Corporate Control and Non-Bank Financial Intermediaries Performance in Nigeria: Using Panel Regression Analysis.

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Abstract: *The research study considered the impact of corporate control on the performance of non- bank financial intermediaries in Nigeria using panel regression.Based on the econometric model, the result indicates that improved performance of the non- banking financial sector is dependent on increasing the level of transparency and good governance in both financial and non-financial banking sector. The increased incidence of firm's failure in the recent period generated the current literature on quality of firm's assets and also emphasized good governance as means of achieving banks and non-bank institutions objectives. This study made use of cross sectional secondary data obtained from the financial reports of non- bank institutions for a period of ten (10) years (2001- 2010).*
Data were analyzed using panel regression analysis. The study supported the hypothesis that corporate governance positively affects performance of firms. In conclusion, the study shows that poor asset quality and corporate control (defined as the ratio of non-performing loan to credit) and loan deposit ratios negatively affect financial performance and vice visa.
Keywords: *corporate governance (control), non- bank performance, and asset quality and panel regression analysis*

I.   Introduction

Corporate control has be0en a major concern since the establishment of joint-stock company. Corporate control shows the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation (Wheelen and Hunger, 2006). It also show the relationship among stakeholders and the aims and objectives for which an organization is governed, which means that corporate control is an institutional instruments used by firms stakeholders to achieved planned objectives and goals because there is no one single factor that contributes to organizational problems than the lack of transparency, effective and efficient governance. In any establishment, good corporate control start with the owners, then it extends down through the board and management to the employee and to both the internal and external player.

Financial intermediaries are institutions or agencies which interpose between the ultimate lenders and the ultimate borrower and enable cash needed investors to survive and ride in the economic activities. They make capital available for the deficit investors from the surplus creditors. The financial intermediaries came to the rescue of the financial system in which commodity money was causing savings to be hoarded, so in the fully banked situation brought about with the development of non-bank financial institutions(NBFIs) another layer of financial intermediaries came into existence in order to put idle bank money to work (ogundina, 2006). Non-bank financial institutions in Nigeria must embraced good and transparent corporate control in order to achieve the stated objectives and goals of the non-financial institution and have positive impact on the external players.

1.2 Research Questions
The questions to be addressed in the paper include:
i) Could corporate governance enhance sound performance of non-bank financial institutions?
ii) Does corporate governance has positive effect on non-bank financial institutions?
iii) To what extent has corporate governance improve service delivery by non-banking financial institutions in Nigeria?

1.3 Objective of the Study
The broad objective of this study is to examine the role of corporate governance in the performance of non-bank financial institutions in Nigeria, taking a critical look at how corporate governance has significantly contributed to the growth of Nigerian non- banks financial institution.
Other Objectives are:
ii To highlight the major paths of corporate governance that would lead to effectiveness of

the non- bank financial institutions in Nigeria.
iii To evaluate the need of corporate governance in the non- banking financial institution sector.
iv Make suggestions and policy recommendations based on the findings.

1.4 Research Hypotheses
The basic research hypothesis formulated for this study is:

H₀: Corporate governance has not significantly improved the performance of the Nigerian non- banking financial institution sector.

H₀: Corporate governance has no positive effect on non-bank financial institutions in Nigerian financial environment.

1.5 Statement of the Research Problems
      Recent discussions and interest in corporate governance stem from issues relating to financial crises and high profile corporate scandals. The development potentials of NBFIs are impeded by a myriad of problems that confront them. Some of these are systemic while others are endogenous. A few of these problems are discussed below:
i. **Distress**. The financial distress of the 1990's thoroughly decimated the ranks of NBFIs. Several NBFIs (Community banks, PMIs, Finance companies, etc) became distressed during this period and were subsequently liquidated.
The distress experienced by the NBFIs could be attributed to several reasons. Some of which include inadequate capitalization, poor management and illiquidity. The harsh economic environment and the distress of banks which some of them had dealings with also contributed immensely to the problems of NBFIs.
ii. **Funding**. Some NBFIs like DFIs were used to government subventions and international aids. When government subventions dried up and international donors were not forthcoming, these NBFIs became moribund. It was this situation that gave the present government the impetus to reorganize this sector by merging some of them.
iii. **Operational Deficiency**. The policy establishing community banks envisaged a financial institution that will engender economic development by funding small and medium term enterprises without attaching the commercial bank kind of stringent loan conditions. This policy though laudable did not take our societal value system into consideration, as most of the entrepreneurs that benefited from these uncollaterized loans refused to repay. Their refusal compounded the problems of these NBFIs.
The case of the DFIs was not much different but in their own case being government establishments the loan beneficiaries saw it as their own share of the "national cake" ((Alashi, 2002).
iv. **Capitalization**. Most NBFIs were established with very little capital. Those that were adequately capitalized had their capital base eroded by bad debt. The inadequate capitalization made it impossible for these institutions to withstand economic shocks and losses. In the case of community banks, the initial recommended capitalization was as low as N250, 000.00. This allowed nefarious characters and criminals apply for licenses which they used to dupe unsuspecting depositors. This may have informed the capitalization review in the case of microfinance banks to N20m and one billion naira for unit and state-wide microfinance banks respectively.
v. **Competition**. With the deregulation of the Nigerian economy in the mid 1980's there was a tremendous upsurge in the number of banks and NBFIs operating in Nigeria (Acha, 2004:128). This increase in number engendered keen competition among them for deposits. NBFIs most of them being smaller and with fewer branches or no branches at all, as in the case of community banks, could not therefore compete effectively with the banks.

II.   Theoretical Framework and Review of Literature
Insurance Companies: These are non-banking institutions that undertake to indemnify their customers from economic loss. They mobilize savings through the premium paid by the insured; from this pool of savings they are able to indemnify the few that suffer loss. Insurance plays a very active role in development, apart from the psychological assurance and protection it gives to investors (Acha, 2012). According to Okwor (1985) cited in Ogundina (2006) maintained that insurance industry also serves as a means of mobilizing resources or funds for economic activities and development. It also plays an active role in capital formation and remains a veritable source for long-term development funds (Harrington and Niehaus, 1999; Dorfman, 2005). Insurance business consists of life, non-life as well as re-insurance. Despite insurance being the second most important financial institution the industry suffers from poor image and low patronage attributed to poor indemnification process and protracted legal tussle (Akpan, 1994). The significance of insurance industry could serve as an effective vehicle for the mobilization of national resources by encourage individuals to save and thereby make available

the long term contractual savings in investment (Ogundina,2006). It is believed that the recapitalization in the industry will strengthen them, improve their management, enthrone good corporate governance and ultimately improve their image in order to contribute strongly to the economic activities and development in Nigeria (Acha, 2007).

Finance and Investment Companies: Finance and investment companies engage in short term non-bank money lending, leasing, hire purchase, factoring, LPO financing, export financing, electronic funds transfer and issue of vouchers, coupons, credit cards and token stamps. These are institutions that carry wide range of activities towards the promotion of economic development (Ogundina, 2006). As finance companies are not authorized to mobilize deposits from the public, they rather rely on owners' equity and borrowings to perform their intermediation role. They are known to play active role in financing small and medium scale enterprises (Onoh, 2004).

Microfinance Banks:

The operational framework for microfinance banks issued by the Central Bank of Nigeria set a minimum of two and a maximum of seven directors for a microfinance bank. Two directors other than the executive management are required to have banking experience; and no person is to serve as a director in more than two institutions under the regulatory purview of the Central Bank of Nigeria. Directors must be "fit and proper'' persons; while the board is expected to add value, provide strategic direction and effective oversight through board committees for their respective bank. These are self-sustaining financial institutions owned and managed by local communities such as community development associations, cooperatives, town unions, individuals etc. Unlike deposit money banks, community banks are unit banks but they can accept deposits, grant credit to their customers and provide limited banking service (Iorchir, 2006:15).They are not allowed to participate in the foreign exchange market neither do they belong to the bank clearing system. To circumvent this rule many community banks develop correspondent relationships with commercial banks to enable them clear cheques. Community banks play active role on rural development by mobilizing rural savings and financing investment at the grassroots (Bamisile, 2004:43). Most of these banks have metamorphosed into Microfinance banks and those of them that could not meet the recapitalization requirement were liquidated (Mobolurin, 2006; Isa and Adesokan, 2007). The microfinance banks enhance the development of productive activities in the rural areas and hence improve the economic status of both the rural people and the rural areas through loan given to the rural minor investors (Ogundina, 2006).

Bureaux De Change: In the opinion of Obadan (1993) the advent of bureaux de change was
Predicated on government's desire to correct the shortcomings identified in the operations of black marketers. These parallel markets operators were buying foreign exchange at very low prices only to turn around to sell at very high prices. It was in a bid to control their activities that the government brought them under the supervisory purview of the Central Bank of Nigeria (CBN). They are therefore authorized to buy foreign currency from the public and not from banks (Akpan, 1999). Through their operations bureaux de change help to attract hard currency into the country by offering prices better than the official rate and by availing Nigerians abroad who remit monies home a channel to do so. Through this avenue, they boost the foreign exchange reserves of the country and improve the economy ultimately.

Discount Houses: The first set of discount houses began operations in Nigeria in 1993. They were established to act as intermediaries between the CBN, the licensed banks and other financial institutions. They mobilize funds for investment in securities by providing discount/rediscount facilities in government short-term securities. By so doing, they facilitated the use of indirect monetary policy tools especially open market operations. Apart from improving the efficiency in monetary policy administration, discount houses have also positively impacted on banks' liquidity, by providing banks an investment outlet for their surplus funds (Agene, 1991).

Development Finance Institutions: Development finance institutions (DFIs) popularly known as development banks are specialized institutions established to foster development in specified sectors of the economy. To improve the performance of these institutions government has re-organized them. As part of this re-organization process, government brought them under the supervision of the CBN and merged some of them. The Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI) and Nigerian Economic Reconstruction Fund (NERFUND) were merged to form the Bank of Industry (BOI). Also, the Nigerian Agricultural and Cooperative Bank (NACB), the People's Bank and Family Economic Advancement Programme (FEAP) were brought together to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB). Akpan (1999) identified the need for the provision of long term loans to encourage investment and aid economic development as driving force behind the reorganization of these institutions. He further pointed out that apart from making loans available, these institutions also extend technical and managerial expertise to the loan beneficiaries.

Primary Mortgage Institutions: Primary Mortgage Institutions (PMIs) mobilize long-term funds for the development of housing (Onoh, 2004:113). The National Housing Policy launched by the government in 1992 was aimed to boost activities in this sector. Workers in public and private sectors, banks, insurance companies were mandated to contribute to housing development. These funds were to be lent to PMIs by the Federal Mortgage Bank of Nigeria (FMBN) for on lending. The PMIs apart from mobilizing funds of their own also serve as a conduit through which National Housing Policy loans pass to beneficiaries. Umoh (1997:39) opined that PMIs have not made any appreciable impact in the housing finance market. This he attributed to their unfaithfulness to their operational scope by lending to non-housing businesses. Another factor that has impeded their performance is the paucity of long-term funds in the financial market (Bamisile, 2004).

Corporate control is the back bone and survival measure or determinant of an organization and Nigeria investors and stakeholders should embrace and blend with the global idea on governance practices as the prerequisites for attracting the much needed foreign investment inflows that will help put the economy back on the path of sustainable economic growth and poverty reduction.

III. Corporate Control Concept And Firm Performance

Corporate control refers to a set of rules and a way by which the upper management of a firm is directed and controlled in other to meet up with the stated objectives and goals.

Corporate financial reporting provides fundamental information to a wide range of policy makers in both the corporate and non-corporate sectors of the economy – shareholders, management, government, creditors and society at large. This information is a vital input to effective and efficient management, and requires attention in practices (Mohmmed, 2012). The effect of transparent and good governance on a firms' reputation and standard cannot be over emphasized. Transparent and good corporate control promotes goodwill, enable firms to meet up with international standard and confidence in the non financial intermediaries system. Recent studies from academic researches shows that good and transparent corporate control trigger increased in business and firm's valuation, higher profit, growth in sales, lower cost of capital and achieve both internal and external economies of scale Corporate governance involves a system by which governing institutions and all other organizations relate to their communities and stakeholders to improve their quality of life. (Ato,2002).

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2002) find evidence of higher firm performance in countries with better protection of minority shareholders. Klapper and Love (2003) report that better corporate governance is highly correlated with better operating performance.
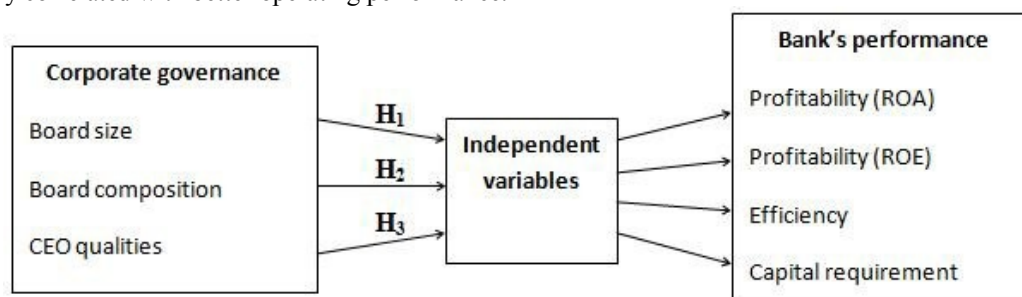
Author's Concept cited in Filip Fidanoski and Vesna Mateska and Kiril Simeonovski (2013).

Descriptive statistics of the variables are presented in table 1. The descriptive statistics include mean, median, minimum, maximum, standard deviation and Jarque- Bera statistics for normality test. The descriptive statistics reveals that average firm performance in terms of ROE is 28.6 percent which is ranging from positive 2.1 percent to 305.0 percent. Average board size is 83.0 percent which shows more effect on firm performance than other tested independent variables and ranging from 50.0 percent to 100.0 percent.

Table 1: Descriptive Statistics

	ROE	BOS	BOC	CEO	AUC	OWNST
Mean	0.286410	0.830700	0.728000	0.720000	0.570000	0.690600
Median	0.148000	0.800000	0.705000	1.000000	0.500000	0.570000
Maximum	3.050000	1.000000	0.900000	1.000000	1.500000	1.000000
Minimum	0.021000	0.500000	0.500000	0.000000	0.000000	0.000000
Std. Dev.	0.404753	0.138632	0.104919	0.451261	0.202290	0.463938
Skewness	3.902135	0.363591	0.259338	-0.979958	1.494237	-0.821826
Kurtosis	23.96244	2.075723	2.359612	1.960317	7.886752	1.675668
Jarque-Bera	980.711	5.762832	2.829673	20.50921	136.7138	12.56437

Probability	0.063000	0.056055	0.242965	0.000035	0.000000	0.070093
Sum	28.64100	83.07000	72.80000	72.00000	57.00000	69.06000
Sum Sq. Dev.	16.21869	1.902651	1.089800	20.16000	4.051200	21.30856
Observations	100	100	100	100	100	100

Source: E- view version 7.0

Average board composition in the form of representation of outside independent director is 72.8 percent which is ranging from 50.0 to 90.0 percent, this infers that majority of the boards of the sampled firms are independent. There is a 28.0 percent incidence of CEO duality while 72.0 percent of the firms have separate persons occupying the post s of the chief executive and the board chair. CEO duality means that one person is both CEO and board chairman in a corporation, because the CEO duality could constrain board independence and reduce its ability to execute the function of oversight and governance (Chien, 2008). The average value for audit committee is 57.0 percent ranging from 0 to 1.5 percent which indicates that majority of the sampled firms have audit committees composed of outside members (independent audit committees) and also the average value of ownership structure is 69.1 percent. To perform the statistical analysis, it is necessary to meet the assumptions of statistical analysis, such has normality, heteroscedasticity and multicolinearity. The assumption of normality is confirmed through the Jacque- Bera probability and value of the skewness.

The probability value of the Jarque-Bera of both dependent and independent variables are greater than 0.05 percent which show that the data are normally distributed, except the value of CEO and audit committees. The variables in the table 1 above also exhibit some level of variability as in the   mean value is less than the median value and the skewness value of the CEO is -0.97 which is less than 0(zero) its indicate that the CEO data are not normally distributed. The other control variables average value are greater than the median which means that there exist some variability between the variables, which indicate the skewness of the data.But since the skewness are above 0(zero) that can take care of non-normality problem. No multicolinearity problem is seen in this study as the correlation matrix of the explanatory variables shows that there is no strong correlation among the variables as correlation coefficients are very small (less than 0.75 or negative).

Table 2: Correlation Coefficients among Variables

Correlation

	ROE	BOS	BOC	CEO	AUC	OWNST
ROE	1.000000	-0.141237	-0.054091	0.017779	-0.004246	-0.092772
BOS	0.141237	1.000000	0.212949	0.159785	-0.144003	0.066254
BOC	0.054091	0.212949	1.000000	0.043522	0.091520	-0.074369
CEO	0.017779	0.159785	0.043522	1.000000	0.007746	0.160511
AUC	-0.004246	-0.144003	0.091520	0.007746	1.000000	-0.047056
OWNST	0.092772	0.066254	-0.074369	0.160511	-0.047056	1.000000

Source: E- view version 7.0

The correlation coefficient table above shows the relationship between the dependent and independent variables. ROE is positively correlated with the firm's board size and is weakly significant (0.0437). The board composition, CEO and ownership structure also show positive correlation with firm performance (ROE). However, ROE has a negative significant relationship with audit committee.

IV.   Panel (Pooled) Multiple Regression Result

Dependent Variable: ROE (FIRM PERFORMANCE)
Method: Panel EGLS (Cross-section random effects)
Date: 04/23/14   Time: 21:52
Sample: 2007 2011
Periods included: 5
Cross-sections included: 20
Total panel (balanced) observations: 100
Swamy and Arora estimator of component variances
White cross-section standard errors & covariance (no d.f. correction)
WARNING: estimated coefficient covariance matrix is of reduced rank

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.670322	0.554592	1.208677	0.9300
BOS	0.124863	0.039593	3.153664	0.0437
BOC	0.031518	0.005058	6.231317	0.0201
CEO	0.054433	0.016245	3.350754	0.0309
AUC	-0.139661	0.114838	-1.216163	0.0171
OWNST	0.073398	0.006536	11.22980	0.0430

Effects Specification				
			S.D.	Rho
Cross-section random			0.185076	0.2115
Period fixed (dummy variables)				
Idiosyncratic random			0.357396	0.7885

Weighted Statistics			
R-squared	0.522983	Mean dependent var	0.286410
Adjusted R-squared	0.472718	S.D. dependent var	0.358293
S.E. of regression	0.359852	Sum squared resid	11.65441
F-statistic	574.0816	Durbin-Watson stat	2.305425
Prob(F-statistic)	0.035 632		

Unweighted Statistics			
R-squared	0.214465	Mean dependent var	0.286410
Sum squared resid	14.84878	Durbin-Watson stat	1.809467

Source: E-view version 7.0

The Anova result of the panel regression output showed that all corporate governance variables of measure (BOS, BOC, CEO, AUC and OWNST) are statistically significant to ROE as the F-stat Prob. Value (0.035632) is less than the critical value at 5% level. The individual variables significance are tested using the coefficient and the standard error of board structure, board composition, chief executive and ownership structure. This result showed that BOS, BOC, CEO and OWNST are statistically significant to ROE in the year 2007 to 2011.The direction of the relationship which is based on sign indicated that there is a direct relationship among BOS, BOC, CEO , OWNST and the ROE except AUC that has inverse relationship. The magnitude of the relationship of ROE to the BOS, BOC, CEO, OWNST and AUC is measured using the partial changed in the independent variables using the value of the regression coefficients multiply by 100. Therefore, the estimate model show that a unit changed in BOS, BOC, CEO and OWNST will result in 12.48%, 3.15%, 5.44% and 7.33% increase in the ROE while AUC has inverse effect. To adjudge the accuracy of the model fit of the analysis, the R^2 value 52.3% degree of accuracy. The coefficient of variability is the adjusted R^2 is 0.472718 which indicates that the variation in ROE (firm performance) is capable of being explained by the control variables- BOS, BOC, CEO, AUC and OWNST at 47.3% while 42.7% is unexplainable as result of certain variable factors that are not included in the panel regression model. The adjusted R square is used to provide a better estimate of true population value (pallant, 2007). The t- value statistics confirmed the significance impact of corporate governance variables on firm's performance, where the t- statistics of board size, board composition, chief executive and ownership structure are greater than 5% critical value.

In addition, the panel regression of weighted statistics provides Durbin-Watson statistics which explains connection between the explanatory and the dependent variables. It also shows how changes in the explanatory variable affect the dependent variable. The Durbin Watson statistics shows no serial correlation or autocorrelation problem as the value is within the range of 1.5 to 2.5, the Durbin Watson for the variables is 2.31 which show that there is no serial correlation among the variables ie there is no auto correlation problem. The fitness of the regression model can also be confirmed from prob (F- statistics = 0.03563 and less than 0.05 level of significant).

Equation two below shows the model for fixed effect of a longitudinal data, where the error μ_i are correlated with the regressors in the fixed effect model.

The rho= (Sigma_ u)^2/ (Sigma_ u)^2- (Sigma_ e)^2 and also known as the interclass correlation. The rho= 78.9% of the variance is due to differences across panels. Since the P-value < 0.05, we can say that the variables have significant influence on the dependent variable and also the t-value > 5% which means that corporate governance variables have significant influence on firm performance. The equation three indicates the random effect model in which differences across units are uncorrelated with the regressors and effect or changes occur within entity and between entity. Random effect across time and sampled study also indicates that explanatory variables have significant effect on firm's performance since the P< 5% and t-value > 0.05

Model Specification And Coefficient Interpretation

$$Y_{it}= \beta_o+\beta_1 X_{it}+\ldots\ldots\mu_{it} \qquad \text{eqn----------------------} \quad 1$$

$$Y_{it}= \beta_o+\beta_1 X_{it}+\alpha_i+\mu_{it} \qquad \text{eqn----------------------} \quad 2$$

$$Y_{it}=\beta_1 X_{it}+ +\alpha+ \mu_{it} +\varepsilon_{it} \qquad \text{eqn----------------------} \quad 3$$

Substitute the coefficient in equation 1

PERF= 0.67+0.12BOS+0.03BOC+0.05CEO-0.14AUC+0.07OWNST

It is apparent that a board's capacity for monitoring increases as more directors are added. The board size from the equation shows positive effect on firm performance, which is consistent with the study conducted by Rashid (2011) that board size has positive effect on firm's performance. This has been the position of klein (2002) and Andres and Vallelado (2008) who argue that a larger board size have positive effect on firm's performance and should be more preferable to small size because of the possibility of specialization for more effective monitoring and advising functions. However, the benefit of specialization which Klein (2002) and Andres and Vallelado (2008) tout may be swallowed by the incremental cost of poorer communication and decision making associated with larger board size. This view has been articulated by researchers such as Fama and Jensen (1983); Lipton and Lorsch (1992); and Yermack (1996) who agreed that small board size have positive effect on firm performance.

The board composition has direct effect on firm's performance, which means that standard board composition will increase the rate of return on equity. This result is supported by Ezzamel and Watson (1993); Baysinger and Butler (1985); Pearce and Zahra (1992); and Schellenger et al. (1989) reported that board composition with more outside board members realized higher return on equity and achieve growth and expansion. Lorsch and Maclver (1989); Mizruchi (1983); Zahra and Pearce (1989) generally agreed that effective boards consist of greater proportions of outside directors. The CEO also show positive sign to ROE, which means that most of the non-financial firms sampled are free from CEO duality. The result is consistent and validated with the empirical evidence shows that separating the titles of CEO and chair improves the firm performance (Rechner and Dalton, 1991; Pi and Timme, 1993; Baliga et al., 1996; Brickley et al, 1997).Because CEO duality could constrain board independence and reduce its ability to execute the function of oversight and governance(Chien,2008).

The audit committee and ownership structure have negative and positive effect on firm performance and the audit committee coefficient result is conformed with (Kajola, 2008) who found that audit committee has negative relationship with return on equity. Ownership structure is the relative amount of ownership claims held by insiders (management) and outsiders (investors with no direct role in the management of the firm)(Jensen and Meckling, 1976).

The panel regression model indicate that ownership structure is positively affect firm's performance and our result is supported with the empirical study of Choi and Hasan (2005); Dahlquist and Robertsson (2001); Yudaeva et al. (2003); Havrylchyk (2003) and Goldberg et al.(2000). They argue that the extent of the ownership level has a significant positive association with firm's return (Choi and Hasan, 2005). Also Gugler et al (2003) carried out a study on more than 19000 companies from 61 countries reveal that ownership structure improves the firm performance as measure by return on equity and investment.

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