CORPORATE GOVERNANCE AND FINANCIAL REPORTING QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

Recent accounting scandals involving major Nigerian banks such as Oceanic, Intercontinental, and Unity Bank have intensified concerns over the reliability of financial reporting and the role of corporate governance in mitigating such failures. This study investigates the impact of board size and ownership concentration on the financial reporting quality (FRQ) of listed Deposit Money Banks (DMBs) in Nigeria, focusing on Zenith Bank, United Bank for Africa (UBA), and First Bank. Anchored on agency theory, the study adopts an ex-post facto research design and utilizes panel data derived from the annual reports of 17 DMBs between 2011 and 2018. Secondary data were analyzed using descriptive statistics, correlation analysis, and panel regression modeling, with firm growth and size controlled. Findings reveal a positive but weak correlation between board size and FRQ, indicating that board size has limited influence on reporting quality. Conversely, ownership concentration shows a statistically insignificant and negative relationship with FRQ, suggesting that concentrated ownership may hinder the objectivity of financial disclosures. These outcomes highlight potential governance weaknesses in bank oversight mechanisms, especially in ownership structure. The study recommends the enforcement of robust corporate governance frameworks that ensure optimal board composition and mitigate the dominance of block shareholders. Regulatory bodies such as the Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC) should strengthen compliance monitoring and mandate governance practices that enhance the transparency and timeliness of financial reporting in the Nigerian banking sector. Enhanced governance structures are essential to restoring investor confidence and sustaining the integrity of financial disclosures.

Keyword: Corporate governance, Financial reporting quality, Deposit money banks

INTRODUCTION

The wave of accounting scandals occurred recently in the international financial community has raised many criticisms about the financial reporting quality (Agrawal and Chadha, 2005; Brown et al., 2010). According to brown et el. (2010), Several prominent banks were involved in accounting frauds, such as Oceanic bank, Intercontinental bank and Unity bank etc, which has weakened the investors' confidence toward the management team and the financial reports. The widespread failure in the financial disclosure has created the need to improve the financial information quality and to strengthen the control of managers by setting up good governance structures (Karamaou and Vafeas, 2005; Beekes and Brown, 2006; Brown and Caylor, 2006; Firth et al., 2007; Petra, 2007). Indeed, the financial information serves as a basis for investment decisions of the capital market participants. It is useful for owners, creditors, firm partners and regulators, since it helps to determine the firm's past performance, predict its future profitability and monitor the managers' actions (Bushman and Smith, 2001; 2003).

However, advocates of agency theory believe that board composition of a bank comprising majority of outside directors reduce agency conflicts as they provide effective monitoring tool to the board (Fama and Jensen, 1983). They argue that the inclusion of outside directors increases the boards' ability to be more efficient in monitoring the top management and to ensure absent of collusion with top managers to expropriate stockholder wealth as they have incentives to develop their reputations as experts in decision control. Normally, the outside directors are expert managers from other large organizations and with their expertise, independence, objectivity and legal power, outside directors become potentially powerful governance mechanisms to mitigate agency costs and protect shareholders wealth (Li, 1994)

In Nigeria the issue of corporate governance has been given the front burner status by all sectors of the economy. For instance, the Securities and Exchange Commission (SEC) set up the Peter-side Committee on corporate governance in public companies. The Bankers' Committee also set up a sub-committee on corporate governance for banks and other financial institutions in Nigeria. This is in recognition of the critical role of corporate governance in the success or failure of companies (Ogbechie, 2006).

Statement of research Problem

Banks and other financial intermediaries are at the heart of the world's recent financial crisis. The deterioration of the asset portfolios, largely due to distorted credit management, was one of the main structural sources of the crisis (Fries, Neven and Seabright, 2002; Kashif, 2008; and Sanusi, 2010). To a large extent, this problem was the result of poor corporate governance in countries' banking institutions and industrial groups. Schjoedt, (2010) observed that poor corporate governance, in turn, was very attributable to the relationship among the government, banks and big businesses as well as the organizational structure of businesses.

The banking sector in Nigeria had about 89 active players before the consolidation exercise whose overall performance led to the sagging of customers' confidence. There was lingering distress in the industry, the supervisory structures were inadequate and there were cases of official recklessness amongst the managers and directors, while the industry was notorious for ethical abuses (Akpan, 2007). Poor corporate governance was identified as one of the major factors in virtually all known instances of bank distress in the country. Weak corporate governance was seen manifesting inform of weak internal control systems, excessive risk taking, over-ride of internal control measures, non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system (Soludo, 2014).

As a result, various corporate governance reforms have been specifically emphasized on appropriate changes to be made to the board of directors in terms of its composition, size and structure (Abidin, Kamal and Jusoff, 2009). It is in the light of the above problems, that this research work tends to examine corporate governance and financial reporting of deposit money banks in Nigeria, a study of zenith, UBA and first bank.

Objectives of the Study

Generally, this study seek to examine the impact of corporate governance on the financial reporting quality of listed Deposit money banks in Nigeria. However, it is set to achieve the following specific objectives;

i. To examine the effect of Board size on the Financial Reporting quality of listed Deposit money Banks in Nigerian.
ii. To determine the effect of ownership concentration on the Financial Reporting quality of listed Deposit money Banks in Nigerian.

Research Hypothesis

In line with the objectives, the following hypotheses are formulated in a null form;

HO_1 Board size has no significant impact on the financial reporting quality of listed DMBS in Nigeria.

HO_2 Ownership concentration has no significant impact on the financial reporting quality of listed DMBS in Nigeria.

REVIEW OF RELATED LITERATURE

Corporate Governance

Corporate governance as defined by Mayer (2009) is the sum of the processes, structures and information used for directing and overseeing the management of an organization. According to Coleman and Nicholas-Biekpe (2006), corporate governance is the relationship of enterprise to shareholders or in the wider sense, the relationship of the enterprise to society as a whole. The Organization for Economic Corporation and Development (2009) defined corporate governance as a system on the basis of which companies are directed and managed. It is upon this system that specifications are given for the division of responsibilities between the parties (board of directors, supervisory board, the management and shareholders) and formulate rules and procedures for adopting decisions on corporate matters.

Corporate Governance and Financial Reporting

Corporate governance and financial reporting are highly interwoven. In fact, financial reporting forms a crucial part of the corporate governance mechanism (Melis, 2004; Melis& Carta, 2010). Similarly, the responsibility for appropriate and timely financial reporting rests on the shoulder of the apex governing body of a firm “the board of directors”. Furthermore, the foremost aim of financial reporting activity is to make available high-quality information; while corporate governance as part of it objective, provides a platform to ensure the quality of financial reports published. In recent times, corporate governance has come to be a matter of great concern in the corporate world because of the increasing high-profile scandals and crash of some companies like Lehman Brothers, WorldCom Enron in the United States, Parmalat in Italy, Marconi in Britain, Nortel in Canada, One Tel in Australia, the Volkswagen Emissions Scandal, the FIFA Corruption Scandal, Toshiba Accounting Scandal and so many other recent accounting based scandals (Uwuigbe et al., 2017). These happenings in the global financial world dealt a big blow to investor confidence and assurance on the quality of financial information provided by management. The failures of these large organizations have led to the implementation of measures to the improvement of corporate governance mechanisms and a more intense interest in financial reports by stakeholders. In Nigeria, the banking sector is highly regulated because of the past incidence of poor corporate governance, poor risk management policies, inadequate internal control systems and poor quality of financial reporting, hence, making it susceptible to scandals and failure. In order to address this problem, this led to the implementation of corporate governance regulations as an antidote. According to Arabsalehi and Ziaee (2010), the code of corporate governance in Nigeria in 2003, is regarded as the standard in the corporate society in Nigeria. The link between corporate governance and quality of financial reports has been intensely discussed in developed context, with scarce evidence from emerging economies (Klai&Omri, 2011) consequently, there is no conclusive evidence of the influence of corporate governance on the quality of financial reports as proxy by timelines of financial reporting for emerging economies. Furthermore, a study into the timeliness of financial reports would be of great importance on the way to improving investors’ confidence and decreasing the tailbacks related with financial reporting in Nigeria. Hence, this study aims to examine the influence of corporate governance mechanisms on the quality of financial reports in Nigeria. It will attempt to determine the extent, to which board size affects the quality of financial reports. More so, it will examine the association between board independence and reliability of financial statements. Finally, it will examine the relationship between the foreign board executives and quality of financial reports. The residual part of this paper consists of the following sections; literature review and hypotheses development, methodology, discussions and findings, conclusion and recommendation.

Elements of Corporate Governance in Banks

Altunbas, Evans and Molyneux (2011) pointed out that many authors and management specialists have argued that corporate governance requires laid down procedures, processes, systems and codes of regulation and ethics that ensures its implementation in organization. Some suggestions that have been underscored in this respect include the need for banks to set strategies which have been commonly referred to as corporate strategies for their operations and establish accountability for executing these strategies (Iwuigbe, 2011). Kharouf (2000), while examining strategy, corporate governance and the future of the Arab banking industry, pointed out that corporate strategy is deliberate search for a plan of action that will develop the corporate competitive advantage and compounds it.

Theoretical Review

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 principal's 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.

Review of Related Empirical Studies

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.

The incessant scandal crises and wreckage of organization around the world are so alarming that the global financial market has been greatly destabilized and the growth of economics impeded. Notable organizations such as Arthur Anderson, Enron, Kmart, Adelphia Communications, and World Com area few of the numerous international organizations that have collapsed as a result of the heightened crises. The sustained crises have not left Nigeria out of the whole saga. It affected companies/banks such as Intercontinental Bank, Oceanic Bank, Cadbury, etc thereby contributing to the down turn of the economy. With all of these, companies sustainability has becomes an issue in determining the survival and continued growth of a country. (Apodore & Zainol, 2014)

The priority of any organization is effective, efficient and ethically manages the company for profitable long term growth and perpetual existence, the policies and practices of management must also align with the interest of shareholders, thus, the development of factors for control and prevention of collapse and long-lasting economic depression.

METHODOLOGY

This study adopts ex-post facto design because its suitable for the study and the data are already in existence. The population of this study consists of all Listed Deposit Money banks in Nigeria as at 31st December 2016. The target population for this study consists of 17 Deposit money banks in Nigeria. The time frame considered for this study is 2011 to 2018. The method to be used for data collection in this study is the secondary source. The data will be extracted from the annual report and accounts of the sampled companies as well as Nigerian Stock Exchange (NSE) Fact-Book.

Model Specification

The model that will be used in testing the hypotheses of the study is presented below:

$$FRQit = \beta 0 + \beta 1BSZit + \beta 2OCit + \beta 3GRWTit + \beta 4FSZit + \mathcal{E}it$$

Where:

FRQ = Financial reporting quality
BSZ = Board Size
OC = Ownership Concentration
GRWT= Growth
FSZ= Firm Size
β0, β1 – β4 = parameters to be estimated
Ɛ = error term signifying other variables not captured in the study

This model is justified by including growth which previous studies did not consider. Growth is one of the variables that lead to performance improvement so rapidly. Therefore, when it has been controlled, the absolute effect of corporate governance on financial performance will be determined with reasonable certainty.

RESULTS AND DISCUSSION

Table 1: Descriptive Statistics

Var.	Minimum	Maximum	Mean	Std.Dev
FRQ	-0.0062	0.7837	0.2642	0.2705
BZ	-22.4944	14.9113	0.7692	2.2735
OC	-40.4012	33.1349	0.7601	6.2771

Source: Descriptive Statistics Results Using STATA

The Table 1 presents the detail account of descriptive statics for the dependent and independent variables. From the table, financial reporting quality (frq) has minimum and maximum values of -0.0062 and 0.7837 respectively and the mean and standard deviation of 0.2642 and 0.2705respectively. This means that on the average, for every 1% increase in corporate governance, the financial reporting quality of listed Deposit Money Banks in Nigeria will increase by 26% approximately. The standard deviation of 0.2705 indicates that the data deviate from the mean value from both sides by 27% which implies that there is a wide dispersion of the data from the mean because the standard deviation is greater than the mean value.

The Board Size (BZ) has a minimum of -22.4944 and the maximum value is 14.9113 while the mean and the standard deviation values are 0.7692 and 2.2735respectively. The mean figure implies that on the average, about 76% of the listed Deposit Money Banks in Nigeria have required Board size while the figure for standard deviation 2.2735 revealed the extent of dispersion of the data from it mean.

Furthermore, the minimum and maximum values for ownership concentration (OC) are -40.4012 and 33.1349 respectively and the mean value is 0.7601 while 6.2271 as the standard deviation. Mean value of 0.7601 indicates that on the average, block holders own about 76% of the shares in the companies. While the standard deviation of 6.2771 revealed that there is wide dispersion of numbers from their mean value.

Table 2: Correlation Matrix

VAR	FRQ	BZ	OCISO	BC	GRWT	FSZ	
FRQ	1.0000						
BZ	0.1272	1.0000					
	0.2607						
OC	-0.0053	- 0.8860*	1.0000				
	0.9627	0.0000					
GRWT	-0.3137*	-0.1409	-0.1037	0.1927***	-0.2678*	1.0000	
	0.0046	0.2125	0.3602	0.0864	0.0163		
FSZ	-0.0087	0.0219	0.0902	-0.0559	0.5919*	-0.4862*	1.0000
	0.9387	0.8470	0.7902	0.6225	0.0000	0.0000	

Source: Correlation Matrix Result Using STATA.
*=significant at 1% (0.01), **= significant at 5% (0.05), ***= significant at 10% (0.10)

Table 2 shows the relationship between corporate governance and financial reporting quality of listed Deposit money Banks in Nigeria. The table shows a positive and insignificant relationship between financial reporting quality and Board size from the correlation coefficient of 0.1272 and a p-value of 0.2607. This suggests that as the size of the Board increases, financial reporting quality will also increase but in a low manner.

The relationship between ownership concentration (OC) and financial reporting quality proved to be negative and insignificant as indicated by the correlation coefficient and a p-value of -0.0053 and 0.1906 respectively.

Table 3: Regression Results

Variables	Coefficients	T-Statistics	P-Sig	VIF/Tolerance
Constant	1.7120	4.23	0.000	
BZ	0.0448	3.44	0.001	4.75/0.2106
OC	-0.0222	-2.84	0.006	4.73/0.2114
GRWT	-0.1040	-4.86	0.000	1.39/0.7182
FSZ	-0.2587	-2.96	0.004	1.89/0.5302
R^2				0.25
F-Stat				8.80
P-sig				0.0000

Source: STATA Output

The cumulative R^2 (0.25) which is the multiple coefficient of determination gives the proportion of the total variation in the dependent variable explained by the independent variables jointly. Hence, it signifies that 25% of the total variation in financial reporting quality of listed Deposit Money Banks in Nigeria is caused by their Board size, ownership concentration, institutional ownership and Board composition. This indicates that the model is fit and the regressors are properly selected, combined and used. This further implies that for any changes in the corporate governance of listed DMB's in Nigeria, their financial reporting quality will be directly affected.

The F-Statistics are really the same thing in that, after normalization chi-squared is the limiting distribution of the F as the denominator degrees of freedom goes to infinity. So, the F-Statistic of 8.80 which is significant at 1% indicates that the corporate governance and financial reporting quality model is fit.

The Table 3 revealed that Board size (BZ) has a positive coefficient value of 0.0448, T-Statistics value of 3.44 and P-value of 0.001 which is significant at 1%. The positive coefficient signifies that Board size and financial reporting quality of listed DMB's in Nigeria are directly related which implies that if Board size increase by 1 member financial reporting quality increases by 4% approximately. This provide an evidence of rejecting null hypothesis one of the study which states that Board size has no significant impact on the financial reporting quality of listed DMB's in Nigeria.

Ownership concentration shows a coefficient of -0.0222, T-Statistics of -2.84 and P-value of 0.006 which is significant at 1% level of significance. The negative coefficient of -0.0222 signifies that ownership concentration and financial reporting quality of listed DMB's in Nigeria are inversely related meaning that whenever the ownership concentration of the Banks increase by 1%, financial reporting quality will decrease by 2%. This provide an evidence of rejecting null hypothesis two of the study which states that ownership concentration has no significant impact on the financial reporting quality of listed DMB's in Nigeria.

Summary of major findings

1. The study revealed that Board size and financial reporting quality of listed DMB's in Nigeria are directly related which implies that if Board size increase by 1 member financial reporting quality increases by 4% approximately.

2. finally, Ownership concentration and financial reporting quality of listed DMB's in Nigeria are inversely related meaning that whenever the ownership concentration of the Banks increase by 1%, financial reporting quality will decrease by 2%.

CONCLUSION

Emanating from the result obtained from the data collected and analyzed together with the hypotheses tests, Board size gives positive relationship with financial reporting quality. The study therefore concludes that Board size impact on the financial reporting quality of listed Deposit money banks in Nigeria. While for the ownership concentration, growth and size the result revealed negative relationship with the financial reporting quality of listed DMB's in Nigeria which signifies that they do no have impact on the financial reporting quality of listed DMB's in Nigeria.

RECOMMENDATIONS

In line with the findings of the study, the following recommendations were made;

i. Board size has been empirically identified as one of the factors that influence financial reporting quality; therefore banks should do everything possible to ensure the size of its board meet the maximum requirement by increasing the number of board members.

ii. Banks should not allow too much concentration of shares in the hands of few because the finding of this study revealed negative relationship between ownership concentration and financial reporting quality. Having too much shares in the hands of the few by the banks lead to decline in the quality of financial reporting of DMB's in Nigeria.

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