study recommends that managers should vigorously pursue shareholder value creation, at least as a means of assuring continual provision of capital. The use of equity-based compensation enhances this pursuit. An effective means of reducing agency costs arising from asymmetric information is by share repurchase as a way of compensating shareholders for their ownership stake in the banks.

Shabbir (2004) assessed corporate governance and performance of commercial banks in Pakistan. The stochastic frontier approach (SFA) and distribution free approach (DFA) were the econometric methods used. Cobb-Douglas cost frontier model is estimated to measure the technical efficiency of commercial banks of Pakistan. Results suggest that inefficiency of public banks may be attributed to the underutilization of resources of these banks. The researcher suggests that policy makers should restructure the banking sector and play significant role in initiating a sound governance device, hence improve the efficiency of banks.

Okpanachi et al (2013) examined corporate governance principles application and the financial performance of deposit money banks in Nigeria. The study used both descriptive and historical research methods, while the sample size was determined using judgmental sampling technique. Method used in data collection was secondary source. The t-test analysis technique was adopted to estimate the relationship between the application of corporate governance principles and financial performance. The result of the t-test showed that board composition which is one of the major players in adhering to corporate governance principles has no significant impact on financial performance of the selected money deposit banks in Nigeria. This arose from the fact that, the calculated t-value is less than the t-critical value at 5% level of significant; hence, the application of corporate governance principles has no significant impact on the financial performance of deposit money banks in Nigeria in terms of gross earnings, profit after tax and net assets. Based on the above, the null hypothesis was accepted. The paper therefore recommends that other corporate governance mechanisms should be considered in measuring the financial performance of firms for better testing of the other variables.

Babalola et al (2013) conducted a study on the topic; Corporate Governance: Has the Nigerian Banking Sector Learnt any Lesson? The study uses both primary and secondary sources of data. The primary data collected through the use of questionnaire were analyzed using simple descriptive statistics while the secondary sources included journals and textbooks. The respondents were drawn from the staff of the Central Bank of Nigeria, Nigeria Deposit Insurance Corporation, Securities and Exchange Commission and Nigeria Stock Exchange. In hypothesis one, findings revealed that Nigerian banking sector has been seriously affected by poor corporate governance. In hypothesis two, the result of the test showed that the Nigerian banking sector has not learnt any lesson from the effect of poor corporate governance. The authors are of the opinion that high quality financial disclosure coupled with total transparency, remarkable accountability and avoidance of insider abuses would be essential complement to sound corporate governance. This would help to strengthen the accountability of directors and senior management and enhance the incentive for risk management. Such disclosure would also allay the fears of small depositors and creditors and give them the guarantee that their interests are adequately protected.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter deals with the methods and steps used in the data collection and in carrying out the research work. Also discussed are the research design, population of study, sample size and sampling technique, model specification, sources of data, estimation technique, methods of data analysis, etc.

3.2 Research Design

The research design for this study is the longitudinal research design. The longitudinal design involves repeated observations of the same variables over long periods of time unlike the cross-sectional design which examines variables at a point in time. The study considered a 10-year period series of measurements time series data that covered the period from 2015 - 2025. The choice of the sample period was dictated by the desire to take a long-term view or trend in corporate governance dynamics in the Nigerian banking sector using First Bank of Nigeria as case study.

3.3 Population of the Study

The population of a research study is defined as the census of all items or objects that possess the characteristics or that have the knowledge of the phenomenon being studied (Asika, 1991). The population of this study covers the whole of Nigerian banking industry, from 2015-2025.

3.4 Sample Size and Sampling Method

Sample size is a small group of element or subject drawn from a definite or specified population. Sampling involves the process by which the subject or object of the observation is drawn from a large section and studied in other to make reference about the characteristics of the large population.

The sample for the study is First Bank of Nigeria which have available and accessible annual reports that covers the study period. The simple random sampling technique was used as the sampling method.

3.5 Sources of Data

Secondary data was used for this study. The data were retrieved from corporate annual reports of the sampled bank for 2015-2025 financial years. The researcher utilizes only corporate annual reports because they are readily available, accessible and so provides a greater potential for comparability of results.

3.6 Data Collection Methods

The method of data collection for this study is done using annual reports of the selected companies. From the annual reports, the relevant data needed for the work will be retrieved. In this particular study, the data required are financial performance data, short term debt, long term debt and total assets.

3.7 Method of Data Analysis

The data analysis method deal with the various statistical analysis involved in the description of the collected data and consequently, making decisions and possible inferences about the phenomena represented by the data. In this study, the descriptive statistical methods will include descriptive techniques such as the mean, standard deviation, range, frequency distribution. More importantly, the Ordinary Least Squares regression analysis will be used in the estimation of the models and in the determination of the causal relationship between the variables.

3.8 Model Specification

Before specifying the functional model, the schematic presentation of the model is first presented below;

The econometric specification of the model is presented thus;

$$FP_t = \lambda_0 + \lambda_1 BC_t + \lambda_2 AC_t + \lambda_3 BS_t + \lambda_4 CCD_t + \mu_t \qquad \text{.............................3.1}$$

Where

BC = Board Composition

AC = Audit Committee

BS = Board Size

CGDI = Corporate Governance Disclosure Index

FP = Firm Performance

μ = Model disturbance term apriori expectations: β_i ($i = 1, \ldots, 4) > 0$ …..3.2

3.9 Estimation Techniques

In this study, the Multiple Linear Regression Model corporate governance and firm performance in Nigeria was estimated using Ordinary Least Squares (OLS). In addition, several test were carried out using statistics such as Spearman Rank-Order to test for the strength and direction of the association between the dependent variable and independent variables, Durbin Watson statistics to test for serial correlation, the Jacque Bera to test for normality of the error term, the Augmented Dickey Fuller's (ADF) and Phillips-Peron (PP) methods. The stability of the model was done with the aid 31of Recursive Residual Test. And the Co-integration test was also tested using Residual Unit Roots method because the study did not adopt system estimation given the nature of the study. It involved the use of multivariate estimations. The Johansen co-integration is however, suitable for system equations or estimations (Johansen, 1988). The stability of the results was carried out with the aid of Recursive Residuals Technique. These analyses were performed using E-View 7.0.

CHAPTER FOUR

DATA PRESENTATION, ANALYSES AND INTERPRETATION

4.1 Introduction

In this chapter, we empirically investigated the effects corporate governance and firm performance in Nigeria. The OLS estimation technique was used to analyze and capture the relationships between the dependent variable and independent variables. Other preliminary examination of the data was carried out to observe the initial characterization of the data and their relational properties. Moreover, the time series properties of the data were examined to ensure stationarity, stability and time invariance in the estimated relationships.

4.2 Descriptive Statistics

The descriptive statistics showed the summary of data and other basic characteristics within the series. The summary of the descriptive statistics for the model analysis is presented in Table 4.1.

Table 4.1: Descriptive Statistics
Observations: 54

	Mean	Std. Dev	Skewness	Kurtosis	J.B	Prob
FP	26865.11	10009.70	0.024088	2.134761	1.689658	0.429631
BC	565.57	663.82	2.4011	8.1883	112.4569	0.0000
AC	941.5954	376.6443	0.487274	2.066320	4.098382	0.128839
BS	0.069167	0.291494	4.754804	24.27257	1221.649	0.000000
CGDI	106.0950	42.54499	0.489215	2.076772	4.071772	0.130565

Source: Author's Computation (2026) Using E-View 7.0

In Table 4.1, the average Firm Performance (FP) is positive, suggesting that the firm performance of First Bank Nigeria Plc has been generally high. The same is true for Board Composition, Audit Committee, Board Size, and Corporate Governance Disclosure Index represented respectively as BC, AC, BS, and CGDI in the table. This is a rather expected outcome in the Nigerian economy given the nature of the business transactions in the banking sector. The standard deviation is high, and it indicates that overall, there have been so much vagaries in annual firm performance of First Bank Nigeria Plc for the period under review.

The Jarque Bera (JB) value is very significant, indicating that the hypotheses of normality in the distribution cannot be rejected. This is true of the other variables, which shows that the series is normally distributed over the period. The growth rate of BC for the period was 565.57 on the average which is very high. Audit Committee (AC) for the period is 941.59 and this is very high. The average Corporate Governance Disclosure Index (CGDI) is very high and the standard deviation is also high. This indicates that there have been so much disclosure of the act of corporate governance in the First Bank Nigeria Plc in the period thus, leading to high level of firm performance**.**

The average Firm Performance (FPC) for the sample period is 26,866.11 which is relatively high considering the fact that effort has been put in the past to improve the rate of firm performance in the Nigerian banking system. The skewness value for the distribution is low suggesting that the value of Firm Performance growth series was centered on the mean value. The kurtosis also confirms the outcome. The Jarque Bera (JB) value is significant at the 1 percent level, indicating that the hypotheses of normality in the distribution cannot be rejected. There is an increasing trend in the occurrence of Firm Performance of First Bank Nigeria Plc.

To further examine the background behavioural patterns in the data series in the study, the co-relational analysis was conducted on the data. The unconditional correlations among the variables are presented in Table 4.2.

Table 4.2: Correlation Matrix Results

Covariance Analysis: Spearman Rank-Order
Date: 0(/3/2 Time: 05:24
Sample: 2015 – 2025
Included Observations: 10

	FP	BC	AC	BS	CGDI
FP	1.000000	0.647896	0.554565	0.015492	0.556581
BC	0.647896	1.000000	0.723358	0.109202	0.724965
AC	0.554565	0.723358	1.000000	0.259889	0.59993
BS	0.015492	0.109202	0.259889	1.000000	0.259416
CGDI	0.556581	0.724965	0.699993	0.259416	1.000000

Source: Author's Computation (2026) Using E-View 7.0

In Table 4.2, all the correlation statistics values are positive, indicating that these variables move in the same direction as firm performance of First Bank Nigeria Plc. This indicates that firm performance of First Bank Nigeria Plc correlate with growth with the independent variables. We also see that there is extremely significant relationship between each of the variables, that is, board composition, audit committee, board size and corporate governance disclosure index. The direct correlation between these variables is strong.

According to Bryman and Cramer (1997), the correlation coefficient should not exceed 0.80. In the opinion of Dwivedi (2008) the correlation coefficient should not exceed 0.90; otherwise the independent variables that show a relationship in excess of 0.80 may be suspected of exhibiting multi-colinearity. It is observed that the none of the variables have correlations in excess of 0.8. This indicates that there is no multi-colinearity among these variables.

Unit Root Tests

Unit root test is the test of stationarity of time series. The test for stationarity is conducted in this study to ensure that the data used are applicable with the OLS implementation. A time series is stated as non-stationary if mean and variance of the time series are dependent or constant over time (Greene, 2008). According to Granger (1981), most economic time series are non-stationary, and only achieve stationarity at the first difference level or at a higher level.

Generally, unit root test involves the test of stationarity for variables used in regression analysis. The importance of stationarity of time series used in regression borders on the fact that a non-stationary time series is not possible to generalise to other time periods apart from the present. This makes forecasting based on such time series to be of little practical value. Moreover, regression of a non-stationary time series on another non-stationary time series may produce spurious result.

The starting point of an empirical analysis for the purpose of policy stance is to examine the stationarity properties of the time series. This is pertinent because a non-stationary series can lead to bias and misleading inferences. According to Engle and Granger (1987), the use of non-stationary series will lead to misleading analysis. Therefore, we begin the analysis of empirical result by first testing for the existence of unit roots in the series. To this end, we employed the Augmented Dickey Fuller (ADF) and Phillips Peron (PP) techniques including an intercept and a trend.

Augmented Dickey Fuller and Phillips Peron Unit Root Tests

Three versions of unit root tests were used in testing for the data's stationarity using Augmented Dickey Fuller (ADF). These were the ADF unit roots; PP unit roots; Residual Unit Roots. First was with the intercept; second was with trend and intercept, and the last was just plain ADF. The results were presented in levels, first and second differences. This enabled us determine in comparative terms, the unit roots among the time series and also to obtain more robust results. Appendix III presented results of Augmented Dickey Fuller (ADF) test in levels and first and second differences without taking into consideration the trend in firm performance. The reason for this is that an explicit test of the trending pattern of the time series has not been carried out. Table 4.3 showed the ADF unit roots result.

Table 4.3: ADF Unit Root Result

Series	Level	1st Difference	2nd Difference	Integration
FP	-1.230632	-6.616703*	-	I (1)
BC	2.453266	-7.074659*	-`	I (1)
AC	2.677382	-4.278802*	-6.6014*	I (1)
BS	-7.397908*	-9.210119*	-	I (1)
CGDI	2.730337	-4.276650*	-	I (1)

Source: Author's Computation (2026) Using E-View 7.0

Note Note *&** indicate the critical values at 1% and 5% level respectively. The critical value at 1% & 5% are -3.56002 and -2.91765 respectively

The results in Table 4.3 indicated that the firm performance possesses ADF values that are less than 95 percent critical values for the levels series and greater than the critical value for the differenced series. The implication of this is that the time series are non-stationary in their levels but stationary after differencing. In order words, the variables are time-dependent and will not guarantee a long run relationship unless tested. Thus, the variables are integrated of order one (i.e. 1[1]).

To further confirm the stationarity tests in the ADF results, we reported the test results using Phillips Peron (PP) technique. This test is also relevant in capturing the actual stationarity patterns of the series since the test hypotheses particularly show whether the series are stationary or not in reference to the possession of unit roots. Table 4.4 showed the PP unit root results.

Table 4.4: PP Unit Roots Result

Series	Level	1st Difference	2nd Difference	Integration
FP	-1.230632	-6.638478*	-	I (1)
BC	3.181969	-7.261442*	-`	I (1)
AC	24.03896*	-4.923047*	-	I (1)
BS	-7.408039*	-33.24809*	-	I (1)
CGDI	24.62896*	-4.939323*	-	I (1)

Source: Author's Computation (2026) Using E-View 7.0

Note * & ** indicate the critical values at 1% and 5% respectively. The critical values at 1% and 5% are -3.56002 and -2.91765 respectively

The results in Table 4.4 indicated that for each of the series, the null hypotheses stationarity cannot be rejected for some of the variables in levels (BC, AC, BS and CGDI). That is, they were stationary in levels. However, after differencing, all the variables attained stationarity and thus became unit roots free. This indicates that the series are difference-stationary, attaining stationarity after differencing.

Having established that the series in the analysis were stationary in their differences, we moved on to determine if they were co-integrated. This is to confirm for the existence of long–run relationships among the variables. When these variables are co-integrated, a long run estimation of the series with level variables will produce reliable estimates (Greene, 2008). In this regards, we adopted the Residual Unit Root test using both ADF and PP techniques. The Residual Unit Root test was used for this analysis because the study involved the use of multivariate estimations. This technique is suitable for none system estimations. The result of the long-run multivariate co-integration test is presented in Table 4.5.

Table 4.5: Residual Unit Root Test

Series	ADF Level	PP Level	Integration
Residual	-4.190908**	-3.243182	I (1)
1 percent critical value = -3.5627.		5 percent critical level = -2.9188	

Source: Author's Computation (2026) Using E-View 7.0

Note * & ** indicate the critical values at 1 percent and 5 percent respectively. The critical values at 1 percent and 5 percent are -3.5627 and -2.9188 respectively.

From Table 4.5, it can be noted that the variables in the model has a long-run relationships or co-integrated since the ADF and PP statistics are greater than the critical values at 5 percent and 1 percent level respectively. Thus, we cannot reject the hypothesis of co-integration among the variables in the study. From Table 4.5, the statistics indicated long run relationships among the series and that the variables are moving together in time. The tests conducted above produced results to show that the variables under study possess desirable empirical characteristics that qualify them to be included in Ordinary Least Squares (OLS).

We next examined the stability of the model used for the study. The stability test for the model was done with the aid of Recursive Residual Test. The chart of Figure 4.1 showed the stability test of the model used for the study.

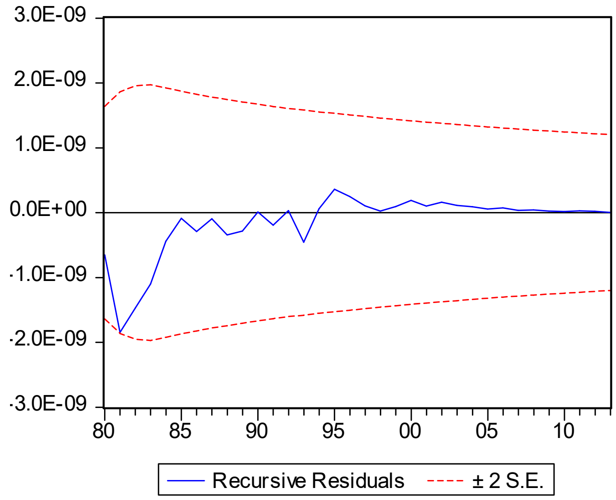

Figure 4.1: ***Stability Test using Recursive Residuals Technique***

Figure 4.1 indicated that the variables were stable since the trend line (blue line) lies within the upper and lower bounds of the figure. Thus, the model is suitable for policy prediction.

4.3 Model Estimation and Interpretation

In this section, the estimated regression model is reported and analyzed. The contribution of the individual predetermined variable to the behaviour of the firm performance is determined by observing the coefficients of the variables in the model in terms of signs, size and significance.

Table 4.6 shows the parsimonious result of the error correction model.

Table 4.6: The Result of the Error Correction Model (Dependent Variable: FP)

Variable	Coefficient	Std. Error	t- Statistics	Prob.
FP	-18211.70	7363.794	-2.473140	0.0171
D(BC)	23.55748	11.53268	2.042671	0.0468
D(AC)	-2146.951	832.5093	-2.578891	0.0132
D(BS)	417.7526	2381.074	0.175447	0.8615
D(CGDI)	19616.61	7326.712	2.677409	0.0103

R^2 = 0.81	**Adjusted R^2** = 0.78	**F- Stat (Prob.)** = 28.00[0.000]	**DW** = 1.8207

Source: Author's Computation (2026) Using E-View 7.0

Table 4.6 revealed that all the variables included in the model have a significant impact on FP at the 5 percent level, except DBS. DBS passed the t-test at 86 percent level. That means it is a weak determinant of BS. Basically, DBC, DAC and DCGDI passed the individual test of significance at 1 percent level. Comparing their calculated t-value of -2.5789, 2.6774 and 4.6853 respectively with the t-table value of 2.39 at 1 percent level, indicate that a unit increase in AC, will lead to a fall of FP by -2146.951, while, CGDI will lead to an increase of FP by 19616.61 units. The variable is correctly signed. The coefficient of audit committee (AC) has negative coefficient. This suggests that this variable has a negative impact on firm performance of First Bank Nigeria Plc.

The t-statistics for the equation failed the significance test at the 5 percent level. This indicates that we cannot reject the null hypotheses that the over-identifying restrictions are equal to zero. Apparently, the equation in the model along with selected instruments actually passes the identification tests. Consequently, we cannot reject the specification of the model since it is well specified and the instrument seems to be appropriate.

In terms of overall performance, the goodness of fit for the firm performance equation has improved significantly. The R-squared value for the firm performance growth equation is 0.81 which indicates impressive goodness of fit for the model. Thus, for the period under study based on the available data, board composition, audit committee, board size, and corporate governance disclosure index are able to account for 81 percent of the changes in firm performance of First Bank Nigeria Plc with only 19 percent being explained by other variables which were not included in the study. This result was further supported by the R-Bar squared value of 78 percent which is reasonably high.

The F- Statistics of 28.0044 with probability value of 0.000 indicates that there was a simultaneous linear relationship between the dependent variable and all the explanatory variables combined. Thus, we therefore reject the hypothesis of a non-linear simultaneous relationship between firm performance and all the explanatory variables combined. This suggests that the joint effects of all the included variables in the model are significant in explaining firm performance of First Bank Nigeria Plc. The Durbin Watson (D-W) statistics value for the equation of 1.8207 is sufficiently close to 2. It is generally acceptable in terms of absence of autocorrelation in the estimates. Thus, there is the absence of a first order position autocorrelation in the model.

Tests of Hypotheses

The results derived from the estimated equation reported in Table 4.6 present essential tools for testing hypotheses of this study.

Hypothesis One: *Board composition (proportion of representation of non–executive directors on board does not significantly influence firm performance ($\beta_1 = 0$).*

Results from the firm performance estimates based on the Linear Regression Model using OLS in Table 4.6 was used to test the first hypothesis. In order to establish a relationship between firm performance and board composition in First Bank Nigeria Plc, the Linear Regression Model analysis was used. In the equation, β_1 is 23.55748 with a t-value of 2.042671. The t-probability value in the estimates is higher than the critical value at the 5 percent level. Thus, the coefficient of board composition in the firm performance equation is significantly different from zero. However, the regression results showed that the model is good enough for the explanation of the effect of road traffic accident fatalities on road conditions in Nigeria using the selected independent variables.

Hypothesis Two: *Audit committee (proportion of audit outside to total audit committee) does not significantly influence firm performance ($\beta_2 = 0$).*

The Linear Regression Model analysis was used to establish relationship between firm performance and audit committee in First Bank Nigeria Plc. From Table 4.6, β_2 is 23.55748 with a t-value of 2.042671. The t- probability value in the estimates is less than the critical value at the 5 percent level. Thus, the coefficient of audit committee in the firm performance equation is significantly different from zero. The results of the Linear Regression Model analysis showed that the firm performance rates increase with an increase in audit committee. This is associated with a greater chance of firm performance. We therefore reject the null hypothesis of no significant impact of audit committee on firm performance equation in First Bank Nigeria Plc and accept the alternative hypothesis. However, the regression results showed that the model is good enough for the explanation of the effect of firm performance on audit committee in First Bank Nigeria Plc using the selected independent variables.

Tests of Hypothesis Three: *Board size (total number of the directors on board) does not significantly influence firm performance ($\beta_3 = 0$).*

Results from the firm performance estimates based on the Linear Regression Model using OLS in Table 4.6 were used to test the third hypothesis. In order to establish a relationship between firm performance and board size in First Bank Nigeria Plc, the Linear Regression Model analysis was used. In the equation, β_3 is 417.7526 with a t-value of 0.175447. The t- probability value in the estimate is less than the critical value at the 1 percent and 5 percent level. Thus, the coefficient of vehicle ownership in the RTA fatalities equation is significantly different from zero. The results of the Linear Regression Model analysis showed that the firm performance rates were found to increase with an increase in board size. We therefore reject the null hypothesis of no significant impact of board size on firm performance equation in First Bank Nigeria Plc and accept the alternative hypothesis. The inference of this test is that board size has a significant positive impact on firm performance in First Bank Nigeria Plc. However, the regression results showed that the model is good enough for the explanation of the effect of board size on firm performance in First Bank Nigeria Plc using the selected independent variables.

Hypothesis Four: *Corporate governance disclosure index does not significantly influence firm performance* ($\beta_4 = 0$).

From Table 4.6, the firm performance equation from the Linear Regression Model estimation provided enough information for testing this hypothesis. In the equation, β_4 is *. This t-value passes the significance test at 5 percent level. Thus, we reject the null hypothesis and accept the alternative hypothesis. The inference therefore is that corporate governance disclosure index has a significant positive influence on firm performance in First Bank Nigeria Plc.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study examined the significant predictors of firm performance in First Bank Nigeria Plc. It made use of the applications of OLS in the estimation of the rate of firm performance. Using time series data covering the period 2015 – 2025, the OLS was adopted to address the estimation of the rate of firm performance in First Bank Nigeria Plc.

It made use of regression equation obtained from board composition, audit committee, board size and corporate governance disclosure index. The inclusion of linear regression model is predicated on the need to identify the major determinants or predictors of firm performance at the ninety five percent confidence level, as well as utilize the model to estimate firm performance in First Bank Nigeria Plc. The stability of the results was carried out with the aid of Recursive Residuals Technique. In addition, a battery of test was carried out, such as Durbin Watson statistics to test for serial correlation, Jacque Bera to test for normality of the error term. Based on the fact that time series data for 10 years were used, we tested for unit root test using Augmented Dickey Fuller's (ADF) and Phillips-Peron (PP) methods. And the Co-integration of the variables was also tested using Residual Unit Roots method because the study did not adopt system estimation given the nature of the study. These were performed using E-View 7.0.

5.2 Summary of Findings

The empirical findings from the study are based on the model equation with OLS used in the study. They are as follows:

1. The board composition has significant positive impact on firm performance in First Bank Nigeria Plc. The increase in quality of board composition will lead to increase in firm performance in First Bank Nigeria Plc.
2. The audit committee has a significant positive impact on firm performance in First Bank Nigeria Plc. This shows that firm performance in First Bank Nigeria Plc was found to increase with an increase in audit committee as a result of influence of audit committee.
3. The results also show that the growth in board size has a significant and positive impact on firm performance in First Bank Nigeria Plc. This pointed to the fact that firm performance rates increase with an increase in board size.
4. The result shows that corporate governance disclosure index has a significant positive influence on firm performance in First Bank Nigeria Plc. The implication is that corporate governance disclosure index increases firm performance in First Bank Nigeria Plc.

5.3 Conclusion

The purpose of the study was to determine the extent to which board composition, audit committee, board size, and corporate governance disclosure index affect firm performance of First Bank Nigeria Plc. The estimating ability of the OLS analysis to estimate the significant determinants of firm performance were discussed. The OLS did an excellent job of estimating the significant determinants of firm performance of First Bank Nigeria Plc. In terms of overall performance, the OLS is good enough for the explanation of the effect of the explanatory variables using the selected independent variables on firm performance of First Bank Nigeria Plc. Thus, the model is suitable for policy prediction.

Forecasting of firm performance is a major requirement of planning. The study has a functional relevance for policy on firm performance of First Bank Nigeria Plc. The empirical results showed that measures aimed at increasing firm performance of First Bank Nigeria Plc are centered on control on relevant factors on corporate governance. In addition to the commonly used time series and regression on firm performance predictive models, practitioners and policy makers can confidently use OLS as an alternative for policy prediction.

In broad terms the study demonstrates that the effect of corporate governance on firm performance has great implication on the socio-economic development of the country.

5.4 Contributions to Knowledge

1. The study essentially contributes to knowledge by revealing that planning the improvement in board composition, audit committee, board size, and corporate governance disclosure index of organizations will help to increase firm performance in Nigeria among others. This is a point of departure from most previous studies, which have not explicitly considered the use of these explanatory variables.
2. In broad terms the study demonstrates that, *ceteris-paribus* (all things being equal), firm performance in Nigeria has great implication on the socio-economic development of the country. 3. The use of socio-economic and corporate governance variables such as board composition, audit committee, board size, and corporate governance disclosure index to estimate the rate of firm performance in Nigeria better explain the effects of explanatory variables on firm performance.
4. In terms of empirical analysis used, the OLS is a highly suitable operations research technique for estimating firm performance. The OLS analysis was used to determine the major factors or the impacts of some factors that precipitate firm performance. The use of

these methodology showed that the measures aimed at improving firm performance in Nigeria are centered on control of relevant factors on firm performance.

5.5 Recommendations

The empirical results presented in this study lead us to a few clear-cut policy recommendations:

1. Management of banks should endeavour to constitute the right board committee.
2. Management of banks should ensure that outside audit committee are constituted to audit the accounts of the banks.
3. Management of banks should go with the optimum number of board size that will add value to the improvement in firm performance of the organization.
4. Management of banks should update from time to time the corporate governance disclosure index of their organizations.

5.6 Suggestions for Further Research

The study used the data of just First Bank Nigeria Plc with a view on firm performance related data. We acknowledge that there are certain limitations with our study. Attempts to collate some items of data on firm performance were faced with incomplete published series. It is therefore suggested that a combination of qualitative and quantitative research be carried out in order to gain a more in-depth understanding of the situation.

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