



Effect of Corporate Governance on Asset Quality: Performance Evaluation of the Nigerian Banking Sector in the Post Consolidation Era

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Abstract: The study examined the effect of corporate governance on the performance of asset quality of Deposit Money Banks (DMBs) in the post 2004 banking sector reforms. The population of study consists of the twenty four (24) deposit money banks. Time series data for the post-reform period (2006-2014) were generated from the Central Bank of Nigeria (CBN) Statistical Bulletin and annual financial reports of the various banks in Nigeria and was analyzed with descriptive and inferential statistical tools. Multiple Regression analysis was used to test the hypothesis with the aid of Eview. Jacbera test was used to test for data stationarity, while Variance Inflation Factor (VIF) and Heteroskedasticity white Test were used for data diagnosis. The findings of the study revealed that the 2004 reforms caused an improvement on Bank Asset Quality (BAQ). However the improvement is not significant at 5% level. The study consequently concludes that despite the reforms, Deposit Money Banks were still faced with post reform challenges of non-performance. The research therefore recommended that more efforts should be made to ensure adequate compliance with corporate governance provisions in improving performance. Frantic efforts should be made to improve on the huge non-performing loans and management of assets quality, which to a large extent, contribute to bank failures.

Keywords: Corporate Governance, Asset Quality, Banking Sector

1. Introduction

The hallmark of the reform phenomenon carried in the Nigerian Banking sector is aimed at ensuring efficiency and financial stability in the industry as it allows corporate bodies to be properly directed, guided, controlled and by extension held accountable for their deeds [1]. Thus, the eminence of corporate governance in the banking sector as a major stakeholder in the financial intermediation process between the various economic agents of developing economies of the world needs to be taken seriously considering the several cases of bank collapses that has occurred which is largely attributed to sharp practices and non-adherence to the tenets of corporate governance as their failure becomes the failure of the entire system [2], [1], [3].

Given the fury of activities that have affected the efforts of banks to comply with the various consolidation policies and the antecedents of some operators in the system, there are concerns on the need to strengthen corporate governance in the banking system as this will boost public confidence and ensure efficient and effective functioning of the sector [4], [3]. Hence the numerous reforms that have characterized the Nigerian banking sector thus resulting in the general overhaul of the system, ranging from the structure and general governing principles.

Conceptually, Corporate Governance denotes the management of company affairs with assiduousness, transparency, responsibility and accountability that ensure the maximization of shareholders' wealth [5]. Corporate governance also focuses on the accountability mechanism that governs the rapport among shareholders, the board of

directors, senior management, the workers and other stakeholders [6].

Asset quality as a part of bank management demands the appraisal of a firm's assets in order to enable the measurement of the level and size of credit risk that is related with its processes. It relates to the left-hand side of a bank balance sheet and focuses on the quality of loans which provides earnings for a bank [2] and [7]. Hence the general impact of corporate governance is to strengthen investors' self-assurance in the economy of a particular country, sub-region, or region.

[8] posit that, the basic principles for effective banking supervision involves twenty-five core principles of which seven are intended to resolve the relevant concerns of bank asset quality or credit risk management. This means that asset quality is of general concern to financial supervisory authorities in every economy all over the world.

It is in line with this that [9] submits that the impact of the failure of the banking system can have immense cost, as it has repeatedly been seen that bank failure costs developing countries up to 15% of their GDP and losses that far outstrip profitability.

In the same vein, [4] indicated that the challenges of asset quality perhaps will be a future major challenge for the banking sector. It is as a result of this that the importance of asset quality management and corporate governance was buttressed during the administration of Mallam Sanusi Lamido as the central Bank governor in Nigeria. This was partially because after the 2004 reforms, the banking sector was still characterized with huge non-performing loans and the sharp practices of bank officials as a result of non-compliance with the tenets of corporate governance in the administration of loans and advances.

For instance, in the late 1980, early 1990s and shortly after the 2004 reforms the country witnessed a near collapse of the financial sector through the phenomenon of failed banks and other financial institutions. Consequently, the Failed Banks (Recovery of Debt) and Financial Malpractice in Banks Act 2003 was promulgated to expedite the prosecution of those who contributed to the failure of banks and to recover the debt owed to the failed banks [7].

The causative factors of poor asset quality management which include unethical and unprofessional practices among others have contributed to low level of bank performance which leads to failure of not just the banking system but the entire financial system. This no doubt calls for concerted efforts in creating a sound, stable and better banking performance considering its role in every economy and in view of the bitter experiences of incessant bank failures around the world not with the developed economies not been spared underscore the importance of effective corporate governance procedures to the survival of the macro economy. This crisis demonstrated in obvious terms that even big economies are deficient in transparent control [10].

It is pertinent to state that, the adoption of series of economic reforms in Nigeria in recent times has heightened the corporate governance debate in the region and Nigeria in

particular. As stated in the foregoing, the alarming rate of corporate failures as witnessed in Nigeria and globally has necessitated this study.

In view of the foregoing, the study is designed to examine the compliance of DMBs to corporate governance and its effect on the asset quality of the Nigerian banking sector after the reforms of 2004 as the reforms were predicated on ensuring the tenets of corporate governance are strictly adhered to in the banking sector.

2. Literature Review

2.1. Conceptualizing Corporate Governance and Asset Quality

Corporate performance is a vital concept that relates to the manner in which material, financial, and human resources accessible to an organization are carefully used to achieve the general corporate objectives of an organization [11], opined that the imperative of corporate governance cannot be taken lightly as it keeps the organization in business and creates a greater prospect for future opportunities. The general consequence of good corporate governance is to strengthen investors' poise in an economy. Corporate governance is thus about inculcating credibility, guaranteeing transparency and accountability as well maintaining an effective network of information disclosure that would nurture good corporate performance [12].

[11] defined corporate governance as a group of mechanism that stakeholders use to guarantee that directors effectively manage corporate resources. [2] see corporate governance from the investors' perspective as both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently in a given investment. Corporate Governance is largely concerned with governing the relationship between shareholders and directors. [14] opined that the concept of Corporate Governance is primarily concerned with the process of customs, policies, systems, laws and regulations as being applied in organizations. In this regard, it is defined as the structure of relationships within the entity for making decisions and implementation.

Corporate Governance also refers to how organization is run, that is, how the resources of an organization are employed in pursuance of the set goals of the organization [2]. Accordingly, Corporate Governance structure specifies the distribution of rights and responsibilities among different participants such as the shareholders, boards, managers and other stakeholders in the corporation and spells out the rules and procedure for making decisions on corporate affairs. This means that Corporate Governance entails corporate discipline, transparency, independence, accountability, fairness, social responsibility, timely and accurate disclosure of all material matters relating to a company including the situation of financial performance, ownership and governance arrangements [6].

Asset quality is the classification of credits according to

the probability of repayment which estimates the amount of loss that will probably be suffered on deteriorating credits. The banking business is not insusceptible from this market tendencies as their products in trade is money which are monies collected in from depositors for onward lending to different sectors of the economy in forms of loans and advances. Nonetheless, DMBs' money creation process require adequate asset for existence, sustenance and development as it shapes the prosperity of the organization both on the short and long run basis [2].

Asset quality as a characteristic of bank management necessitates the appraisal of a firm's asset in order to enable the measurement of the level and size of credit risk associated with its operation. According to the Basle Committee on Banking Supervision, the fundamental principles of effective banking supervision comprised twenty-five core principles out of which seven are designed to address the relevant issues of bank asset quality or credit risk management (Basle, 1997) [8]. This inferred that asset quality is of universal imperative to financial supervisory establishments in every country across the world.

[14] stated that the challenges of asset quality is perhaps an imminent future time bomb for banks, if the canons for safety and soundness are not strictly adhered to as the various leaderships of the banking sector in Nigeria are found to have been violating the tenets of corporate governance. This necessitated the reforms that set up asset quality monitoring systems for identifying possible emerging problems of bank asset quality, and demanding banks to regularly present the asset quality reports to the board of directors so as to evaluate the risks associated with asset quality deterioration.

This poor performance of bank asset quality affects the operating and financial performance as well as the general soundness of the financial system in which it is an entity. [11] opined that the deterioration of bank asset quality arising from the non-critical evaluation of loan quality is one of the immediate causes of the Nigerian financial Crisis.

It will be right to state that banking institutions around the world and especially in developing economies such as Nigeria with fragile banking systems should pay extra attention to the management of asset quality to ensure sound development of the banking industry. Considering that the Nigerian business environment that is not completely immune from this global trends, the Central Bank of Nigeria (CBN) over the years has developed several measures aimed at providing a sound banking environment and safeguarding various stakeholders' interest with programmes and policies such as the bailing-out of some ailing banks, ensuring strict compliance with corporate governance principles in the entire financial system. But despite their efforts, the banking system continues to experience some hitches that erode investors' and depositors' confidence [14].

2.2. Bank Reforms and Corporate Governance in Nigeria

In pursuit of an efficient and effective financial system vis-à-vis the banking sector in Nigeria, concerted effort have been made to ensure strict compliance to the tenets of

corporate governance by the major players in the financial sector through the promulgation of several laws and regulations which include; Central Bank of Nigeria (CBN) Act of 1991, CBN Circulars and Guidelines, among others [15]. Also, there are some government agencies and non-governmental associations that are in the vanguard of promoting good corporate governance practices in the Nigerian banking sector. These organizations, apart from the CBN and NDIC, include the Securities and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE), Corporate Affairs Commission (CAC), Chartered Institute of Bankers of Nigeria (CIBN), Institute of Chartered Accountants of Nigeria (ICAN), and Financial Institutions Training Centre (FITC) among others.

As stated in the foregoing, corporate governance in the nation's banking system provides the structure and processes within which the business of bank is conducted with the ultimate objective of realizing long-term shareholders' value while taking into account the interests of all other legitimate stakeholders. In meeting its overall commitment to all stakeholders, the various statutory and other regulations in the system impose the responsibilities with sanctions for breaches on bank directors to: effectively supervise a bank's affairs by exercising reasonable business judgment and competence; critically examine the policies and objectives of a bank concerning investments, loan asset and liability management, etc monitor bank's observance of all applicable laws; avoid self-serving dealings and any other malpractices; ensure strict accountability [16].

A critical review of the nation's banking system over the years, have shown that one of the problems confronting the sector has been that of poor corporate governance. From the closing reports of banks liquidated between 1994 and 2002, there were evidences that clearly established that poor corporate governance led to their failures (Soludo, 2004) [3]. As revealed in some closing reports, many owners and directors abused or misused their privileged positions or breached their fiduciary duties by engaging in self-serving activities. The abuses included granting of unsecured credit facilities to owners, directors and related companies which in some cases were in excess of their banks' statutory lending limits in violation of the provisions of the law [14].

The various corporate misconducts in the affected banks caused pain and suffering to some stakeholders particularly, depositors and some shareholders for no fault of theirs. A review of on-site examination reports of some banks in operation in recent times, continued to reveal that some banks had continued to engage in unethical and unprofessional conducts such as: Non-implementation of Examiner's recommendations as contained in successive examination reports; Continual and willful violation of banking laws, rules and regulations; Rendition of inaccurate returns and failure to disclose all transactions thereby preventing timely detection of emerging problems by the Regulatory Authorities [11].

Furthermore, some banks' examination reports revealed that many banks were yet to imbibe the ethics of good

corporate governance. One of such issues bordering on weak corporate governance had been the prevalence of poor quality of risk assets. Apart from those of other debtors, large non-performing insider-related loans and advances in some banks had persisted due to the inability of the respective Boards and Management to take appropriate action against such insider debtors [17].

[2] opined that, internal audit functions are, in some banks not given appropriate backing of the Board and Senior Management. As a result, there had been the prevalence of frauds and forgeries in the banking system which is evident in the lack of transparency in financial reporting. The Boards of some banks were also noted to be ineffective in their oversight functions as they readily ratified management actions even when such actions could be seen to violate the culture of good corporate governance. Many Board Committees were equally noted to have failed to hold regular meetings to perform their duties [17]. From the forgoing, it is obvious that corporate governance in the system faces enormous challenges which if not addressed could have serious implications for the overall success of the bank consolidation exercise [18]. If operators in the banking sector will keep to the rules, as specified by the regulatory agencies and in individual banks' policies and transaction procedures all things being equal, financial sector stability could be guaranteed [4]. However, when there is the possibility of flagrant abuse of the ethical and professional demands on operators as evidenced in some failed banks' closing reports and on-site examination reports of some of the banks in operation, the prospect of restoring public confidence in the Nigerian banking system may be difficult to guarantee.

2.3. The Imperatives of Corporate Governance in a Consolidated Nigeria Banking System

The hallmark of banking is the observance of high degree of professionalism, transparency and accountability, which are essential for building strong public confidence. Due to the systemic distress witnessed in the nation's banking system and its unpleasant consequences on all stakeholders as a result of inadequacies in corporate governance of banks in recent times, series of initiatives had been taken by the nation's regulatory/supervisory authorities to encourage sound corporate governance in the system. Some of the initiatives included enhancing the legal framework; enhancing the surveillance activities of the financial system; strengthening the roles of internal and external auditors; developing of a code of best practices of corporate governance in the system; issuance of guidelines and circulars on matters such as pre-qualification for appointment to board and top management positions in banks, insider related credits, etc. While all the above-mentioned efforts are in the right direction, it is equally important to indicate some imperatives of good corporate governance for banks so as to ensure the safety and soundness of emerging bigger banks in the post-consolidation era with a view to enhancing public confidence in the nation's banking system [11].

The quality of information disclosure depends on the standards and practices under which it is prepared and presented. Full adoption of international accounting standards and practices will facilitate transparency and comparability of information across banks. Banks must be made to disclose whether they follow the recommendations of internationally accepted principles and codes in their documents and, where they do not, such institutions should provide explanations concerning divergent practices [19].

Corporate Governance implies the management of company affairs with diligence, transparency, responsibility and accountability that would maximize shareholders' wealth. Hence, it requires designing systems, processes, procedures, structures and taking decisions on ways to improve the financial performance and stakeholders' value in the end [5]. Corporate governance also focuses on the accountability mechanism that governs the relationship among shareholders, the board of directors, senior management, the workers and other stakeholders (Hassan, 2010) [6]. An important theme of corporate governance is to adequately ensure the accountability of certain individuals in an organization through the mechanism that help reduces or eliminates the principal agent relationship problem, which the board size is not an exception.

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Accountability and Transparency are another mechanism that is imperative in respect to the application of corporate governance principles in the crucial task of financial information reporting in order to maintain the confidence of investors and consumers. Adequate accountable disclosure and financial transparency help to highlight weaknesses inherent in corporate governance as poor risk diversification, inadequate loan evaluation and fraudulent insiders-related malpractices. Such highlights on weaknesses inherent in corporate governance set off a detailed control measures that can help prevent collapse. This was the case with Enron as financial transparency and accountability was weak and disclosure was inadequate [20].

According to [21], the leadership within an organization has to maintain corporate culture that integrates ethical decision making approaches sticking to corporate governance principles. A number of professional and regulatory organizations recommend reforms that will improve transparency in financial reporting thereby increasing corporate practices. The current emphasis on sound application of the principles of corporate governance is associated to the failure of known, giant and sound firms around the world. This led to the collapse of 54 in the recent content of Nigeria, the quest for good application of

corporate governance principles is further strengthened by the desire to attract investments and support rapid economic growth, which constitutes a good reward to both local and international investors. Most business failures in recent times is attributed to failure in the application of corporate governance principles; the initial collapse of banks in Nigeria in the early 1990's and onwards was because of inadequate application of corporate governance principles resulting to insider-related practices such as credit-related abuses, poor risks management techniques and failure of internal control system.

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Banks play a crucial role in propelling the entire economy of any nation by channeling surplus funds to the deficit units, of which there is dire need for repositioning to achieve efficient financial performance through a reform process geared towards forestalling bank collapse. In Nigeria, the reform process of the banking sector is part and parcel of the government strategic agenda aimed at repositioning and integrating the Nigerian banking sector into the African regional and global financial system. To make the Nigerian banking sector sound according to [22], the sector has undergone remarkable changes over the years in terms of the number of institutions, structure of ownership, as well as depth and breadth of operations. These changes have been influenced mostly by the challenges posed by deregulation of

the financial sector, operations globalization, technological innovations, and implementation of supervisory and prudential requirements that conform to international regulations and standards, which Corporate Governance is inclusive. It is this change in 2001 that led to the adoption of universal banking system where both commercial and merchant banking functions in Nigeria is jointly performed by reclassified Deposit Money Banks (DMBs) in Nigeria, while the Corporate Governance Code was re-issued and made mandatory on 1st March, 2006.

2.4. Theoretical Framework

[23] identified three essential theories of corporate governance: the steward-ship theory, the agency theory and the market theory. However this study is anchored on the stewardship theory of corporate governance. The stewardship theory of corporate governance holds that, because people can be trusted to act in the public good in general and in the interests of their shareholders in particular, it makes sense to create management and authority structures that, because they provide unified command and facilitate autonomous decision making, enable companies to act (and react) quickly and decisively to market opportunities as it also relates to the asset quality.

This approach leads, for instance, to the combination of the roles of the chairman/CEO and for audit committees to ensure compliances to the tenets of corporate governance which invariably affects asset quality of financial institutions. This is because the stock in trade for financial institutions is money that is given out to borrowers as loans, hence the need to adhere in strict terms to the canons of corporate governance to avoid unethical practices in granting and management loan facilities to enable effective performance of loans and the bank's ability to meet up with depositors demand.

2.5. Empirical Review

[24], in their study Audit Quality (AQ), Corporate Governance and firm characteristics in Nigeria used the population of the study to compose the companies listed on the floor of the Nigerian Stock Exchange. Samples of 58 audited financial reports of quoted companies for the period of 2007 were used. The data collected were analyzed using both descriptive and inferential statistics, of which descriptive method described information relating to AC and CEO duality. The study used frequency count, mean, standard deviation, minimum and maximum values variables, while information relating to the composition of outside director, members of the boards, audit committee composition was collected from the companies' annual reports. Results from the study conclude that non-executive directors, ownership, size and leverage significantly have relationship with audit quality.

Similarly, [25] in his study on corporate governance and firm performance: the case study of Nigerian listed firms examined the relationship between four corporate governance

mechanisms which included BS, BC, CEO status and Audit Committee (AC) to firm performances. Measure ROE and Profit Margin (PM) were used to assess performance of the firm. Samples of 20 Nigerian listed firms from 2000 to 2006 were selected, while panel methodology and Ordinary Least Square method of estimation were used. The results provided evidence of positive significant relationship between ROE and BS as well as Chief Executive Staff. However, the study could not provide a significant relationship between the two performance measures and BC and AC. The data used for the study were derived from audited financial statements of firms listed on the Nigerian stock exchange (NSE). A total of 20 non-financial firms were selected using the combination of non-probability sampling and stratified random sampling techniques.

Equally, Tanko and Kolawole (2010) [27], in their study “Corporate Governance and firms performance in Nigeria, used secondary data based on financial statements of companies from chosen samples, which were randomly selected from companies registered in the stock exchange list. ROE, Net Profit Margin (NPM), Sales Growth (SG), Dividend Yield (DY) and Stock Prices as key variables were used to define the performance of the firm. On the other hand, Corporate Governance was measured based on board independence, board size, and audit independence, ownership of the company and progressive practices of the company. The study found that averages of 30 percent of board members are outsiders which suggest that these boards are relatively not independent. The findings show weak relationship in that direction. The study concludes that the more the outsiders there are on a company’s board, the better the performance in terms of Return on equity. The study also recommends the composition of directors to be more of outsiders as there is a relationship between the compositions of directors to the performance of firms. To avoid duality issues, the study suggested that the positions of CEO and the Board Chairman be separated.

Several other empirical studies carried out on corporate governance and asset quality with a consensus that corporate governance affects the quality of bank loans or assets. For instance, [14], [7], [1], [19], [2], [27] among other studies concludes that corporate governance contributes to the efficient performance of asset quality of the financial sector in both developing and developed economies, but however found that the canons of corporate governance have not been adhered to, in the Nigerian financial sector even after the reforms and recommended that corporate institutions especially the banking sector in Nigeria should adopt the tenets of corporate governance that will attract stakeholders confidence and investment into the industry.

3. Methodology

3.1. Data Description and Sample

The research design adopted for this study is the descriptive and inferential research designs. Secondary

data were collected from secondary sources from 2006 to 2014. The raw data collected were raw data for LDR, CGDI, RAM, and BOS as attached in the appendix, while 2005 is excluded from the analysis because it is considered as the transitional year. The population of the study comprised of all the deposit money banks in Nigeria that were in operation in 2004. The purpose of choosing this period is to empirically test the significance or the extent to which the corporate governance compliance of the Nigeria banking sector impact on the asset quality of the banking system in the post reform era. This is because the period represents the post 2004 reform period. The data were obtained from the Central Bank of Nigeria (CBN) statistical bulletin, 2014 edition. The study also adopted the check list for corporate governance variable as compiled by [7] for the independent variables. The method of data analysis is the ordinary least square (OLS) multiple regression method with the aid of E-views statistical package.

Hypotheses

Ho1: There is no significant effect of risk assessment management (RAM) on asset quality of the banking sector in the post reform period.

Ho2: There is no significant effect of board size BOS on asset quality of the banking sector in the post reform period.

Ho3: There is no significant effect of corporate governance disclosure index (CGDI) on asset quality of the banking sector in the post reform period.

3.2. Model Specification

The approach collated data for the corporate governance and asset quality of banking sector in the post consolidation era. In the model, asset quality which is the dependent variable is proxy by loan-to-deposit ratio (LDR). The independent variables are Board size (BOS), corporate governance disclosure index (CGDI), and risk assessment management (RAM) is used as surrogate for corporate governance. The statistical formulation of the model is therefore presented as follows:

$$LDR = f(BOS, CGDI, RAM) \tag{1}$$

Stochastically the model is presented as thus:

$$LDR = \beta_0 + \beta_0_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu \tag{2}$$

Where:

X_1 = BOS

X_2 = CGDI

X_3 = RAM

μ = Error term

β_0 = Intercept

β_1 = estimation coefficient

a priori expectation is that $\beta_1, \beta_2, \beta_3 > 0$

4. Result Presentation and Discussion

4.1. Diagnostic Test

Table 1. Misspecification Test.

Type	Heteroskedasticity White Test	Ramsey RESET Test
F-stat	13.3922	8.2981
P-value	0.0224	0.0236

4.1.1. White Test of Heteroskedasticity

The white test is a statistical test that establishes whether the residual variance of a variable in a regression model is constant (i.e. Homoskedasticity). In other words, the White test can be a test of heteroscedasticity or specification of error or both. If no cross product terms are introduced in the White test procedure, then it is a pure case of heteroscedasticity but if cross product are introduced in the model then it is a test of both heteroscedasticity and specification bias.

Table (1) above revealed that, the null hypotheses of the presence of heteroscedasticity for the White tests in model is rejected. This is because the F-statistic of 7.9322, and a prob. value of 0.0012 for the model which is statistically significant at 5% alpha level (p-value < 0.05). Hence the

submission is that, the presence of heteroscedasticity is minimal if not entirely absent in the model there by fulfilling the classical OLS postulation of homoscedasticity. It therefore implies that, the application of OLS on these models will yield Best Linear and Unbiased Estimates.

4.1.2. Ramsey's RESET Test of Functional form of the Model

The RESET test is based on the notion that if the functional form of the model is incorrect, then the correct specification might be approximated by the inclusion of powers of the variables in the original model [28]. The notion behind the test is that if the coefficients associated with the total value of the variables are statistically significant, misspecification from sources such as incorrect functional form or the exclusion of relevant variables is suggested. Consequently, the Ramsey RESET test of the functional form of the models which revealed that the model is free from misspecification problems of omitted variables with an F-statistic of 8.2981 and prob. value of 0.0236 which is statistically significant at 5% level. This result shows that the functional form of the model is correct; thus there is no misspecification of variables in the model.

Table 2. Normal Distribution and Goodness of Fit.

Type of Test		Normality			Goodness of Fit
		Skewness	Kurtosis	Jarque Bera	Anderson Darling
Model	T-stat	2.1853	24.9806	7042.79	22.170 (2.5018)
	P-value	-	-	0.00000	-

The results of the skewness, kurtosis and Jarque-Bera test are contained in table (2). There are carried out to tests for normality of the residuals. The result shows that the residuals are normally distributed evidenced by high values of the test statistics and minimum probability values of the Jarque Bera test, though the skewness for model show slight deviation from normal nevertheless, minor deviation from normality

does not invalidate the test results (Juselius (2006). The results of the goodness of fit (Anderson Darling) of the models also revealed robust fitness for the models since, their test-statistics are far greater than their critical values leading to the rejection of the null hypothesis that: "there is no goodness of fit in the model in favour of the alternative that, "there is goodness of fit".

Table 3. Regression Analysis.

Variable	Coefficient	Std Error	t-Statistic	Prob.
BOS	1.052645	0.208208	3.054736	0.0217
CGDI	-4.001030	0.804379	0.572031	0.7019
RAM	-0.959057	0.314586	1.042730	0.4241
C	2.051700	0.592083	3.465224	0.0142
R-squared	0.866707	Mean dependent var		24.32251
Adjusted R-squared	0.859560	S.D. dependent var		0.452696
S.E. of regression	0.008391	Akaike Info criterion		3.692164
Sum squared resid	0.000447	Schwarz criterion		6.061878
Log likelihood	-345.7803	Hannan-Quinn enter.		3.319955
F-statistic	14.89370	Durbin-Watson stat		2.180387
Prob(F-statistic)	0.000000			

Source: Author's Computation based on E-view regression Analysis (2016)

4.2. Discussion of Result

The result in table (3) showed that the explanatory variables accounted for 85.96 of the dependent variable while 14.044 is accounted for by other factors as indicated by the adjusted R-square of 0.859560. The findings of the empirical

evidence are presented in Table (3) reveals that all the variables are correctly signed however only BOS is positive. The positive impact of board size on the asset quality showed that there is a positive and significant relationship between LRD and BOS. The implication of this result is that a unit

change in BOS affects LDR by 1.052645. Also the P-value of 0.0217 show that the compliance of deposit money banks to the constitution of boards significantly affect the asset or loan quality of the Nigerian banking sector. However the compliance to the board constitution is possibly because of the quest for satisfying different interest groups and not necessarily to ensure an effective and efficient banking sector. Hypothetically and realistically, it is assumed that corporate governance if complied with should enhance quality and the performance of banks assets quality i.e. bank loans as indicated by their quality of loans and if dire, the reverse should be the case. Also the findings indicate that CGDI has a t-value of 0.572031 and a p-value of 0.7019 and a coefficient of -4.001030. This means that CGDI insignificantly and negatively affects asset quality of deposit money banks for the period under review at 5% level. While the result for RAM show that RAM had a negative coefficient of -0.959057 with a p-value of 0.4241 which is not statistically significant at 5% level which means that RAM negatively and insignificantly affected asset quality. The implication of this result is that corporate governance in the banking sector within the period of under study has been catastrophic resulting to the emergency intervention of the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) in forming the AMCON (Asset Management Corporation of Nigeria) in June 2010. From our empirical findings, we agree that, corporate governance in Nigeria has been poor and have had a negative effect on the performance of the banks. This is indicated by the negative relationship coefficient of -4.001030 and -0.959057 respectively implying that as poor corporate governance increases, the performance of the banks falls. The consequence of bad corporate governance is that it reduces the confidence of the public in the financial-banking sector of the economy and thus a fall in savings, bank productivity, profit, fewer investable funds. The robustness of the result is further buttressed by an F-statistic of 14.89370 while the Durbin-Watson (DW) value of 2.18 clearly indicates the absence of autocorrelation. The estimated probability value (prob. F-stat) of 0.0000 is significant enough to conclude that the model has performed well. The coefficient of constant (C) of 2.051700 determine the value asset quality given a unit increase or decrease in any of the explanatory variable while other factors are rendered zero. The overall findings of this study is in line with the empirical evidence of [1], [2], [7], [14], [19], [27]

5. Conclusion

The findings indicate that corporate governance variables studied insignificantly and negatively affect asset quality except for board size (BOS) which indicated a significant and positive effect on the asset quality in the post-reform era. In addition, there is every gain saying that corporate governance in the banking sector are veritable tools for banking sector efficiency if its canons are fully adhered to and the regulatory authorities ensure strict compliance.

Recommendations

The survival and strength of any banking sector depends on the eminence of its corporate governance or management which is very strategic in a reform process. Thus in spite of several reforms put in place to strengthen this sector; banks are still prone to failure. Hence effective supervisory framework that enhances compliance to corporate governance codes becomes imperative. Therefore, this study recommends that:

- (1) More efforts should be made to ensure adequate compliance to the reforms and to adhere to corporate governance, as well as its attractiveness and effectiveness in improving performance.
- (2) An efficient mechanism should be put in place to improve on the bank asset quality of Deposit Money banks' to avoid financial distress through unbiased supervision by the regulatory authorities.
- (3) Deposit money banks' should ensure strict compliance to the tenets of loans administration and management to avoid incessant bank distress and failures.

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