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CORPORATE GOVERNANCE AND PERFORMANCE OF NIGERIAN BAILED-OUT BANKS: A PILOT STUDY

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Abstract

This paper aims at reporting a detailed process of pilot study starting from the questionnaire design to pilot study in order to establish the measures validity and reliability. The result of the reliability analysis will confirm the measuring capacity of the items for each construct and also form the basis of hypotheses testing on the relationships between CG variables and bailed-out banks' performance. CG characteristics in this paper were suitably adopted as they relate to the peculiar CG problems of the Nigerian banking sector. This paper thus, concluded that the items for every construct were all established reliable and valid for measuring the constructs of the model, fit for further analysis and hypotheses test.

Keywords: Corporate Governance, Board Equity Ownership, Banks Performance, Agency theory, and Resource Dependence Theory

1.1 Introduction

Corporate Governance (CG) is widely considered as the most essential and rudimentary determinants of an organisation's performance. CG is considered very imperative by all governments and corporate stakeholders because it entails the way and manner in which corporate firms should be managed, directed, and controlled in order to ensure a sound performance. Adherence with the laid down CG Codes extremely averts managements' opportunistic malpractices of fraudulently maximising their selfish interest at the detriment of the owners (shareholders). Specifically, CG is centrally checking this agency problem in order to ensure firm's financial stability.

Global economic crisis is mostly triggered by CG for example, the Asian financial crisis in 1997, the 2007/08 CG scandals in USA, and Europe which metamorphoses to a global phenomenon (Kao *et al.* 2008; de Villiers *et al.* 2011). CG was not recognised a significant concept in most countries until the prevalence of a series of CG scandals in USA and Europe like Enron, WorldCom and Parmalat respectively. Since the incidence of this global financial crisis, Nigeria as an emerging economy was also severely hit by periodic failure of several financial institutions particularly the banking sector. Banking sector is the most regulated sector in every economy and must have to be secured in order to enhance efficiency, stability, sustain the confidence of depositors and also reduce the risk of bank failures (Oluranti 1991).

The Nigerian financial sector had been recognised with poor CG and poor managerial performance which are all responsible for most of the banking failures in the country. Recently in 2009, the banking sector was challenged by another round of crisis in 2009, in which the CBN Governor (S.L. Sanusi), dismissed the CEOs together with their BODs of eight (8) banks out of the ten (10) banks that were distressed or nearly collapsed due to “excessively high level of non-performing loans (NPL) in the banks which was attributable to poor corporate governance practices, bad liquidity position and poor risk management”. Consequently, a bail-out of about N620 billion was injected to rescue them, and these CEOs after been removed, were then detained, and prosecuted by the Economic and Financial Crimes Commission (EFCC) and also tried before the high court for outright stealing, corruption and mismanagement of their banks. However, the decision of embarking on the bail-out reform generated a lot of fear and doubt concerning the status of the investments of these banks’ depositors, shareholders and other stakeholders. Thus, ignited a lot of interest for examining the potential outcome of this reform through researches.

Examining the relationship between CG and firm performance remains essential especially for ensuring effective corporate control through the control, strategy and service roles/functions of Board of Directors (BODs) who are viewed as the instrument of corporate control (Clifford & Evans 1997). Majority of prior literature mostly focuses on the CG practices in the developed western countries like US, UK, Germany, Australia and others etc. (e.g., Albring, Robinson, & Robinson, 2013; Bhagat & Bolton, 2008; de Villiers *et al.*, 2011; Guest, 2008; Zahra & Pearce, 1989 etc.). Since few researches were conducted on emerging economies like Nigeria with a specific focus on examining the resultant effect of CG on banks’ performance in a post reform period, therefore, this paper presents

the detailed procedure followed in designing questionnaire, validating its items and also testing its reliability through a pilot test survey data collected from sampled managers of Nigerian banks.

There is lack of studies that use BEO or PMS in indirect relationship between CG and bank performance in more particularly in the Nigerian context. This paper contributes significantly to researchers methodologically also as addition to literature, regulators. The paper is subdivided into 6 sections from 1.Introduction, 2.Methodology, 3. Questionnaire Design 4. Demographic Statistics of Respondents 5. Descriptive Statistics of Latent Constructs 6. References

3.1 Methodology

This study adopted a survey and descriptive research methods and the population was 2811 branches of the 10 banks. The sample of this paper was 338 by using a sample size formula by Dillman (2000) and Krejcie and Morgan (1970). A stratified sampling technique is also adopted in apportioning questionnaires to the respective banks. The unit of our analysis is organisational where the managers responded authoritatively on behalf of their organisation. Questionnaire measures were adapted from reliable sources and further subjected to face and content validity. A total of 507 questionnaires are to be distributed in the field.

3.2 Questionnaire Design

Questionnaire design is an exceptionally very essential stage of any research which provides opportunity to capture the numbers of targeted respondents, as well as helping in circumventing and reducing plausible measurement error especially by logically arranging the questions in a simple understandable manner to the respondents. In addition, the design assist in curtailing the problem of measurement error / bias, through the kind of measurement scale and the rating scale-point adopted.

3.3 Questionnaire Type and Rating Scale

Questionnaires had been defined as a set of questions designed to extract information based on the opinion of the target respondents about some certain variables of study. Questionnaire design is an exceptionally very essential stage of any research which provides opportunity to capture the numbers of targeted respondents, as well as helping in circumventing and reducing plausible measurement error especially by logically arranging the questions in a simple understandable manner to the respondents. In addition, the design assist in

curtailing the problem of measurement error / bias, through the kind of measurement scale and the rating scale-point adopted.

However, these questions can be either open ended, dichotomous and/or close ended. This research adopted the close ended type of 86 items for 8 variables and then 7 items for the demographical variable. Therefore questions comprising of a total of 93 multiple choice-questions. Specifically, the questionnaire consists of, these questions were well structured, simplified and clearly stated to aid respondents' understanding. Also, these questionnaires were self-administered with the help of some research assistants. It is prepared in English language because it is the official language in Nigeria. Part 1 is CG, part 2 is BEO, part 3 is PMS, part 4 is performance, and part 5 is demography. All items were appropriately arranged according to constructs.

Likert scale had been considered the most appropriate and common rating scales used in measuring constructs in social science research and is thus, utilized in this research. All the constructs (the independents, mediating, moderating and the dependent variables) in this research were structured to be measured using the 5-point Likert scale ratings. This is because, Krosnick and Fabrigar (1997) revealed that a rating scale between 5- point and 7- point was confirmed to be more reliable than otherwise and also found that the lack of a mid-point results in compelling respondents to respond in a particular direction which may perhaps increase the measurement error. To enhance the reliability of the measures, a 5-point scale was therefore used.

3.4 Validation of Measures

In order to ensure a strong reliability of the items, a step by step process of assessing the validity of the whole items was conducted starting with the face validity and then content validity. Each of these significantly facilitates in constructing a good questionnaire.

Face validity ensures that the items meant to measure a certain construct will actually measure it (Sekaran & Bougie 2010). This test also helps in establishing through experts' view whether or not, the questionnaire items are simple, clear, understandable, and practically representing the context of the study, and whether or not the items could measure what it is intended to measure. To achieve this, a draft of the measurement items of this research was distributed to 9 managers in the banking industry (i.e. 6 branch managers, 2 senior managers, and 1 assistant general manager), and 7 academic lecturers (3 senior lecturers and 2 associate professors and 2 professors) in the School of Accounting, Universiti Utara

Malaysia. Some Ph.D. candidates that are familiar with banking in Nigerian context were also consulted for advices and inputs on the clarity of the items. Based on the feedback from these experts, the measures were revised several times, many items re-worded and rephrased to make it simple, clear, and concise. **Content validity** provides experts' opinion concerning the adequacy, suitability, content, and arrangement of the items that are designed to measure the constructs of a study (Hair, Money, Samouel, & Page, 2007; Sekaran & Bougie, 2010). Invariably, content validity had helped us in determining the adequacy, and comprehensiveness of the items in representing each construct. A draft of the questionnaire items of this research was distributed to 9 managers in the banking industry (i.e. 6 branch managers, 2 senior managers, and 1 assistant general manager), and 7 academic lecturers (3 Senior Lecturers and 2 Associate Professor and 2 Professors) in the School of Accounting, Universiti Utara Malaysia. Some Ph.D. candidates that are familiar with banking in Nigerian context were also consulted for advices and inputs on the clarity of the items. Based on the feedback from these experts, the questionnaire was revised several times, many questions are re-worded and rephrased to make it simple, clear, and concise. Also, the items for every construct were logically arranged to simplify respondents understanding. Therefore, the questionnaire items were considered appropriate for the study since it has been verified by experts from the academic environment and professionals from the banking industry who are even familiar with the environmental context of this research.

3.5 Pilot Study

A pilot study was conducted prior to the main full-scale study in order to determine the reliability of the selected measurement items to improve upon the study design, and also to determine the cost and feasibility of the research. Apparently, pilot study is important because it can unveil shortcomings in the design of a proposed survey or procedure that can be addressed before time and resources are committed on large scale study (Doug et al. 2006).

According to (Malhotra 1999), the sample size for a pilot study is usually small consisting of 15 to 30 respondents, although it can be increased considerably depending on peculiarities. Therefore, this pilot study was conducted with 40 questionnaires distributed to 40 branch managers of 10 banks in Nigeria. Out of the 40 distributed, only 33 were returned and later found that 3 questionnaires were invalid and thus considered invalid for this study. Finally, only 30 questionnaires were used for the pilot study and whole process lasted for two weeks.

3.6 Reliability of Measures

After the pilot study, the reliability of the items was computed to establish the strength of its scale. The reliability test shows the individual Cronbach's Alphas of each construct which serves as the best way of determining the internal consistency of the constructs (Hair, Black, Babin, & Anderson, 2010). The Table 1 displays the Cronbach's Alphas of each construct.

Table1: Reliability Test (Pilot Study)

Constructs	Symbol	Number of items	Cronbach's Alpha
Board Independence	(BI)	6	0.877
Board Appointments	(BA)	6	0.859
Audit Committee Quality	(ACQ)	6	0.836
Board Size	(BS)	6	0.836
Female Membership in a Board	(FMB)	6	0.776
Board Equity Ownership	(BEO)	7	0.871
Performance Measurement System (PMS)	(PMS)	29	0.706
Performance (Perfm)		20	0.720

Source: Questionnaire Analysis 2015

Based on the result of the test, the items were established to be strong enough for this research since 5 construct were all having above 0.80 and 3 constructs were also having above 0.70 which according to literature a reliability coefficient of 0.60 is average reliability, and a coefficient of 0.70 and above is high reliability (Hair *et al.*, 2007; Nunnally & Bernstein, 1994; Sekaran & Bougie, 2010). During the pilot test the researcher also identified some likely problems in the questionnaire contents and the actual time taken. Necessary corrections were effected before collecting the main empirical survey.

4.1 Demographic Statistics of Respondents

In this study, description of the respondents' profile is done and displayed in Table 2. Their diverse characteristics were asked in the demographic section of the questionnaire from which this data is now sourced for analysis. As presented in Table 2, the gender of majority of the respondents in this survey were males constituting (67.3%), while females represent 32.7%. This testifies that in the banking sector, and particularly for the bailed-out banks, males are the dominants while the females were minorities.

As for the years of experience, the branch managers with 1 to 5 years working experience are the least (4.7%), while managers with banking work experience 6 to 10 years, 11 to 20 years were the majority as they constitute 32.4% and 48% respectively. This proves that most of this study's respondents were really experienced bankers who are very conversant with the banking issues being asked. The top level managers constituted 15% of the respondents.

As for the educational qualifications, it is established that those with diploma or HND are only 42 representing 13.1% of the total respondents. Those possessing first degree are 108 representing 33.6% while the majority of the respondents are 151 holding a master's degree and/or other postgraduate degree constituting representing 47%. While respondents possessing other types of qualification are only 20 making 6.2% of the sample. Thus, it could be concluded that most of the respondents were adequately educated apart from being experienced.

Table 2: Demography Statistics of Respondents

S/n	Demography	Frequency	Percentage
1	Gender		
	Male	216	67.3
	Female	105	32.7
2	Years of banking-work experience		
	Between 1 -5 years	15	4.7
	Between 6 – 10 years	104	32.4
	Between 11 – 20 years	154	48.0
	Between 21 years and above	48	15.0
3	Educational Qualification		
	Diploma or HND	42	13.1
	Bachelor's degree	108	33.6
	Master's degree or other Post-graduate degree	151	47.0
	Others	20	6.2
4	Position in the bank		
	Branch level manager	189	58.9

	Middle-level manager	93	29.0
	Top-level manager	39	12.1
5	Rating of the Bailed-out reform		
	Effective	223	69.5
	Fairly effective	91	28.3
	Ineffective	7	2.2
6	Bank's ranking in the industry		
	Max	17	
	Min	4	
7	Age		
	Max	61	
	Min	31	
	Mean	42.09	

As for the respondents' positions in their respective banks, the descriptive statistics revealed that branch level managers were the majority being 189 out of 321 representing 58.9 % of the sample. The middle level manager were 93 making 29% of the sample while 39 top level managers constituted 12.1% of the respondents. The rating of the bail-out reform by various responding managers within the banking sector revealed that 223 managers considered it "effective" representing 2/3 of the respondents (i.e., 69.5%). Other 91 managers rated the bail-out as "fairly effective" making 28.3%. Conversely, 7 managers rated it as "ineffective" meaning that no any achievement gotten.

The maximum age of the respondents is 61 while the minimum is 31. Their average age is 42.09. This confirms that all the respondents were adequately matured. The diverse rating of the respondents' banks within the industry was having 4 as minimum rating and maximum of 17. This confirms that despite the bailed-out, some of the banks had rose up to be strong enough to be among the first 10 good banks within the banking sector.

5.1 Descriptive Statistics of Latent Constructs

This study consists of 8 latent constructs (five independent constructs, a mediating, one moderating, and a dependent constructs). After the overall data entry, and preliminary data screening, these latent constructs were however analysed descriptively to determine the various statistical values such as means, standard deviation, minimum and the maximum values for all the constructs in the study. The Table 3 below displays these clearly.

Table 3: Descriptive Statistics of Latent Constructs

Constructs	N	Mean	Std. Dev.
Board Independence	321	4.30	.56
Board Appointments	321	4.10	.61
Audit Committee Quality	321	4.49	.39
Board Size	321	4.26	.48
Female Membership on Board	321	4.13	.60
Board Equity Ownership	321	4.28	.48
Performance Measurement System	321	4.49	.23
Financial Performance	321	4.34	.61
Non-financial Performance	321	4.30	.57
Performance	321	4.31	.39

From the above Table, it could be seen that the total number of valid observation in the data is 321 represented by N. The mean scores ranges from 4.10 to 4.49 while the standard deviation ranges from 0.23 to 0.61. BA has the highest standard deviation of 0.61 with almost the least mean value. BI and BS both has the highest mean values while BA has the highest followed by FM and the BI, BS, BEO, AC, PERFM, and then lastly PMS.

From the above table, it could be deduced that the respondents has an average response of 4.30 for BI and the response varied from one respondent to another by 56%. Similarly, BA had an average of 4.10 with a variation of 61% in the managers' response as well as 4.49 average response with a 39% variation in response to the AC questions. This means that most of the respondents agree with

the questions with a little deviation of 0.39. As for BS and FM, the series mean were all above 4 showing that most of the items received an agreed responses concerning whether large board size, and membership of a female director is favourable to firm performance or not. Although, higher variations from respondent to respondent on these questions were found with a standard deviation of 0.48 and 0.60 respectively.

BEO is presenting the average response 4.28 which also varies from one respondent to another as portrayed by the value of the standard deviation i.e. 0.48, which is explaining 48% dispersion in its data while PMS, also has a mean value 4.49, indicating that respondents' average response agrees with the conducts of PMS implemented within the banking sector. Yet, the responses dispersion is lower i.e. 23% as shown in the value of the standard deviation above. For performance, the mean response was 4.31 with a varied response value of 39%.

A possible reasons for these positive responses could be due to the consistency of these items with the provisions of the code of corporate governance which banks must comply with. Although, some deviance behaviours occurs in terms of compliance.

5.2 Conclusions

This paper described the procedure used in designing questionnaire, validating the items and also testing the reliability through pilot test. The pilot test confirms the measures fit and eligible for further data collection. This paper however contributes methodologically to researchers on the process of designing questionnaire, validating its items and reliability testing and also makes these measures fit for adoption by other researchers in their future research.

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