

Corporate Governance and Financial Distress in the Banking Industry: Nigerian Experience

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Abstract: The study investigates the effect of corporate governance on financial distress in the Nigerian banking industry and examines the discriminatory power of corporate governance mechanism of the board, audit committee, executive management and auditor in one model for financial distress prediction. Secondary data obtained from annual financial statements of twenty banks between 2005 and 2015 were used for the study. The data were analyzed using descriptive statistics and generalized quantile regression model. The empirical evidence from the study suggests that financially distressed banks are characterized by large board size with members who may not be well versed in banking complexities, chairmen and CEOs with significant shareholding both individually and collectively. Furthermore, the evidence also shows that distressed banks suffer major decline in customer deposits despite increase in size. The study concludes that financial distress can be caused by poor corporate governance mechanism.

Keywords: *Banking industry, corporate governance, financial distress, Nigerian experience*

1. Introduction

Banks play a very important role in the society, occupying critical position in the process of promoting economic growth (Wanke, Barros and Faria, 2015). As a result of this role, a properly functioning banking sector is crucial for the growth of an economy and the stability of the financial system (Hoggarth, Reis and Saporta, 2002). National governments through their regulatory agencies have shown concern towards the proper functioning of the banking industry and have therefore regulated the industry. However, despite the supervision and regulatory role of government, the industry has been periodically characterized by financial distress thereby resulting in huge loss of shareholders' funds and erosion of public confidence in the system (Lang and Schmidt, 2016). Financial distress in banking remains a significant issue for owners, managers and the public (Simpson and Gleason, 1999) and early warning signals have been advocated as essential to limit the potential adverse effect of financial distress on the economy (Li, Crooks, and Andreeva, 2014). Various models have been used in financial distress prediction starting with diverse statistical methods such as Altman's (1968) multiple discriminant analysis, Ohlson's (1980) logistic regression; Intelligent models such as neural network model, support vector machine, genetic algorithm, genetic programming and others. All of these methods focused on the explanatory powers of financial, accounting and market variables (Manzaneque, Priego and Merino, 2016).

However, in the early 1990s, another strand of research that explores corporate governance variables and their roles in predicting financial distress emerged in literature (Chan, Chou, Lin, and Liu, 2016). These authors have argued that economic and financial data alone do not provide sufficient predictive power of future distress, hence, the need to consider variables representative of corporate governance characteristics (Heremans, 2007; Chen, 2008; Chang, 2009). Amendola, Restaino and Sensini (2015) specifically argued that the structure of the firm's board of directors and ownership and the interaction among them can affect the probability of failure. While Zeitun (2009) states that the agency problem between the shareholders of a company and the management leads to inefficiency in terms of ownership concentration. The 2007-2009 global financial crises triggered a more robust discussion of corporate governance and brought it to the front burner of international dimension (Villanueva-Villar, Rivo-Lopez and Lago-Penas, 2016). According to Iqbal, Strobl and Vahamaa (2015) believe that politicians, banking supervisors and other authorities attributed financial crises to the flaws in the corporate governance practices of financial institutions (Kirkpatrick, 2009; Haldane, 2012).

Corporate governance is a mechanism that is used to protect the rights of different stakeholders. It specifies the distribution of such rights and responsibilities among the different actors in the corporation such as the shareholders, board, managers, and others. It spells out the rules and procedures for making decisions in

corporate affairs (OECD, 1999). Corporate governance participants are the board of directors (BODs), audit committee, shareholders, top management and the auditors (Rezaee, 2007). No corporate governance would be necessary if management acted in the best interest of shareholders and if the board members effectively discharge their fiduciary duties and professional responsibilities. Corporate governance is needed to avoid concentration of power in the hands of management and to create an effective system of checks and balances to appropriately balance power-sharing authority among shareholders, board, management, and, to a lesser extent, other stakeholders. It is a monitoring mechanism for assessing corporate responsibility and accountability through the board, audit committee, management and auditors in order to serve and protect the interest of investors (Rezaee and Riley, 2010). There is substantial evidence that one corporate governance size does not always fit all firms in all countries as governance structure differs from one country to another (Black, de Carvalho and Gorga, 2012). Though there is a body of literature that highlights the importance of corporate governance and its influence on the likelihood of financial distress, the contribution has been limited because of the legal processes and definitions of financial distress which vary from one country to another (Manzaneque et al., 2016).

This study is justified because it extends the analysis of financial distress to other geographical contexts. Additionally, a more comprehensive determination of financial distress situation will contribute to the existing literature (Crespi-Cladera and Pascual-Fuster, 2015). Furthermore, the focus of most studies on corporate governance and financial distress centers on board structure and/or ownership characteristics with the exclusion of other participants such as the shareholders, audit committee and the auditor in the same model (Villanueva-Villar et al., 2016). To this end, the study raises the question as to how can we test the discriminatory powers of corporate governance mechanism of the board, external auditors, shareholders, and ownership structure in one model that can predict financial distress in the Nigerian banking industry? In view of this, the study investigates the effect of corporate governance on financial distress and examines the discriminatory power of corporate governance mechanism of the board, audit committee, executive management and auditor in one model for financial distress prediction in the Nigerian banking industry. The rest of the paper is organized as follows: Section 2 provides the review of relevant literature. Section 3 describes the data and methodological approach while Section 4 discusses the results. The conclusion and policy recommendation are provided in Section 5.

2. Literature Review

Financial distress is a broad concept used to describe situations in which firms face financial difficulty. The most common terms used interchangeably for financial distress are 'failure', 'default', 'insolvency', and 'bankruptcy' (Geng, Bose, and Chen, 2015). However, bankruptcy is the extreme and irredeemable outcome of financial distress and as such many financially distressed firms escape bankruptcy due to early reconstruction of operations. There are many definitions of financial distress because different countries have different accounting procedures and rules. It is generally believed that it is a situation where operating cash flow does not exceed negative net assets (Li et al., 2014). Geng et al. (2015) state that some of the methods that have been used for financial distress prediction include discriminant analysis, logit or probit regression model, linear conditional probability models, neural network, decision trees, case based reasoning, genetic algorithm, rough sets, support vector machine, and others. However, the assumptions underlying the majority of these methods are far from real world situation. Extant research has focused on the discovery of better models for financial distress prediction because of the limitations of statistical techniques that have been extensively used over the years.

Financial Distress in the Nigerian Banking Industry: In Nigeria, financial distress has been a pervasive issue as the banking sector has been periodically characterized by financial distress. The history of Nigerian banking distress can be conveniently divided into three eras namely: the era between (i) 1940s and 1950s; (ii) 1989 and 1998; and (iii) 2007 and 2010. The distress experienced between 1940s and 1950s was attributable to mismanagement of assets, lack of adequate capital and managerial expertise due to untrained personnel to mention but a few (Adekanye, 1983; Osaze and Anao, 1990). The second era of financial crisis was first observed in 1989 when there was mass withdrawal of deposits by government agencies, this situation worsened in 1993 after the annulled June 12 presidential election. This led to the collapse of the inter-bank market which later spread to all segments of the financial system (Ailemen, 2003; Hecko, 2007;

Sanusi, 2010). The third era of financial distress crisis happened in the aftermath of the 2007- 2009 global financial crises that prompted the Central Bank of Nigeria (CBN) to provide funding support to the banking industry. The third era of distress was partly explained by the global financial crisis, but, it was evident that the banks contributed in no small measure to its escalation. During this period, the CBN ordered a special investigation into the financial condition of the country's 24 banks. At the end of the investigation, the boards of eight banks were dismissed on the grounds of insider abuses, fraud, poor risk management, inadequate capital and corporate governance issues (Osaze, 2011; Sanusi, 2011). Consequently, the CBN injected fresh Tier II capital amounting to US \$4.1 billion into the banking industry (Sanusi, 2010; Fadare, 2011). Financial distress is not a new phenomenon in the Nigerian banking sector. Despite this, only a few studies have been carried out on this issue, almost all of which utilized logit/probit models and focused on bankruptcy, which is the final outcome of financial distress.

Concept of Corporate Governance and the Nigerian Banking Industry: Various definitions reflecting different perspectives of corporate governance exist in the literature because of its multidimensional nature. Cadbury (1992) defines corporate governance as the mechanisms that are used to protect the interests of different stakeholders. Though studies have attempted to develop corporate governance indices that aggregate a number of mechanisms to investigate how corporate governance relates to performance, the literature indicates that there is no single, standard corporate governance index that can be considered as "one size fits all" (Munisi and Randoy, 2013; Rygh, 2016). The various views on corporate governance relates to different cultural contexts and intellectual background (Idam, 2015). In Nigeria, corporate governance studies have grown rapidly in recent times following the dismissal of the chief executives of eight banks by the Central Bank of Nigeria on the grounds of corporate governance issues among other factors. The CBN alleged that the 2007-2010 banking crisis in Nigeria was caused partly by poor corporate governance by banks' management. This revelation generated a lot of interest in corporate governance studies. However, the studies on corporate governance have been largely related to performance with little or no studies on the effect of corporate governance on financial distress. Thus, the role of corporate governance in financial distress has been largely neglected. According to Manzanique et al. (2016), previous empirical debate on financial distress focuses on explanatory powers of financial and accounting information applying diverse statistical methods such as linear discriminant analysis and logit/probit analysis. Several researchers have argued that economic and financial data alone do not provide sufficient predictive power of distress and is therefore necessary to include variables representative of corporate governance characteristics to improve the predictive power of the model (Chen, 2008; Chang, 2009; Lakshan and Wijekoon, 2012).

Review of Theories applicable to the Study: The theoretical framework underlying this study includes theories such as the agency theory, stewardship theory, resource dependency theory, and the theoretical institutional perspective (Xu, 2007). The agency theory is the most prominent and rooted in the idea of separation of business ownership and control between shareholders and managers. The agency problem arises out of the possibility of opportunistic behavior on the part of the agents against the welfare of their principals (Duhnfort, Klein, and Lampenius, 2008; Idam, 2015). However, agency theory is limited because it does not explain the multidimensional complexity and character of corporate governance phenomenon (Adegbite, 2015; Briano-Turrent and Rodriguez-Ariza, 2016). The stewardship theory sees managers as good stewards of the business organization who work diligently to attain high level of corporate profit and shareholders' returns. The stakeholder theory on the other hand sees the organization as a system of stakeholders operating under a wider societal system, which provides the input, market, legal and other operational infrastructure for the organization. The theory advocates that stakeholders, including employees, customers, suppliers, communities and other groups, are directly or indirectly affected by the organization's operations, and should have a representation on the board of directors. The resource-dependency theory categorizes corporate governance mechanisms as firm's resources and suggests that the resources possessed by a firm are the primary determinants of its performance (Wernerfelt, 1984; Bernadette and Corina, 2015). Empirical studies such as Letza, Sun, and Kirkbride (2004) and Garcia-Torea, Fenandez-Feijoo and de la Cuesta (2016) have established that the shareholder and stakeholder perspectives are the most relevant approaches for analyzing the firm's corporate governance. While the former considers that the key aim of corporate governance is the protection of shareholder interests, the latter advocates that the main objective of corporate governance is to guarantee the interests of all of the firm's stakeholders. Following the works of

effect of corporate governance on financial distress using a variety of techniques in line with previous studies (Simar and Wilson, 2011; Johnson and Kuosmanen, 2012). A large number of studies have used a variety of techniques including the standard linear regression model, fixed and random effects regression models, censored normal regression model (that is, Tobit model), Simar and Wilson (2007) model, among others. The standard linear model including fixed and random effects regression models have been considered inappropriate for the second-stage DEA because they allow predicted values to lie outside the admissible interval (0, 1) determined by the measurement scale (Papke and Wooldridge, 2008; Pericoli, Pierucci and Ventura, 2013). The two-limit Tobit regression has also been considered as a conceptually flawed model for proportional data. This is because DEA scores are not observationally censored by Tobit model but are defined only over the interval (Simar and Wilson, 2007; Cook, Kieschnick and McCullough, 2008; McDonald, 2009).

A model that has been proposed as an effective alternative to the two flawed techniques is quantile regression model (Rousseliere, 2014; Shawtari, Salem, Hussain, Alaeddin and Thabit, 2016). As the dependent variable takes the ranges between upper and lower values (0, 1), it results in having a number of percentiles of dependent variable, in which its relationship with corporate governance varies from one percentile to another. Therefore, estimating the relationship based on the averaged figures or means may not reflect the reality and would hide some information due to heterogeneity of the data (Chi, Huang, and Xie, 2015). Consequently, it is believed that using the quantile regression would provide a better estimation for the relationship between dependent and independent variables as the analysis estimate the relationship at any point conditional on the distribution of the dependent variable (Shawtari et al., 2016).

Quantile regression relaxes one of the fundamental conditions of ordinary least square (OLS) and permits the estimation of various quantile functions, helping to examine in particular the tail behaviors of that distribution (Parente and Santos-Silva, 2016). It departs from conditional-mean models as it allows for heterogeneity and deal with endogeneity problem associated with governance studies (Koutsomanoli-Filippaki and Mamatzakis, 2011; Liu and Miu, 2010). It is invariant to monotonic transformations and robust to outliers (Baum, 2013). Also, it is asymptotically consistent and valid under intra-cluster correlation; and robust even when the error term is heteroskedastic and non-normally distributed (Aldieri and Vinci, 2017; Koutsomanoli-Filippaki and Mamatzakis, 2011; Powell, 2014; Powell, 2016). A version of quantile regression model known as the generalized quantile regression model was applied to estimate the effect of financial distress in the second stage analysis. The generalized quantile estimator addresses a fundamental problem posed by traditional quantile estimators, namely: inclusion of additional covariates alters the interpretation of the estimated coefficient on the treatment variable (Powell, 2014). The generalized quantile estimator implemented by “genqreg in STATA application” addresses this problem and produces unconditional quantile treatment effects even in the presence of additional control variables (Powell, 2016).

4. Findings

Descriptive Statistics: Table 2 depicts descriptive statistics for the dependent variable, independent variables and control variables used in the empirical analysis. For the dependent variable, we found that the sample firms have a mean financial distress level of approximately 50%. The average board is composed of about eleven members and the proportion of independent directors is around 53% of the total board members. The board meets for an average of 7 times per year. Regarding shareholding, the chairman and the chief executive officer hold about 2% each of shares, the largest shareholder controls about 4%, while insider management comprising of all directors and the chief executive officer hold about 11% which indicate a fair alignment of interests between ownership and the board. The institutional shareholders hold about 20% in shareholding.

Financial Distress Scores (First Stage): The study adopted a two-stage approach in the analysis of the effect of corporate governance on financial distress in Nigerian banks. In the first stage, DEA efficiency estimator was used to obtain distress scores proxied by efficiency scores for individual banks as the dependent variable. An input-oriented, variable return to scale (VRS) approach which is based on the assumption that banks have more control over their inputs than outputs was adopted. Financial distress was modeled with technical efficiency scores where efficiency scores of “1” means healthy banks while efficiency scores between “0” and

“0.9” suggest different levels of inefficiencies. Following the works of Kumar and Gulati (2008), we utilized the quartile values of efficiency scores as cut-off points to segregate the banks into three categories as follows:

- Quartile values between 0.1 – 0.5 = distressed banks
- Quartile values between 0.6 – 0.9 = marginally healthy banks
- Quartile values of 1 = healthy banks

Generalized Quantile Regression Analysis Results (Second Stage): Table 3 shows the second stage analyses of the effect of corporate governance variables on financial distress in Nigerian banking industry. The results of the generalized quantile regression model (using quartile values between 0.1 and 0.5 for distressed banks) show that nine variables are statistically significant at 5% level. Board size (lnbsize) presents a positive coefficient on financial distress. The variable shows a statistically significant relationship with financial distress at a 5% significance level. This suggests that distressed banks are characterized with a large board that may be ignorant of the dynamics of the banking industry. Small boards are more likely to monitor management better since their members are less able to hide in a large group. They are also more likely to be involved in strategy formation and abler to arrive at decisions faster than larger ones. This finding is consistent with the work of Briano-Turrent & Rodriguez-Ariza (2016) which associate large boards with distress. This study is at variance with the resource dependence theory which argues that large boards offer better advantages than small boards (Manzaneque et al., 2016).

Board independence (bind) presents a positive coefficient and statistically significant effect on financial distress at a 5% significance level. This indicates that distressed banks have more non-executive directors on their boards who may not contribute positively to the progress of the banks. Independent directors may lack in-depth knowledge of the internal workings of the banks on whose boards they sit. They may also lack the financial expertise to understand the complexity of the securitization processes banks engage in and the risks involved. This finding is in alignment with the works of Adams (2010, 2012) which concludes that board independence may not necessarily be beneficial for banks, as independent directors may not always have the expertise necessary to oversee banking firms. This study is at variance with the agency theory which posits that the proportion of independent directors is negatively related to financial distress (Manzaneque et al., 2016). Ownership diffusion (lnshares) presents a negative coefficient and statistically significant effect on financial distress at 5 %. This implies that distressed banks have less diffused ownership or fewer numbers of shares. The chairman (chair) share ownership presents a positive coefficient and statistically significant effect on financial distress at 5% significance level, implying that in distressed banks, chairmen hold a significant number of controlling shares.

Chief Executive Officers (CEO) share ownership also present a positive coefficient and statistically significant effect on financial distress at 5% significance level, with the implication that in distressed banks, chief executive officers also hold significant number of controlling shares. Insider ownership (insider) representing the shares owned by all the directors including the CEO presents a negative coefficient and a statistically significant indirect effect on financial distress. Insider shareholders are considered to have access to a greater extent and better quality of bank-specific information. The implication of a negative effect could be that insider shareholders have access to inside information of the poor financial state of the banks and the quick divestment of shares by the directors. Size (bind) proxied by log of assets presents a positive coefficient and statistically significant direct effect on financial distress at 5%. This suggests that as size increases, the banks might face more risk events. This finding is in alignment with the works of Wang and Hsu (2013) which document that larger banks are associated with higher systemic risk. Growth (growth) proxied by customer deposits presents a negative coefficient and statistically significant indirect effect on financial distress at a 5% significance level, implying that the propensity to withdraw deposits increases with the magnitude of financial distress. This finding is in line with the works of Goldstein and Pauzner (2005) and Egan, Hortacsu, and Matvos (2015) who affirm that distressed banks experience large decline in customer deposits.

In Nigeria, banks are supervised by regulatory organs such as the Central Bank of Nigeria and the Securities and Exchange Commission and governed by their board of directors. Various initiatives have been carried out by the regulatory authorities to improve corporate governance in Nigeria including but not limited to the creation of codes of corporate governance. Some of the provisions of the code include a pegging of direct and

indirect equity holding in any bank to 10% and an equity holding of above 10% by any investor subject to the regulatory prior approval; a maximum board size of 20 directors; an appointment of a chief compliance officer, among other rules (Uche, 2014). Some studies on corporate governance in Nigeria focused on the structure and the distribution of rights and responsibilities among the different corporate governance participants (Garuba and Otomewo, 2015; Adeyemi and Olowu, 2013; Uche, 2014). Few studies constructed a corporate governance index and evaluated its effect on banks' performance (Ajala, Amuda and Arulogun, 2012). The outcome of studies on corporate governance in Nigerian banks revealed that corporate governance impacted on performance (Thomas and Mohammed, 2011; Sanda, Mikailu and Garba, 2005; Kajola, 2008; James and Okafor, 2011; Ahmad and Mansur, 2012; Akingunola, Adekunle, and Adedipe, 2013).

Table 1: Measurement and *a priori* Expectation of Independent Variables

S/NO	VARIABLES	MEASUREMENT	A PRIORI
BOARD STRUCTURE			
1	Board Size (lnbs)	Log of Total Directors	±
2	Board Independence (bind)	Non-Executive Directors/ Total Directors	±
3	Board Salaries (bsal)	Board Compensation/ Total Compensation	±
4	Board Meetings (lnbmtg)	Log of Total Number of Meetings	±
5	Female Directorship (bfemale)	Number of Female Directors/ Total Directors	±
6	Foreign Directorship (bforeign)	Foreign Directors/ Total Directors	±
OWNERSHIP STRUCTURE			
7	Chairman's share ownership (chair)	Chairman's Shares/ Total Number of Shares	±
8	CEO's share ownership (ceo)	CEO's Shares/ Total Number of Shares	±
9	Chairman & CEO' share ownership combined (chairceo)	Chairman's and CEO's Shares combined/ Total Number of Shares	±
10	Insider Ownership (insider)	Insider's Shares/ Total Number of Shares	±
11	Institutional Ownership (inst)	Institutional Ownership Shares/ Total Number of Shares	±
12	Largest Shareholders (largest)	Largest shareholder/Total Shares	±
SHAREHOLDERS			
13	Total number of shares (lnshares)	Log of total number of shares	--
14	Equity (lnequity)	Log of equity	--
EXTERNAL AUDITING			
15	Auditor's Opinion (opinion)	1= Qualified Audit Opinion 0= Favorable Audit Opinion	--
CONTROL VARIABLES			
16	Size (size)	Log of Total Assets	±
17	Capital (capital)	Equity/ Total Assets	--
18	Leverage (leverage)	Liabilities/Total Assets	+
19	Management Efficiency (efficiency)	Operating Cost/ Operating Income	--
20	Profitability (profit)	Profit before Interest and Tax	--
21	Growth(growth)	Log of Deposit	--

Source: Shawtari, Salem, Hussain, Alaeddin, and Thabit (2016); Li, Crooks and Andreeva (2014); Premachandra, Chen and Watson (2011); Chang (2009); Chen (2008).

Table 2: Descriptive Statistics of Variables

Variables	Mean	Median	Std. Dev	Min	Max
distress	0.509	0.537	0.341	0.100	1.000
lnbsize	1.144	1.146	0.096	0.845	1.322
bind	0.529	0.533	0.085	0.200	0.750
bsal	0.247	0.016	0.037	0.001	0.382
lnbmtg	0.755	0.699	1.165	0.602	1.380
bfemale	0.095	0.071	0.088	0.000	0.429
bforeign	0.043	0.000	0.066	0.000	0.316
lnshares	4.134	4.142	0.249	3.486	4.639
lnequity	4.915	5.030	0.521	3.107	6.023
chair	0.012	0.001	0.024	0.000	0.146
ceo	0.014	0.003	0.022	0.000	0.095
chairceo	0.027	0.009	0.035	0.001	0.148
insider	0.112	0.064	0.140	0.001	0.907
inst	0.201	0.119	0.254	0.000	1.000
largest	0.044	0.030	0.048	0.000	0.249
opinion	0.127	0.000	0.334	0.000	1.000
lnsize	5.639	5.707	0.441	4.289	6.443
capital	0.130	0.151	0.215	-1.042	0.668
leverage	0.883	0.849	0.195	0.410	2.042
efficiency	0.828	0.660	0.814	0.276	9.483
profit	3.601	3.973	1.191	0.000	5.043
growth	5.565	5.607	0.459	4.093	6.410

Source: Authors' computation, 2017

Table 3: Generalized Quantile Regression Model Results

Variables	Coefficient	Z- Statistics	Prob- Significance
Dependent Variable:			
distress			
Independent Variables			
lnbsize	0.9655619	2.00	0.045**
bind	1.100266	2.27	0.023* *
bsal	-1.58429	-1.09	0.275
lnbmtg	0.0442366	0.17	0.867
bfemale	-0.3131937	-0.88	0.377
bforeign	-0.4237746	-1.23	0.219
lnshares	-0.4727464	-2.89	0.004***
lnequity	0.2549368	1.04	0.297
chair	4458.867	3.14	0.002***
ceo	4452.235	3.14	0.002***
chairceo	-4453.376	-3.14	0.002***
insider	-1.485981	-2.42	0.016**
inst	0.0682644	0.47	0.639
largest	1.61275	0.98	0.329
opinion	0.0391501	0.24	0.811
lnsize	1.3501	3.21	0.001***
capital	-0.4301007	-1.24	0.214
leverage	-0.7988084	-1.17	0.240
efficiency	-0.2150012	-0.89	0.373
profit	0.0008392	0.03	0.978
growth	-1.012666	-2.37	0.018**
_cons	-1.468274	-1.85	0.065

Source: Authors' computation, 2017.

This table shows the generalized quantile regression model analysis of the effect of corporate governance on financial distress in Nigeria. The first column shows the variables; the second column shows the model coefficient. The third column displays the z-statistic while the fourth column indicates the significance at 1, 5 and 10 denoted by ***, ** and * respectively.

5. Conclusion and Policy Recommendations

This study examined the effect of corporate governance on financial distress in the Nigerian banking industry. We analyzed a sample of 20 banks over the period between 2005 and 2015 and measured financial distress by DEA technical efficiency following previous studies and corporate governance variables along board characteristics, ownership structure, shareholding, external audit opinion and control variables. Using generalized quantile regression model, we found that corporate governance variables which significantly influence financial distress are board size; independence; share ownership by chairmen, chief executive officers and directors; size; and deposit. The empirical results suggest that distressed banks are characterized by large board size and non-executive board members who may lack financial expertise and in-depth knowledge of the complexity of banking businesses. Share ownership by chairmen and CEOs both individually and jointly are significantly and positively related to financial distress suggesting that the banks may have been managed to fulfill some personnel interest which contradicts established opinion that the interest of both the chairman and CEO will align where share ownership by chairman and CEO are significant. Lastly, distressed banks experience massive withdrawal of customer deposits and divestment by insider management who also double as shareholders. Consequently, for corporate governance policy implementation, banks should employ smaller board size with members having the requisite banking knowledge, which will allow them to run efficiently. The regulatory authority should strengthen corporate governance mechanism that will help to reduce the incidence of financial distress and improve uniform mechanisms of control.

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