Board features and financial performance of Nigerian banks

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Abstract

The presence of contradictory theories and unpredictable empirics calls for this paper to survey the outcome of board traits on financial operation of Nigeria banks. Financial performance of a firm is as important as the firm. Yet, very few studies have examined its impact by the board of directors in Nigeria. Data were obtained and perused using descriptive and inferential figures. Findings show that size of board has significant and constructive bearing on business piece. However, board composition takes undesirable significance. Meetings of board and gender failed to show significance. But, board member nationality and firm size show negative and significant effects. We added by exploring impacts of boards on financial performance. We asked firms to increase the size of the board and engage more independent directors and reduce the number of board diligence and size of the firm. The strong plus impact of board size and firm size on financial operations is an interesting result allowing for additional interrogation of why these behaviours.

Keywords: attributes; board; financial performance; yield on equity; pain on total assets

JEL Classifications: A23; C87; G21; H32
Introduction

The purpose of this paper is to establish whether board of directors' features have impact on financial results of companies. This paper aimed at reconciling the conflicting results in previous empirical studies of the board-financial performance nexus. Financial performance (FP) is a desirable goal of the firm. However, it is a function under the purview of the board of directors (BODs). Yet, BODs are measured by their attributes (size of the board), composition of board, frequency of meetings, nationality of member and gender of board in this paper. The role of the board has not been well researched in Nigeria particularly in the banking industry. This calls for investigation. The contemporary companies are faced by risks and complexities. They required the operations of the board not only to survive but to make profit.

Financial performance serves as measure of how well a company performs, using its assets, carrying out business, generating revenues and making profits. It is a measure of the financial health of the company and it measures the health of the economy. All stakeholders are interested in it. Governments are interested for tax purposes and employment opportunities; creditors and suppliers for their payments; employees are interested for jobs and their salaries; shareholders for their profits and capital gains; and regulators for the health of the economy.

FP is often calculated either by accounting-based historical measures, such as return of sales (ROS), return on capital employed (ROCE), return on investments (ROI), return on assets (ROA) and return on equity (ROE) or market-based measures, such as Tobin Q and share price. In this paper, financial performance was measured by return on assets (ROTA). ROTA measures how well a company performs given its assets. It is a measure of how well managers have efficiently and effectively used a company resources to achieve its objective of wealth maximization.

The board of directors functions through its characteristics, which this paper call attributes. Uwuigbe and Fakile (2012) found small board size better for financial performance, therefore, it conclude that that it has significant negative on firm financial performance. Van Ness et al. (2010) found board composition to have significant influence on financial performance. Ebun and Emmanuel (2019) found negative effect of board meetings on financial performance. Ilogho (2017) in his dissertation concludes that there is no significance between board national and firm financial performance. Bianchi and Iatridis (2014) found gender as financial performance enhancer.

The Nigerian banking industry has come a long way. In early 1990s, there were about 120 banks (Abdulazeez & Ndibe, 2016). There are 14 listed deposit money banks at the time of writing this paper. The sector is relatively developed despite the small number because all the banks are relatively mega banks after they were forced to merge and consolidate in 2005.

Hypotheses of this paper include:
H1: Size of board has no significant impact on financial performance
H2: Composition of board has no significant effect
H3: Frequency of meetings has no significant result
H4: Nationality of members does not have significant consequence.
H5: Gender of members has no significant end.

This paper may benefit the reader in terms of policy improvement, performance improvement, further study and body of knowledge. It may serve management, the regulators, actual employees, potential employees, real customers, potential customers, actual shareholders and potential shareholders, and suppliers.

Literature Review

The stakeholders' approach was used to underscore this paper. It was an approach used by management to satisfy every stakeholders of the firm by taking advantage of market imperfections (Freeman, 1984). The rationale behind it was to build a framework that respond to the interests of managers, environmentalists, conservationists, the publics, researchers, employees, suppliers, creditors, stockholders in such a way that result in strategic fashion.

Garcia-Ramos and Garca-Olalla (2011) discovered mix results among European family businesses. Meyer and de Wet (2013) explored South African companies and discovered board size to have positive
and significant impact on firm financial operation. Topal and Dogan (2014) discovered mix findings; board size has a link with ROA, inverse link with ROE and Tobin Q. Oludele et al. (2016) discovered a rich connection with financial result amongst manufacturing corporations. Naseen et al. (2017) established size of board has plus influence on commercial interest. Meme (2017) said on size of board, gender difference, freedom have enormous effect on money of producing companies in Kenya. Similarly, Shunu et al. (2017) revealed significant and positive impact of board size on firm financial operation. Rashid (2017) while interrogated companies operating in Bangladesh opined that board size has positive and significant effect on financial performance.


Meeting of board affect monetary result. Garcia-Ramos and Garca-Ollalla (2011) discovered weak positive impact on economic performance. Ntim and Osei (2011) interrogated companies in Ghana and observed that board meetings had significant impact on financial results. Hoque et al. (2013) investigated Australian companies and discovered that board meetings positively and significantly are associated with return on equity and return on assets. Azar et al. (2014) said meetings have a important negative association with operation.

Naseen et al. (2017) found that meeting of board have no significance. Akpan (2015) found meeting of board to be negatively significant with financial performance. Al-Daoud et al. (2016) found the frequency of meeting of board to have progressive sway on money. Olabisi et al. (2018) in Nigeria found board meeting to be significant. Eluyela et al. (2018) find evidence to support that diligence has plus effect. Instead, Hanh et al. (2018) used companies quoted in Ho Chi Minh Stock Exchange and discovered a negative influence. Buchdadi et al. (2019) used 135 companies in Jakarta, Indonesia and observed that board meetings have positive impact on financial operation. Al-Qudah et al. (2019) did not find any effect. Board member nationality has force on firm financial performance. Masulis et al. (2012) showed an enormous poor result. Ujunwa (2012) and Tarigan et al. (2018) found positive impact on financial performance. Ilaboya and Ashafoke (2017) found negative insignificant impact on financial performance. Khan and Subhan (2019) found negative effect on monetary performance. Ujunwa et al. (2012) found constructive outcome on profit. Eulerich et al. (2014) interrogated 149 German companies over 2009-2011 period and found negative impact. Rodrigues (2014) examined 358 companies from S & P 500 over a period of 2 years and discovered nationality had impact on return on assets and Tobin Q. Estélyi and Nisar (2016) explained that nationality may lead to increased activity within the board and showed a good finding. Miletkov et al. (2015) carried out investigation 12 international directors and results showed good result. Frijs et al. (2016) argued inverse nexus.

Suhardjanto et al. (2017) investigated 28 mining companies in Indonesia and Pakistan over the period 2011-2015 and failed to find any effect. Sunday and Godwin (2017) examined 10 banks over 2011-2015 and discovered board nationality had positive and significant effect in Nigeria. However, Ogboi et al. (2018)


**Research and Methodology**

The paper was empirical in nature and used correlational research design, which has panel observations of 154 made up of 11 years period and a sample of 14 companies. The sample was consensus sampling since the population was also 14. The models of the paper were:

$$\text{ROTA}_{it} = \beta_0 + \beta_1BODS_{it} + \beta_2BOCP_{it} + \beta_3BOMT_{it} + \beta_4BONT_{it} + \beta_5BOGD_{it} + \beta_6FISI_{it} + \varepsilon_{it} \quad (i)$$

$$\text{ROEQ}_{it} = \beta_0 + \beta_1BODS_{it} + \beta_2BOCP_{it} + \beta_3BOMT_{it} + \beta_4BONT_{it} + \beta_5BOGD_{it} + \beta_6FISI_{it} + \varepsilon_{it} \quad (ii)$$

Given:

- \(\text{ROTA}\) = Yield on total wealth as net gain divided by sum of assets (Yahaya et al., 2015).
- \(\text{ROEQ}\) = Return on equity as profit after tax divided by total equity (Yahaya et al., 2015).
- \(\text{BODS}\) = Size of board as directors on board (Farouk & Shahu, 2014).
- \(\text{BOCP}\) = Composition of board as proportion of non-executive directors/directors (Farouk & Shahu, 2014).
- \(\text{BOMT}\) = Meeting of board as frequency of meetings (Garba & Abubakar, 2014).
- \(\text{BONT}\) = Nationality of board members as fraction of foreign directors/directors (Farouk, 2018).
- \(\text{BOGD}\) = Gender of board members as quotient of women directors/directors (Ujunwa et al., 2012).
- \(\text{FISI}\) = Firm size defined as log to base 10 of total assets (Ilaboya & Ashafoke, 2018).
- \(\beta_1 - \beta_5\) = Coefficients
- \(\beta_0\) = Constant
- \(\varepsilon\) = Blunder period
- \(i\) = Company text (14 firms)
- \(t\) = Years (in this case = 14 years)

**Findings**

The marks cover the maximum mean, minimum mean, arithmetic mean, standard deviation, sktest and swilk test results which mean normality contained in Table 1. Table 2 indicates the association results which were used to indicate existence of duplication in among covariates. Table 3 contained the results of test of multicollinearity using variance inflation factors. The results in Table 4 are regression results which indicate the quantity of effect and whether the effect is significant or not.
Table 1: Descriptive Numbers

<table>
<thead>
<tr>
<th>Var.</th>
<th>Minimum Mean</th>
<th>Maximum Mean</th>
<th>Average Mean</th>
<th>Standard Deviation</th>
<th>Sktest</th>
<th>Swilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROTA</td>
<td>.019</td>
<td>9.536</td>
<td>2.121</td>
<td>1.527</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>BODS</td>
<td>5</td>
<td>21</td>
<td>14.18</td>
<td>2.875</td>
<td>.008</td>
<td>.000</td>
</tr>
<tr>
<td>BOCP</td>
<td>.21</td>
<td>.88</td>
<td>.575</td>
<td>.115</td>
<td>.018</td>
<td>.009</td>
</tr>
<tr>
<td>BOMT</td>
<td>2</td>
<td>12</td>
<td>6.188</td>
<td>2.031</td>
<td>.005</td>
<td>.000</td>
</tr>
<tr>
<td>BONT</td>
<td>0</td>
<td>.42</td>
<td>.041</td>
<td>.103</td>
<td>.000</td>
<td>.003</td>
</tr>
<tr>
<td>BOGD</td>
<td>0</td>
<td>.60</td>
<td>.144</td>
<td>.111</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>FISI</td>
<td>8.028</td>
<td>11.11</td>
<td>9.081</td>
<td>.581</td>
<td>.000</td>
<td>.000</td>
</tr>
</tbody>
</table>

Source: STATA 14 Outputs

In Table 1, before the model was established in Table 3, descriptive statistics were recognized. As shown in the table, the maximum mean value of size of board (BODS) was 21 and minimum mean size of the board was 5. It has arithmetic mean of 14.18 with standard deviation of 2.875. This was followed by meeting of board (BOMT), which has a maximum mean statistics value of 12 with minimum mean value of 2. It has arithmetic mean of 6.188 with standard deviation of 2.031.

The least statistics value was nationality of board members (BONT) highest mean was .42 and least mean was 0. It has arithmetic mean of .041 with standard deviation of .103. This was followed by gender of board members (BOGD) which had highest mean .60, least mean 0. It has arithmetic mean of .144 with standard deviation of .111. Also, composition of board (BOCP) has maximum mean value of .88 and minimum value of .21. It has arithmetic mean of .575 with standard deviation of .115.

The response variable (ROTA) has maximum mean value of 9.536 and minimum mean value of .019 It has arithmetic mean of 2.121 with standard deviation of 1.527. The control variable (FISI) has maximum mean value of 11.11 and minimum mean value of 8.028 It has arithmetic mean of 9.081 with standard deviation of 0.581.

All the p-values of Sktest and Swilk show evidence that the data in the set are not normally allocated, because their p-values are significant, that is they are less than .05 per cent. They call for treatment, which requires that their regression should carry robust.

Table 2: Correlation Test

<table>
<thead>
<tr>
<th></th>
<th>BODS</th>
<th>BOCP</th>
<th>BOMT</th>
<th>BONT</th>
<th>BOGD</th>
<th>FISI</th>
</tr>
</thead>
<tbody>
<tr>
<td>BODS</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOCP</td>
<td>-0.085</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOMT</td>
<td>0.173*</td>
<td>-0.112</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BONT</td>
<td>-0.200*</td>
<td>0.360*</td>
<td>-0.113</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOGD</td>
<td>0.459*</td>
<td>-0.062</td>
<td>-0.128</td>
<td>-0.096</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>FISI</td>
<td>-0.059</td>
<td>0.105</td>
<td>-0.064</td>
<td>0.162*</td>
<td>-0.132*</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: STATA 14 Outputs

Table 2 contains the results indicating the association among the manipulated variables. It indicates that the nexus between size of board (BODS) and board composition (BOCP) was inverse, that is -.085. However, the relationship between size of board and frequency of board meetings was positive and significant (.173*). Furthermore, the link between size of board and board nationality (BONT) was negative and significant (-0.200*). However, the link between board gender (BOGD) and size of board was positive and significant (0.459*). The association between size of board and firm size was inverse and significant (-0.059). Finally, in Table 2, no value is up to .80, which would have been evidence of multicollinearity.

Table 3: Results of Variance Inflation Factor

<table>
<thead>
<tr>
<th></th>
<th>VIF</th>
<th>Tolerance Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>BODS</td>
<td>1.25</td>
<td>.801</td>
</tr>
<tr>
<td>BOGD</td>
<td>1.20</td>
<td>.832</td>
</tr>
<tr>
<td>BONT</td>
<td>1.20</td>
<td>.836</td>
</tr>
<tr>
<td>BOCP</td>
<td>1.16</td>
<td>.862</td>
</tr>
<tr>
<td>BOMT</td>
<td>1.15</td>
<td>.870</td>
</tr>
</tbody>
</table>

Source: STATA 14 Outputs
The results in Table 3 are all less than 3.3, which was the threshold over which the presence of multicollinearity was a source of concern. The implication was that there is multicollinearity in the data set among the independent variables.

The results in Table 4 with VIF mean of 1.18 was a confirmation of the absence of association the data set. Table 4 shows the results of the ordinary least square after conducting the Breusch –Pagan Lagandrian Multiplier check on the data set.

Table 4: OLS Regression Result

<table>
<thead>
<tr>
<th>Keys</th>
<th>Coef</th>
<th>t-Stat</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.812</td>
<td>3.58</td>
<td>.000</td>
</tr>
<tr>
<td>BODS</td>
<td>.030</td>
<td>2</td>
<td>.048</td>
</tr>
<tr>
<td>BOCP</td>
<td>-.611</td>
<td>-1.68</td>
<td>.960</td>
</tr>
<tr>
<td>BOMT</td>
<td>-.005</td>
<td>-.23</td>
<td>.820</td>
</tr>
<tr>
<td>BONT</td>
<td>-.850</td>
<td>-2.07</td>
<td>.040</td>
</tr>
<tr>
<td>BOGD</td>
<td>0.114</td>
<td>0.30</td>
<td>.768</td>
</tr>
<tr>
<td>FISI</td>
<td>-.603</td>
<td>-8.20</td>
<td>.000</td>
</tr>
<tr>
<td>R2</td>
<td>0.368</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R2</td>
<td>0.333</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-Statistics</td>
<td>10.54</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probability</td>
<td>.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heteroskedasticity (Chi2)</td>
<td>3.60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heteroskedasticity Test</td>
<td>0.058</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: STATA 14 Outputs

The results in Table 4 show that for every additional size of board, financial performance increases by about 3%. Composition of board, meetings, gender and firm size failed to show significance. However, nationality of board members decreases financial performance by 85 per cent. Size of board, nationality of board members and firm size are rejected at .05, while composition of board can only be rejected at .1%. Frequency of meeting of board and gender of board members are hereby accepted. This was because they are not significant, and that is, their p-values are more than .05.

The R2 was 0.368 that was 36.8 per cent, however, the adjusted R2, which truly measured the variation in financial performance as a result of board attributes was 33.27 per cent. The Prob>F measured the fitness of the model to explain the dependent variable and in this case it is .000 which is significant. There was no heteroskedasticity (.058 was greater than .05) and multicollinearity (mean VIF was 1.18 less than 3.3) as indicated in the model.

Conclusion

The objective of the paper was to test the power of the board of directors on business performance and this was achieved given the results in Table 4. We reviewed the empirical literature in the intersection of board of directors and corporate financial performance that emerged over the last two decades. In order to arrange the paper, we used a stakeholder approach and outline how firm financial performance plays a critical role in the stakeholders’ association: management, shareholders, employees, regulators, customers, investors, tax authorities and the public.

This paper contributes to existing debate on whether board attributes influence firm financial performance. Given the results in Table 4, banks are expected to take the maximum advantage of board members, since the result of size of the board has affirmative and noteworthy conclusion. However, members with foreign nationality should be reduced because its p-value is negative though significant. More engagement of women on the board was suggested. As the result shows, it was not significant probably because enough was not done by the management of the banks.

The limitations of the paper are those features of design that obstructed the understanding of the findings from the research. For example, the paper was limited to deposit money banks and this has consequences for corporate Nigeria as the recommendations of the paper are limited to corporate Nigeria banks. Further
studies should include the whole of firms of corporate Nigeria such as manufacturing, services, finance, resources, oil and gas companies.

In this paper, the average board size should be increased to maximum limit. Since the results in Table 4 showed that the size of the board enhances firm financial performance and it was positive. The results imply that the average board composition does not contain independent directors or outside directors but directors that have interests in the companies. The same applies to the frequency of board meetings, which was found to be insignificant and board gender, which implies that the average boards were made of men. However, board nationality was significant, which shows that the average boards have enormous presence of foreign members. The sample applies to firm size, which was found also to be significant, that is, on the average, total assets of the firms under study were of significance consideration.

Our contributions are many: First, we contributed by offering, to the greatest of our knowledge, a broad discussion of the key elements involved. Second, we pointed to areas for future research. Third, we deduced policy implications from the studies under review. In sum, the paper showed that board of directors ably represented by their features have mix effects on firm financial performance. In terms of policy implication, banks management should take advantage of enhanced board size to fill their boards and engage more women at the board level.

References


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