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CORPORATE GOVERNANCE PRACTICES AND EFFECT OF CULTURE OF CEO SUCCESSION PLAN ON BANKS' FINANCIAL PERFORMANCE IN NIGERIA

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ABSTRACT

In recent time, good corporate governance has been adjudged to be a basis for the outstanding financial performance of banks in developed and developing economies and this is evident in pre and post consolidation era of Nigerian banks. As such, this study examined the effect of corporate governance on bank's performance. The study made use of secondary data from Annual reports of Nigerian Banks quoted on Nigeria Stock exchange and harnessed the views of directors and managers of these banks by means carefully designed questionnaire. The study use adopted ex-post facto survey research design and stratified random sampling method was adopted thereby choosing13 out of the entire 22 quoted banks on the stock exchange in Nigeria. The statistical tools used included cross tabulations, mean and correlation analysis. The results showed that CEO succession plan (CSP) has significant effect on financial performance (at P< 0.05). It was discovered that annual strategic retreat (ASR) has significant effect on the bank's financial performance (at P< 0.05). Study concluded that there is significant level of compliance by the Nigerian banks to the corporate governance code. Study therefore, recommend that banks are encouraged to improve on their level of transparency and financial disclosure in order to be able to enhance their financial performance.

Key Words: Corporate governance, Succession plan and Bank Financial Performance

INTRODUCTION

Corporate governance has become an increasingly trending issue in recent years across the world. Effective corporate governance is a drive that encourages the development and implementation of operating processes that lead to corporate accountability, standardized ethical relationships, and operational transparency, all of which indicate proper resource management (Akinleye, Olarewaju&Fajuyagbe, 2019). As a result, it is vital to emphasize that corporate governance has been a top policy goal in mature market economies for more than a decade. The issue of corporate governance is a decisive issue internationally, and industries in Nigeria are in no way an exception. However, corporate governance in the banking industry is particularly spotlighted because of the key financial intermediation role which the industry plays in any economy (Nakpodia&Adegbite, 2018). As financial arbitrators, banks are responsible for funds mobilization from excess expenditure units at a price for onward loaning of such funds to the shortage

expenditure units at a price. In Nigeria, the Securities and Exchange Commission (NSEC) code was established in 2003 and revised in 2011 (Ado, 2016). Despite these codes, many financial scandals were still recorded in Nigeria's capital market. As a result, the NSEC upgraded the provision of the 2011 code from voluntary to mandatory code in 2014 to strengthen the board and reduces the extent of financial misappropriation.

There are a number of reasons why corporate governance in the banking industry of emerging economies is essential. The first of these is the dominance of the banking sector in these economies as they serve as economic growth engines. The second factor is that banks are characteristically one of the most essential finance sources for manufacturing industries and other thriving businesses. The third factor has to do with deposits as banks are the main depositories for the savings the economies and also are means for payment economy (Nakpodia&Adegbite, 2018).. These important factors mean that the governance of banks has to be centrally viewed, and the mechanisms for such governance must involve customers and shareholders. The idea of corporate governance is that of presiding over institutions and all other bodies, deciding on how they relate with their stakeholders and communities for the improvement of the life quality (Adegbite, Guney, Kwabi& Tahir, 2019). As a result, corporate governance guarantees that corporate reporting is fair, accountable, and transparent. Corporate governance, from this perspective, is concerned not only with corporate efficiency but also with firm strategy and life cycle progress. However, in 2017, it was reported that roughly 1.5 percent of the Nigerian population owed banks a total of 5 trillion naira, and that recovering the loans had been difficult due to legal intricacies used by debtors' layers (AMCON, 2017). This has prompted a review of corporate governance and the impact of CEO succession culture on bank financial performance in Nigeria.

LITERATURE REVIEW

The process through which governments and other organizations interact with their communities and stakeholders in order to improve their quality of life is referred to as corporate governance (Ato, 2012). Corporate governance is essential for promoting transparency, accountability, and fairness in company reporting. In this perspective, corporate governance encompasses not only corporate efficiency but also business strategy and life cycle development (Marshall, 2015). It also considers how stakeholders (people interested in a company's performance) ensure that managers and other insiders follow processes that safeguard shareholders' interests (Ahmadu&Tukur, 2005).Governance, according to Siele (2009), is a holistic structure and process that governs any institution in a way that adheres to all standards and regulations. Governance is intended to address the institutional framework and provide direction to individuals in positions of leadership and management. Corporate governance, according to Chenuos, Mohammed, and Bitok (2014), is the process of exercising an organization's power by combining its entire portfolio with the purpose of maximizing shareholder value. The alignment of multiple interests, such as those of individuals, corporations, and society, in order to achieve the organization's goals is characterized as corporate governance. Corporate governance can be viewed from two angles: a narrow one, in which it is viewed as merely concerned with the structures within which a corporate entity or enterprise receives its basic orientation and direction (Rwegasira, 2000); and a broad one, in which it is regarded as being at the heart of both a market economy and a democratic society (Rwegasira,

2000). The narrow definition of corporate governance addresses topics like shareholder protection, managerial control, and the well-known principal-agency problems in economic theory.

A proponent of the broader perspective argues that institutional, legal, and capacity building issues, as well as the rule of law, are at the heart of corporate governance, citing problems that have arisen as a result of the privatization crusade that has swept through developing countries since the 1980s and the transition economies of former communist countries in the 1990s. Furthermore, the traumatic experience of Nigeria's financial crisis in the 1990s emphasizes the need for effective corporate governance for the macroeconomic survival of the economy.

Corporate Governance and Banks

Corporate governance is a crucial topic for bank executives, and it can be seen from two angles. The first is about corporate openness, which protects investors' interests (see the agency problem), and the second is about having a good risk management system in place (Jensen &Meckling, 1976).

The Basel Committee on Banking Supervision (1999) defined corporate governance as “the way by which individual institutions’ operations and affairs are handled by their boards of directors and senior management." As a result, how banks set corporate objectives (including generating economic returns to owners); run day-to-day business operations; consider the interests of recognized stakeholders; and align corporate activities and behaviors with the expectation that banks will operate in a safe and sound manner, in compliance with applicable laws and regulations; and protect the interests of recognized stakeholders will all be affected.

The Committee goes on to list the basic elements of good corporate governance, including corporate values, codes of conduct, and other appropriate behavior standards, as well as the system for ensuring compliance with them; a well-articulated corporate strategy against which the overall enterprise's success and individual contributions can be measured; and a clear assignment of responsibility. Internal control systems that include internal and external auditing, risk management functions that are independent of business lines, and other checks and balances; Compensation, promotion, and other forms of recognition for business line management and employees; and appropriate information flows internally and to the public. Corporate governance has been viewed as an economic discipline that focuses on risk exposures where conflict of interest is likely to be particularly high, particularly in the financial sector (Jensen &Meckling, 1976).

. The importance of banks in any economy cannot be overstated. As a result, if the positive effects are to be achieved, they must have strong and effective corporate governance (Basel Committee on Banking Supervision).

Corporate governance, according to a number of authors and management experts, necessitates the development of rules, processes, systems, and codes of regulation and ethics that enable it to be implemented in businesses (Altunbas, Evans &Molyneux, 2016). Banks should set corporate plans for their operations and impose accountability for meeting these goals, according to one idea. While looking at strategy, corporate governance, and the future of the Arab banking industry, El-

Kharouf (2015) noted that corporate strategy is a conscious search for a plan of action that would build and compound the company's competitive advantage. Banks should set corporate plans for their operations and impose accountability for meeting them. Good governance can be practiced independently of the structure of a banking institution. The Basel Committee on Banking Supervision recommends that any bank's organizational structure include four key forms of oversight.

The Central Bank also created a code to promote a more efficient and transparent banking system. All banks' reporting standards improve as a result of their compliance with the code. In addition, the CBN ensures impartial and competent role distribution. The regulatory body took into account the concerns of all stakeholders by ensuring that the institutions follow accepted ethics and the highest international standards. The board of trustees and bank management's responsibilities are clearly outlined in the code. The bank directors are responsible for the banks' overall performance, both individually and collectively. The code aims to promote a more efficient and transparent banking system. It takes into account the concerns of all stakeholders by ensuring that institutions follow accepted ethics and the highest international standards.

CEO Succession Plan

CEO succession is an **ongoing process designed to develop the talent pipeline** not an isolated event. Companies should develop a dual focus that includes both preparing capable near-and mid-term leaders and identifying those who possess future leadership potential deeper down in the organization. CEO succession is one of key functions of a board of directors. Changing the head of an enterprise impacts company culture, board/CEO relations, and perceptions from multiple constituencies inside and outside the business. The disruption that occurs can impact performance in a positive, neutral or negative manner. Successful companies manage this process well in advance with a concerted set of processes and milestones. Effective CEO succession requires a well-defined program that ensures a supply of highly capable candidates ready to assume the CEO position whether through an unexpected event or a planned transition. Success or failure of a CEO transition is influenced by a host of obvious and non-obvious factors, many of them of a social/psychological nature. How these factors are managed can have an enormous impact on the performance and status of the organization (Wackerle, 2001).

Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It has been known from the literatures that the performance of corporate organizations has been one of the major concerns of management, investors and as well as researchers. In view of this, financial

performance is the most important and reliable indicator as it gives a broad indicator of the ability of companies to raise their income level (Ahmed *et al*, 2011). This therefore makes the financial performance to be one of the most important objectives of financial management because one of the goals of financial management is to maximize the owner's wealth and profitability which in turn indicates better financial performance (Malik, 2011).

The study of firm performance has been an inexhaustible subject that has drawn the attention of several studies. The performance of a firm can be measured using different indices and by applying different methods. Accounting as a measure usually use historical information of firms' performance which may be subject to managerial manipulation and as such it becomes difficult to compare firms' performance using accounting information especially if different firms use different accounting procedures. When using accounting measures, different sectors of economy features or characteristics and risk associated with such sectors need to be taken into account. To measure the profitability of firms, there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy &Sree, 2003; Alexandru*et al*., 2008).

METHODOLOGY

This study adopted a mixed method research design because of the objective goals, the timeframe of data collecting, and the type of design most suited for a field (Creswell, 2014). According to Creswell and Plano Clark (2007), a single technique was insufficient to properly address all of the research questions. As a result, merging primary and secondary data yields a more comprehensive picture.It may be possible to better understand the relationship between corporate board traits, CEO traits, and bank success. To gather data for the study, a combination of questionnaire surveys and secondary data (annual reports) were used (Creswell & Plano Clark, 2011; Ivankova& Stick, 2007).

Population, Sample Size and Sampling Technique

The Nigerian Stock Exchange studied all twenty-two (22) deposit money banks. Access Bank, Citibank, ECO International Bank, Fidelity Bank, First Bank PLC, First City Monument Bank (FCMB), Globus Bank Limited, Guaranty Trust Bank (GTB), Heritage Bank, Keystone Bank, Polaris Bank, Providus Bank, Stanbic IBTC Bank, Sterling Bank, SunTrust Bank Ltd, Titan Trust Bank Ltd, United Bank of Africa (UBA), Unity Bank, Union Bank, Wema Bank, Zenith Bank, and Zenith Bank are among. The researchers used a stratified random sampling technique to select 13 commercial banks from the 2018 Nigerian Stock Exchange fact book. The purpose of this research is to collect extensive information on corporate governance compliance from a small sample of employees at the institutions chosen. Questionnaires were sent via hand delivery and e-mail.

Model Specification

The dependent construct is represented as–bank financial performance and independent is represented as corporate governance.

The above is mathematically expressed as Y = f (X)
Where Y = Dependent Variable
X = Independent Variable.
Y = Financial Performance
X = Corporate Governance
Therefore, from this equation, the Financial Performance would depend on the level of Corporate Governance Practices.
This is expressed as:
Financial Performance = f (Corporate Governance)
That is FP = f (CG)
Where FP = Y and CG =X
The X and Y are broken down as follows:
$Y = (y_1, y_2, y_3, y_4, y_5, y_6)$
y_1 = Return on Asset (ROA)
y_2 = Return on Equity (ROE)
y_3 = Tobin Q
y_4 = NetProfitbefore Tax (NPBT)
y_5 = Earnings Quality proxied as Discretionary Accruals
y_6 = Return On Capital Employed

Methods of Data Analysis

Descriptive statistics, frequency distribution, and inferential statistics were used to examine the results of the primary survey. The researcher used descriptive statistics, pooled, fixed, and random regression estimations in the study of secondary data.

RESULTS AND DISCUSSION

This section presents the mean and standard deviations from the 280 observations returned from the 373 sampled populations. Table 1 displays the average values as well as the standard deviation for each model's variables. This section determined the mean and standard deviations for the 280 observations.

Table 1: Descriptive Statistics

	Dependent Variables	Mean	Std. Dev.	Observations(N)
1	ROA	0.293106	0.085320	280
2	ROE	0.498216	0.009342	280
3	TOBINQ	0.384634	0.027302	280
4	NPBT	0.598569	0.063791	280
5	ROCE	0.486432	0.092035	280
6	EQ	0.524523	0.093821	280

	Independent Variables	Mean	Std. Dev.	Observations(N)
1	CSP	5.673729	1.035846	280
2	ASR	5.287892	1.283921	280
3	TLD	5.478957	1.083196	280
4	BC	5.861509	1.000351	280
5	TFD	5.347652	1.079421	280

Source: Authors Analysis, 2020

By inspection from the 280 observations as seen in Table 1, the banks that are included in the research sample generates mean score of Return on Asset (ROA), Return on Equity (ROE),Tobin's Q and Net Profit before Tax (NPBT) Return on Capital Employed and Earnings Quality is 29.3%, 49.8% ,38.4% , 59.9%,48.6%,48.6% and 52.5% respectively. For the corporate governance variables the mean score are 5.67, 5.28, 5.47, 5.86, 5.08 and 5.35 units for CSP, ASR, and TLD. BC, CRM and TFD respectively. The mean score is a measure of the average value obtained over a period of time. Hence, the study shows that average score of the financial performance variables by 20 banks over a period of 12yrs.The standard deviation shows the measure of spread of the data and how farther away from the mean score our values are. For values with low standard deviation, it implies that the average score of the given variables are in agreement or close to the mean. The corresponding standard deviation scores for Return on Asset (ROA), Return on Equity (ROE), Tobin's Q and Net Profit before Tax (NPBT) are 8.5%, 9.3%, 2.7%, 6.3%, 9.2% and 9.3% respectively.

Inferential Analysis

The purpose of this section of the thesis is to determine the degree of correlation between our governance variables and profitability variables, that is, whether the corporate governance proxies (board composition, CEO Succession Plan, Annual Strategic Retreat, Term Limits for Directors, Credit Risk Management, Transparency and Financial Disclosure) will improve financial performance. The a priori presented in the preceding chapter predicts a positive relationship between corporate governance measures and financial performance metrics.

Table 2: Correlation Analysis of Variables

	ROA	ROE	TOBINQ	NPBT	ROCE	EQ	CSP	ASR	TLD	BC	CRM	TFD
ROA	1						.637(**)	.764(**)	.843(**)	-.612(**)	.453(**)	.510(**)
ROE		1					.629(**)	.875(**)	.851(**)	.176(**)	.469(**)	.590(**)
TOBINQ			1				.613(**)	.759(**)	.727(**)	.081(**)	.357(**)	.397(**)
NPBT				1			.633(**)	.648(**)	.726(**)	0.543(**)	.671(**)	.390(**)

ROCE					1		.633(**)	.744(**)	-.372(**)	.567(**)	.313(**)	.383(**)
EQ						1	.562	.471(**)	.683	.-392(**)	.481	.523(**)
CSP	.637(**)	.629(**)	.613(**)	.633(**)	.622(**)	.562	1	.733(**)	.407(**)	.528(**)	.129	476(**)
ASR	.875(**)	.875(**)	.759(**)	.648(**)	744(**)	.471(**)	.733(**)	1	.627(**)	.766(**)	.268(**)	.335(**)
TLD	.843(**)	.851(**)	.727(**)	.726(**)	-.372(**)	.683	.407(**)	.627(**)	1	.766(**)	.370(**)	.335(**)
BC	-.612(**)	.176(**)	.081(**)	0.543(**)	567(**)	.-392(**)	.528(**)	.766(**)	.734(**)	1	.357(**)	.397(**)
CRM	.453(**)	.358(**)	.357(**)	.129	.313(**)	.481	.129	.268(**)	.370(**)	357(**)	1	
TFD	.510(**)	.590(**)	.397(**)	.390(**)	.383(**)	.523(**)	.476(**)	.335(**)	.335(**)	.397(**)	.088	1

Notethat*,and***denotesignificanceat10,5and1%significantlevelsrespectively**
Source: Author's Computation (2020).

The analysis shows a high negative connection of -.612 between board composition and return on assets between 1% and 5%. This suggests that the more outside directors a board has, the poorer the bank's financial performance in terms of ROA will be. This is consistent with the findings of Yermack (1996) and Bhagat and Black (1999), who found a negative link between non-executive director proportion and business performance in their studies. Annual strategic retreats have a strong.764 positive relationship with return on equity, which is substantial at 1% and 5%. According to Kula and Tatogla (2006), annual strategic retreats for top executives have a significant impact on bank financial performance. These retreats help organizations provide opportunities for management to review performance and trends, as well as discuss and agree on action plans to improve business performance. This also implies that increasing the annual strategic retreat will result in lower profits (ROE).

It was also discovered that CEO succession plan shows a substantial positive connection with Tobin's Q of.613, which is significant at 1% and 5%. This means that among Nigerian banks, those with CEO succession plans have a high level of profitability. This implies that increasing CEO succession plans will result in improved financial performance (Tobin's Q). Micco, Panizza, and Yanez (2004) found that board composition ownership, which is a primary determinant of CEO appointment and succession in developing nations, is substantially connected with performance, but that ownership is not connected with performance in industrial countries. Term restrictions for

directors have a -.372 negative positive association with return on capital employed (ROCE), which is significant at 1% and 5%. This means that the longer a director serves on the board, the worse the bank's financial performance becomes. This finding differs from that of Kiel and Nicholson (2003), who found a positive relationship between the proportion of inside directors and a market-based measure of firm performance, as well as a positive relationship between board tenure and firm value.

CONCLUSION AND RECOMMENDATIONS

This study found a link between board qualities and deposit money bank financial performance in Nigeria. It was also discovered that CEO characteristics and deposit money bank financial performance in Nigeria have a positive relationship. Corporate governance and credit risk management have an impact on DMB performance in Nigeria, according to the findings. The following recommendations were given in light of the study's findings:

i. Banks should ensure that the board of directors is free of family members who will make final decisions on crucial problems that could damage the company's performance.
ii. Nigerian bank shareholders should maintain a higher percentage of independent directors than insiders, allowing them to make suitable and non-partisan judgments.
iii. In their attempts to strengthen corporate governance, senior policymakers and corporate boards should pay special attention to ownership structure, which is favorably associated to future operating self-sufficiency and bank financial viability.
iv. CEO annual retreats and training should be encouraged to develop CEO skills and knowledge in financial monitoring and reporting, as these are critical to banking performance.

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