

## **BOARD CHARACTERISTICS AND CASH VALUE ADDED OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA**

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### **Abstract**

*This study assessed the relationship between board characteristics and cash value added of quoted deposit money banks in Nigeria. The proxies used to measure board characteristics are board size, board independence and gender diversity while cash value added served as the dependent variable for a period of thirteen (13) years spanning from 2008 to 2020. Based on the objectives of the study, three hypotheses were formulated. Ex-Post facto research design was adopted. The panel data were obtained from annual reports and accounts of sampled firms. The study employed descriptive statistics and inferential statistics using Pearson correlation and Panel Least Square (PLS) regression analysis. Specifically, the study found that a positive and significant relationship among board independence, gender diversity and cash value added while a negative, though, significant relationship exists between board size and cash value added. at 5% level of significance respectively. It was recommended amongst others that board independence should be increased through creativity and innovation in order to manage the relationship between the boards and stakeholders leading to an improvement in the firm financial performance.*

**Keywords: Board Size, Board Independence, Gender Diversity, Cash Value Added**

### **Background to the Study**

In today's global economy, the success of the national economy depends on the crucial role of organisations' competitiveness, transparency and governance structure which operate within her territory, since organisations are the entities that create economic value. Indeed, the need for trust and transparency in the governance of corporate organizations has been one of concern for standard setters all over the world. This need has obviously spurred renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability and economic performance. Everyone has interest, whether direct or indirect, in the effective

and efficient performance of banks in Nigeria, for their function as financial intermediaries has a major bearing on how efficiently the economy allocates its scarce resources among competing uses. The need to manage them effectively and efficiently has become paramount, hence, the evolution of various corporate governance mechanisms and code of ethics for board members. Consequently, the effectiveness and efficiency with which the boards discharge their responsibilities helps in determining the banks competitive position.

The banking sector crises and other corporate malfeasance have led to several reforms in corporate governance legislation and best practice recommendations not only in Nigeria but around the world. Various efforts at banking sector reforms include the introduction of series of very stringent and mandatory corporate governance codes, guidelines and recommendations for best practices in the last two and a half decades (Amahalu & Ezechukwu, 2020).. A number of these efforts and initiatives on promoting good corporate governance in the Nigerian banking industry are evidenced in the Banks and Other Financial Institutions Act (BOFIA), 1991; the issuance of the Code of Conduct for Bank Directors by the Bankers' Committee in 2001 and the issuance by the CBN of the Code of Corporate Governance for Banks and Other Financial Institutions in Nigeria in 2003 with subsequent revisions in 2006 and 2014. Codes of corporate governance for banks were initially voluntary but because of the recurring incidences of bank distress and failure, the codes are now mandatory. Maximizing shareholders value has become the new corporate paradigm in recent years. The corporate, which gave the lowest preference to shareholders curiosity, are now bestowing the utmost preference to it. Shareholder's wealth is measured in terms of returns they receive on their investment. It can either be in forms of dividends or in the form of capital appreciation or both. Capital appreciation depends on the changes in the market value of the stocks. The market value of stocks depends upon number of factors ranging from company specific to market specific. Financial information is used by various stakeholders to assess firm's current performance and to forecast the future as well. Value based management system has recently gained popularity in academic literature. One such innovation in the field of internal and external performance measurement is Cash Value Added. Cash value added is a measure of the amount of cash generated by a company through its operations

However, empirical evidence provides conflicting evidence on the effect of board individualities on the general financial performance of firms. The motivation behind this research is as a result of absence of convergence. It is vital therefore to identify and assess the relationship between board characteristics and cash value added of quoted deposit money banks in Nigeria.

### **Statement of the Problem**

Boards of directors have been largely criticized for the decline in shareholders' wealth and corporate failure. They have been in the spotlight for the fraud cases that had resulted in the failure of major corporations, such as Enron, Enron, WorldCom, Marconi, Parmalat, Cadbury and Global Crossing. In Nigeria, a series of widelyl-publicized cases of accounting improprieties have been recorded (for example, Savannah Bank Plc, Society Generale Bank Ltd, Oceanic Bank, Bank of the North, AfriBank, Mainstream Bank, Wema Bank, Oceanic Bank,

NAMPAK, Finbank, Spring Bank etc). Some of the reasons stated for these corporate failures are the lack of vigilant oversight functions by the board of directors, the board relinquishing control to corporate managers who pursue their own self-interests and the board being remiss in its accountability to stakeholders. As a result, various corporate governance reforms have specifically emphasized on appropriate changes to be made to the board of directors in terms of its composition, structure and ownership configuration.

Review of earlier literature reveals a large number of studies examining the effect of board composition on firm performance. However, there is no clear consensus whether specific board composition factors would affect firms' performance. The findings, however, have largely remained inconsistent and inconclusive, with some results claiming that board characteristics are more accountable, communicate more effectively, and enjoy greater profitability (for instance, Ezechukwu & Amahalu, 2019; Rafiuddin and Rafiqul, 2020; Akintomide, Nwaobia and Ogundajo, 2021), while others assert that board diversity increases conflict, reduces cooperation, and ultimately weakens firm performance (Purushottam, 2020; Senan, Ahmad, Anagreh, Tabash and Al-Homaidi, 2021). This study aims to bridge the gap between the inconclusive results from earlier studies by using the main board characteristics such as; board size, board independence and Gender diversity, while cash value added was employed as the dependent variable (which previous studies are yet to employ, to the best knowledge of the researcher) which is a contemporary performance measurement index.

### **Objectives of the Study**

The main objective of this study is to determine how board characteristics relate with cash value added of quoted deposit money banks in Nigeria:

The following specific objectives guided this study:

- i. To determine the relationship that exists between board size and cash value added of quoted deposit money banks in Nigeria.
- ii. To ascertain how board independence relates with cash value added of quoted deposit money banks in Nigeria.
- iii. To evaluate how gender diversity relates with cash value added of quoted deposit money banks in Nigeria.

### **Research Hypotheses**

Based on the research questions above the following null hypotheses were formulated:

**H<sub>01</sub>:** There is no significant relationship between board size and cash value added of quoted deposit money banks in Nigeria.

**H<sub>02</sub>:** There is no significant relationship between board independence and cash value added of quoted deposit money banks in Nigeria.

**H<sub>03</sub>:** There is no significant relationship between gender diversity and cash value added of quoted deposit money banks in Nigeria.

## **Conceptual Review**

### **Corporate Governance**

Corporate governance is a set of rules that define the relationship between stakeholders, management, and board of directors of a company and influence how that company is operating. At its most basic level, corporate governance deals with issues that result from the separation of ownership and control. But corporate governance goes beyond simply establishing a clear relationship between shareholders and managers. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders (Okudo & Amahalu, 2021). Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Corporate governance may be defined as procedures and processes according to which an organization is directed and controlled. Corporate governance is intended to address what is known as "agency problems" between shareholders and managers or between majority shareholders and minority shareholders. Corporate governance is intended to make sure investors get their money back, given that someone else (i.e. managers, or the "agents") will make all the decisions about how the money is used after investors have parted with the money. If better governance means that investors' funds are used for more productive means, then firms that are governed better will produce a larger 'pie' (i.e. profit). In other words, better governance may result in efficiency gains and more output or value added produced by the firm. In addition, governance will affect the redistribution of rents between managers and shareholders, and between majority and minority shareholders. Invariably, it will affect how the "pie" is divided between various stakeholders (Amahalu, Abiahu, Nweze & Obi, 2017).

### **Board Size**

Board Size is total number of inside and outside directors on the board of the directors (Mbonu, & Amahalu, 2021a). The board is responsible to the shareholders and is supposed to govern a company's management.. But in many instances, the board has become a servant of the chief executive officer (CEO), who is typically also the chair of the board. The role of the board of directors has increasingly come under scrutiny in light of corporate scandals such as those at Enron, WorldCom and HealthSouth, in which the directors failed to act in investors' best interests. Although the Sarbanes-Oxley Act of 2002 made corporations more accountable, investors should still pay attention to what a corporation's board of directors is up to. There is no universal agreement on the optimum size of a board of directors. A large number of members represent a challenge in terms of using them effectively and/or having any kind of meaningful individual participation. According to the Corporate Library's study, the average board size is 9.2 members, and most boards range from 3 to 31 members while Gill and Mathur, (2011) opined that the ideal size is seven.

In Nigeria, Section 2.1 of the Corporate Governance Code states that every company shall be headed by a Board that shall govern, direct and be in effective control of its affairs and every Board shall have a Charter setting out its responsibilities. The Board shall include an

appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or group of individuals can dominate the Board's decision-making. The composition of the Board shall not be less than eight (8) and the number of directors shall not be more than a third of the Board.

### **Board Independence**

An independent board is a corporate board that has a majority of outside directors who are not affiliated with the top executives of the firm and have minimal or no business dealings with the company to avoid potential conflicts of interests. An independent board is a corporate board that has a majority of outside directors who are not affiliated with the top executives of the firm and have minimal or no business dealings with the company to avoid potential conflicts of interests. An independent board is expected to provide vigilant oversight over firm executives to mitigate managerial opportunism and promote shareholder value. The notion that board independence is important for its effectiveness draws from the widely accepted notion that independent directors are more likely to be effective monitors of management actions (Okegbe, Eneh & Amahalu, 2019). According to Mangena and Pike (2015), independent audit committees are more likely to be free from management influence. Hence, they will ensure the quality and credibility of the reporting process, thus reducing information asymmetry.

### **Gender Diversity**

Gender diversity is the percentage of female directors in proportion to board size. The female board members reflect a diversified characteristic of the board (Mbonu & Amahalu, 2021b). In addition, Omojolaibi, Okudo and Shojobi (2019) considered three different reasons to recognize the importance of females on a board. First, female board members usually have a better understanding of a market in comparison with male members. As such, this understanding will enhance the decisions made by the board. Second, female board members will bring better images in the perception of the community for a firm and this will contribute positively to firm's performance. Third, other board members will have enhanced understanding of the business environment when female board members are appointed. Moreover, this study also indicated that female board members can positively affect career development of junior female staff in a business. As a result, a firm's performance is improved directly and indirectly with the presence of female board members.

### **Cash Value Added (CVA)**

A measurement of the amount of cash generated from operations minus the cash flow demands for the same period (Amahalu & Obi, 2020b). The cash flow a company is able to generate relative to the cash flow it must generate to remain in business. The cash flow added (CVA) is calculated by taking a company's operating cash flow and subtracting its operating cash flow demand. A high CVA is considered desirable; a CVA under 1 indicates the company cannot meet its cash flow needs.

### **Board Size and Cash Value Added**

In relation to a relationship between the size of a board and a firm's performance, there are two distinct schools of thoughts. Abiahu, Egbunike, Udeh, Egbunike and Amahalu (2019) indicated that a large board will support and advise firm management more effectively because of a complex of business environment and an organizational culture. Moreover, large board size will gather much more information. As a result, a large board size appears to be better for firm performance (Bebeji, Mohammed & Tanko, 2015). While Ecowas. Omojolaibi, Oladipupo, & Okudo (2019); Egolum Amahalu & Obi and (2019) showed a negative connection between board size and firm value. As such, these authors concluded that when board size increases, delegation will be reduced.

### **Board Independence and Cash Value Added**

In corporations shareholders has no direct role on the controlling corporate but a board of directors whom are selected by stockholders will run the company. Therefore, managers are agents that the Boards select them. This linkage between owners and, agents, is called agency relationship. In agency hypothesis managers may not always act on interest of shareholders, when ownership is apart from management. In other words, they prefer their interest over owners (Tom-West, Okoye & Amahalu, 2021). Therefore, evaluation of management performance is important for shareholders. They need to ensure that managers or agents follow their benefits and maximize their wealth in the company. Many empirical studies have agreed on the importance of independent directors to the success of a firm. For example, (Okudo & Ndubuisi, 2021) concluded that firms with high ratio of independent directors in a board face less frequent financial pressure.

### **.Gender Diversity and Cash Value Added**

Prior literature shows that gender diversity influences corporate decision making. It has been shown that the concentration of women in either the board of directors or management influences corporate governance as well as corporate policy. On the one hand, female directors influence the effectiveness of the functioning of corporate boards in general or the quality of monitoring (Amahalu & Obi, 2020a). On the other hand, female executives seem more risk averse when making strategic and financial decisions (Faccio, Marchica & Mura, 2012; Okudo, Omojolaibi, & Oladele, 2021). However, empirical evidence on whether these differences in governance and corporate policy affect corporate performance is mixed. Studies that analysed the impact of gender diversity on firm value either find a positive (Amahalu, Okoye, Obi & Iliemena, 2019) no significant (Chen, Crossland & Huang, 2014), or even negative impact (Ahern & Dittmar, 2012). Most studies agree however on the fact that the impact of gender diversity is strongly context dependent.

### **Theoretical Review**

This study is anchored on Agency Theory

#### **Agency Theory**

The Agency theory was first proposed by Jensen and Meckling (1976) in a theory of the firm based upon conflicts of interest between various contracting parties such as shareholders,



corporate managers and debtors. However since then, the finance theory has developed both theoretically and empirically to allow a fuller investigation of the problems caused by divergences of interest between shareholders and corporate managers. The Agency theory indicates that agency problems arise because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal (Brennan, 1995). The main challenge that arises from the agency conflict is how to induce the agent to act in the best interests of the principal. Jensen and Meckling (1976) suggest that this can be achieved through incentive schemes for managers which reward them financially for maximizing shareholder interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning financial interests of executives with those of shareholders.

### **Empirical Review**

Musah and Kong (2019) examined the relationship between leverage and the financial performance of non-financial firms listed on the Ghana Stock Exchange (GSE) for the period 2008 to 2017. From the result of Pearson Product-Moment Correlation Coefficient output, leverage had a non-significant positive association with the firms' ROE.

Rafiuddin and Rafiqul (2020) examined firm level characteristics and firm performance (or profitability) of service sector firms listed in the Australian Stock Exchange (ASX). Using a panel regression approach on data collected over an eleven-year period (2009–2019), the effect of capital structure and leverage was examined. Four measures of firm performance were used: return on assets, return on equity, operating margin ratio and return on capital employed. The analysis of data revealed a significant association between return on equity and leverage levels

Akintomide, Nwaobia and Ogundajo (2021) examined the relationship between financing decision and shareholders' wealth maximization. Ex-post facto research design was adopted. Data were extracted from a sample of thirty-five (35) non-financial firms listed on the Nigeria Stock Exchange for a period of ten (10) years (2008 to 2017), giving 350 firm-year observations. The effect of self-financing, equity-financing and debt-financing on market value added were empirically tested using multiple linear regression analysis. The findings indicated that financing decision had significant effect on market value added; self-financing had positive and significant effect on market value added, equity-financing negatively and significantly affected market value added while debt-financing (DFD) had a non-significant negative effect on market value added.

Senan, Ahmad, Anagreh , Tabash and Al-Homaidi, (2021) investigated the determinants of financial performance, firm liquidity and leverage ratio of Indian listed firms of Indian listed firms on the Bombay Stock Exchange. The study focused on balanced panel data for 1,333 Indian companies collected over a 12-year period from 2007 to 2018. The study used both static models (pooled, fixed and random effects) and the Generalized Moment Method (GMM). It is

revealed that the current ratio and the quick ratio have a significant impact on the financial leverage of Indian listed firms.

Aladejebi (2021) examined the relationship between gender diversity and quoted deposit money banks' performance in Nigeria using descriptive statistics, trend, and correlation analysis. Data were collected through the websites of 13 publicly quoted banks on the Nigerian stock exchange. Data were analysed by using correlation analysis. Trend analysis of each bank's percentage of female board members between 2015 and 2019 showed an unstable trend. The study found no significant relationship between the number of female board members and banks' performance. Also, there is a weak negative relationship between earnings per share and female board members' percentage.

## **Methodology**

### **Research Design**

The research design employed in this study is the *ex-post facto* research design.

### **Population of the Study**

The population of this study comprised of fourteen (14) quoted deposit money banks in Nigeria as at 31<sup>st</sup> December, 2020 (See Appendix A).

### **Sample Size and Sampling Method**

This research adopted purposive sampling technique based of the availability and up-to-date annual financial statements for the study period. In view of this, thirteen (13) quoted deposit money banks served as the sample size of this study.

### **Source of Data**

This study basically made use of secondary data. The data set were sourced from publications of the Nigeria Stock Exchange (NSE) and the annual reports and accounts of the quoted deposit money banks.

**Table 1: Concepts and Measurements of Variables in the Study**

<b>Variables</b>	<b>Definition</b>	<b>Measurements</b>
<b>Dependent Variables</b>		
CVA	Cash Value Added	Cash flow statement - operating cash flow
<b>Independent Variables</b>		
BSZ	Board Size	Number of inside and outside directors on the board



BIND	Board Independence	Percentage of fully independent directors on the board
GDV	Gender Diversity	Percentage of female directors in proportion to board size

### Model Specification

Considering the fact that this study adapted the model of Yasser, Entebang and Mansor (2015), below is the formulated modified model:

$$\text{Cash value added} = f(\text{board characteristics}) + \mu$$

$$\text{CVA}_{it} = \beta_0 + \beta_1 \text{BSZ}_{it} + \beta_2 \text{BIND}_{it} + \beta_3 \text{GDV}_{it} + \mu_{it}$$

**Where:**

$\beta_0$	=	constant term (intercept)
$\beta_1 - \beta_3$	=	Coefficients of board characteristics
$\beta_{it}$	=	Coefficients to be estimated for bank $i$ in period $t$
$\mu_{it}$	=	Error term/Stochastic term for bank $i$ in period $t$
$\text{CVA}_{it}$	=	Cash Value Added for bank $i$ in period $t$
$\text{BSZ}_{it}$	=	Board Size for bank $i$ in period $t$
$\text{BIND}_{it}$	=	Board Independence for bank $i$ in period $t$
$\text{GDV}_{it}$	=	Gender Diversity for bank $i$ in period $t$

### Presentation and Analysis of Data

**Table 2 Pearson Correlation Matrix**

	CVA	BSZ	BIND	GDV
CVA	1.0000	0.1623	-0.4889	-0.7383
BSZ	0.1623	1.0000	0.0435	-0.3102
BIND	-0.4889	0.0435	1.0000	0.4388
GDV	-0.7383	-0.3102	0.4388	1.0000

Source: E-Views 10.0 correlation output, 2021

### Interpretation of Pearson Correlation Matrix

From the findings on the correlation analysis in table 2, the study found a positive relationship between BSZ (0.1623), BIND (0.4889), GDV (0.6383) and CVA respectively.

### Test of Hypotheses

**Table 3: Panel Least Square (PLS) Regression Analysis testing the relationship between BSZ, BIND, GDV and CVA**

Dependent Variable: CVA  
Method: Panel Least Squares  
Date: 11/11/21 Time: 03:42  
Sample: 2008 2020  
Periods included: 13  
Cross-sections included: 13  
Total panel (balanced) observations: 169

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.408066	0.046109	8.850062	0.0000
BSZ	-0.223205	0.059355	-3.760521	0.0002
BIND	0.138777	0.069649	1.992501	0.0480
GDV	0.461681	0.074824	6.170263	0.0000
R-squared	0.532474	Mean dependent var		0.425617
Adjusted R-squared	0.514882	S.D. dependent var		0.218397
S.E. of regression	0.216765	Akaike info criterion		-0.196618
Sum squared resid	7.752892	Schwarz criterion		-0.122538
Log likelihood	20.61426	Hannan-Quinn criter.		-0.166555
F-statistic	13.45990	Durbin-Watson stat		1.949278
Prob(F-statistic)	0.000000			

Source: E-Views Regression 10.0 Output, 2021

### Interpretation of Regression Result

Table 3 shows the regression result of board characteristics and cash value added:

$$CVA = 0.408066 - 0.223205 BSZ + 0.138777 BIND + 0.461681 GDV + \mu$$

It shows that, given a unit increase in BSZ, CVA will reduce by 22.32%. On the hand, a unit increase in BIND and GDV will cause CVA to increase by 13.88%. and 46.17% respectively.

Table 4.3 shows that, the t-value for board size is -3.760521 with a probability value of 0.0002; t-value for board independence = 0.138777, p-value = 0.0480; while the t-value value for gender diversity stood at 6.170263 with a p-value = 0.0000 suggesting that board size, board independence and gender diversity have a significant positive relationship with CVA at 5% significant level. The adjusted R-squared of 0.514882 suggests that variation in CVA is explained by BSZ, BIND and GDV fluctuation by 51. 49% while the remaining 48.51% is explained by other factors outside the model. The result shows that there is a significant positive relationship between BSZ, BIND, GDV and CVA.

### Decision

Considering the F-statistic = 13.45990 with an associated p-value of 0.000000 which is less than the 5% threshold signifies that board characteristics have a significant relationship with CVA of deposit money banks at 5% level of significance, hence,  $H_1$  is accepted.

### Findings, Conclusion and Recommendations

## **Findings**

The specific findings of this study are that:

- i. There is a significant but negative relationship between board size and cash value added of quoted deposit money banks in Nigeria at 5% level of significance ( $\beta_1 = -0.223205$ ; P-value = 0.0002).
- ii. There is a significant and positive relationship between board independence and cash value added of quoted deposit money banks in Nigeria at 5% level of significance ( $\beta_2 = 0.138777$ ; P-value = 0.0480).
- iii. There is a significant and positive relationship between gender diversity and cash value added of quoted deposit money banks in Nigeria at 5% level of significance ( $\beta_3 = 0.461681$ ; P-value = 0.0000).

## **Conclusion**

This study was an attempt to explore the relationship between board characteristics and cash value added of quoted deposit money banks in Nigeria. The research concluded that board characteristics provide significant influence on the performance of deposit money banks in Nigeria. However, in the long run this may provide better returns of the profitability of firms. The study also concludes that board characteristics (board size, board independence and gender diversity) significantly relates with cash value added of deposit money banks in Nigeria.

## **Recommendations**

In line with the findings of this study, the following recommendations were made:

1. Board size 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 cash value added.
2. The positive relationship between board independence and cash value added is an indication that board independence should be increased through creativity and innovation in order to manage the relationship between the boards and stakeholders leading to an improvement in the firm financial performance.
3. Since there is a positive relationship between gender diversity and cash value added, the management of deposit money banks should sustain a gender mix that is likely to have improved financial performance.

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## **Appendix A**

### **Nigeria Stock Exchange**

#### **Listed Banks As At 31<sup>st</sup> December, 2020**

##### **A) Population of the Study**

- 1) Access Bank Plc
- 2) Eco Bank Plc
- 3) FCMB Bank Plc
- 4) Fidelity Bank Plc
- 5) First Bank Plc
- 6) Guaranty Trust Bank Plc
- 7) Jaiz Bank Plc
- 8) Stanbic IBTC Plc
- 9) Sterling Bank Plc
- 10) Union Bank Plc
- 11) United Bank of Africa Plc
- 12) Wema Bank Plc
- 13) Zenith International Plc
- 14) Unity Bank Plc



## **Appendix B**

### **Nigeria Stock Exchange**

#### **Listed Banks As At 31<sup>st</sup> December, 2020**

##### **Sample Size of the Study**

- 1) Access Bank Plc
- 2) Eco Bank Plc
- 3) FCMB Bank Plc
- 4) Fidelity Bank Plc
- 5) First Bank Plc
- 6) Guaranty Trust Bank Plc
- 7) Stanbic IBTC Plc
- 8) Sterling Bank Plc
- 9) Union Bank Plc
- 10) United Bank of Africa Plc
- 11) Wema Bank Plc
- 12) Zenith International Plc
- 13) Unity Bank Plc