THE EFFECT OF RISK MANAGEMENT COMMITTEE CHARACTERISTICS AND BOARD FINANCIAL EXPERTISE ON THE FINANCIAL PERFORMANCE OF QUOTED BANKS IN NIGERIA

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By

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ABSTRACT

The issue revolving around corporate governance and financial performance has always been an essential and critical element for banking sector in Nigeria. This study investigates the effect of risk management committee characteristics (risk management committee size and risk management committee independence) and board financial expertise on the financial performance of quoted banks in Nigeria. The research used secondary data obtained from the annual report of banks listed in the Nigerian Stock exchange for the year 2013-2016 with 56 firm-year observations and based on panel data approach. Furthermore, the regression estimates are based on random effect and Fixed effect models. The result indicates that risk management committee size and risk management committee independence have insignificant relationship with financial performance of ROA, ROE and Tobin's Q. This means an increase or decrease in risk management committee size has no effect on financial performance. Board financial expertise exhibit a negative relationship with ROA and ROE. This revealed that the more the financial expert in an organization the less is financial performance. This is because of the risk that will be avoided. Besides, providing suggestion for future research work, this study provides several recommendations for regulators and the Nigerian banking industry. The findings of the study would give invaluable insight to the stock market, government, auditing and accounting regulators and auditing and accounting professional bodies, as to what extent codes of corporate governance regulators and laws are implemented by the banks and other financial services.

Keywords: risk management committee size, risk management committee independence, board financial expertise, bank performance, Nigeria

ABSTRAK

Isu yang berputar di sekitar tadbir urus korporat dan prestasi kewangan sentiasa menjadi unsur penting dan kritikal bagi sektor perbankan di Nigeria. Kajian ini menyiasat kesan ciri-ciri jawatankuasa pengurusan risiko (saiz jawatankuasa pengurusan risiko, kebebasan jawatankuasa pengurusan risiko) dan kepakaran kewangan ke atas prestasi kewangan bank-bank yang tersenarai di Nigeria. Kajian ini menggunakan data sekunder yang diperoleh daripada laporan tahunan empat belas (14) bank yang disenaraikan di bursa saham Nigeria untuk tahun 2013-2016 dengan 56 pemerhatian firma tahun dan berdasarkan pendekatan data panel. Selain itu, anggaran regresi adalah berdasarkan kesan rawak dan kesan tetap. Hasilnya menunjukkan bahawa saiz jawatankuasa pengurusan risiko dan kebebasan jawatankuasa pengurusan risiko mempunyai hubungan yang tidak signifikan dengan prestasi kewangan ROA, ROE dan Tobin's Q. Ini bermakna peningkatan atau penurunan saiz jawatankuasa pengurusan risiko tidak memberi kesan kepada prestasi kewangan. Kepakaran kewangan ahli Lembaga pengarah menunjukkan hubungan negatif dengan ROA dan ROE. Ini mendedahkan bahawa semakin ramai pakar kewangan dalam organisasi semakin kurang prestasi kewangan bank. Ini kerana risiko yang akan dielakkan. Selain menyediakan cadangan untuk kerja-kerja penyelidikan masa depan, kajian ini menyediakan beberapa cadangan untuk pengawal selia dan industri perbankan Nigeria. Penemuan kajian ini juga akan memberi maklumat kepada pasaran saham, kerajaan, badan-badan pengauditan dan perakaunan tentang sejauh mana kod tadbir urus korporat, dan undang-undang yang dilaksanakan oleh bank-bank dan lain-lain perkhidmatan kewangan

Kata kunci: saiz jawatankuasa pengurusan risiko, kebebasan jawatankuasa pengurusan risiko, kepakaran kewangan lembaga, prestasi bank, Nigeria

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Ahmed Dahir Ahmed

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LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
RMCSIZE	Risk Management Committee Size
RMCINDE	Risk Management Committee Independence
BFE	Board Financial Expertise
CBN	Central Bank of Nigeria
BANKAGE	Bank Age
FIRMSIZE	Firm Size
BOD	Board of Directors
SEC	Security and Exchange Commission
ROA	Return on Asset
ROE	Return on Equity
TQ	Tobin's Q
VIF	Variance Inflation Factor
OECD	Organization for Economic Corporate and Development
CAC	Corporate Affairs Commission
CAMA	Company Allied Matters Act
ISEM	International Stock Exchange Markets
BOFIA	Banks and other Financial Institutions Act
ISA	Investment and Securities Act
EPS	Earning Per Share
FEM	Fixed Effect Model
REM	Random Effect Model
CG	Corporate Governance

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Banks are important for economic progress because they offer various financial services. Profitability in Nigerian banking sector is key for economic development, through which fund will be mobilize, allocation of credits to various segments of the economy, payment and clearance systems, and the implementation of financial strategy (Enobakhare,2010). Their intermediation function is said to be an incentive for economic development. The financial strength in any country depend on the well-organized and active performance of the banking sector over time. The level to which a bank give acclaim to the public for productive activities hurry the speed of a nation's sustainability and economic growth (Kolapo, Ayeni, & Oke, 2012). During the execution of such obligations, banks face numerous risks that must be carefully managed to ensure existence and success. (Oldfield & Santomero, 1995).

According to Khan and Ahmed (2001), the existence and success of a financial institution is highly dependent on the efficiency of risk management. Due to their involvement in the corporate governance mediation process, risk management and financial performance are key concepts to ensure financial stability in general. Poor risk management and weak corporate governance systems in the banking sector could cause to unhealthy effect, which would disturb the entire financial system and the economy.

Subsequently, weaknesses in corporate governance, risk management were main contributing factors to recent global financial crises (Bello, 2016).

By virtue of the relationship that exists between banks and their stakeholders, the stakeholders have a responsibility to ensure that the bank is managed well. Jensen (1993) hypothesize that stakeholders of banks influence how banks manage risks. because researchers have realised stakeholders such as governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees and the general public, the actions of a corporate have impact on the external environment Enobakhare, (2010). shareholders to help advance corporate efficiency.

A statement organized by the United States Senate's permanent subcommittee studying the failure of Enron "based on an exhaustive review of evidence found, the Enron corporation's board of directors failed to monitor, the board chose to ignore problems, other times it knowingly allowed Enron to engage in high risk practices, the board also approved an unprecedented arrangement, in so doing, the board breached its duties to safeguard Enron shareholders", (Rosen, 2003).

Having different technical financial knowledge is indeed imperative for directors to enable them to understand complicated financial statement. Directors sitting on the board with no expertise in financial needed to understand the complicated reports and

operations presented to them, they could unconsciously vote for resolutions that do not necessarily increase shareholders' wealth (Dionne & Triki 2005).

In Nigeria, corporate governance is been given attention by all the parts of the economy. In 2003 a team was set up for public companies regarding corporate governance known as peterside committee by the Security and Exchange Committee (SEC). the commission set about its task by creating the corporate governance practices already dominant in Nigeria. Also, the committee is responsible to recognize weaknesses in the corporate governance practices in Nigeria with reverence to public companies and to make approvals on the necessary changes to current practices. in August 2003, in response of the serious roles played by CG in the collapse or success of Banks in Nigeria a subcommittee was established for banks (Ogbechie, 2006).

Banks failures in Nigeria were highly attributed to bad risk management practices occuring in large quantum of non-performing credits including insider related credit. According to Central Bank of Nigerian (CBN) code of corporate governance 2006 each bank should put in place a risk management framework including a risk management unit that should be headed by a senior executive, in line with the directive of the board risk management committee. A risk management team should be established to offer oversight management's activities in handling credit, market, liquidity, operational, legal and other risks of the organization (Ibiam, & Chinedu, 2017).

In addition, Nigerian Code Corporate Governance (NCCG) (2011) states that the Board of any company may form a risk management group to contribute the risk function or profile, risk management outline and the risk-reward system to be determined by the Board of Directors (BOD). Risk is a day to day activity of any business entity. Scholars suggest that organizational success could be enhanced if there is good management committee in place. success of company largely depends on the risk management mechanism (Akindele, 2012).

The common purpose for supporting financial performance discussions and research is because growing financial performance analysis will provide improvement in processes and responsibility of the organization (Nimalathasan, 2008). However, determining firm performance has been a main task for scholars and practitioners (Simerly and Li 2000). Performance is a multidimensional construct and thus, any one proxies may not be able to provide a complete thoughtful of the performance relationship relative to the ideas of interest (Chakravathy, 1986).

There are a different of measures used to assess bank performance, with every team of stakeholders having its particular focus of interest (Khrawish 2011). Altman and Hotchkiss (2010) stated that ratio analysis is a depiction of the true picture of performance of a business at a point. Despite the importance of financial ratio analysis in providing valuable knowledge to an entity's performance, it has some significant boundaries as an analytical instrument in analysis of bank performance. A display of

performance parameters is required to reveal the various features of the bank performance (Gibson & Cassar, 2005).

1.2 Problem Statement

Corporate Governance, risk Management, and financial performance are significant concepts among banks due to their involvement in the financial intermediation process. Acknowledging this, several interventions, legal regulatory, have been undertaken to address weaknesses in risk management and corporate governance mechanisms in banks.

In Nigeria, poor management result in excessive risk taking, inadequate administration of loans portfolio and distorted credit management, was among a factor causes of banking distress (Sanusi, 2010). The problem of corporate governance is crucial in the banking sector and has turned into a topic of global concern, it is essential to improve services and strengthening of financial intermediation with respect to banks and enables appropriate banking operations.

Good corporate governance practices in the banks have a lot to do with knowledgeable expert and competent staff expected to develop and deliver satisfactory banking products and services to the customers. To this end, a competent Framework for the Nigerian Banking Industry, with inputs from the Bankers' Committee, was distributed in November 2012 by the CBN. The framework defines the minimum knowledge, skills

and proficiencies needed for various tasks in the banking sector. Banks are still being performed by people without having the minimum qualification in some of the banks. The observed loopholes in the framework may have given room for this practice.

Boards of directors is the focus of attention for most fraud cases that result to collapse of many companies, also blamed for corporate failure and the decrease in shareholders‟ wealth. In 2009, the banking sector in Nigeria widely reported many accounting irregularities. Such as, spring Bank, Fin Bank, Afri Bank, Union Bank, Oceanic Bank and Intercontinental Bank was because of lack of good supervision roles by the board, the board give control to executive management who were after their own self-interests (Uadiale, 2010).

However, 8 of 24 banks in Nigerian were identified by the Central Bank of Nigeria as distressed, with total 32.8% as nonperforming loans (Alabede 2012). The chief executives and directors of the banks were removed by the central bank of Nigeria (CBN) as a result of corporate financial misconduct and 4.1 billion Naira dedicated for bailout funds for the banks that are affected (Ezeoha, 2011).[1] However, the CBN removed some corporate executives because of taking excessive risk, as the banks financial executives do not align with the risk management goals. (Adegbite & Nakajima, 2011). Vives (2011) explain that agency problem makes the financial industry shows severe market failure arising from too much risk-taking. Insufficient corporate governance in banks is the main concern of regulators in protecting banking

[1] One naira is equal to 0.0028 USD

funds (Adegbite, 2012). The major issue in Nigerian financial institutions is that of some corporate financial leaders have no corporate governance strategies to ensure regulatory compliance to enhance firm financial performance.

Governance misconduct among the merged banks has been related to banking distress in Nigeria, which has turn to routine practice in the sector Sanusi (2010). Additionally, corporate governance has failed in many banks because boards are being misinformed by the executive in acquiring loans that are not secured and they lack experience to impose good corporate governance practice on the management.

Better educational levels are recognized as assisting in the better management of firms and with greater receptiveness to innovation, as highlighted by Kimberly and Evanisko (1981). The expertise of directors, such as accounting, consulting, financing and law, all support management in the making of decisions. Wiersema and Bantel (1992) suggested that a greater level of education can be related with higher data-processing capability and the capacity to discriminate amongst alternate stimuli.

Board independence from management is important for a board's monitoring ability. Minton, Tailard and Williamson (2010) discovered that risk committee members independence decreases insiders risk taking activities resulting to a decline in losses specifically in financial crisis. Tao and Hutchinson (2012) describe that, strategies will be put in place to protect the company and there will be proper monitoring and control of risk-taking activities if committee is made up of independence directors.

One of the advantages of having risk management committee in a bank is to assess and bring about any potentially catastrophic risks and operational risks. This has created a proper communication channel relating to risk assessment and avoidance whether horizontal or vertical. It provides guidelines and policies to govern the processes by which evaluation and supervision is handled by having an expert with experience in identifying, assessing and managing risk coverage oversight, and complicated organisational risk committee. This help to avoid any risk which have portent and undesirable efforts on the corporation's performance.

Murphy (2011) suggests that risk committee must be separated from audit committees, as the former contain both prospective and retrospective dimension. The Central Bank of Nigeria (CBN) code of corporate governance 2014, each bank should have a risk management agenda identifying the governance structure, procedure, policies, and process for the monitoring, and control of the risk contain in its operations. One of the profits of having risk management committee in a company is to evaluate and manage any potentially catastrophic risks and operational risks.

Thus, this study will investigate the effect of board expertise, and risk management committee characteristics on the financial performance of quoted banks in Nigeria.

1.3 Research Questions

Therefore, from the problems stated in the problem statement section, this research highlights on addressing the following questions that emerges within the study context:

1. What is the relationship between risk management committee size and financial performance of quoted banks in Nigeria?

2. What is the relationship between risk management committee independence and financial performance of quoted banks in Nigeria?

3. What is the relationship between board financial expertise and financial performance of quoted banks in Nigeria?

1.4 Research Objectives

The focus of this research is to investigate the effect of board financial expertise, and risk management committee characteristics on the financial performance of quoted banks in Nigeria. Precisely, the following objectives have been identified;

1. To examine the relationship between risk management committee size and financial performance of listed banks in Nigeria.

2. To examine the relationship between risk management committee independence and financial performance of listed banks in Nigeria.

3. To examine the relationship between board financial expertise and financial performance of listed banks in Nigeria.

1.5 Significance of the Study

The results of this research will make contribution to the procedure and practice by improving understanding the mechanisms through which corporate governance influence bank financial performance. Policy makers can progress guidelines to be implemented by bank in corporate governance and risk management to improve financial performance. Practitioners can implement best practices in risk management and corporate governance in order to maximize the shareholder value. Hence, these guidelines will help directors to follow in order to improve the wellbeing of the banks.

This study will give board of directors the information which they will use in comparing the performance of their banks, with other banks. Managers will understand from this study on how current Nigerian codes of corporate governance will rise the performance in Nigerian banking sector. This research will educate bank management the positive effect of corporate governance on financial performance of banks. This research will benefit academicians as reference material for further research, it will provides understanding the level to which banks are fulfilling with different section that of the codes of best practice and the area they face problems. The research would provide the structure which the government could take right policies on corporate governance and other code of best practice in order to move the economy forward to compete with their emerging Asian counterparts and the world in general.

1.6 Scope and Limitations of the Study

The study will concentrate on the banks which are quoted in the Nigerian stock exchange and the research cover the 15 banks that were quoted and traded on the main board of the Nigeria stock exchange from 2013 - 2016. The reason for choosing this sector is because, the stability in the banking sector is important, and banks are vital institutions that sustain the payment of an economy. The scope of risk management committee characteristics involves the risk management committee size and risk management committee independence and board financial expertise. With regards to bank financial performance, this study focused on three measurement of accounting performance: return on assets (ROA), return on equity (ROE) and Tobin's Q to determine the financial performance of banks in Nigeria.

1.7 Organization of the Thesis

This chapter starts with a discussion about financial scandals and the recent corporate failure across the globe that has affected many companies and shows the importance of having a sound and good corporate governance regulation. The chapter highlights the status of setting a separate risk management committee as it will help in monitoring risk activities for the organisation. The chapter has various sections that encompass the study of the background, the main aims of the study as well as objectives of the research at a glance. The study seeks to address in solving existing problems, and the contribution of the study in creating an understanding of a country's regulator on the role of the board of directors and risk management committee. The last section gives an overview of the outline of the thesis.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the work of other scholars on corporate governance and the findings of prior studies and underpinning theories. It comprises a complete discussion on corporate governance concept with a view to identify the corporate governance evolution in Nigeria, the importance of corporate governance, the principle and compliance of corporate governance, corporate governance code of top practices for banks post association, corporate governance legislation: an overview of Nigerian banking industry, corporate governance and bank failure, causes of corporate governance and bank distress in Nigeria and concept of bank financial performance will be discussed. Finally, this section will be identified and discussed the theoretical framework of the study.

2.2 Concept of corporate governance

Corporate governance is multidimensional. It focusses the different fields such as accountancy, economics, finance, and others (Olannye & David, 2014). Corporate governance is among the important factors which determine organisation financial strength and the capacity to survive economic shocks. Fundamental accuracy of personal working and the connections between them help in building the strength of an organisation. Shleifer and Vishny (1997) explain the important factors that sustain country's financial system the stability which include: effective marketing discipline; financial reporting system accuracy and reliability; good corporate governance; solid

prudential regulation and supervision; disclosure regimes that is sound and suitable savings deposit system.

Corporate governance rotates around some important aspect such as management team responsibility, board of directors' structure, their remuneration, director ownership, functions of services of institutional directors, enterprise freedom availability, accountability of member of board of directors, financial reporting, institutionalization of audit functions and linkage with shareholders. Sound corporate governance will enhance value by enabling best corporate management which will benefit shareholders (Rehmans & Mangla, 2010).

Various scholars and practitioners define corporate governance. Although they all have same conclusion, so they agree with it. Hence, corporate governance is the association between the shareholders and enterprise or the relationship of the enterprise to society in general. (Coleman and Nicholas-Biekpe , 2006) .However, Mayer (1999**)** defined as the processes, information, and structures used for monitoring and control of organization management.

According to Organization for Economic Cooperation and Development (OECD), corporate governance is a scheme that direct and control business. Governance structure stipulates the distribution of rights and duties between the various members in the organisation, such as shareholders, managers, and other stakeholders, and explain decision making guidelines and procedures concerning company affairs.

Nevertheless, Shleifer and Vishny (1997), and Vives (2000) discover a wider method which interpret the subject as the means through which managers are control by finance providers so that their capital cannot be taken and to earn a return on their investment. However, there is contract that broader view of corporate governance should be accepted regarding banking institutions because of its nature which required that corporate governance mechanisms for banks should summarize depositors and shareholders (Macey & O"Hara, 2001).

2.3 The Nigerian Code of Corporate Governance

In Nigeria, majority of studies agreed on corporate failures because of poor corporate governance system and its implementation by the Security and exchange Commission (SEC) in Nigeria in developing and issuing several corporate governance codes for the drive controlling and monitoring the behaviour of management and its board members (Idemudia, 2011; Adegbite et al., 2012).

The commission are held with the responsibilities of issuance and revelation of any weaknesses in the corporate governance code 2003 and 2008 and arrive at revised codes of corporate governance 2011 which is assumed will guarantee uppermost ethics of good governance mechanism and which will enhance transparency and accountability in operations of corporations in Nigeria. The code was developed particularly to be applied by the public limited companies; however, the board of the commission (SEC) has included all other business venture such as private corporations, small and medium enterprises to implement the new set of enterprises and new set standards and ethics.

The board committee members must determine the degree to which its obligation, function besides the duty they should carried out as set in commission code via its' committees.

The board could, notwithstanding have an audit committee as suggested by Companies and Allied Matters Act (CAMA, 1990), similarly they can constitute governance/compensation committee, risk management committees and other recommended committees as believed by the board of directors that would enhance the entity's value depend on the sitting of the organisations (Adegbite & Nakajima, 2011)

2.4 Corporate Governance Regulation in Nigeria

Corporate governance has encountered different problems and was ignored for a lengthy period, in both government regulatory bodies and the academicians in Nigeria (Ranti, 2011). For each company being incorporated in Nigeria, whether public or private liability companies, quoted on the Security Exchange Commotion (SEC) and International Stock Exchange Markets (ISEM) globally, or not listed at all but in accordance with the provisions and in conformity with the (CAMA, 1990).

There are many arrangements or provisions in CAMA 1990 that set a guideline for good corporate governance, these incorporate among others, the rights of shareholders, the duties and rights of the board of directors, board attributes and its composition, the capabilities of the organization besides lifting of the covered provision.

The Corporate Affairs Commission (CAC) is another body of regulation in Nigeria that charged with the responsibility of incorporating companies and giving rules to the best possible operation of the incorporated organizations. Investment and Securities Act (ISA 1999) is likewise one of the regulations in Nigeria that permits SEC to control the activities of all incorporated firms in Nigeria, the outcome of these bodies on corporate governance includes among others the Code of corporate governance for public incorporated companies (2003 and 2011). Furthermore, every bank in Nigeria is liable to the direction of Banks and other Financial Institutions Act (BOFIA 1991). BOFIA 1991 provides the Central Bank of Nigeria authority to enrol and manage Banks and other Financial Institutions (Ranti, 2011). Since 2011 there have been numerous controls and executions of corporate governance by NSE and CBN. The last adjustment of International Financial Reporting Standards in Nigeria is additionally another effort in attempting to improve the effectiveness corporate governance.

2.5 Concept of bank financial performance

The composition of financial ratios, benchmarking, and performance measurement against target are been used mostly in measuring the banks financial performance and other financial institution (Ashbaugh-Skaife, Collins, Kinney, & Lafond, 2009). The publish financial statement of banks normally disclose many financial ratios meant to provide banks performance indication.

There are constraints in accounting related to choosing some of the financial ratios. This research comprises ROA, ROE and Tobin's Q ratios is utilized to measure the financial

performance of quoted banks in Nigeria. Furthermore, return on assets (ROA) permits analyst and all stakeholders a means to evaluate the performance and corporate governance system of an organisations in safeguarding and inspiring efficient governance of the corporation. While ROE is a percentage that discloses a financial performance of a firm on how much profit an organisation generated i.e. income generated before interest charges divided by the total shareholders' equity for the same period. Whereas Tobin's Q is a progressive measure of financial performance as it captures the market related information about the activities of a firm (Mukhopadhyay & Chakraborty, 2017).

Simply expressed, the existing financial performance literature portrays the aim of financial establishments as that of acquiring satisfactory returns and reducing the risk consider procuring the return (Bhagat & Black, 2000). Klein (1998) applied return on assets (ROA) while Lo, Wong & Firth (2010) used return on equity (ROE) as an indicator of measuring performance or performance indicators. Brown and Caylor (2009) they applied ROE and ROA as their two measures of performance indicators. We can measure firms' performance through the ROA proportion which shows the amounts of income have produced from assets or capital invested (Epps & Cereola, 2008).

Most past studies relating to organization performance assessment concentrate just on operational effectiveness and operational efficiency which may notwithstanding impact organisation existence (Quadri 2010). By operating advanced two stage data

envelopment analysis model in their research, the experimental outcome of this study shows that an organization with good effectiveness does not generally imply it has better efficiency. In banking sector, financial statements of banks can be measured by a collection of financial ratios prepare to present a genuine picture of company's performance.

The reason why this study focus on financial performance is because information disclose in the annual report of banks are based on the facts and accountability that was used to improved and heightened project support for the executive strategy, better services and satisfaction are being provided to a customer.

2.6 Underpinning Theories

This section discusses the theories that underpin the entire study. Several theories have been used by previous CG writers and some of which include agency theory, transaction cost theory, ethical theories, institutional theory and host of others. This study, however, employing agency theory and resource dependency theory because of their prominence in the recent times and, they are related to variables of this research.

2.6.1 Agency Theory

Economic theory is the root of agency theory and is widely used in corporate governance studies. Agency theory is illustrating as the “relationship between the principals, such as shareholders and agents such as the company executives and managers”. Based on this theory, shareholders as the principals of the organisation, employs the agents to

work for them. owners allocate the running of business to the managers, who are the agent of the shareholders (Clarke, Cull, Peria, & Sánchez, 2005).

In agency theory agents are projected to help and make decision in the interest of shareholders. Adam Smith in the 18th century first highlighted such problem and later study by Ross (1973), and the comprehensive explanation of agency theory was offered first by (Jensen & Meckling, 1976). The agency theory describes the separation of ownership and control (Davis et al., 1997).

The Agency theory also defines the effectiveness and efficient monitoring of the risk management committee as prescribed in the code of governance with regards to its size and the independence. However, the theory advocates or argues that a considerable raise in number of risk management committee size can result to a delay in the decision-making process, which could also increase administrative cost of governance and independence of risk management committee will increase the monitoring of the executive with regards to risk taking activities (Fama & Jensen 1983).

2.6.2 Resource dependency theory

Resource dependency theory is another important theory in this study. The theory is used to augment agency theory as it postulates the primary role of appointing directors is for the directors to link their firms with external stakeholders through which the resources desired to boost the performance of the firm can be derived. Hillman, Canella and paetzold (2000) also opined that the main trust of resource dependency theory hinges on the function of directors, which are channelled to ensure that the needed

organizational resources are provided and secured through effective communications with the outside world.

The main postulation of resource dependency theory is that board members are specifically appointed with the primary purpose of increasing the supply of resources that are essential to the firm (Hillman & Dalziel, 2003). Moreover, the theory also postulates that non-executive directors connect the firm with outsiders through their knowledge, prestige and contacts. In addition, Spencer (1983) argued that non-executive directors regularly view them self as advisors instead of being decision makers, which, therefore, makes them highly influential and attracts the attention of people even though they do not institute policy (Haniffa & Hudaib ,2006).

In line with debate above, the resource dependency theory provides adequate support for sources through which a firm gathers resources to improve its operations and such source could be either external or internal in nature. The theory discusses the attributes of board of directors, audit committee and risk committee, as these factors have not been explored in detail by the agency theory in relationship to the firm performance. In conclusion, the combination of agency and resource dependency theory in this study offers a clear picture about the affiliation between CG determinants and firm performance.

2.7. Corporate Governance Structure

2.7.1 RMC Size

Risk management committee existence may be related with board size. The existence of large board size gives more opportunities to discover directors with needed expertise to organise and be in charge in a sub-team dedicated to risk management. risk management committee size is referred as number of members sitting on the risk management committee (Ballesta & Garcia-Meca, 2005).

Board of directors of banks are important to corporate governance activities (Adams & Mehran 2003). The boards of directors established up monitoring committees that moderate the cost related with larger boards (Upadhyay, Bhargava & Faircloth, 2014). thus, larger boards have been related with performance (Adams & Mehran, 2005), and greater bank risk taking (IMF, 2014). Consistent with prior studies (Beltratti and Stulz, 2012; Peni & Vähämaa, 2012) investigation of a sample of financial institutions indicated that firms with shareholder-focused boards are related with greater levels of systemic risk or lower returns

A board primary duty is to deliver an effective monitoring function (Fleischer, Hazard & Klipper, 1988). According to Bédard *et al.* (2004) a big committee offer strength, expertise and diversity of view which is effective in terms of resolving potentials problems. Risk oversight arrangement seek to diminish structural features that can hamper external shareholders' ability to monitor banks effectively, given the complication and opaqueness of their activities (de Andres & Vallelado, 2008). boards

of directors in banks play a key role in regulation of risk controls to reduce misconduct in financial institutions (Nguyen, Hagendorff & Eshraghi 2015a). Precisely, they report mitigated bank misconduct levels when monitoring quality is high.

2.7.2 RMC Independence

Board independence from management is important for a board's monitoring ability. The presence of large number of non-executive directors sitting on the board is recognised as a good pointer of the independence of the board from management. Prior research (Dalton *et al.*, 1998; Shleifer and Vishny, 1996) shows that boards cannot enquire and fight the power of the executive management if they are not sufficiently independence from management. The responsibility of independent executive directors is to control the manger's behaviour that are related to risk taking activities. Thus, it is argued that non-executive care more about their status, so they will demand higher quality governance than executive directors. Uzun et, al (2004) states that organisation with a greater number of non-executive directors have good management and fewer fraud accusations.

According to fama and Jensen, (1983) RMC independence means the number of independent non-executive directors' members sitting on the risk management committee. Subramaniam, McManus, and Zhang (2009) stated that boards with excessive number of non-executive directors are able vigorously investigate about risks, and they see the setting up of a risk management committee as a vital means of support to assist them achieve their risk management oversight function compare to those with

a small number of non-executive director. Tao and Hutchinson, (2012) explain, when a committee is comprising of independent directors, they will be able to monitor, and control management and risk-taking activities to ensure all the strategies are working.

However. Minton, Tailard and Williamson (2010) discover that risk committee members independence reduces insiders risk taking activities resulting to reduction in losses particularly in financial crisis. In Nigeria the CBN 2014 code of corporate governance states that the risk management committee board composition shall include at least two non-executive directors and the executive director in control of the risk management, however it must be led by a non-executive director.

2.7.3 Board Financial Expertise

Better educational levels are recognized as assisting in the better management of firms and with greater receptiveness to innovation, as highlighted by Kimberly and Evanisko (1981). It is believed that individual education has relationship with conflict over money, and strategic vision and management control, where those who have achieved a greater level of education are recognized as having a good grasp of fiscal issues more so than those who have not sought educational attainment.

However, Kesner (1988) recognised that most directors' professions are business executives, with consultants, lawyers and school professors following. The directors' knowledge, such as accounting, financing, consulting, and law, all support management in decision making. Wiersema and Bantel (1992) suggested that a greater level of

education can be related with higher data-processing capability and the capacity to discriminate amongst alternate stimuli. Markedly, Hillman and Dalziel (2003) establish a relationship between director knowledge and board capital; this is seen to involve both social and human capital: the former refers to the implicit and tangible set of resources available through social relationships; the latter states to the individual abilities, skills and knowledge of directors, and encompasses the basic functional, board-specific and business-specific abilities, knowledge and skills of directors.

The board of directors' gains knowledge and insight, which is recognized as having the potential to improve the quality of activities carried out. Gottesman and Morey (2006) figures out that educational qualification may be an indicator for intelligence, where more smart managers are expected to be better than their peers. Top managers of the firm are appointed probably because of their superior ability. Bhagat et al. (2010), such ability consists of observable characteristics (e.g. educational backgrounds and work experiences). However, Cheng et al. (2010) show that the university degree held by the board chairman is positively related with seven measures of performance, namely earnings per share (EPS), ROA, cumulative returns, cumulative abnormal returns, growth in EPS, growth in ROA, and the market-to-book ratio.

Directors with accounting and finance, economics and business education background are also an important person to be appointed as part of board members (Arifina, and Tazilahb 2016). Their attendance will support the companies to ensure financial matter being managed effectively and efficiently.

2.8 Empirical Review of Risk management committee characteristics and board financial expertise on firm performance.

Minton, Taillard and Williamson (2010) investigated how risk taking and bank Performance were correlated to board independence and financial expertise of the board in USA commercial banks before and through the financial crisis. They found that financial expertise of the board was positively linked to risk taking and bank Performance before the crisis but is negatively related to bank performance in the crisis.

Furthermore, Adeusi, Akeke, Adebisi, and Oladunjoye (2014) investigated the association between bank Financial Performance in Nigeria and Risk Management practices. The study used secondary data gained from 4-year progressive annual reports and financial statements of 10 banks. A panel data estimation technique was used in the data analysis. The study found a significant and inverse relationship between banks financial performance and doubt loans as well as capital asset ratio. The study concluded that is a significant relationship exists between banks performance and risk management.

The relationship between credit risk and performance of Egypt and Lebanon banks in the 1990s was examined Hakim and Neamie (2001) by using data from 1993-1999, the study used a fixed effects model of bank return with different intercepts and coefficients. The study confirmed that credit risk was positively related to profitability, while liquidity risk was insignificant in all banks and had no influence on profitability. The

study suggested to policymakers to establish performance targets that allow bank managers to distribute capital more efficiently over their business units.

Kleffner, Lee, and McGannon (2003) studied the use of ERM by companies in Canada, the characteristics that were related with the use of ERM, what problems faced companies in implementing ERM, and what role, if any, Corporate Governance procedures had played in the decision to accept ERM. Primary data was gained from responses to mail surveys as well as telephone interviews with the respondents. The results were that 31 percent of the respondents had accepted ERM, the reasons for approving ERM included the impact of the risk manager, inspiration from the board of directors, and conformity with Toronto Stock Exchange (TSE) guidelines. The main obstacle to ERM were an organizational structure that discourage ERM and overall resistance to change.

However, Beasley, Clune and Hermanson (2005) did an experimental study to examine the factors link with the stage of ERM implementation at 123 USA and international organizations. The results of the study were that the stage of ERM implementation was positively associated to the presence of a chief risk officer, board independence, CEO and CFO apparent support for ERM, the presence of a big four auditor, entity size, entities in the banking, education, and insurance industries. The study found that USA organizations had less-developed ERM processes than international organizations.

2.9 Gaps in the literature

The literature reviewed in the above section has given rise to number of gaps that include the following: First, most of the studies on risk management committee and banks financial performance were conducted in developed countries that have effective and sound risk management committee (Murphy, 2011). There are few studies were carried out in Nigeria where there are weaknesses in corporate governance practice.

The second gap is associated to the inconclusiveness of prior studies. The inconsistent findings regarding the risk management committee characteristics in advance capital markets gives room for further research. While some prior studies found a positive relationship between risk management committee characteristics and financial performance (see for example Upadhyay, Bhargava & Faircloth, 2014; Adams & Mehran, 2005; Uzun et, al 2004; Subramaniam, McManus, and Zhang 2009) some studies found negative relationship (see for example Pathon, 2009; Tao & Hutchinson, 2012; Kallamu 2015)

Therefore, this study is motivated by the need to fill the above identified gaps a more by employing a new set of variables and using a set of listed banks in Nigeria in recent time period of between 2013 to 2016.

2.10 Summary of the chapter

This chapter brings an overview of the literature regarding the effects of risk management committee size, risk management committee independence, board financial expertise, on financial performance of banks and provides an outline of corporate governance and its regulation in Nigeria. The results of previous studies have shown that the effectiveness of the risk management committee and board financial expertise to guide the management is associated with firm performance. this study considered two theories which were resource dependency theory and agency theory to describe the relationship among CG variables and predicted variable firm performance measured as ROA,ROE and Tobin's Q .Hence, this study focuses on financial performance because information disclose in the annual report of banks are based on the facts and accountability that was used to improved and heightened project support for the executive strategy, better services and satisfaction are being provided to a customer.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the framework of the methods used in carrying out the study. The chapter is subdivided into the following heading; research design to be assumed, population of the study, sample size and sampling technique, sources of data and methods of data collection, study variables, methods to be use in analysing the data generate from the research instruments to be administer.

3.2 Theoretical Framework

From the review corporate governance has been seen from different theoretical perceptions. The main theories adopted in the study are agency theory and resource dependency theory as underpinning theory. Conceptual framework is normally needed to validate the relationship between the dependent and independent variables in the research (Mugenda & Mugenda, 2003). In addressing that, the associated conceptual framework is applied to check the effects of board financial expertise and risk management committee on firm performance. The board financial expertise, risk management committee size, and risk management committee independence are the independent variables, whereas ROA, ROE and Tobin's Q are used as a proxy for firm performance which is based on accounting measure. The framework is shown diagrammatically as follow:

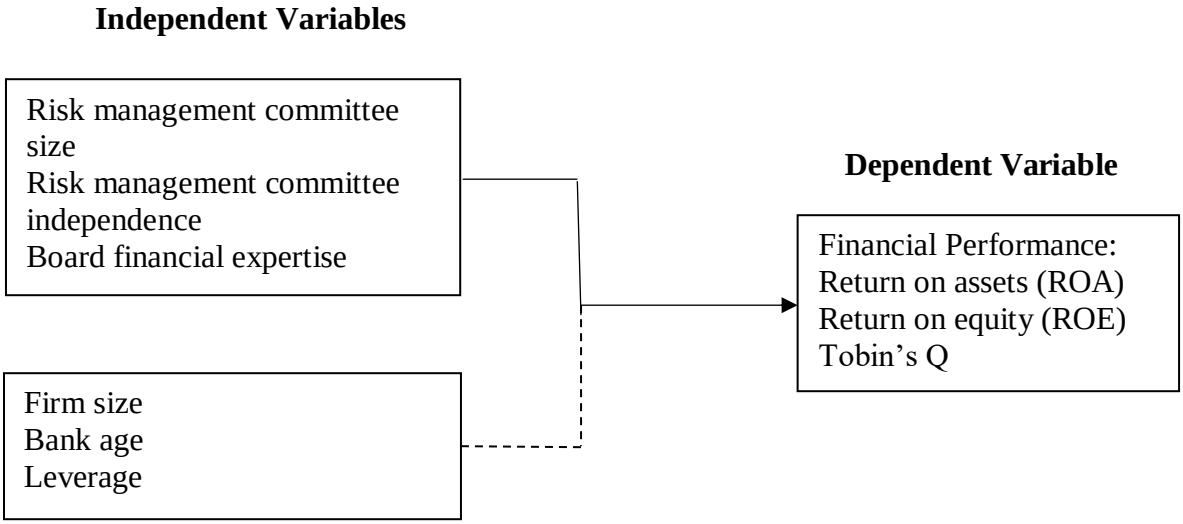

Figure 3.1
Research framework

3.3 Hypothesis Development

This part discusses the relationship between the dependent variable: firm performance measured by ROA, ROE and Tobin's Q and the independent variable of the study. These independent variables include CG attributes such as risk management committee characteristics (risk management committee size, risk management committee independence) and board financial expertise.

3.3.1 RMC Size and Financial Performance

Empirical studies indicated that committee size may have implication on performance of the company. Halim, Mustika, Sari, Anugerah, and Mohd-Sanusi (2017) explain that large board size is assumed to help the performance of the board in implementing risk management and overseeing the performance of the agent, therefore, the agent does not

trespass the authority that has been given by the principal. A larger board size will deliver greater chance to discover members with the required expertise to organise and be involved in the committees formed by the Board of Commissioners designated for risk management (Subramaniam et al., 2009).

good performance is positively associated with presence of risk management committee. However, RMC size is important in handling the risk of finance companies and increasing their performance (Tao & Hutchinson (2012). This is further supported by Battaglia and Gallo (2015) that risk committee size and ROA has a positive relationship. They recommend that for the period 2007-2011, banks having a bigger risk committee achieve higher profitability. Also, Wu, Kweh, Lu, and Azizan (2016) found that risk management committee characteristics including the number of directors sitting on the risk management committee are positively and significantly associated to the effectiveness of Malaysian insurers.

Additionally, Rao, and Jirra (2017) in their study shows a positive relationship between risk committee size and liquidity risk management in Commercial banks. The findings of this study indicated, Ethiopian commercial banks board of subcommittee, especially risk committee size play a crucial role in effective direction of the risk management in banking industry. Therefore, the banks should give due consideration to the size of risk committee in board room.

H1: There is a positive relationship between RMC Size and financial performance of quoted banks in Nigeria.

3.3.2 RMC Independence and Financial Performance

Individuals' quality that serve on the RMC is a key sign for affective monitoring of risk matters. The committee efficiency is based on the composition of the committee. Risk committee is seen to be more effective when the composition of the committee members come from outside of the company or they are independent members because they have the motivation to protect their reputation as expert (Fama & Jensen, 1983).

Also, agency theory recommends that independent of committee members is one of the factors that have influence on the effectiveness of the committee (carson, 2002). From the agency theory perspective independent risk management committee members will be able to screen any self-interested behaviour by managers and lower agency cost (Nicholson & Kiel, 2007). Independence of the risk management committee members will enable them to deal with any management pressure and acquire the essential information for controlling risk of the companies which will improve supervision and control of the company's risk and eventually improved firm performance (Yeh, Chung, & Liu, 2011).

Empirical studies indicate that a relationship exist between risk management committee independence and firm performance. Pathon (2009) found a negative relationship between RMC members' independence and risk in finance companies. The negative relation could be related to lack of supervision monitoring by independent executive director because of busy schedule or lack of experience required to carry out the supervision efficiently (Tao & Hutchinson, 2012) Also a study conducted by Kallamu

(2015) reported that risk management committee independence is significantly negatively linked with ROA.

Financial firms with large number of independent directors sitting on risk committee do well in financial crisis period and they are better than those with small independent directors (Yeh et al. (2011)). However, Xie *et al*. (2003) explain that non-executive board members tend to reduce the probability of a company being involve in accounting fraud. Also, Wu, et al. (2016) found that the percentage of independent directors sitting on risk management committee are positively and significantly interrelated with the effectiveness of Malaysian insurers.

H2: There is a positive relationship between RMC independence and financial performance of quoted banks in Nigeria.

3.3.3 Board Financial Expertise and Financial Performance

Board members who reached a greater level of education are considered as having a better grasp of fiscal issues than those who do not have higher education. Since boards are charged with ensuring that the funds of shareholders are not misused, shareholders must make sure that the board members are both experienced and well-educated. Directors' competency and background are important elements as they positively contribute to companies' values (Johannisson & Huse, 2000).

The expertise of directors in areas such as accounting, financing, consulting, and law all help to aid management in making decisions. Wiersema and Bantel (1992) suggested

that a greater level of education can be related with higher data-processing capability and the capacity to discriminate between alternate stimuli. Hillman and Dalziel (2003) linked director knowledge and human capital individual abilities, knowledge, and skills of directors that encompass the basic functional, board and business-specific abilities, knowledge and skills of directors. Chen *et al.* (2005) emphasized that intellectual capital adds significant value to firm profitability. Switzer and Huang (2007) who sampled mutual funds in Canada, established that the mutual funds' performance can be related directly with aspects of managerial human capital.

H3: There is a positive relationship between board financial expertise and financial performance.

3.4. Research Design

Research design includes evaluation and collection of data. This is dictated by the research nature. It includes building up reliability and validity of the study. The main aim of the research design is to determine the relationship that occurs among the research questions, the data collected and to draw conclusion (Asika, 2004). This study collects and utilize documentary source of data acquired from the annual reports and accounts of listed banks in Nigeria for the period under study.

3.5 Measurement of the Variables

Dependent variables, independent variable, and control variable measurement is provided under this section. The will measure the variables as follows:

3.5.1 Dependent Variable

The study applies financial performance as dependent variable measured by return on asset (ROA), return on equity (R0E). Besides this study also employ Tobin's Q as indicator on market performance.

ROA is the accounting-based measurement and it shows the overall efficiency of assets utilization by the firm in terms of improving the wealth of shareholders. Various companies have different ROA representing measurements of efficient utilization of assets (Miller 1995).

ROA is measured as net income generated before interest expenses for the fiscal year divided by total assets for that same year. It defines the ability of bank management in investments of its assets, buildings and land, inventory and stocks. Higher ROA means the bank is more efficient and capable of using the funds (Wen, 2010). Therefore, the higher the ROA, the more effective is the utilization of assets to satisfy the shareholders' interests (Ibrahim & Samad, 2011).

While ROE is a measure that discloses a financial performance of a firm on how much profit an organisation generated i.e. income generated before interest charges divided

by the total shareholders' equity for the same period. However, ROE is about the salary before intrigue cost for the monetary period isolated by aggregate shareholders' value for that same period.

ROE emphases on the equity section of the investment and determine that the earnings left over for equity investors after debt service cost have been factored into the equity invested in assets (Damodaran, 2007).

Additionally, Tobin's Q is a forward-looking measure of financial performance as it captures the market related information about the activities of a firm (Mukhopadhyay & Chakraborty,2017). This measure uses the basic stock market price, which shows the predictable projections of a firm (Skousen et al.,2002). Hence, Tobin's Q reflects the expectation of the shareholders with respect to the future performance of an organisation, which is based on current or past performance.

Tobin's Q is characterised to depict the perception of the market with respect to whether the firm performance is good or not. Thus, Tobin's Q is illustrated as market value of the firm divided by total assets. A high Tobin's Q ratio signifies the successful deployment of a firm resources because a firm has higher market value than its book value (Kapopoulos & Lazaretou, 2007).

One measure concerning financial performance that is used namely ROA to differentiate among the effect that risk management committee characteristics and financial expertise

have on the types of financial performance. Therefore, ROA is described as net income generated before interest expenses divided by total assets for that same year (Garba & Abubakar 2014; Makki & Lodhi (2014). As well ROE is measured as net income divided by total equity (Taghizadeh & Saremi, 2013) while TQ is given as market value of the firm divide by total assets (Martin and Hero (2018) and Vintil et al. (2015).

3.5.2 Independent Variables

The section gives measurements of the board financial expertise and risk management committee characteristics as independent variables which are state as follows:

3.5.2.1 RMC Size

Risk management committee existence may be linked with board size. The existence of large board size gives more opportunities to discover directors with needed expertise to organise the risk management. Risk management committee size is measure as the number of directors sitting on the risk management committee (Ballesta & Garcia-Meca, 2005).

3.5.2.2 RMC Independence

Risk committee members independence decreases risk taking activities of management, this result to a reduction in losses particularly in financial crisis period (Minton, Tailard & Williamson 2010). Risk management committee independence is measure as the proportion of non-executive directors divided by total directors on the risk committee (Fama & Jensen 1983).

3.5.2.3 Board Financial Expertise

Board financial expertise are recognized as assisting in the better management of firms and with greater receptiveness to innovation, as highlighted by Kimberly and Evanisko (1981). The expertise of directors, such as accounting, consulting, financing and law, all support management in the making of decisions. It is defined as proportion of directors with educational background in accounting, finance, economics, and business administration divided by total directors (Dionne & Triki 2005).

3.5.3 Control Variables

This section provides firm size, bank age, and leverage as the control variables.

A) Firm Size

Empirical literature of corporate governance used firm size as control variable in measuring the performance of the firm (Aljifri & Moustafa, 2007; Alzharani *et al.*, 2011). This study uses firm size as control variable because it is discovered to be related to firm with different features.

Firm size has influence on company performance. Empirical literature on corporate governance used it as a control variable, as in De Andres et al. (2005), Linck, Netter and Yang (2008) and (Ghosh, 2006). Large firms may be less active compare to smaller firms because they can meet the government bureaucracy, and more agency problems (Lehn et al., 2009). Although, there is a possibility to use economies of scale, more powerful on the market, and employ more skilled managers (Kyereboah-Coleman & Biekpe, 2005). Also, Coles et al. (2001) argued that large board members are needed

when firm is growing to assist in monitor the performance of managers. Finally, this study measure firm size by using the natural logarithm of the total assets (Alhaji 2012; Kurawa & Kabara, 2014)

B) Bank Age

Bank age is measure using number of years the bank is incorporated. As organizations age, routines, systems, and standard operating procedures are consciously created or otherwise emerge (Blau & Scott, 1962). Several empirical studies generally used bank age as a control variable which studied the relationship between corporate governance and firm's performance (Ahmed, Ahmed, & Ahmed, 2010; Anderson, Mansi, & Reeb, 2004).

C) Leverage

Leverage means the utilisation of funds borrowed to enhance firm performance. Some empirical studies have used leverage widely as a control variable to study the association between corporate governance and financial performance for instance, Habbash, (2010); Adelopo, (2011) and Kyereboah-Coleman and Biekpe, (2006). These studies indicate that debt has an impact on company financial performance.

Leverage is used as control variables because of it is important to control the chances of the spurious relationship among the variables (board financial knowledge, risk management committee size, risk management committee independence and firm

performance). Greater debt level can increase agency costs and decreases managerial cost that could made to provide more level of disclosure in annual reports and enhances firm performance (Mangena & Pike, 2005).

Agency theory assumed that the level of the increase in leverage increases the efficiency of the board. Jensen and Meckling (1976) explain that leverage must be use by the company to help control the costs such as debt levels rise to agency. Managers can offer more supervision in the most effective board.

Table 3.1.

Summary of the Operationalization of Research Variables

No	**Variables**	**Acronym**	**Operationalization**	**Source**
	Dependent variable:			
1	Return on Assets	ROA	Net profit divided by total assets (NP/TA)	Garba & Abubakar (2014); Makki & Lodhi (2014).
2	Return on equity	ROE	Net profit after tax divided by total equity	Taghizadeh & Saremi (2013)
3	Tobin's Q	TQ	Market value divided by total assets	Martin & Hero (2018)
4	Independent Variable: Risk management committee size	RMCSIZE	Number of directors sitting on the risk management committee	Ballesta & Garcia-Meca, (2005)
5	Risk management committee independence	RMCINDE	Proportion of non-executive directors divided by total directors on the risk committee	Fama & Jensen (1983).
6	Board financial expertise	BFE	Proportion of directors with educational background in accounting, finance, economics,	Dionne & Triki (2005)

			and business administration divided by total directors	
	Control variable:			
1	Firm Size	lnta	Natural log of total assets	Alhaji (2012); Kurawa & Kabara (2014)
2	Bank Age	agecorp	Number of years since the company start incorporation	Alhaji, (2014); Faruq (2011).
3	Leverage	Tdta	Total debts divided by total asset	Huda & Abdullah (2013)

3.6 Population of the Study

This study involves all banks listed on the Nigerian Stock Exchange. So, the study population covers all fifteen (15) listed banks from 2013 to 2016 in accordance with the Central Bank of Nigeria regulation.

3.6.1 Sample Size and Sampling Technique

From the population fifteen (15) banks listed on the Nigerian Stock Exchange which are sampled out for the study, but only 14 banks have complete data which are:

Table 3.2.
Listed Banks in Nigeria

No.	Commercial Banks in Nigeria
1	Access Bank Plc
2	Diamond Bank Plc
3	Ecobank Nigeria Plc
4	Fidelity Bank
5	First City Monument Bank Plc
6	First Bank of Nigeria Plc
7	Guarantee Trust Bank Plc
8	Sterling Bank Plc
9	Stanbic-IBTC Bank Plc
10	United Bank for Africa
11	Unity Bank Plc
12	Union Bank Plc
13	Wema Bank Plc
14	Zenith Bank Plc

Source: Nigerian Stock Exchange (NSE) 2016

It is observed that these banks are homogeneous, and the patterns of preparing and reporting their financial statements in which findings can be generalized are almost similar.

3.7. Sources of Data and Methods of Data Collection

The data that used for the study is secondary data that acquired from the annual reports and audited financial statements of listed banks in Nigeria. Even though the accuracy of financial statements mostly relies on the integrity of the banks, and diligence exercised by different supervisory authorities, it is considered that these statements are highly reliable because the data are going to be sourced from various avenues especially the Central Bank of Nigeria (CBN) publications like annual reports, securities and exchange commission (SEC) publication.

3.8. Method of Data Analysis

The data for this study is derived from one source, i.e documentary sources, different statistical tests is carrying out to determine the link between the variables in the study. Multiple regression technique is used to correlate the relationship between dependent and independent variables. The regression model focused on Risk management committee size (RMCSIZE), Risk management committee independence (RMCINDE), Board financial expertise (BOARDFINEXP), Return on Asset (ROA), return on equity (ROE) and Tobin's Q (TQ).

3.8.1 Model Specification and Multiple Regressions

Multiple regression method is carried out to study the link between the financial performance of quoted banks in Nigeria and risk management size, risk management independence and board financial knowledge.

The regression equation is estimated as follow:

ROA = α0 + β1 rmcsize + β2 rmcindr + β3 Bfknexp + β4 lnta + β5 agecorp + β6 tdta + ε it

ROE = α0 + β1 rmcsize + β2 rmcindr + β3 Bfknexp + β4 lnta + β5 agecorp + β6 tdta + ε it

TQ= α0 + β1 rmcsize + β2 rmcindr + β3 Bfknexp + β4 lnta + β5 agecorp + β6 tdta + ε it

Where:

roa = return on assets
roe =return on equity
TQ= Tobin's Q
rmcsize = Risk management committee size
rmcindr = Risk management committee independence
Bfkrexp = Board financial expertise
lnta = Firm size
agecorp = Bank age
tdta = Leverage
ε it = Error term

3.9 Data Analysis

Stata 14 software is adopted to analyse the data which includes of descriptive statistics that gives details and summary to be collected from the annual statement of Nigerian banks.

3.9.1 Descriptive Analysis

Descriptive analysis was conducted to minimse the mean, minimum, maximum, and standard deviation for each variable of the sample selected in the study.

3.9.2 Diagnostic Test Panel Data Analysis

Normality, multicollinearity, heteroscedasticity, and autocorrelation are the common diagnostic tests to be conducted before analysis and econometric modelling can be done (Carneiro, 2006). These four (4) tests were to be conducted in this study to prove that there is a high possibility that econometric assumptions are not violated and to obtain truthful results.

3.9.2.1 Normality Test

Normality is defined as the shape of the distribution of data for individual quantitative data variable and its normal distribution. It is a fundemental assumption in multivariate analysis that follows the idea that a significant deviation from normality result to an invalid statistical outcome (Hair, Black, Babin, Anderson, & Tatham, 2006). Tabachnick and Fidell (2007) explain that the distribution shape can be observed on a graph. For this study Shapiro-Wilk, Shapiro-Francia, Mardia Skeness Henze-Zirkler and Kernel Density Estimator were to be use respectively.

3.9.2.2 Heteroscedasticity Test

Heteroscedasticity test of a group of variances is required in the panel data analysis because such analysis is the consolidation of cross-sectional data and time series. There are many heteroscedasticity tests available, namely, Spearman's Rank Correlation, Goldfeld-Quandt Test, the Breush-Pagan Goldfrey Test, Glejser Test, Park Test, and White Heteroscedasticity Test. Consequently, Gujarati and Porter (2009) observe that there is no answer for the best and most powerful test to diagnose the problem. Greene (2003) recommended using the White Heteroscedasticity Test. The Whites test itself has many alternatives and the choice of such a test depends on the statistical package used. In the panel data analysis using Stata statistical software, a modified Wald test for group wise heteroscedasticity in the residuals could measure heterogeneity from the significance of the chi-square value (Greene, 2003).

3.9.2.3 Autocorrelation Test

Another diagnostic test that is relevant to the panel data analysis includes checking the correlation among the disturbance term of observations in time or space (Gujarati & Porter, 2009). In the panel data analysis, the test to determine the existence of autocorrelation in the panel is based on the Wooldridge test for autocorrelation (Carneiro, 2006). The test involves checking the significance of null hypothesis that there is no idiosyncratic error of a linear panel data model. The significant F-value shows the existence of autocorrelation in the model. This problem can be solved by using the random effect model or the fixed effects model since the model always provides consistent estimators (Gujarati & Porter, 2009; Wooldridge, 2003).

3.9.2.4 Multicollinearity Test

Panel data analysis, to some extent, can reduce the multicollinearity problem (Baltagi, Bratberg & Holmås, 2005). Multicollinearity checking is a common diagnostic test to confirm that none of the independent variables are highly linked, which can result in massive variance bias. The high correlation between two (2) independent variables would result in a huge bias in variance, therefore, causing the estimations to be unreliable (Baltagi et al., 2005). The Variance inflation Factor (VIF) is an example of the test that is common to study such a problem. It treats one (1) of the independent variables as dependent variables and the remaining independent variables as independent variables. Correlation Matrix and Condition Index are other tests that have been used by many researchers (Anderson & Zeghal, 1994). It is expected that, by

carrying out a multicollinearity test for the panel data, one (1) of the basic requirements for econometric regression is met.

3.9.3 Correlations

The current study identifies the interconnection among the variables. The result of the analyses shows the direction, significance, and nature of the correlation of the variables in the study and this relationship is analysed using the person correlation.

3.9.4 Panel Data Analysis

According to Baltagi *et al.* (2005), panel data refers to the pooling of observations on a cross section over several times. Thus, allowing the researcher to study the dynamics of change over the short time series. In this study, due to the potential benefits provided by this approach panel data structure rather than cross sectional or time series will be utilize, it can improve the quantity and quality of data that could not be provided with either a cross sectional or a time series alone (Greene, 2003).

The advantage of panel data analysis over other techniques include reducing the collinearity among independent variables and increasing the number of observations and degree of freedom; improving the efficiency of econometrics estimation and account for heterogeneity of the variables as well as its suitability of studying dynamics changes in a firm or industry (Baltagi, 2008).

3.9.4.1 Fixed Effect Model

Fixed effect model displays the difference in intercepts for different entities with constant slope across entities and time. It can be one-way entity fixed effect, one-way time fixed effect or two ways fixed effects (entity and time). Two methods are employing; the Least Square Dummy Variable Estimator (LSDV) appropriate for small number of entities and Fixed Effect Estimators (FEE) appropriate for large number of entities (Greene, 2008).

3.9.4.2 Random Effect Model

For Random effect model, the variation across entities is random and uncorrelated with the independent variables in the model. The model can absorb time-invariant variables. The random effect model would have a random constant term (Greene, 2003).

3.9.4.3 Hausman Test

Hausman test is conducted to decide between random effect and fixed effect. Al-Ajmi (2008) explain that when the hausman test result is significant in the model fixed effect is preferable over random effect.

3.9.4.4 Breusch and Pegan Langrangian Multiplier Test

If the random effect is considered most efficient and appropriate from the above Hausman test, the analysis will proceed to decide between random effect model and pooled OLS model using Breusch and Pegan Lagrangian multiplier test.

Ho: There is no individual difference that is, no random effect

$H1$: There is individual difference among the coefficients that is, random effect exists

If the Ho is rejected, random effect exists and if Ho fail to be rejected, random effect does not exist thus pooled OLS would be more appropriate.

3.9.5 Multiple Linear Regression Analysis

This study employs multiple linear regressions (MLR) specifically panel data analyses to study the relationship between the financial performance and risk management characteristics (risk management size, risk management independent, and board financial knowledge). The study clusters the standard error at panel lid. This is because in the sample same bank may present in different years, it is suitable to enable the errors to be related for the same intermediary overtime. Thus, the study obtained standard errors robust heteroscedasticity.

3.10 Summary

The objective of this study is to examine the relationship between risk management committee characteristics on the financial performance of quoted banks in Nigeria. This present chapter explains the methodology used in the study and show the hypotheses that have been developed. Furthermore, theoretical framework, research methodology, the research design and data analysis were also discussed.

CHAPTER FOUR

RESULT AND DISCUSION

4.1 Introduction

In this chapter, the results of the study are presented based on the objectives of the research and the hypotheses the results comprised of descriptive statistics, correlations, and multiple regressions that are utilized to investigate the relationship among the variables (independent and dependent). The data were extracted from DataStream, respective companies' annual reports and analyzed using STATA.

4.2 Descriptive Statistics

The descriptive analysis was performed in order to provide demographic information about the sample which could lead to easy and better interpretation of data (Genser, Cooper, Yazdanbakhsh, Barreto, & Rodrigues, 2007). In Table 4.1, the mean and stander deviation of the main variables of this study are presented below. The continuous variables are tested by the descriptive statistics which is presented in Table 4.1.

The standard deviation, mean, maximum and minimum were included in the descriptive statistics which were computed using STATA version 14. Referring to Table 4.1, the descriptive analysis shows that the mean value of the risk management committee size (RMCS) is about six members with a maximum of thirteen (13) members and a minimum of three (3) members which shows that Nigerian banks is within the threshold

of 20 maximum members set by central bank of Nigeria. In the same manner, the risk management committee with independence is 0.701 with minimum and maximum of 29% and maximum of those with independence as all. The board financial expertise had a mean of 0.399 with minimum and maximum number of 17.6% and 60% respectively. Meanwhile bank age has a mean value of 43.929 with the minimum value of 7 years and maximum of 122 years of operation which indicate quite number of disparities in age of operations. While bank size has a mean value of 9.028billion Naira with minimum of about 7billion and maximum of 10billion, while the leverage value is having 13.383 as mean and 5.4 as minimum and 9.7 and 26 as maximum.

Table 4.1
Descriptive Statistics of the Continuous Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	56	1.977	1.546	-5.480	4.660
ROE	56	10.613	13.899	-56.690	29.400
Tobin's Q	56	0.558	0.038	0.470	0.634
RMCS	56	6.429	2.181	3.000	13.000
RMCI	56	0.701	0.197	0.290	1.000
BFE	56	0.399	0.112	0.176	0.600
BankAge	56	43.929	31.193	7.000	122.000
Firm Size (In Billion)	56	9.028	0.639	6.891	9.794
Leverage	56	13.383	4.732	5.390	26.160

Finally, in the performance measures, based on descriptive analysis as summarized in Table 4.1, the mean value of (ROA) is 1.977 with companies that have maximum and a minimum level of ROA 4.660 and -5.480 respectively, and a standard deviation of 1.546. Furthermore, the mean value of (ROE) is 10.613 with companies that have maximum and a minimum level of ROE 29.400 and -56.690 respectively, and a standard deviation of 13.899. Thus, it can be deduced from the data that a high dispersion exists on ROE across banks used as samples in this study. While the mean value of Tobin-Q

is 0.558 with companies that have maximum and a minimum level of Tobin-Q is 0.634 and 0.470 respectively, and a standard deviation of 0.038. It can be inferred that a high dispersion exists in Tobin-Q across bank used as samples for this study.

4.3 Multicollinearity

Multicollinearity testing is necessary because if linear multiple exists between two or more independent variables, it can distort the results of multiple gradients. The main concern is that to increase the degree of multiple linearity, estimates of regression coefficients become an unstable model and standard errors of coefficients will be overstated. In general, there are several ways to measure multiple linearity between independent variables such as Pearson correlation. Generally, the Pearson correlation with a significant value greater than 0.8 indicates a linear relationship between independent variables (Gujarati, 2003).

According to Hair et al. (2010) Tabachnick and Fidell (2007), an issue of multicollinearity arises if the independent variables correlation goes over 0.9. Along with the correlation test, the variance inflation factor (VIF) was conducted because the examination of the matrix correlations between variables does not always detect multicollinearity (Hamilton, 2009). VIF indicates the impact that other independent variables have on the standard error of regression coefficients. Collinearity problems are said to exist if VIF is over 10.

The results in Table 4.2 indicate that multicollinearity does not exists between independent variables because the Pearson correlation indicators for all independent variables are less than 0.8. Moreover, to confirm the results and check whether there is multicollinearity between variables, Variance Inflation Factor (VIF) and tolerance statistic are utilized. Hair et al. (2010) suggested that VIF of less than 10 and a tolerance statistic below 1 would indicate the existence of no serious multicollinearity problem. Table 4.2 shows that VIF ranges below 10 and tolerance value is less than 1. These results reinforce that there is no multicollinearity.

Table 4.2
VIF and Tolerance Statistic for Multicollinearity Assumption

Variable	***VIF***	***1/VIF***
RMCS	1.99	0.5036
RMCI	1.85	0.5402
Leverage	1.35	0.7385
BFE	1.35	0.7428
BankAge	1.21	0.8274
FirmSize	1.12	0.8947

4.4 Correlation Analysis

In line with Pallant (2011), this study performed correlation analysis. Pallant (2011) suggested that it is useful to use the correlation analysis to determine the direction and strength of the variable's linear relationship. The correlation analysis is the beginning step in the statistical techniques that determines if a mutual relationship between two or more variables exists. For this reason, the correlation analysis to examine the level and direction of mutual association of variables involved in the analysis needs to be conducted prior to performing the regression analysis. More specifically, Pearson

correlation analysis was used to assess and clarify the strengths of the relationship between study variables, as shown in Table 4.3.

The correlation coefficient values in Table 4.3 indicate the strength of the relationship between variables in determining this resistance or strength. Hair, Black, Babin, and Anderson (2010) recommended that the correlation value of 0 to show no relationship, while the correlation ± 1.0 shows an ideal positive relationship. On the other hand, Cohen (1988), found that the correlation of performance between 0 and 1.0 is as follows: a strong relationship is shown as above ± 0.50, middle relationship is shown in the values between ± 0.30 and ± 0.49, while the correlation of ± 0.1 and ± 0.29 shows a small relationship.

Overall, the results of this study show that most of the correlations are less than 0.80. This corresponds to the Gujarati and Porter (2009) that the matrix of the correlation must not exceed 0.80 to safeguard that the multiple linear issue is not present in this study Table 4.3 showed the Pearson correlations for this study. From this correlation analysis, we can know the relationship between variable to another. The measurement of the value of Pearson correlation show the strength as well as the direction of the association between two variables. For this study, the relationships are determined between bank performance indicators (ROA, ROE, and Tobin's Q) with three independent variables which are risk management committee size, risk management committee independence, and board financial expertise, and control variables which are bank age, bank size, and leverage.

Table 4.3 shows that the correlations between the ROA, ROE and Tobin's Q as the dependent variable and the independent variables. From the output, the independent variable risk management committee size is positively correlated with ROA, while the other two of independent variables which are risk management committee independence and board financial expertise are negatively correlated. While the control variable bank age and leverage are negatively correlated with ROA, bank size is positively correlated with ROA.

According to the second dependent variable, it shows the correlations between the ROE as the dependent variable and the independent variables. From the results of the correlation tables, it can be concluded that the independent variable risk management committee size is positively correlated with ROE, while the other two of independent variables which are risk management committee independence and board financial expertise are negatively correlated. The control variables namely bank age and bank size are positively correlated with ROA and leverage is negatively correlated with ROA.

Column 3 of Table 4.3 shows the correlations between the Tobin-Q as the dependent variable and the independent variables. From the results, three of independent variables which are risk management committee size, risk management committee independence, board financial expertise is negatively correlated with (Tobin-Q). On contrary, bank age and bank size positively correlated with Tobin's Q, and negatively correlated with leverage.

Table4.3

Pearson Correlations

	ROA	ROE	Tobin's Q	RMCS	RMCI	BFE	BankAge	Firmsize	Leverage
ROA	1.0000								
ROE	0.6882***	1.0000							
	0.0000								
Tobin's Q	0.4108**	0.3426**	1.0000						
	0.0017	0.0098							
RMCS	0.2371	0.1754	-0.0741	1.0000					
	0.0784	0.1961	0.5875						
RMCI	-0.146	-0.1943	-0.10005	-0.6303***	1.0000				
	0.2828	0.1514	0.4611	0.0000					
BFE	-0.3507**	-0.2249	-0.1613	-0.3062**	0.1122	1.0000			
	0.0081	0.0957	0.2349	0.0217	0.4102				
BankAge	-0.2074	0.1191	0.0854	0.1095	0.0034	-0.1496	1.0000		
	0.1252	0.3820	0.5314	0.4218	0.9800**	0.2712			
FirmSize	0.2071	0.2535	0.2827**	-0.1609	-0.0062	0.1158	0.1981	1.0000	
	0.1257	0.0594	0.0348	0.2362	0.9639	0.3954	0.1434		
Leverage	-0.0168	-0.2582	-0.2345	0.0885	0.1344	-0.3729**	-0.2056	-0.1453	1.0000
	0.9021	0.0547	0.0820	0.5166	0.3235	0.0047	0.1284	0.2854	

*, ** and *** significant at 10 percent, 5 percent and 1 percent level respectively

4.5 Multiple Regressions Analysis

Multiple regression analysis is a technique that is employed to determine the relationships between one or more independent variables and one dependent variable statistically. Two assumptions of multiple regressions tests, namely normality test and multicollinearity tests are discussed in the next section that follows.

4.5.1 Assumption of Multiple Regression

Prior to multiple regression analysis, it is important to examine the basic assumptions underlying the classical linear regression model. Therefore, in order to test the normality and linearity assumptions of the regression model, normality and multicollinearity tests are conducted.

4.5.1.1 Normality Test

Two analyses namely Skewness and Kurtosis are performed to test the normality of data distribution. The former analysis displayed normality of data with output values between ±3 (Coakes & Steed, 2003) while the kurtosis analysis also displayed normality with the output values of between ±3 (Kline, 1998).

Table 4.4 displays the outcome of the two analyses. The analysis implies that all the value of skewness falls between the ranges of ±3. Therefore, ROE, ROA, Tobin's Q, risk management committee size, risk management committee independence, board financial expertise, bank age, and bank size, and leverage are distributed normally as

shown by kurtosis statistical value of more than +3 and -3. According to Hair (2010), this value is accepted and thus the data of this study takes into consideration the kurtosis and skewness analysis is normal.

Normality means the distribution of the error (or residuals) is normally distributed. In multiple regressions, normality is not necessary to estimate the regression coefficients, but is useful for valid hypothesis testing (Chen, Ender, Mitchell and Wells, 2005). If the variable is within the acceptable range of skewness and kurtosis, then the variable can be said to fulfill the normality assumption. Based on table 4.4, it can be said that the residuals are somewhat normally distributed for the model.

Table 4.4
skewness and kurtosis

Variable	***Obs***	***Skewness***	***Kurtosis***
ROA	56	-0.0013	1.8194
ROE	56	0.0384	1.4983
Tobin's Q	56	-0.0151	2.3402
RMCS	56	-0.1030	2.7418
RMCI	56	0.3188	2.0969
BFE	56	-0.0147	2.2629
BankAge	56	0.0301	2.9544
FirmSize	56	-2.0108	0.1218
Leverage	56	-0.3844	2.5237

4.6. Homoscedasticity

Homoscedasticity are assumption that shows the dependent variable as an equal level of variance across the range of independent variables. It is desirable because the variance of the dependent variable should not be concentrated in a limited range of the independent values. The presence of an unequal variance is said to be heteroscedasticity. Heteroskedasticity tends to make the coefficient estimate to be underestimated and sometimes making insignificant variables appear to be statistically significant (Hair et al., 2006).

White General Heteroskedasticity Test and Cameron & Trivedi's tests are used to check the heteroscedasticity problem. The null hypothesis that the variance of the residual is homogenous is tested. Thus, a P value of less than 0.05 means we do not reject the hypothesis. The heteroskedasticity, skeweness, and kurtosis are shown in table 4.5,4.6, and 4.7 below for all the three models:

Table 4.5

Heteroskedasticity Test (IM Test) Cameron & Trivedi's decomposition of IM-test Source (Model I)

Source	Chi2	df	p
Heteroskedasticity	41.76	27.00	0.03
Skewness	10.44	6.00	0.11
Kurtosis	1.39	1.00	0.24
Total	53.58	34.00	0.02

Table 4.6

Heteroskedasticity Test (IM Test) Cameron & Trivedi's decomposition of IM-test Source (Model II)

Source	chi2	df	p
Heteroskedasticity	43.94	27.00	0.02
Skewness	19.35	6.00	0.00
Kurtosis	4.09	1.00	0.04
Total	67.38	34.00	0.00

Table 4.7

Heteroskedasticity Test (IM Test) Cameron & Trivedi's decomposition of IM-test Source (Model III)

Source	chi2	df	p
Heteroskedasticity	31.95	27.00	0.23
Skewness	8.21	6.00	0.22
Kurtosis	2.21	1.00	0.14
Total	42.36	34.00	0.15

By homoscedasticity, it refers to the homogeneity of the modification of the residuals across stages of the forecast values. Hair et al. (2010) stated that it is the equivalent variance of dependent variable across the range of predictor variables. Therefore, heteroskedasticity is created if the variance of the residuals is not constant. The presence of heteroskedasticity can cause a biased value for the true variance; the estimators of multiple regression analysis and inferences had been being very misleading and the t and F tests are likely to give inaccurate results (Gujarati, 2003). In order to address the problem of heteroscedasticity in the data, the three next models were run with robust standard errors.

ROA = $\alpha 0 + \beta 1\ rmcsize_{it} + \beta 2\ rmcindr_{it} + \beta 3\ Bfknexp_{it} + \beta 4\ lnta_{it} + \beta 5\ agecorp_{it} + \beta 6\ tdta_{it} + \varepsilon_{it}$

ROE = $\alpha 0 + \beta 1\ rmcsize_{it} + \beta 2\ rmcindr_{it} + \beta 3\ Bfknexp_{it} + \beta 4\ lnta_{it} + \beta 5\ agecorp_{it} + \beta 6\ tdta_{it} + \varepsilon_{it}$

TobinsQ = $\alpha 0 + \beta 1\ rmcsize_{it} + \beta 2\ rmcindr_{it} + \beta 3\ Bfknexp_{it} + \beta 4\ lnta_{it} + \beta 5\ agecorp_{it} + \beta 6\ tdta_{it} + \varepsilon_{it}$

4.7. The Evaluation of the Models

4.7.1. Fixed effect Versus Random effect (Estimation Techniques and Diagnostic Tests)

The study applied panel data estimation method as it has several advantages over time-series data and cross-section sets. The method has a more statistical degree of freedom and smaller amount multicollinearity which will give more and efficient estimates, (Hsiao, 2003) and at the same time gives greater flexibility in displaying differences in behavior throughout the firms under study which will enable researcher to regulate for unobserved heterogeneity.

The panel data analysis technique has two methods, which includes fixed effects model (FEM) which accepts omitted effects exact to cross sectional parts are constant over time and the random effects model (REM) which assumes the omitted effects are random over time. In order to select between the fixed effects and random effects, a Hausman test will be conducted. It is used to tests whether the exceptional errors are interrelated with the regresses; the null hypothesis is that they are not (Greene, 2008). Hausman test is conducted to decide between random effect and fixed effect. The rule

of thumbs is if the Hausman test result is significant in the model, then fixed effect is preferable over random effect Al-Ajmi (2008).

It is also necessary to determine whether the fixed effect or random effect approach is appropriate. A common practice in research is to make the choice between both approaches by running a Hausman test. The results of the three regression models that have been estimated to examine the impact of risk management committee size, risk management committee independence, board financial expertise on the financial performance (ROA, ROE, and Tobin's Q) of commercial banks in Nigeria are shown below in table 4.8.

As it is summarized in the table below, the R^2 for the three models are 39.51 percent, 40.80 percent, and 32.74 percent for the ROA, ROE and Tobin's Q respectively. This means 39.51 percent of the variation in return on asset was explained by the independent and control variables used in this study, and 60.49 percent of variation in return on asset is due to other factor that are not included in this study. Similarly, 40.80 percent of variation in return on equity was explained by the variables used in this study where the remaining 59.20 percent was explained by other factors not included in this study. The R^2 of the third model implies that 32.74 percent of variation in Tobin's Q was explained by the study variables and the remaining 67.26 percent was explained by other factors. The R^2 results indicate the overall goodness-of-fit of the three models used in this study. Therefore, the three model best fits the data. Best on the Hausman test of selection

between random or fixed effect, it is depicting that fixed effects should be used in model I, in model II and III the results advice to use random effect.

Table 4.8

Summary of regression results of the three models Variables

VARIABLES	ROA (Model-1)		ROE (Model-2)		Tobin's Q (Model-3)	
	Coeff (Std err)	T-Val (P-Val)	Coeff (Std err)	T-Val (P-Val)	Coeff (Std err)	T-Val (P-Val)
	0.660	2.010	0.816	0.940	-0.009	-0.270
RMCS	(0.329)	(0.050)*	(0.865)	(0.346)	(0.358)	(0.791)
	0.233	0.980	0.087	0.150	0.003	0.130
RMCI	(0.237)	(0.331)	(0.569)	(0.879)	(0.020)	(0.897)
	-1.342	3.770	-2.077	-2.370	0.021	0.640
BFE	(0.356)	(0.000)***	(0.876)	(0.018)**	(0.034)	(0.524)
	-0.470	-3.640	-0.156	-0.390	-0.017	-0.470
BankAge	(0.129)	(0.001)***	(0.403)	(0.698)	(0.037)	(0.637)
	3.370	3.080	5.270	1.510	-0.013	-0.040
FirmSize	(1.095)	(0.003)***	(3.481)	(0.130)	(0,311)	(0.966)
	0.539	-2.200	-1.468	-2.590	-0.076	-3.760
Leverage	(0.245)	(0.032)**	(0.567)	(0.010)**	(0.023)	(0.000)***
	-1.812	-1.510	-2.152	-0.600	0.679	2.340
_cons	(1.201)	(0.138)	(3.564)	(0.546)	(0.290)	(0.019)**
Observations	56		56		56	
R2	0.3951		0.4080		0.3274	
Adjusted-R2	0.3211		0.2685		0.0002	
Chi^2	12.92		6.89		6.89	
Prob> Chi^2	0.0241		0.3310		0.3310	
Effect specifictn	Fixed Effect		Random Effect		Random Effect	

Note: *=Significant level at 10%, **=Significant level at 5%, *= Significant level at 1%

In addition, the F-statistic shows the overall significance of variables in other words the significance of each models slopes parameters jointly. The R^2 of the three models are 39.51 percent, 40.80 percent, and 32.74 percent respectively. Therefore, each model variables are jointly significant. The three models adequately describe the data. Here one can infer from the results of R-squares that the implemented models of this research is well fitted that RMCS, RMCI, and BFE have a significant effect on banks' financial performance.

4.7.2. The Evaluation of Individual Models

After testing of the regression assumptions, regression analyses are conducted using Stata version 14 to determine the effects of risk management committee size, risk management committee independence, board financial expertise of financial performance of Nigerian banks with control variables as bank age, and bank size, and leverage. The purpose of conducting multivariate regression test analysis is to regulate the predictive capability of the dependent variable by each of the independent variable. The current section is separated into three parts. Each part investigates the relationship between risk management committee size, risk management committee independence, board financial expertise with alternative measures of bank performance namely ROA, ROE and Tobin's Q separately. However, there is significant relationship between board financial expertise and ROA. This revealed that educational background of boards influences negatively to the firm performance. In other words, the more financial expert in an organization the less would be the bank performance. This is because of the risk that will be avoided (Armano & Scagnelli,2012). On the other hand, there is a significant relationship between control variables of bank age, firm size and leverage with ROA. This indicates that the more firm incorporated and firm size the high ROA, while leverage leads to significantly increased revenues, increased debt may increase ROA.

4.7.2.1 Model I (ROA as Dependent Variable)

In examining the hypotheses model through a multivariate regression analysis, some indicators are employed. Among them are R^2 (R Square) Coefficient, that evaluates the goodness of the regression equation. It is also stated to determine coefficient which

illustrate the independent variables that affect the variance of the dependent variable level. In the present study, the researcher makes use of R^2 to show the variance amount of the dependent variable (ROA) that is described by all the dependent resulting from the joint effect of independent variable namely (risk management committee size, risk management committee independence, board financial expertise). As shown in the results of Table 4.9, this model shows that the value of R^2 is 0.3951. This means that the model elucidates 39.51 % of the variance in its measurement. This is considered an acceptable result. The STATA (version 14) provides adjusted R^2 value in the output. In cases where there is a small sample, R^2 value is a slightly optimistic overestimation of the definite population value. (Tabachnic and Fidell, 2007). R^2 indicates 0.3951 percent of variance in the dependent variable and explained the Changes in the independent variables. This means that the variations in bank performance was statistically explained or interpreted by the regression equation. The results in Table 4.9 also show that this model is significant which indicates the validity of the model used.

Table 4.9
The Coefficients of Multiple Regression Analysis (ROA)

ROA	**Coef.**	**Std. Err.**	**t**	**P>t**	**[95% Conf**	**Interval**
RMCS	0.660	0.329	2.010	0.050	-.001	1.321
RMCI	0.233	0.237	0.980	0.331	-.243	0.709
BFE	-1.342	0.356	-3.770	0.000	-2.685	-0.627
BankAge	-0.470	0.129	-3.640	0.001	-0.940	-0.211
FirmSize	3.370	1.095	3.080	0.003	1.170	5.569
Leverage	-0.539	0.245	-2.200	0.032	1.031	-1.078
_cons	-1.812	1.201	-1.510	0.138	-4.226	0.602
Number of Observation	56					
P > F	0.0241					
R-squared	0.3951					
Adjusted R-squared	0.3211					

4.7.2.2 Model II (ROE as Dependent Variable)

While Table 4.9 illustrates the multiple regression analysis of ROA, Table 4.10 below demonstrates the output of multiple regression analysis in relation to ROE as the dependent variable. The outcomes are measured by R^2 in which the effect between the independent variables on the dependent variables are highlighted. It is apparent that 40.80% of the ROE variance as displayed in Table 4.8 is determined by the independent variables. According to the R^2 of 40.80%, it is thus concluded that beyond 40.80% of the relationship with ROE are determined by the three independent variables while the remaining 59.2 % of the impact to ROE is determined by other factors.

Based on the ROE equation in Table 4.10, it is discovered that there is negative insignificance relationship between RMCS, RMCI, and ROE. However, there is a negative significance relationship between BFE and ROE, this explained that a decrease in BFE will lead to increase in ROE by 0.018. Likewise, with the control variables, if firm size increases by one, then performance of ROE too decreases by about 0.130 while there is negatively insignificant relationship exist between bank age and ROE. However, significant relationship exists between ROE and leverage.

Table 4.10
The Coefficients of Multiple Regression Analysis (ROE)

	Coef.	***Std. Err.***	***t***	***P>t***	***[95% Conf.***	***Interval]***
RMCS	0.816	0.865	0.940	0.346	-.8796	2.5107
RMCI	0.087	0.569	0.150	0.879	-1.028985	1.2028
BFE	-2.077	0.876	-2.370	0.018	-4.1550	-0.3604
BankAge	-0.156	0.403	-0.390	0.698	0-.9456	0.6330
FirmSize	5.270	3.481	1.510	0.130	-1.5515	12.0918
Leverage	-1.468	0.567	-2.590	0.010	-2.9369	-0.3580
_cons	-2.152	3.564	-0.600	0.546	-9.1370	4.8340

4.7.2.3 Model III (Tobin's Q as Dependent Variable)

Table 4.11 below demonstrates the output of multiple regression analysis in relation to Tobin's Q as the dependent variable. The outcomes are measured by R^2 in which the effect between the independent variables on the dependent variables are highlighted. It is apparent that 32.74% of the Tobin's Q variance as displayed in Table 4.8 is determined by the independent variables. According to the R^2 of 32.74%, it is thus concluded that beyond 32.74% of the relationship with Tobin's Q are determined by the three independent variables while the remaining 67.26% of the impact to Tobin's Q is determined by other factors.

Based on the Tobin's Q equation in Table 4.11, it is discovered that there is negative and insignificance relationship between BFE, and Tobin's Q. However, there is a negative insignificance relationship between RMCS, RMCI and Tobin's Q. Likewise with the control variables, there is negative significance relationship between leverage

and Tobin's Q and insignificant relationship was found between bank age, bank size and Tobin's Q.

Table 4.11
The Coefficients of Multiple Regression Analysis (Tobin's Q)

Tobin's Q	Coef	Std err	T	**P>t**	[95% Conf	Interval]
RMCS	-0.010	0.036	-0.270	0.791	-0.080	0.061
RMCI	0.003	0.020	0.130	0.897	-0.037	0.043
BFE	0.021	0.034	0.640	0.524	-0.044	0.087
BankAge	-0.017	0.037	-0.470	0.637	-0.090	0.055
FirmSize	-0.013	0.312	-0.040	0.966	-0.624	0.598
Leverage	-0.077	0.020	-3.760	0.000	-0.116	-0.153
_cons	0.679	0.290	2.340	0.019	0.110	1.248

4.8 Fitness of the Theories

Recall that three models that measured bank performance were developed in chapter four. The models are the ROA, ROE and Tobin's besides that, this study considered two theories, which were resource dependency theory and agency theory to explain the relationship between CG variables and firm performance variables measured as ROE, ROA and Tobin's Q. Furthermore, the reason using agency theory is because it centers on information asymmetry reduction while Resource dependency theory focus on the connection of the board with external environment through which it can be equipped with the required levels of personal who possess high expertise and higher degree to assist a firm in dealing with both internal and external environments. This, in turn, it helps a firm to achieve its objectives of improved performance.

Based on the results in Table 4.8, a summary of tested hypothesis and theories are presented in the Table 4.12 below.

Table 4.12

Summary of tested hypothesis and theories

NO	Hypothesis	Theory	Findings
H1	There is a positive relationship between RMC Size and financial performance of quoted banks in Nigeria	Agency Theory	Positive and Insignificant
H2	There is a positive relationship between RMC independence and financial performance of quoted banks in Nigeria.	Resource Dependency Theory	Positive and Insignificant
H3	There is a positive relationship between board financial expertise and financial performance.	Resource Dependency theory	Negative and significant

4.9. Summary of the Chapter

In this chapter, it provided the outcomes of analyzing the data, the variables descriptive analyses and Pearson correlation analysis. This was followed by a discussion on the testing of assumptions which are namely, normality, multicollinearity, and the regression analysis and their discussion. The following chapter presents the discussion, conclusion, and recommendation.

CHAPTERFIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a discussion of hypothesis and summary of the study. Following, limitations and implication of the study and finally several suggestions are highlighted as guideline for future research.

5.2 Summary of the Study and Discussion of Hypotheses

The study investigates 14 listed banks that are quoted in the Nigeria Stock Exchange during the time frame of 2013 to 2016. This study aims at investigating the effect of risk management committee size, risk management committee independence, and board financial expertise on the financial performance of quoted banks in Nigerian. Financial performance of Nigerian banks is proxied by ROA, ROE, and Tobin's Q. Based on the results and findings that are obtainable in Table 4.8, the following sections provide a summary of the discussions on the findings generated by the three models considering (ROA, ROE, and Tobin's Q).

5.2.1 Discussion of First Model (Results Based on ROA)

In this section, this current study provided the hypothesis testing on the risk management committee size, risk management committee independence, and board financial expertise with the (ROA, ROE, and Tobin's Q) and three control variables, namely firm

age, firm size and leverage with firm performance. As consistent with the results in Table 4.8, some of the variables were found to be associated with ROA.

With the line of expectations from the previous studies, the relationship between risk management committee size and return on assets was insignificant, indicating that H_1 is rejected. The result shows that risk management committee size does contribute to improvement in the performance of the company measured by ROA.

While previous studies suggested that there is a positive relationship between the ROA and the risk management committee size, this study, as depicted in Table 4.8 shows an insignificant relationship between the risk management committee size and ROA. This finding is similar with some previous studies such as Adams and Mehran, (2005) Sahu and Manna (2013), Guoa and Kgab (2012), and Ibrahim and Abdul Samad (2011).

The insignificant relationship between risk management committee size, and ROA can be explained possibly due to the major actions adopted by the board. The insignificant relationship among the share of the outside director and company performance would support signaling theory. Poor company performance forces management or controlling shareholders to appoint outside directors to improve performance with the professional competencies that the outside directors are having to give a positive signal to the investors for the improved performance in the future.

There is an insignificant positive relationship exists between risk management committee independence and ROA, this study hypothesized that a positive relationship

exists between the risk management committee independence and ROA. However, the finding as apparent in Table 4.8 revealed that risk management committee independence has an insignificantly relationship to ROA. The result of the insignificant relationship between risk management committee independence and ROA is consistent prior studies that found that board independence has not association to ROA such as Kyereboah-Coleman (2007).

However, there is a significant negative relationship exists between board financial expertise and ROA, this study hypothesized that a positive relationship exists between the board financial expertise and ROA. However, the finding as presented in Table 4.8 revealed that board financial expertise has significantly negative relationship with ROA. This shows that that educational backgrounds influence negatively to firm profitability. There may be other factors apart from educational background such as experiences, training, and managerial skills that lead to better firm profitability. The significant relationship between board financial expertise and ROA revealed that the more the financial expert in an organization the less would be the bank performance proxied by ROA. This is because of the risk that will be avoided. This finding is consistent prior studies that found that board financial expertise has association to ROA such as Güner, A. B., Malmendier, U., & Tate, G. (2006), Darmadi, S. (2013), Armano & Scagnelli (2012). The significant relationship also is found in all control variables; firm size, firm age and leverage.

5.2.2 Discussion of Second Model (Results Based on ROE)

With the line of expectations from the previous studies, the relationship between risk management committee size and return on equity was positively insignificant, indicating that H_2 is rejected s. The result shows that risk management committee size does contribute to improving the performance of the company via ROE.

While previous studies suggested that there is a positive relationship between the ROE and the risk management committee size, this study, as depicted in Table 4.8 shows an insignificant and positive relationship between the risk management committee size and ROE. This finding is similar with some previous studies such as Adams and Mehran, (2005) Sahu and Manna (2013), Guoa and Kgab (2012), and Ibrahim and Abdul Samad (2011).

The insignificant relationship between risk management committee size, and ROE can be explained possibly due to the major actions adopted by the board. The insignificant relationship among the share of the outside director and company performance would support signaling theory. Poor company performance forces management or controlling shareholders to appoint outside directors to improve performance with the professional competencies that the outside directors are having to give a positive signal to the investors for the improved performance in the future.

There is an insignificant positive relationship exists between risk management committee independence and ROE, this study hypothesized that a positive relationship

exists between the risk management committee independence and ROE. However, the finding as apparent in Table 4.8 revealed that risk management committee independence has an insignificantly relationship to ROE. The result of the insignificant relationship between risk management committee independence and ROE is like prior studies that found that board independence has not association to ROE such as Kyereboah-Coleman (2007).

Furthermore, there is an insignificant negative relationship exists between board financial expertise and ROE, this study hypothesized that a positive relationship exists between the board financial expertise and ROE. However, the finding as presented in the previous chapter revealed that board financial expertise has a negative and insignificantly relationship with ROE. The insignificant relationship between board financial expertise and ROE revealed that the more the financial expert in an organization the less the performance proxies by ROE. This is because of the risk that will be avoided. In other words, the reason for negative relation between board financial expertise and risk aversion may be "overcautiousness". This finding is similar to prior studies that found that board financial expertise has not association to ROE such as Güner, Malmendier & Tate (2006). The insignificant relationship also is found in all the control variables with the ROE.

5.2.3 Discussion of Third Model (Results Based on Tobin's Q)

With the line of expectations from the previous studies, this study hypothesized that risk management committee size, risk management committee independence, and board financial expertise is expected to enhance the Tobin's Q. The statistical results of the current study show that the relationship between risk management committee size, risk management committee independence and Tobin's Q is insignificant. However, insignificant relationship was found between financial expert and Tobin's Q. Also, a negative and significance relationship exist between leverage and performance proxies by Tobin's Q, in the Nigerian banks. This result is in line with previous empirical studies such us Noor (2011), Kim and Yoon (2007), Ghabayen (2012) and Abdurrouf (2011) in developing countries and Wei (2007) in China.

This result matches the insignificant result on board size indicating that the role of some specific board practices aspects in developed countries of firm performance measured by market-based proxies is absent in the case of Nigeria. Likewise, insignificant results of the board size in Nigeria indicates corporate governance mechanism in Nigeria is still developing. Moreover, external corporate governance mechanisms are weak, the banks consider the board independence more significant factor as compared to board size or financial experts.

The reason for insignificant result is that only existence of board independence and financial experts on the performance may not be enough for the achievement of the corporate governance objective to contribute toward increased firm's market value.

5.3 Implication of the Study

The research investigates the effect of risk management committee size, risk management committee independence, and board financial expertise on the financial performance of quoted banks in Nigerian. The findings of the study would give invaluable insight to the stock market, government, auditing and accounting regulators and auditing and accounting professional bodies, as to what extent codes of corporate governance degrees, regulators, resolutions, and laws are implemented by the banks and other financial services. Furthermore, the study provides insights to the government and regulators when making new policies or deliberating on issues regarding corporate governance in relation to bank performance. Finally, the findings of this thesis supported by the theories and have made an important contribution in accounting and finance literature, by providing empirical evidence on how risk management committee size, risk management committee independence, and board financial expertise are related to financial performance of Nigerian banks.

5.4 Limitations

Limitations of this study are discussed and recommendations on the directions for future research are subsequently discussed.

The results of this study provide numerous insights that may be of interests to scholars, government, shareholders, policy-markets, institutions investigations and other also relevant stakeholders.

Primarily, this study is concentrated only on Nigerian listed bank. Consequently, the validation of the conclusion might not be applicable for other banks that are not listed on the stock market. In addition, this study uses only ROA, ROE as proxies for accounting performance, while Tobin's Q as proxy for market-based performance and thus other measurements are disregarded. This study does not take into consideration other methods of performance measurements such as return on investment.

Next, the limitation that this study does not include several other aspects such as CG features of ownership structure (managerial ownership, ownership concentration, government ownership and institutional ownership), CEO duality, CEO tenure, board, auditor quality and audit committee process is also considered. The limitation of the study is also due to the nature of the collected data in the form of annual report which may not be disclosed in other countries.

5.5 Suggestions for Future Research

Future researches can explore unlisted banks and other financial firms by employing various methods such as Generalized Method of Moments (GMM). Future studies can also consider extending the duration of their studies or to conduct longitudinal studies to learn both the short- and long-term effects.

Furthermore, further research can also focus on including completely different aspects of board of director variables, including board characteristics, remuneration and

nominating committees, the regularity of meeting among board directors and the director's skills and capabilities. It is recommended for future studies to consider other variables such as the number and percentage of external board members, ownership concentration, insider ownership, and the presence of audit committee, voting coalitions, product-market competition and other cultural factors.

Besides that, it is also suggested that future researches are conducted in different world countries as countries differ in business environment, education cultures, etc. The quality of performances can also be investigated through non-financial such as workforce development, product quality, customer satisfaction, on time delivery to determine if performance really does improve over time. Moreover, future researches should include the other financial measurement of performance such as liquidity and profitability and efficiency.

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