Board Characteristics and Financial Performance of Deposit Money Banks in Nigeria

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Abstract

This article is set to investigate the influence of Board Characteristics on the Financial Performance of listed deposit money banks in Nigeria for the period of 2005-2014. The total number of listed deposit money banks as at 31st December, 2014 are seventeen (17) out of which a sample of fifteen (15) were used for the study. The study categorically seeks to examine whether board characteristics (proxy by executive director, independent director, grey director, women director and foreign director) has any influence on the Performance of listed Deposit Money Banks in Nigeria. The study adopted multiple regression technique as a tool of analysis and data were collected from secondary source through the annual reports and accounts of the sampled banks. The findings show that foreign director is significantly and positively correlated or influenced the Performance of deposit money bank, while the grey director have negative significant effect on the Performance of deposit money banks in Nigeria. Other variables such as executive director, independent non-executive director and women director have no significant impact on banks performance in Nigeria. Therefore, the study among others recommended that the management of deposit money banks in Nigeria should increase the number of foreign directors on board to a certain number as they have skills, expertise, experience and would like to protect their integrity, reputation and professional competence with creativity and innovation to manage the relationship between the boards and stakeholders leading to an improvement in the bank financial performance. Similarly, the number of grey directors on board should be reduced to an average of three (3) or four (4) as the case may be in order to overcome its negative effect on performance..

Keywords: Executive director, Independent non-executive director, Grey director, Women director, Foreign director, Return on asset, Return on equity

1.1 Introduction

Effective boards and corporate governance practices are essential ingredients in achieving and maintaining public trust and confidence in the financial system. They are critical to proper functioning as they determine the performance of the banking sector of the economy in any country of the world. Poor corporate governance may lead to ineffective boards, which eventually may contribute to bank failures.

Also, poor boards could in turn lead to a run on the bank unemployment, fraudulent activities, questionable dealings that may result to negative impact on the economy (Ogbechie & Koufopoulos, 2010). The scenario concerning board leadership as a corporate governance mechanism has generated debatable issues and continued to receive considerable attention in recent times from academics, market participants, professionals, and regulators. This is because theories regarding financial performance providing a conflict views as what constitute performance measurement, while at the same time the empirical evidence is inconclusive. However, the relationship between board leadership and banking industry performance has been the most studied aspect among all board investigations (Bhagat & Black, 1999). This study assumed that a company's financial performance is mainly determined by board characteristics.

The banking sector is central to the economic growth of any country's economy, since it influences the level of money stocks through the ability to create deposits and liabilities. The financial systems have been recognize to play an important role in economic development, and this can be traced back to the era of Goldsmith (McKinnon 1973; and Shaw 1973), which shows that the financial sector of the economy would be a catalyst of economic growth if developed. The benefits derived from a healthy and developed financial system would be accruable to savings mobilization and efficient financial intermediation roles (Gibson & Tsakalotos 1994). Therefore, the failure of this sector affects the entire economy of any nation.

The current financial crisis in the banking sector of Nigerian economy which has been credited to the abuse of corporate governance practices is identified as one of the factors responsible for the failure of many banks in Nigeria. The financial health and performance of banks are important for the economic growth of Nigeria. According to King and Levine (1993 cited in Ogbechie and Koufopoulos (2010), banks play three crucial roles to the development of any nation. Firstly, banks have an overwhelmingly dominant position in the financial systems of developing economies, and are extremely important engines of economic growth. Secondly, banks in these developing economies are typically one of the most important sources of finance for the majority of firms. Also, banks in developing countries are the main depository for the economy's savings and provide the means for payment. Therefore, the banking industry in Nigeria has a significant role to play in the development of the country's economy. Banks have been the main sources of financing in the Nigerian financial market and bank loans were the predominant sources of debt financing in the economy (Central Bank of Nigeria Annual Report 2006).

Board characteristics are particularly important in the Nigerian banking industry because anumber of financial failures, frauds, and questionable business practices had adversely affected investors' confidence. As a result, there is need to examine the impact of board characteristics and financial performance of deposit money banks in Nigeria. According to agency theory, the separation of ownership and control leads to a divergence in the pursuit of managerial interests versus owner's interests (Jensen & Meckling, 1976), and thus monitoring managerial decisions becomes essential for the board of directors in order to protect shareholders' interests (Fama & Jensen, 1983). Boards are expected to formulate corporate policy, approve strategic plans, and authorize the sale of additional securities. They are also expected to hire, advise, compensate, and, if necessary remove management, arrange for succession and determine the size of boards and nominate new members subject to approval by shareholders (MICG, 2010). Therefore, the effectiveness of board of directors in monitoring managers and exercising control on behalf of shareholders depends on a number of factors: (i) the role of Executive director on board (ii) the impact of Independent Non-executive directors on board iii) the impact of Foreign directors on board (iv) the effect of Women director on board and (v) that of Grey director on board.

Board characteristics simply refer to size, division of labour between the board chair and the CEO, its composition and diversity. Composition of board refers to the distinction between inside and outside directors, and this is traditionally shown as the percentage of outside directors on the board (Goergen & Renneboog, 2000). Baysinger and Butler (1985) categorized board composition into inside directors, affiliate directors and outside directors. Inside directors are those directors that are also managers and/or current officers in the firm while outside directors are non-manager directors. Among the outside directors, there are directors who are affiliate (grey), and others that are independent (Non- executive). Affiliate (grey) directors are non-employee directors with personal or business relationship with the company while independent directors are those that have neither personal nor business relationships with the company. Although inside and outside directors have their respective merits and demerits, many authors favour outside dominated boards (Pablo et al, 2005).

Outside directors provide superior performance benefits to the firm as a result of their independence from firm's management (Baysinger & Butler, 1985). They can increase the element of independence and objectivity in board's strategic decision-making as well as providing independent supervision of the company's management (Fama & Jensen, 1983), hence making the board's oversight function more effective. Over the years, different variables have been used to measure corporate performance. Corporate 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, dividend growth, and sales growth (Coles, McWilliams and Sen, 2001; Abdullah, 2004). In their study, Dehaene, De Vuyst & Ooghe (2001) used return on equity (ROE) and return on assets (ROA) as proxies for corporate performance in Belgian companies. Market-to-book ratio was utilized on firms in Hong Kong (Chen, Cheung, Stouraitis & Wong, 2005). In their article, Judge, Naoumova and Koutzevoi (2003) used a series of indicators including financial profitability, customer satisfaction, product/service quality, capacity utilization and process improvements to assess firm performance. For the purpose of this study, ROE and ROA are used to measure firms' financial performance.

However, a number of studies have been conducted on board characteristics and financial service industry at different times in developed, as well as developing countries, most of which are well documented in accounting and finance literature. Studies have examined the impact of executive directors, board composition, board structure, board size, board independence on financial performance. Some of these studies include: Akpan and Amran (2014); Adeyemi & Fagbemi (2011); Uadiale (2010); Desender, Garcia-Cestona, Crespi and Aguilera (2009); Bathula (2008); Anderson, Mansi and Reeb, (2004). These studies however, did not consider the elements of grey and foreign directors in their studies. In Nigeria, only few studies are embarked upon in this area of board characteristics and performance of financial sector in Nigerian economy. For example, Uadiale (2010), whose work centered on the impact of board structure on corporate financial performance in Nigeria, while that of Akpan and Amran (2014) bordered on board characteristics and company performance. None of these studies considered the elements of grey and foreign directors and return on equity (ROE) in their studies. Therefore, this study aims at examining the influence of board characteristics and performance of financial deposit money bank in Nigeria using return on equity (ROE) and return on asset (ROA), which are pivotal used in the measurements of financial performance as variables to investigate the relationship between the independent and the dependent variables. The reason for the choice of board characteristics is that, it is an important tool or mechanism for monitoring, controlling, disciplining, and advising management of corporation managing the affairs of the business for the benefit of shareholders (Fama & Jensen, 1983).

1.2 Statement of the Problem

Banks and other financial intermediaries are the heart of the world's recent financial crises. The deterioration of their asset portfolios, coupled with fraudulent acts of presenting fictitious financial statements and lack of adherence to corporate governance principles largely due to distorted credit management, were some of the main structural sources of the crises (Sanusi, 2010; Kashif, 2008; Fries, Neven & Seabright, 2002). This draws the attention of the public and investors to see the board of directors as the major actor responsible for the failure of corporations, both in developed and developing nations. In fact, board of directors are criticized for being responsible for the dwindling in shareholders' wealth , both in developed and developing economies, particularly, in Nigeria where this study is based. They are seen as the fore-runner or prime factor for the fraud cases that had resulted in the failure of major corporations, such as Enron Corporation, Tyco International, WorldCom, Global Crossing, Arthur Anderson, Marconi, Parmalat , Oceanic bank plc, Wema bank plc, NAMPAK, Fin bank, Spring bank, Afribank, Intercontinental bank, Bank PHB and Cadbury PLC in Nigeria (Adeyemi & Fagbemi, 2011; Ogbonna & Ebimobowei, 2011; Ajibolade, 2008). Therefore, it is in the light of the above, that this research work investigates the effect of board characteristics on the financial performance of deposit money banks in Nigeria.

1.3 Objectives of the Study

The main objective of this study is to examine the impact of Board Characteristics on the financial performance of deposit money banks in Nigeria. However, it is set to achieve the following specific objectives:

i. To examine the impact of foreign directors on the financial performance of deposit money banks in Nigeria

ii. To appraise the effect of grey directors on the financial performance of deposit money banks in Nigeria
iii. To determine the effect of Executive directors on the financial performance of deposit money banks in Nigeria.
iv. To evaluate the impact of Non-executive directors on the financial performance of deposit money banks in Nigeria.
v. To investigate the effect of board diversity (women directors) on the financial performance of deposit money banks in Nigeria.

1.4 Statement of the Research Hypotheses

In line with the objectives of this study, the following hypotheses have been formulated in null form

i. Ho_1: Foreign directors has no significant impact on the financial performance of deposit money banks in Nigeria
ii. Ho_2: Grey directors has no significant effect on the financial performance of deposit money banks in Nigeria
iii. Ho_3: Board diversity (women directors) has no significant influence on the financial performance of deposit money banks in Nigeria
iv. Ho_4: Executive directors has no significant impact on the financial performance of deposit money banks in Nigeria
v. Ho_5: Non-Executive directors has no significant effect on the financial performance of deposit money banks in Nigeria

1.5 Scope of the Study

This study intends to investigate board characteristics and performance of financial service industry. The study would anchor on all listed deposit money banks in Nigeria only and will cover a period of ten years (2005 - 2014). This period is feasible for generalization considering the efforts made by the Federal Government with solid policies in restructured banking sector (recapitalization policy) and other financial organizations, and put in place mechanism to monitoring, supervising and controlling banks operations through various regulatory bodies, such as Corporate Affairs Commission (CAC), Securities and Exchange Commission (SEC) and Nigerian Accounting Standard Board (NASB), now Financial Reporting Council of Nigeria (FRCN). In addition, other bodies that are charged with the statutory regulations responsibility to regulate business activities are Company and Allied Matters Act (CAMA), Banks and Other Financial Institutions Act (BOFIA), and Nigerian Insurance Act among others. All these bodies are there to guide the board of directors of banks to ensure that all the necessary steps required to improve the performance of the banking sector are implemented.

2.1 Board Characteristics and Financial performance

The concepts of the boards is derived from the attributes or incentives variable that play a significant role in monitoring and controlling managers and can be described as a bridge between company management and shareholders (Dalton et al, 1998). The board is the supreme decision making unit in the company, as the board of directors has responsibility to safeguard and maximize shareholders wealth, oversee firm performance, and assess managerial efficiency. Fama and Jensen (1983) pointed out four actions of initiation, ratification, implementation, and monitory, undertaken by the board in the decision making processes. Therefore, the main role of the board is seen as the ratification and monitoring of decisions, overseeing the actions of managers/ executives. From the above concept, the role of the board is quite daunting as it seeks to discharge diverse and challenging responsibilities. The board should not only prevent negative management practices that may lead to corporate failures or scandals but ensure that firms act on opportunities that enhance the value to all stakeholders.

To understand the role of the board, it should be recognized that boards consists of a team of individuals, who combine their competencies and capabilities that collectively represent the pool of social capital for their firm that is contributed towards executing the governance function (Westphal, 2001). Given this, it is important to identify the board characteristics that make one board more effective from the other. Therefore, this study is set to identify and examine the board characteristics that make it effective and contribute towards banks financial performance.

Several empirical studies were carried out to investigate the board characteristics on firm performance (McIntyre *et al*, 2007; Bonn, 2004; and Kiel & Nicholson, 2003), while most of the empirical studies have examined the direct relationship between board variables and firm performance, very few studies have considered the effect of moderating variables (Rhoades, Rechner & Sunderamurthy, 2001). Many scholars in this regard have recently called for investigation of moderating effects in studies, linking board characteristics to firm performance (Pye & Pettigre, 2005; Carpental et al, 2004; Finkelstein & Mooney, 2003). In investigating board characteristics and financial performance of deposit money banks in Nigeria, the moderating effects use in this study, linking board characteristics to bank performance comprises five variables namely: Executives directors, Non-executive directors, board diversity (Women directors), foreign directors, and Grey directors. However, the link between board characteristics and financial performance is affected through other important variables namely: return on equity (ROE) and return on asset (ROA). These are both independent and dependent variables linked to the board characteristics and firm performance of deposit money banks. The study is carried out to investigate the impact of all these variables on financial performance of deposit money banks in Nigeria.

2.1.1 Executive Directors and Financial Performance

Fama and Jensen (1983) theorize that internal directors are the most influential board members due to their valuable firm specific knowledge. Similarly, recent studies show that inside directors are valuable in enhancing a board's advisory and monitoring functions leading to effective performance of an organization (Raheja 2005; Adams & Ferreira 2007). Executive directors simply refer to as insider directors. They are those directors that are also managers and/or current officers in the firm (Ogbechie & Koufopoulos, 2010). The role of inside directors from the perspectives of contracting literature assumed that boards choose directors to maximize shareholder wealth by improving board expertise and monitoring oversight of senior management. Fama and Jensen (1983) in their study found that inside directors enhance board functionality by improving the quality of board decision making. As such, they expect well functioning boards to include several of the organization top managers. Inside directors can contribute firm-specific expertise and insight into firm activities to board discussions, which enhances a board's ability to monitor firm performance and to set its strategic objectives (Masulis & Mobbs, 2010). Horváth and Spirollari (2012) in their studies examined the relationship of selected Board of Directors characteristics and firm´s financial performance, using large sample of U.S firm's from 2005-2009 found that the degree of insider director influences positively firm performance. This means, having executive directors in the firm improves their financial performance. Therefore, with the presence of executive director in the banking industry in Nigeria, we expect better or outstanding financial performance in the deposits money banks in Nigeria.

2.1.2 Independent Non- Executive Directors and Financial Performance

Non- executive directors are outside directors who are independent of the company. They are called independent directors because they have neither personal nor business relationships with the company (Ogbechie & Koufopoulos, 2010). In other words, non-executive is any director who is not a representative or member of the immediate family of a shareholder and who has no business relationship with the company for the past three years or more and who has the ability to control or significantly influence the board or management of the company. Non-executive directors are usually chosen because they have appropriate caliber, skills and personal qualities, and breadth of experience. More so, non-executive directors may have some specialist knowledge that will help in provide the board with valuable insights or, key contacts in related industries that may contributed in improving the financial performance of such industries. In addition, one of the utmost importance's of non-executive directors is that they are independence of the management of the company and any of its interested parties. This means they can bring a degree of objectivity to the board's deliberations, and play a valuable role in monitoring executive management. Furthermore, the presence of non-executive directors is generally believed to have provided better governance, effective monitoring, and quality performance. However, the empirical results of the previous studies regarding the relationship between non-executive directors and firm performance are still inconclusive.

Dehaene, Naccache, Cohen, Bihan and Margin (2001), found a significant positive association between the number of external directors and return on equity. The results of this study shows evidence backed up the argument that non-executive directors provide superior benefits to the company due to their independence from the management of the organization. This single act of independence attracted investors in investing more into the organizations as it helps them in making better investment decisions.

Similarly, non-executive independent directors reduce firm performance and this negative effect was even more important during the recent financial crisis (Priya & Nimalathasan, 2013), as the non-executive independent directors prefer conservative business strategies in order to protect shareholders, but this behaviour add more cost and lower firm´s Numerous studies have evidenced that the proportion of non-executive independent directors is correlated to firm performance (Agrawal & Knoeber, 1996). This shows that companies with more non-executive independent directors tend to be more profitable than those with fewer non-executive independent directors. This also suggests that increasing the level of the proportion of non-executive independent directors should simultaneously increase firm performance as they are more effective monitors of managers (Adams & Mehran, 2003). Therefore, we expect positive financial performance of deposits money banks in Nigeria with the presence of non-executive independent directors.

2.1.3 Women Directors and Financial Performance

Evolutionary Biology literature indicates that women are specialized in different tasks as a result of the requirements of nature. As a result, there have been arguments and counter arguments about women exhibiting important characteristics necessary for good governance. Specifically, it has been argued that women are meticulous, risk averse, skilled in accounting and finance, and good decision-makers (Azmi & Barrett, 2013). This makes several researchers to have recently focused on the effects that female executives and directors may potentially have on the firm's financial performance and market value. Numerous scholars, such as Adams & Ferreira (2009), Campbell and Mingues-Vera (2008), and Farrell and Hersch (2005) document that female directors may have positive impact on firm performance and market value. Similarly, Nielsen and Huse (2010) also document that female directors reduce the level of conflict in corporate boards, and they use board development activities, such as work instructions, evaluations, and development programs to improve board effectiveness.

Numerous empirical studies on the relationship between women directors and financial performance of firm are not consistent. Some studies have found a positive relationship between women directors and financial performance, while others have found no association or even a negative relationship. In fact many scholars, however, suggest that having women in the board does not necessarily improve firm performance. Watson (2002) shows that after controlling for the industry and age of the firm, there are no significant differences between male- and female-controlled firms. Nevertheless, he also finds some evidence to suggest that female-controlled firms may outperform male-controlled firms. Using Danish data, Rose (2007) reports that there is no significant relationship between firm performance and female on board representation. Adams and Ferreira (2009) in their study found that the average effect of women directors on firm performance is negative. This does not mean that there is no positive impact of having women on board of directors; they may improve financial performance in companies, but with weak corporate governance.

On the other hand, Krishnan and Park (2005) investigated the association between female directors and return on total assets for 679 companies from the Fortune 1,000 data base. The findings of the study show a positive relationship between having women in management teams and financial performance. Similarly, Carter, Simkins and Simpson (2003) examined the association between Tobin's Q and the involvement of women in the boards of the Fortune 1,000 companies and unveiled a significant positive association. The findings of these studies indicate that the presence of women in the boards or involvement of women in the management teams might improve a team performance, as this may bring in different ideas or opinion that will result to greater range of perspectives, which they eventually reach good decisions and better performance. These good decisions could metamorphose into higher business value and financial performance of organizations (Burgess & Tharenou, 2002). Therefore, we expect that having women as directors in the boards and as management teams of deposits money banks in Nigeria, there will vast improvement in the bank's financial performance.

2.1.4 Foreign Directors and Financial Performance

Foreign directors means any person occupying a position on the board of a corporation in an external territory or where a person is not a protected individual of that country or a country outside his/her citizenship by birth. In other words, a foreign director is any person who hold appointment, whose address, as shown in the register of the certificate of incorporation, in which the details of his appointment is recorded in a place, state or country outside Nigeria or external territories. Nigeria is characterized by different ethnicity groups, religious beliefs, language barriers, and political sentiments.

Therefore, having foreign directors on the boards could enhance financial performance of the organization because the foreign directors with requisite skills, expertise, experience and related knowledge bring in ideas , which in turn enhances the quality of decision making resulting to improved firm's financial performance (Azmi & Barrett, 2013).

More so, a foreign director would like to protect his/her integrity, reputation and professional competence with creativity and innovation to manage the relationship between the boards and stakeholders leading to an improvement in the firm's financial performance (Maran & Indraah, 2009). More importantly, foreign directors may have different educational and cultural backgrounds, giving them different attitudes to problem-solving as well as valuable knowledge of other markets. Maulis, Wang and Xie (2012) in their studies, unveiled that foreign directors create market value, product innovation, skills acquisition in the areas of finance and technology which improve financial performance of firm. This necessitates investors to make better decisions regarding increase in their investment with the company. According to Wan Yusoff (2010), foreign directors improve decision making, policies and procedures, and business networking. This means that foreign directors have what its entire take to move the firm forward in terms of performance. Despite various evidence and literature on accounting and finance supporting the role of foreign directors to have the capability and requisite knowledge necessary to improve a firm's financial performance, the findings from numerous empirical studies are inconclusive. The outcome of some studies having foreign directors on the boards yield positive results, while others is negative. Oxelheim and Randøy (2003) adduced that the market value of Norwegian and Swedish companies increases when they have foreign directors from Britain and America on their boards. The findings of the study show that these directors bring in an idea from their country's corporate governance which is quite different from those of Sweden.

Furthermore, Rose, Munch-Madsen and Funch (2013) evaluate the influence of foreign directors on the performance of Nordic and German companies. The findings of the study indicate having foreign directors on board and management teams in an organization yield positive impact on performance. More so, Ahmad- Zaluki (2102) found that companies with a higher proportion of foreigners on board of directors experience less underperformance. Pagett (2014) examined the board of directors and firm performance and found that both foreign and women directors on boards lead to higher market valuation of companies. On the other hand, Schwizer, Soana and Cucinelli (2012) find a significant negative relationship between the variables. Similarly, Dutta and Rose (2006), and Eklund, Palmberg and Wiberg (2009) in their different respective studies found a significant negative relationship between gender diversity and firms' performance. Agency and resource dependency theory stipulates that foreign directors behave differently from other counter parts director and their presence in the boards change behaviour and attitudes as they are said to provide better monitoring, controlling and advisory services. Virtanen (2012), in study of board of directors in Finland supports these arguments. He found out that foreign directors took active roles on boards and used financial expertise, skills, experience, knowledge, and power when compared with other directors. In Malaysia, Zainal, Zulkifli and Saleh (2013) disclosed that a small change in foreign directors' representation over a five year period reflects the slow progress in fulfilling board diversity. Therefore, with the presence of foreign directors on boards, we expect better performance in the deposit money banks in Nigeria as foreign directors are potential professional with wealth of experience, resources, skills and capacity to collect and process relevant and specific firm information for investment decisions (Kim & Yi, 2007)

2.1.5 Grey Directors and Financial Performance

Grey directors are otherwise known as affiliate directors. These are part of non-executive directors who are non-employee directors with personal or business relationship with the company. According to Clemente and Labat (2009), Grey directors are the non-executive directors representing majority shareholders who place their emphasis in monitoring opportunistic behaviour across managers, reducing earnings management practices in order to enhance performance quality.

This means that grey directors on boards represent the interest of controlling shareholders, and as such, they need to have better knowledge on the firm's activities; need to have higher control over managers; need to have higher access to financial information and to play a significant role in the development of corporate governance' control mechanisms that will reduce information asymmetry between the management and shareholders (Gillan & Starks, 2003). Therefore, grey directors' are expected to center their interests on accounting and performance quality.

Furthermore, grey directors are persons who have relations with the firm but do not participate in daily routines. According to Hsu and Wu (2010) grey director is considered to be more like inside director but with different responsibility, as its responsibility is more like that of outside directors, and outside directors together with grey director constitute non-executive directors. All non-executive directors are expected to scrutinize management performance according to the governance codes (see. Combine Code, 2003, Cadbury, 1992).

Numerous previous studies primarily focus on the effectiveness and governance roles of independent outside directors or inside directors without mentioning the grey directors. The role of grey directors remains ambiguous in the corporate governance literature. Some studies see inside and grey directors as affiliated directors because they both have certain types of economic or personal relationship with companies and top management teams (Carcello & Neal, 2000, Carcello & Neal, 2003, Beasley, 1996, Hillier & McColgan, 2006). Using Cadbury Report (1992), Hillier & McColgan (2006) found a significant growth in the fraction of non-executive and independent outside directors serving on company boards, and a corresponding decrease in the fraction of inside directors (executive directors).

However, the fraction of non-executive directors who are considered as grey directors remained relatively consistent at about 15% of total board members over their study period. This percentage reflects that grey directors are still commonly serve in the board in the UKEzzamel and Watson (1997) in their study, using agency theory point of view, conclude that grey directors cannot be expected to effectively play the primary monitoring and control roles since they are close to the executives or companies and as such their monitoring duty as non-executive directors may be constrained on some issues where the preference of executives is different from those of shareholders. Similarly, Pfeffer (1972) and Burt (1980) from resource dependence theory point of view see grey directors as those who have higher incentive and better firm-specific knowledge to devote their time and efforts to the companies. As such, they might be capable to support board to carry out its managerial functions. Furthermore, from resource dependency perspective, some grey directors who represent business partners on board also serve to link the firms to external resources and business community. Therefore, Accountants, Lawyers, Consultants, and Finance providers who sit on the board may also provide advice and monitoring to management (Hsu & Wu, 2010). This suggests that the contribution of grey directors on the board is still ambiguous. Although, we still expect that the presence of grey directors on the boards in the deposit money banks in Nigeria will yield better results.

3.1 Methodology, Model Specification, and Robustness Tests

This work is co relational in nature as it links board characteristics proxies and financial performance. The population of the study consists of all the 17 deposit money banks quoted on the Nigerian Stock Exchange as at 31st December, 2014. In order to have valid data for this study, effort was geared toward the banks that were listed on the Nigerian Stock Exchange for the period of this study (2005 - 2014). These are banks with complete data and whose data will also be available for the period under study. Therefore, 15 banks were selected to make 150 banks year observations. Consistent with prior studies (such as Pallant, 2005; Gujarati, 2003; Norusis, 2000; Kleinbaum, Kupper, Muller, and Nizam, 1998; as cited in Jusoh et al., 2013), a generalized least square (GLS) method will be used to analyze the data. This is because when data distribution is not evenly distributed, the estimation method of ordinary least square (OLS) to analyze the sample data would produces bias and inefficient results. As such, generalized least square method of estimation would be more appropriate. Furthermore, Normality check of the data was also carried out and some of the measures were transformed into logarithm to control for skewed nature of data. Therefore, the multivariate regression will be used to analyze the data and the test of multi co linearity, homoscedasticity and linearity will also be carried out.

3.2 Model Specification

The econometric model developed for this study comprises two equations. The first model utilizes ROA as performance indicator and second model utilize ROE as performance indicator. The ROA is measured as a ratio of Profit After Tax to Total Asset and ROE is measured as a ratio of Profit After Tax to to Total shareholder funds. These equations are tested in this study as shown below:

Model I: Board Characteristics and ROA of Deposit Money Banks

$$ROA = \alpha o + ß1EXDit + ß2\ INEDit + ß3\ WMDit + ß4\ FNDit + ß5GRDit + ß6LSZEit + \Sigma it$$

Where:

αo =Intercept/ Constant term
EXD=Executive Director
INED=Independent Non- Executive Director
WMD=Women Director
FND=Foreign Director
GRD=Grey Director
FSIZE= Firm Size
Σ=Error term
i=ith Bank
t=tth Period

Model II: Board Characteristics and ROE of Deposit Money Banks

$$ROE= \alpha o + ß1EXDit + ß2INEDit + ß3WMDit + ß4FNDit + ß5GRDit + ß6LSZEit + \Sigma it$$

Where:

αo =Intercept/ Constant term
EXD =Executive Director
INED =Independent Non- Executive Director
WMD =Women Director
FND =Foreign Director
GRD =Grey Director
FSIZE =Firm Size
Σ =Error term
i =ith Bank
t =tth Period

Finally, the board characteristics variables which comprise executive directors, non executive directors, women directors, foreign directors, and grey directors are expressed in proportion to the total number of directors on board which is consistent with prior studies such as Chehaat 2006; and Shehu (2011).

4. Results and Discussion

This section presents the descriptive and inferential results obtained from the study and findings from the results are discussed on the basis of the literature

Table 1: Descriptive Statistics

Variable	Mean	Median	Minimum	Maximum	Std. Dev.	Skewness	Ex. kurtosis
ROA	0.2042	0.0193	-0.3106	8.8565	1.1055	6.3942	41.0369
ROE	1.0471	0.1152	-3.9432	45.7334	5.6431	6.1611	38.8862
EXD	5.3667	5.0000	2.0000	9.0000	1.5903	0.1291	-0.2607
INED	1.3960	2.0000	0.0000	3.0000	0.9573	-0.4434	-1.1647
GRD	6.2067	6.0000	2.0000	10.0000	1.7505	-0.3482	-0.3932
WMD	1.7200	1.0000	0.0000	6.0000	1.4615	0.7132	0.0002
FND	1.6267	1.0000	0.0000	8.0000	1.9440	1.2103	0.7042
LSZE	19.4033	19.8093	12.8413	21.9540	1.8476	-1.6184	2.6761
FAGE	5.5000	5.5000	1.0000	10.0000	2.8826	0.0000	-1.2242

Note: *ROA = Return on Asset, *ROE= Return on Equity, EXD = Executive Director, INED = Independent non-executive Director, GRD = Grey Director, WMD = Woman Director and FND = Foreign Director

Source: Author's computations, using EViews9

Table 1 above shows the result of descriptive statistics test utilizing the data mean, median, standard deviation, skewness and kurtosis. Tabachnick and Fidell (2001 as cited in Jusoh et al., 2013) found that the population or sample of the study is assumed to be normally distributed when the mean of variables are similar to the value of median, skewness value is zero and kurtosis value is greater than or equal to or less than 3. A kurtosis with distribution greater than 3 is a leptokurtic distribution whereas 3 is the kurtosis of a normal distribution. A leptokurtic distribution (greater than 3) has a sharper peak with lower probability than a normal distribution of kurtosis whose value is equal to 3. A kurtosis with less than 3 is a platykartic distribution which has a lower and wider peak with higher probability than leptokurtic and normal distribution. However, the diagnostic test indicated that no variables have the value of mean equal to value of median. Similarly, the skewness value and kurtosis value of the variables are both mix positively and negatively showing that their distributions are skewed to the right side as well as to left side of the table with the kurtosis value of variables range from 0.000195646 to 41.0369. The negative skewed distribution is an indication that there is greater risk than what the standard deviation measures, while the positive skewed distribution is also showing that there is lower risk than what the standard deviation measures. The standard deviation overstates the risk for a positively skewed distribution while underestimating the risk for a negatively skewed distribution.

Consequently, the mean value for return on asset is 0.2042%. This means the total assets turn over yield 20.42% profits during the period under review. Similarly, the mean value for return on equity is 1.05%. This is also an indication that the shareholders fund yield 105%, implying that there is an addition of 5% increase return on shareholders' fund. It means that the shareholder investment has appreciated by 5% profits during the year under review. Executive director, Independent non-executive director, Grey director, Women director and Foreign director have an average value of 5.37, 1.40, 6.20, 1.72 and 1.63 respectively within the period of the study. The minimum value for return on asset is -0.310640 and the maximum value is 8.85650, while the minimum of that of return on equity is -3. 94318 and maximum value is 45.7334.

The result of the descriptive statistics test shows that the executive director has a minimum number of 20% and a maximum number of 90%. Other variables such as independent executive director, grey director, women director and foreign director with minimum number of 00%, 20%, 00%, 00% and a maximum number of 30%, 100%, 60% and 80% respectively. The 00% in this result is a reflection of some banks which do not have independent non-executive directors, women directors and foreign directors in their boards. The result shows that the grey director has the highest standard deviation among the independent variables but it appear as the third contribution to dependent variable (ROA, ROE). Independent non-executive director has the least value for standard deviation and it therefore represents its highest contribution to other variables of the study.

The regression results

This sub-section gives the results on the determinants of bank performance in Nigeria. For all regressions examined, the hausman test was carried out in order to choose between random and fixed effects model. This assists us to reject the random effect and opted for fixed effect estimator. Table 2 and 3 below presents the regression result of the dependent variable (ROA), (ROE) and the independent variables of the study (EXD, INED, GRD, WMD and FND). The presentation cut across in line with the analysis of the relationship and impact between the independent variables and the dependent variable of the study and the cumulative analysis.

$$ROA = \beta_0 + \beta_1 EXD_{it} + \beta_2 INED_{it} + \beta_3 WMD_{it} + \beta_4 FND_{it} + \beta_5 GRD_{it} + \beta_6 LSZE_{it} + \varepsilon_{it} \quad (1)$$

Table 2: Summary of Regression Result

Variable	Coefficient	Std. Error	t-ratio
Const	0.61319	1.04653	0.5859
FND	0.137696*	0.0521317	2.6413
GRD (-1)	−0.114496**	0.0496205	−2.3074
EXD	0.0224281	0.0462727	0.4847
LSZE	−0.0106037	0.0508711	−0.2084
INED	0.0304872	0.0828999	0.3678
ROA (-1)	0.36153*	0.0671023	5.3877
Diagnostics Statistics			
Adj. R^2: 0.29			
S.E. of regression: 0.814694			
DW: 1.82			
F-statistic: 8.32127			

Note: * and ** represent statistical significance at the 1% and 5% level respectively. Numbers in parenthesis denote lag length.

Source: Author's computations, using EViews9

The results in Table 2 above show that when ROA was utilized as dependent variable to measure the banks' performance, foreign director has a t-ratio of 2.6413 and a beta value of 0.137696 which is significant at 1%. This implies that a foreign director has positive significant influence on the performance of listed Deposit Money Bank in Nigeria. This means that for every increase in the number of foreign directors, it has a significant impact on the performance of listed Deposit Money Bank in Nigeria.

This provides evidence supporting us to reject the null hypothesis one of the study which states that foreign director has no significant impact on the performance of listed Deposit Money Bank in Nigeria. From the table above, it also provides us with the result in respect of Grey director using ROA as measure of banks' performance. The grey director has a t-ratio of -2.3074 and a beta value of -0.114496 which is significant at 2%. This signifies that grey director has negative, but strong and significant influence on the performance of listed Deposit Money Bank in Nigeria. This provides us an evidence to accept the null hypothesis two of the study which states that grey director has no significant effect on the performance of listed Deposit Money Bank in Nigeria. This shows that for every increase in the number of grey director on the boards, the performance of deposit money bank in Nigeria will decrease by N0.02.

The results on the table also shows that the previous return on asset (ROA) has positive significant impact on the current return on asset (ROA) which has a t-ratio of 5.3877 and a beta value of 0.36153 at 1% significant level. This is an indication that the asset turnover is appreciated and the increase is consistent with the previous asset turn over. Other variables, such as Executive director, Independent non-executive director and Woman director do not have significant impact on the performance of Deposit Money Bank as measured by ROA. The model shows that R^2 is about 36% implying that the variable used account for 36% variation in the dependent variable. The model also satisfied the test of auto correlation as the DW statistics is 1.82.

$$ROE = \beta_0 + \beta_1 EXD_{it} + \beta_2 INED_{it} + \beta_3 WMD_{it} + \beta_4 FND_{it} + \beta_5 GRD_{it} + \beta_6 LSZE_{it} + \varepsilon_{it} \quad (2)$$

Table 3: Summary of Regression Result

Variable	Coefficient	Std. Error	t-ratio
const	−3.69897	6.67714	−0.5540
FAGE	−0.026328	0.218102	−0.1207
EXD	0.307041	0.335774	0.9144
INED	0.283644	0.621915	0.4561
GRD	0.355583	0.309022	1.1507
WMD	−0.174251	0.427771	−0.4073
FND	0.680183**	0.356138	1.9099
LSZE	−0.0274944	0.310699	−0.0885
ROE(-1)	0.330603*	0.0749708	4.4098

Diagnostics Statistics
Adj. R^2: 0.25
S.E. of regression: 4.616026
DW: 1.89
F-statistic: 4.69633

Note: * and ** represent statistical significance at the 1% and 10% level respectively. Numbers in parenthesis denote lag length.

Source: Author's computations, using EViews9

From Table 3 above, when ROE is used as dependent variable to measure banks' performance, Foreign director has positive and statistically significant influence at 10% level on the performance of listed Deposit Money Bank in Nigeria. This also attests that for every increase in the number of foreign director, there is significant impact on the performance of deposit money bank in Nigeria. It also signifies that an increase in the number of foreign director results in the increase of the shareholders' funds. This may be as a result of the fact that 'foreign directors' are believed to provide better performance that will benefits the firm as a result of their skills, expertise, experience and technical competence.

The results also show that 1-lagged ROE is positively related to current ROE at 10% level. This means that the increase in the previous ROE has positive correlation with the current increase in ROE. This indication that the value of shareholders fund continues to appreciate from previous year financial accounting to current year financial period. The appreciation of shareholders fund in current year is consistent with the previous year, showing that their investment is growing, sound, and healthy.

Other variables, such as Executive director, Independent non-executive director, Woman director and grey director do not seemed to have significant impact on ROE. This provides us with an evidence supporting the acceptance null hypotheses that Executive director, Independent non-executive director, Woman director and Grey director has no significant impact on the performance of deposit money bank in Nigeria. The results of the study also attest that the degree of fitness of the model is approximately 0.32%, which is the multiple coefficients of determination gives the proportion of the total variation in the dependent variable explained by the independent variables jointly. This signifies 32% of the total variation in the Performance of listed Deposit Money Banks in Nigeria which is caused by the proportion of Foreign Directors, Executive director, Grey director, Woman director, and Independent non-executive director. This shows that the model of the study is fit and the independent variables are properly selected, combined, and used. The test for autocorrelation as shown by DW statistics is satisfactory. This means that there is no auto correlation among the residual of the study.

5.1 Conclusions and Recommendations

The study examines the influence of board characteristics on performance of listed deposit money banks in Nigeria. Executive director, Independent non-executive director, Grey director, Woman director and Foreign director constitutes the board characteristics of the selected banks, while the ratio of profit after tax to total asset and profit after tax to shareholder total fund represents the Performance which stands as the dependent variable of the study. The study found that executive director has no significant influence on performance of listed banks in Nigeria which is contrary to Horváth and Spirollari (2012) who found that the degree of executive directors (insider director) on the board of directors influences positively on the firm performance.

Similarly, independent non-executive director has no significant relationship on the performance of deposit money bank in Nigeria. This findings is contrary to the study carried out by Dehaene, De-Vuyst & Ooghe (2001)) whose study found a significant positive association between the number of independent external directors and return on equity as well as return on asset. However, the findings agreed with those of Priya & Nimalathasan (2013) whose see the independent non-executive director to be responsible for reduce firm performance and this may affect firm performance negatively. Woman director has no significant association on the performance of deposit money bank in Nigeria. This is in line with the study conducted by Rose (2007) Adams and Ferreira (2009) who found that there is no significant relationship between firm performance and female director on board. It therefore contradicts the finding of the study conducted, by Krishnan and Park (2005) who found that women directors perform better than men directors do. Therefore, having women on the board contributes positively to the financial performance of a firm.

Consequently, the study also shows that foreign director have positive and significant influence on performance. This is in line with the study carried out by Rose et al. (2013). Grey director have negative and significant influence on the performance of deposit money bank in Nigeria. In a nutshell, firms that have more foreign directors on the board are more likely to have tremendous increase in the level of their performance, while those having high number of grey directors on their boards are expected to have a negative influence on their performance. It is therefore, recommended that the management of listed deposit money banks in Nigeria should increase the number of foreign directors on Board to a certain average or number as they have skills, expertise, experience and would like to protect their integrity, reputation and professional competence. This will result to creativity and innovation to manage the relationship between the boards and stakeholders leading to an improvement in the firm financial performance. Similarly, the number of grey directors on board should be reduced to an average of three (3) or four (4) as the case may be in order to overcome the negative effect on performance.

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