

Akonye, Chinazu; Okonkwo, Okegbe T.; Okoye, Emma I.

Article

Regulatory non-compliance charges and performance of deposit money banks in Nigeria

Accounting and taxation review

Provided in Cooperation with:

University of Benin, Benin City, Nigeria

Reference: Akonye, Chinazu/Okonkwo, Okegbe T. et. al. (2019). Regulatory non-compliance charges and performance of deposit money banks in Nigeria. In: Accounting and taxation review 3 (4), S. 83 - 98.

This Version is available at:

<http://hdl.handle.net/11159/4449>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte. Alle auf diesem Vorblatt angegebenen Informationen einschließlich der Rechteinformationen (z.B. Nennung einer Creative Commons Lizenz) wurden automatisch generiert und müssen durch Nutzer:innen vor einer Nachnutzung sorgfältig überprüft werden. Die Lizenzangaben stammen aus Publikationsmetadaten und können Fehler oder Ungenauigkeiten enthalten.

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence. All information provided on this publication cover sheet, including copyright details (e.g. indication of a Creative Commons license), was automatically generated and must be carefully reviewed by users prior to reuse. The license information is derived from publication metadata and may contain errors or inaccuracies.



<https://savearchive.zbw.eu/terms-of-use>

ISSN: 2635-2966 (Print), ISSN: 2635-2958 (Online).

©International Accounting and Taxation Research Group, Faculty of Management Sciences, University of Benin, Benin City, Nigeria.

Available online at <http://www.atreview.org>

Original Research Article

Regulatory Non-compliance Charges and Performance of Deposit Money Banks in Nigeria

Chinazu Akonye¹ Okegbe T. Okonkwo² & Emma I. Okoye³

^{1,2&3} Department of Accountancy, Nnamdi Azikiwe University Awka, Nigeria

For correspondence, email: akonyechinazu@gmail.com

Received: 26/10/2019

Accepted: 21/12/2019

Abstract

This study examined the effect of monetary sanctions arising from regulatory violations on the performance of Deposit Money Banks (DMBs) in Nigeria. Specifically, the objectives of this study are to ascertain the effect of Corporate Governance Non-compliance Charges (CGNC) and Operational Non-Compliance Charges (ONC) on the performance of (DMBs) in Nigeria. The study adopted the ex-post facto research design using the Panel Data Technique. The study made use of secondary data obtained from the Nigerian Stock Exchange factbooks and Annual reports & accounts of the eight (8) sampled DMBs. A sample of eight (8) Domestic Systemically Important Banks (D-SIBs) based on Central Bank of Nigeria (CBN) ranking was selected using the purposive sampling technique from a population of sixteen (16) DMBs whose shares were listed on the Nigerian Stock Exchange as at December 31, 2018. To test the hypotheses, this study made use of Panel Least Square regression analysis, Grange Causality test and Hausman test assisted by E-View 9.0 statistical software. The results of the regression analyses showed that regulatory charges for non-compliance (corporate governance non-compliance charges & operational non-compliance charges) have significant negative effect on return on equity (ROE) of DMBs in Nigeria. The study recommends that DMBs in Nigeria should imbibe the culture of self-regulation of CBN guidelines on corporate governance and operational compliance within the DMBs' ethical framework. Regulatory non-compliance charges should be a Key Performance Indicator (KPI) for appraisal of the Head of Compliance Department and the Managing Directors of DMBs in Nigeria to minimise the quantum of regulatory charges for non-compliance incurred by deposit money banks in Nigeria.

Keywords: Governance, Regulatory charges, Non-compliance, Return on equity, Operational non-compliance.

JEL Classification Codes: M42, M43

This is an open access article that uses a funding model which does not charge readers or their institutions for access and is distributed under the terms of the Creative Commons Attribution License. (<http://creativecommons.org/licenses/by/4.0>) and the Budapest Open Access Initiative (<http://www.budapestopenaccessinitiative.org/read>), which permit unrestricted use, distribution, and reproduction in any medium, provided the original work is properly credited.

© 2019. The authors. This work is licensed under the Creative Commons Attribution 4.0 International License

Citation: Akonye, C., Okonkwo, O.T., & Okoye, E.I. (2019). Regulatory non-compliance charges and performance of deposit money banks in Nigeria. *Accounting and Taxation Review*, 3(4), 83-98.

1.

INTRODUCTION

Over the years, a lot has been said and written (Abioye, 2017; Adigun, 2017; Ismaila&Damola, 2018; Zeidan,2012) on regulatory violations of banking laws, policies, provisions and operational guidelines by deposit money banks in Nigeria. In spite of the various regulatory laws such as the CBN Act (2007), Financial Reporting Council of Nigeria (FRC) Code of Corporate Governance (2018), CBN Codes of Corporate Governance (2016; 2014 & 2003), Companies and Allied Matters Act (CAMA) 2004; Banks and Other Financial Institutions Act (BOFIA) 1991, Central Bank of Nigeria Anti-Money Laundering Act (2013) and several other circulars issued by the CBN from time to time to be complied with by the DMBs, billions of naira is reported annually by Deposit Money Banks (DMBs) as charges for corporate governance and operational guideline breaches. These monetary sanctions on regulatory non-compliance originate from failure to comply with the code of corporate governance and the operational guidelines issued by regulators for DMBs. These statutory non-compliance charges have greatly affected shareholders' value creation of these banks in terms of returns on equity (ROE) to shareholders. Previous local and international studies (Adrison, 2008; Agbaeze&Ogosi, 2018; Cochrane, 2017; Ikpefan&Ojeka, 2017; Ismaila&Damola, 2018; Koster&Pelster, 2017) conducted in this field concentrated solely on corporate governance and compliance guideline indices, without expanding their scope to capture monetary sanctions incurred and reported by the deposit money banks for non-compliance to regulations. The continuous neglect of in-depth research on the effect of the monetary charges for corporate governance non-

compliance and operational guidelines non-compliance by Deposit Money Banks in Nigeria by previous researchers necessitated this study on the effect of CGNC & ONC on the performance of some selected DMBs in Nigeria.

This paper is structured into five sections. Following the introduction, section two discusses the literature review under three sub-heads as conceptual review, theoretical review, and review of empirical studies. Section three harps on the methodology. This is followed by section four which focuses on estimation results and discussion of findings, and finally, section five presents the conclusion and recommendations.

2. REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

Regulatory Non-Compliance Charges (RNCC)

RNCC are monetary values attached to breaches/violations of codes of corporate governance policies, banking laws & policies, provisions, guidelines, directives, circulars governing the activities of Deposit Money Banks' operations as prescribed by the regulatory authorities. These non-compliance charges are applied in Statement of Comprehensive Income of Deposit Money Banks in the form of corporate governance non-compliance charges and operational non-compliance charges.

Corporate Governance Non-Compliance Charges (CGNC)

CGNCs are monetary values attached to breaches/violations on extant codes of corporate governance guidelines particularly on issues requiring prior approvals & ratifications by the CBN before they are implemented by the DMBs (CBN, 2014). These charges occur specifically due

to Senior Management Overrides (SMOs) on CBN guidelines. Asogwa (2016) examined the major causes of corporate governance failures in the Nigerian banking sector and found a lack of a robust corporate governance structure as the primary cause of banks' failures. He concluded that the setback to corporate governance among Nigerian banks is the non-adherence to corporate governance principles, the dearth of understanding of the theories, mechanisms & implications of corporate governance failures on banks' financial performance.

Operational Non-Compliance Charges (ONC)

ONC is monetary values attached to the violations/breaches of Standard Operating Procedures (SOPs) issued by the CBN to guide daily operations and activities of DMBs. Becker (1968) investigated the firm's decision to commit an illegal act and concluded that a higher inspection rate & severe monetary penalty improve compliance. Other studies (such as Heyes, 1993; Kamdabe & Segerson, 1998) found that increasing enforcement stringency does not necessarily lead to higher compliance rates. Harrington (1988) opined that firms' compliance behaviour & compliance strategy depends on their compliance cost. According to Harrington (1988), firms with low compliance costs will always comply, while firms with large compliance costs will always violate, and firms with medium compliance costs will alternate compliance decisions based on their previous inspection outcome. Notwithstanding these controversies, monetary sanctions for operational violations are drag-down on the returns accruable to the shareholders.

Return on Equity (ROE)

ROE measures a corporation's performance on how much profit a company generates with the money shareholders have invested (Khan, Shaik, Shah, Zahid & Shaik, 2017). ROE is used by investors and corporate leaders to measure how much profit is

accruable to owners of capital and also help to determine the benefits of the investments as a measure of returns (income) available for the owners of the company (Purnamasari, 2015). ROE is one of the performance indicators used by firms in assessing their level of performance at the end of its accounting year, especially from the standpoint of the shareholders. Purnamasari (2015) further posited that the higher the return or income earned, the better the position of the owner of the company. ROE is a measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested; ROE is also the most associated profitability ratio to evaluate stock returns, followed by Return on Assets (Lingga & Tirok, 2012). Kharatyan (2017) in his study found that firms with relatively higher ROE is highly competitive. Every company's main objective is to maximise shareholders wealth (Brigham & Daves, 2004). Therefore, regulatory non-compliance charges (CGNC & ONC) can greatly affect financial performance (ROE) of banks.

Control Variables

Bank size (BSZ): This is represented by each bank's Total Assets.

Leverage (LEV): This is derived by dividing Total Debt (TD) by Total Equity (TE).

Deposit Money Banks and Regulatory Compliance

All licensed deposit money banks in Nigeria are strictly required by regulations to comply with codes of corporate governance policies, banking laws & policies, provisions, guidelines, directives, circulars governing the activities of Deposit Money Banks' operations as prescribed by the regulatory authorities to avert non-compliance charges. However, the quantum of regulatory non-compliance charges reported by DMBs in Nigeria and the international banks respectively show that the level of compliance is deficient amongst banks. However, most scholars (such as

Adrison, 2008; Agbaeze&Ogosi, 2018; Cochrane, 2017; Ikpefan & Ojeka, 2017; Ismaila & Damola 2018; Koster&Pelster, 2017) concentrated their studies solely on corporate governance and compliance indices without expanding their scope to capture monetary sanctions incurred by deposit money banks for non-compliance to regulations.

However, to research on the correlation between socially irresponsible or illegal acts committed by firms and the decreases in their shareholders' wealth, Frooman (1997) carried out a study using a meta-analysis approach on 27 event studies covering the period from 1992-1996. The study concluded that compliance to regulations is a necessary condition for firms to increase their shareholders' wealth and to be socially responsible and law-abiding is in the self-interest of the firms. Therefore, regulatory non-compliance charges would negatively affect deposit money banks' performance and by extension, impact adversely on the value creation maximization of shareholders' investments.

Theoretical Review

Managers of deposit money banks are agents to manage the affairs of a company on behalf of the shareholders for better results. Shareholders are always attracted to firm's investments (banks' inclusive) by the financial performance results, efficient revenue retention management as well as improved returns on investments created by the managers on the return on equity (ROE) accruing to the shareholders. However, conflict of interest between the managers (agents) and shareholders (principals) may hinder the full achievement of impressive ROE and other value maximization variables for the shareholders. However, good financial results, revenue retention and returns accruing to the shareholders are also financial measures that boost Shareholders' Value Maximization because they contribute to competitive Return on equity

(ROE), earnings per share (EPS), return on assets (ROA) which are to the benefits of shareholders and managers.

Shareholders' Value Maximization Theory

The theory driving this study is the Friedman (1970) Shareholders' Value Maximization theory which deals on social responsibility of businesses to both the owners and their social environment by ensuring that the operations of the businesses are carried out in such a manner to increase business profits lawfully and competitively without deception or fraud, with the primary motive to maximise shareholders' value creation and shareholders' overall interest. From shareholders' standpoint, value maximisation can be created by managers (agents) through competitive Earning Per Share (EPS), Return on Asset (ROA), Return of on Equity (ROE) etc. driven by avoidance of revenue wastages and recklessness by managers. According to Brigham & Daves (2004), every company's objective is to maximise shareholders' wealth. This implies that every business exists for value maximisation to shareholders and the society where it operates; therefore, charges incurred by deposit money banks on violation of banking regulation drags down banks' earnings that would boost profitability and value creation for the benefit of better returns to shareholders. It would be difficult for managers to fulfill their responsibilities of improving shareholders' value maximisation if earning that would boost financial performance (ROE) are utilized for settlement of regulatory infraction committed by deposit money banks on corporate governance & operational violations.

Review of Empirical Studies

Ismaila and Damola (2018) conducted a study on Regulatory non-compliance and performance of 15 deposit money banks in Nigeria. The study examined regulatory

sanctions from an emerging economy perspective and the impact of regulators imposed monetary sanctions on banks' performance. Data were analysed using multiple regressions. The result of the study showed that penalties imposed by regulators on foreign exchange and international trade-related infraction in the Nigerian banking industry have no significant impact on the bottom line of the defaulters as the cost of penalties is below the benefits enjoyed from such infringements by the DMBs. This result of no significant impact on the bottom line (profitability) is because foreign exchange and international trade-related non-compliance is a single violation among the offences under regulatory operational non-compliance.

Agbaeze and Ogosi (2018) examined the impact of corporate governance on the profitability of Nigerian banks (2005 – 2015). The study made use of *Ex-post facto* research design on secondary data from annual financial statements and accounts of five selected banks in Nigeria. Profitability was measured by profit after tax while several members on the board were used as a measure of corporate governance. Regression test statistic was used to test the hypotheses. The correlation result revealed that there is a positive relationship between the profitability of Nigerian banks and corporate governance (number of members on the board). The researcher concluded that complying with corporate governance has a positive impact on the profitability of Nigerian banks.

Ikpefan and Ojeka (2017) investigated the relationship between corporate governance and distress in Nigeria deposit money banks 2000-2005. A case study research design was adopted which helped the researcher to have an intensive insight into the subject matter. The study made use of primary data from a survey of eight banks. The correlation method of data analysis with the help of the Statistical Package for Social Sciences

(SPSS) was used to measure the degree of relationship between variables. The result shows that corporate governance has no significant improvement in the prevention of bank distress but has significantly improved the performance of the Nigerian banking sector. The study recommended that DMBs should design strong internal governance policies to identify and manage conflict of interest to maintain zero-tolerance posture against cases of unsound corporate governance practices.

Ene and Bello (2016) examined the Effect of Corporate Governance on the Bank's Financial Performance in Nigeria. Secondary data were sourced from the Nigeria Stock Exchange fact books (2004-2013). A sample of 10 selected banks was used. Corporate governance was measured by the relative size of non-executive directors and board size, while financial performance was measured by Return on Investment (ROI). Ordinary least square regression technique aided by SPSS 21 was used for analysis. The result revealed a significant positive relationship between corporate governance and banks' performance in Nigeria. Results also showed that a unit change in the board size or relative size of non-executive directors increases the return on investment (ROI). It recommended that DMBs should embark on strategic training of board members & senior managers on corporate governance.

Okoi and Ocheni (2014) investigated the effect of corporate governance on the performance of commercial banks in Nigeria. The study adopted a descriptive research design on a sample size of eight (8) commercial banks for the period (2010-2013). Secondary data were obtained from published annual reports and accounts of the selected 8 commercial banks and the publications of Central Bank of Nigeria. Ordinary Least Square (OLS) technique and multiple linear regression models were used for data analysis. The objective of the study was to examine the

fact that users of financial statements rely upon the existence of corporate governance for financial statements published by banks and whether the financial statements represent a true situation of the strength of banks. Corporate governance was measured by capital adequacy, asset base, policy-shift & investment and liquidity ratio. The performance was measured by banks' profit. The result revealed that capital adequacy, asset base, policy shift & investment and liquidity ratio are prime determinants of profitability. The profitability of banks increased within the years under review as assets base, capital adequacy, policy-shift & investment of the banks increased. The study recommended that CBN should make provision for heavy sanctions for banks that violate banking regulation by restructuring their regulatory framework and strengthen their supervisory capacity for the smooth working relationship with banks to prevent distress and failure in the post-consolidation era.

Mathew (2017) examined: The Biggest Bank Settlements of all-time. A poll was conducted on several institutions in America to test America's faith in key institutions that continued to lag below historical averages. The poll included organised religion, the military, government entities and banks to reconfirm the confidence of the American public which had dropped significantly in the last decade. Among all the institutions surveyed, no institution has fallen further than banks. The 10-year (2006-2016) violation settlement costs of \$81.69 billion were incurred by six (6) international big banks as follows: JPMorgan Chase \$18.29 billion, Credit Suisse \$5.3 billion; Wells Fargo \$5.35 billion; Deutsche Bank \$7.2 billion; Bank of America \$36.65 billion & BNP Paribas \$8.9 billion. These settlements costs were penalties for wrong-doings and financial injuries suffered by the banks' customers, homeowners, borrowers and communities affected by the banks' conduct for non-compliance. The poll result showed that

Americans' confidence in the nation's financial institutions dropped from 49% in 2006 to 27% in 2016. The study concluded that these settlement costs are the largest of such settlement on record and the settlement costs go far beyond the cost of doing business. The study recommended that American banks should avoid wrong-doings which result in substantial fines settlement to prevent erosion of public confidence.

Hodgson (2017) investigated World Top 20 Banks that faced Misconduct Charges (2012-2016). The study revealed that 264 Billion Pounds worth of charges were settled by World Top 20 Banks (2012 – 2016), an increase of nearly a third compared to 2008-2012. The result also showed that banking fines, legal costs and the amount paid to customers in compensation for the five years to 2016 rose by 5.6% compared to 2011-2015, while charges have jumped up to 32% compared to 2008-2012. However, Bank of America was the most fined bank, racking up £45.6 billion-worth of charges, seconded by JP Morgan with £33.6 billion-worth of charges, followed by Morgan Stanley (MS), which was fined £24.4 billion. The study concluded that the persistent high charges raise questions about the extent to which banks have made cultural and ethical changes since 2008 and how this misconduct charges impact on their performance and public confidence

Adrison (2008) carried out research on Estimating the effect of Penalties on Regulatory Compliance. Data was collected from four sources: Environmental Protection Agency (EPA), Census Bureau, Bureau of Labour Statistics (BLS), and Bureau of Economic Analysis (BEA) from 1990-2000 in the United States of America. The objectives of the study were to: investigate the effectiveness of penalties and other enforcement tools on regulatory compliance; to develop a model that explains why most empirical studies on regulatory compliance yield results that

seem to be inconsistent with the theoretical predictions of Harrington's (1988) seminal article on regulatory compliance. To resolve these problems in previous studies on regulatory compliance studies, the two-sided expectation simultaneity version of the Detection Controlled Estimation (DCE) model, developed by Feinstein (1989 & 1990) was used. The DCE result was also compared with the Probit and Chamberlain Conditional Random Effect (CRE) under different assumptions. It was found that the way regulators enforce the regulations is responsible for the small effect of penalties in reducing non-compliance. The researcher recommended that if regulators want to see a substantial increase in the probability of compliance, it should consider imposing more frequent and severe penalties.

Armour, Mayer, and Polo (2015) examined the impact of Regulatory Sanctions and Reputational Damage in Financial Markets. Data on share price reactions on 341 cases of press statements on enforcement actions by the Financial Services Authority (FSA) and the London Stock Exchange (LSE) published from 2001 to 2011 on their websites were used. The objective was to ascertain the impact of the announcement of enforcement of financial regulation on the market price of penalised firms. The researchers constructed seven tables to categorise various aspects of financial regulations that impact on financial markets reputation such as Wrongs done on customers/investors/third parties; Cumulative abnormal returns on press statement of misconduct; Cumulative abnormal returns for extended samples; Fines/Compensation & the Reputational Loss; Cross-sectional determinants of reputational losses; Do reputational losses reflect forgone profits and Failure rate of unlisted companies sanctioned by the FSA. The study also made use of charts to display: Total Number of Fines, Total Amount of Fines and Total Number of Cases of Public Criticism on all the press statements announcing sanctions imposed

on listed companies or subsidiaries of listed companies. The study found out that the threat of fines from the Financial Services Authority (FSA) is a footling expense, just another cost of doing business, no different from paying the quarterly phone bill. The study concluded that regulatory sanctions have reputational damage effect on firms' financial markets performance.

Koster and Pelster (2017) examined Financial Penalties and Systemic Risk of Banks. The objective of the study was to analyse the impact of financial penalties on the stability of the banking sector. Samples of 68 internationally listed banks which are members of Global Systemically Important Banks (G-SIB) of Financial Stability Board in 20 countries, were selected. Data for the study were sourced from Thomson Reuters, Financial Times, public archive of United States Security and Exchange Commission (US-SEC), Financial Industry Regulatory Authority, Financial Conduct Authority and the banks' annual reports. A total of 671 financial penalties imposed on the banks (2007-2014) were analyzed using Time-fixed and Bank-fixed effect Regression Model. The World Datastream Bank Index and Dynamic Conditional Correlation technique was also used. The result showed that financial penalties are associated with higher exposure towards systemic risk, making the banks vulnerable to systemic risk events.

Frooman (1997) conducted a study in the United States of America to establish whether a correlation exists between socially irresponsible or illegal acts committed by firms and decreases in their shareholders' wealth based on 27 event studies covering the period from 1992-1996 using meta-analysis approach. The study found out that irrespective of the statistical significance, the decrease in wealth was substantial enough in size, as abnormal returns were shifted one full standard deviation. This study concluded that compliance to regulations is a necessary

condition for firms to increase their shareholders' wealth; emphasising that to be socially responsible and law-abiding is in their own self-interest.

Two major controversies featured prominently in the previous studies reviewed; firstly, whether corporate governance compliance affects deposit money banks' financial performance and secondly, whether imposition of heavy & stringent operational sanctions from regulators positively affect deposit money banks' performance and guarantee full compliance. Previous studies (such as Adrison, 2008; Agbaeze&Ogosi, 2018; Mathew, 2017; Ikpefan&Ojeka, 2017; Ismaila&Damola 2018; Koster&Pelster, 2017 etc) did not consider the effect of the heavy monetary sanctions arising from corporate governance non-compliance and operational non-compliance on DMBs' financial performance. To provide empirical evidence that corporate governance non-compliance & operational non-compliance affect the performance of deposit money banks in Nigeria is the gap that motivated this study.

3. METHODOLOGY

The ex-post facto research design was adopted in this study. The study population consists of the sixteen (16) Deposit Money Banks listed on the Nigeria Stock Exchange (NSE) as at December 31, 2018. The sample size for the study is the eight (8) Domestic Systemically Important Banks (D-SIBs) in Nigeria according to Central Bank of Nigeria (CBN) categorization of 2014. The secondary data used for analyses were sourced from NSE factbooks and annual reports & accounts of the eight (8) domestic systemically important banks for the period of eleven years (2008-2018). The Panel Least Square (PLS) regression, Granger Causality test and Hausman test with the aid of E-View 9.0 statistical software were used in data analyses. However, Corporate Governance Non-compliance Charges (CGNC), Operational Non-compliance

Charges (ONC) and Return on Equity (ROE) were adapted into a modified model specification from (Ismaila&Damola, 2017) model specification on Regulatory Non-Compliance. The modified model incorporates the return on equity, corporate governance non-compliance charges and Operational Non-compliance charges of the D-SIBs as shown below:

$$\text{Financial Performance (ROE)} = f(\text{CGNC, ONC}) \dots \dots \dots (1)$$

Below are the modified static linear model equations

$$\text{ROE}_{it} = \beta_0 + \beta_1 \text{CGNC}_{it} + \beta_2 \text{ONC}_{it} + \varepsilon_{it}, \text{BSZ}_{it}, \text{LEV}_{it} \dots \dots (2)$$

The effect of independent variables (CGNC & ONC) on the dependent variable (ROE) using the modified model specification is further broken down below.

$$Y = f(X) + \mu$$

The model is decomposed as thus;

$$\text{ROE}_{it} = \beta_0 + \beta_1 \text{CGNC}_{it} + \beta_2 \text{BSZ}_{it} + \beta_3 \text{LEV}_{it} + \mu_{it} -$$

$$\text{ROE}_{it} = \beta_0 + \beta_1 \text{ONC}_{it} + \beta_2 \text{BSZ}_{it} + \beta_3 \text{LEV}_{it} + \mu_{it} -$$

Where:

Y = Financial Performance

X = Corporate Governance Non-compliance and Operational Non-compliance Charges

β_0 = Regression intercept

β_1, β_2 = Corporate governance non-compliance charges and Operational non-compliance charges Coefficients

i = individual bank ranging from 1 to 8 in the study

t = time period covering from first year to the eleventh year of bank i in period t

ROE_{it} = Return on Equity of bank i in period t

CGNC_{it} = Corporate Governance Non-compliance Charges of bank i in period t (independent variable)

ONC_{it} = Operational Non-compliance Charges of bank i in period t

BSZ_{it} = Banks' size of bank i in period t (control variable)

LEV_{it} = Leverage of bank i in period t (control variable)

4. ESTIMATION RESULTS AND DISCUSSION OF FINDINGS**Table 1.1: Descriptive Statistics**

	ROE	ONC	CGNC	BSZ	LEV
Mean	0.138	0.478	0.520	10.861	7.131
Median	0.120	0.420	0.585	10.800	5.975
Maximum	0.230	0.590	0.640	12.020	15.150
Minimum	0.060	0.130	0.240	9.930	3.270
Std. Dev.	0.064	0.186	0.187	0.769	3.924
Skewness	0.462	0.081	0.312	0.195	0.895
Kurtosis	1.728	2.001	2.932	1.640	2.629
Jarque-Bera	1.029	0.427	2.873	0.834	1.392
Probability	0.598	0.808	0.238	0.659	0.499
Sum	1.380	5.780	17.200	08.610	71.310
Sum Sq. Dev.	0.037	0.312	17.326	5.321	38.606
Observations	88	88	88	88	88

Source: E-Views 9.0 Descriptive Output, 2019

Interpretation

Table 1.1 displays the variables of descriptive statistics for this study. There are eighty eight (88) observations in the table which is the product of the panel data set combination of time series data and cross sectional data (i.e. 8 banks x 11 years). The mean is used as a common measure of central tendency. The risk is measured by the dispersion of the standard deviation from the mean. The risk is higher when the standard deviation is higher. The standard deviation is the most accepted and widely used measure of the dispersion of the

dataset. The average return on equity of deposit money banks in Nigeria is 13.8% with a maximum of 23.3%, a minimum of 6% with a standard deviation of 6.4%. The observed average corporate governance charges of the sampled banks are 52 percent, a minimum of 24 percent, a maximum of 64 percent, with a standard deviation of 18.7%. The observed average operation non-compliance charges of the sampled banks are 47.8%, a maximum of 59%, a minimum of 13 percent and a standard deviation of 18.6%.

Table 1.2: Pearson Correlation Matrix

	ROE	ONC	CGNC	BSZ	LEV
ROE	1.000	-0.231	-0.472	-0.758	-0.845
ONC	-0.231	1.000	-0.206	0.247	0.235
CGNC	-0.472	-0.206	1.000	0.225	0.468
BSZ	-0.758	0.247	0.225	1.000	0.738
LEV	-0.845	0.235	0.468	0.738	1.000

Source: E-Views 9.0 correlation output, 2019

Interpretation of Pearson Correlation Matrix

From the findings on the correlation analysis in table 1.2, the analysis revealed

that there was a negative correlation coefficient between ONC, BSZ, LEV and ROE by correlation factors of -0.231, -0.758 and -0.845 respectively. However,

CGNC has a negative correlation coefficient of - 0.472 on ROE..

Test of Hypothesis 1

H₀₁:Corporate Governance Non-compliance Charges has no significant effect on Return on Equity of Deposit Money Banks in Nigeria.

Table 1.3: Panel Least Square (PLS) Regression Analysis showing the effect of CGNC on ROE

Panel Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.263701	0.042143	6.257265	0.0000
CGNC	-0.081886	0.002033	-6.092679	0.0000
BSZ	-0.006256	0.003656	-1.711127	0.0911
LEV	-0.009425	0.001423	-6.624012	0.0000
R-squared	0.395890	Mean dependent var	0.127125	
Adjusted R-squared	0.372044	S.D. dependent var	0.036010	
S.E. of regression	0.028535	Akaike info criterion	-4.226639	
Sum squared resid	0.061884	Schwarz criterion	-4.107538	
Log likelihood	173.0656	Hannan-Quinn criter.	-4.178888	
F-statistic	16.60166	Durbin-Watson stat	1.368553	
Prob(F-statistic)	0.000000			

Source: E-Views 9.0 Panel Regression Output, 2019

Regression Analysis

$$\text{ROE} = 0.263701 - 0.001886\text{CGNC} + \mu$$

Table 1.3 shows the regression result of ROE and CGNC. It shows that, given a unit increase in CGNC, ROE will decrease by 8.2%. The regressed result also shows that ROE relates negatively with CGNC at a coefficient factor of $\beta_1 = -0.081886$ and associated t-statistic = -6.092679. The probability value for the slope coefficient shows that $P(x_1 = 0.0000 < 0.05)$. This implies that CGNC has a statistically significant negative relationship on ROE at a 5% significance level, though negative. The

adjusted R-squared of 0.37 suggests that variation in ROE is explained by CGNC, BSZ and LEV fluctuation by 37% while other factors outside the model explained the remaining 63%.

Decision

The null hypothesis is therefore rejected at 5% level of significance, since the Prob(F-statistic) = 0.000000 is less than the critical value of 5%, implying that a significant negative relationship exists between CGNC and ROE of deposit money banks in Nigeria.

Table 1.4: Granger Causality Test showing the Causality between CGNC and ROE

Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
CGNC does not Granger Cause ROE	64	9.33794	0.0000
ROE does not Granger Cause CGNC		0.29759	0.7437

Source: E-Views 9.0 Output, 2019

Diagnostic Test

Table 1.4 shows that at lag 2, a unidirectional causality runs from corporate governance charges to earnings per share with F-statistic of 7.84483 and associated P-value of 0.0003 which is statistically significant at 5% level, thereby establishing a negative relationship between CGNC and ROE. More so, table 1.4 indicates that there is no reverse causation between corporate governance non-

compliance charges and ROE, but rather, there is a causality link between CGNC and ROE at a P-value of 0.0000 which is statistically significant at 5%. Consequently, the null hypothesis is rejected for the alternative hypothesis which states that corporate governance noncompliance charges have a significant effect on performance (ROE) of listed deposit money banks in Nigeria at 5% level of significance.

Table 1.5: Hausman Test Comparing FEM and REM between CGNC and ROE

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.898562	3	0.0000

Source: E-Views 9.0 Hausman Output, 2019

Hausman Test

On comparison of the results between the fixed effect model (FEM) and random effect model (REM), the results of the Hausman specification test in tables 1.4 and 1.5 showed that the chi-square probability is significant at 5% with P-values of 0.0035 in table 1.4 and 0.0000 in Table 1.5 respectively. The result suggests that the fixed effect regression model is most appropriate for the sampled data. Thus, this

result corroborates the regression results in table 1.3 which uphold that here is a significant negative relationship between regulatory non-compliance charges and performance (ROE) of listed deposit money banks in Nigeria at 5% level of significance.

Test of Hypothesis 2

H₀₂: Compliance Charges have no significant effect on Return on Equity listed Deposit Money Banks in Nigeria.

Table 1.7: Panel Least Square (PLS) Regression Analysis showing the effect of ONC on ROE**Panel Least Squares**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.255378	0.040969	6.233442	0.0000
ONC	-0.024662	0.012615	-1.954877	0.0010
BSZ	-0.007150	0.003622	-1.973986	0.0520
LEV	-0.009338	0.001396	-6.690558	0.0000
R-squared	0.418300	Mean dependent var	0.127125	
Adjusted R-squared	0.395338	S.D. dependent var	0.036010	
S.E. of regression	0.028001	Akaike info criterion	-4.264440	
Sum squared resid	0.059589	Schwarz criterion	-4.145338	

Log likelihood	174.5776	Hannan-Quinn criter.	-4.216688
F-statistic	18.21715	Durbin-Watson stat	1.314958
Prob(F-statistic)	0.000000		

Source: E-Views 9.0 Panel Regression Output, 2019

Regression Analysis

Table 1.7 shows that ONC has a significant negative effect on ROE of Deposit Money Banks listed on the Nigeria Stock Exchange. This can be observed from the beta coefficient (β_1) of -0.024662 with a p-value of 0.0010 which is significant at 5%. This indicates that operational non-compliance charges have a negative relationship with return on equity of listed Deposit Money Banks in Nigeria.

Overall, the combined and the overall effect of the regressors; ONC, BSZ and LEV on ROE of listed Deposit Money Banks in Nigeria, is shown on the model probability summary of the regression results. The F-statistic of 18.21715 with an associated Prob(F-statistic) of 0.000000 is statistically significant at 5%, which reveals that the

model is well fitted, while the coefficient of determination; adjusted R^2 of 0.395338, explains the individual variation of the dependent variable (ROE) as a result of the changes in the independent variables (ONC, BSZ and LEV). It can be said that ONC, BSZ and LEV have combined predictive power of 39.53% in affecting ROE of listed Deposit Money Banks in Nigeria, while the remaining 60.47% is accounted for by other factors which are not captured in the model.

Decision

Since the P-value of the test = 0.000000 is less than 0.05 (5%), this study upholds that there is a significant negative relationship between Operational non-compliance Charges and return on equity of listed Deposit Money Banks in Nigeria at 5% level of significance.

Table 1.8: Granger Causality Test showing the Causality between ONC and ROE
Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
ONC does not Granger Cause ROE	64	4.13990	0.0208
ROE does not Granger Cause ONC		0.54603	0.5821

Source: E-Views 9.0 Output, 2019

Diagnostic Test

Table 1.8 shows that there is a uni-lateral causality between ROE and Operational Non-compliance Charges (ONC) since the causality runs from ONC to ROE at P-value of 0.0208 which is statistically significant at 5% level. Moreover, at two (2) lags there is a statistically significant relationship

between ONC and ROE. This buttresses the fact that operational non-compliance charges influence ROE. Consequently, the null hypothesis is rejected for the alternative which states that operational non-compliance charges have a significant effect on performance (ROE) of listed deposit money banks at 5% significant level.

Table 1.9: Hausman Test Comparing FEM and REM between ONC and ROE

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.130512	3	0.0211

Source: E-Views 9.0 Hausman Output, 2019

Hausman Test

On comparison of the results between the fixed effect model (FEM) and random effect model (REM), the results of the Hausman specification test in tables 1.8 and 1.9 showed that the chi-square probability is significant at 5% with P-values of 0.0115 in table 1.8 and 0.0211 in table 1.9 respectively. The result suggests that the fixed effect regression model is most appropriate for the sampled data. Thus, this result corroborates the regression results in table 1.7 which upholds that there is significant negative relationship between operational non-compliance charges and Performance (ROE) of listed Deposit Money Banks in Nigeria at 5% level of significance.

Discussion of Findings

This study ascertained the effects of Corporate Governance Non-compliance Charges (CGNC) and Operational Non-compliance Charges (ONC) on the performance of deposit money banks in Nigeria for the period 2008-2018. The independent variable (Regulatory Non-compliance Charges) was measured using Corporate Governance Non-compliance Charges (CGNC) and Operational Non-compliance Charges (ONC) while the dependent variable (performance) was measured by Return on Equity (ROE). The study also employed bank size (BSZ) and leverage (LEV) as control variables to boost the study results.

Hypothesis 1 regression result shows that a unit increase in CGNC will decrease ROE by 8.2%. The regression results also show that ROE relates negatively with CGNC at a coefficient factor of $\beta_1 = -0.081886$ and associated t-statistic = -

6.092679. The probability value for the slope coefficient shows $P(x_1 = 0.0000 < 0.05)$. This implies that CGNC has a statistically significant negative relationship with ROE at 5% significance level, though negative. The adjusted R-squared of 0.37 suggests that variation in ROE is explained by CGNC, BSZ and LEV fluctuation by 37% while the remaining 63% is explained by other factors outside the model.

Hypothesis 2 regression result shows that ONC has a significant negative effect on ROE of Deposit Money Banks listed on the Nigeria Stock Exchange. This can be observed from the beta coefficient (β_1) of -0.024662 with a p-value of 0.0010 which is significant at 5%. This indicates that operational non-compliance charges have a negative relationship with return on equity of listed Deposit Money Banks in Nigeria.

Our finding is at variance with the findings of Ismaila and Damola (2018) that penalties imposed by regulators on foreign exchange and international trade-related infraction in the Nigerian banking industry have no significant impact on the performance of DMBs. However, our finding shares some convergences with the results of (Agbaeze & Ogosi, 2018; Ene & Bello, 2016; etc) who posited that corporate governance compliance has a positive impact on profitability, although their analysis and conclusion were based on board size and board composition dimensions of corporate governance. However, a critical element was not considered in all the studies reviewed both locally and internationally. To the best knowledge of the researcher, none of the prior studies has comprehensively

carried out research to aggregate these regulatory non-compliance charges (RNCs) reported by DMBs and its effect on the DMBs' performance (ROE), which is the gap that motivated this study. The uniqueness of this study also lies on the fact that the data used for analysis are actual charges on regulatory sanctions incurred by the DMBs on corporate governance and operational non-compliance and their effect on the DMBs' performance (ROE).

5.0 CONCLUSION AND RECOMMENDATIONS

Conclusion

This study revealed that corporate governance non-compliance charges and operational non-compliance charges have significant negative relationships with a return of equity at 5% significant level. The result implies that the frequencies of corporate governance non-compliance charges and operational non-compliance charges are very high amongst deposit money banks in Nigeria and this is responsible for heavy yearly regulatory non-compliance charges reported by the deposit money banks annually in their financial statements. The result also implies that the current monetary-sanction approaches usually adopted by the Central Bank of Nigeria have not been able to curtail the recurrence of regulatory non-compliance charges and its negative effects on the performance of deposit money banks in Nigeria. This study concludes that regulatory non-compliance charges occur due to two reasons arising from excessive Senior Management Overrides on corporate governance guidelines on issues requiring prior approvals and ratifications by the CBN before the DMBs implement them. Secondly, operational non-compliance charges occur due to continuous breaches of Standard Operating Procedures/Guidelines by line operations officers of DMBs across the banks' networks of branches nationwide resulting in a higher frequency of non-compliance in the day-to-day operations of the

banks. Based on these reasons, the effect of regulatory non-compliance charges (corporate governance non-compliance charges & operational non-compliance charges) on banks' financial performance are high and significantly impact on performance (ROE).

Recommendations

Based on the findings of this study, the following recommendations have been outlined which may be useful to the stakeholders, such as banks employees, accountants, auditors, company management, investors, creditors, suppliers, financial analyst, lobby groups, community members, government and the regulatory bodies responsible for standards-setting:

- i. Deposit Money Banks should sensitize all their employees on the cumulative effect of operational non-compliance charges (ONC) on the banks' performance (ROE).
- ii. Senior management of DMBs should minimise incidences of Senior Management Overrides on CBN codes of Corporate Governance guidelines as those overrides are the root-cause of heavy corporate governance non-compliance charges reported by the DMBs.
- iii. Regulatory Non-compliance Charges Score (RNCS) should be introduced as a Key Performance Indicator (KPI) and also Scorecards Measurement Index (SMI) in the yearly appraisal of the Head of Compliance Department and the Managing Directors of Deposit Money Banks in Nigeria to enable them take responsibility and champion the philosophy of zero-tolerance for regulatory non-compliance in their banks, thereby minimise its effect on DMBs' financial performance.

References

- Adrison, V. (2008). Estimating effect of penalties on regulatory compliance. Ph.D dissertation, Georgia state

- University. Available at: <https://scholarworks.gsu.edu/econdiss>.
- Agbaeze, E.K., &Ogosi, C.D. (2018). Corporate governance and profitability of Nigerian banks examined.*European Journal of Scientific Research*, 148(3),358-367.(Available at: <http://www.europeanjournalofscientificresearch.com>)
- Asogwa, I.E.(2016).Corporate governance in Nigerian banks: A theoretical review. department of accounting, faculty of business administration, University of Uyo. Available at: dx.doi.org/1018775/ijmsba.1849-5664-5419.2014.27.1001)
- Armour, J., Mayer, C., & Polo, A. (2015).Regulatory sanctions and reputational damage in financial markets. Available at: www.ccgiglobal/content/working-papers
- Bhagat, S., Bizjak, J.,& Coles, J. (1998).The shareholder wealth implications of corporate lawsuits.*Financial Management*, 7, 5-27.
- BOFIA. (1991). Banks and other financial institutions act 1991 (as amended in 1997, 1998, 1999 and 2002).<https://www.cbn.gov.ng/out/publications/bsd/1991/bofia.pdf>
- Brigham, E. F.,&Daves, P. R..(2004). *Intermediate Financial Management*, eight edition, Thomson.
- Central bank of Nigeria. (2014). Code of corporate governance for banks and discount houses in Nigeria:Guidelines for whistle blowing in the Nigerian banking industry. Availableat: <https://www.cbn.gov.ng/out/2014/fprd/circular>.
- Dogarawa, L.B. (2012). Banking under the banks and other financial institutions act: A survey of compliance. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 2(3), 183-191.
- Ene, E.E.,& Bello, A. (2016).The effect of corporate governance on bank's financial performance in Nigeria.*Journal of Business and Management*, 18(11),99-107. Available at: www.iosrjournals.org.
- Economic systemic risk board. (2015). Report on misconduct risk in the bankingsector. Availableat:https://www.esrb.europa.eu/pub/pdf/other/150625_report_misconduct_risk.en.pdf.
- Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, September 13, 122-124.
- Frooman, J. (1997). Socially irresponsible and illegal behaviour and shareholder wealth: A meta- analysis of event.*Studies, Business and Society Journal*, 36, 221-249.
- Harrington, W.(1988). Enforcement leverage when penalties are restricted. *Journal of Public Economics* 37, (1) 29-53.
- Heyes, A.G., (1993). Environmental enforcement when inspect-ability is endogenous. *Environmental and Resource Economics*,4(5), 479-494.
- Hodgson, C. (2017). The world's top 20 banks faced misconduct charges worth 264 billion pounds.Available at:www.businessinsider.com/worlds-top-20-banks-misconduct-fines-worth-264-billion-2017.
- Ikpefan, O. A., Okorie, U..E., Agwu, M. E., &Chugamonu, B.U. (2016). Bank capitalizationand cost of equity on profitability of Nigeria depositmoney banks – General moment approach. *International Review of Management and Business Research*, 3(4), 1928-1947.
- Ismaila, Y.,&Damola, E.(2018). Regulatory non-compliance and performance of deposit money banks in Nigeria.*Journal of Financial Regulation and Compliance*, 26(3),425-441. Available at:

- <https://doi.org/10.1108/JFRC-04-2017-0041>)
- Kadambe, S., & Kathleen, S. (1998). The role of fine as an environmental enforcement tool. *Journal of Environmental planning and Management*, 41(2), 217-226.
- Kharatyan, D., Lopes, J., & Nunes, A. (2017). Determinants of return on equity: Evidence from NASDAQ 100. XXVII *Jornadas Hispano-Lusas gestión científica*.
- Koster, H., & Pelster, M. (2017). Financial penalties and the systemic risk of banks. Available at: www.suomenpankki.fi/globalassets.
- Koster, H., & Pelster, M. (2017). What is the impact of financial penalties on the performance and stock returns of banks. *Journal of Banking and Finance*. Available at: <https://doi.org/10.21036/LTPUB10564>.
- Lingga, D.S.K., & Tirok, J. (2012). Empirical studies on EVA and profitability ratios association with annual stock return for Indonesia companies. Available at: <http://journal.binus.ac.id/index.php/JAFA/article/view/283/277>.
- Mathew, C. (2017). The biggest bank settlements of all-time. Available at: www.businessinsider.com/biggest-settlement-of-all-time.
- Okoi, I.O., & Ocheni, S. (2014). Empirical study of the impact of corporate governance on the performance of financial institutions in Nigeria. *Journal of Good Governance and Sustainable Development in Africa*, 2(2), 57-73.
- Purnamasari, D. (2015). The effect of changes in return on assets, return on equity, and economic value added to the stock price changes and its impact on earnings per share. Available at: www.iiste.org. 25-10-2018.
- Slater, S. (2015). World's biggest banks fined \$235 billion since 2008 financial crisis. Available at: <https://economictimes.indiatimes.com/News/International/Business>.
- Wilson, I. (2006). Regulatory and institutional challenges of corporate governance in Nigeria post banking consolidation. *Nigeria Economic Summit Group (NESG) Indicators*, April-June 2006, 1(12), 2.
- World bank. (2006). Bank disclosure index: Global assessment of bank disclosure practices. Available at: <http://www.worldbank.org>/accessed May 1, 2009.
- Zeidan, M. J. (2013). Effect of illegal behaviour on the financial performance of US banking institutions. *Journal of Business Ethics*. Available at: <https://www.jstor.org/stable/23327207>