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BOARD DILIGENCE AND FINANCIAL PERFORMANCE: EVIDENCE FROM NIGERIAN DEPOSIT MONEY BANKS

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Abstract: *The study examined the effect of board diligence on financial performance of listed deposit money banks. Data of the 10 selected DBMs were obtained from their annual financial statements from 2012 to 2018 using an ex post fact research design and purposive sampling technique. The data were analysed using inferential statistics and hypothesis testing using Generalised Method of Moment (GMM). The study found that board diligence has significant negative effect on financial performance of Nigerian listed DBMs. As regards the controlled variables, only capital adequacy and firm size were found to positively and significantly influence financial performance. Liquidity ratio was found to have direct but no significant effect on financial performance while nonperforming loan negatively and insignificantly affect financial performance. The study concludes that bard diligence reduces financial performance. It is therefore recommended that preference should be given to the quality of board meeting and not the quantity and that issues that have implications on performance should be given utmost attention at board meetings.*
Keywords: *Board meetings, profitability and GMM.*

1. Introduction

The consequential impact of the global financial crisis of 2007–2008 that hard hit global economy on the banking sector have highlighted the need for a more controlled operational environment, increased governance complexity and additional calls for effective monitoring by banks' boards of directors (seeKörner2017). A unique corporate governance mechanism is a manifestation of dominant role of boards of directors on performance and risk-taking behavior (Elyasiani and Zhang, 2015; Faleye and Krishnan, 2017). It is the expectation of both the shareholders and regulators that boards should establish an effective risk monitoring system so as to eradicate misconduct and excessive risk taking (Kress2018). One of the ways through which the board discharges its monitoring and controlling responsibility is through board meetings. According to Jensen (1993) board meetings and frequency are regarded as tools for enhancing the monitoring activity of directors and it has implication on performance. Board meetings are unique component of board supervisory function as outstanding issues and potential solutions relating to an entity are discussed at the meeting. It is thus being regarded as essential component of good governance (Vafeas, 1999; Conger, Finegold & Lawler, 1998; Lipton & Lorsch, 1992). Eluyela et al (2018) regards board meetings as avenue for effective coordination of opinions for attainment of firms' goals and objectives.

According to Kakanda et al. (2016a) business survival and growth is a reflection of corporate performance. Marn and Romauld (2012) relate companies' performance to its efficient and effective uitilisation of its scarce resources to accomplish its goals. Corporate performance is majorly measured by the ability of companies' directors to maximize the wealth of its shareholders. Corporate performance it often referred to as profitability which is conceptualized by Gatsi, Gadzo and Akoto (2013) as final outcome of firms' financing and investing activities and as well as how management's is able to optimize profitability via capital structure decision. Profitability are commonly measured mainly by 5 variants like return on asset, return on equity, return on capital employed, gross profit margin and net profit margin(see Ilaboya, 2008).

In Accounting and finance literature, the nexus between board meetings frequency and financial performance has engendered series of arguments. Basically, there exist two schools of thoughts on their nexus. The first school of thought are those that believed that board effectiveness in the fulfillment of their functions of setting strategy and monitoring of management, there is a need for the board of directors to meet at regular interval (Vafeas, 1999). This argument can be supported by the role of board meetings to reduce agency problem by providing avenue for monitoring and control which will assist in aligning the interest of the managers with that of shareholders. On the contrary, the second school of thought are those that assert that board meetings frequency results to wasting management time and effort and waste of company's scarce resources by placing financial burden such as travelling expenses and sitting allowance to director on the company They conclude that it is the quality of meetings that improve performance and not quantity (see Ntim and Osei, 2011; Taghizadeh and Saremi, 2013; Oyerinde, 2014).

Prior literatures in the Nigerian context have majorly focused on corporate governance and financial performance in general (see Umar & Sani, 2020; Oyedokun, 2019; Ilaboya and Obaretin, 2015). While the nexus between board meetings and financial performance has suffered significant neglect in the Nigerian banking system. To as observed, the only study that has specifically addressed the issue of board meetings and financial performance is that done by Eluyela et al (2018). However, there are some clear gaps in their work; first there data span from2011 to 2016; they have viewed the nexus between board meetings and financial performance from static perspective, third most of the variables that are likely to influence profitability aside from board meetings such as liquidity, nonperforming loan and capital adequacy were not included in the model. This may produce unsatisfactory results and thus the need for re-examination. Arising from this, the study examines board diligence and financial performance of Nigerian deposit money banks from 2012 to 2018 using generalized method of moment.

2. Literature Review

2.1. Conceptual Review

Board Meetings and Financial Performance

Board diligence in this study is a proxy of board meetings. Board meeting is an important component of corporate governance as it provides an avenue for directors on the board to deliberate on issues and make strategic decisions that are germane to the success of a company and attainment of its overall objectives. According to Eluyea et al (2018), regular board meetings is an internal issue at the discretion of chairman of board meeting as there is no explicit governance law stipulating the minimum number of meetings. Empirical literature as to board meetings and financial performance nexus has produced conflicting evidences. Scholars like Gosh (2007) are those that have found direct and significant effect of board meetings on financial performance. Contrarily, Johl, Kaur and Cooper (2013) reported negative association. According to (Chorsch & Maclver (1989) cited in Ilaboya and Obaretin (2015) board meetings frequency is discouraged as it is believed to engender wasting use of organization resources on activities that are counterproductive.

2.2. Theoretical Framework

The popular agency theory is the relevant theoretical framework for this study. The agency problem is the outcome of ownership being separated from management where agents (managers) are appointed by principals (shareholders) to run and management the business on their behalf. As principals are unable to directly observable the behavior of agents there arises conflict of interest where managers are tempted to pursue their own self

aggrandizing goals as against those of their principals. According to Eluyela et al (2018), the agents are appointed and corporate governance mechanism instituted so as to ensure creation of a disciplined atmosphere, setting of timely and achievable strategic plan and the effective control of the management so as to maximize shareholders wealth via improved financial performance**. to have this actualized,** (Ntim and Osei, 2011) argued in favour of regular board meetings so as to increase their advisory, controlling and monitoring capacities and ensuring discipline so as to improve organizational performance

2.3. Empirical Review

Eluyela et al. (2018) using fixed effect regression on data of 14 sampled DBMs from 2010 to 2016 found among other that board meetings has positive insignificant effect on financial performance. Hanh, Ting, Kweh and Hoanh (2018) selecting 94 firms quoted in Ho Chi MinhStock Exchange from 2013 to 2015 found that board meetings negatively affect profitability. Araoye and Olatunji (2018) found from the investigation of board meetings and financial performance of 15 selected insurance companies from 2006-2017. The finding shows negative and insignificant effect of board meetings on financial performance. Urhoghide and Omolaye (2017) found that board diligence has no significant positive effect on profitability of oil and gas companies in Nigeria. Akpan (2015) using data of 79 quoted Nigerian companies from 2010 to 2012.the result of the regression analyses reveals that board meetings, directors` equity and board size are negatively significant on profitability. Audit committee meetings are positively significant while gender diversity and board age are not significant measured with ROE. Al-Daoud, Saidin and Abidin (2016) using GMM on data of 118 listed Amman companies from 2009-2013 found that board meetings positively influence profitability Johl, Kaur and Cooper (2015) focusing on 700 listed companies in Malaysia for 2009 found that board diligence has negative effect on performance. Ilaboya and Obaretin (2015) in Nigeria reported positive insignificant influence of board diligence on financial performance of Nigerian quoted food and beverages companies.

H_{01}: *Board diligence has no significant effect on financial performance of Nigerian DBMs.*

3. Methodology

3.1. Sample

10 DBMs represent the study's sample. 15 DBMS were listed on the Nigerian Stock Exchange. The 10 banks were purposively selected while an *ex post facto* research design was used.

3.2. Source of Data

Data were obtained from the annual reports and financial statements of the banks.

3.3. Measurement of Variables

The only dependent variable is financial performance which is measured by ROA. It is measured as the proportion of profit after tax to total asset. Several researchers like Sanyaolu *et al* (2019) have proxied profitability by ROA in their studies. One independent variable is used by the study to surrogate board diligence which is the number of meetings held in a fiscal year bt the directors on the board. Furthermore, four variables are used as control variables. These variables are believed to be potential determinants of ROA. They are: capital adequacy which is measured as proportion of equity capital over total asset, loan to deposit ratio which is a measure as ratio of bank loan to total asset, nonperforming loan ratio which is the proportion of loan performing loan to total loan and bank size which is the natural logarithm of bank total asset.

3.4. Method of Data Analysis

The study analyzed the data by using descriptive correlation and generalized methods of moment which is appropriate when the number of observations exceed time series using of E-views 9.]

3.5. Model Specification

The model of the study is specified below:
Y=F(X)
Where Y = financial performance
X= bard diligence
Statistically, the model is restated as:
ROA = F (BD, CAR, LDR, NPLR & FS)
Econometrically, it can be restated as
$ROA_{it}= \beta_0+\beta_1 ROA_{it-1} + \beta_2 BD_{it} + \beta_3 CAR_{it} + \beta_4 LDR_{it} + \beta 5NPLR_{it}+\beta 6FSZ+ e_{it}$(2)
Where;
ROA_{it} = return on asset of firm i in period t
ROA_{it-1} = previous year return on asset of firm i in period t
BDit = board diligence of firm i in period t]
CAR_{it} = capital adequacy ratio of firm i in period t
LDRit = loan to deposit ratio of firm i
$NPLR_{it}$ =Nonperforming loan ratio of firm i in period t.
SZ_{it} = firm size of firm i in period t
β_0 = Intercept term
β_{1-} β_4 = Regression coefficient of the independent variable
e_{it} = Stochastic error term

4.1. Descriptive Statistics

Table 1: Descriptive Statistics.

	ROA	BD	CAR	LDR	NPLR	LASSET
Mean	0.017003	6.228571	0.126438	0.699504	0.076550	20.98964
Median	0.015478	5.500000	0.138145	0.703721	0.037300	21.04478
Maximum	0.119833	11.00000	0.803866	1.277526	0.970000	22.44036
Minimum	-0.105138	4.000000	-0.607458	0.090703	0.010000	17.87634
Std. Dev.	0.026249	2.001242	0.144500	0.194458	0.129430	0.959320
Skewness	-0.840209	0.895472	-1.131955	-0.071494	5.085210	-0.763573
Kurtosis	11.91711	2.943950	19.56902	3.959868	33.94428	3.464079
Jarque-Bera	240.1542	9.364313	815.6680	2.746896	3094.542	7.111902
Probability	0.000000	0.009259	0.000000	0.253232	0.000000	0.028554
Sum	1.190179	436.0000	8.850659	48.96525	5.358500	1406.306
Sum Sq. Dev.	0.047542	276.3429	1.440747	2.609150	1.155902	60.73950
Observations	70	70	70	70	70	70

Source: Authors Computation (2020) using E-view 9

The table above shows the statistical attributes of the variables of the study. ROA is averaged 0.017 with a minimum of -0.105 and maximum of 0.12. Board diligence has a mean value of 6.2 and ranges from 4 to 11. Capital adequacy ratio is averaged 12.6% and varies from -60.7% to 80.3%. Loan to deposit ratio is averaged 70% with a minimum of 9.1% and maximum of 128%. Nonperforming loan ratio has a 7. 7% and ranges from 1% to 0.97%. Size has an average value of 20.98964(log inverse) and varies from 17.87634 to 22.44036. As to the normality of the variables all but loan to deposit ratio are normally

distributed as the probabilities of their Jarque-Bera are significant at 5%. As to the Kurtosis, only Board diligence is found to be platykurtic as the value is below the threshold of 3 while all others are leptokurtic

4.2. Correlation Analysis

Table 2: Correlation Matrix

	ROA	GM	CAR	LDR	NPLR	SIZE
ROA	1.000000					
GM	-0.143007	1.000000				
CAR	0.772339	-0.096595	1.000000			
LDR	0.083054	0.187795	0.041841	1.000000		
NPLR	-0.099053	-0.026266	0.075893	0.296981	1.000000	
SIZE	0.322073	0.204254	0.061189	0.142097	-0.126410	1.0000

Source: Authors Computation (2020) using E-view 9

The table above shows the correction among all the variables of the study. As it is shown above, none variables has a correlation coefficient in excess of 0.80(Field, 2005). As such, there is no problem of auto correlation.

4.3. Result

Table 3: GMM Analysis for board diligence and financial performance

	Pooled OLS Estimation			Fixed Effect			Random Effect		
Regressors	Coeff	t-stat	p-val	Coeff	t-stat	p-val	Coeff	t-stat	p-val
C	-0.236701	-4.247940	0.0001	-0.486080	-2.581213	0.0139	-0.253205	-4.418392	0.0001
ROA(-1)	0.126266	1.307439	0.1976	-0.004642	-0.046015	0.9635	0.101972	1.130450	0.2641
GM	-0.002323	-2.227353	0.0309	-0.001087	-0.724247	0.4735	-0.002221	-2.153279	0.0366
CAR	0.089960	5.355996	0.0000	0.058818	2.956277	0.0054	0.085154	5.310391	0.0000
LDR	0.018219	1.561418	0.1253	0.012654	0.923148	0.3619	0.018440	1.672948	0.1011
NPLR	-0.021323	-1.450352	0.1537	0.004111	0.214657	0.8312	-0.017752	-1.248667	0.2181
LASSET	0.011502	4.104919	0.0002	0.023365	2.544197	0.0153	0.012278	4.288389	0.0001
R-square	0.716197					0.81208			0.677764
Adj.R-square	0.679179					0.73590			0.635733
J-stat	46.000					37.000			46.000
Prob J-stat	0.0000					0.0000			0.0000
Durbin Watson	1.781327					2.0229			1.827054
Instrument rank	8					17			8
Hausman Test	12.092251		0.0599						

Source: *Researchers' Computation (2020) Using E-views 9*

The adjusted R-Square of 0.636 implies that almost 64% variation in profitability is accounted for by the dependent variables (previous year profitability, board diligence, capital adequacy, loan to deposit ratio, non performing loan ratio and size. The J-statistics value of 46. 0 with corresponding probability of 0.000 implies that the model as a whole is statistically significant at 1% level of significance. The Durbin Watson value of 1.827 shows that there is no problem of autocorrelation.

We found that last year profitability does not significantly drive current year profitability even though it is positive. This may be an indication of low retention ratio of profit for growth potential of DBMs.

Contrary to our expectation, board diligence exert significant negative influence on profitability with a t-value of (-2.153279) which implies that increase in board meetings will significantly reduce profitability. Increase in board meetings frequency according to Johl *et al* (2013) amounts to wasting hard earned productive resources to unproductive activities. It is therefore imperative for banks to hold optimum meetings as too much board meetings frequency could lead to wasting quality time and efforts (see Ilaboya and Obaretin, 2015). This outcome is in line with that of Ting, Kweh and Hoanh (2018), Johl, Kaur and Cooper (2015) and Akpan (2015) who found significant negative effect of board meetings on profitability while it contradicts findings by Ilaboya and Obaretin,(2015) that found positive insignificant effect of board meetings on profitability. We therefore reject the null hypothesis H_{01} that board diligence has no significant effect on financial performance of Nigerian DBMs.

In an attempt to avoid spurious result, other variables outside board meetings such as capital adequacy, loan to deposit ratio, nonperforming laon ratio and bank size were introduced as control variables. Capital adequacy shows significant positive effect on profitability with a t-value of 5.310391.this implies that banks capital strength is a significant driver of profitability of Nigerian DBMs. This finding is in line with that of Sanyaolu et al (2019) that established significant positive effect of capital adequacy ratio of Nigerian DBMs. The implication of this finding according to Sanyaolu et al(2019) may be due to the fact that capital adequacy may afford banks the opportunity of having sufficient fund to finance loan request of customers and as well as being able to invest in new technology that reduces operational cost.

Liquidity ratio was found to have positive but no significant influence on profitability. This means that liquidity ratio is not an important driver of profitability in the Nigerian DBMs. This outcome is in disagreement with that of Bagh, *et al.,* (2017) that reported positive significant effect of liquidity ratio on profitability.

Nonperforming loan exert negative but no significant influence on profitability. This is consistent with our a priori expectation as non performing loan is written off of profit it has tendency of reducing profitability. This finding is in contrast with that of Annor and Obeng (2017) that found positive significant influence of nonperforming loan on profitability.

Size positively and significantly affects profitability. This is also in line with our expectation as larger banks may enjoy economies of scale that reduce average cost and boost profitability. This is consistent with the finding of Rahman, Hamid and Khan (2015) that show positive significant effect of size on profitability.

5. Discussion and Conclusion

The study examines the effect of board diligence on financial performance of 10 selected listed DBMs from 2012 to 2018 using GMM. The main finding of the study is that board diligence has significant negative effect on financial performance measured by return on asset. This finding is supported by those of Ting, Kweh and Hoanh (2018), Johl, Kaur and Cooper (2015) and Akpan (2015) that reported significant negative effect of board diligence on profitability. As to the control variables, only two (capital adequacy ratio and bank size) were found to exert positive significant influence on profitability while the study could not establish significant influence of loan to deposit ratio (liquidity ratio) and nonperforming loan ratio on profitability.

Generally, empirical investigations have mainly focused on corporate governance and profitability in general with very few studies that specifically addressed the issue of board diligence on profitability of Nigerian deposit money banks. This study therefore examines board diligence on financial performance of Nigerian DBMs from dynamic

perspective. The study found that board diligence negatively and significantly impact profitability. This finding could be linked to the fact that frequent board meeting could lead to diversion of management time and effort to unproductive activities and as well as diverting firm scarce resources on irrelevant and unproductive activities such as payment of high travelling and seating allowance to directors on the board and as well as other associated costs.

Our study therefore recommends that quality of board meetings should be given priority and not its frequency. Also, important issues that are likely to translate to better performance and maximization of shareholders wealth should be prioritized. Despite our study, it is important to emphasize that our study has its own limitations. We examined board diligence and financial performance of Nigerian DBMs, future researchers can extend the scope by focusing on the non financial sectors and other non-bank financial institutions. Also, the inclusion of variables such as ownership structure, audit committee meetings may produce better opportunity for generalization.

Appendix:

Table 1: List of sampled Banks

S/N	Name of Banks
1	GT Bank Plc.
2	UBA Plc
3	Access Bank Plc
4	Zenith Bank Plc
5	First Bank Plc
6	Sterling Bank Plc
7	Union Bank Plc
8	Fidelity Bank Plc
9	Wema Bank Plc
10	Unity Bank Plc

Source: Authors' compilation (2020)

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