

# CORPORATE GOVERNANCE CHARACTERISTICS AND FIRM PERFORMANCE: INFERENCES FROM PANEL CORRECTED STANDARD ERRORS (PCSES) REGRESSION

Mohammed Mahmud Kakanda<sup>1</sup>, Basariah Salim<sup>2</sup>, Sitraselvi A/P Chandren<sup>3</sup>

<sup>1</sup>*Department of Accountancy, Modibbo Adama University of Technology Yola, Nigeria*

<sup>2&3</sup>*Tunku Puteri Intan Safinaz-School of Accountancy, Universiti Utara Malaysia*

*manga4m@gmail.com*

*basa1189@uum.edu.my*

*sitraselvi@uum.edu.my*

## ABSTRACT

**Purpose** - The purpose of this study is to examine the relationship between corporate governance (CG) characteristics and performance (proxied by return on equity-ROE) of listed Deposit Money Banks (DMBs) in Nigeria for the period 2012-2016. The concept of CG has become an issue of great concern to various stakeholders due to various corporate fiascos in several economies. In the same vein, this issue of corporate failures has likewise occurred in Nigeria due to ineffective application of corporate governance, where corporate board members neglect their functions coupled with the presence of inadequate disclosure in reporting of risk and its related activities, and inadequate risk management frameworks especially in the DMBs (Sanusi, 2010). These resulted in the review of the erstwhile 2009 CG code in Nigeria to the issue of a new one in 2011 with the expectation that it will enhance firm performance (Kakanda, Basariah, & Chandren, 2017). However, there is a stream of studies on the relationship between CG characteristics and firm performance (for instance, Arora & Sharma, 2016; Elyasiani & Zhang, 2015; Vafeas, 1999), yet, their results are mixed and fragmented due to differences in governance system, economic, social, and legal settings (Kakanda *et al.*, 2016). Hence, this study hypothesized that CG characteristics have a positive relationship with firm performance. However, the result of this study depicts that the relationship between the explanatory variables and firm performance is mixed since both significant and insignificant positive and negative effects are obtained.

**Methodology** - In order to achieve the objective of this study, data were obtained from the annual reports of the 15 Deposit Money Banks (DMBs) listed on the Nigerian Stock Exchange (NSE) for the period 2012-2016. However, to empirically test the hypotheses developed in this study, the following multivariate models are used which were analysed using STATA package version 14:

$$ROE_{it} = \beta_0 + \beta_1 BMT_{it} + \beta_2 MDR_{it} + \beta_3 BID_{it} + \beta_4 BSZ_{it} + \beta_5 BOW_{it} + \beta_6 RMD_{it} + \beta_7 AST_{it} + \beta_8 LEV_{it} + \beta_8 FAG_{it} + \varepsilon \quad \text{eq.....1}$$

$$ROE_{it}^{(q)} = \beta_0^{(q)} + \beta_1^{(q)}BMT_{it} + \beta_2^{(q)}MDR_{it} + \beta_3^{(q)}BID_{it} + \beta_4^{(q)}BSZ_{it} + \beta_5^{(q)}BOW_{it} + \beta_6^{(q)}RMD_{it} + \beta_7^{(q)}AST_{it} + \beta_8^{(q)}LEV_{it} + \beta_8^{(q)}FAG_{it} + \varepsilon_{it}^{(q)} \quad \text{eq.....2}$$

**Results** - Based on the result of Panel Corrected Standard errors (PCSEs) regression presented in Table 1, board meeting (BMT) and multiple directorships (MDR) have a significant negative effect on firm performance (return on equity-ROE) at 1% and 5% significant levels respectively. This means that an increase in BMT and MDR will result in a significant decrease in ROE. However, Board independence (BID), board ownership (BOW), and risk management disclosure (RMD) have a significant positive effect on ROE at 1%, 10%, and 5% significant levels. Whereas board size (BSZ) has a negative, but insignificant effect on ROE. For the control variables, asset tangibility (AST) has an insignificant positive impact on ROE, while leverage (LEV) has a significant negative influence on ROE, and firm age (FAG) has an insignificant negative impact on ROE. Nevertheless, the relationship between CG characteristics and firm performance may not be homogenous across units (firms) as measured by most prior studies using Ordinary Least Square (OLS) regression, but possibly heterogeneous (that is the impact may be on upper or lower bounds) (Shawtari, Salem, Hussain, Alaeddin, & Thabir, 2016). For this reason, this study investigates the consistency of the PCSEs regression result using quantile regression model (0.25, 0.50, and 0.75 quantiles). The result of model 2 (quantile regression) depicts that amongst the explanatory variables in this study, only BMT has a homogenous effect on ROE across various quantiles since the result is consistent with that of the PCSEs model. However, the remaining explanatory variables have a heterogeneous relationship with firm performance across quantiles. This means that the relationship between CG characteristics and firms performance is heterogeneous in nature (that is, based on lower or upper level) of the dependent variable and not homogenous as claimed by previous studies.

**Table 1:** Models of Return on Equity (ROE) via Panel Corrected Standard Errors (PCSEs) and Quantile Regression

Variables	Expected Sign	Model 1	Model 2		
			Q (0.25)	Q (0.50)	Q (0.75)
Intercept	?	1.21*** (4.59)	0.85 (1.09)	0.82*** (3.08)	0.57** (2.35)
Board meeting (BMT)	+	-0.04*** (-8.06)	<b>-0.01*</b> <b>(-1.88)</b>	<b>-0.02***</b> <b>(-3.47)</b>	<b>-0.03***</b> <b>(-5.36)</b>
Multiple directorships (MDR)	-	-0.03** (-2.37)	-0.12 (-0.27)	-0.21 (-1.33)	<b>-0.34**</b> <b>(-2.45)</b>
Board independent (BID)	+	0.74*** (2.83)	-0.37 (-0.86)	-0.31 (-1.32)	0.32 (1.41)
Board size (BSZ)	+	-0.02 (-0.33)	-0.06 (-0.43)	-0.07 (-1.21)	0.07 (1.64)

(continued)

Variables	Expected Sign	Model 1	Model 2		
			Q (0.25)	Q (0.50)	Q (0.75)
Board ownership (BOW)	+	0.28* (1.70)	-0.32 (-1.16)	<b>-0.06*</b> <b>(-1.85)</b>	<b>0.02**</b> <b>(2.03)</b>
Board ownership (BOW)	+	0.28* (1.70)	-0.32 (-1.16)	<b>-0.06*</b> <b>(-1.85)</b>	<b>0.02**</b> <b>(2.03)</b>
Risk management disclosure (RMD)	+	0.05** (1.98)	-0.04 (-0.63)	0.02 (1.49)	-0.01 (-0.21)
Asset tangibility (AST)	+	0.01 (0.05)	0.01 (0.24)	0.01 (0.61)	0.01 (0.69)
Leverage (LEV)	-	-0.17** (-1.47)	-0.02 (-0.09)	-0.03 (-0.46)	-0.17 (-1.42)
Firm age (FAG)	+	-0.39 (-1.47)	-0.03 (-1.04)	-0.01 (-1.06)	-0.22 (-1.34)
<i>N</i>		15	15	15	15
<i>Observations</i>		75	75	75	75
<i>R</i> <sup>2</sup>		0.39	0.162	0.206	0.306

Note: *t* statistics in parentheses (); \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.10$ . Values in **bold** are significant results consistent with those of the Panel Corrected Standard Errors (PCSEs) Regression model. Model 1=PCSEs regression; Model 2=Quantile regression.

**Keywords:** Corporate Governance Characteristics, Nigerian Stock exchange, return on equity, Panel Corrected Standard Errors, quantile regression.

## CONCLUSIONS

This study examines the relationship between CG characteristics and firm performance. The result obtained shows that CG characteristics have both significant and insignificant positive and negative effect on ROE of DMBs in Nigeria. Notwithstanding, the quantile regression result shows that there is a presence of heterogeneity across various quantiles in the relationship between CG characteristics and performance of DMBs in Nigeria. Therefore, the finding of this study is indispensable to both regulators of CG code in Nigeria and corporate managers since the study shows how various CG characteristics affect the performance of DMBs as expected by the revised CG code of 2011, and it contributes to the literature in terms of methodological approach. Despite the contributions made by this study, yet, it has some setbacks associated with it that include: small sample (15 firms), concentrates on banking sector alone, and uses only accounting-based measure (ROE), hence, an avenue for future researchers to fill the gap identified.

## REFERENCES

Arora, A., & Sharma, C. (2016). Corporate governance and firm performance in developing countries: evidence from India. *Corporate Governance*, 16(2), 420-436. [doi.org/10.1108/CG-01-2016-0018](https://doi.org/10.1108/CG-01-2016-0018).

- Elyasiani, E., & Zhang, L. (2015). Bank holding company performance, risk, and “busy” board of directors. *Journal of Banking & Finance*, 60, 239-251. [doi.org/10.1016/j.jbankfin.2015.08.022](https://doi.org/10.1016/j.jbankfin.2015.08.022).
- Kakanda, M. M., Salim, B., & Chandren, S. (2016). Review of the relationship between board attributes and firm performance. *Asian Journal of Finance & Accounting*, 8(1) 168-181. doi:10.5296/ajfa.v8i1.9319.
- Kakanda, M. M., Salim, B., & Chandren, S. (2017). Corporate Governance, Risk Management Disclosure, and Firm Performance: A Theoretical and Empirical Review Perspective. *Asian Economic and Financial Review*, 7(9), 836-845.
- Sanusi, L. S. (2010). The Nigerian Banking Industry: what went wrong and the way forward. Governor Central Bank of Nigeria (a lecture delivered at the convocation of Bayero University, Kano, Nigeria). Retrieved from <http://www.cenbank.org/>.
- Shawtari, F. A., Salem, M. A., Hussain, H. I., Alaeddin, O., & Thabit, O. B. (2016). Corporate governance characteristics and valuation: Inferences from quantile regression. *Journal of Economics, Finance and Administrative Science*, 21(41), 81-88. dx.doi.org/10.1016/j.jefas.2016.06.004.
- Vafeas, N. (1999). Board meeting frequency and firm performance. *Journal of financial economics*, 53(1), 113-142. [doi.org/10.1016/S0304-405X\(99\)00018-5](https://doi.org/10.1016/S0304-405X(99)00018-5).