CEO POWER, RISK GOVERNANCE AND BANK PERFORMANCE IN NIGERIA

BY

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DECLARATION

I, Agba Love Uyoyoghene, declare that this research titled "CEO Power, Risk Governance and Bank Performance in Nigeria" was undertaken by me under the supervision of Dr. Uwuigbe, U. in the department of Accounting, Covenant University. The research project has not been presented, either wholly or partly for any degree elsewhere before.

The sources of scholarly information and all the opinions of others used in this project have been duly acknowledged.

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Agba L.U

DEDICATION

I dedicate this work to God Almighty, the one who by his special grace made all this possible to his glory.

CERTIFICATION

I certify that this research was conducted by Agba Love Uyoyoghene of the department of accounting, Covenant University. I approve this chapter as adequate in scope and quality for the partial fulfillment of the award of Masters in science degree in Accounting, Covenant University.

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ABSTRACT

The study empirically examines the influence of CEO power and risk governance on bank performance in Nigeria. CEO power determinants include CEO tenure, percentage of CEO shareholding, and internally hired CEO and risk governance variables includes capital adequacy ratio, non-performing loan ratio, liquidity ratio and loan-to-total deposit ratio. While the model for estimating bank performance is return on asset (ROA). The study covers four years from 2012 to 2015 while secondary data used were extracted from the firms' annual reports and finance websites. Using panel data, the random effect regression was employed for the regression analysis. The study also included the random firm effect general least square regression to conduct the hypotheses testing. The descriptive results indicate that 56% of CEO are internally hired in Nigerian banks, CEO holds 1.6% on the average of the ordinary shares of the bank, and risk governance variables (NPLR, LTD, LR and CAR) is within the limits specified by CBN. The findings from the correlation analysis show that CEO power variables have a significant relationship with risk governance variables in the Nigeria banking industry. However, the results from the regression analysis show that despite the adherence of banks to corporate governance regulations by CBN, CEO power and risk governance measures are no adequate determinants of bank performance measured by ROA. The major implication of the study is that CEO power (tenure, percentage of shareholdings, internally hired) and risk governance (NPLR, LTD, LR, CAR) is not a standalone measure to improve the performance of listed banks. Therefore, firms should consider the other measures of CEO power and risk governance as well as other inherent and external factors that may impact on the performance of banks in Nigeria.

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

The recent economic recession and market uncertainty are characterized by rapid changes in the environment; this has brought about an increase in the significance of risk management thereby enabling organizations to take the risk to develop. The administrative change makes a risk that is in some cases favourable to the interests of the CEO as it can be favourable to the interests of the firm. A few reviews have supported the influence of manager on firm performance and risk governance (Jensen and Meckling (1976); Malmendier, Tate and Yan (2005); and Brookman and Thistle, 2009). According to Central Bank of Nigeria (CBN, 2006), the maintenance of public confidence, through the establishment of good corporate governance and the installation of a well-structured risk governance system remains of absolute importance to the players and drivers in the financial industry. It has been proposed that CEOs "set the tone for the entire corporation" (Wheelen & Hunger, 1990) and that the CEO is "The corporate leader" (Norburn, 1989). The results of CEO power in the study of Shams and Michael (2005) indicates that banks will have less risk taking if the bank CEO have significant influence over board decision making since bank managers (Including CEOs) have reasons to be risk-averse. Furthermore, based on the CEO peculiar effect on firm policies and investment management, attention has been drawn to the CEO managerial power since the global financial crises (Bertrand and Schoar, (2003) and Koo, 2015). Executives can only influence firms' performance if they have power over crucial decisions, and the most powerful member of the organisation is considered to be the Chief Executive Officer (CEO). CEOs' power is generally credited with their wide knowledge of the firms as well as their legitimate authority and their strong influence on firms' structure, internal processes and strategic direction (Roth, 1995).

Top executives administrative discretion and the firm performance is affected by the business external environmental factors (Finkelstein and Hambrick, 1996). Outside ecological elements could incite CEOs to act in an effective way towards long haul survivals. Dowell, Shackell, and Stuart (2011) support that CEO control impacts organization's performance favourably while being influenced by negative external environmental factors. The advantages of CEO power is more in non-stable periods than in stable times (Haleblain and Finkelstein, 1993). The last potential advantage of effective CEOs are probably going to have advantages of individual decision-making with an adjusted power encourage expensive information sharing in non-stable periods (Koo, 2015). Hence, firms confronting a money related turmoil are probably