

## **Chapter-IV**

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# ANALYSIS AND INTERPRETATION

## **Introduction:**

Accounting rules and rules exist to ensure that financial statements are useful to their end users in their financial decision-making. For financial statements are useful, the information presented therein must be exact, faithful to the financial circumstances and be produced in time to help the decision-making process. Poor ethics in accounting result not just in increased incidences of criminal activities, but as well bear the business through harming its reputation and rendering their financial statements untrustworthy and therefore useless.

## **Unethical Activities**

Poor ethics amongst a business' accountants means that those individuals are more willing to bust the rules to profit either themselves or their business illegally. For example, an unethical accountant granted too much control and too little oversight from superiors can embezzle from the business and conceal the evidence. In contrast and comparison, an unethical accountant working at the behest of the business can manipulate the data to present a number of crimes including fraud and tax evading.<sup>1</sup>

## **Unethical Practices by Auditors**

Auditor, in this context means an individual, a partnership firm, or an organization carrying out an audit of an enterprise or an undertaking. Such persons are not usually employed by the accounting entity or by its managers and is, as far as possible, independent of the persons who manage the entity, hence they are often referred to as 'external auditors'; or 'accountants in practice'. The Companies and Allied Matters Act (CAMA) 2004, Cap C20, LFN requires every limited liability companies to appoint an auditor or auditors who must be a Chartered Accountant or a firm of Chartered Accountants at annual general meeting (AGM), to audit their financial statements.<sup>2</sup>

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1 Blocher et al, 2005: 23-25

2 Section 357, CAMA

### **Unethical Practices by Directors**

Managers are determined under part 244 (1), CAMA 2004 as ‘persons duly appointed by a limited liability company to lead and supervise the line of work of the society. Every registered company must hold at least two directors of private limited, and at least seven for public limited company (PLC). Every manager of a company shall exercise the powers and discharge the responsibilities of his office honestly, in good faith and in the best interest of the society, and shall do that level of care, diligence and skill (section 282, CAMA 2004). The imposition of fiduciary responsibility on directors by the Act, is meant to prevent misuse of power and conflict of interest on the theatrical role of directors in general fields of corporate administration (e.g. In the issue, transfer and registration of shares; in their contracts either with the company or on its behalf with third parties, their relations with physical assets or properties of the company and corporate opportunity and information in whatever configuration.<sup>3</sup>

### **SCOPE OF STUDY**

Taking the year 2006 as the year of initiation of post consolidation governance codes for the corporations sector, this study investigates the relationship between corporate governance and fiscal operation of corporations. The selection of this sector is established along the fact that the corporations sectors stability has a large positive externality and corporations are the key institutions maintaining the payment scheme of an economy that is indispensable for the constancy of the financial sector. Financial sector stability, in turn causes a profound externality on the economic system as a whole. To this goal, the study basically covers the 21 listed corporations out of the 24 universal corporations till date that met the N25 billion capitalization deadline of 2005. The work covers these corporations’ activities during the post consolidation period, i.e. 2006-2012. The choice of this period allows for a significant lag period for money boxes to have brushed up and implemented the recommendations by the CBN post consolidation code.

Furthermore, we focused exclusively on the corporation industry because corporate governance problems and transparency issues are important in the corporation sector due to the crucial role in offering loans to non-financial firms, in

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3 Oshio, 1995:178

conveying the effects of monetary policy and in offering stability to the economic system as a whole. The study, therefore covers four key governance variables which are board size, panel composition, directors' equity interest and governance disclosure level.

Furthermore, we focused exclusively on the Enron, Worldcom, Tyco, HealthSouth and some listed corporation industry because corporate governance problems and transparency issues are important in the corporate sector due to the crucial role in extending loans to non-financial firms, in transmitting the effects of monetary policy and in offering stability to the economic system as a whole. The subject, therefore covering four key governance variables which are board size, panel composition, director's equity interest and governance disclosure level.

### **RESEARCH METHODOLOGY**

This work made use of secondary information in building the relationship between corporate governance and financial frauds of 21 corporations listed. The secondary information is obtained basically from published annual accounts of these corporations, Records and other related materials, especially the Corporation bullions and the Stock Exchange Fact Book for 2008 were also reviewed.

In examining the relationship that exists between corporate governance and the financial frauds of the studied corporations, a panel data regression analysis method was embraced. The Pearson correlation was employed to assess the level of connection between variables under consideration. All the same, the proxies that were applied for corporate organization are: board size, the ratio of non executive directors, directors' equity interest and corporate governance disclosure index. Placeholders for the financial operation of the corporations also include the accounting standard of frauds; return on equity (ROE) and coming back on asset (ROA) as identified by the First Rand Corporation Group (2006). To test the degree of corporate governance disclosures of the sampled corporations, the content analysis method was applied. Utilizing the content analysis, a disclosure index is developed for each corporation using post consolidation code and the Organization for Economic Cooperation and Development (OECD) code of corporate governance as a template. This was used alongside with the papers prepared by the UN Secretariat for the nineteenth and the twentieth session of International Standards of Accounting and Reporting (ISAR),

titled “Transparency and Disclosure Requirements for Corporate Governance” and “Guidance on Good Practices in Corporate Governance Disclosure” respectively.

The student t- test was applied in dissecting the dispute in the executions of the healthy corporations and the rescued corporations. It was also applied to see if there is any significant divergence in the functioning of depository financial institutions with foreign directors and that of the corporations without foreign directors.

### **SOURCES OF DATA**

This study used only the secondary data derived from the audited financial statements of the listed corporations Stock Exchange (NSE) in analyzing the relationship between our dependent and independent variables. The secondary data covers a full point of three years, i.e. 2006 and 2012. This subject also made use of books and other related materials, especially the Corporation bullions and the Stock Exchange Fact Book (2012). More or less of the annual reports that were not usable on the NSE were collected from the head offices of the concerned corporations in addition to the downloaded materials from the corporations’ websites.

The data that were practiced in analyzing the disclosure index was derived using the content analysis method to score the corporations based on their disclosure level. This was managed utilizing the disclosure items developed through the utilization of the CBN and the OECD codes of corporate administration.

This is split into 5 broad categories: Financial disclosures, non-financial disclosures, annual general meetings, timing and means of disclosure, and best practices for conformity with corporate disclosure. Under non-financial disclosures, different headings such as corporation objectives, organization structure and policies, members of the board and key executives, material issues affecting employees, risk factors, and independence of auditors are employed. Below all these broad subcategories, a total of 45 events were deliberated.

### **METHOD OF DATA PRESENTATION**

Information collected from the yearly reports of the sampled corporations are represented in tabular forms. The portions were also applied to show the degree of conformity to corporate governance disclosure.

### Model Specification

This work used a qualified variant of the econometric model of Miyajima et al (2003) as adopted by Coleman and Nicholas- Biekpe (2006). The Econometric model of Miyajima et al (2003) is therefore seen below as;

$$Y_{it} = S_0 + S_1 G_{it} + S_2 SZE_t + S_3 BDT_t + e_t$$

Where:  $Y_{it}$  represents firm frauds variables which are: return on capital employed, earnings per share, return on assets and return on equity for corporation firms at time t.

So-and-so is a vector of corporate governance variables, which include: Board Size (BDS), Board Composition (BDC) which is determined as the proportion of outside directors to total number of directors, a dummy variable (CEO) to capture if the board chairwoman is the same as the CEO or otherwise, CEO's tenure of office (CET).

Size is the size of the house

$BDT_t$  is the debt structure of the house,  $e_t$  the error condition which accounts for other possible elements that could influence  $Y_{it}$  that are not captured in the mannequin

Grounded on the fact that we employed different governance and frauds proxies, the above example is consequently qualified to define the relationship between corporation frauds and corporate governance of corporations. In answering this we therefore got two simple definitional models to guide our analysis. These examples are as follows;

#### Model 1

$$ROE_{it} = f(BOS_t, BCOMP_t, DEI_t, CGDI_t) \dots \dots \dots (1)$$

$$ROE_{it} = \alpha_0 + \alpha_1 BOS_t + \alpha_2 BCOMP_t + \alpha_3 DEI_t + \alpha_4 CGDI_t + e_t \dots \dots \dots (2)$$

#### Model 2

$$ROA_{it} = f(BOS_t, BCOMP_t, DEI_t, CGDI_t) \dots \dots \dots (1)$$

$$ROE_{it} = \alpha_0 + \alpha_1 BOS_t + \alpha_2 BCOMP_t + \alpha_3 DEI_t + \alpha_4 CGDI_t + e_t \dots \dots \dots (2)$$

#### Where:

ROE and ROA represents firm frauds variables which are: Return on assets and Return on equity for corporation firms at time t.

BOS represents the Board Size; Board Composition is represented by BCOMP which is determined as the proportion of outside directors to total number of directors, while DEI and CGDI represents Directors' Equity Interest and Corporate Governance Disclosure Index respectively.

$E_t$ , the error condition which accounts for other possible elements that could influence Reid and  $ROA_{it}$  that are not captured in the mannequin.

The a priori is such that:

$${}_1BOS_t, {}_2BCOMP_t, {}_3DEI_t, \text{ and } {}_4CGDI_t > 0$$

The implication of this is that a positive relationship is expected between explanatory variables ( $\beta_1BOS_t$ ;  $\beta_2COMP_t$ ;  $\beta_3DEI_t$  and  $\beta_4CGDI_t$ ) and the dependent variable. The size of the coefficient of correlation will help us explain the various layers of kinship between the explanatory variables.

### Data Analysis Method

In examining the relationship between corporate governance and fiscal operation of listed corporations, the panel data methodology was taken on. This is because the study combined time series and cross sectional information.

**Panel Data Regression Analysis:** this is a type of regression analysis that involves a panel data analysis technique. Panel data are supposed to be repeated observations on the same cross section, typical of individual variables that are noted for various time periods (Pesaran, Shin and Smith, 2000; Wooldridge, 2003; Baum, 2006 in Westham, 2009). Longitudinal data and repeated measures are other terminologies used for the sort of data mentioned above. Panel data analysis is an important method of longitudinal data analysis because it sets aside for a bit of regression analyses in both spatial (units) and temporal (time) dimensions. It also supplies a major means to longitudinally examine the data, especially when the data are from various informants and the time series are quite short for separate time series analysis. Even in a place when the observations are long enough for separate analyses, panel data analysis yields a number of techniques that can help analyze changes over time common to a peculiar type of cross-sectional unit.

**Pooled Regression (OLS) Model (PRM):** is equally experienced as the constant coefficient model (CCM). It is the simplest among the three models in panel data

analysis. Nevertheless, it pushed aside the space and the time dimensions of the pooled data. In a place where there is neither significant cross-section unified nor significant temporal effects, one could extract all of the data and extend an ordinary least squares (OLS) regression model.

**Fixed Effects (FE) Model:** in the FE technique, the slope coefficients,  $\beta_{it}$  are constant but the intercept, varies across space i.e. the intercept in the regression model is allowed to vary across space (individuals). This is as a consequence of the fact that each cross-sectional unit may hold some extra features. The FE technique is very desirable in instances where the individual specific intercept may be correlated with one or more repressors (independent variables). In parliamentary law to take into cognizance the different intercepts, the mean differencing or dummy method is usually employed based on which is found more worthy. It is known as the least-squares dummy variable (LSDV) model in cases where dummy variables are used. This is another way of calculating the within estimator most especially when the number of observations ( $N$ ) is not relatively large.

A major disadvantage of the LSDV model is that it significantly reduces the degrees of freedom when the number of cross-sectional units,  $N$ , is very large. In this case,  $N$  number of dummies are introduced, which will do to reduce the common intercept term

**Random Effect (RE) Model:** the RE technique which is equally known as the Error Components Model (ECM) is an alternative to FE technique. Basically; the RE estimator assumes that the intercept of an individual unit is a random element that is drawn from a larger population with a constant average value. The individual intercept is then shown as a diversion from this constant mean value. One major merit of the RE over the FE is that it is economical (parsimonious) in degrees of exemption. This is because one does not have to estimate  $N$  cross-sectional intercepts, but just simply the mean value of the intercept and its variation. The RE technique is desirable in cases where the (random) intercept of each cross-sectional unit is uncorrelated with the repressors.

Since there is no substantial correlation between the unobserved units of observation, specific random effects and the repressors, the RE model may be more appropriate. Nevertheless, based on fluctuations in the capital base and the share



capital of the corporations under review, the intercept of each money box is supposed to be a random factor. So we adopted the random effect model of the panel data regression analysis in studying the impact of the corporate governance proxies on the carrying out of the listed corporations.

Spell, the Pearson correlation was also applied to assess the level of connection between variables under consideration, t-test statistics were calculated using the profitability of the healthy corporations and the rescued corporations to get out if there is a substantial divergence in the profitability of the two groups of corporations. All the same, the proxies that were applied for corporate organization are; board size, panel composition, directors' equity interest and corporate governance disclosure index. While proxies for the financial operation of the corporations are the accounting standards of frauds; return on equity (ROE) and coming back on asset (ROA) as identified by the First Rand Corporation Group (2006).

### **Capacity Analysis**

Content analysis is applied to evaluate the degree of compliance with the Code on Corporate Governance in prior works. Content analysis is a means of categorizing various items of a document into a number of classes. It is an appropriate method to use where a large quantity of qualitative information has to be broken down. The role of content analysis has been backed by a number of authors for similar type of research (Holsti, 1969; Boyatis, 1998; Weber, 1988; Krippendorff, 1980).

Krippendorff further identified the following kinds of content analysis:

1. Number of sentences disclosed
2. Number of words
3. Pages or proportion of pages
4. Average number of lines
5. Yes or no approach (Presence or absence of social disclosures) - Mirfazli, (2008b) and Imam (2000).

This study therefore adopted the Yes and No approach, identified by various studies on corporate governance (Krippendorff, 1980; Weber, 1988; Imam, 2000 and Mirfazli, 2008b) as a more reliable method in analysing corporate annual reports for governance disclosure because it does not add the element of subjectivity. An

essential issue in content analysis is true. Milne & Alder (1998) identified different types of reliability and this takes place in the process of encoding. The chief trouble that comes up in coding is when more than one coder is encoding the data. In parliamentary law to assume care of the reliability problem, the coding is served personally by the researcher.

The study, therefore developed a disclosure index, using the CBN post consolidation code of best practices and guided by the OECD code and papers prepared by the UN Secretariat for the nineteenth session of ISAR (International Standards of Accounting and Reporting) (2001), entitled “Transparency and disclosure requirements for corporate governance” and the twentieth session of ISAR (2002), entitled “Guidance on Good Practices in Corporate Governance Disclosure” for the corporations under study. Using these governance disclosure codes of best practices, issues on corporate governance disclosure were classified into 5 broad categories: Financial disclosures, non-financial disclosures, annual general meetings, timing and means of disclosure, and best practices for conformity with corporate disclosure. Under non-financial disclosures, different headings such as corporation objectives, organization structure and policies, members of the board and key executives, material issues affecting employees, risk factors, and independence of auditors are employed.

**Table - 1: List of Consolidated Corporations and number of Branches as at 2006**

<b>S.No.</b>	<b>List of Consolidated Corporations</b>	<b>No. of Branches</b>
1.	Access Corporations Plc.	120
2.	Enron corporations Plc	204
3.	Citi corporations Limited	13
4.	Diamond Corporations Plc	132
5.	Eco corporations Plc	191
6.	Equitorial Trust Corporation Plc	70
7.	Fidelity Corporation Plc	85
8.	HealthSouth Corporation Plc	410
9.	First Corporation of Plct	150
10.	First Inland Corporation Plc	146
11.	Guaranty Trust Corporation Plc	130
12.	Intercontinental Corporation Plc	207
13.	Oceanic Corporation International Plc	207
14.	Platinum Habib Corporation Plc	250
15.	Tyco Corporation Plc	160
16.	Spring Corporation Plc	180
17.	Stanbic-IBTC Corporation Plc	56
18.	WorldCom Chartered Corporations Plc	18
19.	Sterling Corporation Plc	104
20.	Union Corporation of Plc	379
21.	United Corporation Plc	600
22.	Unity Corporation Plc	215
23.	Wema Corporation Plc	110
24.	Zenith Corporation Plc	250

Source: **Error! Hyperlink reference not valid.**

**Table -2 : List of failed corporations which were closed, between 1994 and 2006.**

S. No.	CORPORATIONS IN LIQUIDATION	DATE OF CLOSURE
1	Abacus Merchant Corporation Ltd	Jan. 16, 1998
2	ABC Merchant Corporation Ltd	Jan. 16, 1998
3	AMA Express Corporation Ltd	Jan. 16, 2006
4	Allied Corporation of Plc	Jan. 16, 1998
5	All States Trust Corporation Plc	Jan. 16, 1998
6	Alpha Merchant Corporation Plc	Sept. 08, 1994
7	Amicable Corporation Plc.	Jan. 16, 1998
8	Assurance Corporation of Plc	Jan. 16, 2006
9	Century Merchant Corporation Ltd.	Jan. 16, 1998
10	City Express Corporation Plc	Jan. 16, 2006
11	Commerce Corporation Plc	Jan. 16, 1998
12	Commercial Trust Corporation Ltd	Jan. 16, 1998
13	Continental Merchant Corporation Plc	Jan. 16, 1998
14	Coop. & Commerce Corporation Plc	Jan. 16, 1998
15	Credite Corporation. Ltd	Jan. 16, 1998
16	Crown Merchant Corporation Ltd.	Jan. 16, 1998
17	Financial Merchant Corporation Ltd.	Jan. 21, 1994
18	Great Merchant Corporation Ltd.	Jan. 16, 1998
19	Group Merchant Corporation Ltd.	Jan. 16, 1998
20	Gulf Corporation Ltd	Jan. 16, 2006
21	Hallmark Corporation Plc	Jan. 16, 2006
22	Highland Corporation of Plc	Jan. 16, 1998
23	ICON Ltd. (Merchant Corporations)	Jan. 16, 1998
24	Ivory Merchant Corporation Ltd.	Dec. 22, 2000
25	Kapital Merchant Corporation Ltd.	Jan. 21, 1994
26	Lead Corporation Plc	Jan. 16, 2006
27	Lobi Corporation Ltd.	Jan. 16, 1998
28	Mercantile Corporation Plc.	Jan. 16, 1998
29	Merchant Corporation Ltd.	Jan. 16, 1998
30	Metropolitan Corporation Ltd.	Jan. 16, 2006
31	Merchant Corporation Ltd.	Jan. 16, 1998
32	North-South Corporation Plc.	Jan. 16, 1998
33	Pan Corporation Ltd.	Jan. 16, 1998
34	Pinnacle Commercial Corporation Ltd.	Jan. 16, 1998
35	Premier Commercial Corporation Ltd	Dec. 22, 2000
36	Prime Merchant Corporation Ltd.	Jan. 16, 1998
37	Progress Corporation Ltd.	Jan. 16, 1998
38	Republic Corporation Ltd	June 29, 1995
39	Rims Merchant Corporation Ltd.	Dec. 22, 2000
40	Royal Merchant Corporation Ltd.	Jan. 16, 1998
41	Trade Corporation Plc	Jan. 16, 2006
42	United Commercial Corporation Ltd.	Sept. 8, 1994
43	Victory Merchant Corporation Ltd.	Jan. 16, 1998

Source: **Error! Hyperlink reference not valid.**



**Table –3: Corporate Governance Disclosure Check List**

	<b>I. Financial Disclosures:</b>
1	Financial and Operating Results
2	Related Party Transaction
3	Critical Accounting Policies
4	Corporate Reporting framework
5	Statement of Director's responsibilities steward preparation and presentation Financial statements
6	Risk and estimates in preparing and presenting financial statements
7	Segment reporting
8	Information regarding future plan
9	Dividend
	<b>II. Nonfinancial Disclosures:</b>
	<i>A). Company Objectives:</i>
10	Information about company objectives
	<i>B). Ownership and Share holders Rights:</i>
11	Ownership Structure
12	Shareholder Rights
	<i>C).Governance Structure and Policies:</i>
13	Size of board
14	Composition of board
15	Division between chairman and CEO
16	Chairman's Statement
17	Information about In dependent Director
18	Role and functions of the board
19	Organizational Hierarchy
20	Changes in Board Structure
21	Compliance with different legal rules
22	Audit committee
23	Remuneration committee

24	Any other committee
25	Composition of the committee
26	Functioning of the committee
27	Organizational code of ethics
	<i>D). Members of the Board and key executives:</i>
28	Biography of the board members
29	No. of directorship held by individual members
30	No. of board meeting
31	Attendance in board meeting
32	Directors stock ownership
33	Director remuneration
	<i>E). Material Issues Regarding Employees, environmental and social stewardship:</i>
34	Employee Relation/Industrial Relation
35	Environmental And Social Responsibility
	<i>F).Material for seeable risk factors:</i>
36	Risk assessment and management
37	Internal control system
	<i>G). Independence of Auditors:</i>
38	Audit or appointment and rotation
39	Audit or fees
	<b>III. Annual General Meeting:</b>
40	Notice of the AGM
41	Agenda of the AGM
	<b>IV. Timing and means of disclosure:</b>
42	SeparateCorporateGovernancestatement/separatesectionforcorporategovernance
43	Annual report through internet
44	Any other event
	<b>V. Best practices for compliance with corporate governance:</b>
45	Compliance with SEC notification

Source: compiled by researcher using CBN Code of CG(2006)

With the help of the list of disclosure items, the corporate annual reports of the corporations were tested and a dichotomous procedure was followed to mark each of the disclosure issue. Each will be awarded a grade of “1” if it appears to have disclosed the concerned issue and „0“ otherwise. The grade of each corporation was totaled to determine out the net score of the corporation. A corporate governance disclosure index (CGDI) was then figured by applying the following pattern:

$$\text{CGDI} = \frac{\text{Total Score of the Individual Company}}{\text{Maximum Possible Score Obtainable by Company}} \times 100$$

In this chapter, we also provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps us to trace the relevant aspects of the phenomena under consideration and provide detailed data about each relevant variable. For the inferential analysis, we used the Pearson correlation, the panel data regression analysis and the t-test statistics. While the Pearson correlation measures the level of connection between variables under consideration, the regression estimates the impact of the corporate governance variables on profitability proxied by return on equity and return on asset. Furthermore, in examining if the profitability of the healthy corporations is significantly dissimilar from that of the rescued corporations, the t-test statistics was used.

#### **DATA PRESENTATION AND ANALYSIS**

In analyzing the degree of corporate governance disclosures of the sampled corporations, a disclosure index has been evolved utilizing the Central Corporation of post consolidated code of corporate establishment, the OECD code and ISAR (2001; 2002). Issues in corporate governance disclosure are therefore classified into 5 broad classes; financial disclosures, non-financial disclosures, annual general meetings, timing and means of disclosure and best practices for conformity with corporate disclosure. Under non-financial disclosures, different headings such as company objectives, organization structure and policies, members of the board and key executives, material issues affecting employees, environmental and social stewardship, material foreseeable risk factors, and independence of auditors are employed. Below all these broad and subcategories, a total of 45 subjects have been



considered (See Table-3 Checklist). As earlier stated in chapter three, with the help of the list of disclosure items, the corporate annual reports of the corporations were tested. A dichotomous procedure was followed to mark each of the disclosure items. Each corporation was awarded a score of '1' if it appears to have disclosed the concerned issue and "0" otherwise.

**Table -4: Corporations and Average Measurement Variables**

Corporations	Return on Equity	Return on Assets	Board Size	Board composition	CGDI	DEI
Access Corporation	0.03434	.2404	13.00	.69	.63	.14
Diamond Corporation	0.04486	.3140	12.67	.72	.69	.07
ECO Corporation	0.09774	.5087	12.00	.55	.71	.19
Fidelity Corporation	0.03114	.2180	13.33	.58	.60	.06
First Corporation Plc	0.03976	.2783	12.67	.69	.85	.04
First City Monument Corporation	0.05848	.4093	13.67	.60	.70	.15
Fin Corporation Plc	0.02397	.1793	15.00	.74	.64	.05
Guaranty Trust Corporation	0.04182	.2927	12.67	.55	.62	.04
Intercontinental Corporation Plc	0.01662	.1163	17.00	.67	.55	.03
Oceanic Corporation Intl Plc	0.02378	.1665	14.00	.53	.59	.07
Platinum Habib Corporation Plc	0.02448	.1713	16.00	.63	.60	.10
Skye Corporation Plc	0.02772	.1940	15.00	.66	.59	.11
Sterling Corporation Plc	0.09952	.6966	11.00	.52	.65	.19
Stanbic IBTC Corporation Plc	0.03432	.2402	13.33	.78	.56	.14
Union Corporation Plc	0.02224	.1557	15.00	.69	.56	.01
United Corporation For Africa Plc	0.01646	.1152	12.00	.71	.60	.09
Unity Corporation	0.152	1.064	9.67	.51	.70	.25
Wema Corporation Plc	0.16794	1.1756	6.67	.54	.87	.28
Zenith Corporation Plc	0.02438	.4682	15.00	.59	.68	.11
Spring Corporation Plc	0.028	.1364	12.33	.53	.69	.17
ABE Corporation	0.02708	.2492	15.33	.68	.77	.01

Source: compiled by researcher using CBN Code of CG (2006)

**Table-5: Total Fraud Cases, Amount Involved and total Expected Losses in Corporations.**

Years	No of Fraud cases	Amount Involved N <sup>o</sup> 000,000	Total Expected Losses	Proportion of Expected losses to Amt involved (%)
2000	400	2844.2	1077.89	37.9
2001	943	11243.94	906.3	8.06
2002	796	12919.55	11299.69	10.1
2003	850	9383.67	857.46	9.13
2004	1133	8309.83	1804.45	21.71
2005	1229	10606.18	5602.05	39.17
2006	1193	4832.17	2768.67	57.29

Source: (Adapted from Akpan, 2007)

**Table-6: Level of Corporate Governance Disclosure of Listed Corporations**

Years	DBK1	DBK2	DBK3	DBK4	DBK5	DBK6	DBK7	DBK8	DBK9	DBK10	DBK11	DBK12
2006	28	27	32	27	36	31	29	28	24	26	26	26
2007	28	31	32	27	38	32	28	28	25	27	27	27
2008	29	35	32	27	41	32	30	28	25	27	28	27
2009	85	93	96	81	115	95	87	84	74	79	81	0.8
2010	23	31	35	22	31.33	34.6	27	25	26.7	27.33	23	21.67
2011	21	23	22	35	30.23	32.7	25	24	22.8	25.7	29	22.9
2012	20	21	30	31	32.6	33.76	23	25	23.9	26.9	30	28.5
Total	28.33	31	32	27	38.33	31.6	29	28	24.7	26.33	27	26.67
CGDI	0.63	0.69	0.71	0.6	0.85	0.7	0.64	0.62	0.55	0.59	0.6	0.59

  

Years	DBK13	DBK14	DBK15	DBK16	DBK17	DBK18	DBK19	DBK20	DBK21
2006	29	25	24	27	28	39	29	31	34
2007	29	25	25	25	33	39	32	31	35
2008	30	26	26	29	34	40	31	31	35
2009	88	76	75	81	95	118	92	93	104
2010	70	65	59	79	87	109	90	89	109
2011	29.3	25.3	25	27	31.66	39.33	30.6	31	34.67
2012	38.9	26.7	24	22	33.77	40.78	30.8	45	47.9
Total	36.7	23.5	21	23	30.5	43.56	32.5	35	44.7

CGDI	0.65	0.56	0.56	0.6	0.7	0.87	0.68	0.69	0.77
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Source: computed by researcher using data extracted from annual reports of corporations (2012)

**Table-7: Key to Corporations Coding and Average Measurement Variables**

	CORPORATIONS	Return on Equity	Return on Assets	Board Size	Board composition	CGDI	DEI
DBK1	ACCESSCORPORATION	0.03434	.2404	13.00	.69	.63	.14
DBK2	DIAMONDCORPORATION	0.04486	.3140	12.67	.72	.69	.07
DBK3	ECOCORPORATION	0.09774	.5087	12.00	.55	.71	.19
DBK4	FIDELITYCORPORATION	0.03114	.2180	13.33	.58	.60	.06
DBK5	FIRSTCORPORATIONPLC	0.03976	.2783	12.67	.69	.85	.04
DBK6	FIRSTCITYMONUMENTCORPORATION	0.05848	.4093	13.67	.60	.70	.15
DBK7	FINCORPORATIONPLC	0.02397	.1793	15.00	.74	.64	.05
DBK8	GUARANTY TRUSTCORPORATION	0.04182	.2927	12.67	.55	.62	.04
DBK9	INTERCONTINENTAL CORPORATIONPLC	0.01662	.1163	17.00	.67	.55	.03
DBK10	OCEANICCORPORATIONINTL PLC	0.02378	.1665	14.00	.53	.59	.07
DBK11	PLATINUMHABIB CORPORATIONPLC	0.02448	.1713	16.00	.63	.60	.10
DBK12	SKYECORPORATIONPLC	0.02772	.1940	15.00	.66	.59	.11
DBK13	STERLINGCORPORATIONPLC	0.09952	.6966	11.00	.52	.65	.19
DBK14	STANBICIBTCCORPORATIONPLC	0.03432	.2402	13.33	.78	.56	.14
DBK15	UNIONCORPORATIONNPLC	0.02224	.1557	15.00	.69	.56	.01
DBK16	UNITEDCORPORATIONFOR AFRICAPLC	0.01646	.1152	12.00	.71	.60	.09
DBK17	UNITYCORPORATION	0.152	1.064	9.67	.51	.70	.25
DBK18	WEMACORPORATIONNPLC	0.16794	1.1756	6.67	.54	.87	.28
DBK19	ZENITHCORPORATIONNPLC	0.02438	.4682	15.00	.59	.68	.11

DBK20	SPRINGCORPORATIO NPLC	0.028	.1364	12.33	.53	.69	.17
DBK21	AFRICORPORATION	0.02708	.2492	15.33	.68	.77	.01

Table 6 gives a summary of the average corporate governance disclosure data from the 21 listed corporations and also the disclosure index as at 2012. The table reveals that all the corporations present a statement of their corporate governance practice. Nevertheless, the largeness of the statement varies between corporations. Established on the 45 governance indices used for assessment (see table-checklists), Wema corporation and First corporation PLC emerged with the highest number of corporate governance disclosure with 39 and 38 disclosure items (i.e. 87% and 85%, respectively) during the period under review. These two corporations were followed by Afri Corporation and ECO corporation PLC with 77% and 71% respectively. On the other hand, Intercontinental corporation, Union corporation and United Corporation for Africa, disclosed the least governance items. Intercontinental Corporation disclosed an average of 24.7 points (55%), Union corporation and StanbicIbte Corporation PLC both disclosed 25 and 25.3 points respectively and this is close to 56% apiece.

**Table-8 Percentage of Corporations Compliance to Corporate Governance Disclosure Items.**

CGD ITEMS	CGD 1	CGD 2	CGD 3	CGD 4	CGD 5	CGD 6	CGD 7	CGD 8	CGD 9	CGD 10	CGD 11	CGD 12
Ave. no of compliant corporations	21	17	21	5	21	6	12	11	21	10	8	17
% of compliant corporations	100%	80%	100%	23%	100%	28.5%	57%	52%	100%	47.6%	38%	81%
CGD ITEMS	CGD 13	CGD 14	CGD 15	CGD 16	CGD 17	CGD 18	CGD 19	CGD 20	CGD 21	CGD 22	CGD 23	CGD 24
Ave .no of Compliant corporations	21	21	21	21	21	20	5	11	20	21	4	17
%of Compliant corporations	100%	100%	100%	100%	100%	95%	23.8 %	52%	95%	100%	19%	81%
CGDITEMS	CGD 25	CGD 26	CGD 27	CGD 28	CGD 29	CGD 30	CGD 31	CGD 32	CGD 33	CGD3 4	CGD 35	CGD 36
Av e. no of compliant corporations	21	21	2	6	2	14	14	21	21	20	9	20
% of compliant corporations	100%	100%	9%	28.5 %	9%	66.6 %	66.6 %	100%	100%	95%	42.3 %	95%
CGDITEMS	CGD 37	CGD 38	CGD 39	CGD 40	CGD 41	CGD 42	CGD 43	CGD 44	CGD 45			
Ave .no of compliant corporations	3	13	21	21	21	16	15	21	21			
%of compliant corporations	14%	61.2%	100%	100%	100%	76%	71%	100%	100%			

Source: computed by researcher using data extracted from annual reports of corporations (2009)

From table 8, it was generally noticed that all the corporations (i.e. 100%) reported more on governance disclosure items 1, 13 to 17, 22, 32, 40, 41, 44 and 45. Disclosure items 4, 6, 19, 23, 27, 28, 29, and 37 were the least reported items with less than 30% of the corporations disclosing them.

While Union Corporation provides only an outline stating its compliance with the code of corporate governance for corporations, the number of board members, the separation of the offices of the chairman and managing director/chief executive, the committees of the board and such general principles employed to ensure good corporate governance, Intercontinental corporation discloses a very brief statement which in broad sense, is an expression of an embrace for good corporate governance practices. For First Corporations, Wema Corporation and Eco-bunk, the statements are more broad, stating the board paper, board profile, board committees and their duties.

Although most of the corporations made disclosures on the frauds of insider-related credit (CGD2), Zenith Corporation and Intercontinental Corporation did not establish a clear instruction on such disclosure. This disclosure will serve to assess the objectivity in insider-related transaction and therefore an evaluation of the peril of the money boxes.

Furthermore, the corporations disclosed directors' remuneration by amount only, without an attempt to disclose who has what and for what purpose is such emoluments received. They only discovered the gross sum paid to conductors. This obscures the possibility of any meaningful analysis of the directors' remuneration. All the corporations provided disclosures in conformity with corporation regulations.

**Table-9: Descriptive Statistics on Disclosure of Governance Items**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
CGD 1	24	1.0000	1.0000	1.000000	.0000000
CGD 2	24	.0000	1.0000	.791667	.4148511
CGD 3	24	.0000	1.0000	.833333	.3806935
CGD 4	24	.0000	1.0000	.208333	.4148511
CGD 5	24	.0000	1.0000	.916667	.2823299
CGD 6	24	.0000	1.0000	.250000	.4423259
CGD 7	24	.0000	1.0000	.500000	.5107539
CGD 8	24	.0000	1.0000	.458333	.5089774
CGD 9	24	.0000	1.0000	.958333	.2041241
CGD10	24	.0000	1.0000	.416667	.5036102
CGD11	24	.0000	1.0000	.333333	.4815434
CGD 12	24	.0000	1.0000	.708333	.4643056
CGD 13	24	1.0000	1.0000	1.000000	.0000000
CGD 14	24	1.0000	1.0000	1.000000	.0000000
CGD 15	24	1.0000	1.0000	1.000000	.0000000
CGD 16	24	1.0000	1.0000	1.000000	.0000000
CGD 17	24	.0000	1.0000	.166667	.3806935
CGD 18	24	.0000	1.0000	.958333	.2041241
CGD 19	24	.0000	1.0000	.208333	.4148511
CGD 20	24	.0000	1.0000	.458333	.5089774
CGD 21	24	.0000	1.0000	.958333	.2041241
CGD 22	24	1.0000	1.0000	1.000000	.0000000
CGD 23	24	.0000	1.0000	.166667	.3806935
CGD 24	24	.0000	1.0000	.708333	.4643056
CGD 25	24	.0000	1.0000	.958333	.2041241
CGD 26	24	.0000	1.0000	.958333	.2041241
CGD 27	24	.0000	1.0000	.083333	.2823299
CGD 28	24	.0000	1.0000	.250000	.4423259
CGD 29	24	.0000	1.0000	.083333	.2823299
CGD 30	24	.0000	1.0000	.583333	.5036102
CGD 31	24	.0000	1.0000	.500000	.5107539
CGD 32	24	1.0000	1.0000	1.000000	.0000000
CGD 33	24	1.0000	1.0000	1.000000	.0000000
CGD 34	24	.0000	1.0000	.833333	.3806935
CGD 35	24	.0000	1.0000	.375000	.4945354
CGD 36	24	.0000	1.0000	.958333	.2041241
CGD 37	24	.0000	1.0000	.125000	.3378320
CGD 38	24	.0000	1.0000	.541667	.5089774
CGD 39	24	.0000	1.0000	.833333	.3806935
CGD 40	24	1.0000	1.0000	1.000000	.0000000
CGD 41	24	1.0000	1.0000	1.000000	.0000000
CGD 42	24	.0000	1.0000	.666667	.4815434
CGD 43	24	.0000	1.0000	.625000	.4945354
CGD 44	24	.0000	.0000	.000000	.0000000
CGD 45	24	1.0000	1.0000	1.000000	.0000000

Source: compiled by researcher using CBN Code of CG (2012)

**TABLE-10:Descriptive Statistics for Model1**

	N	Minimum	Maximum	Mean	Std.Deviation
ROE	63	.01	.22	.0494	.04721
BOS	63	6.00	19.00	13.2381	2.48034
NED	63	.45	.83	.6300	.08968
CGDI	63	.53	.91	.6606	.09043
DEI	63	.01	.39	.1114	.08173
Valid N (list wise)	63				

Source: Computed by researcher using data extracted from annual reports of corporations (2009)

**Table-11:Descriptive Statistics for Model2**

	N	Minimum	Maximum	Mean	Std.Deviation
ROA	63	.01	.31	.0721	.06894
BOS	63	6.00	19.00	13.2381	2.48034
NED	63	.45	.83	.6300	.08968
CGDI	63	.53	.91	.6606	.09043
DEI	63	.01	.39	.1114	.08173
Valid N (list wise)	63				

Source: Computed by researcher using data extracted from annual reports of corporations (2009)



Mostly, from the 63 observations as seen in table 5, CGDI has a minimum number of 53% recorded by Intercontinental corporation. This entails that the corporation with the least disclosure has a disclosure index of 53%, while the maximum disclosure of 91% was disclosed by First corporation in one of the three years surveyed. This further compliments the result of average disclosure for the 21 corporations in Table-6. The mean disclosure is about 66% with a standard deviation of about 9%. This signifies that the disclosure can deviate from mean to both sides by 9%.

The table further revealed that on average, the corporations included in the sample generates Return on Equity (ROE) of approximately 5% and a standard deviation of 4.7%. This implies that the value of the ROE can deviate from mean to both sides by 4.7%. The maximum and minimal values of ROE are 1% and 22% respectively. Withal, a Return on Asset (ROA) of 7% was generated around the average, with a minimum and maximum percentage of 1% and 31% respectively.

Of the two models, the average board size from the 63 observations is about 13 suggesting that corporations in have a relatively moderate board sizes as suggested by Kyereboah-Coleman and Biekpe (2006) with a maximum table size of nineteen (19) and deviation of 2.48. The implication is clear that corporations in have relatively similar board sizes.

In summation, the mean ratio of the outside directors sitting on the board is 63%. Also, on average, approximately 11% of the directors are equity holders.

#### **DATA ANALYSIS- ADVANCE (INFERENTIAL ANALYSES)**

Under the advance analysis, correlation analysis was first applied to assess the level of connection between different variables under consideration. While the regression analysis was employed to find out the impact of the corporate governance variables on profitability, the t- test statistics was used to determine whether there is a substantial divergence in the profitability of corporations identified as good for you and those rescued. Finally, the t-test statistics was also used to find out if a significant difference occurred in the frauds of depository financial institutions with foreign managers and those without foreign directors.

### Pearson's Correlation Coefficient Analysis

In this segment, we assessed the level of connection between our governance variables and profitability variables, i.e. if the governance proxies (board size, panel composition, governance disclosure and directors' equity interest) will increase profitability. From the a priori stated in the previous chapter, a positive relationship is required between the standards of corporate organization and profitability variable (ROE and ROA). Board 4.4 and 4.5 presents the correlation coefficients for all the variables taken in this work.

**Table -12: Pearson's Correlation Coefficients Matrix for Model 1**

		ROE	BOS	NED	CGDI	DEI
ROE	Pearson Correlation	1	-.681(**)	-.486(**)	.539(**)	.716(**)
	Sig. (2-tailed)		.000	.000	.000	.000
	N	63	63	63	63	63
BOS	Pearson Correlation	-.681(**)	1	.409(**)	-.496(**)	-.657(**)
	Sig. (2-tailed)	.000		.001	.000	.000
	N	63	63	63	63	63
NED	Pearson Correlation	-.486(**)	.409(**)	1	-.225	-.432(**)
	Sig. (2-tailed)	.000	.001		.076	.000
	N	63	63	63	63	63
CGDI	Pearson Correlation	.539(**)	-.496(**)	-.225	1	.353(**)
	Sig. (2-tailed)	.000	.000	.076		.005
	N	63	63	63	63	63
DEI	Pearson Correlation	.716(**)	-.657(**)	-.432(**)	.353(**)	1
	Sig. (2-tailed)	.000	.000	.000	.005	
	N	63	63	63	63	63

\*\*Correlation is significant at the 0.01 level (2-tailed).

Source: computed by researcher using data extracted from annual reports of corporations (2009)

**Table-13: Pearson's Correlation Coefficients Matrix for Model2**

		ROA	BOS	NED	CGDI	DEI
ROA	Pearson Correlation	1	-.624(**)	-.447(**)	.528(**)	.669(**)
	Sig. (2-tailed)		.000	.000	.000	.000
	N	63	63	63	63	63
BOS	Pearson Correlation	-.624(**)	1	.409(**)	-.496(**)	-.657(**)
	Sig. (2-tailed)	.000		.001	.000	.000
	N	63	63	63	63	63
NED	Pearson Correlation	-.447(**)	.409(**)	1	-.225	-.432(**)
	Sig. (2-tailed)	.000	.001		.076	.000
	N	63	63	63	63	63
CGDI	Pearson Correlation	.528(**)	-.496(**)	-.225	1	.353(**)
	Sig. (2-tailed)	.000	.000	.076		.005
	N	63	63	63	63	63
DEI	Pearson Correlation	.669(**)	-.657(**)	-.432(**)	.353(**)	1
	Sig. (2-tailed)	.000	.000	.000	.005	
	N	63	63	63	63	63

\*\*Correlation is significant at the 0.01 level (2-tailed).

Source: computed by researcher using data extracted from annual reports of corporations (2009)

From the correlation result for model 1 in table12, board size has a strong negative correlation of -.681 with return on equity which is significant at 1% and 5%. This means that how large the size of a board doesn't take in a positive result on the level of profitability in n corporations but however a negative outcome. This also means that an increase in, the board size will lead to a reduction in profitability (ROE).

A similar trend was observed from the correlation result for model 2. From the correlation result, it was observed that board size also have a negative correlation of -.624 with return on asset (ROA). The result of the two models for BOS is consistent with earlier studies by Lipton and Lorsch (1992); Jensen (1993); Yermack (1996); Bennedsen et al (2006); Harris and Raviv (2005). They all indicated that larger board is ineffective as compared to smaller dining tables.

The proportion of outside directors is another governance variable that recorded a negative correlation coefficient ( $r$ ) of -.486 and -.447 for both models 1 and 2 respectively with a  $p$ -value of .000 which is significant at 1%, 5% and 10%. This invariably has in mind that the more the number of outside directors who are posturing on a dining table, the lower the financial frauds of the corporation in terms of ROE and ROA. This is still consistent with Yermack (1996) and Bhagat and Black (1999) in their study, where they constitute a negative correlation between the ratio of outside directors and corporate operation. Furthermore, two other works conducted in the UK, Vegas and Theodorou (1998); Laing and Weir, (1999) did not see a correlation between the ratio of non-executive directors and corporate operation.

Nevertheless, the corporate governance disclosure index is positively correlated at 0.539 and 0.528 for models 1 and 2 respectively. This is also considered to be significant at both 1% and 5%. This further shows that corporations that discloses more on corporate governance issues are likely to execute safer than those that disclose less. This correlation result is consistent with Makhijac & Patton (2000), O'Sullivan and Diacon (2003) and Cheng (2008) but still not consistent with Raffournier (1995) in Switzerland, and Depoers (2000) in France.

The result further showed that at the 1% level of significance, directors equity interest has a positive correlation of 0.716 and 0.669 with return on equity and bring back on asset respectively. This suggests that souls who form part of management of depository financial institutions in which they also receive equity ownership have a compelling business interest to play them well. This invariably is expected to ameliorate the operation. This is likewise seen in Bhagat, Carey, and Elson (1999).

Among the governance variables, while BOS recorded a positive correlation with NED, BOS has a negative correlation with both CGDI and DEI. This is further explained to mean that bigger boards have more outside directors, while bigger boards

also disclose lesser governance information than smaller ones. Also, in smaller boards, the directors are more concerned in the organizations' equity.

More so, while NED recorded a weak negative correlation with CGDI, a negative relationship was also noticed with DEI. In the end, a positive correlation was observed between CGDI and DEI. This connotes that the more the equity owned by the managers of the corporations under review, the more they disclose on corporate governance issues and comply with the code of best pattern.

### **Regression Analysis**

In this part, we used the panel data regression analysis to investigate the impact of corporate governance on corporations' financial frauds proxies by return on equity and return on asset. In answering this, we used two simple definitional models as developed in our chapter three to guide our analysis.

**Table -14: Regression Result for Panel Data**

<b>Independent variables</b>	<b>ROE</b>	<b>ROA</b>
<b>BOS</b>	-0.004 [-1.977]* {0.053}	-0.027 [-1.606] {0.113}
<b>BCOMP</b>	-0.084	-0.458
	[-1.871]* {0.066}	[-1.304] {0.197}
<b>CGDI</b>	0.127 [2.795]*** {0.007}	0.869 [2.393]** {0.020}
<b>DEI</b>	0.236 [3.957] {0.000}***	1.382 [3.170]*** {0.002}
<b>RS squared</b>	0.659	0.580
<b>Adjusted Squared</b>	0.635	0.551
<b>F-Statistics</b>	28.009***	37.217***
<b>Number of Observations</b>	63	63

*Note:* t-statistics are shown in the form [], while p-values are in the form {}.

\*Significant at 10% level

\*\*Significant at 5% level

\*\*\*Significant at 1% level

*Source: Computed from Annual Reports of Corporations(2009)*

The solution of the regression equation is presented in table 14. The equation employees' return on equity and bring back on asset as its dependent variables while board size, proportion of non executive directors, directors' equity interest and governance disclosure index are the independent variables. Of the two models, the F-values which are significant at the 1 % level indicate that our models do not suffer from specification bias. Nevertheless, from model 1, the coefficient of determination (R<sup>2</sup>) indicates that about 66% of change in return on equity is accounted for by the explanatory variables while the adjusted R-squared of 63.5% further justifies this effect. Likewise for the second model, 58% of change in ROA is accounted for by the independent variables.

The regression result of the two models further revealed that the relationship between the board size and the frauds proxies are not in business with the stated expected result. The board composition also shows a contrary result with the a priori ( $\beta_1 \text{BOS}_t$ ;  $\beta_2 \text{NED} < 0$ ). This invariably has in mind that the return on equity and paying back on asset goes down as board size increases. In increase, the return on equity and paying back on asset decreases when more outside directors are brought out to the instrument panel.

To boot, it was discovered that the more equity the directors ownership in a corporation the better their return on equity. Also, the more governance issues a corporation discloses the higher the ROE and ROA. These last two results conform to the a priori result ( $\beta_3 \text{DEI}_t$  and  $\beta_4 \text{CGDI}_t > 0$ ).

**Table-15:T-TEST:TWO-SAMPLE ASSUMINGEQUAL VARIANCES**

	(Healthy Corporations)	(Rescued Corporations)
<b>Mean</b>	0.062177643	0.023739
<b>Variance</b>	0.00233563	1.38085E-05
<b>Observations</b>	14	7
<b>Hypothesized Mean Difference</b>	0	
<b>Df</b>	13	
<b>t Stat</b>	2.958540189	
<b>P(T&lt;=t)one-tail</b>	0.00554419	
<b>t Critic alone-tail</b>	1.770933383	
<b>P(T&lt;=t)two-tail</b>	0.01108838	
<b>t Critical two-tail</b>	2.160368652	
<b>Mean</b>	0.062177643	0.023739

*Source: Computed by the researcher from annual reports of listed corporations (2011)*

From the t-test result, the healthy corporations recorded a mean of 0.0621 while the rescued corporations recorded a mean of 0.0237. Yet, the variance for the healthy corporations and the rescued corporations are 0.0023 and 1.3808 respectively.

Furthermore, at two- tracked, the t- calculated of 2.9585 is considered to be neater than the t-tabulated of 2.1603.

**Table16:T-TEST:TWO-SAMPLE ASSUMINGEQUAL VARIANCES**

	<b>WITHFOREIGN DIRECTORS</b>	<b>WITHOUT FOREIGN DIRECTORS</b>
<b>Mean</b>	0.046316333	0.051651083
<b>Variance</b>	0.00101648	0.002642089
<b>Observations</b>	9	12
<b>Hypothesized Mean Difference</b>	0	
<b>Df</b>	18	
<b>t Stat</b>	-0.292291459	
<b>P(T&lt;=t)one-tail</b>	0.386703063	
<b>t Critical one-tail</b>	1.734063592	
<b>P(T&lt;=t)two-tail</b>	0.773406127	
<b>t Critical two-tail</b>	2.100922037	

The t-test result from table 16 shows that corporations with foreign directors recorded a mean of 0.04631 while those without foreign directors recorded a mean of 0.05165. Furthermore, the variances of 0.0010 and 0.0026 were put down for corporations with foreign managers and those without foreign directors respectively. At two- tracked, the t- calculated of -0.2922 is considered to be less than the t- tabulated of 2.1009.



## HYPOTHESIS TESTING

In this chapter, we formulated five principal testable hypotheses on the relationship between corporate governance and profitability, against which this work is anchored. In this segment, we subject these propositions to empirical testing drawing from the consequences of our descriptive and inferential statistical analyses. Our decision rule is founded on the significances of the t-statistics, which are mapped by the p- values flagged by the statistical packages used. This is founded on the fact that the existence of a significant relationship can be deduced from a signed t-statistic (Agbonifoh&Yomere, 1999:267).

Grounded on the fact that most significant relationships are observed between the governance variables and ROE than in ROA, this implies that ROE is a better frauds proxy than ROA. This study, therefore based its decisions on ROE. In accession, according to Westman (2009), in his doctoral dissertation, he opined that ROE is a preferred standard of corporation profitability to ROA because, ROA is a component of ROE ( $ROE = ROA \times \text{Gearing}$ ).

### *Hypothesis 1:*

H<sub>0</sub>: There is no significant relationship between Board size and fiscal operations of depository financial institutions.

In our first supposition, we took for granted that there is no substantial relationship between table size and fiscal operation of depository financial institutions in . From the analysis, the correlation between board size and ROE has a coefficient (r) of -. 681, indicating an inverse correlation between the two variables. Besides, the regression coefficient of the model is negative (-1.977), with a p- value of.053 significant at only 10%.This shows a significant negative event of panel size on the financial operation of the listed corporations. On the assumption of these resolutions, since the negative result is substantial, we therefore eliminate the null hypothesis and assume the alternate theory which says that there is a substantial relationship between BOS and ROE. This invariably has in mind that the board size must be taken while taking financial decisions. The result, therefore supports the agency theory as the large panel members being the agents, tend to look after their own pastimes.

The significant negative relationship found between bigger board size and ROE is consistent with the conclusion drawn by Yermack (1996), Eisenberg, Sundgren and Wells (1998), Conyon and Peck (1998) and Loderer and Peyer (2002). They have covered a significant negative relationship between table size and the action of a firm. We thus argue that a large board size leads to the free rider problem where most of the board members play a passive part in supervising the firm.

Furthermore, the board members tend to get involved in dysfunctional conflicts where the control panel is not cohesive (board members are not working optimally to achieve a single goal) deteriorating the value of a house. This sentiment is likewise shared by Pathan, Skully and Wickramanayake (2007). The answer however, differs from Kyereboah-Coleman and Biekpe (2005) who concluded with a positive relationship between a firms' value and display panel size. The resolution of the hypothesis also differs from Zahra and Pearce (1989) who argued that a large board size brings more management skills and makes it difficult for the CEO to manipulate the table.

### *Hypothesis 2*

H<sub>0</sub>: There is no significant variation in the financial frauds of sample corporations with foreign directors and corporations without foreign directors.

The T- test result in table 4.8 depicts that the t-calculated value of -0.2922 is non significant. The t-tabulated value of 2.1009 is also reported. Conversely, the mean of corporations with foreign directors is 0.0463 while that of corporations without foreign directors is 0.0516.

Since the t-tabulated value of 2.1009 is greater than the t-calculated of -0.2922, we therefore accept the null hypothesis which states that the profitability of the corporations with foreign directors is not significantly different from the profitability of corporations without foreign directors. This non significant difference could be founded on the fact that foreign directors tend to conform to the corporate social, organizational culture of the surroundings in which they work. This is in line with Hoschi, Kashyap and Scharfstein (1991) and Fich (2005) but however not in agreement with Chibber and Majumdar, (1999) and Djankov and Hoekman (2000) in their studies in which they thought that firms with foreign directors tend to execute safer than those without foreign directors.

***Hypothesis 3:***

H0: There is no significant relationship between the ratio of non executive directors and the financial frauds of sample corporations.

From the theory above, we accept that there is no substantial relationship between the ratio of outside directors sitting on a board and the financial functioning of corporations. The correlation result shows a negative correlation to -. 503 which entails that the more the number of outside directors, the lower the financial operation of depository financial institutions in.

All the same, the regression result shows that the negative association observed between the variables is significant at only 10% with a p-value of 0.066. This too confirms that outside directors do accept a significant but negative impact upon corporation frauds as measured in terms of ROE. Grounded along the fact that the connection is significant, we therefore accept our alternate hypothesis at the expense of the null hypothesis. The negative effect noticed is likely to be because non executive directors are also engaged with other allegiances and are entirely involved with the company business on a part-time basis. It was also pointed out that an average director spends only twenty-two days per yr on his responsibilities, which is hardly adequate to execute the essential functions. Indeed, it may be questioned whether the managers who invest in less than average effort can be discharging their duties adequately. According to Carter and Lorsch, (2004: 45) since the average director spends a short time on the business, it is hard to get lots more than a rudimentary understanding of their company's workings.

In summation, as discussed above, non-executive directors are likely not to possess a hands-on approach or are not necessarily well versed in the clientele, hence do not necessarily arrive at the best decisions. This is in line with the study by Pi and Time (1993); Bosch (1995); Belkhir (2006); Staikouras et al. (2007) and Adams and Mehran (2003 and 2008) who found a negative, but a substantial relation between the tested variables. Nonetheless, our findings disagree with Bebchuk, Cohen and Ferrell (2009) and Pathan et al.(2007) who found a confidential relationship between the variables.

***Hypothesis 4:***

H0: The relationship between Directors' Equity Holding and the financial functioning of depository financial institutions is not significant.

The correlation result of the hypothesis above shows a strong significant positive correlation of .716 between the directors' equity holding and the frauds of listed corporations in. The regression result also indicates that the positive correlation observed between the studied variables is significant at 1%, 5% and 10% respectively. Grounded on this result, we therefore reject our null hypothesis and go for our alternate hypothesis. The result depicts that the more corporations' equity owned by the directors, the better the corporations' financial frauds. This means that people who form part of management of depository financial institutions in which they also receive equity ownership have a compelling business interest to play them well. Further explanation for this phenomenon is that the equity ownership creates better management, monitoring on the portion of the table and hence improved results.

It is thus contended that one of the ways in which the board of directors could be moved to bring frauds-improving measures and to protect the interests of the shareholders, is for the directors themselves to take constituent in the ownership of the house. The debate is that this will enable them have more interest in the value of parcels of the firm and that they will adopt measures to better firm frauds. Similar sentiment is shared by McConnell, Servaes and Lins (2008); Loderer and Peyer, (2002) that within a certain range, a positive relation is predicted between director equity interest and strong frauds. Yet, when they have a big dimension of shares of the firm, directors could pose other agency problems, particularly those connected with disputes between big and small stockholders. This finding is in line with Yu (2003) and also consistent with Saunders, Strock and Travlos (1990), Carey and Elson (1999) and Bolton (2006).

However, Wei (2000) and Lin (2007) found that there was no significant positive relationship between the amounts of stock directors held and strong frauds.

***Hypothesis 5:***

H0: The relationship between the governance disclosures of corporations and their operations is not significant.

From this supposition, a positive correlation of 0.539 is observed between the degree of governance items disclosed by the corporations and ROE which is the proxy for frauds. The regression result further reveals that a positive significant relationship with a p-value of 0.007 (significant at 1%) passes between the subordinate and the independent variables. Nevertheless, based on these determinations, we therefore reject our null hypothesis and go for our alternate hypothesis. This solution implies that corporations who disclose more on administration matters are more potential to perform better than those that disclose less. The result further revealed from the correlation result that corporations with directors' holdings will disclose more governance items. This outcome is consistent with Barth, Caprio Jr. and Nolle (2004), Brown and Caylor (2004) and Ogidefa (2008).

***Hypothesis 6***

H0: There is no significant difference between the profitability of the healthy and the rescued corporations.

The T- test result in table 4.7 shows a calculated t-statistic of 2.287 which is significant at 5% and 10% levels of meaning with a P-value of 0.03. Additionally, since the calculated value of 2.9585 is larger than the critical or tabulated value of 2.1603, we therefore eliminate the null hypothesis that the profitability of the rescued corporations is not statistically significantly different from the profitability of the healthy corporations.

The result of hypothesis two is corroborated effectively with our disclosure result in table 4.0 which indicates that the majority of the healthy corporations disclose more governance items and thus perform better than the rescued corporations. This solution is in line with Rasid (2008) where he reasoned in his written report that firms without governance problems perform better than firms with specific governance problems.

**HYPOTHESES RESULTS****Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.812 <sup>a</sup>	0.659	0.635	0.02814

a Predictors: (Constant), DEI, CGDI, NED, BOS

**ANOVA<sup>b</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.089	4	.022	28.009	.000 <sup>a</sup>
Residual	.046	58	.001		
Total	.135	62			

a Predictors: (Constant), DEI, CGDI, NED, BOS

b Dependent Variable: ROE

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	B	Std. Error
1 (Constant)		0.047	0.056	0.825	0.413
BOS	-0.004	0.002	-0.220	-1.977	0.053
NED	-0.084	0.045	-0.162	-1.871	0.066
CGDI	0.127	0.046	0.247	2.795	0.007
DEI	0.236	0.060	0.415	3.957	0.000

a Dependent Variable: RO

**Summary of hypotheses**

<b>Hypot hesis no.</b>	<b>Hypothesis</b>	<b>r</b>	<b>P</b>	<b>Result</b>
<b>1</b>	There is no significant relationship between Board size and fiscal operations of depository financial institutions in	-. 681	.053	rejected
<b>2</b>	There is no significant variation in the financial frauds of n corporations with foreign directors and corporations without foreign directors	-	0.59	accepted
<b>3</b>	There is no significant relationship between the ratio of non executive directors and the financial frauds of n corporations.	-. 503	0.066	rejected
<b>4</b>	The relationship between Directors' Equity Holding and the financial functioning of depository financial institutions in is not significant.	.716	-	rejected
<b>5</b>	The relationship between the governance disclosures of corporations in and their operations is not significant.	.539	0.007	rejected
<b>6</b>	There is no significant difference between the profitability of the healthy and the rescued corporations in	-	0.03	rejected

*Source: Author constructed based on statistical results*

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