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#### Kontakt/Contact

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

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Original Research Article

## **Board Characteristics and Financial Performance of Commercial Banks in Nigeria**

G. O. Oyedokun

Department of Accounting, Faculty of Administration, Nasarawa State University, Keffi, Nasarawa State, Nigeria

\*For correspondence, email: [godwinoye@yahoo.com](mailto:godwinoye@yahoo.com)

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### **Abstract**

*This study examines the effect of board characteristics on financial Performance of quoted commercial banks in Nigeria for the period 2013-2017. Ex-post Facto research design was adopted. Board characteristics used include size, independence, gender diversity and board meeting. Data were extracted from the annual reports of the quoted commercial banks. Multiple panel regression analysis was used to analyse the data. The result shows that board characteristics have a significant effect on the financial performance of quoted commercial banks in Nigeria. Specifically, Board gender diversity has a significant positive effect, and board meetings have a significant negative effect on board characteristic while board size has an insignificant negative effect on financial Performance while board independence has an insignificant negative effect on financial Performance. Based on the findings, This study, recommends that, the regulators of commercial banks in Nigeria should increase surveillance and supervision to ensure proper overall risk management that could safeguard the interest of all stakeholders and the reputations of the banks, The regulators and the management of the commercial banks in Nigeria should emphasize the optimal size of the board and board of directors should have composed of more independent/non-executive directors who are experts in the financial services industry to bring more independent and expert-based judgments and opinions with regard to risk management and the overall performance of the banks.*

**Keywords:** Board of directors, commercial banks, corporate governance, financial performance, audit fee.

### ***JEL Classification Codes: G21, G30, M4, M40, M41***

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## INTRODUCTION

In a dynamic environment, boards become very important for the smooth functioning of organizations. Boards are expected to perform different functions, for example, monitoring of management to mitigate agency costs (Eisenhardt, 1989; Roberts, McNulty & Stiles, 2005; Shleifer & Vishny, 1997), hiring and firing of management (Hermalin, & Weisbach, 1998), provide and give access to resources (Grooming CEO Vancil, 1987; Hendry & Kiel, 2004, Hillman, Canella, & Paetzold, 2000) and providing strategic direction for the firm (Kemp, 2006; Tricker, 1996; van der Walt, & Ingley, 2001). Board characteristics are particularly important to service firms in Nigeria because of a number of financial failures, frauds, and questionable business practices that had adversely affected investors' confidence. As a result, there is a need to examine the effect of board characteristics and financial performance of listed services firms in Nigeria.

According to agency theory, the separation of ownership and control leads to a divergence in the pursuit of managerial interests versus owner's interests (Jensen & Meckling, 1976), and thus monitoring managerial decisions becomes essential for the board of directors in order to protect shareholders' interests (Fama & Jensen, 1983). Boards are expected to formulate corporate policy, approve strategic plans, and authorize the sale of additional securities. They are also expected to hire, advise, compensate, and, if necessary remove management, arrange for succession and determine the size of boards and nominate new members subject to approval by shareholders MICG (2010). Therefore, the effectiveness of the board of directors in monitoring managers and exercising control on behalf of shareholders depends on a

number of factors: the role of independent non-executive director on board, the impact of board meetings on financial performance, the impact of board size on board and the effect of Women director on board. Independent directors are those that have neither personal nor business relationships with the company, outside or independent directors provide superior performance benefits to the firm as a result of their independence from firm's management (Baysinger & Butler, 1985). They can increase the element of independence and objectivity in board's strategic decision-making as well as providing independent supervision of the company's management (Fama & Jensen, 1983), hence making the board's oversight function more effective. Board meetings are used as a measure of the intensity of board activity and a value relevant board attribute (Vafeas, 1999). The view that board meetings are a resource is reinforced by the criticism of directors who take up multiple directors and thereby limiting their ability to attend meetings regularly to monitor management e.g., (Byrne, 1996).

Board size refers to the number of members on the board. Identifying appropriate board size that affects its ability to function effectively has been a matter of continuing debate (Jensen 1993; Yermack, 1996) Dalton, Daily, Johnson & Ellstrand, 1999; Hermalin & Weisbach, 2003). Some scholars have been in favour of smaller boards e.g., (Lipton & Lorsch, 1992; Jensen 1993; Yermack, 1996). Lipton and Lorsch (1992) support small boards, suggesting that larger groups face problems of social loafing and free riding. (Jensen, 1993) endorsed small boards because of efficiency in decision making due to greater coordination and lesser communication problems. Subsequently, gender diversity is part of the broader concept of board

diversity (Milliken & Martins, 1996). The concept of board diversity suggests that boards should reflect the structure of the society and appropriately represent the gender, ethnicity and professional backgrounds. Boards are concerned with having the right composition to provide diverse perspectives.

Over the years, different variables have been used to measure financial performance. This could be measured using long term market performance measures and other performance measures that are non-market-oriented measures or short-term measures. Some examples of these measures include market value added (MVA), economic value added (EVA), cash flow growth, earnings per share (EPS) growth, asset growth, dividend growth, and sales growth (Coles, McWilliams & Sen, 2001; Abdullah, 2004). In their study, (Dehaene, De Vuyst & Ooghe 2001) used return on equity (ROE) and return on assets (ROA) as proxies for financial performance in Belgian companies. Market-to-book ratio was utilised on firms in (Hong Kong Chen, Cheung, Stouraitis, & Wong, 2005). In their article, (Judge, Naoumova & Koutzevoi, 2003) used a series of indicators including financial profitability, customer satisfaction, product/service quality, capacity utilization and process improvements to assess firm performance. For the purpose of this study, ROA is used to measure firms' financial performance. Return on Asset (ROA) is an indicator of the financial performance of a firm's relative to its total assets.

ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment." The board should not only prevent negative management practices that may lead to corporate failures or scandals but also ensure that firms act on opportunities that enhance the value to all

stakeholders. As a strategic resource, the board is responsible to develop and select creative options in the advancement of the firm. Given the increasing importance of boards, it is important to identify the board characteristics that make one board more effective from another to identify and examine the effect of board characteristics on financial performance of listed Services firms in Nigeria

Due to the problems of corporate failures to corporate fraud which resulted in less interest for investors, firms have in the past resorted to different measures to tackle the above-mentioned problems ranging from corporate re-structuring to seeking additional funding and even mergers and acquisition. However, each of these methods has resulted in either little effect on the value of the firms or even no effect at all. According to Rosenstein, and Wyatt (1990), board characteristics are particularly important to the services firms in Nigeria because of a number of financial failures, frauds, and questionable business practices that had adversely affected investors' confidence. As a result, there is a need to examine the effect of board characteristics on the financial performance of listed commercial banks in Nigeria. Looking at how important the Services firm are to any economy, and the magnitude of the products and services they deliver to a given economy, it is imperative that the effect of board characteristics on financial performance is studied using one of the pivotal tool of analysis to value the firms (ROA) seeing that the previous research on this topic either used other variables like ROE, EPS, TOBIN's Q or covers an earlier period. This study intends to fill in the aforementioned gap. For Services firm to succeed financially, they must have to render services that could enable them to generate sufficient profits. Profits making is a function of so many factors, some of which are internal and others external. Amongst the internal factors are an operational decision taken by the board of

the Services firm in Nigeria. There is no doubt that the services firm is facing challenging times, and only the companies that are able to; execute on the strategy they develop as well as, carefully assess and manage the risks, make the right portfolio and business decisions and, improve their processes will be able to have long term success.

Therefore, this study aims at examining the effect of board characteristics on the financial performance of commercial banks in Nigeria using the return on asset (ROA). Board characteristics are important tools or mechanisms for monitoring, controlling, disciplining, and advising management of corporation managing the affairs of the business for the benefit of shareholders and long term success of the firm

## **LITERATURE REVIEW**

### **Conceptual framework**

#### **The concept of the Board**

The concept of the board is derived from the attributes or incentives variable that plays a significant role in monitoring and controlling managers and can be described as a bridge between company management and shareholders (McIntyre, 2007; Bonn, 2004; Kiel & Nicholson, 2003). To understand the role of the board, it should be recognized that boards consist of a team of individuals, who combine their competencies and capabilities that collectively represent the pool of social capital for their firm that is contributed towards executing the governance function (Westphal, 2001).

The board is the supreme decision-making unit in the company, as the board of directors has the responsibility to safeguard and maximize shareholder's wealth, oversee firm performance, and assess managerial efficiency. Daltoni, Catherine, Alan and Jonathan (1998) pointed out four actions of initiation, ratification, implementation, and monitoring, undertaken by the board in the

decision making processes. Therefore, the main role of the board is seen as the ratification and monitoring of decisions, overseeing the actions of managers/executives. From the above concept, the role of the board is quite daunting as it seeks to discharge diverse and challenging responsibilities. The board should not only prevent negative management practices that may lead to corporate failures or scandals but ensure that firms act on opportunities that enhance the value to all stakeholders. Given this, it is important to identify the board characteristics that make one board more effective from the other. Therefore, this study is set to identify and examine the board characteristics that make it effective and contribute towards the financial performance of quoted commercial banks in Nigeria.

Non-executive directors are outside directors who are independent of the company. They are called independent directors because they have neither personal nor business relationships with the company (Ogbechie & Koufopoulos, 2010). In other words, non-executive is any director who is not a representative or member of the immediate family of a shareholder and who has no business relationship with the company for the past three years or more and who has the ability to control or significantly influence the board or management of the company. Non-executive directors are usually chosen because they have appropriate calibre, skills and personal qualities, and breadth of experience. More so, nonexecutive directors may have some specialist knowledge that will help in providing the board with valuable insights or, key contacts in related industries that may contribute to improving the financial performance of such industries. In addition, one of the utmost importance's of nonexecutive directors is that they are the independence of the management of the company and any of its interested parties.

Board meetings are used as a measure of the intensity of board activity and a value relevant board attributes (Vafeas, 1999). The view that board meetings are a resource is reinforced by the criticism of directors who take up multiple directors and thereby limiting their ability to attend meetings regularly to monitor management e.g. (Byrne, 1996). A clear implication of these studies is that directors in boards that meet frequently are more likely to perform their duties in accordance with shareholders' interests. While board meetings bring benefits such as more time for directors to discuss, set strategy, and monitor management, there are also costs associated with board meetings: managerial time, travel expense, and directors' fees (Vafeas, 1999).

Jensen (1993) suggested that the board should be relatively inactive and that boards are required to become active in the presence of problems. It is clear that from the agency perspective, a board that demonstrates greater diligence in discharging its responsibilities will enhance the level of oversight by the board. Letendre (2004) suggest that in addition to having sufficient time to discuss issues at hand in depth, boards should regularly review the company's financial performance. It will make management monitoring effective, resulting in improved firm performance. Dozie (2003) defined board size as the number of members that form the board. There is no agreed number of members that make up an ideal board size. There have been divergent opinions by various researchers on the number of persons that should make up an ideal board. Dozie (2003) also argues that a smaller board may be less encumbered with bureaucratic problems, more functional and abler to provide better financial reporting oversight. Some of the disadvantages associated with a large board are the high cost of coordination and delay in passing information. It is also associated with weak monitoring. Dalton et al. (1999) argue that a large board is

overcrowded and hence does not give room for each member's input; it is also less organized and unable to reach a decisive conclusion on time. The study measured the board size by the number of directors serving on such boards and expected this to have a negative relationship with financial performance.

As the size of the board increases, interpersonal communication becomes less effective. As the board size increases, problems of communication and coordination manifest and are likely to develop factions and conflict (Charles, Reilly, & Jennifer, 1989). These benefits provided by large boards help in firm performance. The above discussion on board size suggests that besides its direct effect, board size may also moderate the effect of other board characteristics on financial performance. While (Boone, Bussey, Andrews, 2007), found that board size continues to increase even after 10 years of incorporation, David, Betty, Simkins, and Simpson (2003) document that women's representation on boards also increases with board size. It implies that women don't replace men on boards but get representation as to the board size increases, indicating a corresponding increase in both board size and women on boards (Erhardt, Werbel, & Shrader, 2003) and Bonn, (2004) found positive relationship between gender diversity and firm performance. A larger board thus provides more opportunities for gender diversity, as well as for the smooth functioning of the women members of the board. Board diversity requires representation to different segments of society and is found to be positively associated with financial performance.

Evolutionary Biology literature indicates that women are specialised in different tasks as a result of the requirements of nature. As a result, there have been arguments and counter-arguments about women exhibiting important characteristics necessary for good governance (Azmi & Barrett, 2013).

Specifically, it has been argued that women are meticulous, risk-averse, and skilled in accounting and finance, and good decision-makers (Azmi & Barrett, 2013). This makes several researchers have recently focused on the effects that female executives and directors may potentially have on the firm's financial performance and market value.

**Return on the asset** as a method for measuring financial performance Profitability ratios are an indicator of the firm's overall efficiency. It's usually used as a measure of earnings generated by the company during a period of time-based on its level of sales, assets, capital employed, net worth and earnings per share. Profitability ratios measure the earning capacity of the firm, and it is considered as an indicator for its growth, success and control. Creditors, for example, are also interested in profitability ratios since they indicate the company's capability to meet interest obligations. Shareholders also are interested in profitability. It will indicate the progress and the rate of return on their investments. The ratios of the return on assets (ROA) and the return on owner's equity (ROE) are the most used profitability ratios in the analysis. Return on assets (ROA) ratio:  $\text{Net profit after taxes} / \text{Total assets}$ . This ratio is calculated as net profit after tax divided by the total assets. This ratio measure for the operating efficiency for the company based on the firm's generated profits from its total assets. Return on Asset (ROA) is an indicator of the value of a firm's relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual 20 earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment."

### **Empirical Reviews**

Oyerogba, Memba and Riro (2016) studied the impact of board size on the profitability of the listed firm, the study was empirically

examined the listed companies in Nigeria for a period of ten years ranging from 2004 to 2013. Specifically, the study investigated the impact of board size, firm size and firm age on return on capital employed of the selected companies. The study relied on the secondary data extracted from the audited financial statement of a sample of 70 companies purposefully selected from the 198 listed companies in Nigeria. Both descriptive and inferential statistics were carried out. The results revealed that a significant positive relationship exists between the board size, firm size and return on capital employed. It was therefore recommended that listed companies should adopt the use of a large board (12 members) to improve profitability. It is also needful for the listed companies to increase the capital-based as this was found to have a positive impact on the profitability of listed companies in Nigeria while the policymakers are encouraged to provide adequate guidelines on the selection of board members.

Fuzi, AbdulHalim and Julizaerma (2016) examined Board Independence and Firm Performance. The board requires the combination of executive and non-executive directors to pursue the shareholders' interest. The non-executive directors on the board will not be able to exercise their duties effectively unless they are independence from management and ensure they provide unbiased business judgment. Independent directors are the person entrusted by shareholders to represent them and will help to reduce agency problems. Further, the Code of Corporate Governance and regulators recommend the composition of board members should be balanced and consist of independent directors. However, mere compliance with the recommendations is not enough if the independent directors fail to exercise their functions effectively. A study has been carried out in a few countries by examining board independence and firm performance. The results showed a mixed association between the proportions of

independent directors and firm performance. Although the companies comprising the highest number of independent directors, it would not assure to enhance firm performance. Thus, the existence of independent directors on board should be monitored in order to bring positive shareholder values.

Kutum (2015) assessed the relationship between the Return on Assets and Board Characteristics (Board independence, Board meeting, Board size, Board expertise, Company size and Company year of incorporation). After studying the six variables, the researcher found the existence of only one relationship which was between the age of the organization/ year of incorporation and the company's Return on Assets (ROA). The study provides greater insight into understanding corporate governance in Palestine. The approach, taken in this study, will enable companies to assess the true relationship between the Return on Assets to Board independence, Board meeting, Board size, Board expertise, Company size and Company year of incorporation. It will enable them, also, to find ways of ensuring these factors become more relevant to the organization's performance.

Odudu, James and James (2016) carried out research on board Characteristics and Financial Performance of Deposit Money Banks in Nigeria. The study examines the influence of board characteristics on the performance of listed deposit money banks in Nigeria. Executive director, Independent non-executive director, Grey director, Woman director and Foreign director constitutes the board characteristics of the selected banks, while the ratio of profit after tax to total asset and profit after tax to shareholder total fund represents the Performance which stands as the dependent variable of the study. The study found that the executive director has no significant influence on the performance of listed banks in Nigeria. This study is centred only on deposit money banks in Nigeria and as such

cannot be generalizing to another sector of the economy especially the Health industry. While it is difficult to predict the relation between board characteristics and financial performance based on prior studies, these studies provide a basis for our empirical tests and statistical analysis in our study for the effects of board characteristics on the financial performance of Commercial Banks firms in Nigeria.

Ongore, K'obonyo, Ogutu and Bosire(2015) investigate the effects of board composition on financial performance. Using multivariate regression analysis on panel data, with Return on Assets, Return on Equity, and Dividend Yield as performance indicators, the study found out that independent board members had an insignificant effect on financial performance, but gender diversity did, in fact, have a significant positive effect on financial performance. Board size, on the other hand, had an inverse relationship with financial performance. These results are largely consistent with the conceptual and empirical literature on corporate governance with respect to small board size (5 to 7) that is sufficiently diverse in terms of gender, skill, experience, industry networks, among other important attributes. Regarding outside directors, however, the study findings appear to contradict the long-held traditional view that outsiders confer superior performance to the board.

Muller (2014) investigated the impact of board composition on the financial performance of FTSE100 constituents using econometric regression models the impact of 9 corporate governance characteristics regarding board composition on the contemporaneous and next year's performance (measured as ROA) using a sample comprised of the constituents of FTSE100 between 2010 and 2011. Through the research, they intend to contribute to the academic literature on the unsettled issue concerning the relationship between corporate governance and corporate



performance. As hypothesized and in accordance with some previous researches we found that board independence and the proportion of foreign directors in the total number of directors (as characteristics of corporate board composition) have a significant strong positive impact on firm performance (both contemporaneous and subsequent).

### **Theoretical Framework** **Stakeholder Theory**

Stakeholder theory is an extension of the agency view, which expects the board of directors to take care of the interests of shareholders. However, this narrow focus on shareholders has undergone a change and boards are now expected to take into account the interests of many different stakeholder groups, including interest groups linked to social, environmental and ethical considerations (Freeman, 1984; Donaldson & Preston, 1995. Freeman, Andrew, Wicks, Bidhan, & Parmar, 1991). This shift in the role of the boards has led to the development of stakeholder theory. Stakeholder theory views that “companies and society are interdependent and therefore the corporation serves a broader social purpose than its responsibilities to shareholders (Kiel & Nicholson, 2003). Likewise, Freeman (1984), one of the original proponents of stakeholder theory, defines stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”. There is considerable debate among scholars on whether to take a broad or narrow view of a firm’s stakeholder. Freeman’s definition (1984) cited above proposes a broad view of stakeholders covering a large number of entities, and includes almost all types of stakeholders. In contrast, Clarkson (1994) offers a narrow view, suggesting that voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human or financial, or something of value, in a firm. Involuntary stakeholders are placed at risk as a result of a firm’s activities. But without

the element of risk, there is no stake. The use of risk enables stakeholders a legitimate claim on a firm’s decision making, regardless of their power to influence the firm. Donaldson and Preston (1995) identify stakeholders as “persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity.” For Example, Wheeler and Sillanpaa (1997) identified stakeholder as varied as investors, managers, employees, customers, business partners, local communities, civil society, the natural environment, future generations, and non-human species, many of whom are unable to speak for themselves.

Mitchell, Agle and Wood (1997) argued that stakeholders can be identified by the possession of one, two or all three of the attributes of the power to influence the firm, the legitimacy of relationship with the firm, and the urgency of their claim on the firm. This typology allows managers to pay attention and respond to various stakeholder types. Stakeholder theory recognizes that many groups have connections with the firm and are affected by a firm’s decision making. Freeman et al. (2004) suggest that the idea of value creation and trade is intimately connected to the idea of creating value for shareholders; they observe, “business is about putting together a deal so that suppliers, customers, employees, communities, managers, and shareholders all win continuously over time.” Donaldson and Preston (1995) refer to the myriad participants who seek multiple and sometimes diverging goals. Manager’s view of the stakeholders’ position in the firm influences managerial behaviour.

However, Freeman et al. (2004) suggested that managers should try to create as much value for stakeholders as possible by resolving existing conflicts among them so that the stakeholders do not exit the deal. Carver and Oliver (2002) examine the stakeholder view from non-financial outcomes. For example, while shareholders generally define value in financial terms,

others stakeholders may seek benefits “such as the satisfaction of pioneering a particular breakthrough, supporting a particular kind of corporate behaviour, or, where the owner is also the operator, working in a particular way. It means stakeholders have ‘no equity stakes’ which requires management to develop and maintain all stakeholder relationships, and not of just shareholders.

This suggests the need for reassessing performance evaluation based on traditional measures of shareholder wealth and profits by including measures relating to different stakeholder groups who have non-equity stakes. Nonetheless, many firms do strive to maximize shareholder value while, at the same time, trying to take into account the interest of the other stakeholders. Sundaram and Inkpen (2004) argue that the objective of shareholder value maximization matters because it is the only objective that leads to decisions that enhance outcomes for all stakeholders. They argue that identifying a myriad of stakeholders and their core values is an unrealistic task for managers (Sundaram & Inkpen, 2004). Proponents of the stakeholder perspective also argue that shareholder value maximisation will lead to expropriation of value from non-shareholders to shareholders. However, Freeman et al. (2004) focus on two core questions: ‘what is the purpose of the firm?’ and ‘what responsibility does management have to stakeholders?’. They posit that both these questions are interrelated and managers must develop relationships, inspire their stakeholders, and create communities where everyone strives to give their best to deliver the value the firm promises. Thus the stakeholder theory is considered to better equip managers to articulate and foster the shared purpose of their firm.

### Model Specification

Against the backdrop of the framework above, we expect a functional relationship between board attributes and financial performance of the form:

$$ROA_{it} = f(\beta_1 BS_{it}, \beta_2 BIN_{it}, \beta_3 BGN_{it}, \beta_4 BM_{it}) + \mu_{it} \dots \dots \dots (i)$$

Equation 1 is transformed into econometric model as:

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BIN_{it} + \beta_3 BGN_{it} + \beta_4 BM_{it} + \beta_5 BLTA_{it} + \mu_{it} \dots \dots \dots (ii)$$

Where:

$\alpha$  = is the intercept;  $\beta_1 - \beta_4$  = are the various slope coefficients;  $i$  = represents the firm (which is the cross-section);  $t$  = represents the time/year (which is the time series);  $\mu_{it}$  = is the error term.

$ROA_{it}$  = Return on Asset;  $BS$  = Board Size;  $BIN$  = Board Independence;  $BGD$  = Board Gender Diversity;  $BM$  = Board meeting;  $LTA$  = log of total asset used as controlled variables

### A priori expectation

It is expected that Board Size, Board Independence, Board Gender Diversity, and Board meeting will have a positive effect on the financial performance of commercial banks in Nigeria

## METHODOLOGY

### Research Design

The research design adopted for this study is *ex-post facto*. The hypotheses used data obtained from documented historical data contained therein the annual reports and accounts of the banks. The dependent variable is financial performance proxy by return on assets while the independent variable is board characteristics proxy by board size, board independence, board gender diversity and board meetings

The population of the study is 15 banks listed on the floor of the Nigerian stock exchange as of 2017. The study used only quoted Commercial bank that meets the following criteria: The availability of consistent data-set over the period., The banks were not involved in any merger during the study period and with at least a branch in all states of the federation and The

banks are still maintaining their names. The study utilizes the secondary data from Banks' Annual Reports, Nigerian Deposits Insurance Corporation (NDIC), CBN Bulletin and the Nigeria Stock Exchange Market Fact Book as they are more reliable, the study period is between 2013 and 2017

### Technique for Data Analysis and Model Specifications

The panel regression model (Fixed Effect) was used with the aid of E-View 9 to determine and analyse the effect of liquidity risk management on the financial performance of quoted Commercial bank in terms of profitability and credit growth. The study was validated using the fixed effect and random effect models (panel regression models). The Hausman test was applied to choose the most appropriate

and suitable model

between fixed and random effect to derive this relationship as the study has more than one independent variable across sections (Hakim & Shimko, 1995).

### ESTIMATION RESULTS AND DISCUSSION

Based on the methodology utilized for this study, data on return on assets (ROA) is in ratio, Board size (BS), Board Independence (BIND), Board Gender Diversity (BGD), Board Meeting (BM) are in Numbers and they are presented in Appendix

### Descriptive Statistics

The minimum, maximum, mean and standard deviation values of each of the variables used to test the hypothesis I are discussed below.

**Table 1: Descriptive Statistics**

	ROA	BSIZE	BIND	BGD	BMT	TA
Mean	1.432222	14.41270	59.49238	17.52540	5.714286	21.08270
Median	1.330000	15.00000	56.25000	18.18000	5.000000	20.93000
Maximum	4.280000	19.00000	90.00000	42.86000	13.00000	22.38000
Minimum	-5.590000	7.000000	36.84000	0.000000	3.000000	19.48000
Std. Dev.	1.546096	3.008777	11.44492	9.546246	2.051188	0.760635
Skewness	-1.601303	-0.308804	0.873426	0.098699	1.735221	-0.152116
Kurtosis	9.466825	2.253152	3.299141	2.919496	6.223905	2.177775
Jarque-Bera	136.7009	2.465461	8.245072	0.119299	58.89851	2.017606
Probability	0.000000	0.291496	0.016203	0.942095	0.000000	0.364655
Sum	90.23000	908.0000	3748.020	1104.100	360.0000	1328.210
Sum Sq. Dev.	148.2057	561.2698	8121.144	5650.110	260.8571	35.87104
Observations	63	63	63	63	63	63

Source: Eviews 9.0 Output 2019

From Table 1 the mean score of board size is 14.41270. This indicates that on the average the size of the board of the sampled Commercial bank firms is 14. The minimum is 7 while the maximum is 19. A standard deviation of 3.008777 confirms variability in the size of the board. The minimum level of independence of the Board is 38 while the maximum is 90. The minimum number

of times the board of directors of sampled firms held a meeting in a year is 3 and the maximum is 13. An average of 3 meetings in a year indicates that board members likely hold a meeting in each quarter of the years considered.

The mean score for Board Gender is 17.52540, the minimum is 0.0000 while the maximum is 42.86000.

This study uses the analysis of Jarque-Bera Probability for normality test. ROA, BIND and BMTN are normally distributed since their P-value is less than 0.05, while BSIZE and BDG are normally distributed since their P-value is more than 0.05. However,

the Gaussian theorem (1929) and Shao (2003) suggest that normality of data does not in any way affect the inferential statistics estimate to the BLUE.

### Diagnostics Tests

#### Serial Correlation Test

The Breusch-Godfrey LM Test for serial correlation is presented below.

**Table 2**

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.687444	Prob. F(2,48)	0.5077
Obs*R-squared	1.559371	Prob. Chi-Square(2)	0.4586

Source: Eviews 7.0 Output 2019

From Table 2, the p-value of the Breusch-Godfrey Serial Correlation LM Test is 0.4586. This value is greater than 0.05

hence we accept the null hypothesis that there is no serial correlation of residuals.

### Multicollinearity Test

Date: 08/18/18 Time: 22:07

Sample: 1 63

Included observations: 56

Variable	Coefficient Variance	Uncentered VIF	Centred VIF
C	33.48365	979.0554	NA
BSIZE	0.006044	39.64335	1.661574
BIND	0.000403	44.33029	1.640526
BGD	0.000407	4.582496	1.087419
BMT	0.008330	9.429358	1.073664
TA	0.073064	950.6137	1.040135

Source: E-views 9 2019

Table 3 above indicates that there is no multicollinearity problem with the predictors (independent variables) of the study. This is because the tolerance values are consistently less than 1 and the VIF values are consistently less than 10.

### Table 4: Heteroskedasticity Test

The results of the White Heteroscedasticity Test with respect to hypothesis II is presented below.

## Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.396975	Prob. F(5,50)	0.2415
Obs*R-squared	6.864155	Prob. Chi-Square(5)	0.2309
Scaled explained SS	10.76895	Prob. Chi-Square(5)	0.0562

Source: Eviews 9.0 Output 2019

Table 4 indicates that the prob.chi-square of the White Test is 0.2309. This is higher than 0.05 hence we accept the null hypothesis that the residuals are homoscedastic. This indicates that the variance of the error term is constant, implying that there is no heteroscedasticity.

**Correlation of Matrix**

The correlation values between financial performance, board characteristics and control variables in respect of hypothesis II are contained in Table 5

**Table 5: Correlation of Matrix**

CORRELATION MATRIX							
Variables							
	ROA	MVA	BSIZE	BIND	BGD	BMT	TA
ROA	1.0000						
BSIZE	-0.0259	-0.1918	1.0000				
	0.8493	0.1567	-----				
BIND	-0.0749	-0.2392	-0.5900	1.0000			
	0.5830	0.0757	0.0000	-----			
BGD	0.3394	0.3054	0.202894	-0.2274	1.0000		
	0.0105	0.0220	0.1337	0.0918	-----		
BMT	-0.3336	-0.2083	0.161666	0.0650	-0.0123	1.0000	
	0.0120	0.1234	0.2339	0.6336	0.9280	-----	
TA	0.2863	-0.3538	0.084219	0.0183	0.148752	0.0775	1.0000
	0.0324	0.0075	0.5372	0.8930	0.2739	0.5700	-----

Source: E-view Output 2019

From Table 5, the correlation between financial performance and board size is negative significant (5.%) and statistically negatively significant (p-value, 0.025). This signifies that the board size is negatively associated with the financial performance of the sampled companies. On the other hand, the correlation between board independent and financial performance is negatively but statistically significant. The correlation coefficient is -0.07%. The correlation between board gender diversity and financial performance is positively and statistically insignificant. The coefficient is

0.33%. This implies a positive association between the size of the board and financial performance. A board meeting has a negative coefficient of -0.33 on financial performance and a p-value of 1.0000. This implies that there is no relationship between board gender and financial performance.

**Regression Results**

The results of the Hausman Specification test in respect of hypothesis II is presented below. Again, the test is necessary for deciding which of the two models (FEM or REM) is appropriate.

**Table 6:** Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.983121	5	0.2219

Source: Eviews 9.0 Output 2019

The p-value of the Hausman Test in Table 6 is 0.2219. This is statistically insignificant hence we accept the null hypothesis that random effect is appropriate. Thus random effect model is adopted.

**Regression result**

From the above, Hausman Test recommends for Random Effect

**Table 7: Random effect results**

Dependent Variable: ROA

Method: Panel EGLS (Cross-section random effects)

Date: 06/02/19 Time: 21:41

Sample: 2013 2017

Periods included: 5

Cross-sections included: 14

Total panel (unbalanced) observations: 63

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.32253	5.095844	-2.418153	0.0188
BSIZE	-0.029058	0.071394	-0.407009	0.6855
BIND	-0.006886	0.018177	-0.378838	0.7062
BGD	0.036958	0.018335	2.015759	0.0485
BMT	-0.244746	0.083674	-2.925001	0.0049
TA	0.726706	0.234917	3.093455	0.0031

## Effects Specification

	S.D.	Rho
Cross-section random	0.405538	0.0964
Idiosyncratic random	1.241948	0.9036

## Weighted Statistics

R-squared	0.486114	Mean dependent var	1.169561
Adjusted R-squared	0.223492	S.D. dependent var	1.430463
S.E. of regression	1.264080	Sum squared resid	91.08026
F-statistic	4.568928	Durbin-Watson stat	1.886766
Prob(F-statistic)	0.001424		

## Unweighted Statistics

R-squared	0.330528	Mean dependent var	1.432222
Sum squared resid	99.21959	Durbin-Watson stat	1.731988

Source: Eviews 9.0 Output 2019

The results in Table 7 indicates that about 48% percent of the variability in the financial performance of quoted Commercial bank firms in Nigeria is explained by the board characteristics of the companies while the remaining 62% is explained by other variables not captured. The effect is statistically significant. The probability of F-statistics is 0.001424, this is less than 0.05 indicating that the model is fit and appropriate.

From the coefficients of the regression, as shown in table 7, Board Size has a negative effect on financial performance and is not statistically significant. The coefficient is -0.029058 and the p-value is 0.6855 which is more than 0.05. A negative effect indicates that Board Size reduces financial performance even though the result is not significant.

On the other hand, Table 7 indicates that Board independence has a negative insignificant effect on financial performance. The coefficient is -0.006886 and the p-value is 0.7062 which is less than 0.05. This indicates that there is a negative association between Board Independence financial performances.

The effect of Board Gender Diversity on financial performance is positive but not statistically significant. The coefficient of the board meeting is 0.036958 and the respective P-value is 0.0485. The P-value is less than 0.05. A positive coefficient implies that Board meetings improve financial performance.

The results on the effect of Board meetings on financial performance is negative and statistically significant. The coefficient is -0.244746 and the respective p-value is 0.0049. A negative relationship indicates that presence of a female on the board reduces the financial performance of quoted Commercial bank firms in Nigeria.

## **Discussion of Findings**

### **Board Characteristics and Financial performance**

The results of this study indicate that board characteristics statistically influence the financial performance of quoted Commercial bank firms in Nigeria. Specifically, the study found that the relationship between components of board characteristics used in the study and financial performance is positive and statistically significant at 5% level of significance.

### **Board Size and Financial performance**

The finding from this study indicates that the relationship between the size of the Board and financial performance is negative and statistically not significant. A negative relationship implies that as the size of the board increases, financial performance reduces. Although not significant it makes logical sense in that too many hands spoil the broth because excessive size can be an obstacle for quick and efficient decision-making. This is inconsistent with the findings in Fama and Jensen (1983), Yermack (1996). On the contrary, the findings in this study are consistent with the findings in AbuSeini, Odudu, and Okpe (2016).

### **Board Independence and Financial performance**

Finding in this study indicates that board independence has a negative and statistically insignificant effect on financial performance. A negative relationship means that the independence of the board has not improved financial performance. This conforms to the findings of Baysinger and Butler (1985), Rosenstein and Wyatt (1990) However, Hermalin and Weisbach (1991), Yermack (1996) and Bhagat and Black (1999) found a negative relationship between Board Independence and financial performance.

### **Board Gender and Financial performance**

The findings of this study indicated that there is a positive relationship between financial performance and board gender diversity, this is to say that, the presence of female members on the board of quoted Commercial bank firms in Nigeria, has a significant effect on the financial performance of the same firms. This in line with the findings of Shrader, Blackburn and Lies (1997), Zahra and Stanton (1988). But not in line with the findings in Agrawal and Knoeber (1996), Krishnan and Park (2005) and Conger et al. (1998).

### **Board Meetings and Financial performance**

In this study, the results show that the relationship between board meetings and financial performance is negative but not statistically significant a positive relationship means that more meetings are likely to improve financial performance. These findings are in line with Shrader, Blackburn and Lies (1997), Vienot, (1995); Hampel, (1998). However, this inconsistent with the findings in Pearce and Zahra (1991), Carpenter and Westphal (2001).

### **CONCLUSION AND RECOMMENDATIONS**

This study examines the relationship between board characteristics (BOD size, BOD independence, BOD gender diversity, BOD meeting) and firm financial performance (ROA,) based on the annual reports of companies listed Commercial bank listed on the Nigeria Stock Exchange for the period 2013 to 2017. The relationship between board characteristics and financial performance of quoted commercial banks in Nigeria is statistically significant. Specifically, the study found that the relationship between board Gender diversity and financial performance is positive and statistically significant also, the relationship between a board meeting and financial performance is negative but statistically significant. While the relationship between board size and financial performance is negative and

insignificant more so, the relationship between board independence and financial performance negative and insignificant. On the other hand, the study established that board size has a significant positive effect on the financial performance of quoted Commercial bank firms in Nigeria. However, the study shows a negative but statistically significant relationship between Board Gender and Financial performance of quoted Commercial bank firms in Nigeria.

Based on the findings, this study recommends the following:

Board characteristics and financial performance should be sustained and encouraged. This is based on the finding that board characteristics have a significant positive effect on the financial performance of the quoted commercial bank. The A positive relationship between audit committee gender diversity on financial performance implies that Commercial bank with higher committee gender mix is likely to have improved financial performance. Similarly, the significant relationship between board committee number of meeting and financial performance. A positive relationship indicates that firms with higher audit attributes are likely to have high financial performance in Nigeria.

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## Appendix

YEAR	Company	code	GICS INDUSTRY	ROA	BSIZE	BIND	BGD	BMT	LOG OF TOA
2013	Access Bank	1	Banks	2.04	17	52.94	29.41	7	21.33
2014	Access Bank	1	Banks	2.05	16	50.00	31.25	6	21.47
2015	Access Bank	1	Banks	2.54	16	56.25	25.00	6	21.68
2016	Access Bank	1	Banks	2.05	15	53.33	33.33	10	21.97
2017	Access Bank	1	Banks	1.51	17	52.94	11.76	8	22.13
2012	Diamond Bank	2	Banks	1.88	15	53.33	20.00	6	20.89
2013	Diamond Bank	2	Banks	1.88	18	61.11	16.67	6	21.14
2014	Diamond Bank	2	Banks	1.32	16	50.00	18.75	6	21.38
2015	Diamond Bank	2	Banks	0.32	16	62.50	18.75	4	21.28
2016	Diamond Bank	2	Banks	0.17	16	43.75	18.75	6	21.44
2017	Diamond Bank	2	Banks	-0.75	16	68.75	37.50	5	21.26
2013	Fidelity Bank	3	Banks	0.71	16	87.50	18.75	12	20.80
2014	Fidelity Bank	3	Banks	1.16	19	57.89	21.05	12	20.89
2015	Fidelity Bank	3	Banks	1.13	14	57.14	21.43	4	20.93
2016	Fidelity Bank	3	Banks	0.75	18	55.56	11.11	4	20.98
2017	Fidelity Bank	3	Banks	1.37	.	.	.	.	21.04
2013	First Bank Holding	4	Banks	1.82	8	62.50	0.00	7	22.08
2014	First Bank Holding	4	Banks	1.91	11	72.73	9.09	9	22.19
2015	First Bank Holding	4	Banks	0.36	12	75.00	8.33	4	22.15
2016	First Bank Holding	4	Banks	0.36	11	81.82	18.18	4	22.28

Oyedokun. Board Characteristics and...

2017	First Bank Holding	4	Banks	0.91	10	90.00	20.00	8	22.38
2013	First City Monumental Bank	5	Banks	1.59	12	75.00	0.00	3	20.73
2014	First City Monumental Bank	5	Banks	1.89	11	81.82	0.00	6	20.88
2015	First City Monumental Bank	5	Banks	0.41	10	80.00	0.00	5	20.87
2016	First City Monumental Bank	5	Banks	1.22	10	80.00	0.00	5	20.88
2017	First City Monumental Bank	5	Banks	0.79	12	83.33	8.33	5	20.89
2013	Guaranty Trust Bank	6	Banks	4.28	14	50.00	28.57	4	21.47
2014	Guaranty Trust Bank	6	Banks	4.19	15	53.33	26.67	4	21.58
2015	Guaranty Trust Bank	6	Banks	3.94	15	53.33	26.67	4	21.65
2016	Guaranty Trust Bank	6	Banks	4.24	16	43.75	18.75	4	21.86
2017	Guaranty Trust Bank	6	Banks	5.09	15	.	33.33	4	21.93
2013	Skye Bank	7	Banks	1.43	17	58.82	17.65	4	20.83
2014	Skye Bank	7	Banks	0.69	16	62.50	18.75	7	21.07
2015	Skye Bank	7	Banks	-3.40	12	41.67	0.00	6	20.91
2016	Skye Bank	7	Banks	.	.	.	.	.	.
2017	Skye Bank	7	Banks	.	.	.	.	.	.
2013	StanbicIbtc Holding	8	Banks	3.12	11	63.64	27.27	4	20.32
2014	StanbicIbtc Holding	8	Banks	3.39	7	71.43	42.86	5	20.67
2015	StanbicIbtc Holding	8	Banks	2.01	10	70.00	20.00	5	20.66
2016	StanbicIbtc Holding	8	Banks	2.71	10	70.00	20.00	6	20.78
2017	StanbicIbtc Holding	8	Banks	3.49	10	.	30.00	4	21.05
2013	Sterling Bank	9	Banks	1.28	11	54.55	9.09	6	20.28
2014	Sterling Bank	9	Banks	1.09	16	56.25	25.00	4	20.53
2015	Sterling Bank	9	Banks	1.29	17	58.82	29.41	4	20.50
2016	Sterling Bank	9	Banks	0.62	16	50.00	18.75	4	20.54
2017	Sterling Bank	9	Banks	0.79	15	60.00	20.00	5	20.79
2013	Union Bank Of Nig	10	Banks	0.61	17	58.82	11.76	8	20.73
2014	Union Bank Of Nig	10	Banks	2.63	18	61.11	11.11	6	20.73
2015	Union Bank Of Nig	10	Banks	1.33	19	52.63	10.53	5	20.77
2016	Union Bank Of Nig	10	Banks	1.23	18	55.56	11.11	7	20.95
2017	Union Bank Of Nig	10	Banks	.	.	.	.	.	.
2013	United Bank For Africa	11	Banks	1.76	19	36.84	26.32	6	21.69
2014	United Bank For Africa	11	Banks	1.73	17	47.06	23.53	6	21.74
2015	United Bank For Africa	11	Banks	2.17	19	52.63	15.79	5	21.74
2016	United Bank For Africa	11	Banks	2.06	19	52.63	15.79	7	21.98
2017	United Bank For Africa	11	Banks	1.93	19	52.63	15.79	6	22.13
2013	Unity Bank	12	Banks	-5.59	16	56.25	12.50	13	19.82

2014	Unity Bank	12	Banks	2.59	14	50.00	14.29	7	19.84
2015	Unity Bank	12	Banks	1.06	15	53.33	6.67	4	19.91
2016	Unity Bank	12	Banks	0.44	15	53.33	6.67	5	20.02
2017	Unity Bank	12	Banks	.	.	.	.	.	.
2013	Wema Bank	13	Banks	0.55	13	61.54	15.38	5	19.48
2014	Wema Bank	13	Banks	0.62	13	61.54	15.38	4	19.76
2015	Wema Bank	13	Banks	0.59	14	50.00	28.57	5	19.80
2016	Wema Bank	13	Banks	0.60	12	50.00	25.00	5	19.87
2017	Wema Bank	13	Banks	0.58	12	58.33	33.33	6	19.78
2013	Zenith Bank	14	Banks	3.62	12	50.00	16.67	4	21.69
2014	Zenith Bank	14	Banks	2.65	12	58.33	16.67	4	22.05
2015	Zenith Bank	14	Banks	2.64	12	58.33	16.67	4	22.11
2016	Zenith Bank	14	Banks	2.74	13	53.85	7.69	4	22.28
2017	Zenith Bank	14	Banks	3.18	14	50.00	7.14	5	22.45