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Effects of Board Globalizing on Financial Performance of Banks in Nigeria

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Abstract *The Board of Directors (BoD) is the body of strategic decision-making, representation and highest executive body of a firm. A firm`s board can influence the formation of business and investment strategies and policies and ultimately performance. The objective of the study was to examine the effect of banks' board globalizing on financial performance of quoted banks in Nigeria. The study made use of secondary data which were obtained from the annual reports of ten banks for the years 2011- 2015. The study adopted the ordinary least square (OLS) regression as the basic techniques of analysis and employed both normality and the multi-collinearity tests to examine the features of the data for analysis. Findings of the study reveal that foreign board membership, asset growth and institutional ownership have a significant positive relationship with financial performance of banks. The study also finds no significant relationship between board gender diversity and financial performance as well as a negative relationship between bank riskiness and financial performance of banks in Nigeria. The study recommends amongst others the consolidation of the code of corporate governance and concludes that board globalizing and diversity improves financial performance of banks in Nigeria.*

Key words Board of Directors, Board Globalizing, Financial Performance, Asset Growth, Bank Riskiness

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1. Introduction

The board of directors is the body of strategic decision-making, representation and highest executive body of a firm. The board aims to maximize the market value of the firm while making decisions. The board conducts the corporate businesses in such a way as to provide long-term and steady gain for the shareholders. They also ensure the continuity of the delicate balance between the shareholders and the need for growth of the company (Ibenta and John, 2015; Akpan and Amran, 2014).

As early as 1776, Adam Smith forecast the problems of separate ownership and control. Jensen and Meckling (1976) discussed the principal-agent relationship and posit that in representing the principal, the board sets main goals and targets for the business, determines the strategies needed to reach these goals, continuously evaluates the management board, and when necessary, removes the current CEO and appoints a new. The board exists to ensure the effectiveness of control systems, the transparency and accuracy of the company's external communication, the board's compliance with laws, regulations, and corporate responsibilities, and the adoption of other ethical rules (Tihany *et al.*, 2005). The board of directors is an important tool to create, develop, leverage, and manage the resources of a firm and thus, affect its performance (Ho and Williams, 2003). According to Williams (2001), boards of directors can structure relevant strategies and policies on how to obtain and best utilize the required resources of a business. Williams states that a firm`s board of directors can influence the formation of business and investment strategies and policies and ultimately performance.

In view of the effects of corporate failures on companies and national economies, countries all over the world have taken one step or the other to ensure good corporate governance. One of these steps include, diversifying the corporate board. In Nigeria, a response has been made by Securities and Exchange

Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) in launching a Code of Corporate Governance for Nigerian public companies in 2003. Some of the provisions of the code for good corporate governance are bordered on responsibilities of board of directors (Securities and Exchange Commission, 2004). The general principles outlined by the Code of Corporate Governance include board structure, board size and independent board of directors. Obviously, there is no clear emphasis made on the need of instituting workforce diversity on board of directors. The issue of board diversity or globalizing may be linked to more general issue of outside directors (Fields and Keys, 2003). This may be as a result of the assertion that performance increases when outsiders are added to the board. Therefore, there is a need for introducing a greater degree of internationality on the board of directors as a corporate governance mechanism.

Piekkari and Vesanen (2009) state that board internationalization involves finding missing pieces of competence rather than satisfying a specific geographic need. In their view, a particular need could be satiated with a board member who understands and can communicate with customers and markets, suppliers, banks and financial institutions, regulators and politicians. In light of globalization, a board member should be able to do all this while meeting specific international criteria at the same time.

Oxelheim and Randøy (2005) list a number of financial benefits arising from the addition of an international member to a board. They argue that foreign board member may provide insight into a particular financial market or the regulatory body of that market or offer his/her skills in communicating with investors.

Prior research has documented the importance of the board of directors in corporate performance in general and financial performance in particular (Anderson, 2008; Pathan, 2009; Adams, 2010; Rondoy *et al.*, 2006; Uadiale, 2010; Al-Musalli and Ismail, 2012; Doğan and Yildiz, 2013; Adusei, 2011; Garba and Abubakar, 2014; Ibenta and John, 2016). Specifically, a growing literature shows that board characteristics, such as board independence (Hwang and Kim, 2009; Bruyneels and Cardinaels, 2014), the presence of an audit committee (Klein, 2002; García-Meca and Sánchez-Ballesta, 2009), and female representation on the board (Adams and Ferreira, 2009) Board size (Garba and Abubakar, 2014; Al-Musalli and Ismail, 2012), CEO duality (Uadiale, 2010; Baysinger and Hoskisson, 1990; Rechner and Dalton, 1991) have different levels of association with corporate performance. Our study contributes to this literature by adding international dimension and riskiness. Therefore, the major objective of this paper is to examine the relationship between board globalizing and financial performance of banks in Nigeria.

1.1. Statement of problem

The issue of structure of the board of directors as a corporate governance mechanism has received considerable attention in recent years from academics, market participants, and regulators. It continues to receive attention because theory provides conflicting views as to the impact of board structure on the control and performance of firms. In these studies, issues in the context of developing economies are very rarely addressed. This study contributes to the corporate governance and finance literature for the reason that it emphasizes on a developing economy that has different economic, legal, and cultural environments from those of Western economies, where most previous studies have been conducted. Nigeria is of interest since it has an emerging capital market that attracts a large number of foreign investments. The government's call for foreign investors and liberalization of the economy in view of the economic recession that has engulfed the country also makes it imperative to conduct a study in this regard. This study further wants to fill a gap by introducing two distinct variables such as bank riskiness and presence of foreign nationals in the board composition.

1.2. Objectives of the study

The broad objective of this study is to examine the effect of board globalizing on financial performance of banks in Nigeria. Specifically, the study seeks to:

(i) examine the relationship between foreign board membership and banks' financial performance;
(ii) determine the relationship between gender diversity and banks financial performance;
(iii) evaluate the relationship between asset growth rate and banks' financial performance;

(iv) examine the relationship between institutional ownership and banks' financial performance; and

(v) determine the relationship between bank's riskiness and financial performance.

1.3. Research questions

The study will provide answers to the following research questions:

(i) How does foreign board membership affect banks financial performance?

(ii) What is the relationship between gender diversity in the board and banks financial performance?

(iii) To what extent does asset growth rate affect banks' financial performance?

(iv) What is the relationship between institutional ownership and banks' financial performance?

(v) To what extent does bank riskiness impact on financial performance?

1.4. Hypotheses

In order to answer the research questions and achieve the research objectives, the study has postulated the following hypotheses in the null form:

Ho1: There is no significant statistical relationship between foreign board membership and financial performance of Nigerian banks.

Ho2: There is no significant statistical relationship between board gender diversity and financial performance of Nigerian banks.

Ho3: There is no significant statistical relationship between asset growth rate and financial performance of Nigerian banks.

Ho4: There is no significant statistical relationship between institutional ownership and financial performance of Nigerian banks.

Ho5: There is no significant statistical relationship between bank riskiness and financial performance of Nigerian banks.

2. Literature review

2.1. Concept of Board Globalizing

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. Oxelheim and Randøy (2003) define board globalizing as the inclusion of foreign nationals from outside the firm's base country as members of board of directors of a local firm. It is believed that firms dominated by foreign directors are more vigilant in monitoring behaviors and decision making of the company (Fama and Jensen, 1993). The reason is that they bring in more skills and knowledge to the company which increases expertise necessary for strategy implementation.

The contribution of foreign board members to firms typically goes beyond financial contributions and extends to provision of non-financial resources such as managerial expertise and technical collaborations (Chahine and Tohme, 2009; Douma *et al.*, 2006). It is argued that the role of foreign board members in a company may differ according to their nationality (Chahine and Tohme, 2009; Douma et al., 2006). From resource-based perspective, nationality of directors can be regarded as a source of sustained competitive advantage (Chahine, 2007). This issue is quite conceivable, particularly in developing countries where foreign directors are more likely to outperform their domestic counterparts in terms of experience, organisational, monitoring and technological capabilities and credibility (Chahine and Tohme, 2009). Therefore, it is expected that given the heterogeneity in resources and organisational capabilities between domestic and foreign directors on the board, they will have different impact on financial performance.

Oxelheim and Randøy (2005) list a number of financial benefits arising from the addition of an international member to a board. Oxelheim and Randøy show that board globalization is value creating. They argue that a foreign board member may provide insight into a particular financial market or the regulatory body of that market, for example, or offer his/her skills in communicating with investors.

Tihany, Griffith and Russel (2005) further maintain that a firm's presence in an international financial market—by listing or by shares trading may signal a need for board globalization. They hypothesize that increased financial internationalization of the firm will increase recruitment of board members, this with the goal of signaling compliance with a harsher monitoring system or bringing insight and network ties from foreign financial markets.

Though some studies (Roth, 1995; Reuber and Fischer, 1997; Leblanc and Gillies, 2005), report that foreign board membership show a weak interest in participating in the corporate governance process, (Athanassiou and Nigh, 2002; Carpenter and Fredrickson, 2001) argue that higher foreign presence in the board will be followed by the foreigners' increased interest in firm operations hence interest may even extend to influencing the prospects of the firm through representation on the board.

3. Methodology of research

This study adopted the content analysis research design. Content analysis is a research technique used to make replicable and valid inferences by interpreting and coding textual material (Kothari and Garg, 2014). This study involves the analysis of corporate financial statements hence this research design is considered suitable for this study. The population of the study is made up of all the banks listed on the Nigerian Stock Exchange. There are 24 quoted banks in the Nigeria Stock Exchange (NSE Market Report, March 28, 2016). A sample size of 10 banks was randomly selected and utilized for the study. The sampled banks were: Zenith Bank, Eco Bank, Access Bank, United Bank for Africa, First Bank, Guarantee Trust Bank, Fidelity Bank, Stanbic IBTC, Sterling Bank and Union Bank.

Secondary data were used for the study. The secondary data were obtained from the financial statements of the sampled listed banks for the period 2011 - 2015. The study made use of the Ordinary Least Square (OLS) regression analysis as the data analytical method. Prior to the regression analysis, some diagnostic tests such as goodness of fit (F-test, t-test), normality and correlation analysis were carried out to address some basic assumptions underlying the regression analysis.

To test the hypotheses developed, a liner and multivariate regression model which expresses the banks financial performance as a function of board characteristics and globalizing is stated in functional form as follows:

$$BFIN = f\,(FBOARD, GDIV, ASSETG, INSTOWN, BRISK) \qquad (1)$$

This can be written in explicit econometric form as:

$$BFIN_{it} = \beta_0 + \beta_1 FBOARD_{it} + \beta_2 GDIV_{it} + \beta_3 ASSETG_{it} + \beta_4 INSTOWN_{it} + \beta_5 BRISKi_t + e_{it} \qquad (2)$$

Where:

BFIN = Bank's financial performance as the dependent variable for the study is proxied by return on total assets. The return on total asset is measured as profit after tax scaled by the total value of assets for the period. FBOARD = foreign board member which is measured as a percentage of number of foreign nationals on board. GDIV = Gender diversity in the board of directors also measured as a number of female directors on board. ASSETG = Asset Growth rate is calculated as the percentage change in total assets. INSTOWN = Institutional ownership is measured by expressing the total number of shares owned by institutional investors as a proportion to outstanding shares of the firm. BRISK = Bank riskiness is measured as existing loans issued by the bank scaled by Total Assets. e = Stochastic or disturbance term.i = banks. t = Time dimension of the Variables β_0 = Constant or Intercept. $\beta_{1\text{-}5}$ = Coefficients to be estimated or the Coefficients of slope parameters.

4. Data analysis and results

The summarized regression results in the table show that the multiple regression model is highly significant. The co-efficient of determination or R^2 is 0.84. This shows that the model is able to explain about 84 percent of the variations in return on asset. The adjusted R^2 gives 0.81 further affirming that 81 percent of the variations in the dependent variable of the model are explained by the variations in the independent variables. Also, the F-Stat of 4.50 shows that the predictor variables are very significantly related with the response variables. The regression model obtained for this study can therefore be used to forecast financial performance of banks using return on asset.

Table 1. Regression Statistics

Dependent Variable: ROA				
Method: Least Squares				
Date: 01/25/17 Time: 11:34				
Sample: 1 50				
Included observations: 50				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.674928	0.465323	4.542469	0.0231
FBOARD	2.564395	3.542570	0.654246	0.0005
GDIV	-0.135740	0.119862	-0.676326	0.4535
ASSETGR	0.014749	0.054640	0.215856	0.000
INSTOWN	0.006730	0.014646	0.314632	0.0003
BRISK	-0.432478	3.875324	-0.1324201	0.0001
R-squared	0.84537	Mean dependent var		2.507000
Adjusted R-squared	0.81095	S.D. dependent var		0.424133
S.E. of regression	0.56217	Akaike info criterion		1.760434
Sum squared resid	1.26751	Schwarz criterion		2.209736
Log likelihood	3.85922	Hannan-Quinn criter.		1.564223
F-statistic	4.50866	Durbin-Watson stat		1.436655
Prob(F-statistic)	0.00000			

Source: An extract from the result output analyzed with E-Views 7.0

Test of hypotheses

Hypothesis One: There is no significant statistical relationship between foreign board membership and financial performance of Nigerian banks.

This hypothesis examined the impact of foreign board membership on financial performance. As observed from the regression statistics table, a positive relationship exists between FBOARD and ROA. (t=0.654, p=0.0005<0.05). We therefore have enough evidence to reject the null hypothesis which suggests that presence of foreign directors enhances the financial performance of banks quoted in Nigeria.

Hypothesis Two: There is no significant statistical relationship between board gender diversity and financial performance of Nigerian banks

To test this hypothesis, we read off the regression statistics from the table. It can be observed that there is no significant relationship between gender board diversity and financial performance (t=-0.676, p=0.453>0.05). We therefore accept the null hypothesis as the results suggest that there is no significant relationship between gender board diversity and banks financial performance.

Hypothesis Three: There is no significant statistical relationship between asset growth rate and financial performance of Nigerian banks.

Hypothesis three examines the impact of asset growth on return on asset. As observed, regression estimation reveals that a positive relationship exists between ASSETGR and ROA. (t=0.215, p=0.000<0.05) We therefore use this as some evidence to empirically state that asset growth has a significant effect on financial performance of banks in Nigeria.

Hypothesis Four: There is no significant statistical relationship between institutional ownership and financial performance of Nigerian banks.

Hypothesis four examines the institutional ownership on financial performance. As observed, regression estimation reveals that a positive relationship exists between INSTOWN and ROA. (t=0.314, p=0.0003<0.05) We therefore use this as some evidence to empirically state that level of institutional ownership has a significant effect on financial performance of banks in Nigeria.

Hypothesis Five: There is no significant statistical relationship between bank riskiness and financial performance of Nigerian banks.

In testing this hypothesis, we subject the variables BRISK and ROA to statistical test. From the regression table, the t-statistics is -0.132 while the p-value is 0.001. This signifies a negative relationship.

The p-value of 0.002 also implies the rejection of the null hypothesis and therefore state that there is a significant negative relationship between bank riskiness and bank financial performance.

5. Discussion of findings

The aim of this study is to examine the effect of globalizing board on financial performance of quoted banks in Nigeria. Findings of the study are discussed below:

Foreign Board Membership and Financial Performance

The study reveals that there is a significant positive relationship between having foreign board members and financial performance of banks. The implication is that banks that have foreign nationals on board tend to have better performance than those without foreign board members. This result meets our apriory expectation and is consistent with findings of Oxelheim and Randøy (2005), Tihany, Griffith and Russel (2005) and Carpenter and Fredrickson (2001). However, this finding does not conform to Reuber and Fischer (1997).

Board Gender Diversity and Financial Performance

Findings from the study reveal no significant relationship between inclusion of female board members and financial performance of banks in Nigeria. This implies that banks without female board members do not perform better than the ones with female board members. This result does not conform to previous studies such as Durmadi (2011), Minguez-Vera and Martin (2011), Marinova *et al.* (2010). Nevertheless, our finding is supported by Luckerath-Rover (2011), Smith *et al.* (2006) and Garba and Abubakar (2014).

Asset Growth Rate and Financial Performance

Results from our regression statistics show that asset growth rate has a significant positive effect on financial performance of banks in Nigeria. This finding meets our apriory expectation. The result implies that as asset of banks grow, their financial performance improves. This result conforms to findings from Sloan (1996).

Institutional Ownership and Financial Performance

The study reveals a significant positive relationship between the degree of institutional ownership and performance of banks. The implication is that banks with institutional investors enjoy financial and non-financial supports from their owners hence improve the corporate performance. This result meets our apriory expectation and is consistent with findings by McConnell and Servaes (1990) and Clay (2001). However, this finding does not agree with Agrawal and Knoeber (1996).

Bank Riskiness and Financial Performance

The study also reveals that level of bank riskiness negatively affects it financial performance. This means that as a firm increases it financial risk through lending, its financial performance is negatively affected. This finding conforms to Al-Musalli and Ismail (2012), Davenport and Bradley (2001), Andersen (2008) and Hoyt and Liebenberg (2011).

6. Conclusions

This study was carried out to examine the relationship between bank globalizing and financial performance. The novelty of our analysis comes from its disaggregation of exploratory variables into a number of variants based on the analysis of financial statement of banks for the years 2011 to 2015. We have analyzed some simple descriptive statistics and we have used regressions to verify whether the studied variables impact on the financial performance of banks in Nigeria.

The study, using the results of the financial statement statistics and exploratory variables in a regression model showed that foreign board membership, asset growth and institutional ownership have a significant positive relationship with financial performance of banks. The study also finds no significant relationship between board gender diversity and financial performance as well as a negative relationship between bank riskiness and financial performance of banks in Nigeria. The study therefore concludes that board globalizing and diversity improves financial performance of banks in Nigeria.

7. Recommendations

In line with the findings of this study, the following recommendations are proffered:

1. Since inclusion of board members not only improves financial performance but enhances technical and professional expertise of the foreigners on board, banks are encouraged to key in by getting foreign board members involved in their boardroom.

2. The contribution of institutional shareholders to their investee-firms typically goes beyond financial contributions and extends to provision of non-financial resources such as managerial expertise and technical collaborations hence banks should devote some proportion of their share ownership to institutional investors to reap these benefits.

3. The study also stresses the importance of strengthening the code of corporate governance in order to further assess the impact of ownership structures on the performance of the banks in the long run.

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