Effect of Board Size on Financial Performance of Listed Deposit Money Banks in Nigeria

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Abstract

This study examines the effect of board size on financial performance of listed deposit money bankin Nigeria. The expofacto research design was adopted with reliance on secondary data from annual report of listed banks. The purposive sampling techniques was employed in selecting the 10 banks out of 15 deposit money banks in Nigeria for 2011-2020 financial year. To carry out this objective, panel regression estimation method was used, and data was analyzed using the E-views 10 statistical tool. The findings show that board size has negative significant effect on return on asset. The study concluded that board size has a negative impact on financialperformance signifying that an increase in board size decreases financial performance of listed deposit money banks. It is therefore recommended that corporate governance should not emphasize only on the board size, as it is negatively associated to return on asset of deposit money banks. Also, more measures should be put in place to ensure mandatory compliance with the code of corporate governance as issued by the Central Bank of Nigeria.

Keywords: Board Size, Financial performance, Banking Sector, Return on Asset, Investor

INTRODUCTION

The outcry from investors to firms across Nigeria for transparency and accountability has increased as the covid-19 pandemic hits the economies of the world since the later part of 2019. Institutions, therefore, more than ever before, need to not only assure investors that sound corporate governance mechanisms are in place, but must reflect this in the quality of their financial reporting. Effective corporate governance structure improves investor confidence, ensures corporate accountability, enhances the reliability and quality of public financial information and enhances corporate integrity (Nabil, Osama & Ziad; 2014). Bad corporate governance might result in financial mismanagement which might lead on to a corporate scandal and possibly the collapse of the company. Heirany, Sadrabadi and Mehrjordi (2013) posit that recent attention given to the issues of corporate governance assumed that when corporate governance mechanisms are strong, managers find itunfavourable to manipulate accounting information and this consequently increases the quality and reliability of their financial reporting. Good corporate governance helps in effectively controlling and monitoring systems,improves management practices and full utilization of firm resources. Thus, corporate governance helps in improving the firm's performance (Ganiyu & Abiodun, 2012).

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004). Corporate governance includes set of mechanisms that include board size, the proportion of independent non-executive directors, the number of audit Committee meetings, corporate leverage ratio, and so on. It also includes reviewing the organization's practices and policies regarding the ethical standards and principles, as well as the organization's compliance with its own code of conduct. Soludo (2004) announced a 13-point reform program for the deposit money banks (DMBs) in Nigeria and the primary objective of the reforms was to guarantee an efficient and sound financial system. The reforms were designed to enable the banking system to efficiently perform its functions as the pivot of financial intermediation (Lemo, 2005). Thus, the reforms were to ensure a diversified, strong, and reliable banking industry where there is safety of depositors' money. However, the Central Bank of Nigeria went further beyond bank recapitalization and consolidation and in 2006 enacted a mandatory code of corporate governance for banks in Nigeria.

The Central Bank of Nigeria (2014) noted that for the financial industry, the retention of public confidence through the enthronement of good corporate governance remains of utmost importance given the role of the industry in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement system and the implementation of monetary policy. The Central Bank of Nigeria (2014) pointed out that a survey, by the Securities and Exchange Commission (SEC) reported in a publication in April 2003, showed that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place. Specifically for the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of a financial institution's distress in the country. The emergence of mega banks in the post-consolidation era is bound to task the skills and competencies of Boards and Managements in improving shareholder values and balance same against other stakeholder interests in a competitive environment. Also, as it has been established that investors require audited financial reports of companies to enable them pass judgements and make investment decisions, a numberof such audited financial reports have been misleading (Yusuf, Bambale& Abdullahi, 2018). Several studies have been carried out on the relationship between board size and financial performance(Peter and Eyesan, 2015; Oyewale and Adewale, 2014; Adewale and Ibitoye,2015). Some other authors have also examined corporate governance and how it affects the financial stability of microfinance banks in Nigeria (Okoye, Erin, Ado &Areghan; 2017).Therefore, in the light of this, the study sought to bridge the gap by examining the effect of board size on financial performance of deposit money banks in Nigeria using a large firm-year observation.

LITERATURE REVIEW

Conceptual Framework

Board size

Board size is the total number of directors on the board for a particular financial year (Bijalwan& Madan (2013). It refers to the total number of directors on the board of each firm which is inclusive of the Chief Executive Officer (CEO) and chairman for each accounting year. This will include outside directors, executive directors and non-executive directors.Board size cannot be specific, as there are country-wide differences in legal, social and corporate environment. For the proponents of increasing board size, they argued that it brings broader perspectives to decision making which would make for fewer errors and improve the performance of the firms. They also affirm that a larger board size leads to dynamism in managing risk, effectiveness in monitoring financial reporting and provide diversity that could assist companies in securing resources and reduction of environmental uncertainties(Dar, Naseem, Rehman & Niazi, 2011; Akinyomi&Olutoye, 2015). Other studies (such as Dogan and Yildiz, 2013; Ifeanyi and Chukuma, 2016) indicate that smaller board size are easily coordinated with less barriers to communication and drastic reductions in bureaucratic bottlenecks, high sense of individual responsibility and improved organization participation and oversight functions.These scholars in favour of smaller boards suggest that larger groups face problems of social loafing and increase in free riding which ultimately reduces the efficiency of the board.

Board size plays an important role in corporate governance of listed companies in Nigeria and the world in general (Salihi & Jibrin, 2015). Several empirical research in accounting literature argued as to whether or not small or large board is effectively enhancing the quality of management responsibilities. Larger board according to Akhtaruddin, Hossain, Hossain and Yao (2009) with their collective expertise will be more capable of executing their duties and will equally abridge management control (Hussainey & Wang, 2010) . According to the Central Bank of Nigeria (CBN) circular on code of corporate governance for banks and discount houses in Nigeria (2014), the size of the board of any bank or discount house shall be limited to a minimum of five (5) and a maximum of twenty (20). Members of the board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN guidelines and the board shall consist of executive and non-executive directors. The number of non-executive directors shall be more than that of executive directors.

Financial Performance

This relates to the assessment of a firm's ability to achieve seteconomic goalsfor a certain period covering the collection and allocation of finance measured by capital adequacy, liquidity, solvency, efficiency, leverage and profitability. It explains how well a firm can use itsgiven assets from primary mode of operation togenerate profit. Firms' financial performance plays a vital role in the overall performance of organizations, it measures the organization's monetary wellbeing and viability of the company in utilizing the assets to produce income from the business (Fatihudin & Mochklas, 2018). Financial performance is the extent to which a bank's financial health over a period of time is measured. In other words, it is the financial action used in order to generate higher sales, profitability and worth of business for its shareholders through managing its current and noncurrent assets, financing, equity, revenues and expenses. Its main purpose is to provide complete to the point information to shareholders and stakeholders to encourage them in making decisions (Farah, Farrukh& Faizan; 2016).Studies conducted on thedeterminants of banks performance use one or acombination of these ratios as a measure ofperformance in their analysis. This study examines the most comprehensive accountingmeasure of a bank's overall performance which is Return on assets (ROA).

2.1.3 Return on Asset

Return on asset measures the effectiveness of the economic unity in using its assets to generate profit, the higher this ratio, the better the economic unity as it indicates the management's efficiency in using its assets to generate profit and also it represents the ratio of how much a company has earned on its assets base.Thereturn on assets (ROA) can be obtained by dividing net profit with total assets. Micah, Ofurum and Ihendinihu (2012) noted that return on Asset (ROA) is measured as Profit before Tax/Average Total Assets. ROA is a measure of profitability that takes into consideration the assets necessary to produce income. Return on Assets expresses the net income earned by a company as a percentage of the total assets available for use by that company. ROA suggests that companies with higher amounts of assets should be able to earn higher levels of income. ROA measures management's ability to earn a return on the firm's resources (assets). The income amount used in this computation is income before the deduction of interest expense, since interest is the return to creditors for the resources that they provide to the firm. The resulting adjusted income amount is thereby the income before any distribution to those who provided funds to the company. ROA is computed by dividing net income plus interest expense by the company's average investment in asset during the year.

Empirical Review

Umar and Sanni (2020) examined the effect of corporate governance on the performance of quoted deposit money banks in Nigeria. The study employed panel data analysis using regression model to investigate the connection between corporate governance proxy (Board size, Board composition and Firm size) and Return on Asset (ROA) of quoted deposit money banks in Nigeria for a period of 5 years (20152019) . Data for the study was obtained from audited annual reports of fifteen (15) listed banks on floor of the Nigeria Stock

Exchange (NSE, 2017). Findings revealed that there is significant relationship between board composition, board size and firm size and the ROA of deposit money banks in Nigeria. They concluded that board composition has a positive impact on performance suggesting an increase in the number of NEDs would result in increased performance of quoted deposit money bank, while board size has a negative impact on the performance signifying that an increase in board size decreases performance of quoted deposit money banks. The study recommends efforts at improving corporate governance should emphasize more on the board composition, as it is positively associated to return on asset of Deposit Money Banks. Also, more measures should be put in place to ensure mandatory compliance with the code of corporate governance, particularly the one issued by the Central Bank of Nigeria. Finally, the National Bureau of Statistics (NBS) should be empowered, or a unified independent establishment should be created to be responsible for collecting and analyzing corporate governance related data and constructing the pertinent indices to ease corporate governance research in Nigeria.

Musa, Abdulrasheed and Umar (2020) examined the effect of board size and ownership structure on deposit money banks' financial performance in Nigeria from 2011-2015. Return on Assets (ROA) and Return on Capital Employed (ROCE) proxied performance as the dependent variables while Board Size and Ownership Structure are the independent variables. Ex post facto research design was employed, and data was gathered from published annual reports of sixteen banks quoted in the financial service sector of the Nigeria Stock Exchange as at 31st December, 2015. The data was analyzed using the Ordinary Least Square estimation and the SPSS 21statistical tool. The study revealed that board size has a negative effect on both ROA though not statistically significant. The study recommended that regulators develop, consolidate and review as the need arises, a robust and all-inclusive corporate governance framework. Akinleye, Olarewaju and Fajuyagbe (2019) examined corporate governance and financial performance of selected Nigerian multinational firms from 2012 to 2016. Specifically, the study focused on the effect of board size, activism and committee activism on return on asset and firm growth rate. The data were analyzed using static panel estimation techniques. While board size and board activism exerted significant negative impact on return on asset, committee activism exerted insignificant impact. The results of the study further showed that board size and board activism exert insignificant negative impact on firm's growth rate, while committee activism insignificantly spurs firm's growth rate. Decisively, discoveries from this study reflect that corporate governance has significant negative impact on return on asset but has insignificant influence on the growth rate of Nigerian multinational firms. Based on these findings, the authors recommended that corporate governance dynamics in firm's world over should be reconsidered, such that it gives credence to more than just numbers of persons or meetings held, but the main reasons and deliberations in such meetings. They also recommended that excessive increase in magnitude or frequency of meetings held by board of directors cum committee should be avoided.

Olokoyo, Adegboye, Okoye, Evbuomwanand Adebo (2019) examined corporate governance and performance of deposit money banks in Nigeria. Five quoted banks in the Stock Exchange of Nigeria with a total of 40 observations during the 2007-2014 sample years were used.They assessed the effect of board size, board composition, board independence, and bank liquidity on bank performance. The panel regression method of analysis involving fixed effect estimation techniques was adopted. The correlation coefficient was used to measure the degree of association between our governance variables and profitability indices; while a robust estimator involving panel corrected standard error was applied. The estimated result for board size and board independence reveals a significant lag effect on bank performance. Board composition appears to have a significant inverse relationship with bank performance which further suggests a low acceptance and adherence to cooperate governance by most banks with its resultant adverse effect on the bank performance. Also, a statistical inverse relationship between the board size of a bank and its performance was observed which suggests that increasing the size of the board of directors of a bank does not guarantee its performance. The study therefore suggests that regulatory agencies should encourage firms to maintain a reasonable board size since overly large boards may be detrimental to the firms' performance. Also, the study recommends there is need for the regulatory authorities to reassess the procedures for the appointment of directors to the board in ensure uniform standards; transparency, accountability and stability exist in these financial markets.

Yusuf, Bambale and Abdullahi (2018) examined the effect of corporate governance on financial performance of money deposit banks in Nigeria. It adopted ex post factor research design, which made the use of secondary data in ensuring that data obtained are sufficient for a reasonable conclusion. Financial performance of banks was measured using Return on Assets (ROA) and corporate governance was measured using three variables: board size, board composition and audit committee. Partial correlation and regression was used to analyze the data. They found that board size and board composition have a negatively and insignificantly impact on financial performance, while audit committee size have positive but insignificant effect on financial performance of deposit money banks in Nigeria. The study also revealed that small board size (board of director) contributes positively and significantly to the financial performance of deposit money banks in Nigeria. The study recommends that banks should maintain relatively small board size dominated by outside directors within the provisions of the code of corporate governance for banks but the board should comprise of members, who are conversant with oversight function and having capacity to add significant value in decision making toward achieving greaterperformance.

Theoretical Framework

Stakeholder's Theory

Stakeholder theory emerged in the 1970s because of criticism of the shareholder model (Sternberg, 1997). According to Freeman (1984), stakeholders are individuals and groups who can affect, or are affected by, corporate activities. Solomon (2010) explains the theoretical basis of stakeholder theory as the companies which are large, and their impact on society so pervasive, that they should discharge accountability to many more sectors of society than solely their shareholders. Not only are stakeholders affected by companies, but they in turn affect companies in some way. Stakeholder theory assumes that managers are accountable to all stakeholders (Chen & Roberts, 2010). This theory states that an organization should be governed in the interest of its multiple stakeholders and not just that of shareholders alone. Within the framework of the stakeholders' theory the problem of agency has been widened to include multiple principals (Sanda, Mikailu& Garba 2005). It requires boards to effectively manage conflicts arising between different stakeholders.Freeman, Wicks and Farmer (2004), suggested that: "if organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purpose".

Stewardship Theory

The stewardship model holds that managers are good stewards of the corporations and diligently work to attain high level of corporate profit and shareholders' returns (Donaldson and Davis 1994). Donaldson and Davis (1994) noted that managers are principally motivated by achievement and responsibility needs and given the need of managers for responsible, self-directed work, organizations may be better served managers are freed from subservience to non-executive directors dominated boards. Stewardship theory stems from organizational sociology and organizational psychology posits that agents are more likely to want to do a good job because they are intrinsically motivated by successfully performing challenging tasks, recognition from peers or bosses, responsibility and authority. Stewardship theory highly signifies with relationship between manager and success of firm, and thus it mentioned about managers as stewards who secure and increase shareholder wealth through by firm performance. It focuses with structures to facilitate the responsibility of single person and empower them rather than monitor and control(Grosman 2016, Subramanian, 2018). In terms of behaviour steward is pro-organizational and collectivists, where steward behaviour will not disembark from the interest of organization, because his aim is to reach and accomplish the objectives of organization. (Donaldson & Davis 1991)

Agency Theory

The agency theory of corporate governance, on the other hand, sees shareholders as the principals and management as their agents. Agents will act with rational self-interest: as employee directors of a company, they will tend to maximize their monetary compensation, job stability and other perks, and do no more than seek to appease shareholders. They cannot, in other words, be expected to act in the interests of the shareholders. They need, instead, to be monitored and controlled top ensure that the principals' best interest are served. The agency theory postulates behavioural attribute of the economic man with respect to transactional characteristics as a devious, self-interest seeking being with divergent, opportunistic and suboptimal pursuit different from efficiency goal pursuit of the firm (Tsegba& Herbert 2011) . This theory is the basis for most of today's corporate governance activity.

METHODOLOGY

This study adopted the ex post facto research design since the study is a secondary data research. Population of the study consists of fifteen (15) listed deposit money banks operating on the Nigeria Stock Exchange (NSE) as at 31st December 2020. The sample size is 10 and purposive sampling techniques was adopted.Data utilized in this study were obtained from audited financial statements and annual reports of the listed deposit money banks in Nigeria 10 years under consideration and from the Nigerian Stock Exchange fact book. The inferential analyses involved the application of the appropriate statistical technique of Panel Regression Analysis; this is due to the nature of the data. The study adopts the model of Yusuf, Bambale& Abdullahi (2018).

Panel regression model

$ROA = \beta_0 + \beta_1 BS + \epsilon_{it}$...……………………… (i)

Where:

β_0 = The autonomous parameter estimate (Intercept or constant term)

β_1 = Parameter coefficient of Board Size

ROA = Return on Asset BS

= Board Size

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics gives a presentation of the mean, maximum and minimum values of variables applied together with their standard deviations obtainable. The table below shows the descriptive statistics for the variables applied in the study. An analysis of all variables was obtained using the E-view 10 software for the period under review.

Table 1: Descriptive Statistics Result

	ROA	BS
Mean	28.47280	6.510000
Median	26.60500	6.000000
Maximum	43.21000	12.00000
Minimum	20.39000	3.000000
Std. Dev.	5.590528	2.267446
Skewness	0.540693	0.702747
Kurtosis	2.359759	2.652427
Jarque-Bera	6.580440	8.734251
Probability	0.037246	0.012688
Sum	2847.280	651.0000
Sum Sq. Dev.	3094.147	508.9900

Observations	100	100

Source: E-View 10 Output (2021)

Table 1 presents the descriptive statistics of the effect of board size on financial performance of listed deposit money banks in Nigeria during the period of 2011 to 2020. The table shows that return on asset (ROA) as a measure of financial performance has a mean of 28.47280, with a standard deviation of 5.59052 with a minimum value of 20.39000 and maximum values of 43.21000. Although the range between the minimum and maximum is wide, it implies a stable performance as the standard deviation indicated that there is no wide dispersion of the data from the mean value. For the other measure of board size (BS) from the table shows a mean of value of 6.51000 with standard deviation of 2.26744 and the minimum and maximum values of 3.0000 and 12.0000 respectively. This implies that the board size witnessed a substantial increase during the study period, as the standard deviation is so large compared to the mean, together with the huge range between the minimum and maximum values.

Table 2: Hausman Test

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	0.001658	1	0.9675

Source: E-View 10 Output (2021)

The Result of Hausman test shows that the chi-square statistics value is 0.00165 while the probability values is 0.9675. The probability value at 96.7% is highly statistically insignificant and implies that there is enough evidence to accept the null hypothesis. It therefore shows that the error component model (random effect) is more appropriate for the Panel Regression analysis. Consequently, the result suggests that the fixed effect regression model is not most appropriate for the sampled data because the Hausman test statistics as represented by corresponding probability value is higher than 5%.

Decision Rule: The decision rule for accepting or rejecting the null hypothesis for any of these tests will be based on the Probability Value (PV) and the Probability (F-statistic). If the PV is less than 5% or 0.05 (that is, if PV < 0.05), it implies that the regressor in question is statistically significant at 5% level; and if the PV is more than 5% or 0.05 (that is, if PV > 0.05), it is categorized as not significant at that level.

Table 3: Panel Regression Result (Random Effect)

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 07/17/21 Time: 12:49
Sample: 2011 2020
Periods included: 10
Cross-sections included: 10
Total panel (balanced) observations: 100
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	29.72882	2.025482	14.67740	0.0000
BS	-0.192936	0.276182	-0.698583	0.4865

Effects Specification			
		S.D.	Rho
Cross-section random		2.455205	0.1841
Idiosyncratic random		5.168760	0.8159
Weighted Statistics			
R-squared	0.501006	Mean dependent var	15.77851
Adjusted R-squared	0.510047	S.D. dependent var	5.129182
S.E. of regression	5.142365	Sum squared resid	2591.504
F-statistic	0.493041	Durbin-Watson stat	1.877462
Prob(F-statistic)	0.484238		

Source: E-View 10 Output (2021)

From table 3 above, the coefficient of multiple determinations (R^2) is 0.50. This indicates that about 50% of the total variations in return on asset is explained by the variations in the independent variable (Board Size), while the remaining 50% of the variation in the model is captured by the error term. This indicates that the line of best fit is highly fitted. The standard error test is applied in order to measure the size of the error and determine the degree of confidence in the validity of the estimates. Usually if the standard error is smaller than half of the numerical value of the parameter estimate, it can be concluded that the estimate is statistically significant. Having carried out a standard error test on the parameters estimated and as also indicated by their respective probability values, the parameter estimate for BS is not statistically significant, given that the probability is 0.4865which is greater than 5%. Board size is negatively significant on return on asset of deposit money banks in Nigeria.

Discussion of Findings

This study aptly examined the effect of board size on financial performance of listed deposit money banks in Nigeria, using panel series data and regression analysis approach. The board size proxied by board size (BS) for ten (10) listed deposit money banks in Nigeria for 10 years ranging from 2011 to 2020 was the independent variable while the return on asset (used forfinancial performance) was the dependent variable for the study. The effect of the independent variable on dependent variable was analyzed in terms of strength and significance and the panel regression analysis was used to compare the relationship between the variables. The result for the model of the study showed that board size (BS) has a negative and insignificant effect on return on asset taken as a measure of financial performance. This implies that board size isinsignificant and relevant predictor of financial performance in listed deposit money bank in Nigeria. The finding of this study is consistent with the findings of Musa, Abdulrasheed and Umar (2020) , who examined the effect of board size and ownership structure on deposit money banks financial performance in Nigeria.The finding of the study is however, not in agreement with the position of Umar and Sanni (2020), who examined the effect of corporate governance on the performance of quoted deposit money bank in Nigeria. The study specifically found out that board size and board composition have positive and significant effect on performance of quoted companies in Nigeria.

CONCLUSION AND RECOMMENDATION

In the Accounting and financial literature several studies have investigated the link between board sizeand financial performance of listed deposit money bank in Nigeria. The study concluded that board size has a negative impact on the performance signifying that an increase in board size decreases performance of listed deposit money banks. The study recommends that corporate governance should not emphasize only on the board size, as it is negatively associated to return on asset of Deposit Money Banks. Also, more measures should be put in place to ensure mandatory compliance with the code of corporate governance as issued by the Central Bank of Nigeria.

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