

BOARD COMPOSITION AND FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The performance of banks has been identified as critical to the development of any economy. The boards of these banks also occupy a critical role in their performance as they are responsible for the long term success of the banks. It has become a big question what board composition is appropriate for effective performance of corporate organizations of which banks are not exceptional. This study therefore examined the effect of board composition on the financial performance of listed deposit money banks in Nigeria. Five (5) banks were randomly sampled and studied over a six year period (2012-2017). Data collected from various annual reports and accounts were analyzed using Ordinary Least Square Regression analysis. Results show that board size has negative significant effect on the financial performance of listed deposit money banks in Nigeria while non-executive directors have positive significant effect on the financial performance of listed deposit money banks in Nigeria. This study recommends among others, a board size composition of ten and a maximum of fifteen (15) for deposit money banks depending on the scale and complexity of the bank without prejudice for skills, competence, independence and availability of meetings. This study also recommends in line with corporate governance codes that emphasis be placed on non-executive directors although with great care and considerations given to skills, competence, experience, independence and availability for meetings.

INTRODUCTION

Financial institutions have being considered vital to any economy's growth and development (Dzingai & Fakoya, 2017). A country's economy depends on the safety and soundness of its financial institutions (Central Bank of Nigeria [CBN], 2014). The success or positive performance of these institutions is also very important to every stakeholder and their shareholders in particular. The banking sector occupies to a large extent a significant position among financial institutions, so also its contribution to the Nigerian economy. The continuous existence of the sector is therefore a crucial issue to every stakeholder. According to Muller (2014) entities' financial performance is very crucial to shareholders and other stakeholders and it is essentially a vital source of funding of the present economic activities thereby assisting in maintaining firms growing concern and as well improve it value. Additionally, dividend distribution which attracts investors also centers on the financial performance of firms.

The role of the banking sector in the Nigerian economy is critical in practical terms. Banks mobilize funds from the surplus units to the deficit units by collecting deposits and channeling same towards profitable directions. This they do by lending to borrowers of funds and/or trade in investments. The ability of the banks to make profit and continuously exist depends on their abilities to generate cheap deposit on which

they pay interest and involve in lending and/or investing activities more competitively. That is, higher interest income over interest expenses. According to Adams and Mehran (as cited in Bebeji, Mohammed Tanko, & 2015), good corporate governance represents a central issue for the operation of modern banking industry in the world today. It is expected of poorly governed firms to be less profitable, have more bankruptcy risk, lower valuations and pay out less to their shareholders, while well governed firms are expected to have higher profits, less bankruptcy risks, improved pay-out ratio to shareholders and higher valuations (Mburu & Kagiri, 2015).

Corporate Governance refers to the rules, processes or laws by which institution are operated, regulated and governed. (CBN, 2014). The directors of a company are given most of the powers of running the company which they delegate to management thereby requiring them to monitor the decisions of the executive management and also retain key decisions such as setting strategic objectives and giving approvals. The Board is responsible for the long term success of the company (Institute of Chartered Accountant of Nigeria [ICAN], 2014). According to Adeoye and Amupitan (2015), corporate governance is designed to promote a diversified, strong and reliable banking sector which will ensure the safety of depositors' funds as well as play active developmental roles in the Nigerian economy. They also described corporate governance as a mechanism by which individuals are motivated to reconcile actual behaviors with overall objectives of the organization. According to Brenann (as cited in Rashid, De zoysa, Lodh & Rudkin, 2010), the board is viewed to be a principal internal corporate governance mechanism. They believe that the board monitors and supervises management and gives management strategic guidelines. According to Zahra and Pearce II (as cited in the work of Rashid *et al.*, 2010), the existence of the Board is to improve the performance of firm's and authorize legitimately assigned obligations and fiduciary duties. Likewise, the report of the committee on corporate governance of public companies in Nigeria (2003) puts the board at the center of the implementation of corporate governance principles of public companies in Nigeria as contained in the study of Akhalumeh, Ohiokha & Ohiokha, (2011).

The wave of the corporate scandals of Enron, WorldCom and HIH has led to the question as to what composition of board is best able to monitor management. In response to the above, a few regulatory corporate governance reports and codes have being issued in Nigeria which includes among others, Code of Corporate Governance for licensed pension operators issued by National Pension Commission (PENCOM); Code of Corporate Governance for Banks and Discount Houses in Nigeria issued by Central Bank of Nigeria (CBN) 2014; National Code of Corporate Governance (2016) issued by Financial Reporting Council (FRC) of Nigeria repealed in 2018; National Insurance Commission, (NAICOM) Code (2009) directed at all insurance, reinsurance, broking & loss adjusting companies in Nigeria; and, the Code of Corporate Governance for public companies in Nigeria issued by Securities & Exchange Commission (SEC), 2008.

This research assessed the response of the financial performance of Nigerian deposit money banks to board composition using the Central Bank of Nigeria Corporate Governance code for Banks and Discount Houses in Nigeria of 2014.

Conflicts of interest usually arise when a company has variety of shareholders and there is no majority shareholder. In the case of listed deposit money banks, there are several investors that have invested and expect a reasonable return on their investment or at least the security of their investment. Every rational investor will seek for a well-performing company to invest in. Good corporate governance practice according to Donaldson (in the work of Mburu and Kagiri, 2015) is very important for increasing investors' confidence and market liquidity. The main reason for codes of good corporate governance is to help and protect investors (ICAN, 2014) and that is why Arthur Levitt in (2014) opines that capital will flow elsewhere if a country does not have reputation for strong corporate governance practice.

The board is considered to be a primary internal corporate governance mechanism. Main, Lawrence, Kaplan & Kiron and Solomon (as cited in Rashid et al., 2010) also revealed that the collapse of WorldCom, Enron and HIH was attributable to questionable accounting practice among its management not detected by their respective boards. Additionally, the sequences of widely broadcasted cases of accounting indecorums documented in the Nigerian banking Industry in 2009 (for instance, Union Bank, Oceanic Bank, Afri Bank, Intercontinental Bank, Spring Bank and Fin Bank) were as a result of lack of oversight functions on the side of the board of directors; the board relinquishing control to the entities managers that trail their own self-interest; and, the inattentiveness of the board in its accountability role to the stakeholders (Uadiale, 2010). Since then, it has become a big question what board composition is appropriate for effective performance of corporate organizations. This has received much attention from scholars. The results have being mixed and inconclusive as to whether board composition affects financial performance of quoted Nigerian deposit money banks. It is also noticed from literature that succinct distinction has not been made between non-executive directors and independent non-executive directors.

The aim of this research is to examine the effect of board composition (as specified in the Central Bank of Nigeria corporate governance code for banks and financial institution for banks and discount houses in Nigeria, 2014) on the financial performance of listed deposit money banks in Nigeria. This therefore serves as a motivation for this study.

LITERATURE REVIEW

This section reviews related literature on effect of board composition on the financial performance of listed deposit money banks in Nigeria

Conceptual Issues

Concept of Financial Performance of Banks

Performance according to Guest, Conway, Michie and Sheehan (2003) was defined as the outcome, end results and achievements (negative or positive) arising out of organizational activities. The outcomes vary among continuous series of categories. Financial performance refers to those outcomes that can be measured monetarily, especially with figures from the set of financial statements. Ratios such as return on assets, return on equity, return on shareholders' capital, and net profit margin are the commonly used. Less frequently encountered is the net interest margin which Saksonova (2014) refers to as one of the most important fundamental indicators for the analysis of banks operations. According to him, the use of return on assets and net interest margin are just important complement. Net interest margin as the proxy for financial performance has also being used by authors such as Yao, Haris and Tariq (2018); Uadiale & Ozili (2017); Gheorghe, (2013) and Taskin (2012).

According to Yao, Haris and Tariq (2018), NIM determines the ability of a bank making investment decisions in order to generate interest income ensuring the cost of fund are compensated. It is therefore, adopted as a measure for performance in this study.

Concept of Board Composition

According to Biljawan and Madan (2013), board composition refers to the board's size; that is, the total number of directors on the board in a particular financial year, their ratio and classification into executive, non-executive and independent directors. Similarly, Ongore, K'obonyo, Ogutu and Bosire (2015) define

board composition as the board's size, the mix between executive, non-executive (independent) directors and other desirable attributes including gender diversity. Akhalumeh, Ohiokha, and Ohiokha (2011) see board composition as the measurement in terms of different degree of heterogeneity. Common assessments of board composition are usually, inside/outsider ratio, executive/non-executive director ratio, age and gender diversity among members and board size.

Board Size and Financial Performance

Pusiliese and Wenstop (in the work of Ongore, *et al.*, 2015) used board size to refer to the sum of members with voting privileges on the board of directors of a company. The submissions of Bilawan and Madan (2013) and Abdulazeez, Ndibe and Mercy (2016) see it as total number of the directors on the board for a particular financial year. According to the CBN Code of corporate governance, the recommended board size for Banks is between five and twenty.

Anderson, Mansi and Reeb (2004); Kyereboah-Coleman (2007); Adeusi, Akeke, Aribaba and Adebisi (2013) argued that larger board size is positively related to performance, shareholders' wealth or value. On the contrary, Apkan and Rima (2012) and Asuagwu (2013) found out that smaller board size positively and significantly enhance performance. Jensen also argued that the board of directors becomes less effective as it grows in size. This is because a large board is often slow to react to events and will often be incapable of taking action quickly when it is needed. The directors on a large board are also less likely to be critical of each other than directors on small boards. In agreement, Belkir (2009) argues that communication, coordination of tasks and resolution-making effectiveness among bigger size of people is a bit harder and entails a bigger financial burden than a smaller group of people. Determining the appropriate board size has however being very controversial and the terms; larger and smaller are relative terms that have been used severally.

Research has shown contradictory results about the association between board size and performance. For instance, Bebeji, Mohammed and Tanko, M. (2015) found out that on the best board size to influence firm performance are inconclusive. Rashid, *et al.* (2010); Uadiale (2010); Wanyama & Olweny (2013); Biljawan and Madan (2013); Adekunle & Aghedo, (2014); Mburu & Kagiri, (2015) and Abdulazeez *et al.* (2016) found out that board size has positive and significant relationship with financial performance. Meanwhile, the works of Bhagat & Black (2002); Xavier, Shukla, Oduor & Mbabazize (2015) and Ongore *et al.* (2015) indicated that board size has no effect on financial performance. While the study of Bawa and Lubabah (2013) found a negative relationship between board size and banks performance.

Non-Executive Directors and Financial Performance

The non-executive directors (NED) are executives that are not employees of the firm. Previous researches have used the term 'outside directors' to mean non-executive directors. According to the CBN 2014 Code, the number of non-executive directors shall be more than that of the executive directors. Van Ness, Miesing & Kang (as cited according to Wein, 2003) opined that researchers believe that outside directors are better monitors of financial reporting. Their study however found no significant impact of outside directors on financial performance.

Uadiale (2010) found a positive association between outside directors and corporate financial performance. Puni Addiyah and Ofei (2014) found out that outside directors have positive significant effect on performance. The study of Brickley, Coles and Terry (1994) as cited in Naimah and Hamida (2017) found a positive relationship between proportion of outside directors and firms' performance.

Independent Non-Executive Directors and Financial Performance

An independent non-executive director according to Bebeji *et al.* (2015) is defined as an independent director who has no affiliation with the firm except for their directorship. Daily, Dalton and Canella (2003) described non-executive and independent directors as the most important mechanism for ensuring corporate accountability. Similarly, Romano and Guerreni (2012) argued that a board with higher relative weight of independent directors appears to ensure efficient control. An independent board of directors is characterized with less conflicts of interest in checking activities of the managers, notwithstanding whether the existence of outside directors requires further costs to the firm (fees, travel expenses etc.) (Bebeji *et al.*, 2015). According to Biljawan and Madan (2013) independent directors do not have any significant direct or indirect interest or any relationship aligned with the firm. According to ICAN (2014) independence means freedom from influence from someone else and independent directors are able to make judgments and give opinions that are in the best interest of the company without bias or preconceived ideas.

Jensen and Meckling (1976) and Fama and Jensen (1983) advocated for a board consisting of largely independent non-executive directors. Specifically, the CBN (2014) recommended at least two (2) independent directors for banks.

Previous studies about independent directors and financial performance have also shown inconsistent results. Muller (2014) and Chatterjee and Nag (2018) found that board independence have significant positive impact on financial performance. Although Baghat and Black (2002) in their study presented evidence that it is indifferent to have more independent directors on the board because the firms with more independent directors on their board do not perform better than other firms, Rashid *et al.* (2010), Ongore *et al.* (2015) and Abu, Opkeh and Opke (2016) also found no significant relationship of outside independent directors with firm performance.

Theoretical Review

From literature, several theories can be used to explain corporate governance issues. These include are but not limited to Agency theory, Stakeholders' theory, Stewardship theory, Resources dependence theory, Social contract theory, Legitimacy theory and Political theory. However, the theory underpinning this study is the Agency theory.

Agency Theory developed by Jensen and Meckling (1976) suggested a theory of how governance of a company is based on conflicts of interest between the company's owners (Shareholders), its managers and major provider of debt finance. Each of these wants to maximize their return; the shareholders want to increase their wealth, managers want to maximize their remuneration (particularly if they do not own shares in the company) and debt providers look forward to the repayment of their debt and interest.

Jensen and Meckling viewed agency as a form of contractual relationship between the owners of the company and the company managers whereby the principal (owners) appoint the managers as the agent to run the affairs of the company on the principal behalf. The principal expects agents to perform their duties in the best interest of the owners (principal). Ideally, the contract between the owners and the managers should ensure that the managers always perform their duties in the best interest of the owners. However, according to Mburu and Kagiri (2013), it is impossible to arrange a perfect contract because decisions by the managers affect their own personal welfare as well as interests of the owners. According to the agency theory, the separation of ownership and control which is the major characteristics of modern corporations, will lead in many instances to managers using their firm-specific knowledge and managerial

expertise to gain an advantage over the owners. Agency theory posits that managers may work for their own self-interest against the owners' interests.

In the words of Puni and Ofei (2015, p.1) "due to information asymmetrical problems, the principal institute control mechanisms of which board composition is part to protect the principal from possible selfish behavior of the agent" The agency role of the directors according to Wan Yusoff and Alhaji (2012) refer to the governance functions of the board of directors in serving the shareholders by ratifying the decision made by the managers and monitoring the implementation of such decisions. From the Agency perspective, board composition has been identified as one of the mechanisms when implemented effectively will reduce Agency cost and lead to the enhancement of corporate performance. The theory suggests according to (Fama and Jensen 1983 that board composition be characterized by the separation of function between inside and outside directors, ensure maximum control which promotes fairness, objectivity, transparency and accountability at the board level. It advocate for board composition of largely independent outside directors because of the suspicion of opportunism by inside directors in the presence of information asymmetry.

Empirical Review

Rashid et al. (2010) conducted a study titled "Board Composition and Financial Performance: Evidence from Bangladesh". In their work, Return on Assets (ROA) and Tobin's Q ratio were the proxies for the dependent variable and outside non-executive directors was the proxy for the independent variable. Secondary data was sourced from the financial statements of 90 non-financial firms listed on the Dhaka Stock Exchange for a five years period covering (2005-2009). The regression analysis revealed that board composition and financial performance have no significant relationship while board size has significant positive influence on performance.

Uadiale (2010) examined the impact of board structure on corporate financial performance in Nigeria. Return on Equity (ROE) and Return on Capital Employed (ROCE) were the proxies for the dependent variable while board size, board composition, board ownership and CEO duality were proxies for the independent variable. Secondary data was sourced from the annual reports of public limited companies listed on the Nigeria Stock Exchange. Multiple linear regression analysis was used for hypotheses' testing. The results indicated that ROCE is positively correlated with board size, board composition and CEO duality, a negative correlation exist between ROCE and board ownership and ROE is positively correlated with board size and board composition but negatively related with board ownership and CEO duality.

Van Ness, Miesing and Kang (2010) investigated board of director composition and financial performance in Sarbanes-Oxley World. They employed corporate growth, profitability, Return on Assets (ROA), leverage, market confidence and liquidity as proxies for the dependent variable while CEO duality, proportion of outside directors, gender diversity, board members' average age, average board tenure, board size and occupational expertise as proxies for the independent variable. Secondary data were collected from standard and poor (S&P) 200 companies randomly selected from a total 500 companies in the period post implementation of SOX-2006-2007 of non-regulated industries and analyzed with the OLS regression analysis. The study found that duality have positive significant influence on growth in ROA, board expertise have negative influence on performance, board size increase firm leverage and board heterogeneity and occupational expertise have significant relationship with revenue growth.

In the work of Akhalumeh et al. (2011) titled Board Composition and Corporate Performance: An analysis of Evidence from Nigeria, the proxies for the dependent variable were ROE, ROA, ROCE, EPS(Earnings per share) and DPS (Dividend per share) and that of the independent variable was percentage of non-

executive directors. Cross sectional research design was employed and data were secondarily sourced from the annual reports of 38 firms listed on the Nigeria Stock Exchange selected simple randomly. The multivariate simple regression results showed no significant correlation but only ROA is correlated at a very weak level.

Biljawan and Madan (2013) in their research work titled board composition, ownership structure and financial performance employed ROCE, ROE, ROA and PAT (profit after tax) as proxies for the dependent variable and board size, board independence and ownership structure as proxies for the independent variable. The study was based on 121 small cap, mid cap and large cap companies listed on the Bombay Stock Exchange India for the period 2010-2011. Findings showed no significant relationship between ownership structure and financial performance and a positive significant relationship between board size & board composition and financial performance.

Kwanbo and Abdul-Qadir (2013) also examined board composition, executive duality and performance of banks in the post-consolidation era in Nigeria. The proxies for the dependent variable were $ROCE_{gross}$ and $ROCE_{net}$ that of the independent variable were board size, executive duality and compliance statue. Content analysis was used to collect corporate governance and financial performance data from the annual financial reports and accounts of twelve banks that survived consolidation for the period 2006-2010. The independent sample t-test and multiple regression results revealed that board composition, executive duality do not significantly relate and impact on the ROCE of banks in Nigeria. The study recommended that sustaining the use of diverse corporate governance codes (by CBN, FRC, SEC) should be further enhanced by complementary managerial policies that would promote the relationship and impact of governance mechanism on financial performance of banks.

In another study by Puni, Addiyah and Ofei (2014) titled the effect of board composition on corporate financial performance: Evidence from listed firms in Ghana, the dependent and independent variables were proxied by ROA & ROE and outside directors & inside directors respectively. Secondary data were sourced from Ghana Stock Exchange fact book for five year period (2006-2010). The static panel regression model revealed that inside directors have positive significant effect while outside directors have negative significant effect on corporate financial performance.

Muller (2014) in his work titled “The Impact of Board Composition on Financial Performance of FTSE 100 Constituents”, used ROA as the proxy for the dependent variable while board size, independent non-executive director, CEO tenure, average age of non-executive director, average age of executive director as proxies for the independent variable. Secondary data was sourced from the London Stock Exchange and SpencerStuart 2011 UK Board Index. Results revealed that board independence, foreign director ratio have a significant positive impact on financial performance.

Another work by Bebeji, et al. (2015) on the effect of Board size and Composition on the Financial Performance of Banks in Nigeria, employed ROA and ROE as proxies for the dependent variable and board size and board composition for the independent variable. Cross sectional design was employed to gather time series data of five banks judgmentally sampled out of the twenty two banks listed on the Nigeria Stock Exchange at that time. The multivariate regression result showed that board composition and board size are related to the financial performance of deposit money banks in Nigeria. The study however was not specific if the significant impact was negative or positive.

Ongore, et al. (2015) in their study titled Board Composition and Financial Performance: Empirical Analysis of Companies Listed at the Nairobi Stock Exchange, employed ROA, ROE and DY as proxies for the dependent variable while independent membership, board size, and gender diversity were the proxies for the independent variable. Data were sourced using questionnaire administered to forty-six out of the fifty-one companies listed on the Nairobi Stock Exchange. The multivariate regression analysis showed that independent board membership and board size have no significant effect on financial performance while gender diversity has significant positive effect on financial performance.

Mburu and Kagiri (2015) inquired into the effect of Board Composition on Financial Performance of Banking Institutions listed at Nairobi Stock Exchange. In their work, ROA was used to proxy financial performance while board size, board independence and CEO duality were used to proxy board composition. Questionnaire was employed for data gathering. The multiple regression results revealed that board size, dependent and executive directors and CEO duality positively affect the financial performance of banks listed on the Nairobi Stock Exchange. The study recommended separation of the positions of the board chairman and the CEO.

Falaye (2017) conducted a study on Board Composition and Structure on Corporate Financial Performance in Nigeria. The proxies for the dependent variable were ROE and ROCE while that of the independent variable were board size, board composition, board ownership and CEO duality. Secondary data were sourced from the financial statements and annual reports of five institutions listed on the Nigeria Stock Exchange selected via the stratified sampling technique. The Pearson correlation analysis and multiple regression results showed board size, board composition, board ownership and CEO duality have a positive but not significant relationship with financial performance.

Several works have being done on board composition and financial performance of quoted deposit money banks in Nigeria however no work has narrowed down specifically to use CBN code of corporate governance for banks and discount houses in Nigeria dated 2014. Consequently, existing literature have not made clear distinction between non-executive directors and independent non-executive directors. This distinction is however pertinent since non-executive director might have interest one way or the other in the company thereby impairing his/her independence.

METHODOLOGY

The research design adopted for this study was ex-post factor research design. The scope of this study covers a six-year period (2012-2017). This was to enable the use of a balanced panel data analysis to determine whether the observed relationship between board composition and financial performance holds over time. The population of the study comprised the fifteen listed deposit money banks as at the end of 2017. Five banks were randomly sampled. These banks are Diamond Bank plc, First Bank of Nigeria ltd, United Bank of Africa plc, Wema Bank plc and Zenith Bank plc. Data were sourced from the annual reports and accounts of these sampled banks for the relevant years. The multiple regression analysis via Stata (version 12) software was employed for data analysis.

Variable Measurement

Table 1: Variable Measurement

Variables	Type	Measurement and justification
Net Interest Margin	Dependent	Net Interest income X $\frac{100}{\text{Earning Assets}}$ used by Ozili & Uadiale (2017) and Gheorge,(2013)
Board size	Independent	Total number of directors on the board as used by CBN (2014); Biljawan & Madan (2013); Adekunle & Aghedo, (2014); Mburu & Kagiri, (2015); Abdulazeez et al. (2016)
Non-executive Directors	Independent	Number of non-executive directors as used by CBN (2014), FRCN, (2016) , Ongore et al. (2015); Abu, Opkeh and Opke (2016)
Independent non-executive Directors	Independent	Number of independent director(s) on the board as used by CBN (2014); FRCN, (2016)

Source: Author, 2018

Model Specification

The regression model adopted is as stated below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

The model for this study is as below:

$$NIM = \beta_0 + \beta_1 BS + \beta_2 NED + \beta_3 INED + \mu$$

Where;

(NIM – Net interest margin; BS- Board size; NED- Non-executive director; INED- Independent non-executive directors)

RESULTS AND DISCUSSION

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std Dev.	Min	Max
Nim(%)	30	5.48	1.239967	3.4	8
Bs	30	13.86667	3.213477	7	20
Ned	30	8.7	1.4657	6	12
Ined	30	2.2333	0.727932	1	4

Source: Author's computation 2018

The descriptive statistics shows that Net Interest Margin has the minimum of 3.4, maximum of 8 and a mean of 5.48. Board size has a minimum of 7, maximum of 20, a mean of 13.8667 and standard deviation of 3.213447, implying that listed deposit money banks in Nigeria have similar board sizes. Number of Non - Executive directors is the minimum of 6, a maximum of 12, a mean of 8.7 and standard deviation of 1.4657. The mean description of non-executive directors is high compared to its standard deviation suggesting that the ratio of non-executive directors on the board is very high as recommended by their governance code. Independent Non-Executive directors have the minimum of 1, a maximum of 4 and a mean of 2.2333 and standard deviation of 0.727932 indicating that listed deposit money banks in Nigeria have similar number of independent non-executive directors.

Table 3: Correlation Matrix

Variable	Nim	Bs	Ned	Ined
Nim	1.0000			
Bs	-0.2439	1.0000		
Ned	0.1560	0.7526	1.0000	
Ined	-0.2583	0.0875	-0.2553	1.0000

Source: Author's computation 2018

The correlation matrix shows no high correlation among the independent variable used in measuring net interest margin which shows the predictive ability of each of the combined independent variables are different. However, the value of 0.7526 between non-executive directors is matter of little concern leading to the computation of Variance inflation factors.

Table 4: Variance Inflation Factor

Variable	Vif	1/vif
Ned	3.03	0.329631
Bs	2.86	0.349921
Ined	1.33	0.754464
Mean VIF	2.41	

Source: Author's computation 2018

Multi-collinearity exists when the predictor variables are themselves highly correlated. The Variation Inflation Factors (VIF) is normal in this study as they are less than 10 which is the rule of thumb. This therefore indicates the absence of multi-collinearity. Also, the tolerance values are above the recommended minimum value of 0.10 indicates absence of multi-collinearity.

Table 5: Shapiro test for normality

Variable	Obs	Pr(skewness)	Pr(kurtosis)	Prob>chi2
Nim	30	0.6248	0.2136	0.38
Bs	30	0.8332	0.6176	0.8635
Ned	30	0.9972	0.7099	0.9331
Ined	30	0.0778	0.2190	0.0957

Source: Author's computation 2018

To test for normality of data, Skewness and kurtosis test for normality was used. The skewness measures the degree and direction of assymetry while kurtosis is a measure of heaviness of the tails of a distribution. The Skewness and kurtosis values above complementarily help us to reject the null hypothesis that data is not normally distributed as the values are all above the rule of thumb of 0.05.

Table 6: Regression Result

Variable	Coeff.	Std. Err.	p>value
Bs	-0.326	0.1051	0.005***
Ned	0.675	0.2373	0.009***
Ined	0.033	0.3158	0.918
Cons	4.063	1.6138	0.018**
R ²	0.32		
Adjusted R ²	0.24		

Note: **significant at 5% ***significant at 1%

Source: Author's survey, 2018

The number of observation was 30. Degree of freedom between 3 and 26. The R-Squared which is also referred to as the coefficient of determination is 0.03256 which means that 32.56% percent of variation in financial performance of listed deposit money banks in Nigeria can be explained by board composition. The adjusted R-squared is more honest value considering the population since R-squared considered only the sample. Adjusted R-squared could also be use to analyse the goodness of fit of the regression model and the value here indicates the goodness of fit of model for this study. The coefficient for board size indicates negative effect on performance, that is a unit increase in board size with decrease performance by 0.3263053. The p-value of 0.005 indicates statistical significance. The coefficient for non-executive directors indicates a positive effect on performance, that is a unit increase in the number of non-executive directors will increase peformance by 0.6745389. the p-value of 0.009 also indicates statistical significance.

Discussion of Findings

The study found out that board size has negative and significant effect on the financial performance of listed deposit money banks in Nigeria. This is in congruence with findings of Apkan and Rima(2012); Bawa and Lubawa (2012); Asuagwu (2013); Aminu *et al.* (2015) and Jensen and Meckling(1993) but in contrast to the findings of Kyereboah-Coleman (2007); Larmou and Vafeas (2009) & Adeusi *et al.* (2013). Non-executive directors have positive significant effect on the financial performance of listed deposit money banks in Nigeria. This is consistent with the findings of Uadiale (2010) and Puni, Addiyah and Ofei (2014) but contrasting to the findings of Van Ness *et al.* (2010) which found no significant effect of non-executive directors and financial performance. Independent non-executive directors have positive but non-significant effect on the financial performance of listed deposit money banks in Nigeria. This is in support of the work of Rashid *et al.* (2010) and onogore *et al.* (2015).

CONCLUSION AND RECOMMENDATION

The study set out to examine the effect of board composition on financial performance of listed deposit money banks in Nigeria. Net Interest Margin was used as proxy for financial performance while board size, number of non-executive directors and number of independent non-executive directors were proxies for board composition. The study concludes that board size has negative and significant effect on the financial performance of quoted deposit money banks in Nigeria. Non-executive directors have positive significant effect on the financial performance of quoted deposit money banks in Nigeria. Independent non-executive directors have positive but non-significant effect on the financial performance of quoted deposit money banks in Nigeria this could be explained by the finite number of this directors recommended by the CBN code and thus operational in quoted deposit money banks in Nigeria

Based on the findings of this study, the following recommendations were made:

- i. That banks board size be made up to between ten (10) and maximum of fifteen (15) members without prejudice for skills, competence, independence and availability for meetings.
- ii. That in line with corporate governance codes the number non-executive directors be more than the number of the executive directors although with great care and considerations given to skills, competence, experience, independence and availability for meetings.
- iii. That the number of non executive directors be increased so as to improve performance.

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