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# **Empirical Investigation of Corporate Board Characteristics and Deposit Money Banks (DMBS) Performance in Nigeria: 2008-2017**

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## **ABSTRACT**

The study investigates empirically the corporate board characteristics and Deposit Money Banks (DMBs) performance in Nigeria for the period 2008-2017. It is motivated by the lack of confidence by investors in the capital market, the persistent agency problems, and the insolvency of large firms such as banks. The general objective of this study is to investigate the impact of corporate board characteristic on DMBs financial performance in Nigeria. Four research models/hypotheses were formulated based on the literature reviewed. Also considered are the important factors affecting the performance of DMBs in the Nigerian banking industry. This study investigated three of the listed DMBs using a simple Judgmental Sampling Technique in a period of ten years each 2008 to 2017. The population of the study is made up of all the 21 DMBs listed in the Nigerian Stock Exchange as at 2019. The data collected for the research were analyzed with econometric e-view. The panel data was further analyzed using the random effect model. It was found that board skill shows a positive and significant relationship with profit for the year, among others. The implication of the findings is that each DMB studied was not adequately implementing the corporate governance practices, hence, the reasons for the negative impacts of the independent variables except in the case of board qualification. The study support that there is a relationship between corporate governance and firm performance, but the relationship is only significant at the level of board qualification and profit for the year. The negative relationship between board independence and DMBs performance (EPS) can be attributed to the fact that the concept of board independence is a new phenomenon in developing countries like Nigeria, and hence, it might take a few more years to have a significant impact on financial performance. Hence, it was recommended that critical attention should be given to corporate governance practices especially the CBN corporate governance codes for a better performance in the Nigeria banking industry.

*Keywords: Agency problems; gender diversity; board independence; board qualification and board size.*

## **ABBREVIATIONS**

*DMB : Deposit Money Bank  
CBN : Central Bank of Nigeria  
GD : Gender Diversity  
BI : Board Independence  
BS : Board Skills  
BS<sub>1</sub> : Board Size  
MVA : Market Value Added  
EVA : Economic Value Added  
EPS : Earning per Share  
AG : Asset Growth*

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*PFY* : Profit for the Year  
*ROE* : Return on Equity  
*ROA* : Return on Assets  
*DG* : Dividend Growth  
*SG* : Sales Growth  
*ISS* : Institutional Shareholders Services Inc.

## **1. INTRODUCTION**

### **1.1 Background to the Study**

The relationship between corporate board characteristics and the performance of firm is important in formulating efficient corporate governance codes, management and public regulatory policies. Corporate governance plays an important role in improving the performance of a firm and there is a direct relationship between the two in both developing and developed financial markets [1,2,3,4]. However, some variations exist in the nature and process of operation of the relationship between developed and developing financial markets due to differences in the economic framework. Boards also have a responsibility to initiate organisational change and facilitate processes that support the organisational mission [5,6,7]. Although, it is emphasized especially for developing markets to incorporate these differences into the analysis of board characteristic and firm performance relationship for an appropriate understanding of the role of corporate governance in influencing corporate performance. These differences have not been systematically discussed in the existing literature, especially in the area of DMBs.

Corporate governance problems are traceable to widely dispersed ownership separated from management and the need for monitoring and bonding mechanisms to align the interests of managers and owners [8]. Defined broadly, "corporate governance" refers to the private and public institutions, including laws, regulations and accepted business practices, which in market economy, govern the relationship between corporate managers and entrepreneurs ("corporate insiders") on one hand, and those who invest resources in corporations, on the other [9,10]. The current meaning of corporate governance encompasses how managers act and claim responsibility for their actions to a much broader constituency [11,12,13]. With high-profile bankruptcies, such as Enron and the infamous role played by accountants, the topic of corporate governance has received greater attention within the accounting and finance literature.

The term corporate governance has triggered research interests as a result of corporate failures. The need to solve the problems associated with corporate failure requires good corporate governance. Across different nations and sectors, there are several records of corporate failures, which were linked to poor corporate governance practices. In the recent past, the world saw the sudden collapse of big firms in the likes of Enron Corporation, WorldCom, Tyco, Baring Bank, and Parlmalat. This fall called for questioning into the corporate governance of each firm and as such led to loss of confidence in the world capital market by investors. These are world famous corporate firms in which there failures necessitated the need to explore into corporate governance practices. Measures for good corporate governance practices have received the attentions of financial experts in order to ensure that the interest of stakeholders is protected and also shareholders wealth maximized. The failures of these firms were clear indications that no one firm is too big to fail.

A decade of corporate turmoil across the globe has called into questioning corporate governance practices and also stimulated criticism of its status quo. Increasing level of regulation, social responsibility, and the proliferation of shareholder activism, among many other factors, are changing the role of directors in boardrooms worldwide. As this trend continues, it is evident that corporate governance practices have implications beyond the boardroom, affecting not only the operation of critical financial services and the availability of goods and services in the marketplace, but also macro-level issues like environmental sustainability and fair labour standards. Corporate governance has important roles to play including balancing the competing stakes of capital market, product/factor markets in which an organization operates, and the regulatory system [14]. In the private sector, the

focus is more of an upward concentration and accountability to owners/founders rather than being downward to the recipients of the services.

Corporate governance involves a system by which governing institutions and all other organizations relate to their communities and stakeholders to improve their quality of life [15]. It is therefore important that good corporate governance ensures transparency, accountability and fairness in reporting. In this regard, corporate governance is not only concerned with corporate efficiency, it relates to a much wider range of company strategies and life cycle development [16]. It is also concerned with the ways parties (stake holders) interested in the wellbeing of firms ensure that managers and other insiders adopt mechanism to safeguard the interest of the shareholders [17]. Corporate governance is based on the level of corporate responsibility a company exhibits with regard to accountability, transparency and ethical values.

The board characteristics that are of particular interest in this study are gender diversity (GD), board independence (BI) board skills (BS) and board size (BS<sub>1</sub>). Hence, the impact of each of these characteristics on DMBs performance needs to be determined to substantiate the desirable board characteristics which would produce favourable outcome on the performance of the resources of Nigeria DMBs. Banks performance can 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 (AG), Profit for the year (PFY), return on equity (ROE), return on assets (ROA), dividend growth (DG), and sales growth (SG). The performance measures that are of interest in this study are PFY, ROA, ROE and EPS. Hence, the value of each of the performance indicators will be determined by the board characteristic measures.

For purposes of good corporate governance practice, in the Anglo-Saxon tradition, corporate governance literature emphasizes listed shareholders rather than stakeholders, listed companies rather than other categories of firms, voluntary codes rather than rules and regulations, and the collective responsibility of boards rather than the individual responsibilities of directors and senior managers [18]. The absence of shareholders in the Anglo-Saxon tradition makes stakeholders theory a viable perspective from which to understand accountabilities to multiple stakeholders where power differentials in capital and factor markets and in regulation mean that differing interests need to be implicitly or explicitly prioritized [19]. Emphasis on the shareholders according to the Anglo-Saxon tradition makes the agency theory imperative.

The Nigerian banking sector in recent time has witnessed cases of bank failures owing to poor corporate governance practice. The consequences of institutional failure (considering the multiplier effect of financial institutional failure on the real sector of the economy) are unacceptably costly to a developing country like Nigeria [20]. This affects the level of confidence the public has in various corporate establishments. The consequences of ineffective governance systems leading to corporate failure will not only affect the shareholders but also, the employees, suppliers, consumers and the nation as a whole. Thus, a governance system that will promote ethical value, professionalism and transparent application of best practices is desirable. This alone has instigated fears amidst investors and other banking public. Since banking operations involve pecuniary, it is paramount that maximum care is given to its operations and management in order to sustain the public trust. The absence of this care has led to the collapse of some banks in Nigeria. Inadequate consideration for ethical values and good governance hinders banks' performance as experienced in the failures of All States Trust Bank Plc, Lead Bank Plc, Assurance Bank Nigeria Limited, Trade Bank Plc, Metropolitan Bank Limited, City Express Bank Limited, Hallmark Bank Plc., Societe Generale Bank of Nigeria Plc., African Express Bank Plc., Gulf Bank of Nigeria Plc etc. whose licenses were revoked by the Central Bank of Nigeria (CBN) in 2006 and the recent failures of Intercontinental Bank Plc, Oceanic Bank Ltd, and Bank PHB in 2011 [20]. It is in the light of this that this study aims to study the corporate governance characteristics (e.g. board size, board independence, and board gender) and how it could impact on the performance of DMBs (e.g. profit for the year, return on asset, return on equity, and earnings per share) in Nigeria.

## **1.2 Statement of the Problem**

Corporate performance is an important concept that relates to the way and manner in which financial, material and human resources available to an organization are judiciously used to achieve the overall corporate objective of an organization. It keeps the organization in business and creates a greater prospect for future opportunities. The overall effect of good corporate governance should be the strengthening of investor's confidence in the economy of our country. Corporate governance is therefore about building credibility, ensuring transparency and accountability as well maintaining an effective channel of information disclosure that would foster good corporate performance.

The pertinent areas that motivated the interest in researching on this topic are specifically the loss of confidence by the investors in the capital market, the persistent agency problem and the insolvency of large companies as a result of financial improprieties, which is a huge deviation from the above expectation.

Financial scandals around the world and the recent collapse of major corporate institutions in the USA, South East Asia, Europe and Nigeria have shaken investors' faith in the capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability [21]. Good corporate governance is an important step in building market confidence and encouraging more stable, long-term international investment flows [22]. The loss of confidence by investors in the capital market is therefore an indicator of poor corporate governance practice in quoted companies [23]. The shares of the listed companies on the Nigerian stock exchange are gradually declining from a bullish state to a bearish status.

Also, the existence of the agency problem, which arises in a bid to intermediate between the interests of the managers and that of the shareholders typically influences firm performance. Hence, the managers might take steps to increase the size of the company and, often, their pay, although they may not necessarily raise the company's profit, the major concern of the shareholder [24].

The insolvency of large companies as a result of financial improprieties has awakened discuss on the effect of corporate governance on firm performance. In the same vein, the predominance of sharp practices by management and insider trading for the purpose of defrauding such companies as a result of the need to satisfy some personal interest may also be a contributory factor to poor firm performance. It is, therefore, the belief that examining the effect of corporate board characteristics and DMBS performance would attempt to address the problems in the banking sector of Nigeria.

## **1.3 Objectives of Study**

The general objective of this study is to investigate the impact of corporate board characteristic on DMBS financial performance in Nigeria. The specific objectives are:

- i. To examine the impact of gender diversity on the Return on asset.
- ii. To ascertain the impact of board independence on the earnings per share.
- iii. To ascertain the impact of board size on return on equity.
- iv. To evaluate the impact of board qualification on profit for the year.

## **1.4 Research Questions**

In the light of the objectives of the research, the following research questions were considered pertinent:

- i. To what extent does gender diversity affect the return on asset of DMBS?
- ii. To what extent does board independence affect the earnings per share of DMBS?
- iii. To what extent does board size affect the return on equity of DMBS?
- iv. To extent does board qualification affect profit for the year of DMBS?

## **1.5 Research Hypotheses**

In the light of the forgoing research questions some hypotheses, stated in the null forms, were formulated to guide the study:

Ho<sub>1</sub>: Gender diversity does not have positive significant impact on the return on asset of DMBS.

Ho<sub>2</sub>: Board independence does not have positive significant impact on the earnings per share of DMBS.

Ho<sub>3</sub>: Board size does not have positive significant impact on the return on asset of DMBS.

Ho<sub>4</sub>: Board qualification does not have positive significant impact on the profit for year of DMBS.

## **2. REVIEW OF RELATED LITERATURE**

### **2.1 Conceptual Review**

The word governance denotes regulation, policies, norms and guides. The concept also presumes a fundamental tension between shareholders and corporate managers [25,8]. Corporate governance could be said to be a structure, process, special guides or ethics to a peaceful operation of firms and enhancing relationship between stakeholders concerned. Corporate governance as viewed by some authors, is the process and structure used to enhance business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder's value, whilst taking into account the interest of other stakeholders [25]. Some argue that corporate governance is represented by the structures and processes laid down by a corporate entity to minimize the extent of agency problems as a result of separation between ownership and control [26]. Corporate governance deals with multidimensional areas in business organization and is guided by its' principles. It also deals with the issues of transparency, reliability, accountability, protection of shareholders and other stakeholders. However, corporate governance could be seem as the mechanism used to discipline organizations [27]. Some argue that corporate governance is a framework that controls and safeguards the interest of the relevant players in the market [28]. The players of the corporate governance mechanism include managers, employees, customers, shareholders, executive management, suppliers and the board of directors. The literature on corporate governance in developing and developed markets suggest that the roles of a regulatory authority, board, management, suppliers, customers and creditors are important in improving the value of a firm. Good corporate governance is focused on the protection of the rights of shareholders and plays an important role in the development of capital markets by protecting their interests [29].

### **2.2 Theoretical Review**

In corporate governance research, several theories have been used to study the relationship between board composition and firm performance. The existing literature has primarily focused on the characteristics of the boards in affecting firm performance [30,11,31]. However, some researchers have paid attention to other issues that also affect firm performance such as ownership [32]. CEO turnover and compensation [33]. This section reviews some of the major theoretical perspectives of boards and governance mechanisms that are considered relevant for this study: agency theory, stewardship theory, resource dependence theory, human capital and social capital theories and social psychological and organizational behavior theories.

The agency concept appears to be the mother of all corporate governance concepts. This is because business alliances are usually built on a principal - agent relationship. The principal - agent relationship has its roots in several fields of endeavour-law, economics, accounting, and strategic management. Agency theory stems from the agency relationship where an agent (board of directors, managers) is hired as a representative and business developer by a principal (shareholders, owners).

If both parties to the relationship believe in utility maximization, there is good reason to believe that the agent will not always act in the best interests of the principal [8].

Agents are expected to manage the affairs of the business in the best interest of the shareholders or principal. Rather, by exploiting information asymmetries and conflicts of interests on the board, the agents were able to act in the interests of the principals and to do so with a reasonable expectation of evading punishment [34].

Agency concept therefore provides a framework for understanding how the alignment of incentives and information asymmetry influence managers' decisions [35]. It is reasoned that managers receiving adequate compensations and incentives are less likely to give agency problems. Also, the principal possesses the responsibility of duly monitoring the activities of the agents so as to enforce loyalty and provide a means of checks and balances. In corporate governance matters the directors and the managers are charged as agents to the shareholders. In situations where the manager is unable to reciprocate the trust placed by the principal, the directors are expected to intervene to ensure that the shareholders objectives are met.

### **2.2.1 Agency theory**

This view explains the relationship between ownership (principal) and management (agent) in business. Agency theory is concerned with resolving problems that can exist due to this relationship. Monitoring the performance of individual work effort is always a cost to the firm and that organizational inefficiencies are created when the flow of information on individual performance is decreased or blocked. Some researchers have studied the costs associated with resolving conflict between the owners and the agents [8,36].

The fundamental premise of this theory is that the agent act out of self- interest and is self-centered, giving less attention to shareholder's interests. The problem arises when principal and agent diverge in their goals, and the principal is unable to verify what the agent is actually doing due to the difficult of the process and its expensive cost. The agent who possesses superior knowledge and expertise about the firm is in a position to pursue self-interests rather than owners' interests [30,37]. This pursuit of self- interests increases the firm's costs by adding to firm costs such as costs of structuring contracts, costs of monitoring, costs of controlling agent's behavior and some losses incurred due to sub-optimal decisions taken by agents. In essence, the managers cannot be trusted and therefore there is a need for strict monitoring of management by the boards in order to protect owners' interests. Further, in a large corporation with dispersed ownership, small shareholders do not have enough payoffs to spend in monitoring the managers/agents. Agency problem occurs in two ways, the first one is when principal and agent have different goals and the second one when it is difficult or expensive for the principal to verify what the agent is doing [36]. Therefore, the monitoring of management activities is seen, as a duty of the board in order to minimize agency problems.

### **2.3 Empirical Review**

Identifying an appropriate and optimal board size of a corporate firm has been a matter of debate in numerous studies [38,14,39,40,41,42]. Some researchers supported smaller boards [38,14,39], while some others have favoured large boards, as it would provide a greater monitoring and effective decision-making [43,44,45,46,47]. Supporting a small board size, some authors argued that larger boards might face problems of social loafing and free-riding [38]. As board increases in size, free-riding increases and efficiency of the board is reduced. Small boards lead to better decision-making due to greater coordination and lesser communication problems [14]. Studies have also provided evidence that smaller boards are associated with higher firm value [39, 48]. The larger boards have to face problems of communication and cohesiveness, which in turn may result in conflicts [49]. On the other hand, it is argued that the type and magnitude of advice a CEO needs increases with the complexity and size of the organization [42]. For example, the diversified firms operating in multiple segments might require greater advice and discussion [50,39], therefore, larger boards are required for such firms.

A significant trend seen in the corporate boards after the series of scandals is the rise of outside directors in the board. Some authors have shown that the market rewards firms for appointing outside directors [51,52]. The relationship between proportion of outside directors and stock-market reactions to poison-pill adoptions was tested and a positive relationship between the two was found [53]. However, it could be shown that the proportion of outside directors does not significantly affect firm performance [39]. Similarly, no relationship between the proportion of outside directors and various firm performance measures was found [54]. Consistent with this notion were some studies which also failed to find any significant relationship between board composition and firm performance [55,56]. Some authors opined that boards which expanded for political reasons often result in too many outsiders on the board, which does not help in the improvement of performance [57].

The board processes also have a huge impact on firm performance, and meetings are necessary for the effectiveness of the board tasks [58]. When board of directors meet frequently, they are more likely to discuss the concerned issues and monitor the management more effectively, thereby performing their duties with better coordination and in harmony with shareholders' interests [38]. Consistent with this notion were some suggestions that board-meeting time is an important resource for improving the board effectiveness and, thus, better decision-making [59]. It was pointed out that the limited time available for meetings might not be sufficient for substantial dialogue among directors [38,14]. Interestingly, it was argued that boards should be relatively inactive and are required to become active only in the times of trouble [14].

There is also an ongoing debate on the issue of CEO duality and firm performance, but the empirical studies on this issue reveal a conflicting set of results [60,22,61,62,56]. It was found that the CEO–Chair separation to be significantly positively correlated with firm's operating performance [56]. Also, there was an indication that CEO duality actually improves firm performance [22]. Some authors also supported separation of CEO and chair positions, as the firms opting for independent leadership outperformed the firms relying on CEO duality [63]. Some authors also found no significant difference between the firms with CEO duality and those without it [64,65]. In fact, it was suggested that separation of CEO and board chair positions results in misdirected effort [64]. Finally, ownership control and institutional ownership are also important determinants of firm performance [66]. It was found that institutional shareholding enhances market valuation [26]. On the other hand, while investigating the role of corporate governance indices on firm performance (earnings per share, return on assets [ROA], return on equity [ROE]) it was found that the presence of institutional investors is not positively associated with firm performance [67].

On the other hand, it was argued that firms have the ability to choose among different governance mechanisms that results in the optional performance of the firm [39,3,47]. Other studies have also examined the CEO's remuneration and performance relationship [8,65]. These studies have identified factors such as, board composition, financial expertise of the board members, and whether the CEO is also the board chairman, as the main characteristic of corporate governance.

Furthermore, a case study on the Karachi Stock Exchange measures the performance of corporate governance through Tobin's Q, while performance of the companies is measured by return on assets and return on equity [68]. The result shows that leverage and growth have a positive relationship with Tobin's Q, which comprises a significant effect in measuring performance of the company. There was an examination of the correlations between corporate governance structure and two measures of performance: Return on assets and market-book value ratio [69]. The tests exploit an unusual data base compiled by Institutional Shareholder Services, Inc. (ISS), which contains comprehensive governance profiles for the Standard & Poor's 500 Index. They find that there is a relationship between corporate governance and performance.

There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller boards [14,38]. When a board gets too big, it becomes difficult to coordinate and becomes problematic especially in terms of the process involved in decision-making. Smaller boards also reduce the possibility of free riding by individual directors, and increase their decision taking processes. Empirical researches support this [39,46,26,70].

It was found that small board sizes enhance the performance of firms quoted on the stock exchange [26]. Also found was that firm valuation is highest when board has five directors, a number considered relatively small in their study for the markets they considered in their sample [70]. Though, the issue of whether directors should be employees of or affiliated with the firm (inside directors) or outsiders has been well researched, yet no clear conclusion is reached. On the one hand, inside directors are more familiar with the firm's activities and they can act as monitors to top management if they perceive the opportunity to advance into positions held by incompetent executives. On the other hand, outside directors may act as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization [37]. Though it's been argued that the effectiveness of a board depends on the optimal mix of inside and outside directions [30,51,71], there is very little theory on the determinants of an optimal board composition, or the factors that determine the size of the board that remains optimal [41].

Another aspect of the corporate governance and firm performance issue is the position of the chair and the chief executive of the firm. Researchers find mixed evidence, on which is better, between separating the position of the chair of the firm from that of the CEO. It is argued that firms are more valuable when the CEO and board chair positions are separate [39]. Furthermore, it was found that there is no relationship between CEO duality and performance in entrepreneurial firms [64]. A study was conducted to explore the effect of corporate governance characteristics on bank performance in Nigeria [71]. The final sample consists of 9 banks for the sample period of 2006- 2010. It was found that both the board size and ownership structure were positively impacted on return on equity. Nevertheless, the study found that corporate governance practices were negatively associated with companies' assets. In addition, results show that there was no effect of board structure since it considers as a profitability measures predictor.

In the same way, a study was conducted to explore the impact of corporate governance mechanisms on bank performance on 9 Nigerian banks with a sample period of ten years (2001- 2010) [72]. The analysis found that corporate governance is significantly associated with banks performance. Moreover, it indicates that the definition of poor asset quality and loan deposit ratios were found to have a negative impact on business performance.

In an Iranian study, board size, board independence, board leadership and institutional investors on the board were used as corporate governance indices and EPS, ROA and ROE as firm performance surrogates [67]. The regression results show that board size is negatively associated with firm performance and that the presence of outside directors strengthens the companies' performance. Also, carried out was a study to determine the impact of corporate governance variables on firm performance in Indian and South Korean companies [73]. Results illustrate that corporate governance has limited effect on both the company's share prices as well as on their financial performance.

There was an exploration of the effect of corporate governance on business performance of 25 listed financial institutions in Sri Lanka for during the period 2008-2012 [74]. Return on equity and return on assets were used in the study, as they are the key variables to define business performance. Analysis findings show that corporate governance variables are significantly effective on business's performance and board of directors size and audit committee size effect positively the business's performance. Nevertheless, meeting frequency is negatively associated with business's performance.

Finally, in a study using subgroup moderating analysis based on variables like the firm size, nature of the performance indicators and operationalization of board composition, there was conclusion that there is no evidence of a substantive relationship [65]. Furthermore, another study, using Meta-analysis methodology found no meaningful relationship between board composition and the financial performance of firms.

However, using simultaneous equation method also, there was conclusion that there is no significant relationship between the governance control mechanism and firm performance [75].



### 2.3.1 Knowledge Gap

The empirical review showed that many studies have been done on the relationship of corporate governance and firm performance across different countries, sectors, regions, and time periods. The empirical review also revealed that different approaches and methodologies have been used by different researchers. However, the empirical review in this study has shown that the subject matter is indeed an important phenomenon in our contemporary world.

In furtherance to this, it was discovered that to in knowledge, much work is yet to be carried out in Africa; particularly in Nigeria. Sequel to this also, the findings also showed that only few studies have been carried out in the banking sector of Nigeria. Some of the works look at different firms at a time [76,21,24,77], while very few studies were specifically the banking sector [72,71]. In spite this, their studies were limited to five year periods each.

It is in the light of these research gaps that this study focused specifically on the Nigerian banking sector with much emphasis on DMBs for an in depth study. The researcher has increased the number of years studied to ten years each for the three DMBs studied making the pooled data to be thirty years in the time period studied. The researcher also used a random effect model of panel data analysis after carrying out the Hausman test to determine which model is best fit for the study. This is in line with these scholars methodology [78,21,79,24,80,81].

The above discussion shows that empirical studies on corporate governance and firm performance revealed a different set of conflicting results. The puzzle on how corporate governance relates to firm performance remains unsolved and calls for more insight into the subject matter. There could be various explanations that might be leading to the inconsistencies in the results. For instance, the problems may lie in the use of different data source: secondary data or primary data, as these sources have different characteristics. Also, the use of different performance measures may lead to the inconsistencies in the results. The indecisive nature of the existing literatures calls for further investigation into the subject matter. By the a priori expectation, It could be anticipated that the corporate board characteristics studied would pose a significant positive relationship with performance measures.

## 3. METHODOLOGY

This study employed the use of ex-post facto research design. The nature of the data is secondary and they are sourced from the annual reports and accounts of the selected DMBs. The study investigated three of the listed DMBs using a simple Judgmental Sampling Technique in a period of ten years each 2008 to 2017. The population of the study is made up of all the 21 DMBs listed in the Nigerian Stock Exchange (NSE) as at 2019. The data collected for the research were analyzed with econometric e-view. The panel data was further analyzed using the random effect model, which showed appropriate after conducting the Hausman test as against the fixed effect model.

### Model Specification

The general form of the data analysis model is specified as:

$$Y_{it} = \beta_0 + \beta_1 + \beta F_{it} + e_{it}$$

Where:

$Y_{it}$  = dependent variable (DMBs financial performance)

$\beta_0$  = constant

$\beta$  = is the coefficient of the explanatory variable (corporate board characteristics)

$F_{it}$  = explanatory variable in the estimation model

$e_{it}$  = error term (assumed to have zero mean and independent across time period)

Based on the panel data analysis model, an advanced model is developed [21].

The mathematical model is expressed below:

Performance = f (corporate board characteristics, control variables)

The regression model for the empirical analysis is therefore given as follows:

$$ROA_{it} = \beta_0 + \beta_1 GD_{it} + \beta_2 TA_{it} + \beta_3 FL_{it} + e_{it}$$

$$EPS_{it} = \beta_0 + \beta_1 BI_{it} + \beta_2 TA_{it} + \beta_3 FL_{it} + e_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 TA_{it} + \beta_3 FL_{it} + e_{it}$$

$$PFY_{it} = \beta_0 + \beta_1 BSK_{it} + \beta_2 TA_{it} + \beta_3 FL_{it} + e_{it}$$

where:

### **Dependent Variables**

The variables, which were used as proxies of financial performance in this study, include: ROE, ROA, and EPS.

ROE<sub>it</sub>: Return on equity (profit after tax/total equity shares in issue) for bank i in time t.

ROA<sub>it</sub>: Return on assets (profit after tax/ total assets) for bank i in time t.

EPS: Earnings per share (is the ratio of net profit after taxes and preference dividends by the number of outstanding equity shares) for bank i in time t PFY: This is the value of profit taking after considering the deduction of tax.

### **Independent Variables**

BS<sub>it</sub>: board size (number of directors on the board) for bank i in time t

BI<sub>it</sub>: board independence (total number of independent non- executive directors/ total director for bank i in time t

GD<sub>it</sub>: Gender Diversity, male domiciled (No. of women/total number of directors) for bank i in time t

BQ: Board qualification is estimated using the number of board members with Ph.D degree.

### **Control Variables**

TA<sub>it</sub>: Total Asset (log of total assets)

FL<sub>it</sub>: Firm Leverage (The ratio of total debt to total assets).

Note: Where i and t, represent all the five banks in the sample and the ten-years' time (t) period respectively, and e<sub>it</sub>, an error term.

## **4. DATA PRESENTATION AND ANALYSIS**

### **4.1 Data Presentation**

#### **4.1.1 Interpretation**

Table 1 shows the list of the sampled DMBs used in our study i.e. Zenith bank Plc, Fidelity bank Plc, and United Bank for Africa (UBA).

**Table 1. List of the sampled DMBs**

S/No	Bank
1	Zenith Bank Plc
2	Fidelity Bank Plc
3	United Bank for Africa

*Source: Author's computation using E-view 9, 2019*

#### 4.1.2 Corporate Board Characteristics of the sampled DMBs

Table 2 shows the corporate board characteristics of Zenith bank Plc 2008 – 2017. The table shows that by percentage level, there is a low level of female member in the board especially in 2017 with a percentage level of 8%, while the highest percentage level is 17% in 2013 and 2014. On the average, the board independence level is commendable with approximately 51.6% involvement of independent directors in the board. The board size shows that Zenith bank Plc maintains a sizeable board of an average of 11.9%. Finally, very few members have Ph. D degree as observed by our study with an average of 1.5%.

**Table 2. Corporate board characteristics of zenith bank**

Year	Gender diversity %	Board independence %	Board size	Board qualification
2017	8	53	13	3
2016	10	50	13	2
2015	14	57	12	2
2014	17	67	12	1
2013	17	58	12	2
2012	14	50	14	1
2011	13	55	14	1
2010	0	40	15	1
2009	0	43	14	1
2008	0	43	14	1

*Source: Zenith bank financial statement, 2008-2017*

**Table 3. Corporate board characteristics of fidelity bank**

Year	Gender diversity %	Board independence %	Board size	Board qualification
2017	19	50	16	0
2016	21	57	14	0
2015	21	55	14	0
2014	20	53	15	0
2013	19	63	16	0
2012	17	47	18	0
2011	16	31	19	0
2010	20	60	15	0
2009	15	62	13	0
2008	9	9	11	0

*Source: Fidelity Bank financial statement 2008-2017*

Table 3 portrays the board characteristics of Fidelity bank Plc. It reveals on the average that there is 18.6% of women in the board. Board independence shows on the average 38.7% participation of independent directors. The board size was found to be on the average 14.7% which is still sizeable. No members of the board was found to have a Ph. D degree, which means there is 0% of board members with Ph. D.

Table 4 reflects the outcome of the board characteristics of UBA for the period studied. On the average, gender diversity shows that there is 21.8% involvement of female directors in the board for the period studied. The independence shows a total of 55.2% involvement of independent directors in

the board, which is commendable. Board size stood at 17.6%. The board qualification showed a 0% as no single board member had a Ph. D degree as at the time of this study.

**Table 4. Corporate board characteristics of United Bank of Africa**

Year	Gender diversity %	Board independence %	Board size	Board qualification
2017	16	53	19	0
2016	16	53	19	0
2015	25	63	16	0
2014	24	59	17	0
2013	26	53	19	0
2012	23	58	17	0
2011	17	50	18	0
2010	21	53	19	0
2009	25	55	20	0
2008	25	55	20	0

*Source: UBA financial statement 2008-2017*

#### 4.1.3 Data for financial performance of each sampled DMBS

Table 5 reflects the financial performance proxies for Zenith Bank Plc. and their values for each year as studied. It contains both the explanatory variables i.e. profit for the year (PFY), return on asset (ROA), return on equity (ROE) and earnings per share (EPS), and also, the controlled variables i.e. firm leverage (FL) and total asset (TA). The total equity (TE) and TB were introduced for reference purposes. The ROA, ROE, and EPS are in ratios; the FL appears in percentage, while TA, TE, TB and PFY are represented in their natural log.

**Table 5. Data for financial performance of Zenith Bank Plc**

Year	Profit for the year	ROA	ROE	EPS	Total asset	Firm leverage	Total debt	Total equity
2017	177933	3.7	21.7	566	5595253	85	4773595	821658
2016	129652	3.2	18.4	412	4739825	85	4035360	704465
2015	105663	3.1	17.8	336	4006842	85	3412489	594353
2014	99455	3.1	17.9	316	3755264	85	3202626	552638
2013	95318	3.6	18.7	301	3143133	84	2633882	509251
2012	95803	4.8	21.9	305	2436886	82	1998883	438003
2011	41301	2.3	11.1	132	2169073	83	1797056	372017
2010	32305	2.2	9.1	106	1798678	80	1441770	356909
2009	21933	1.8	6.5	73	1578912	79	1243152	335760
2008	46525	3.5	13.7	345	1680302	80	1341818	338484

*Source: Zenith Bank financial statement 2008-2017*

**Table 6. Data for financial performance of Fidelity Bank Plc**

Year	Profit for the year	ROA	ROE	EPS	Total asset	Firm leverage	Total debt	Total equity
2017	18857	1.37	9.3	65	1379214	85	1175899	203315
2016	9734	6.4	5.3	34	1298141	86	1112739	185402
2015	13904	1.3	20.5	48	1231722	85	1048206	67763
2014	13796	1.4	7.9	48	1187025	85	1013914	173111
2013	7721	0.8	4.7	27	1081217	85	917762	163455
2012	17924	2.4	11.1	62	914360	82	752905	161455
2011	3911	2.7	0.7	56	737732	20	145972	591760
2010	5828	4	1.7	20	497453	30	146852	350701
2009	1414	1.1	0.5	5	434053	30	129340	304713
2008	2298	1.8	0.6	8	504165	26	129374	374791

*Source: Fidelity Bank financial statement 2008-2017*

Table 6 shows the financial performance characteristics of Fidelity Bank Plc. It shows the values of the explanatory and controlled variables. A careful look at the values of each performance indices shows that there is mix of performance at different intervals. The financial performance indices include the ROA, ROE, EPS, TA, FL, PFY, TB and TE.

**Table 7. Data for financial performance of UBA**

Year	Profit for the year	ROA	ROE	EPS	Total asset	Firm leverage	Total debt	Total equity
2017	42438	1.7	10.5	1.2	2931826	86	2529311	402525
2016	47541	2.2	12.1	1.31	2539585	85	2148685	390900
2015	47642	2.5	14.1	1.36	2216337	85	1878106	338231
2014	40083	1.9	14.2	1.22	2338858	88	2056925	281933
2013	46483	2.4	18	1.41	2217417	88	1957879	259538
2012	43375	2.5	20	1.44	1933065	87	1712748	220317
2011	-16385	-1.1	-9.6	-51	1655465	90	1485407	170058
2010	2167	0.2	1.2	8	1432632	87	1244902	187730
2009	12889	1.1	6.9	60	1400879	87	1213160	187719
2008	40002	3	21.3	305	1520091	88	1331936	188155

*Source: United Bank of Africa financial statement 2008-2017*

Table 7 shows the financial performances of UBA for the period studied. It shows the various values of performance measures. The table shows the profit for the year (PFY), return on asset (ROA), return on equity (ROE), total asset (TA), firm leverage (FL), total debt (TB), and total equity (TE) at the different time studied.

## 4.2 Data Analysis

**Objective One:** To ascertain the impact of gender diversity on ROA.

**Table 8. Random effect panel regression estimation result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.168546	3.826563	1.350702	0.1794
GD	-0.027832	0.021167	-1.314919	0.1911
LOG(TA)	-0.119918	0.330583	-0.362748	0.7175
LOG(FL)	-0.147382	0.458655	-0.321336	0.7485
Effects specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			1.426356	1.0000
Weighted Statistics				
R-squared	0.018631	Mean dependent var		2.365667
Adjusted R-squared	-0.006750	S.D. dependent var		1.403064
S.E. of regression	1.407791	Sum squared resid		229.8977
F-statistic	0.734062	Durbin-Watson stat		1.850058
Prob(F-statistic)	0.533743			
Unweighted Statistics				
R-squared	0.018631	Mean dependent var		2.365667
Sum squared resid	229.8977	Durbin-Watson stat		1.850058

*Source: Author's computation using E-view 9*

## Interpretation of Results

In Table 8, the random effect panel regression estimation results shows that gender diversity, which is the percentage of women in the board shows a negative and insignificant relationship with return on asset (ROA). Total asset and firm leverage both shows negative and insignificant effect in measuring the performance indicator ROA.

The value for the R-square is 0.019, which shows that about 1.9% of the variation in the dependent variable is explained by the independent variables of the models. The 98.1% variation in the dependent variable remains unexplained by the independent variables of the study.

**Objective Two:** To ascertain the impact of board independence on EPS.

**Table 9. Random effect panel regression estimation result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2263.995	270.8406	-8.359141	0.0000
BI	-1.569478	0.964454	-1.627323	0.1064
LOG(TA)	217.7884	24.04425	9.057819	0.0000
LOG(FL)	-153.2478	36.86229	-4.157305	0.0001
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			117.3430	1.0000
Weighted Statistics				
R-squared	0.464350	Mean dependent var		119.8313
Adjusted R-squared	0.450497	S.D. dependent var		156.2365
S.E. of regression	115.8157	Sum squared resid		1555941.
F-statistic	33.51978	Durbin-Watson stat		1.289662
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.464350	Mean dependent var		119.8313
Sum squared resid	1555941.	Durbin-Watson stat		1.289662

*Source: Author's computation using E-view 9*

### Interpretation of Results

Table 9 shows that board independence has a negative (-1.56) and insignificant (0.106) relationship with EPS. Total asset on the other hand, has a positive and significant effect with EPS. The firm leverage shows a negative and significant effect on EPS, while the R-square stood at 0.46, which means that about 46% of the variation in the dependent variable is explained by the independent variables of the model.

**Objective Three:** To ascertain the impact of board size on ROE.

**Table 10. Random effect panel regression estimation result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-104.0484	14.03720	-7.412328	0.0000
BS	-0.094826	0.214629	-0.441814	0.6594
LOG(TA)	7.762175	1.251544	6.202079	0.0000
LOG(FL)	1.213957	1.950071	0.622519	0.5348
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			6.071568	1.0000
Weighted Statistics				
R-squared	0.437910	Mean dependent var		10.92667
Adjusted R-squared	0.423373	S.D. dependent var		7.891573
S.E. of regression	5.992542	Sum squared resid		4165.624
F-statistic	30.12420	Durbin-Watson stat		1.961279
Prob(F-statistic)	0.000000			

<b>Unweighted Statistics</b>			
R-squared	0.437910	Mean dependent var	10.92667
Sum squared resid	4165.624	Durbin-Watson stat	1.961279

*Source: Author's computation using E-view 9*

### Interpretation of Results

In Table 10, it is clearly shown that board size has a negative and insignificant effect with ROE. Total asset shows a positive and significant effect with ROE. The firm leverage also shows a positive but non-significant effect with ROE.

The R-square shows 0.43, which means that about 43% of the changes that occurred in the dependent variable is caused by the independent variable of the model.

**Objective Four:** To ascertain the impact of board qualification on PFY

**Table 11. Random effect panel regression estimation result**

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
C	-840189.2	47661.78	-17.62815	0.0000
BQ	6726.823	2465.954	2.727879	0.0074
LOG(TA)	75733.31	4367.472	17.34031	0.0000
LOG(FL)	-48334.74	6357.274	-7.603060	0.0000
<b>Effects Specification</b>				
			<b>S.D.</b>	<b>Rho</b>
Cross-section random			0.000000	0.0000
Idiosyncratic random			20121.92	1.0000
<b>Weighted Statistics</b>				
R-squared	0.797908	Mean dependent var		41583.67
Adjusted R-squared	0.792681	S.D. dependent var		43617.49
S.E. of regression	19860.02	Sum squared resid		4.58E+10
F-statistic	152.6653	Durbin-Watson stat		1.589673
Prob(F-statistic)	0.000000			
<b>Unweighted Statistics</b>				
R-squared	0.797908	Mean dependent var		41583.67
Sum squared resid	4.58E+10	Durbin-Watson stat		1.589673

*Source: Author's computation using E-view 9*

### Interpretation of Results

In Table 11, board qualification revealed that there is a positive and significant relationship with PFY. Also, total asset revealed a positive and highly significant effect with PFY. The firm leverage shows a negative and highly significant effect with PFY. The R-square gives 0.79, which means that about 80% of the variations in the dependent variable is explained by the independent variables of the model.

### 4.3 Discussion of Results

This study brings together various aspect of corporate board characteristics which include: board size, gender diversity, board independence and board qualification; as well as financial performance characteristics of return on asset (ROA), return on equity (ROE), earnings per share (EPS) and profit for the year (PFY) in the context of deposit money banks in Nigeria. The hypothesis was tested by assessing the impact of the corporate board characteristics on the financial performance of three listed deposit money banks in Nigeria (Zenith Bank, Fidelity Bank and United Bank for Africa) for a period of ten years 2008 – 2017. In the study, the only accounting measures of firm performance was used – namely, the return on asset, return on equity, earnings per share and profit for the year. This

study is primarily motivated by the lack of confidence by investors in the capital market, the persistent agency problems, and the insolvency of large firms such as banks.

From the random effect panel regression estimate of the study, it indicates that the findings are in agreement with the consistent mix of result as it concerns board characteristics and firm financial performance. Findings from the first model suggest that gender diversity, which was estimated as the percentage of female board members has a negative relationship of -0.027 on return on asset, which means that a percentage point increase in female involvement in the board holding total asset and firm leverage constant, will lead to a fall in the return on asset. Although, the finding is commensurate to our apriori expectation, which is that the presence of women in the board do not just increase the performance of firm, rather, their skills and competence does. The implication here is that, the more the board is gender diversified i.e. involving more women in the board, the chances are that return on asset will continue to fall [78]. This finding contradicts the results that the presence of female board members have a positive effect on performance of firms measured by return on asset [82,77].

The second model, which is to ascertain the impact of board independence on earnings per share of the deposit money banks, shows that the involvement of independent board members also pose a negative and non-significant effect to earnings per share with statistical values of -1.56 and 0.10 respectively. This outcome signifies that a percentage point increase in independent directors' control for total asset and firm leverage will cause earnings per share to fall by about 1.56 percentage point. The R-square value stood at 0.46, which means that about 46% of the variation in earnings per share are caused by the independent variables i.e. board independence of the model. This result is in agreement with the findings of notable researchers [70] and also in contradiction with the findings of some other authors [26,83] The implication of this result means that, in as much as firms try to conform to increasing the number of outside directors, which is the norm, there is need to also evaluate the competences of each outside directors.

It was observed also that in the findings in the third model, board size has a negative and non-significant effect on return on equity. The coefficient of the result shows -0.094 and a P-value of 0.65. This means that a percentage point increase in board size holding total asset and firm leverage constant, it will lead to a percentage point decrease in return on equity by about 9%. This finding is in agreement with that of some prominent researchers [84,77,82,85,86]. It is in contrast also with the work of notable authors who found that board size has a positive effect on firm performance [74,75, 87,26]. It was also observed that 43% of the variation represented by the R-square in the return on equity is explained by the board size.

Finally, the result on the fourth model shows that board qualification has a positive and significant relationship with the profit for the year. The R-square value is 0.79, which means that about 79% of the variation that occurs in the profit for the year is caused by the board skill of members. The finding is in agreement with that of a notable researcher [78]. In our study, board qualification is measured by the number of board members with Ph. D degree.

## **5. SUMMARY OF FINDINGS**

As discussed in Chapter 3, four research models/hypotheses were formulated based on the literature reviewed. Also considered are the important factors affecting the performance of DMBs in the Nigerian banking sector. A random effect panel regression estimate is also performed and the results of this model/hypothesis are derived.

The hypothesis in the current study is about the corporate board characteristics and DMBs financial performance in the Nigerian banking sector. The first hypothesis ( $H_{01}$ ) is about the board characteristic variable of gender diversity and return on asset. The hypothesis suggests that gender diversity does not have positive significant impact on the return on asset of DMBs. Furthermore, the finding revealed that the hypothesis is correct at 0.19 significant level, which is above 0.05. Therefore, the null hypothesis is accepted.



The second hypothesis ( $H_{o2}$ ) is about the impact of board independence on earnings per share of deposit money banks. The impact of board independence on earnings per share is hypothesized as negative because the size of outsider directors do not necessarily mean that a firm would perform better if the outside directors are not competent enough. The finding here shows that board independence has a negative and non-significant effect on the deposit money banks with a P-value of 0.10, which is above 0.05. Therefore, the null hypothesis is accepted.

Thirdly, the hypothesis ( $H_{o3}$ ) looked at board size and its impact on return on equity of deposit money banks. The study revealed that board size has negative and no-significant impact on deposit money banks studied at 0.65 significant level. This is true because size of board really plays a vital role in firm performance. The logic behind this argument is that a small board size could be decisive as against large board.

Finally, the fourth hypothesis ( $H_{o4}$ ) in the model for corporate board characteristics and DMBs performance is based on the view that board qualification does not have significant impact on the profit for the year. Board qualification is proxied by board members with Ph. D degree. This hypothesis tries to understand what role members with Ph. D have in the performance of the DMBs. From the findings, the board skill has a positive and highly significant impact on profit for the year of the DMBs studied.

## **6. CONCLUSION**

This final chapter discusses corporate governance and firm performance. Factors important for effective corporate governance and firm performance have also been discussed. Furthermore, discussion about the literature review, methodology, hypotheses formulated, hypotheses testing and results of the models, policy implication and summary of the findings have been presented. The study support that there is a relationship between corporate governance and firm performance, but the relationship is only significant at the level of board qualification and profit for the year. The negative relationship between board independence and DMBs performance (EPS) can be attributed to the fact that the concept of board independence is a new phenomenon in developing countries like Nigeria, and hence, it might take a few more years to have a significant impact on financial performance. Banks in emerging countries need to ensure that the independent directors are not hired for name's-sake but actually act independently as in the case of developed countries. Therefore, a clear criterion should be put in place for becoming an independent director. Furthermore, an increase in board size may lead to better performance only when competency is considered. Diversity of the board is also paramount but requires competency too because the presence of females in the board is not a guarantee for better performance; therefore, the suggestion that people with different backgrounds and perspectives should be appointed for the posts of independent directors is supported [24].

## **7. RECOMMENDATIONS**

There are many factors which influence firm performance and not all of them are used in this study to control the models mainly because of their lack of availability in the database. Nevertheless, it is hoped that attempts such as this study will generate more debates on the issue and reason for further research in this area, especially in the context of banking sector. In line with the findings, the study recommends that deposit money banks in Nigeria should focus more on the qualifications/skills of board members as measured by Ph.D degree holders in the study. This will impact more positively and significantly on the performance of DMBs in the study. There is need for a critical review on the need to increase the financial expertise in the board. Generally, the focus should not be on the size of the board but on the competence and skills of the board members.

## **COMPETING INTERESTS**

Author has declared that no competing interests exist.

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