



## **CORPORATE GOVERNANCE AND FINANCING DECISION: EVIDENCE FROM LISTED DEPOSIT MONEY BANKS IN NIGERIA**

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### **Abstract**

The financial distress being regularly experienced in the banking industry; distortions in markets conditions coupled with the deficiency in the system of governance that coordinates the financing decisions of companies has necessitated the need to explore the relationship between corporate governance components and financing decisions. Using Ex-post facto research design, the study covers the period of 2009 to 2018. Tende deposit money banks that have needed data and fully listed on the Nigerian Stock Exchange throughout the period of coverage of the study were purposively selected. Data gathered were analysed using panel data regression analysis under random effect model approach. The findings of the study revealed that *board independence* and *ownership structure* showed positive relationship and significant effect on all the measurements of financial decisions of deposit money banks in Nigeria. It is recommended that the independence of the board should not be compromised as they carefully make up a board that constitutes larger ownership structure that will influence the financing decision of the firms positively.

**Keywords:** Board independence, ownership structure, leverage, deposit money banks, financing decision,

**JEL Codes:** G32, G21, G34



## 1. Introduction

Great importance is attached to the financing decision of a firm because it has a long run effect on the survival and profitability level of the company. It is one of the dilemmas faced by business managers as it has to do with finding the best way of raising money for the company and making financial plans amidst limited resources (Etale & Ekpulu, 2019; Tipape & Jangogo, 2019). For this reason, corporate decisions relating to finances of firms have often been associated with governance structure. The high records of corporate failure both in developed and developing countries have been majorly attributed to lack of mechanisms to put a check on the activities of firms' management (Kajola, Olabisi & Fapetu, 2019; Nwangi, Makau & Kosimbei, 2014). The deficiency in the system of governance that coordinates the financing decisions has necessitated the introduction of guidelines in the form of codes that will guide the activities of management so as to maximize profit and protect the interest of stakeholders. Despite this measure, there are principal/agent problems inherent in the structure of companies that can affect critical aspect of the company like the financial decisions.

The postulations of corporate finance theories regarding agency problem have shown that some indices of corporate governance such as ownership structure; board size and board independence have been identified to influence the financing decisions of firms. This is because these indices are capable to facilitate the creation of shareholder value through efficient management of the company's affairs. However, the personal interests of these agents when making financing decision for the firm can influence their fairness and accuracy of the company portfolio.(Nyamweya, 2015;Arshad & Safdar,2009).In the study of Balagobei (2020), it was opined that firms with poor governance practices do face more agency problems and also embrace risky financing patterns because managers of such firms can easily obtain private benefits. So, in a way to represent the collective interest of all the stakeholders, the means of financing the assets of the company is expected to greatly increase their returns and reduce their risk to the barest minimum. This is achievable in a company with a well-entrenched corporate governance structure.

There are lots of empirical studies on corporate governance but most these studies are restricted to examining of corporate governance on financial performance of firms (Al-Homaidi, Anwar Ahmad & Tabash, 2019; Olayiwola, 2018; Datta, 2018; Urhoghide & Omolaye, 2017;Eliasa & Charlse, 2017; Aggarwal, 2013). There is a gap in literature as those that studied the relationship of corporate governance and financing decision were carried out in the developed nations of the world. It is however difficult to infer the findings of such studies to Nigerian cases because of



variations in business environments and codes of corporate governance of each country are laid down in line with the country's peculiarities. It is also worth knowing that the corporate governance variables of this study have been established as significant value drivers in aspect of information disclosure and financial performance such as; profitability, return on assets, value added and so on (Mostafa, 2017; Ikpor & Agha, 2016; Bhasin, Makarov & Orazalin, 2015). There is still then need to explore into the interactions between these variables and financial decisions which is an important aspect of determining the overall performance of firms, hence this study.

Continuous examination of possible best financing decision among deposit money banks in Nigeria is vital because despite the recapitalization and consolidation done in the banking sector; Nigeria banks still face financial distress. The study aimed at investigating the effects of board independence and ownership structure on financing decision of listed Deposit Money Banks (DMBs) in Nigeria. The paper is structured into five separate sections and other subheads; these cover the introduction, review of literatures and hypotheses development; The third section is the data and methods used in the study. The analysis and discussion of findings is explained in the fourth section and finally, the conclusion and recommendations are outlined in the fifth section.

## **2. Literature Review**

### **2.1 Concept of Financing Decision**

The basic ideas on combination of various sources of funds in financing firm economic activities have been a remarkable point of debate in finance research and as well dominate the major deliberations of finance theories. The adopted option of debt to equity capital mix used by a firm in financing its assets to maintain the fortunes of the business is been referred to as the capital structure (Modugu, 2013). It explains the proportionate amounts of different sources of long-term funds such as equity shares, preference shares, debentures, long-term loans and retained earnings that makeup a business capitalization (Aljamaan, 2018). The need to maximize the overall value of a firm will enjoin management to set up an optimum capital structure with regards to the various cost and benefits of debt and equity or combination of both.

In the study of Tipape and Jangogo (2019), every firm decision that has to do with optimization of capital structure is termed financing decision. Financing decision entails evaluation, selection and allocation of resources on a major project in a way that will benefits the owners of the companies, suppliers and other concerned



stakeholders. It indicates the choices made by firms to optimize the best financing method either using debt or equity to maximize their performance (Daudu, Norwani, Mansor&Endut, 2016). The financing decision of firms is based on choosing the best option of whether to use their own resources for financing or use external financing or finance through suppliers or use mixtures of it. According to Khalil (2014), firms' that are well reputable in their activities, enjoying steady sales including a sustainable growth do often rely on debt capital for financing their business. It is also noted that board of directors may also allow higher debt ration because of its ability to enhance rate of return on equity capital during good economic times.

In order to achieve corporation objectives and fulfill stakeholders' expectations, there is a need to make financial decisions that will aid sustainable firm growth and profit maximization. This is one of the cogent reasons for establishing corporate structures that aid effective governance and hence the need for corporate governance as a system of operating and controlling a company by separating ownership and management (George, 2017).

### ***Concept of Corporate Governance***

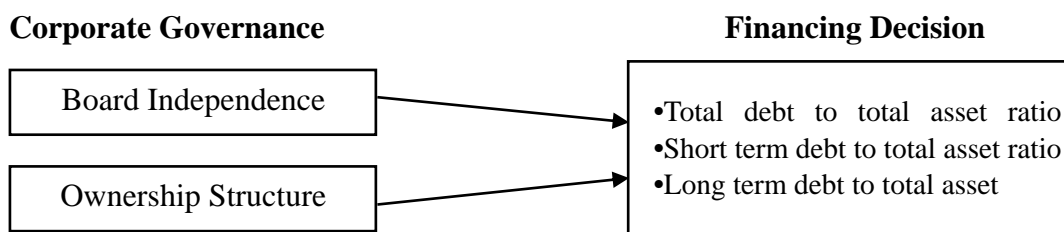
Corporate governance is the mechanism and guidelines developed into institutions engaged in the direction, administration and controlling of a company's affairs. It is aimed at effective allocation of corporate resources in a manner that maximizes value for all stakeholders since all parties to business have an interest, whether direct or indirect. The agency view of separation between investors and managers has necessitated the need for corporate governance mechanisms in order to serve as a system of controls intended to help align managers interest with the interest of other stakeholders. An effective corporate governance practices is determined by a structure that is developed for the mutual benefit of all stakeholders and ensuring that the ethical standards and requirements are not flouted.

The board of directors is the governing mechanism that is embedded in internal aspect of firm governance (Sharif & Rashid 2014; Sanni & Ahmed 2012; Rouf 2011; Mohamad & Sulong 2010). They are responsible for providing advisory services to top management on behalf of the shareholders; they also monitor the affairs of management to ensure that they comply with set regulations (Jensen 1993). The skills possessed by the board of directors are expected to facilitate effective financial decision process that will enable the management to make improvement in the overall performance of the firms (Sahay, 2016). As the representative of the shareholders that supervise the management team, board of directors is the direct link between the people who provide capital and the people that use the capital in creating value.

Studies have been able to establish the significance of board size when considering the role of corporate governance in financing decision as it was found that boards of large firms tend to create higher debt levels to increase the firm value especially when the regulatory bodies have high control over them (O'Connor & Flavin, 2013).

Ownership structure means the distribution strata of a company's equity. It describes the fraction of equity ownership by the composing stakeholders of a firm (Ugwuja & Nwala, 2019). In the study of Balagobei (2020), ownership structure is of three categorizes (Director Ownership, block ownership and institutional ownership). Ownership structure does not only entail the physical distribution of equity, it also determines the control in an organization based on the level of equity concentration each shareholder has. According to Rajverma, Arrawatia, Misra and Chandra (2019), ownership structure plays a critical role in any firm's business decisions. When there is high ownership dispersion, a typical shareholder cannot implement real power to watch over managerial performance hence they experience loss of control. It has also been debated that firms with higher ownership concentration will have a better condition while issuing debt because the holders' commitment to business will be seen as more reliable (Tipape & Jagongo, 2019).

Also, in a situation where the majority of the shares are owned by executive directors that is part of the firms' daily activities, they limit the extent of agency costs compared to the situation where directors managing the affairs of the firm are not the owners. This is why ownership structure as an organ of corporate governance has been argued to have a positive effect on firm financing decision in respect to its significance in influencing the decision making. Kieschnick and Moussawi (2017) in their study posited that how much debt a firm uses depends primarily on the interaction between firm age and its corporate governance features with the explanation that the more power been possessed by insiders the less debt that the firm uses. It can be deduced from this that ownership structure by means of risk preferences can influence the financing decision of a firm.



**Figure 1: Conceptual interaction between corporate governance components and financing decisions**

**Source: Authors' Compilation (2020)**



### ***Empirical Review***

In the study of Balagobei (2020), the impact of corporate governance indicators on financing choice of firms was investigated. 5 years data of twenty-six listed firms on Colombo Stock Exchange (CSE) was analysed using panel regression while empirical analysis was done within the Random-effects GLS regression framework. The findings revealed that corporate governance variables such as board independence and board meetings are not found to have a significant impact on short term and long-term leverage of sampled firms. Rajverma, et.al (2019) analysed inter-dependencies between capital structure and cost of capital; factoring the ownership structure of listed firms in India. The study used 3SLS system approach and found out that firms with family concentrated ownership do have high leverage and lower cost of capital and also established that ownership structure plays a critical role in understanding the policy decisions in emerging markets.

In Nigeria, Kajola, Olabisi and Fapetu (2019) investigated the relationship between corporate governance mechanisms and capital structure of 42 Nigerian listed firms for financial years 2005-2016. After analyzing using fixed effects least squares technique, the empirical evidence indicate that board size and board independence does not have influence on capital structure decision of the sampled firms, as results produced statistically insignificant relationships. Murtaza and Azam (2019) measured the relationship between ownership structure and capital structure by using the chemical sector of Pakistan. The study used panel data to analyse data gathered from the annual reports of the chemical sector of Pakistan for the time period of 2012 to 2017.

The findings show that ownership structure has a significant positive relationship on capital structure and it mitigate the agency conflicts among managers and shareholders, because the majority of the shareholders would like to have a higher level of debt over equity financing. Hidthiir, Basheer and Hassan (2019) looked into the simultaneity of corporate financial decisions under different levels of managerial ownership in Pakistani listed firms. 161 non-financial firms were sampled over the period of five years from 2013 to 2017 and pooled OLS, Fixed effect and Random effect estimates are employed to analyze the data gathered. The result showed that the controlling managers of more than 60 percent of sampled firms hold more than 40 percent of the company's shares which implies that the managerial ownership is in non-linear relationship with financial decisions.

Basheer, Waemustafa and Ahmad (2018) investigated the impact that managerial ownership places on financing and cash holding decisions of 60 companies listed on



Pakistan Stock Exchange over the period from 2013 to 2017. The study employed the Wu Hausman test. The evidence from the results indicated by p-value showed the endogeneity between cash holdings and capital structure decisions. In both models, the managerial leverage and cash holdings are in positive relation. The results of the study are also providing support to agency theory, pecking order theory and signaling theory.

Balagobei and Velnampy (2018) examined the impact of corporate governance mechanisms on financing decisions of 26 listed manufacturing companies in Sri Lanka during the period of 2012 to 2016. Data was collected from secondary data sources and hypotheses are examined by using multiple regression analysis. The results reveal that board size has a significant impact on financing decisions of listed manufacturing companies in Sri Lanka while other corporate governance variables like board independence is not found to have a significant impact on financing decisions.

El-Habashy (2018) considered the determinants of capital structure within the context of corporate governance in Egypt. The study aimed to investigate the characteristics of corporate governance that impact the capital structure decisions in listed firms in Egypt. To test the efficiency of the research results conducted in the developed Western countries in an emerging economy, a sample of 240 observations from the most active non-financial companies collected in the period 2009-2014 was used for hypothesis testing. Multiple regression models (OLS) were used for data analysis. The results suggest that corporate governance attributes have a significant impact on the capital structure decisions of listed Egyptian companies.

Also, with the purpose to explore the role of corporate governance proxies by ownership structure on the likelihood of firms' financial distress, Udin, Khan and Javid (2017) sampled 146 Pakistani public-limited companies listed at the Karachi Stock Exchange over the period of 2003-2012. An evidence of a negative and insignificant relationship between institutional ownership and financial distress was observed. The results also reveal a positive and significant relationship between insider's ownership and likelihood of financial distress. Mertzanis (2017) also explored the impact of ownership structure and other firm-specific characteristics on firms' access to finance in 136 developing countries. The analysis uses a consistent and large data set from the World Bank's Enterprise Surveys (ESs). The results showed that ownership structure is a significant predictor of firms' access to finance but with qualifications.

In Greece, George (2017) examined corporate governance and capital structure in the



periods of financial distress employing data from the Athens stock exchange for the period 2005-2014. The results from the panel regression analysis signify a negative impact of board size on debt levels, which is weakened during the debt crisis period. In contrast, the presence of outside directors (board independence) provides the appropriate certification to use more debt.

From the literatures reviewed, it was revealed that only few studies empirically investigated the effect of corporate governance on financing decision as researchers focused mostly on the relationship of corporate governance and the performance of the firms or financing decision and financial performance. It was also discovered that in previous studies, financing decision of the firms was only been proxied by total leverage leaving out the financing decision regarding the debt and equity mix and the ratio of debts to total assets. Also, the geographical base of most current studies were the developed countries and mostly in the non-financial sector. The study aimed to fill this gap in literature by replicating studies done in developed country in the Nigerian banking sector and extend the years covered by the period to fourteen years.

### ***Underpinning Theory and Hypothesis Development***

Theories like trade-Off Theory, MM theory, pecking Order theory and many others have been propounded to elucidate the variation in capital structures of firms over time and explain firms' financing decisions. The pecking order theory is one of the most prominent capital structure theory, it was first introduced in 1961 by Donaldson and modified by Myers and Malijuf in 1984. The theory assumes that there is no target capital structure as prescribed by trade off theory but instead, companies adopt their financing policy in a way to minimize associated costs by having a hierarchy of preferred financing options that progress from the most preferred to the least preferred. The reason behind this hierarchy is the presence of asymmetry information about the available source of finance to the company (Modugu, 2013).

The privy information at the disposal of managers about the benefits and cost associated with or equity financing may affect capital structure due to a conflict of interest among the stakeholders. This is why the agency theory is been counted as one of the theories related to financing decisions and the theory the study is anchored upon. Agency theory was formulated by Jensen and Meckling (1976) with the bases that shareholders who are the owners also known as the principals of the company entrust the running of a business to managers who are agents that are expected to act and make decisions in the principal's interest. The theory assumes that there exists a conflict between owners and managers on the subject of wealth maximization for shareholders. The assumptions of the theory tend to explains how the firm could





eliminate the disadvantages emanating from firms' decisions that arise due to conflict of interest which exists between equity shareholders, debenture holders, management and other recognized stakeholders.

The issue of a split between firm ownership and control is sensitive because agency problem could arise if owners with a big stake in the organization do not manage its corporate matters. The use of debt in the capital structure can also lead to agency costs which arise due to a conflict of interest. This is the gap the boards of directors were expected to fill. It has however been established in literature that the independence of the board is vital in determining the performance of a board. A board may be large, but if it is not given the full power to perform its duties, it may not perform efficiently. From the viewpoint of agency theory, independency of directors on board will make them have clear objective and work in the interest of shareholders and as well take into cognizance all stakeholders that have one claim or the other to the firm (Jensen & Meckling 1976; Fama & Jensen 1983; Jensen 1993). It is evident from literatures that a board that is independent do see themselves as accountable more to stakeholders than they are to the shareholders hence they endorse financing decision that is favourable to all.

The viability of corporate governance may be undermined in circumstances where an individual performs the dual role of CEO and chairman of the board of director because it will promote absolute power and as well undermine the board's monitoring power (Krause, Semadeni & Cannella, 2014; Chalevas, 2011). Researchers have well debated the relationship of ownership structure and financing decision as some considered reframing firm ownership structure as a sure way to mitigate the agency cost because managerial ownership helps in aligning the interest of owners and managers (Basheer, Waemustafa & Ahmad, 2018). On the other hand, some argue that increased ownership of insiders leads to reducing leverage level as managers try to reduce the bankruptcy risk.

Pecking order theory on the other hand indicates that there exist positive relations between the performance rate and debt level of enterprises. This submission is based on the assumption that a higher growth rate implies a higher demand for funds, and thus, a greater reliance on external financing through the preferred source of debt (Sinha, 1992). Relating this submission to the financing decision of a deposit money bank, it implies that DMBs primarily will have diverse ownership structure being a public liability company. If due care is not taken, the board may likely take decisions that may not align with investment objectives of some stakeholders like management that may prefer internal financing After reviewing literatures and theories related to the study, it is then hypothesized in a null form that;

***H<sub>01</sub>: Corporate governance does not affect the financing decision of Deposit Money Banks in Nigeria***

**3. Data and Methods**

The study adopted ex-post facto research design and covered a period of 10 years from 2009 to 2018 with a sample size of fourteen banks listed on the Nigerian Stock Exchange as at 2018. The study utilized information disclosed on the annual reports of the deposit money banks and factbook published by the Nigerian Stock Exchange. DMBs were chosen for the study because the banking sector is the most important part of the Nigerian financial landscape. Panel regression analysis was used to analyse the data to test the hypotheses after the validity and reliability test of the data was conducted.

The model is stated thus;

$$FD = f(CG) \dots \dots \dots i$$

$$FD = f(BDI, OWS, ) \dots \dots \dots ii$$

The model can therefore be formulated as econometrically as:

$$FD = \alpha_0 + \alpha_1 BDI_{it} + \alpha_2 OWS_{it} + e_{it} \dots \dots \dots iii$$

Where;

FD - Financing decision

BDI- Board independence

OWS- Ownership structure

it- Firm 'i' in period 't'

e- Residual or error term of firm

The model is further decomposed to express the representation of financing decision in this study. Financing decision is measured by the ratio of total debt to assets and the total debt is further separated into the short-term debt and long term debt. It is stated econometrically below:

$$TDA = \alpha_0 + \alpha_1 BDI_{it} + \alpha_2 OWS_{it} + e_{it} \dots \dots \dots iv$$

$$SDA = \alpha_0 + \alpha_1 BDI_{it} + \alpha_2 OWS_{it} + e_{it} \dots \dots \dots v$$

$$LDA = \alpha_0 + \alpha_1 BDI_{it} + \alpha_2 OWS_{it} + e_{it} \dots \dots \dots vi$$

Where;

TDA- Total debt to total asset ratio

SDA- Short term debt to total asset ratio

LDA- Long term debt to total asset

Based on existing literatures and theories, board independence and ownership structure will have positive effect on financing decision.  $\alpha_1 > 0$ ,  $\alpha_2 > 0$



#### 4. Data Analysis and Dissscussion of findings

Table 1 present the descriptive statistics of both the explanatory variables and the independent variable. As shown in table 1, board independence (BDI) is positively skewed with 0.4636 mean with standard deviation of 0.166 and the mean of 0.5380; median of 0.5625 indicating a low variation in the level of independence among sampled firms. For ownership structure (OWS), the table shows a mean value of 23.87117; standard deviation of 0.432120; probability of 0.120842 with the variable negatively skewed at -0.249054. This implies that low disparity of ownership structure exist among sampled firms.

In table 1, the mean for short term debt is 40.84; median of 0.70 and standard deviation of 216.1945 implying high disparity across firms. It also exhibits positive skewness with the value of 6.6173 and kurtosis of 49.35. Also in table 1, total debt to asset ratio (TDA) report a mean of 58.42; median of 0.832; probability of 0.000000 and standard deviation of 278.6318. For long term debt (LGT), table 4.1 indicates an average value of 12.34348; minimum and maximum values were 357.77 and -0.79144. With respect to the values of descriptive statistics of all the variables as obtained in table 1, it means the data is normally distributed except ownership structure. This is not a surprise because the variables were panel in nature with combination of different cross sectional (firms).

**Table 1: Descriptive Statistics**

	<b>BDI</b>	<b>OWS</b>	<b>LDA</b>	<b>SDA</b>	<b>TDA</b>
<b>Mean</b>	0.538031	23.87117	12.34348	40.84437	58.42957
<b>Median</b>	0.562500	23.86571	0.113418	0.707581	0.832522
<b>Maximum</b>	1.000000	24.60637	357.7762	1751.228	2109.004
<b>Minimum</b>	0.250000	22.96397	-0.791446	0.042040	0.039554
<b>Std. Dev.</b>	0.166068	0.432120	50.49813	216.1945	278.6318
<b>Skewness</b>	0.463641	-0.249054	5.194919	6.617338	6.032994
<b>Kurtosis</b>	3.313615	2.062466	31.48657	49.35186	41.46065
<b>Jarque-Bera</b>	3.593272	226550	3332.946	8229.600	5212.931
<b>Probability</b>	0.165856	0.120842	0.000000	0.000000	0.000000

**Source: Authors' Computation (2020)**



The data collected were also tested to determine their stationary using the unit root test to avoid inefficient estimation of the model estimate. It is appropriate to determine the order of integration prior to the model estimation so as to select an appropriate technique that will take into consideration the order of the variables. The test result as obtained in table 2 revealed that all the variables are stationary at level. Therefore, the model estimation can be carried out using panel least square with an option of fixed or random effect.

**Table 2: Panel Unit Root Test**

Variable	Levin, Lin & Chu t Statistics	P-value	Remarks
BDI	-3.05511	0.0011	I(0)
OVS	-3.2371	0.0000	I(0)
TDA	-2.8125	0.0025	I(0)
SDA	-13.1401	0.0000	I(0)
LDA	-11.1079	0.0000	I(0)

**Source: Authors' Computation (2020)**

In order to determine the best fit between fixed and random effect model, the Hausman test was conducted. The outcome of the test as shown in table 3 revealed that for the long term debt model the result showed ( $\chi^2=5.7837(p>0.05)$ ) which indicates that random effect will be the most appropriate model. This is based on the thumb rule that if the p-value of the Hausman test is greater than 0.05, the model tends to follow random effect assumption. Similarly, the result of the Hausman test for the short term debt model indicates ( $\chi^2=4.5627(p>0.05)$ ) hereby allowing is to accept the assumption of random effect. In the same vein, the model of total debt shows that random effect seems to be the best assumption.

**Table 3: Hausman Test**

	Long term Debt Model		
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.7837	3	0.1226
	Short Term Debt		
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.5627	3	0.2068
	Total Debt		
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.0362	3	0.1692

**Source: Authors' Computation (2020)**



In table 4, the result of correlation matrix was presented. The correlation test showed that ownership structure and board independence have coefficient of 0.0014; 0.1298 and 1.0000 respectively. This shows that CED in the model does not exhibit strong correlation with other variables while ownership structure (OWS) and board independence (BDI) do not exhibit correlation with other explanatory variables. In general, most of the explanatory variables do not report strong correlation with each other implying that they can be well fitted into one regression model although care must be taken while estimating the model in order not to understate or overstate the standard error.

**Table 4: Correlation Analysis**

Correlation					
Probability	BDI	LDA	OWS	SDA	TDA
<b>BDI</b>	1.000000				
	-----				
<b>LDA</b>	0.039640	1.000000			
	0.7339	-----			
<b>OWS</b>	0.129880	-0.238985	1.000000		
	0.2635	0.0376	-----		
<b>SDA</b>	0.023705	0.958284	-0.127185	1.000000	
	0.8389	0.0000	0.2736	-----	
<b>TDA</b>	0.026980	0.972526	-0.149513	0.998492	1.000000
	0.8170	0.0000	0.1974	0.0000	-----

**Source: Authors' Computation (2020)**

### *Effect of corporate governance and financing decision of Banks in Nigeria*

The estimated model for effect of corporate governance and financing decision of banks in Nigeria were presented in table 5. Financing decision was proxy by long term debt asset ratio, short term debt asset ratio and total debt assert ratio. Therefore, three models were estimated to capture three proxies for financing decision. The study assumed random effect model for the relationship between dependent and explanatory variable. The overall result interpreting the f-statistic indicates that the models are statistically significant at 5% level of significance. In relation to the first model, the coefficient shows that corporate governance indices considered accounted for 70.5% financing decision relating to long term debt, with 67.5% of variation in long term asset after adjusting for loss in degree of freedom. It was also observed from table 5 that corporate governance accounts for 76.5% short term debt financing decision with 72% variation after adjusting for loss in degree of freedom. More so



from the table, the independent variables explained 70.8% of total debt model and the adjusted r-squared report shows 67.1%. The results imply that corporate governance components used in this study sufficiently explain financing decision of listed banks.

#### *Board independence and financing decision*

As observed in table 5, it was discovered that board independence (BDI) exhibited positive relationship with all the measures of financing decision. Long-term debt ( $t=2.1109$ ,  $p<0.05$ ); short term debt ( $t=2.0410$ ,  $p<0.05$ ); also, significant positive effect was discovered between leverage ratio and board independence ( $t=2.0020$ ,  $p<0.05$ ). The implication is that if the board independence is well enhanced, it is expected to contribute positively to the financing decision of the firm as strong presence of independent directors in a board helps firms to raise more debt through the reduction of information asymmetry; recognition and exploitation of all accessible resources. The finding is in line with a-priori expectation stated in this study. It also aligns with the findings of George (2017) that found out that the proportion of outside directors is positively linked with debt levels. Also, in the study of Boateng, Cai, Borgia, Bi & Ngwu (2017) it was discovered that the proportion of independent directors and ownership concentration exert significant influence on the level of Chinese long-term debt ratios after controlling for firm-specific determinants and split share reforms.

#### *Ownership structure and financing decision of listed Banks in Nigeria*

In Table 5, findings relating to the effect of ownership structure on financing decision of listed banks in Nigeria revealed that ownership structure (OWS) exhibited positive relationship with financial decision of the banks. It specifically has 2.4316 effect on the long-term debt asset ratio of the banks ( $t=2.2188$ ,  $p<0.05$ ). More so, ownership structure had positive effect on the short-term debt asset ratio ( $t=2.0644$ ,  $p<0.05$ ) with an effect of 3.9584. Similarly, leverage has an effect of 21.2456 ( $t=2.2663$ ,  $p<0.05$ ). The implication of this finding is that an increase in ownership structure will lead to a proportional increase in financing decision as it has a great capability to influence all financing decisions examined.

The findings of the study further upheld the a-priori expectations in line with previous existing studies. Omet (2006) in a study conducted on the corporate governance and capital structure in Jordanian companies revealed that ownership structure has positive and negative impact on the capital structure due to short term financing at first, then a positive relationship between ownership structure in the long-term financing. The finding of this study however negates the submission of Guo, Ding



and Sun (2010) as it showed that there was negative effect of ownership on leverage. It was also revealed that change in the company leverage, is positively connected with level of ownership concentration.

**Table 5: Model Estimate of effect of Corporate Governance and Financing Decision**

Eq Name:	Long Term Debt		Short Term Debt		Total Term Debt	
Method:	Fixed Effect	Random Effect	Fixed Effect	Random Effect	Fixed Effect	Random Effect
Dep. Var:	LDA	LDA	SDA	SDA	TDA	TDA
<b>BDI</b>	1.0038	3.6405	61.3425	6.5610	67.5315	0.4386
	[2.0291]	[2.1109]*	[2.3362]	[2.0410]*	[2.8545]	[2.0020]*
<b>OWS</b>	8.7641	2.4316	63.8976	3.9584	99.1275	21.2456
	[2.7598]	[2.2188]*	[2.9223]	[2.0644]*	[2.9010]	[2.2663]*
<b>C</b>	-207.0573	-56.4458	-1510.4522	-105.7215	-2371.0698	-537.0913
	[-0.7627]	[-0.2153]	[-0.9284]	[-0.0731]	[-0.8883]	[-0.2862]
<b>R-squared:</b>	0.7814	0.7052	0.7093	0.7650	0.7932	0.7085
<b>Adjusted R-squared</b>	0.7621	0.6752	0.6795	0.7422	0.7601	0.6718
<b>F-statistic:</b>	38.5654	36.1454	36.6871	36.1349	39.4555	36.2097
<b>Prob(F-stat):</b>	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

**Source: Authors' Computation (2020)**

## 2. Conclusions and Recommendations

In the business world, availability of financial resources is very critical to a firm survival and growth and this fact make financing decision an important factor that have gained attention overtime. However, the propelling factors that may encourage good financing decision that will favour all stakeholders have been overlooked. The effect corporate governance could have on financing decisions of firms has only gotten few considerations compared to the conventional aftermath of corporate governance attached to performance of firms. So far in Nigeria, the empirical researches are few with mixed findings, thus, leaving the topic open for further research. The study was able to contribute to the ongoing academic discuss among governance experts, investors, and regulators regarding corporate governance capability to influence one of the most important decision of a firm by providing novel empirical evidence. The study has been able to evaluate the value implications of corporate governance as we find evidence that corporate governance components like board independence and ownership structure has significant effect on financing decisions of deposit money banks in Nigeria. The study therefore concludes that board independence and ownership structure help firm to make preferred financing



decision that will be of benefit to stakeholders without any prejudice.

The study therefore recommends that investors and management of deposit money banks including business regulators should ensure proper corporate governance mechanism is entrenched in DMBs to encourage proper financing decision that will improve firms' growth; maximize shareholders wealth and prevent corporate failure that could emanate from poor financing decision.







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