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The Effect of Bank Recapitalization and Corporate Governance on Performance of Banking Sector: A Proposed Conceptual Framework

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ABSTRACT

The global financial crisis of the last decade has been described as the most serious crisis that affects the world's economy since the Great Depression of 1940, which lead to the bank's recapitalization exercises in many countries. The purpose of this study is to propose a conceptual framework that will investigate the effect of bank recapitalization on the performance of the banking sector and to measure the moderating effect of corporate governance. However, the nature and existence of this relationship are found to be mixed and inconclusive (i.e., positive, negative, or no relationship at all). These have prompted scholars, experts, and authorities to re-examine the relationship between recapitalization and the performance of the banking sector. This study addresses the research deficit and proposes a conceptual and theoretical framework for measuring the effectiveness of bank recapitalization, corporate governance on the bank's performance, which could be used by banks and other regulatory bodies. Furthermore, a recommendation for future research in this area also suggested.

Keywords: Recapitalization, Corporate Governance, Banks Performance, Debt Restructuring, Bailout, Blanket Guarantee
JEL Classifications: G01, G03, G21, G34, L25

1. INTRODUCTION

A healthy banking sector is a vital prerequisite for economic growth and stability of any nation, with regards to recapitalization, countries have different target depending on the way they are exposed to banking sector crises. The global financial crisis (GFC) of the last decade has been described as the most serious crisis since the Great Depression of 1940 (Fernandes et al., 2016). Given that the failure of banks was imminent and governments all over the world enacted a variety of rescue operations to prevent wide-scale financial collapse with many means of government interventions which included (i) direct capital injections, (ii) liquidity support to banks, (iii) purchases of distressed assets by the government e.g., "toxic" assets (Fernandes et al., 2016). Bank regulators believe that, by having higher capital levels, can be able to reduce its insolvency risk that is to increase its loss absorbance capacity and increase the chances of banks' survival (Berger and Bouwman, 2013). In view of this, either developed or developing countries had various experiences and methods for approaching their banking recapitalization and how it affects the bank's performance. For instance, the banks recapitalization experiences of Malaysia, Indonesia and Thailand were directly caused by the 1997 Asian financial crises (Ernovianti and Ahmad, 2017; Etri et al., 2016; Sufian and Habibullah, 2013), while other European countries and United States of America (USA) banking recapitalization was as a direct response to the 2007-2008 GFC (Georgakopoulos, 2017; Tomec and Jagrič, 2017). Despite the full implementation of Basel regulatory capital requirement by most countries, still is not clear if such measures were able to achieve the desired results for stability in most of the country's banking sector (Tahir et al., 2017).

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Similarly, in Nigerian banking industry it was observed that, poor managerial performance and poor corporate governance had been recognized as the major culprits of the baking distress, which led to the commercial banks recapitalization reform in 2004 and subsequently recapitalization of specialized banks in December 2007 (Acha, 2012; CBN, 2010; Sanusi, 2010). This led to the regulatory authorities to carry out a special examination of banks in Nigeria, with the aim of assessing their state of health, with particular focus on capital adequacy, risk management, liquidity and corporate governance practices (Chiakelu, 2010; NDIC, 2011; Oleka and Mgbodile, 2014). In addition, Ten banks were declared to be in grave states with deficiencies in capital adequacy, and eight out of them also had significant deficiencies in risk management, liquidity, and corporate governance practices whereas, the aggregate of a non-performing loan was 40.81% (CBN, 2010; Sanusi, 2011). Moreover, the executive directors of these eight banks were immediately replaced, and all the 10 banks were bailed out by injection of fresh capital totaling to N620 billion, by Central Bank of Nigeria (CBN) (Alford, 2011; CBN, 2010; Sanusi, 2010; Shehu et al., 2014).

Even with the importance of the banking sector in regulating and stabilizing the economy, many empirical studies concerning the relationship between recapitalization and the performance of banks in both developed and developing economies appeared to be mixed, contradiction, and coupled with weak findings. For instance, in the studies of (Beccalli and Frantz, 2016; Bhagat et al., 2011; Bhaumik and Selarka, 2012; Ding et al., 2013; Donou-Adonsou and Sylwester, 2017; Ernovianti and Ahmad, 2017; Etri et al., 2016; Nicholson and Salaber, 2013; Yusupov, 2012) found a positive relationship and (Aybar and Ficici, 2009; Beccalli et al., 2016; Bertrand and Betschinger, 2012; Bibi et al., 2018; Forssbaeck and Nielsen, 2016; Tomec and Jagrič, 2017) found negative relationship while (Adedeji et al., 2015; Liao and Williams, 2008) found no relationship between the two variables. Moreover, the previous empirical studies reported a strong relationship between corporate governance and bank's performance (Grassa and Matoussi, 2014; Hakimi et al., 2018; Huq et al., 2018; Pathan and Faff, 2013). The above observed inconsistent findings are what led to the introduction of corporate governance to moderate the relationship between recapitalization and the bank's performance. Furthermore, most researches conducted in developed and developing countries, are having some other kind of shortcomings which results in usual conflicting findings, inconsistency, limited scope, and inconvenience samples, and usually focused mainly on the direct relationships between a single strategy or approach of recapitalization and bank performance, thus neglecting the interaction path through roles of moderating effect.

This study adopts the agency and resource dependence theories as integrated by (Hillman and Thomas, 2003). The aims of this study are hence to review and propose a framework that selects the most appropriate variables best to address recapitalization dimensions such as (merger and acquisitions, equity issues, intervention, and debt restructuring), and performance problems peculiar to the banking sector and the economy. Thus, introduce a moderation variable of corporate governance that will strengthen the relationship between recapitalization and bank performance (Baron and Kenny, 1986). However, Gani and Jermias (2006) reported that the restrictive used of single-dimensional of financial-based measures contributed to inconsistency in the relevance findings. This study employ both financial and non-financial measures of performance as suggested by Hussain and Hoque (2002); Kaplan and Norton (2001) more especially those items recommended, fit and selected for performance evaluation in banking industry through expert questionnaires (Wu et al., 2009). The outcomes of this study from literature and theoretical review differ from most current research; thus will contribute in several ways. First, current research in this area is frequently studied just one or two dimensions of bank recapitalization, while this research concentrated on four dimensions of recapitalization, namely, merger and acquisitions, equity issues, intervention, and debt restructuring. Secondly, it will contribute to the literature as the first of its kind that links the relationship between bank recapitalization, corporate governance, and performance of banking sector. Lastly, suggestions on future research agenda on this promising research area are made. This paper is divided into five sections from the introduction, literature review, research framework, conclusion, and references.

2. LITERATURE REVIEW

2.1. Bank Recapitalization

There is no universal definition of recapitalization, as such, many authors have defined it from a different perspective. For instance, Etri et al. (2016) described recapitalization as a rescue plan by the central bank of a country through capital injections and acquisitions of weaker banks by stronger banks. Capital serves as a instrument to avoid future financial crises and as a security mechanism to absorb any contagion effects (Bitar et al., 2017a). Recapitalization also defined as a change in the capital structure of a company or an organization (Aduloju et al., 2008). In agreement with Basel capital requirements most of the empirical studies in this regard, suggests that banking recapitalization improves banking efficiency, role of traditional lending of banks and allows banks to increased ability to withstand economic pressures, thereby providing stability for international banking system and international businesses (Berger and Bouwman, 2013; Francis et al., 2012; Repullo and Suarez, 2013).

Moreover, the market share and survival of the banks are the two key performance issues that concern bank managers, while bank survival is central not only in strategic decisions made by regulators but also a decision made by banks concerning banking stability (Berger and Bouwman, 2013). In addition, Aghion and Stein (2008) revealed that the market share is an important goal for most firms and banks, often to assess their performance relative to each other on this basis.

According to Petrovic and Tutsch (2009) suggested that the distressed banks with a view to capital restructuring can involve in either private or public recapitalization in other to be recapitalized. Similarly, Beccalli and Frantz (2016) have extensively discussed the main motivation for private recapitalizations, is to reduce risk-taking hypothesis through solvency risk to achieve the existence

of better operating performance. Moreover, the authors revealed that motivation for the bank's public recapitalization is associated with larger size, lower liquidity, and higher growth at the bank level but lower growth at the country level.

However, according to Beccalli et al. (2016) the empirical studies on the effects of recapitalizations on bank performance has many dimensions which include, systemic risk, business model and profitability, while a large growing number of bank literature on the determinants of bank recapitalization are devoted to bank capital, market effects of bank recapitalizations, effect of capital regulation on performance and profitability. The authors documented that, capital helps small banks to increase their market share and probability of survival at all times during normal and banking crises (Berger and Bouwman, 2013). The authors documented that capital enhances the performance of medium and larger banks, primarily during banking crises. Ameur and Mhiri (2013) reported that bank recapitalization have a positive and significant effect on the bank performance and their empirical results show a high degree in determining the bank performance by using Return on Asset (ROA), Return on Equity (ROE), and Net Interest Margin as proxies for evaluating bank performance.

2.2. Approaches in Recapitalization

Based on the discussion of the previous literature, Aduloju et al. (2008) suggested that the most important issues in recapitalization are mergers and acquisitions. In addition, Adedeji et al. (2015) also reported that the strategies in recapitalization include mergers and acquisitions which will lead to the external growth of a company. However, Coates and Scharfstein (2009) reported that the bank's recapitalization has three basic approaches, through either equity issue which comprised public offering and private placement, intervention, and sales of banks (merger and acquisitions). (Hryckiewicz, 2014) documented that the authorities through government's intervention offered protection to banking institutions either by blanket guarantees or bailed out through central banks' action or recapitalization programs, as shown in Table 1.

2.3. Merger and Acquisition Approach

Recapitalization of banks through mergers and acquisitions has been enhancing the development of the banking industry and remained a viable option for the survival of banks and for companies to remain in business. In addition, the increase of globalization brought about by recapitalization through M and As are growing popular as means of speedily achieving the size-related economies of scale and scope as well as global reach (Belcher and Nail, 2000). According to Christine and Jagongo (2018) defined merger as the combination of asset and liabilities two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock where one company or both loose entity. However, Halpern (1983) interpreted mergers as when an acquiring firm and target firms agree to combine under legal procedures established in the states which the merger participants are incorporated.

Table 1: Approaches in recapitalization

Authors and year	Approaches of recapitalization
Aduloju et al. (2008) (Coates and Scharfstein, 2009) (Hryckiewicz, 2014)	1. Merger and acquisition 2. Equity issues a. Initial public offering b. Private placement 3. Intervention a. Blanket guarantee b. Bailout 4. Debt restructuring

The basic strategies used by previous authors to measure recapitalization

The most vital developments at the global level affecting the banking industry for a couple of decades has been an unprecedented level of merger and acquisition activities (Altunbaş and Marqués, 2008). The trend aimed to increases the capital, which accelerated in the late 1990s in most developed countries for several reasons such as advancement in information technology, globalization of financial markets, increased pressure from shareholder, and financial deregulation (Acharya et al., 2006). Delong (2001) argued that bank mergers that are concentrated (in terms of activity and geography) produce superior bank performance relative to those that are diversifying. For instance, banking recapitalization has been a trend in the USA since in the mid-1980s for poorly performing banks but merged and continued even after the banking industries discover profit in 1992 (Delong, 2001). Delong and Deyoung (2007) reported that 216 merger and acquisitions of the USA banking companies that started between 1987 and 1999 has a long-term effect on financial performance and found that the merger increased long-term ROA and improved efficiency.

2.3.1. Importance of merger and acquisition

The importance of mergers and acquisitions has been identified in the previous literature. Some of these literature found that merger and acquisitions may increase efficiency (McGuckin, 1995), improve market power (Kim and Singal, 1993), enhance the management of resource dependency (Casciaro and Piskorski, 2005; Pfeffer, 1972), reduce transaction costs (Williamson, 1984) and operating costs (David and Kesner, 2008).

2.3.2. Factors affecting merger and acquisition

Many studies find that mergers and acquisitions decrease shareholder value of the acquiring firm of both short-term and the long-term (Seth et al., 1989). Other factors include deal type (Loughran and Ritter, 1997), payment type (King et al., 2004), management characteristics (Krishnan et al., 1997), ownership structure (Wright et al., 2002), firm size (Moeller et al., 2004), prior acquisition experience (Haleblian and Finkelstein, 1999), and environmental factors such as merger waves (McNamara et al., 2008).

2.4. Equity Issues Approach

Firms that face capital constraints and want to raise fresh capital to survive will go for equity issues (Poulsen and Stegemoller, 2008). However, firms with a higher growth rate that faces capital constraints will go for equity issue, these type of transaction gives investors access to public capital (Poulsen and Stegemoller, 2008). According to Coates and Scharfstein (2009), for this approach of recapitalization, banks can issue equity to the private investors and raises a significant amount of capital through equity issues,

whether as initial public offerings IPO or private placements. However, a situation whereby the existing shareholder does not want to purchase more equity they can offer their right of subscription to other investors for sales. Additionally, the authors revealed that, it is necessary for the banks to recapitalize, which is the collective interest of the banks or turn out to insolvent (Coates and Scharfstein, 2009).

2.4.1. Initial public offering

IPO is the new issue (first sale) of stocks issued by a private firm to raise capital in the capital market by which the issuer firm is transformed into a public company (Boonchuaymetta and Chuanrommanee, 2013; Carter and Manaster, 1990). The decisions relating to the financing of a firm are always very complex to evaluate, but normally they depend on the availability of instruments, sources, and methods of financing (Ragupathy, 2011). The authors further revealed that raising equity capital via IPO and the current financial ecosystem provides many opportunities for company's owners to raise resources in multiple capital markets. However, Bateni et al. (2014) reported that the Public offering of securities has the following advantages for the disseminators, gaining capital for growth and development of activities, gaining useful information via the expert analyst, to increase the company's performance, the suppliers of financial sources and investors will trust more. Similarly, Loughran and Ritter (1995) documented that a reputable underwriter reduces the long-run underperformance associated with IPO. One of the most important aspects in IPO is to determine when is the best time to go public because timing applies to current operating conditions as well as market situations of the company to growth and future prospects (Ahmed and Doski, 2014).

In the finance field, today's IPO is notable as one of best equity financing methods of a company that attains a vast recognition for both academicians and practitioners' perspectives. (Corhay et al., 2002) Examines the long-run performance of 3 years of IPOs in the Kuala Lumpur Stock Exchange found that the value of IPOs outperforms growth for all three variables used in the study, earnings to price, cash flows to price and book to market which shows a positive market-adjusted returns. However, raising capital through IPOs is now developing even among some the deloped micro-finance banks in some countries. For instance, Lieberman et al. (2015) reported that four leading microfinance institutions that include Bank Rakyat of Indonesia, BRAC Bank of Bangladesh, Banco Compartamos of Mexico, and Equity Bank of Kenya are now listed on national stock exchanges. The four institutions are well known throughout the microfinance industry for their robust performance. In a similar study, Meluzin and Zinecker (2014) examines determinants influencing the decision to go public in Polish capital market using primary data and the results showed that more than 50% of respondents believe that IPO will have a positive effect on its image and publicity, most of the respondents also believed that IPO improved performance.

2.4.2. Private placement

Taylor and Taylor (1998) define private placement as equity or debt security transaction that's exempt from registration under the Securities Act of 1933. Xu et al. (2017) explored that in private placements, the firm offers a block of securities for sale exclusively to a small group of investors. The authors revealed that private placements allow firms to raise capital privately without publicly soliciting investors, and they are the least costly method of raising equity capital as no prospectus is required which actually makes private placements less riskier and fastest means of raising capital. Private placement has considerable advantages in the public market because of the lower cost of raising capital and in terms of dealing with single, small groups or a bigger group of investors (Ragupathy, 2011).

Moreover, raising equity capital through private placements comes at the cost of diluting the economic and voting interests of retail investors who are legally prevented from participating in the issue (Brown et al., 2008). Lee and Kocher (2001) identified the characteristics of firms to participate in private placements and analysed six determinants factors of the private placement, which includes dividends, firm size, free cash flow, growth opportunities, overvaluation and ownership fraction. Similarly, Brown et al. (2008) also identified eight firm's characteristics for private placement, which include growth and investment opportunities, profitability, liquidity, cash holdings, dividend behaviour, leverage, shareholder structure, and overseas exchange listing.

2.5. Intervention Approach

The GFC has onwards spread around the world and impacted the performance of the banking sector in major economies and drew the attention of several governments to have used a variety of interventions to recover their financial systems. Laeven and Fabia (2013) define government intervention as a significant banking policy measures in response to significant losses in the banking industry. This trend of GFC had long started in 1929 when the financial system in U.S.A collapsed in <2 weeks, more than 300 billion USD worth of wealth disappeared while crisis spread to other economies, resulting in the great depression (Ding et al., 2013). Similarly, the authors further revealed that nearly after 80 years, another financial tragedy began in 2007 because of the sub-prime mortgage crisis in U.S.A resulted in a snowball that continued to hurt financial system in many developed and developing countries.

According to Coates and Scharfstein (2009) reported that one of the major approaches to recapitalize the banks is through intervention. For instance, in the case of the USA, several efforts in terms of government assistance have been made to recapitalize banks in the time of financial crisis under the troubled asset relief program. Moreover, research has been carried out on the performance between public and private banks in the Indian banking sector, while the results indicated that the efficiency and credibility were higher among public sector banks because of government intervention than the private banks (Antony and Bhattacharyya, 2010). A similar analysis took place in Norwegian banking sector during the period 1988-1991 and found both Norway and Japan facing the financial crisis at the same time, but Norway overcame its financial crisis in 4 years because the government intervened while Japan continued to suffer (Ongena et al., 2003). However, Hoshi and Kashyap (2010) have examined the three phases of the financial crisis in Japan and the major responses taken by

the Japanese government to the crisis and show the success and failure of various government interventions, and they concluded that government interventions were the most successful instrument for banks recapitalization.

Laeven and Fabia (2013) study a comprehensive banking crisis from 1970 to 2011 used six items to measure bank intervention, which include deposit freezes, significant bank nationalizations, bank restructuring gross costs, extensive liquidity support, significant guarantees put in place and significant asset purchases. However, another study of (Ding et al., 2013) measured the government intervention on bank's performance in five major Asian economies, Hong Kong, Japan, Singapore, South Korea, and Taiwan. The authors measured intervention with government-guaranteed, debt issuance programs, and direct equity injections. Additionally, the authors reported that bank performance regarding profitability, solvency, and credit risk, improves after government intervention. Moreover, suggested that the influence of government intervention on bank performance depends on the evaluative financial indicators.

However, other studies on intervention come up with the opposite results. Some researchers also argue that such action of bank intervention undermines the competition in the banking sector (Gropp et al., 2011). Duchin and Sosyura (2012) documented that government interventions only favored those banks that are politically connected because they are more likely to receive financial support than the others, which will undermine the performance of the banking sector. In another development, Hryckiewicz (2014) reported the two options of government intervention that can be offered by authorities protect the banking sector crises, which include bailout and blanket guarantees programs.

2.5.1. Bailout (capital injection)

Banks are the engines that drive the major processes in the financial sector and the growth of the economy (Arize et al., 2018; Bhasin, 2016). Moreover When banks are in trouble, the authorities regularly take actions aimed at reducing bank's failures, such actions typically involved regulatory interventions (bailouts) in the form of capital support (Berger et al., 2016). For instance, having important effects on the banking sector and the economy, USA financial market crisis had a major impact on financial institutions especially banks, causing a drop in market recapitalization and liquidity problems which led to the bailouts of the affected banks by their respective countries (Rhoades, 1996). Furthermore, the GFC generated several public bailouts for the banking sector to prevent a wide-scale financial collapse (Grossman and Woll, 2014). Both existing literature and countries' experiences document that bailout (capital injection) are the largest intervention mechanisms aimed at improving bank performance (Berger et al., 2016; Cordella and Yeyati, 2003; Honohan and Klingebiel, 2003; Veronesi and Zingales, 2010).

On the other hand, the empirical literature on what the optimal bailout program should look like to soften the negative consequences of government interventions in the banking sector is inconclusive. (Bhattacharya and Nyborg, 2013; Veronesi and Zingales, 2010) also revealed that several studies had discussed the contributions of bailout programs to the cost of resolving the banking sector crisis but without reaching a definitive conclusion. (Hryckiewicz, 2014) reported that liquidity provisions in form of bailout measures eliminate the negative effects of the intervention program on banking sector stability. Bayazitova and Shivdasani (2012) and Lin et al. (2019) emphasized that providing a source of capital in a bailout plan of government capital injections can stabilize banks when public market alternatives are not available. In addition, (Mehran and Thakor, 2011) documented that interventions are also likely to strengthen banks' monitoring incentives. The opponents of these interventions (bailout), however, argue that these actions cause the banking sector more harm than good. The argument was commonly advanced is that government interventions increase moral hazard due to a decline in market discipline because of banks' anticipations of bailouts (Dam and Koetter, 2012; Flannery, 1998; Sironi, 2003). Furthermore, Gropp et al. (2011) document that such actions undermine competition in the banking sector, increasing the risk faced by non-assisted banks.

2.5.2. Blanket guarantee

The central banks in many countries during financial crises tend to step in by offering blanket guarantees and to increase public confidence in the banking system. (Hryckiewicz, 2014) reported that banking institutions, by means of intervention, offered banks protection either by blanket guarantees or were bailout through central banks' actions or regulatory authorities through government recapitalization programs. Additionally, the authors defined blanket guarantees as full protection of bank liabilities or a mechanism employed by authorities to protect nondeposit liabilities of the banks Moreover, blanket guarantees regarded as a necessary instrument used at various stages of a banking crisis particularly during the containment stage of a financial crisis (Claessens and Pazarbasioglu, 2011). However, the previous research findings on intervention through blanket guarantee are said to be mixed. For instance, (Honohan and Klingebiel, 2003) revealed that, in order to curtail the withdrawals from nervous depositors, government could issue a blanket guarantee to bank depositors. Although, (Kane and Klingebiel, 2004) reported that, blanket guarantees have often been unsuccessful in providing the public confidence during banking crises. (Bordo et al., 2001) find neither positive nor negative relationship between blanket guarantees and output.

2.6. Debt Restructuring Approach

Debt restructuring may not necessarily be only a sign of firms' financial distress, but also the most vital ways to alleviate the financial distress, so that the troubled firms with anticipation of recovery can efficiently be avoided from becoming bankruptcy. (Gilson, 1989) defined debt restructuring as a renegotiation to find an alternative mechanisms for dealing with financial distress companies. Moreover, debt restructuring also described as a transaction in which an existing debt contract is amended by a new contract on either of the following consequences (i) required interest payment or repayments of principal amount are reduced (ii) the debt's maturity period is prolonged (iii) creditors are issued with the equity securities (common stock or

securities convertible into common stock) Gilson et al. (1990). Additionally, Coates and Scharfstein (2009) emphasize that one of the most significant recapitalizations can successfully be achieved by converting debts of banks or companies into equity. The authors further reported that an alternative or complementary approach is that, government could pressure banks to seek a more comprehensive recapitalization through restructuring of bank's or company's debt with conversion of debt into equity and some debt relax. Gilson et al. (1990) investigates 169 financially distressed companies from 1978 to 1987 and discovered more than half of these financially distressed firms are successful through debt restructuring. Moreover, (Damijan, 2018) reported that the Slovenian experience of debt restructuring restored the financial soundness and significantly improves firms' performance with small and medium-sized firms seem to benefit more from the mechanisms of debt restructuring. Furthermore, (Kim et al., 2019) revealed that issuing equity in the process of debt restructuring through recapitalization creates more value to shareholders.

However, Kaur and Srivastava (2017) revealed that after debt restructuring, firms were not able to improve their performance even up to 5 years and they were performing below their industry expectation. In addition, debt restructuring weakens the industry's capacity, motivation and conditions to expand its business (Jiang et al., 2019). Most of the related research on debt restructuring focuses either on the economic and financial consequences of these contract negotiations (Cruces and Trebesch, 2013; Rose, 2005). Some studies offer a normative proposals on how to improve the debt restructuring process (Eichengreen, 2003; Krueger, 2003). This study does not seek to address all dynamics of debt negotiations but focuses on the understanding of how recapitalization through debt restructuring affects bank's performance.

2.7. Bank Performance

Researchers defined the performance of an organization in many different ways. For instance, Antony and Bhattacharyya (2010) sees performance as the measure that is used to assess and evaluate the success of an organization to create and deliver the value to its external as well as internal customers. Moreover, Abdul et al. (2012) described performance as the capacity of banks to maximize returns on investors' funds. Performance refers to how effectively an organization is executing an appropriate strategy (Otley, 1999). It can also be referred to the output achieved by the firm's objectives through management operations (Fauzi, 2010). Financial performance can be defined as a measure that can be used to track performance evaluation progress of firms alongside it's strategic or plan for a specific performance goal (Alfan and Zakaria, 2013). It is a measure of a company's operations and policies in monetary terms. These results are reflected in the company's ROAs, return on investment, capital base, value-added, employee's performance and customer loyalty (Gitau and Samson, 2016; Mishkin, 2007). Furthermore, recently El-chaarani and El-abiad (2019) used ROA and ROE to measure the performance of banking sector in Middle Eastern Countries.

Financial performance measures are beneficial in furnishing financial information to managers and other users to assess the organization's efficiency and effectiveness. Financial performance measures include branch profit, revenue growth, and return on net assets (Ittner and Larcker, 2003). Chibueze et al. (2013) documented that, stock prices and its behavior reflect the performance of a firm. However, it was reported that the volume of deposit, size of the bank, and its profitability could be considered as more reliable indicators of bank performance (Abaenewe et al., 2013). Profit growth, sales growth, and response to the competition are also used in measuring financial performance (Bontis et al., 2000). Seçme et al. (2009) measured performance using capital adequacy, assets quality, profitability and liquidity as proxies for financial performance. However, Wu et al. (2009) also used sales, debt ratio, ROAs, earnings per share, net profit margin, return on investment as proxies. In addition, Neely (2007) reported that there are numerous financial measures, but most commonly used are ROE, ROA, ROI, value per employee, earnings per share and net profit margin.

Moreover, Hamann et al. (2013) measured the financial performance of an organization by the used of stock market performance and accounting returns, which comprise liquidity and profitability. It was also revealed that Murphy et al. (1996) reported that, efficiency, growth, and profit are the most commonly considered as dimensions in measuring organizational performance. Similarly, the financial performance of an organization is also measured by growth in deposit accounts, profit growth, ROA, and balance sheet strength (Njenga and Osiemo, 2013). In addition, Nouaili et al. (2015) measured performance by liquidity ratio, net interest margins, ROA and ROE as determinants of bank performance.

However, financial performance used to be very popular for measuring the performance of an organization, but now they are no longer seen as adequate means of measuring performance due to some of their weaknesses. Moreover, the traditional accounting measures of performance's weaknesses are well documented in the literature and include failing to convey strategies and priorities effectively within an organization (Najmi et al., 2005). Although a change in perception took place in the mid-1980s when performance measurement moved away from having a purely financial perspective, some organizations started to implement increasingly non-financial performance measures. This view is supported by many researchers such as Hussain and Hoque (2002) and Kaplan and Norton (2001) have stressed that in the service sector, like the banking industry, it is necessary to use the multidimensional measurements of performance.

Various approaches are used to measure performance. For instance, Kaplan and Norton (2001) suggested that performance measures in multiple forms ought to be multidimensional to cover the financial and non-financial measures. Alternatively, the emergence of non-financial measurements are due to the pressure from the competition, changes in the roles of the organization, information technology power, external demand variations and finally, due to the limitations of traditional financial performance measure (Neely, 1999). Moreover, non-financial measures provide timely information pertaining to the causes and drivers of success to managers, which may be employed for the designation of integrated systems of evaluation (Kaplan and Norton, 1992). The

non-financial performance measures involve employees who have high skills and motivation, employees who are productive, service with high quality, and customer satisfaction (Lee and Yang, 2011). According to Hussain and Gunasekaran (2002), non-financial performance measures are essential measurements that motivate financial performance in the future, and positively affect the long-term profitability of the organization.

Furthermore, non-financial performance measures are a better predictor of a firm's long-run performance, and they also assist the managers in overseeing and evaluating the progress of their firm concerning the goals and objectives of their strategy Kaplan and Norton (2001). In addition, researchers have contended that non-financial measures could assist managers in being aware of the business environment changes, determine and evaluate the progress of business objectives, and confirm the realization of the performance goal. The used of reactivation of inactive account, customer relationship management, customer satisfaction, branch reputations, and market share, also considered as non-financial performance (Elnihewi et al., 2014). Furthermore, Tomislav et al. (2012) emphasized that translating a strategy into specific objectives that guide operational actions requires both financial and non-financial measures.

2.8. Corporate Governance

Corporate governance has recently attracted more interest from academics and regulators around the world. Corporate governance in financial institutions, especially banks, is unique when compared to non-bank financial institutions (Bastomi et al., 2017). The behavior of managers and owners of the banks became a major factor that needs attention in the implementation of corporate governance, which shows that improving the implementation of corporate governance can reduce credit risk, operational risk and increase financial performance (Bastomi et al., 2017). If sound corporate governance is not in place, banking supervision cannot be well functioning (Nworji et al., 2011). Moreover, agency theory suggests that strong corporate governance leads to better accounting outcomes and improves performance (Jensen and Meckling, 1976). So basically, poor corporate governance can lead a bank to lose the ability to manage its deposits, assets, and liabilities, which could, in turn, trigger a bank to run in a liquidity crisis.

The researchers defined corporate governance in different way, but they all relate to their fundamental meaning. In view of the Organization for Economic Co-operation and Development OECD (2015) defined corporate governance as a kind of relationships between the company's shareholders, board, management, and others who have an interest in the company. The following principles of corporate governance have been referred to many countries in the world since being introduced by OECD (Bastomi et al., 2017). These arrangements have been used universally so that they are applicable to all countries or companies and also harmonizes with the rules, values, and legal system prevailing in their respective states (Bitar et al., 2017b). The main principles of governance offered by OECD are independence, disclosure/transparency, responsibility, fairness, and accountability (OECD, 2017). It is widely acclaimed that a better corporate governance practice enhances firm's performance (Adams and Mehran, 2012; Brickley and James, 1987; Chung et al., 2003; Francis et al., 2012). In spite of the generally accepted notion, good corporate governance enhances firm performance, some studies have reported negative relationships (Hutchinson, 2002; Manurung et al., 2019; Pathan and Faff, 2013; Shahwan, 2015). Other studies found no relationship between corporate governance and performance (Park and Shin, 2004; Wintoki et al., 2012).

2.9. Control Variable

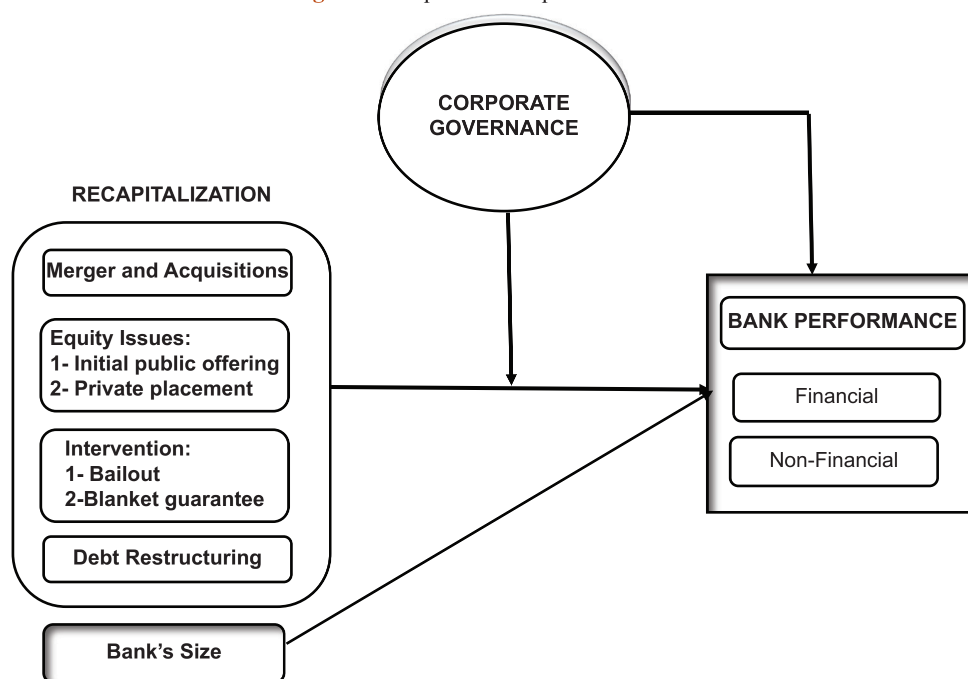
2.9.1. Bank size

Considering the fact that outcomes of performance could be affected by bank-specific characteristics, to ensure and enhance the robustness of the results, this study will introduce a bank's size as a control variable. This is in line with other studies of Hussaini (2018), Ng et al. (2017) and Ofoeda (2017) that consider the size of the bank as the control variable. Furthermore, Halbouni and Garbou (2016) consider company size as control variable and measure it by the number of employees. Moreover, company size influences the behavior of the firm and its decision making in terms of exploitation of innovation, competencies, and opportunities (Wiklund and Shepherd, 2005). Therefore, the size of the company can display different behavior, which can, in turn, affect performance. Many previous studies on performance found that firm size was a critical firm-specific factor that affects the performance of an organization (Nasserinia et al., 2017; Shin et al., 2015; Subramaniam and Youndt, 2005). However, researchers who observed the effect of bank size on the performance of banks are found to be mixed. For instance, Al-Tamimi (2008); Ng et al. (2017); Paul et al. (2012); Trad et al. (2017) reported that bank's size is correlated significantly high with bank performance. Moreover, other studies also reported that size and performance were closely but negatively related to each other. For instance, a study conducted in the Philippines revealed that the bank's size was inversely related to the profitability of the bank. Moreover, Nasserinia et al. (2017) also reported that bank size affects bank profitability negatively due to substantial an increase in overhead cost. In another similar study has suggested a weak or non-existence of correlation between size and bank performance (Akhtar and Ali, 2011; Millon et al., 2010). Conclusively, this study will be considered the bank's size as a control variable.

3. PROPOSE RESEARCH FRAMEWORK

Several studies have explored the relationship between recapitalization and performance. Several empirical evidence indicates a positive relationship between recapitalization and the bank's performance in various organizational settings and several countries. (Beccalli and Frantz, 2016; Bhaumik and Selarka, 2012; Ding et al., 2013; Donou-Adonsou and Sylwester, 2017; Ernovianti and Ahmad, 2017; Etri et al., 2016). However, many empirical studies demonstrated a significant negative relationship between recapitalization and bank's performance (Beccalli et al., 2018; Bertrand and Betschinger, 2012; Tomec and Jagrič, 2017). Furthermore, Adedeji et al. (2015) and Liao and Williams (2008) documented no relationship between the two variables. In addition, some studies also revealed a strong relationship between corporate governance and bank performance (Adams and Mehran, 2012;

Figure 1: Proposed conceptual framework



Alves and Mendes, 2001; Bastomi et al., 2017; Brickley and James, 1987; Chung et al., 2003; Outa and Waweru, 2016).

The above literature demonstrates the existence of a strong relationship between performance and corporate governance. Couple with the inconsistent findings on the relationship between recapitalization and some of its dimensions and bank's performance, corporate governance as a moderating variable is introduced. This is based on the assumption of introducing moderator given by (Baron and Kenny, 1986; Frazier et al., 2004; Hair et al., 2014; Nitzl, 2016) The authors revealed that a moderator variable is an independent variable that affects the direction or strength of the relationship between exogenous variable and endogenous variable, and it can be introduced to the model when there are weak, inconsistency/contradictory results to the findings.

Conceptual framework of recapitalization, corporate governance, and bank performance. İs presented in Figure 1.

4. CONCLUSION

Based on the extant literature discussed, bank recapitalization has a significant relationship with the performance of the banking sector. The research finding depends on the results of hypotheses test. However, this study review and theoretically examine the relationship between recapitalization strategies (merger and acquisitions, equity issues, intervention, and debt restructuring) and performance of the banking sector (financial and non-financial) with the interaction effect of corporate governance between the two variables. Moreover, corporate governance influences bank performance in providing adequate information to support the corporate governance of banks who have the function of advising the managements' overall strategic system of control and monitoring, which will result in better bank performance.

Also, having an understanding of how the importance of recapitalization relates with bank performance, it will enable the various parties such as regulatory authorities (e.g., CBN, NDIC) board of directors, and management of banks to formulate policies and make appropriate decisions and implementation. This study will add to the literature by employing both financial and non-financial measures of performance as suggested more, especially those recommended, fit, and selected for performance evaluation in banking through expert questionnaires (Wu et al., 2009).

More so, intended scholars in this area of research can empirically provide evidence on the established relationship between the variables selected in this study and add other additional control variables such as bank age, etc. can be considered by future researchers.

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