BANK SURVIVAL IN NIGERIA: DO CORPORATE GOVERNANCE AND CAPITAL MIX MATTER?

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Abstract

The significance of capital mix and corporate governance have been emphasized over the years due to failures of deposit money bank across the globe including Nigeria. Deposit money banks in Nigeria have experience series of bank financial distress and unable to survive due to biased corporate governance and inappropriate capital mixture. By using different sample panel data, the study examined how corporate governance and capital mix interact on financial survival proxied capital adequacy ratio of deposit money bank in Nigerian from 2010 to 2021. A panel regression approach was used and expost facto research design was adopted. Findings revealed positive and significant effect of capital mix proxied by debt equity ratio and corporate governance variables (Board size, Audit committee) on financial survival proxied with capital adequacy ratio among selected banks in Nigeria. The study concluded that both capital mix and corporate governance determine bank financial survival in Nigeria. The study provided researchers, academics, banks management, and deposit money banks regulatory bodies a new perception of how capital mix and corporate governance enhanced banks' financial survival through formulation of sound governance and capital mixture policies. Thus, interaction of both capital mix and corporate governance matters for banks to survive in Nigeria.

Keywords: Audit committee, Board size, Capital adequacy ratio, Debt Equity Ratio, Financial leverage

Introduction

In recent years, achieving healthy and bank survival has been an increasing anxiety for regulators and bank supervisors (Antwi & Kwakye, 2022). Great consideration is been giving to this matter by academics, regulators and governments particularly after the 2007/2008 financial crisis credit crunch and this has amplified the interests of regulators in developing macro-prudential measures and capital structures that will comprehend any resurging instabilities (Hassan, Owolabi & Asikhia, 2020). This is due to the fact that economies round the world felt the impact of the crunch and bank capital adequacy ratio was considered as one of the macro-prudential pointers that can enhance bank survival (Rashid, Zakaria, Azizah & Ridzuan, 2021).

Banks in developed economies have faced several instabilities over the years and financial survival risks have risen significantly due to inefficient corporate governance and inappropriate capital mix (International Monetary Fund (IMF), 2023). The global corporate scandals and financial crises at Enron, Tyco, WorldCom and other United States' banks was link to weak corporate governance and unsuitable capital mix being a causal element of dishonest financial reporting and unprincipled corporate values (Ajibade, Jaji, & Kwarbai, 2020). Recently, the abrupt collapse of Silicon Valley Bank and Signature Bank in USA, and the loss of investors' assurance in Credit Suisse, a global systemically important bank (GSIB) in Europe, have been a great recap of the problems caused by poor capital adequacy ratio which has exposed the commercial banks to vulnerabilities and threaten the financial survival of these banks (IMF, 2023).

Commercial banks in the emerging economies were not left out of challenges of bank financial survival proxy with capital adequacy ratio (IMF, 2023). Similarly, the credit crunch in Asia and other emerging economies, underscored the systemic threats connected with so-called "double-mismatches" linked with collecting short term loan in overseas currencies and advancing longer term in local currencies and caused acute difficulties in carrying out their financial intermediation function that will enhance financial survival (Zhang, Lin, Chen & Zhao, 2022). This threat of financial survival among commercial banks not limited to developed and emerging economies but also African commercial banks. IMF (2023) further argued that bank in developing economies like Africa experienced banks collapsed due to poor mixture of capital and biased corporate governance.

In Nigeria, the deposit money banks have been through a lot of uncertainty and anxiety before the consolidation exercise that began in 2004. According to Aliu, Abdullahi, and Bakare (2020), there was no guarantee of investors and depositor's fund; which eroded public trust, with several banks running into financial crisis due to weak capital adequacy ratio which cut off financial survival of these banks and then led to merger and acquisition. The reforms introduced by the Central Bank of Nigeria (CBN) during the period of bank consolidation reduced the deposit money banks from 89 to 25 banks so as to survive macroeconomic pressure and compete with global banking. These challenges of poor capital mix and unethical governance of banks in Nigeria greatly impaired the quality financial intermediary functions and rundown financial survival proxied with capital adequacy ratio of banks in Nigeria as well as non-performing assets became unbearable and became huge burdens on many of the deposit money banks (Esan, Anawunde & Okeke, 2020; Jegede, Fakunmoju, & Ajuzie, 2024).

Banks failure that had been witnessed in the Nigerian banking sector have been extensively connected to financial instability which is due to non-compliance to code of corporate governance and poor optimum capital structure. This corporate abuse of the corporate governance system that has propelled the collapse of some Nigerian banks has further re-iterated the need to reform the corporate governance mechanism of the Nigerian banking system (Ajala & Adesanya, 2019). Resulting from low level of capital adequacy among banks in Nigeria led to new proposed capital base by CBN that commercial banks capital base should be ₦500 billion so as to improve financial survival of banks and strengthen the commercial banks against micro and macroeconomic forces.

Literature Review

Financial Survival

Financial survival can be described as the condition where the bank conveniently meet up short and long terms financial intermediation functions without unjustly creative financial reporting, thereby building confidence among populace (Joseph, Hadrat, Yusif, George & Daniel, 2021). Financial survival for a bank is defined as the absence of financial precariousness, which is the condition in which a financially sound bank is able to fulfill its contractual obligations on time. This study employed Capital Adequacy Ratio (CAR) as proxied for bank financial survival.

Capital Mix

The capital mix of a bank represents pool of finances source from both equity and debt. It is one of the first important decisions of a bank because of its association with the risk and reward (Ullah, Pinglu, Saif, Zaman, & Hashmi, 2020). It is the mixture of the bank's equity and debt, which ensures financial continuity, profit generation, growth and expansion (Usman 2019). The capital mix, as defined by this study, is the blend of debt and equity to finance and grow banking businesses so as to increase the bank's worth, facilitates the use of available funds, lowers the cost of capital, and promotes financial survival. In this study, debt-to-equity ratio was used as proxy for capital mix.

Corporate Governance

Corporate governance was defined by Adegboyegun and Igbekoyi (2022) as the framework for managing businesses. The dynamic among a bank's shareholders, managers, and other pertinent stakeholders shapes the institution's goals and performance evaluation system. Mohamed, Hany and Israa (2021) further defined corporate governance as a framework that enables boards and management to create an environment that is transparent, equitable, and effective in order to meet the interests of all parties involved in ensuring the financial survival of banks. In this study, board size and audit committee were used as the proxied for corporate governance

Theoretical Framework

Stakeholder theory

This study was anchored on stakeholder theory. The word stakeholder refers to all the people affected by the decisions of a deposit money bank. They include shareholders, employees, competitors, regulators, investors, suppliers, customers, government (Adedeji & Ajulo, 2021). The stakeholder theory was Propounded by Freeman Edward (1984); asserted that companies should look beyond just maximizing profits for the shareholder. They should always consider all the needs of stakeholders who contribute to the company's achievement (Thanh & Van, 2022). The main argument of stakeholder's proponents is that many groups are affected by the decisions of corporations. Hence there must be structures put in place to protect the interests of all stakeholders (Bala & Babangida, 2022). This theory is based on the argument that stakeholders are vital to the growth and financial survival of banks and should always be protected by managements in their decision making (Sanyaolu *et al*., 2021). The main principle guiding the stakeholder theory is that all stakeholders such as Nigeria financial system regulators, bank managers, customers among others were vital to the financial survival of the bank. Against this background and problem identified, this study hypothesized that;

H_{01}: There is no significant interactive effect of debt-to-equity ratio, board size and audit committee on capital adequacy ratio of selected deposit money banks in Nigeria

Empirical Review and Gap in Literature

Houshang, Suzan, Nawaz, and Demiraj, (2022), Pham, Hoang and Pham, (2022) and Dinh, and Pham (2020) tested the impact of capital structure on the profitability of firms in the telecommunication industry in the USA, the effect of capital structure on the profitability of Vietnamese commercial banks as well as the effect of capital structure on the financial performance of pharmaceutical enterprises that are listed on Vietnam's stock market. Using the least square regression (OLS). They revealed that capital structure had a significant positive impact on the profitability in the USA telecommunication and pharmaceutical enterprises while negative and significant influence on Vietnamese banks.

Likewise, Addo, Hussain, and Iqbal (2021) and Bekiaris, (2021) using panel regression estimation technique examined the relationship between corporate governance mechanisms and the level of systemic risk using a sample of large European banks and the effect of board characteristics on bank financial performance in Greece. Addo *et al.* (2021) showed that external (institutional ownership) and internal (board level) governance mechanisms complement each other to determine the level of systemic risk while Bekiaris, (2021) specifically, discovered that corporate governance proxies exerted a positive effect on bank performance. Shahriar, Hoque, Wanke and Azad, (2022) and Bilal, Noor and Usman, (2021) investigated the influence of capital structure, operating efficiency and non-interest income on bank profitability in 28 countries of Asia. Applying the pooled OLS, fixed effect, and the GMM estimator, the studies confirmed that the various capital structure variables had significant positive influence on the financial performance of banks in Pakistan in particular and Asia as a whole. Equivalently, Akhsanul, (2020), Rashid, Zobair,

Chowdhury and Islam, (2020), Alam, Abbas and Hafeez (2020), Hafiz, Shoaib, Yao, Saqib, and Jan, (2020) analyzed the relevance of corporate governance and the relationship between banks' profitability and corporate governance in Bangladesh and Pakistan. Their study discovered that corporate governance and conventional banks' profitability in Pakistan are bidirectional (positive-negative) associated to each other. Bala and Babangida (2022), Olaniyi, et al. (2022) and Adeniyi, Marsidi, and Babatunji, (2020) evaluated the influence of capital structure on bank and manufacturing firms' financial performance in Nigeria. Their studies discovered that capital structure had positive significant effect on the financial performance of banks and listed manufacturing firms in Nigeria. Furthermore, Adegboyegun *et al*. (2022), Eni-Egwu, Madukwe and Ezeilo, (2022) and Akinola, (2021) investigated the effect of corporate governance on firm performance in Nigeria and their studies found that corporate governance had negative and insignificantly affect performance.

Several related studies within and outside Nigeria contexts such as Kong, Donkor, Musah, Nkyi, and Ampong (2023), Joseph (2022), Houshang et al. (2022) Pham, et al. (2022), Dinh, and Pham (2020), Nguyen (2021), c Zhang, et al. (2022), Addo et al. (2021), Bekiaris (2021), Peizhi et al. (2020), Shahriar et al. (2022), Ullah et al. (2020), Narinder and Mahima (2019), Rishi and Boopendra (2022), Mohamed et al. (2021), Akhsanul (2020), Rashid, et al. (2020), Alam et al. (2020), Hafiz et al. (2020), Sarpong-Danquah *et al*. (2022), Bala and Babangida (2022), Olaniyi, Abiloro and Olaniyan (2022), Adeniyi, *et al.* (2020), Otekunrin *et al.* (2020), Adegboyegun *et al*. (2022), Eni-Egwu *et al.* (2022), Akinola (2021), Sanyaolu *et al.* (2021), Okoye *et al*. (2020), Inim (2021) and Abiola, Uwuigbe, Olajide, and Faith (2021) among others have examined the individual effect of corporate governance on bank performance as well as effect of capital structure on bank performance. However, most of these past related empirical studies failed to examine the interactive influence of corporate governance and capital mix on bank financial survival in Nigeria. Therefore, there exist gap in the literature which served as motivation and basis for hypothesis formulated.

Methodology

The study employed *ex-post facto* research design from 2010 to 2021. The study population comprised of 12 deposit money banks and these 12 banks were selected due to availability of data and they were leading banks among international and national categorized banks in Nigeria as well as listed in the Nigerian stock market (Central Bank of Nigeria (CBN) Report (2022) and NSE Reports (2022). The sample size of the study was drawn from the total population of 19 deposit money banks in Nigeria. The sample size was achieved through the use of purposive sampling technique; where international categorized banks were; First Bank Limited, UBA Plc, GTBank Plc, Zenith Bank Plc, FCMB Bank Limited and Access Bank Plc while national categorized banks were; Ecobank Nigeria, Stanbic IBTC Bank Plc, Sterling Bank Plc, Wema Bank Plc, Standard Chartered Bank and Polaris Bank. The panel data were sourced from published financial statement of the selected deposit money banks in Nigeria.

The study employed panel regression method of analysis and the panel data were categorized as short time panel since the panel data depicted no cross-sectional dependency. Thus, static panel regression such as fixed, random and pooled panel regression models was preferable. This study adapted Fakunmoju, Jinadu and Akindele (2022) model and the model is specified as;

$$CAR_{it} = \beta_0 + \beta_1 SPR_{it} + \beta_2 AQ_{it} + \beta_3 ME_{it} + \beta_4 BAS_{it} + \beta_5 BS_{it} + \mu_i + \varepsilon_{it} \quad \text{Equation 1}$$

Where; CAR= Capital Adequacy Ratio
Spread (SPR) = Interest rate Spread,
AQ= Asset Quality
ME = Management efficiency,
BAS=Bank size
BS= Board Size

The Fakunmoju *et al.* (2022) was adapted to suit the study hypothesis. Thus, Interest rate Spread, Asset Quality, Management efficiency and Bank size were removed from the adopted Fakunmoju et al. (2022) model so as to achieve objective of the study. The adapted model becomes;

$CAR_{it} = \beta_0 + \beta_1 DER_{it} + \beta_2 LEV_{it} + \beta_3 BZ_{it} + \beta_4 AC_{it} + \mu_{i+} \varepsilon_{it}$ Equation 2

Where;

β_1, β_2, β_3, and β_4 were the coefficients of the explanatory variables respectively.
Financial Leverage proxied with Capital Adequacy Ratio (CAR)
Capital Mix proxied with Debt-to-Equity Ratio
Financial Leverage proxied with Total debt to total asset
Corporate Governance (CG) proxied with Board size and Audit Committee (BZ, AC).
Therefore, the measures adopted for the variables and their respective *apriori* expectations are presented on the table 1 below:

Table 1: Measurement of Variable

Variables	Proxied	Apriori Expectation
Capital Mix (Independent Variable)	Debt to Equity Ratio (DER)	+/-
Corporate governance (Independent Variable)	Board size (BS)	+
	Audit Committee (AC)	+
Financial Leverage (LEV) (Control Variable)	Ratio of Total debt to total asset	+/-
Financial Survival (Dependent Variable)	Capital Adequacy Ratio (CAR) = Total Debt/Total Assets	

Source: Authors' Computation (2024)

Data Analysis and Discussion

Table 2: Descriptive Statistics

	DER	LEV	BS	AC	CAR
Mean	15.2298	1.97209	32.13897	7.02465	15.09138
Median	6.875488	6.527562	27.865672	2.445641	7.908765
Maximum	3104.0	5.134	153.9	70.45	38.38376
Minimum	697.6	0.760	7.63	7.26	8.701209
Std. Dev.	752.3	1.452	44.21	16.5	6.083109
Skewness	2.865590	4.245760	4.234575	0.821340	2.876541
Kurtosis	11.81121	19.03515	18.97404	3.302873	6.9451209
Jarque-Bera	5.87987	10.29156	35.89709	123.61205	95.85289
Probability	0.090987	0.061980	0.298763	0.295029	0.010094
Observations	144	144	144	144	144

Source: Authors' computation (2024)

The probability of the Jarque-Bera shows that the data for the study variables such as DER, LEV, BS and AC were normally distributed except for CAR since the probability value for Jarque-bera is less than 5% unlike DER, LEV, BS and AC.

Table 3: Correlation Coefficients for Multicollinearity Test

Variables	DER	LEV	BS	AC	Variance Inflation Factor (VIF)

DER	1	0.32	0.62	0.42	1.76
LEV	0.155	1	0.44	0.63	1.82
BS	-0.350	0.341	1	0.38	1.13
AC	0.491	0.210	0.42	1	1.09

Source: Authors' Computation (2024)

Table 3 indicates that the correlation coefficients of the relationship among the explanatory variables are quite below the rule of thumb threshold of 0.8. Also, the VIF supported that there is no problem of multicollinearity, since the VIF is below 10. This implies that including these explanatory variables in the same model will not cause a problem of severe multicollinearity.

Table 4: Panel Regression

Method	**POOLED OLS**			**Fixed effects**			**Random effects**		
Variables	**Coeff**	**t-**	**Prob**	**Coeff**	**t-stat**	**Prob**	**Coeff**	**t-stat**	**Prob**
DER	1.69	7.96	0.04	0.05	1.56	0.08	0.14	2.19	0.05
LEV	2.24	8.47	0.00	0.29	2.63	0.01	0.52	2.09	0.04
BS	0.98	0.55	0.58	-0.06	-2.15	0.02	-0.15	-0.46	0.41
AC	0.23	3.27	0.03	-0.04	-0.52	0.70	-0.36	-2.27	0.01
Constant	49.44	3.16	0.00	-0.02	-0.82	0.87	-0.109	-0.07	0.93
	Adj. R-squared = 0.45			Adj. R-squared = 0.33			Adj. R-squared = 0.38		
	F_{-Stat} = 16.6			F_{-Stat} = 10.38			Wald chi^2 = 16.18		
	Prob > F = 0.00*			Prob > F = 0.02*			Prob > chi^2 = 0.00*		

Hausman Test: Chi^2 = 5.70, Prob> chi^2 = 0.22

Breusch-Pagan LM Test: $Chi^2_{(1)}$ = 1.86, Prob> chi^2 = 0.43

Breusch-Pagan/ Cook-Weisberg Test: $Chi^2_{(1)}$ = 1.89, Prob> chi^2 = 0.52

Pesaran Cross-sectional Dependence (CD) = 1.509 (p>5% = 0.395)

Wooldridge Test: F = 9.45, Prob >F = 0.29

Dependent Variable: Capital Adequacy Ratio proxied for Financial Survival
Significance @ 5%
Source: Authors' Computation (2024)

Hausman Test was conducted and revealed that Random Effect (RE) was the most appropriate estimator since the ρ-value of 0.22 was higher than the 5 percent level of significance. On the other hand, the results of the confirmation test on the Hausman results using Breusch-Pagan Lagrangian multiplier with ρ-value of 0.43 being greater than the acceptable level of significance of 5% negates the result of the Hausman Test which concluded that Random Effect is the most appropriate estimator; therefore, Breusch-Pagan Lagrangian multiplier rejected the appropriateness of the Random Effect and accept that Pooled OLS regression estimate was the most appropriate estimator. Also, Breusch-Pagan/Cook-Weisberg Test was conducted for Heteroskedasticity and it was shown that there exist no heteroskedasticity with ρ-values of 0.24 which was higher than 0.05 level of significance. The explanatory power Adj.R^2 of capital mix and corporate governance measures (DER, LEV, BS and AC) combined effect on CAR proxied for bank financial survival (that is the coefficient of multiple determinations) using Pooled OLS is 0.45, which implies that just 45 percent variation in the CAR is explained by the combined influence of the explanatory variables of capital mix and corporate governance measures (DER, LEV, BS, AC) while the remaining 55 percent is caused by other determining variables which are outside the scope of this study. Therefore, we rejected the null hypothesis that there is no significant interactive effect of debt-to-equity ratio, board size and audit committee on capital adequacy ratio of selected deposit money banks in Nigeria

Related studies such as Kong *et al*. (2023), Joseph (2022), Houshang *et al.* (2022), Pham *et al.* (2022), Dinh and Pham (2020), Nguyen (2021), Olusola et al. (2022), Zhang *et al*. (2022), Addo *et al.* (2021), Bekiaris (2021), Peizhi *et al* (2020), Shahriar *et al.* (2022), Ullah *et al.*, (2020), Qayyum and Noreen (2019), Narinder and Mahima (2019), Rishi and Boopendra (2022) and Mohamed *et al.* (2021) supported the findings of this study that both corporate governance and capital mix proxied (DER, LEV, BS and AC) enhanced financial survival proxied with CAR of selected deposit money banks in Nigeria. Thus, this study rejected null hypotheses stated.

Conclusion and Recommendations

This study examined the effects of capital mix and corporate governance on bank stability of deposit money bank in Nigeria and concludes that Debt to Equity Ratio (DER) and Financial Leverage (LEV) have positive and significant influence the Capital Adequacy Ratio (CAR) of selected deposit money banks in Nigeria. Also, Audit Committee (AC) has significant and positive effect on CAR) while Board size (BS) with has positive but no significant effects on deposit money bank in Nigeria. In line with the findings of this study, the following recommendations are made:

1. Findings from the study showed that the moderate level of debt in the capital mix of sampled banks positively influences their capital adequacy ratio. The study recommends that management should give more incentives to debts providers especially the depositors; this will motivate them to allow their deposits to stay with Deposit Money Banks (DMBs) for a longer period than the present practice. The adjustment in maturity structure will provide DMBs with additional assets financing that could possibly enhance their financial stability.

2. Also, there is need for the government to formulate policies that will fast track the development of a more vibrant capital market where banks will have access to equity and bond at global competitive rates. This will go a long way in discouraging Nigerian firms from going offshore to seek financing opportunities and at the same time woos foreign investors to Nigerian capital market.

3. Finding also shows that corporate governance has significant positive influence on their capital adequacy ratio. The study therefore recommends that for a continual improvement on financial survival., banks should review the number of persons appointed on the board as it was shown that it is not necessarily the size that determined financial survival. It is likely that experience, qualification and other factors could be considered before appointing someone to the board.

4. In addition, the study recommends a good number of audit committee in the board because the higher the auditors in the board, the more effective and efficient they will be in performing their oversight functions of financial reporting, regulatory and ethics compliance, whistleblower hotlines; monitoring choice of accounting policies and principles, review of bank's audited financial results both internal and external so as to ensure high level of financial survival.

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