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**The Effect of Board and Risk Management Committee Attributes
on the Financial Performance of Listed Banks in Nigeria**

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MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)

UNIVERSITY UTARA MALAYSIA

JUNE 2018

**The Effect of Board and Risk Management Committee Attributes
On the Financial Performance of Listed Banks in Nigeria**

By

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**A thesis submitted to College of Business in partial fulfilment of the requirement for
postgraduate Master of Science of International Accounting
Universiti Utara Malaysia**

June 2018



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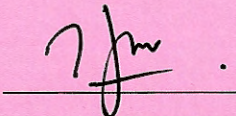
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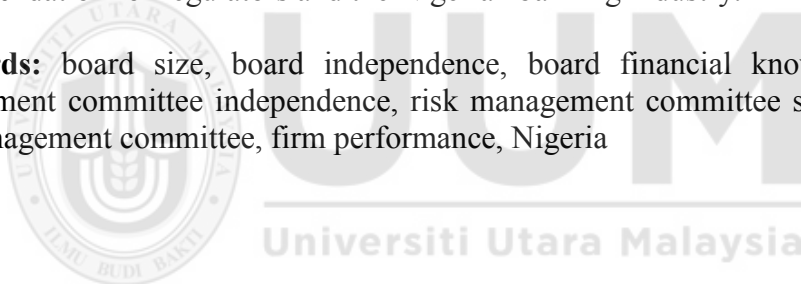
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ABSTRACT

The issue revolving around corporate governance and financial performance has always been an essential and critical element for banking sector in Nigeria. Good corporate governance practices and establishing a separate risk management committee are regarded as important in reducing risk for investors, and improving performance. This study investigates the effect of board and risk management committee attributes (board size, board independence, board financial knowledge, risk management committee independence, risk management committee size, and existence of separate risk management committee) on the financial performance of listed banks in Nigeria. Furthermore the research used secondary data obtained from the annual report of fourteen (14) banks listed in the Nigerian stock exchange for the year 2014-2016 with 42 firm-year observations and based on panel data approach. Furthermore, the regression estimates are based on random effect. The result indicates that board size, board independence, and board financial knowledge exhibit a significant negative relationship with ROA. Meanwhile, risk management committee independence has a negative insignificant relationship with ROA. Furthermore, risk management committee size, and existence of separate risk management committee show positive significant relationship with ROA. Besides providing suggestion for future research work, this study provides several recommendation for regulators and the Nigerian banking industry.

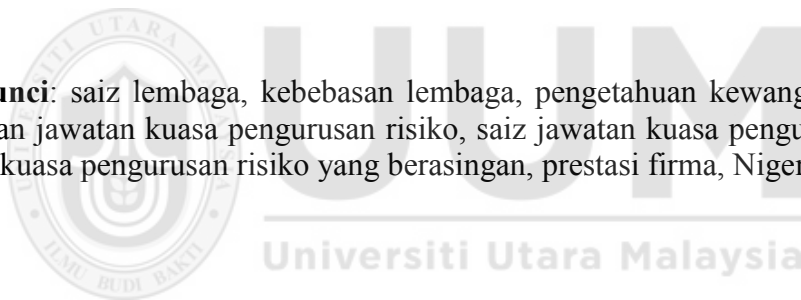
Keywords: board size, board independence, board financial knowledge, risk management committee independence, risk management committee size, separate risk management committee, firm performance, Nigeria



ABSTRAK

Isu yang berkaitan tadbir urus korporat dan prestasi kewangan senantiasia menjadi unsur penting dan kritikal bagi sektor perbankan di Nigeria. Amalan tadbir urus korporat yang baik dianggap penting dalam mengurangkan risiko bagi pelabur, menarik modal pelaburan dan meningkatkan prestasi. Kajian ini menyiasat hubungan antara jawatan kuasa dan ciri-ciri jawatan kuasa pengurusan risiko (saiz lembaga, kebebasan lembaga, pengetahuan kewangan lembaga, jawatan kuasa pengurusan risiko bebas, saiz jawatan kuasa pengurusan risiko dan kewujudan jawatan kuasa pengurusan risiko berasingan) terhadap prestasi kewangan. Kajian menggunakan data sekunder yang diperoleh daripada laporan tahunan empat belas (14) bank yang disenaraikan di Bursa Saham Nigeria untuk tahun 2014-2016 dengan 42 firma tahunan dan berdasarkan pendekatan data panel. Tambahan pula, perkiraan regresi berdasarkan kesan rawak. Kajian mendapati bahawa peningkatan dalam saiz lembaga, kebebasan lembaga, dan pengetahuan kewangan lembaga akan mengakibatkan penurunan prestasi kewangan. Sementara itu, kebebasan jawatan kuasa pengurusan risiko tidak mempunyai hubungan dengan prestasi kewangan. Tambahan pula, peningkatan saiz jawatan kuasa pengurusan risiko, dan kewujudan jawatan kuasa pengurusan risiko yang berasingan meningkatkan prestasi kewangan. Selain menyediakan cadangan untuk penyelidikan masa depan, kajian ini menyediakan beberapa cadangan untuk pengawal selia dan industri perbankan Nigeria.

Kata kunci: saiz lembaga, kebebasan lembaga, pengetahuan kewangan lembaga, kebebasan jawatan kuasa pengurusan risiko, saiz jawatan kuasa pengurusan risiko, jawatan kuasa pengurusan risiko yang berasingan, prestasi firma, Nigeria



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Ahmad Haruna Abubakar

June, 2018

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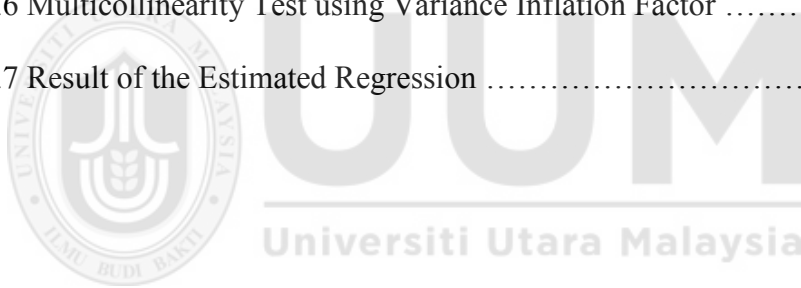
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LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
BOARDSIZE	Board of Size
BOARDINDE	Board Independence
BOARDFINKNW	Board Financial Knowledge
RMCSIZE	Risk Management Committee Size
RMCINDE	Risk Management Committee Independence
SRMC	Separate Risk Management Committee
CBN	Central Bank of Nigeria
BANKAGE	Bank Age
FIRMSIZE	Firm Size
SEC	Security and Exchange Commission
ROA	Return on Asset
VIF	Variance Inflation Factor
OECD	Organization for Economic Corporate and Development
CAC	Corporate Affairs Commission
NDIC	Nigerian Deposit Insurance Corp
CAMA	Company Allied Matters Act
CEO	Chief Accounting Officer

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Technology and globalisation are changing. Nevertheless, financial institutions and regulators around the world are trying to understand the changes. (Sandeep, Patel & Lilicare, 2002). Internationally the banking industry had witnessed many mergers and acquisition. As a result of these changes, sound banking system and good corporate governance are required by countries. The banking system become stronger and able to cope with an open environment (Qi, Wu & Zhang, 2000; and Köke & Renneboog, 2002).

Banks are important for economic development because they offer various services. Their intermediation function is said to be an incentive for economic development. The financial strength in any country depend on the efficient and effective performance of the banking industry over time. The level to which a bank give credit to the public for productive activities accelerate the speed of a nation's sustainability and economic Growth (Kolapo, Ayeni, & Oke, 2012). Stable banking systems are important element of good financial systems, as clearly shown by current growths around the world (Barth, Caprio Jr, & Levine, 2001).

Banks are been affected by many factors in trying to comply with several consolidation policies. Enforcing a good corporate governance in banks is essential, as it will makes the banking system perform efficiently and boost public confidence

(Soludo, 2004). Heidi and Marleen (2003), explain that when good corporate governance is not established banking supervision cannot function well.

The rules and procedure for making decision on company affairs are stated by corporate governance, and also define how responsibilities in the organisation are distributed among the shareholders, board, managers and other stakeholders (Kajola, 2008). Consequently, the objective of corporate governance is to protect the shareholders with regards to opportunistic behaviour, so as to make managers work hard to accomplish shareholders interest in the organisation (Kyereboah-Coleman & Biekpe, 2005).

Corporate governance is concerned with procedures through which the affairs of business and institutions are controlled, the goal is to enhance shareholder's value through improving corporate accountability and performance, while protecting the shareholders interest (Jenkinson & Mayer, 1992). The principle of Good corporate governance is promoting fairness, transparency, responsibility and accountability in controlling the firm. Best corporate governance practice could result to higher firm performance (Young, 2003).

Financial scandals and the recent corporate failure across the globe has reinforced the need for corporate governance mostly in developing and developed countries (Waweru, 2014). The issue of many breakdown of high profile institutions such as Enron and Anderson have stunned the business world with scale of their illegal and unethical dealings, corporate governance has attracted global business attention. Only

tips of the dangerous iceberg are appeared to expose by this organisation. (Shleifer & Vishny, 2007).

In Nigeria, corporate governance is been given attention by all the sectors of the economy. In 2003 a committee was set up for public companies regarding corporate governance known as peterside committee by the Security and exchange committee (SEC). Also in August 2003, in response of the serious roles played by corporate governance in the collapse or success of Banks in Nigeria a subcommittee was established for banks (Ogbechie, 2006).

The first bank of Nigerian was founded in 1892 as the African Banking Corporation. They were no banking law, until 1952 when the conventional banking begin with the industry experiencing institutional and regulatory improvements. The industry was managed by at least 5 out of 89 banks presence before the beginning of the restructuring of banking industry in the country. Nigerian banks practice a system of many branches, which as at 2004 has an aggregate of 89 banks (Chiemeke, Evwiekpaefe, & Chete, 2006). “The industry is likewise confronted with substantial difficulties, comprising the persistent cases of failure and distress, a poor capital base, loss of public confidence, poor asset quality, over bearing effect of corruption and fraud and so on”. Part of the efforts to resolve these current problems contain the guidelines issued by Central Bank of Nigeria on banking reform in June 2004, which is to a great extent focused at reducing the number of banks and making the uprising banks much stronger and reliable (Chiemeke *et al.*, 2006).

According to Nimalathan, (2008) the common Purpose of supporting financial performance discussions and research is because, growing financial performance analysis will provide improvement in processes and responsibility of the organization. Financial performance and research into its dimension is well progressive within management and finance discipline. A display of performance Indicators is required to disclose the various features of the bank performance (Gibson & Cassar, 2005).

Aarma, Vainu and Vensel (2004) implied that performance analysis of banks is an important issue in the states of transition economies because of the strategic role played during the successful transition of the financial sector. Altman and Hotchkiss (2010) stated that ratio analysis is a depiction of the true picture of performance of a business at a particular point. Despite the importance of financial ratio analysis in providing valuable knowledge to an entities performance, it has some significant boundaries as an analytical instrument in analysis of bank performance.

1.2 Problem Statement

In Nigeria poor management result to excessive risk taking, inadequate administration of loans portfolio and distorted credit management, was among the major causes of banking depress (Fries, Neven & Seabright, 2002; & Sanusi, 2010). The issue of corporate governance is key in the banking sector and has turned into a topic of global concern, it is essential in other to improved services and strengthening of financial intermediation with respect to banks and enables appropriate banking operations.

Boards of directors are the focus of attention for most fraud cases that result to collapse of many company, 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 as a result 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).

Sanusi (2010) explain that governance misconduct among the merge banks has been related to banking distress in Nigeria, which has turn to routine practice in the sector. Additionally, corporate governance is failed in many banks because of the fact that 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.

Alabede (2012) explain that 8 of 24 banks in Nigerian were identified by the Central Bank of Nigeria as distressed, with total 32.8% as nonperforming loans. The chief executives and directors of the banks were removed by the CBN as a result of corporate financial misconduct and 4.1 billion dedicated for bailout funds for the banks that are affected (Ezeoha, 2011). However, the central bank of Nigeria (CBN) removed 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) stressed agency problem make the financial industry shows severe market failure arising from too much risk-taking. Inadequate corporate governance in banks is the main concern of regulators in protecting banking funds.

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

The Nigerian Security and Exchange Commission in 2003, announced the new Code of Best Practices for public quoted companies on corporate governance due to calls by stakeholders for reinforcement of corporate governance components to improve the monitoring functions board of directors and to boost the credibility of financial reporting which will improve public confidence, the code was later reviewed in 2011 to improve its efficiency and effectiveness, the affected companies are required to change to the revised procurements (Ofo, 2011).

Board size serve a significant position in influencing firm's value. Board of directors are responsible to discipline the management of an organisation so as to improve organisation value. Firm can use its board size to create environmental links to gain access to essential resources, this will be related with better firm performance (Alexander *et al.*, 1993; Goodstein *et al.*, 1994). Those boards with a larger size are recognized as showing variety in terms of their skills, backgrounds, and expertise that can provide high levels of performance (Brown *et al.*, 2011).

Directors independent played a major role in safeguarding governance high-quality and has been documented in all codes of corporate governance, and corporate rules that is recognised globally. Therefore, the assumption is made that the board is more independence if it has higher non-executive directors (Hillman & Dalziel, 2003).

Byrd and Hickman (1992) have recognised greater response of firm stock market is related to larger percentage of non-executive directors.

Better educational levels are recognized as assisting in the better management of firms and also 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 & Williamson (2010) discovered that risk committee members independence decreases insiders risk taking activities resulting to a decline in losses specifically in financial crisis. Tao & Hutchinson, (2012) describe that, strategies will be put in place to protect the company and also there will be proper monitoring and control of risk taking activities if committee is made of up independence directors.

The existence of a separate risk management committee is important for effective and transparent oversight function. There have been emphasis for separate risk management committee because of increase in the audit committee task by the regulatory bodies and lack of expertise and time essential to deliver supervision of the risk monitoring activities for the organisation (Yatim, 2009).

One of the advantages of having risk management committee in a company is to assess and manage 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) suggest that risk committee should be clearly separate 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 framework identifying the governance structure, procedure, policies, and process for the monitoring, and control of the risk contain in its operations. One of the benefit 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 characteristics, and risk management committee attributes on the financial performance of listed banks in Nigeria.

1.3 Research Questions

Therefore, from the issues highlighted in the problem statement section above, this research emphasizes on addressing the following questions that emerges within the study context:

1. What is the relationship between board size and financial performance of listed banks in Nigeria?
2. What is the relationship between board independence and financial performance of listed banks in Nigeria?
3. What is the relationship between board financial knowledge and financial performance of listed banks in Nigeria?
4. What is the relationship between risk management committee independence and financial performance of listed banks in Nigeria?
5. What is the relationship between risk management committee size and financial performance of listed banks in Nigeria?
6. What is the relationship between the existence of separate risk management committee and financial performance of banks in Nigeria?

1.4 Research Objectives

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

1. To examine the relationship between board size and financial performance of listed Banks in Nigeria.
2. To examine the relationship between board independence and financial performance of listed banks in Nigeria.
3. To examine the relationship between board financial knowledge and financial performance of listed banks in Nigeria.
4. To examine the relationship between risk management committee independence and financial performance of listed banks in Nigeria.

5. To examine the relationship between risk management committee size and financial performance of listed banks in Nigeria.
6. To examine the relationship between the existence of separate risk management committee and financial performance of listed banks in Nigeria.

1.5 Significant of the Study

This study 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 increase the performance in Nigerian banking sectors. This research will educate bank management the positive effect of corporate governance on financial performance banks. Student and readers would benefit from this research as it exposes and serves as reference material for further research, It will provides understanding the extent to which banks are complying 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

This study concentrates on the banks which are listed in the Nigerian stock exchange and the research cover the 15 banks that were listed and traded on main board of the Nigeria stock exchange from 2014 - 2016. The reason for choosing this sectors is because, stability in the banking sector is important and banks are vital institutions

that sustain the payment of an economy. The results of the study are limited to the banks operating within the Nigerian economy. The scope of board characteristics and risk management committee attributes involves of the board size, board independence board financial knowledge, risk management committee independence, risk management committee size and existence of separate risk management committee. With regards to bank financial performance, this study focused on one measurement of accounting performance, which is return on assets (ROA) used in this research to ascertain the financial performance of banks in Nigeria.

1.7 Summary of the chapter

This chapter is an introductory aspect of this study. It started with discussing 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 highlight the importance 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 background of the study, the main aims of the study as well as the research objectives at a glance, which 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 aspect of this chapter gives an overview of the outline of the thesis.

The research consists of five chapters. Chapter one, start with the introduction, the study background, followed by problem statement, then research questions and the

research objectives. The chapter also highlights the significance, scope, and limitation of the study. Chapter 2 concentrates on the review from prior literatures that is related to the independent and dependent variables. Also covers literature on the concept of corporate governance, corporate governance principle and compliance, importance of corporate governance in Nigeria, concept of bank financial performance, corporate governance structure, and theoretical framework and finally review of empirical literature.

Chapter 3 explains about research methodology in the research. In this chapter, the population as well as sample of the study is discussed and, data collection and the instrument development for the study are highlighted, Methods employ for the data analysis to test the hypotheses development are also covered in this chapter. Chapter 4 discusses descriptive statistics followed by diagnostic tests, correlation analysis, model selection between fixed effect, random effect and pool OLS. It then discusses the result from the linear regression analysis. Chapter 5 discusses the conclusion of the study, it goes further to discuss the implication of the study, limitations of the study, and recommendations for future studies.

CHAPTER TWO

Literature Review

2.1. Introduction

This chapter reviews the work of other scholars on corporate governance and the findings of prior studies. It contains a comprehensive 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 best practices for banks post consolidation, corporate governance legislation: an overview of Nigerian banking industry, corporate governance and bank distress, causes of corporate governance and bank distress in Nigeria and concept of bank financial performance will be discussed. Finally this section will identified and also discussed the theoretical framework of the study.

2.2. Concept of corporate governance

Corporate governance is multidimensional. Lacking a single theory, its explanations is found in the field of 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 Individual components 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 rotate around some important aspect such as board of directors 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 leading a consensus in the definition. Coleman and Nicholas-Biekpe (2006) defined corporate governance as the association between the shareholders and enterprise or the relationship of the enterprise to society in general. However, Mayer (1999) gives a broader definition that means 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 system that direct and control business. Governance structure stipulates the distribution of rights and responsibilities between the various members in the organisation, such as shareholders, managers, and other stakeholders, and explain decision making rules and procedures concerning company affairs.

Nevertheless, Shleifer and Vishny (1997), and Vives (2000) discover a wider approach which interpret the subject as the methods through which managers are

control by finance providers so that their capital cannot be expropriated and to earn a return on their investment. However there is agreement 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 encapsulate depositors and shareholders (Macey & O'Hara, 2001).

2.3 Evolution of corporate governance in Nigeria

Corporate governance developed after the study of corporate control and ownership separation, they recognise components of corporate governance importance. The divergence increases and performance diminishes when the degree of separation between ownership and control increases (El-Chaarani, 2014). "Without showing suspiciously nationalistic, corrupt practices in Nigeria is generally popular, it has deeply eaten into the societal structures of the Nigerian people". The term corporate governance, is absolutely new subject of discussion in Nigeria.

Nigeria has a change of power in the year 1999 which resulted to new administration into power with the aim of adopting a strategy to pull in new and feasible foreign investment which are needed for reform in all sectors of the economy. In Nigeria a commission was set up to study the adequacy, and importance of corporate governance in relation to the global best practices (Oyebode, 2009).

In Nigeria regulatory agencies such as Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC), and corporate affairs commission (CAC) self-intrigued executives are largely staffed who easily team up with senior officials within the organisation to trade off the

interest of the shareholders. High profile civil servant and retired military officers are chosen as board members without having the needed skills in business and financial dealings (Okpara, 2010). This saboteurs sits on the board of directors (average 40-50 members) to propagate fraudulent activities mostly changing the compensations of senior executives that compromise corporate governance decorum and etiquette. In Nigeria Institutional investors are left out in governance, and sometimes the annual general meetings gatherings even occur at remote areas trying to keep away most shareholders from attending (Oyebode, 2009).

2.4. The Nigerian Code of Corporate Governance

weak corporate governance and its improper implementation by the security and exchange commission (SEC) is among the main causes of corporate failure in Nigeria and lack of issuing several corporate governance code which will control and monitor the behavior of management and its board members (Idemudia, 2011; Adegbite et al, 2012).

It is the responsibility of the commission for issuing and revealing any weaknesses with regards to 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 increase 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 security and exchange commission (SEC) has included all other business venture such as private corporations, small and medium industries to implement the new set standards and ethics. The board committee members have to

determines the degree to which its obligation, function besides the duty they should carried out as set in commission code via it's' committees. The board could, notwithstanding have an audit committee as suggested by Companies and Allied Matters Act (CAMA 1990), similarly they can constitute risk management committees, governance/compensation committee, and other suggested committees that would enhance the entity's value depend on the sitting of the organisations (Adegbite & Nakajima, 2011).

2.5. Importance of corporate governance in Nigeria

The corporate scandals that happens in 2007 during the world financial crisis prompted the failure of corporate titans such as Enron, WorldCom, and so forth, has shown out the important of effective corporate governance all over the globe. In Nigeria careless stance of boards of directors and lapses among the senior executives of organisation in the areas of ensuring satisfactory evaluation of the frameworks for consistence with rules and regulations, combined with absence of frameworks to support and review material changes in accounting standards, keep on putting corporate governance in the bleeding edge as panacea for reversal (Adams & Mehran, 2003).

Alfiero and Venuti (2015) discuss that majority of the literature examining the significance and role of corporate governance focus mainly on industries not on the banking industry or financial services sectors. Only recently banking sectors has been given attention. Alfiero and Venuti (2015) states that the Basel Committee on Banking Supervision (BCBS) defined "corporate governance" for banks in the glossary of its 2014 document "Corporate Governance Principles for Banks" as the

“set of relationships between a company’s management, board, shareholders and other stakeholders which gives the structure by which the objectives of the company are set, and the process of reaching those objectives and monitoring performance. It assist in defining the way authority is allocated and how corporate decisions are made”.

With regards to the current world economic problems, corporate governance present study have clearly indicate a positive relationship between efficiency in best corporate governance practice and sustainable economic growth and development (Adams & Mehran, 2003).

Okpanachi (2011) discuss that the implementation of the treasury single account in Nigeria poses a problem for Nigerian banks as states and other government parastatals that would normally fix deposit huge sums of money at once, no longer can as this money has to be rendered to the federal government for payment into the nation’s general treasury single account. The banks would previously use this fixed deposited money to grant loans and engage in other financial transactions while generating interest for itself.

As the banks no longer have this source of capital at hand, their capital base drops and this poses a major challenge to the banks. Banks will no longer have access to float provided by the accounts they maintained for the ministries, departments and agencies.

The global economy was thrown in to deficit because, government across the globe are obligated to pay agency cost (monitoring and disciplining). Though, from literature review it shows that irrespective of the level of economic development of the western world, In Nigerian banking sectors the fundamental and the pragmatic common sense principles of corporate governance still continue to be vital.

2.6. Corporate governance principle and compliance

Expanding the quantity and quality of universal inflow of capital is a key significance step as an emerging nation. The recent financial crisis, which eventually started to have an influence during the third quarter of 2008, while slowing the world economies, by putting the United States of America into stagnation, this brought about the prominence practices of corporate governance to the attention of firms, and other stakeholders. A good corporate governance practices is a significant tool for indicators of growth and sustainability within the activities of the organizations in 2011 (Mallin, 2012).

Financial institutions are descriptive of the corporate approach within the financial sector and where it works, knows that a strong system for good governance can be achieved by deciding the kind of strategy the management will adopt, actualizing viable internal control and risk management instruments, setting efficient ethical tenets, running overall public disclosure under the range of the current disclosure guidelines in a superb manner (Adenike & Ayorinde, 2009).

Financial institution in conformity with the corporate governance standards, deals with the rights and obligations of its shareholders, employees, clients, and other

related parties by using the general principles of transparency, accountability, responsibility and accountability and equity involved within the point of view of efficient management and control system. Performing activities in line with the moral qualities decided in parallel with the Nigeria Commercial Code, Capital Markets Law and related enactment, financial institution is in consistence with the Corporate Governance Principles and regards them as important as financial performance for offering long term value for its potential investors (Nigerian Stock Exchange, 2009).

2.7. 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 notwithstanding, ROA ratios is utilized to measure the financial performance of commercial banks. Furthermore, return on assets (ROA) permits analyst and all stakeholders a means to evaluate the performance and corporate governance system of an organisations in securing and motivating efficient governance of the corporation. One of the purposes of establishing a corporation is to generate profit for all stakeholders' (Epps & Cereola, 2008). As such the stakeholder may be interest in firms' that are performing better looking at operating activities and return on each individual asset.

Simply expressed, the existing bank performance literature portrays the aim of financial establishments as that of acquiring satisfactory returns and reducing the risk consider to procure the return (Bhagat & Black, 2000). Klein (1998) applied return on assets (ROA) as an indicator of measuring performance. 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).

Risk and return has a commonly established relationship, in other words the more the risk the greater the projected return. Consequently, both risks and returns have been measured by traditional methods of measuring bank performance. The growing rivalry in domestic and global banking industry, the developments concerning monetary unions and the new technological developments show significant revolutions in the banking environment, and task all banks to prepare suitable arrangements so as to go into new competitive financial environment.

Quadri (2010) in his study show that most past studies relating to organization performance assessment concentrate just on operational effectiveness and operational efficiency which may notwithstanding impact organisation existence. By utilizing advanced two stage data envelopment analysis model in their research, the empirical outcome of this study show that an organization with good effectiveness does not generally imply it has better efficiency. In Nigerian 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.

2.8 Corporate Governance Structure

2.8.1 Board Size

Board size has a role in influencing the firm's value. Board of directors should contain both executive and non-executive directors. The chairman should be giving command to executive and non-executive directors. It is the responsibility of the board to control the management and the CEO of organisation to enhance the value of the firm.

Prior research on board size show the association between bank performance and board size because they have the capability to support make good decisions, which is difficult for CEO to control. Mak and Li (2001) explain there is positive association concerning board size and bank financial performance based on their ordinary least squares (OLS) outcome but their two-stage least squares (2SLS) regressions do not accept this outcome in investigating 147 Singaporean banks using data of 1995. Adams and Mehran (2003), discover a positive association between the board size and performance of United States banking sector. However, Dalton and Dalton (2005) explain that larger boards and bank performance were related.

The size of the board impacts its overall capacity to operate efficiently, usually with smaller boards are seen to be less efficient in terms of gaining fundamental sources,

such as external funding, their budget amount, and leverage from an environment, as highlighted by (Alexander, Fennell & Halpern 1993). This opinion falls in line with the report by Birnbaum (1984), in which that environmental uncertainty (volatility and a shortage of information) can result in a larger board size. In such an instance, the size of the board could prove to be a measure of the capacity of a firm to get environmental links to gain access to critical resources.

Those boards with a larger size are recognized as having different backgrounds, skills and expertise, which can give a greater abundance of ideas that can provide high levels of performance (Brown *et al*, 2011). Pearce and Zahra (1992), explain that bigger boards offer advice and guidance concerning strategic options to firm. Also, boards of a larger size have a greater capacity to overcome problems, especially in larger firms. The capability of the board to perform successful monitoring increases with the addition of more expert directors, all these can contribute in terms of offering efficiency in their supervisory duties. Representing shareholders' interests is enhanced with a larger board, as recognized by Dalton *et al*. (1999). Reviewing management's actions and the ability to do so will be improved with a larger board (Kiel & Nicholson, 2003). The meta-analysis of Dalton *et al*. (1999) is seen to support the view that board size can be related positively with firm performance.

Many recent studies on the other hand supported boards that are smaller. Yermack (1996) discover a negative association between board size and financial performance of banks. A sample of 452 for large United State corporations were used between 1984 and 1991, he stated that banks with greater market values is related to smaller boards. Also an inverse relationship was found by Eisenberg, Sundgren and Wells

(1998) between size of the board and profitability. Vafeas (2000) also explain that banks with smaller boards are knowledgeable about profitability.

Mak & Li (2001) stated that listed banks with smallest boards in Singapore and Malaysia have a tendency to have greater bank valuations. Bonn, Yoshikawa and Phan (2004) conducted their study among Japanese banks, and discover positive relationship between board size and bank financial performance. Shakir (2008) found negative relationship between board size and bank performance and is accordance with recommendation by Jensen (1993) who stated that having a reasonable smaller board of directors will help bank be effective in its monitoring. Haniffa and Hudaib (2006) suggested there will be no effective monitoring of performance with a large board and could cost the organisation regarding compensation and incentive increased.

Deciding the ideal number of directors is a key question to answer for companies. Efficiency is reduce if the number of directors is too large because decisions are difficult to make. Conversely, decision-making accuracy is reduced, if the number of directors is too small as there may not be enough discussion of issues involved (Wu, Xu, & Phan, 2011).

In the United States of America the median size of the board was 12 Yermack (1996), Pfeffer (1972) argued that the choice for the size of the board are linked to the resource dependence viewpoint. The more the dependence on external environment is, the higher the board of directors. When directors serve mostly as administrators

smaller boards are more suitable. It should be known that smaller boards are more "manageable" from the CEO's view (Daily & Dalton, 1993).

2.8.2. Board Independence

Director independence is one of the important aspect of good CG because, this enables the board in properly meeting its obligation to supervise management and to safeguard the shareholders' interests and other parties. The board of directors is normally composed of executive directors and non-executive directors: the former include management and CEOs who assume the role of directors on a full-time and management on a part-time; the latter, on the other hand, are independent directors and non-independent directors, none of whom are full-time directors.

The independence of non-executive directors is fundamental if they are to be efficient overseers (Block, 1999; Brown *et al*, 2011). Independent directors do not have relationship with the business and management of the company, they have no link with any other directors. As such, independent directors need to be independent from a controlling shareholder and from management. Importantly, directors with a lack of management-centered independence will have problems in exercising independent judgment, which eventually puts shareholders interest at risk (Hermalin & Weisbach, 1988).

Board independence and the extent of such is directly linked with its overall composition. Therefore, the assumption is made that with a higher number of independent non-executive directors board becomes more independent (Hillman &

Dalziel, 2003). Nevertheless, there are varied findings concerning the link between board independence and firm performance.

A number of empirical research indicated a strong positive link between board independence and firm performance. Zainal Abidin *et al.* (2009) recognize that a larger number of independent non-executive directors on the board has a positive effect in terms of the performance of the firm. Amran and Che-Ahmad (2009; 2010) find that board independence has a strong association with firm value. This is believed to be owing to the fact that independent directors tend to show greater diversity in terms of their characteristics, attributes, expertise and background and, which could improve the decision making and processes of the board, as well as firm performance. Uadiale (2010) also recognise that strong positive link exist between board independence and firm performance. From the perspective of the USA, Byrd and Hickman (1992) have recognised that, the greater the number of non-executive directors, the greater the reaction of the stock market to the firm's tenders offers for other firms.

However, other studies indicate an insignificant and negative link with firm performance, such as that conducted by Abdullah (2004), who established that the independence of board members has an insignificant link with any of the measures of performance, also further supported by other academics in the field such as Amran (2010); Finegold *et al.* (2007); Lang, Lins and Miller (2004); Rashid *et al.* (2010) whom all recognised a negative value with ROA. Yermack (1996) identified a negative link between the percentage of independent directors on the board and

Tobin's Q. Nevertheless, their findings are not necessarily the same as the case of performance measures.

In the context of Thailand, a research was conducted by Yammeesri and Herath (2010), which suggest that independent directors are not significant element regarding enhancing the value of the firm. This view is supported further in the work of Ponnu & Karthigeyan (2010) in the context of Malaysia, which suggested that there is a lack of convincing support for the belief that external directors positively impact business performance. In the case of the Philippines, Ferrer *et al.* (2012) sought to establish the impact associated with board independence on firm performance, with a sample utilized comprising 29 publicly-listed property companies based in the Philippines

Some believe that non-executive independent directors are under the power of the owner-manager, meaning there is the keen presence of political pressure. Moreover, the societal and cultural nature along with the appointment of member in board of directors is influenced through discrimination and prejudice, which is recognized as playing a notable role when choosing members. Such behaviour is recognized to have impact on the independence of the board, which could result in increased company-oriented risks (Al-Ghamdi, 2012; Chahine & Tohme, 2009).

2.8.3. Board Financial Knowledge

Better educational levels are recognized as assisting in the better management of firms and also 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.

Kesner (1988) recognised that the majority of directors' occupations are business executives, with consultants, lawyers and school professors following. The directors' expertise, 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 refers 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) state that educational qualification may be a proxy for intelligence, where more intelligent managers are expected to be better than their peers. Top managers of the firm are hired 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 associated 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.

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

2.9. Risk Management Committee attributes

2.9.1. 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 & Vishny, 1996) shows that boards cannot enquire and resist 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 argue 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 governance and fewer fraud accusations.

According to fama and Jensen, (1983) RMC independence means the number of independent non-executive directors' members sitting on the RMC. Subramaniam,

McManus, and Zhang (2009) stated that boards with higher 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 comprise of independent directors they will be able to monitor and control management risk taking activities and ensure all the strategies are working.

However. Minton, Tailard and Williamson (2010) discover that independence of risk committee members' 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 contain at least two non-executive directors and the executive director in control of the risk management, however it has to be chaired by a non-executive director.

2.9.2. 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 incharge in a sub-committee dedicated to risk management. Risk management committee size means number of members sitting on the risk management committee (Ballesta & Garcia-Meca, 2005).

Adams and Mehran (2003) states that board of directors of banks are important to corporate governance activities. The boards of directors set up monitoring committees that mitigate the cost related with larger boards (Upadhyay, Bhargava &

Faircloth, 2014).thus, larger boards have been associated with both improved performance (Adams & Mehran, 2005), and greater bank risk taking (IMF, 2014). Consistent with prior studies (Beltratti & Stulz, 2012; Peni & Vähämaa, 2012) examination of a sample of financial institutions indicated that firms with shareholder-focused boards are associated with greater levels of systemic risk or lower returns

A board primary responsibility 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 mitigate structural features that can hamper external shareholders' ability to monitor banks effectively, given the complexity and opaqueness of their activities (de Andres & Vallelado, 2008). Banks boards of directors play a key role in overseeing risk controls to mitigate misconduct in financial institutions (Nguyen, Hagendorff & Eshraghi 2015a). Precisely, they report reduced bank misconduct levels when monitoring quality is high.

2.9.3. Separate RMC

Risk management in recent years have receive attention and it is clear that there is the need to exist for a strong framework to effectively identify, and manage risk (Committee of Sponsoring Organisations of Treadway Commissions 2004). There have been emphasis for the requirement for separate risk management committee as a result of growth in responsibilities imposed by the regulatory agencies on the audit

committee and lack of time and skills essential to give supervision of the firm risk monitoring activities (Yatim, 2009).

Existence of a separate risk management committee is important for effective and transparent oversight function. The major objective of setting a separate risk management committee is to reduce the work on the audit committee and ensure the risk profile of the company is identified, monitored and controlled well. Murphy (2011) suggest that risk committee should be clearly separate from audit committees, as the former contain both prospective and retrospective dimension. Also supported by De Lacy (2005) that there should be separation between risk management committee and audit committee, particularly for complex business industries, where the committee should involve various levels of people, qualifications and experiences. The complexity of risks associated with complex businesses expose them to failure (Jarvis, 2005). Though, some argue that audit committees focus backwards on historical accounting policy rather than looking forward at risk oversight (McCormick, 2014).

Freedman and Jaggi, (1982) discuss that the establishment of risk management committee, separate from the audit committee, offers a sound premise for significant business-wide risk management. The objective of the risk management committee (RMC) is to recognize and distinguish the majority of the risks confronting the company. . Furthermore, RMC aids the board in regulating the company's risks and limit the function of audit committee related to corporation risk (Ford et al., 1999).

For risk management committee to be active in discharging its responsibilities, an arrangement of risk governance ought to be set up. Risk governance alludes to the structural in which risk is overseen by an organization. It characterizes what risks are, and who is in charge. As expressed in the risk governance direction announced by the Singapore Corporate Governance Council, "a healthy risk governance takes into account the expression of how, in the connection of its risks, an organization can: Attain its business targets; Plan its esteem recommendation; Analyze its risk tolerance; and Configure its procedures concerning the sensible desires of stakeholders' alignment" (Ford et al., 1999).

In Nigeria the establishment of a distinct or separate risk management committee is not mandatory, however, there shall be a risk management framework in every bank specifying the policies, and processes for the measurement, and control of the risk in-built in its operation CBN Code of Corporate Governance (2014). Also the code stated that the risk management policies shall reveal the bank's risk profile and show obviously all the elements of the risk management as well as its internal control system.

2.9. Theoretical Framework

From the review corporate governance has been seen from different theoretical perceptions. The development of agency theory, Stewardship theory, stakeholder theory, and political theory, deal with the cause and effect of variables, such as the structure of board members, independent directors, audit committee, and top management function. Therefore, it can be claimed that corporate governance is like

a social relationship other than process orientated structure. Based on this, the study will adopt agency theory as the theoretical framework.

2.9.1. Agency Theory

Economic theory is the root of agency theory and is widely used in corporate governance studies. Agency theory is defined 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. Principals assign the running of business to the managers, who are the agent of the shareholders (Clarke, Cull, Peria, & Sánchez, 2005).

In agency theory the agent are expect to serve and make decision in the interest of shareholders. Though, the agent may not make decisions in the best interests of the principals (Davis, Schoorman, & Donaldson, 1997). 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; Kajola, 2008). Actually, the idea of problems resulting from the separation of ownership and control has been established in agency theory by (Davis et al., 1997).

In agency theory the agent may be succumbed to self-interest, opportunistic behaviour and decreasing short of congruence among the principal objectives and the agents pursuits. Though understanding of risk varies in its approach. Even though with such obstacles, separation of ownership and control was mostly presented by agency (Sullivan, 2002). Uadiale (2010) explain that rather than providing

fluctuating incentive payments, the agents will only pay attention on projects having more return and have a fixed wage without any incentive component.

Even though reasonable assessment will be given, but corporate misconduct is not remove or even reduce. Where principal made rule control the agents the positivist approach is used, with the objective of increasing value of the shareholder. So, in this theory a more individualistic opinion is applied (Clarke et al, 2005). Agency theory can be used to discover the connection among the ownership and management structure.

In agency theory the model of an employee is more of a self-interested, individualistic and are bounded rationally where punishments rewards and seem to take priority (Jensen & Meckling, 1976; Kajola, 2008). This theory recommends that employees are accountable in their responsibilities.

2.10. Review of Empirical Study

Al-Manaseer, Al-Hindawi, Al-Dahiyat, and Sartawi (2012) conducted a research on the effect of corporate governance on Jordanian Banks performance, the study investigate empirically the influence of corporate governance dimensions (board size, board composition, chief executive officer status, and foreign ownership) on Jordanian Banks performance. Pooled data, and ordinary least square estimation method was employed by the study to examine link between corporate governance dimensions and banks performance for 15 Jordanian banks listed on the Amman Stock Exchange. A positive relationship was reveal by the study between corporate governance dimensions with the number of outside directors, foreign ownership and

Jordanian banks performance. Though, indicate a negative relationship between board size, the separation of the role of chairman and CEO with performance. It recommended banking regulation is importance in the field of corporate governance which would serve the interests of shareholders, board of directors, and executives.

Rehmans and Mangla (2010), conducted a study on corporate governance and financial institution performance in Pakistan, by comparing Islamic, and conventional banks in Pakistan. This study provides the structure through which objectives of the company are established and the process of achieving those objectives and performance monitoring. It also explained how corporate governance will align the interest of investors and managers and ensure that organisation are govern for investors benefit. The study was mainly carried out on the basis of secondary information and literature survey, such as research papers, journals, article and newspaper. It found out that, Government authorities has influenced on the banking sector in Pakistan which lead to low performance in the sector. Important changes in the governance structure in each sector lead to a phenomenon development and high returns. The study found out that some gaps still exist in the governance structure for Pakistan banking sector, but these Islamic banks will fill those gaps because of their more dependable governance structure.

Kim, Rasiah and Tasnim (2012) conducted a research on the relationship between corporate governance and performance of banks in Malaysia before and after the Asian financial crisis. The study show that following the Asian financial crisis, corporate governance is taking as a problem in banking system. The study ty to find and understand the differences among the two types of banking ownership i.e the

foreign owned banks and the private domestic owned banks, with regards to relationship between corporate governance and bank performance before and after the Asian financial crisis.

Suberu and Aremu, (2010), conducted a research on the merger activity and corporate governance in the Nigerian banking sector. Merger activity was examined by the study in the Nigerian banking sector which recorded twenty five (25) successful mergers acquired from regulatory demand for consolidation. Secondary data is used essentially. The main finding shows that poor state of the Nigerian economy is partially caused by the banking industry, because of its support for the import dependence nature of the economy other than financing of sustainable economic development through maximization of shareholders' values. It was suggested that to confirm developments in corporate governance through the pursuit of shareholder value which managers should sustain as controlling instruments for their job security.

Kajola (2008), examined corporate governance and performance of firms, using quoted Nigerian companies as a case study. The study tried to investigate four corporate governance mechanism relationships (board composition, board size, chief executive status, and audit committee) and two firm performance measures (PM and ROE). Twenty (20) Nigerian quoted companies were used as samples for the period between 2000 and 2006. OLS and Panel methodology were used by the study as a method of estimation. The outcome indicates ROE has a positive significant relationship with board size and chief executive status. Also the outcome shows that PM has a positive significant relationship with Chief executive Status. The study

though, do not show any significant relationship between board composition and audit committee with the two performance measures.

Kyereboah-Coleman, (2007), conducted research in Africa on corporate governance and firm performance by employing a dynamic panel data analysis. The study used both accounting based performance measures and market based performance measures to investigate the influence of corporate governance on the performance of companies in Africa. Unique data was derived from 103 quoted companies from Nigeria, South Africa, Ghana, and Kenya, for five-year period 1997– 2001 was used and analysis done within the dynamic panel data framework. The outcome show that the extent and the direction of effect of governance are dependent on the performance measure being examined. Specifically, the result display that joining the positions of chairman of the board and CEO has a negative effect on corporate performance and independent and large boards increase the value of the company, and also discover that CEO's tenure in office improves firm's profitability, also board activity intensity influence profitability negatively. Audit committee frequency meetings and their size have positive influence on market based performance measures and that institutional shareholding increases firm's market valuation. It was recommended that the position of board chairman and CEO should be separated and also to maintain a reasonable independent audit committees.

Lastly, Sanda, Mikailu and Garba (2005), in their study examine corporate governance mechanism and company financial performance in Nigeria. The study aimed at explaining the recent global events with regards to collapse of high profile companies. The research use documentary sources of data in it methodology and also

the study tries to address corporate governance mechanism. Pooled ordinary least squares regression and descriptive statistic were used to examine the relevant data collected. The study indicated that reasonable individual number and or corporate bodies are required with more than typical share of equity of the company as this will enable them to embark on monitoring process.

2.10. Summary of the Study

This chapter provides an overview of the literature regarding the effects of board size, board independence, board financial knowledge, risk management committee independence, risk management committee size, existence of separate risk management committee on bank financial performance as well as an overview of corporate governance and its regulation in Nigeria. The results of previous studies have shown that the effectiveness of the board and its committee members to monitor the management is associated with firm performance. Existence of a separate risk management committee is important for effective and transparent oversight function. The major objective of setting a separate risk management committee is to reduce the work on the audit committee and ensure the risk profile of the company is identified, monitored and controlled well.

Based on this literature, the following chapter research hypotheses are developed in the following chapter. In addition, research design and methodology for this study are discussed in the following chapter.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The section discusses the framework of the methods used in carrying out the study. Therefore, the section is subdivided into the following heading; research design to be adopted, 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. The research used secondary data obtained from the annual report and data stream of fourteen (14) banks listed on the Nigerian stock exchange for the year 2014-2016 with 42 firm year observations.

3.2. Research Framework

Agency theory is used by the study to study the relationship between board characteristics, risk management committee attributes and financial performance. In agency theory, the major issues is discussed by the agency emerge under circumstances of insufficient information and asymmetric. Kyereboah-Coleman (2007) discover the agency theory organizes the association between board characteristics and firm performance.

The owner and manager relationship is arrange by the agency theory, also promote segregation of responsibilities to reinforce confidence among owners and managers, also this will assist to enhance the performance of the company and improved the company value (Jensen & Meckling, 1976). Crucial dealings with board of directors agency problem is among the major devices that provides the supervision function

(Lefort & Urzúa, 2008). The board of directors is significant in protecting the shareholders' interests from management self-interest. In Modern Corporation the solution to some agency issues rely on board of directors responsibilities (Adams, Hermalin, & Weisbach, 2008).

The board major aim is to decrease agency costs, improve information disclosure that helps the stakeholders, and also work to strengthen the interest of shareholders (Fama & Jensen, 1983). Abdullah (2004), explain that the board can be improved by the establishment of the board, structure, and size, which can assist to enhance performance. Hypothetically, for company's operations, the board has to bear all responsibilities, its financial feasibility and ensure is accordance with what the company need and shareholders' interest and also, the board perform important function in influencing financial performance of the firm (Coles, McWilliams, & Sen, 2001; Fama & Jensen, 1983).

The study tries to examine the link between the board characteristics involving board size, board independence, and board financial knowledge. And also risk management committee attributes comprising risk management committee independence, risk management committee size and existence of separate risk management committee, with financial performance (ROA) in Nigerian listed Banks. The independent variables are examined against the financial performance (ROA) which serve as the dependent variable.

Figure 3.1 shows the study research framework containing all variables. The discussion of each variable and also development of hypotheses is discuss in detail in the following paragraphs.

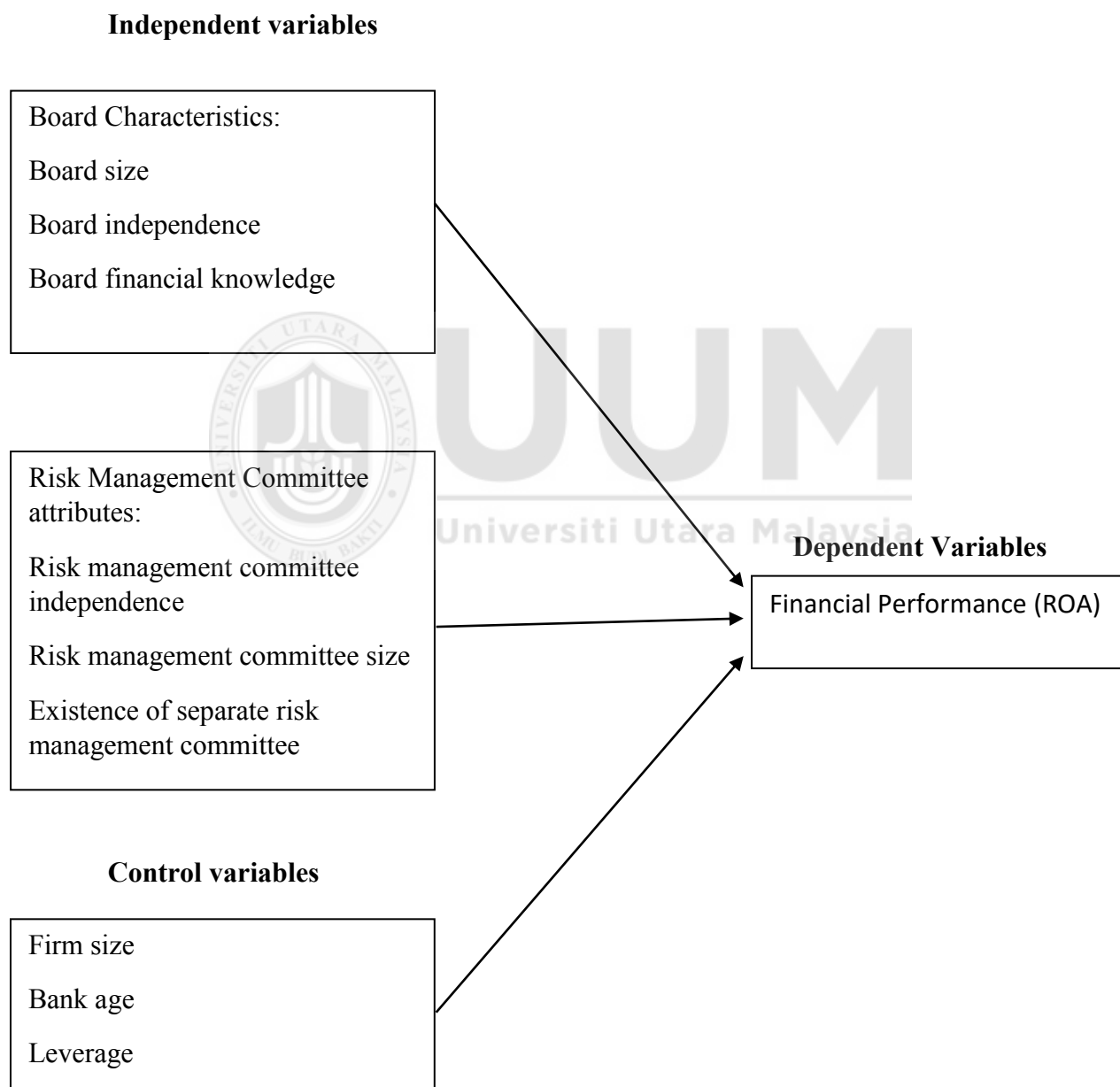


Figure 3.1 Research framework

3.3. Hypothesis Development

The section provides the relationship between financial performances (ROA) as dependent variables with board characteristics, and risk management committee attributes namely, board size, board independence, board financial knowledge, risk management committee independence, risk management committee size and existence of separate risk management committee as independent variables.

3.3.1 Financial Performance

The study used financial performance as dependent variable, regarded, as return on asset (ROA) represent financial performance indicators.

ROA is usually a strong measure of the profitability of the company. Each company has different ROA and indicate efficient utilization of asset .however, the operating and financial performance of the firm is evaluate by ROA. (Klapper & Love, 2003). Thus, greater ROA show the efficient utilization of assets for shareholders interest. (Haniffa & Hudaib, 2006).

Miller, Boehlje and Dobbins (2001), stated that ROA indicates a measure for evaluating the total effectiveness on how the asset of the firm are utilised. Furthermore, the authors explain that ROA is an indication of efficient control in distribution of capital, as there is a probability of the company being effective but not able to utilize capital. Corporate governance studies widely used ROA (for example Baysinger & Butler, 1985; Brown & Caylor, 2004; Haniffa & Hudaib, 2006; Kajola, 2008; Klapper & Love, 2004; Rechner & Dalton, 1991. In this study, concentration is given to independent variables such as board size, board

independence, board financial knowledge, risk management committee independence, risk management committee size and existence of separate risk management committee.

3.3.2 Return on Asset

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 has different ROA representing measurements of efficient utilization of assets. Miller (1995) explain that, ROA measures the efficient utilization of firm asset from firm operation.

Therefore, ROA is defined as net income generated before interest expenses for the fiscal year divided by total assets for that same year. It measures 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). The ROA also gauges the firm's performance in terms of its finance and operations (Klapper & Love, 2003). Therefore, the higher the ROA, the more effective is the utilization of assets to satisfy the shareholders' interests (Ibrahim & Samad, 2011).

3.3.3 Board Size and Financial Performance

Bigger boards are recognised to be able to control top management and also size of the board is normally believed to influence the monitoring strength (Abdullah, 2004). Also it shows that boards that are large result to difficulty in terms spending more on maintenance, also difficulties in, work organisation, planning, holding frequent

meetings, and making decision, because of having large members. While smaller board will solve the problem of individual free riding and enhanced their decision making.

Lipton and Lorsch (1992) discuss that an increase in board size will result to less effective management supervision. Eight (8) or nine (9) members should be the board size as suggested by the author. Jensen (1993) give additional evidence by explaining when the number of board members increase from 7 or 8 the board become less effective. Also, Jensen, (1993) and Lipton and Lorsch (1992) recognised that higher boards are less active and there is a likelihood that conversation between the members become less important. Difficulties arise regarding coordinating and processing problems with a growth in board size.

Some empirical research findings which support the arguments such as studies by (Adams et al., 2008; Bonn et al., 2004; Mak & Li, 2001; Vafeas, 2000; Yermack, 1996); which indicate a negative relationship between board size and firm performance. Shakir (2008) also discover a negative relationship between board size and firm performance. On the opposite, (Adams & Mehran, 2003; Dalton & Dalton, 2005; Mak & Li, 2001; Pfeffer, 1972; Zahra & Pearce, 1989) found a positive relationship between the two. Hence;

H1: There is a negative relationship between board size and financial performance of listed banks in Nigeria.

3.3.4. Board Independence and Financial Performance

Board independence improves good CG which increases firm performance. The presence of board independence shows that the board properly fulfils its legitimate obligation to supervise management also safeguard other parties' interest such as shareholders. Importantly, shareholders interest is at risk if the board of directors cannot exercise independent judgment, (Hermalin & Weisbach, 1988).

Based on the agency theory, board independence enables the restraining monitoring of self-interest pursuits, therefore helping to decrease opportunities for agency costs and fraud (Fama & Jensen, 1983). Accordingly, with greater percentage of independent non-executive directors, the board becomes more independent (Hillman & Dalziel, 2003).

Some empirical research have shown there exist a significant and positive link between board independence and firm performance. For example, Amran and Che Ahmad (2009; 2010); Cicero *et al.* (2010); Uadiale (2010); and Zainal Abidin *et al.* (2009) find a significant positive association between board independence with firm value. Because it is believe that independent directors have a tendency to show greater diversity in terms of their, characteristics, expertise, and background, which could ultimately enhance the decision making and processes of the board, as well as firm performance. Board independence has a strong influence on stock market performance. Byrd and Hickman (1992) and Rosenstein and Wyatt (1997) have recognised that the larger the number of non-executive directors, the greater the reaction of the stock market or stock prices to the firm's tenders offers for other firms. Al-Abbas (2009) conducted a local study in which he recognizes a link between the

integrity of the financial accounting process and independent directors' presence on the company board.

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

3.3.5 Board Financial Knowledge 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 knowledge and financial performance of listed banks in Nigeria.

3.3.6 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. RMC 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 incentive to protect their reputation as expert (Fama & Jensen, 1983).

Also, agency theory recommend that independent of committee members is one of the elements 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 monitor 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.

Yeh et al. (2011) indicate that finance firm with large number of independent directors sitting on risk committee do well during financial crisis period better than those with small independent directors. 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 related with the effectiveness of Malaysian insurers.

H4: There is a positive relationship between RMC independence and financial performance of listed banks in Nigeria.

3.3.7. RMC Size

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, so that 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).

Tao and Hutchinson (2012), discuss that good performance is positively associated with existence of risk management committee. They discover that RMC size is important in handling the risk of finance companies and increasing their performance. This is further supported by Battaglia, and Gallo (2015) that risk

committee size and ROA has a positive relationship. They recommends that for the period 2007-2011, banks having a bigger risk committee achieve higher profitability. Also Wu, Kweh, Lu, & Aziz (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.

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 pivotal role in effective supervision of the risk management in banking sector. Therefore, the banks should give due consideration to the size of risk committee in board room.

H5: There is a negative relationship between RMC Size and financial performance of listed banks in Nigeria.

3.3.8. Separate RMC

As a result corporate failure and high profile business scandals where investors and other stakeholders suffered terrific loss, this has called the attention of authority and regulator to concentrate on corporate transparency that support for the establishment of boards in an organization that includes the establishment of Risk Management Committee to help the executive in checkmating the risk profile, the dimension of risk or risk structure.

Harrison (1987) stated that the existence of risk management committee as distinct board committees in charge with particular part of the board function allow the directors to focus on specific area and spend more time on their work. According to Halim et, al (2017) separate RMC result to better control of risk which decrease losses and increase performance.

Previous literatures has used agency theory to examine the structure of the board committees (see Benz & Frey, 2007; Ruigrok, Peck, Tacheva, Greve & Hu, 2006; Subramaniam *et al.*, 2009). The board committees are expected to occur in a situation where agency cost is higher, such as in more complex companies, bigger companies and companies with higher financial leverage (Subramaniam *et al.*, 2009). The argument is supported in an earlier study by Davis, Schoorman and Donaldson (1997) that in terms of risk orientation, the agency theory is seen as a control mechanism whereby the RMC acts as the principal. In this study, the RMC and its composition, is seen as a principal and performs the oversight function over the management (agent) in terms of risk management. The RMC, as a board sub-committee, acts on behalf of the shareholders (principal), to protect the shareholders' investment and reduce agency cost.

Akindele (2012) states that firm's performance mainly depends on the mechanism used in handling the risk. The failure of corporation or an entity could also be attributed to poor risk management mechanism (Davies, 2013). There also literatures that shows a positive association among Risk Management Committee and firm performance, for instance (Hoyt & Liebenberg, 2011; Rogers & Graham, 2002, Gordon, Loeb, & Tseng, 2009). Though, there are studies that indicates a negative

relationship between firm performance and risk management committee (Beasley et al, 2005).

H6: There is a positive Relationship between Existence of Separate RMC and Financial Performance of Listed Banks in Nigeria

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 researches questions, the data collected and to draw conclusion (Asika, 2004). This study collect 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. Population of the Study

The study involves all banks listed on the Nigerian Stock Exchange. So, the study population covers all fifteen (15) commercial banks in accordance with the Central Bank of Nigeria regulation.

3.5.1 Sample Size and Sampling Technique

From population of the study, there are fifteen (15) banks listed on the Nigerian Stock Exchange from 2014-2016 which are sampled out for the study, but only 14 banks has complete data which are:

Table 3.1.

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 the banks that will make up the population are homogeneous, the patterns of preparing and reporting their financial statements in which findings can be generalized are almost similar. The 14 commercial banks are sufficient enough to be the representative of the entire population.

3.6. Sources of Data and Methods of Data Collection

The data that utilize for this study is secondary data acquired from the annual reports and data stream of listed banks in Nigeria. Even though accuracy of financial statements mostly rely 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.

3.7. Method of Data Analysis

The data for this study is derived from one sources, i.e documentary sources, different statistical tests is carry out to examine 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 Board size (BOARDSIZE), Board independence (BOARDINDE), Board financial knowledge (BOARDFINKNOW), Risk management committee independence (RMCINDE), risk management committee size (RMCSIZE), existence of separate risk management committee (SRMC) and Return on Asset (ROA).

3.7.1 Model Specification and Multiple Regressions

Multiple regression method is used to study the relationship between the financial performance of listed banks in Nigeria and board size, board independence, board financial knowledge, RMC independence, RMC size, and separate RMC.

The result from the regression analysis is an equation that indicate the prediction of a dependent variable from many independent variables. This method is employ when the independent variables are related with one another and with the dependent variable this method is used.

The regression equation is estimated as follow:

$$\text{FP} = \alpha_0 + \beta_1 \text{BOARDSIZE} + \beta_2 \text{BOARDINDE} + \beta_3 \text{BOARDFINKNOW} + \beta_4 \text{RMCINDE} + \beta_5 \text{RMCS} + \beta_6 \text{SRMC} + \beta_7 \text{FIRMSIZE} + \beta_8 \text{BANKAGE} + \beta_9 \text{LEVG} + \varepsilon \text{ it}$$

Where:

FP = Financial Performance

BOARDSIZE = Board size

BOARDINDE = Board independence

BOARDFINKNOW = Board financial knowledge

RMCINDE= Risk management committee independence

RMCS = Risk management committee size

SRMC = Separate risk management committees

FIRMSIZE = Firm size

BANKAGE = Bank age

LEV= Leverage

ε it = Error term

All dependent variables were entered into the regression equation concurrently to study the relationship among the entire set of predictors and the dependent variable.

The goal for the analysis is to know the independent variables that are extremely significant in deciding financial performance of bank.

3.7.2. Measurement of the Variables

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

3.7.2.1. Dependent Variables

One measure concerning financial performance that is used namely ROA in order to differentiate among the effect that board characteristics and risk management committee attributes have on the types of financial performance. Therefore, ROA is defined as net income generated before interest expenses divided by total assets for that same year (Garba & Abubakar 2014; Makki & Lodhi (2014)

3.7.2.2. Independent Variables

The section gives measurements of the board and risk management attributes as independent variables which are state as follows:

Board size is important in influencing the firm value. The board of directors should be structured to comprise both executive and non-executive directors. The function of board of directors is to control the management and the CEO of an organisation, so that the value of the firm can be enhanced. Board size is measure as the total number of directors sitting on the board (Shukeri (2012); Garba & Abubakar (2014)

Board independence is one of the important aspect of good CG because, this enables the board in properly fulfilling its legal obligation to supervise management and to protect shareholders interest and other stakeholders. Is define as the proportion of non-executive directors divided by total directors (Sanda et al., 2010; Davidson & Rowe 2004).

Board financial knowledge are recognized as assisting in the better management of firms and also 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).

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).

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).

The existence of a separate risk management committee is important for effective and transparent oversight function. The major objective of establishing a separate risk management committee is to reduce audit committee work and enable the risk profile of the company is identified, monitored and controlled well. Is measure as a

dummy variable of “1” will be used if a firm sets up a risk management committee, and “0” if otherwise (Hoyt & Liebenberg 2011)

3.7.2.3. Control Variables

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

3.7.2.3.1. 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 use firm size as control variable because it is discover 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). Though, firm size can have a strong influence on corporate performance. Large firms may be less active compare to smaller firms for the reason that they can meet the government bureaucracy, and more agency problems (Lehn et al., 2009). Though, there is a possibility to use economies of scale, more powerful on the market, and employ more skilled managers, large firms tend to be more effective (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 total assets (Alhaji 2012; Kurawa & Kabara, 2014)

3.7.2.3.2. Bank Age

Bank age is measure using number of years bank incorporated. As organizations age, routines, systems, and standard operating procedures are consciously created or otherwise emerge (Blau & Scott, 1962). A number of 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).

3.7.2.3.3. Leverage

Leverage means the utilisation of funds borrowed in an effort to improve firm performance. Some empirical studies has 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 size, board independence, board financial knowledge, risk management committee, 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 are able to offer more supervision in the most effective board.



Table 3.2.

Summary of the Operationalization of Research Variables

No	Variables	Acronym	Operationalization	Source
1	Dependent variable: Return on Assets Ratio	ROA	net profit divided by total assets (NP/TA)	Garba & Abubakar (2014); Makki & Lodhi (2014)
1	Independent Variable: Board size	BOADSIZE	Total number of directors sitting on the board of directors.	Shukeri (2012); Eklund et al. (2009); Garba and Abubakar (2014)
2	Board independence	BOADINDE	Proportion of non-executive directors divided by total directors	Sanda et al, (2010); Davidson & Rowe (2004)
3	Board financial knowledge	BOADFINKNOW	Proportion of directors with educational background in accounting, finance, economics, and business administration divided by total directors	Dionne & Triki (2005)
4	Risk management committee independence	RMCINDE	proportion of non-executive directors' divided by total directors on the risk committee	Fama & Jensen (1983).
5	Risk management committee size	RMCS	Number of directors sitting on the risk management committee	Ballesta & Garcia-Meca, (2005)
6	Separate risk management committee	SRMC	A dummy variable of "1" used if a firm sets up a risk management	Hoyt, & Liebenberg (2011)

			committee, and “0” if otherwise	
1	Control variable: Firm Size	FIRMSIZE	Natural log of total assets	Alhaji (2012); Kurawa & Kabara (2014)
2	Bank Age	BANKAGE	Number of years since the company start incorporation	Alhaji, (2014); Faruq (2011).
3	Leverage	LEVG	Total debts divided by total asset	Huda & Abdullah (2013)

3.8. Data Analysis

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

3.8.1. Descriptive Analysis

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

3.8.2. 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 in order to prove that there is a high possibility that econometric assumptions are not violated and to obtain truthful results.

3.8.2.1. 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 basic assumption in multivariate analysis that follows the premise 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 the purpose of this study Shapiro-Wilk, Shapiro-Francia, Mardia Skeness Henze-Zirkler and Kernel Density Estimator were to be use respectively.

3.8.2.2. Heteroscedasticity Test

Heteroscedasticity test of a group of variance is required in the panel data analysis because such analysis is the combination 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).

3.8.2.3. 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 presence 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).

3.8.2.4. Multicollinearity Test

Panel data analysis, to some extent, is capable of reducing the multicollinearity problem (Baltagi, Bratberg & Holmås, 2005). Multicollinearity checking is a common diagnostic test to ensure 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.

3.8.3. Correlations

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

3.8.4. 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, in particular 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 also account for heterogeneity of the variables as well as its suitability of studying dynamics changes in a firm or industry (Baltagi, 2008).

3.8.4.1. 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 employ; 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).

3.8.4.2. Random Effect Model

For Random effect model, the variation across entities is considered to be 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).

3.8.4.3. 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.

3.8.4.4. Breusch and Pagan 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 Pagan Lagrangian multiplier test.

H_0 : There is no individual difference that is, no random effect

H_1 : There is individual difference among the coefficients that is, random effect exist

If the H_0 is rejected, random effect exist and if H_0 fail to be rejected, random effect does not exist thus pooled OLS would be more appropriate

3.8.5. Multiple Linear Regression Analysis

This study employs multiple linear regressions (MLR) specifically panel data analyses to study the relationship between the financial performance and board characteristics (board size, board independent, and board financial knowledge). Following Battaglia, F., & Gallo, A. (2015). The study clusters the standard error at panel lid. This is because in the sample same bank may be present in different years, it is suitable to enable the errors to be related for the same intermediary overtime. The study obtained standard errors robust heteroscedasticity.

3.9. Summary the Chapter

The aim of this study is to examine the relationship between board and risk management committee attributes on the financial performance of listed 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 DISCUSSION

4.1. Introduction

This section provides the research findings from the random effect model. The chapter is divided into sub-sections, which comprises of descriptive statistic, correlation analysis, and analysis of choice among random effect and pooled OLS and diagnostic checks. Additionally, the linear regression analysis is also explained in the last section, and summary of the chapter. Stata software version 14 was used to analyse data from the annual reports of listed banks in Nigeria.

4.2. Descriptive Statistics

Descriptive analysis is conducted to provide brief information about the sample target that can prompt simple and better explanation of data (Genser, Cooper, Yazdanbakhsh, Barreto, & Rodrigues, 2007). Table 4.1 below show the mean, standard deviation, minimum and maximum of the variables in the study resulting from the Stata 14

Table 4.1
Summary of Descriptive Statistics

Variable	Mean	Std. dev.	Min	Max
ROA	2.120	1.219	0.360	4.660
BOARDSIZE	13.500	2.761	7.000	19.000
BOARDFINKNW	0.403	0.104	0.176	0.600
BOARDINDE	0.678	0.139	0.500	0.923
RMCSIZE	6.238	2.272	3.000	13.000
RM CINDE	0.748	0.180	0.500	1.000
SEPARATE RMC	0.500	0.506	0.000	1.000
BANKAGE	42.214	33.332	2.000	122.000
LEVERAGE	14.295	4.295	6.110	26.160
FIRMSIZE	9.202	0.356	8.556	9.794

ROA = return on asset; BOARDSIZE = Board size; BOARDFINKNW = Board financial knowledge; BOARDINDE = Board independence; RMCSIZE = Risk management committee

size; RMCINDE = Risk management committee independence; SEPARATE RMC = Separate risk management committee; BANKAGE = Bank age; LEVERAGE = Leverage; FIRMSIZE = Firm size.

N= 42

From table 4.1 above, it displays the result for descriptive statistics taken from the variables incorporated into the model. The descriptive statistics which involve mean, standard deviation, minimum and maximum which was run with Stata version 14. From the descriptive analysis the overall average mean for return on asset (ROA) is 2.120 with maximum 4.660 and minimum of 0.360%. With regards to the CG variables, the result from the descriptive statistics of board size (BOARDSIZE), shows that the mean value for board size is 13.500 with a minimum of 7 members and the maximum of 19 members, this implies that the listed banks in Nigeria have comply with CBN code of corporate governance (2014) which require banks to have a minimum of 5 and maximum of 20 members in their board. Also the result reveal that the mean for board financial knowledge (BOARDFINKNW) is 0.403 with the minimum number of 0.176 members and the maximum of 0.600 members in the Nigerian banks.

The statistical outcome relating to the board independence (BOARDINDE) ranges indicate the mean of 0.678 with a minimum of 0.500 members and maximum of 0.923 members. Unlike board size, the risk management committee size (RMCSIZE) mean value is 6.238, the minimum members on the committee is 3 and maximum 13 members. The risk management committee independence (RMCINDE) recorded a mean of 0.748, with a minimum of 0.500 members and maximum of 1.000 members on the risk committee.

Meanwhile, the existence of separate risk management committee (SRMC) measured as a dummy variable, one (1) if there exist a separate risk committee otherwise zero (0) recorded a mean of 0.500, with a minimum of 0.000, and a maximum of 1.000. With regard to bank age (BANKAGE), the mean value of the bank is 42.214 with a minimum age of 2Years and a maximum age of 122 years for listed banks in Nigeria. As for leverage (LEVERAGE) the outcome in table 4.1 shows that the mean of leverage is around 14.295, having a minimum of 6.110 and a maximum of 26.160

Lastly the mean value for firm size (FIRMSIZE) shows the mean value of 9.202 for listed banks in Nigeria with a minimum of 8.556 and a maximum of 9.794. However, firm size influence firm performance and normally used as control variable in the corporate governance literatures (e.g. De Andres, Azofra, & Lopez, 2005; Ghosh, 2006).

4.3. Correlation Analysis

Correlations analysis is used to discuss the level by which one variable is associated to another (Asteriou & Hall, 2007). Hair et al, (2010) suggest that a correlation should not exceed 0.7 to ensure multicollinearity problem does not exist in the regression model. However a correlation 0.736 reported in this study is within the threshold of 90% suggest by pallant (2007) and gujarati (2004).

This study begins by measuring the relationship between independent variables to dependent. Therefore, correlation analysis was utilized to explore the independent variables' relationship as this would help in estimating numerous models, which

discover no relationship in circumstances where the correlation estimation is 0. While correlation of ± 1.0 means perfectly negative or positive relationship. Zero (0) for no relationship and one (1) means a perfect relationship. In addition, the relationship is seen as small where $r = \pm 0.30$ to ± 0.49 and where $r \geq 0.50$ the relationship strength is thought to be substantial. Table 4.2 presents the correlation between the variables.



Table 4.2:
Pearson correlation

	1	2	3	4	5	6	7	8	9	10
ROA	1.000									
BOARDSIZE	0.129	1.000								
BOARDFINKNW	-0.344*	-0.127	1.000							
BOARDINDE	-0.250	-0.736***	0.077	1.000						
RMCSIZE	0.167	0.649***	-0.392*	-0.465**	1.000					
RMCINDE	-0.279	-0.413**	0.100	0.468**	-0.660***	1.000				
SRMC	0.279	0.271	0.111	-0.070	0.000	-0.241	1.000			
BANKAGE	-0.319*	0.146	-0.174	-0.021	0.339*	-0.327*	-0.323*	1.000		
LEVERAGE	0.035	-0.032	-0.500***	0.142	0.206	0.035	0.136	-0.154	1.000	
FIRMSIZE	0.160	-0.073	0.305*	0.162	-0.383*	0.143	0.056	0.046	-0.323*	1.000

ROA = return on asset; BOARDSIZE = Board size; BOARDFINKNW = Board financial knowledge; BOARDINDE = Board independence; RMCSIZE = Risk management committee size; RMCINDE = Risk management committee independence; SEPARATE RMC = Separate risk management committee; BANKAGE = Bank age; LEVERAGE = Leverage; FIRMSIZE = Firm size.8, ** p<0.05* p<0.01***p<0.001

Table 4.2 above shows significant correlation, positively weak, and negative significant correlation concerning dependent variable (ROA) and independent variables. The correlation between firm size, board size, risk management committee size, and existence of separate risk management committee with ROA is 0.160, 0.129, 0.167, and 0.279 respectively, which shows they are positively correlated. However, the ROA is positively correlated with leverage with a weak value of 0.035. Furthermore, a weak negative and significant correlation was found between board independence, board financial knowledge, bank age, risk management committee independence and ROA of -0.250, -0.344, -0.319, and -0.279 respectively.

The findings also show a strong positive significant correlation between risk management committee size with board size with a correlation value of 0.649 at 1% significance level. However a negative significance correlation exist between board size and board independence at 1% level of significance. And also show negative significant correlation between risk management committee independence with board size with a moderate value of -0.413 at 5% level of significance. But the board size shows a weak positive significant correlation with separate risk management committee and bank age of 0.271 and 0.146 value. Board size has negative correlation with leverage and firm size with a weak value of -0.032, and -0.073 respectively.

BOARDFINKNW has negative significance correlation with leverage at 1% level of significance and also a weak positive correlation with board independence, risk management committee independence, and separate risk management committee with correlation value of 0.077, 0.100, and 0.111 respectively. And a positive

correlation was found between firm size and BOARDFINKNW with a value of 0.305 at 10% level of significance. However, risk management committee size is negatively correlated with BOARDFINKNW with a value of -0.392 at 10% level of significance. Finally bank age has a negative correlation with BOARDFINKNW with a value of -0.174.

BOARDINDE was found to have a positive correlation with risk management committee independence with a moderate value of 0.468 at 5% level of significance. However, risk management committee size has a negative correlation with BOARDINDE with the value of -0.465 at 5% level of significance. Leverage and firm size has a positive correlation with BOARDINDE with weak value of 0.142 and 0.162 respectively. Finally BOARDINDE has a negative correlation with separate risk management committee and bank age with a value of -0.070 and -0.021 respectively.

RMCS is negatively significant correlation with risk management committee independence with a value of -0.660 at 1% level of significant. Also there is no relationship between RMCS and separate risk management committee with value of 0. Leverage has a moderate significant correlation with RMCS with a value of 0.206. Furthermore RMCS has a weak negative significant correlation with firm size with value of -0.383 at 10% level of significance of 10%. Lastly RMCS has a positive significant correlation with bank age with moderate value of 0.339 at 10% level of significant.

RMCINDE was found to have a positive correlation with board independence, with a moderate value of 0.468 at 5% level of significant. RMCINDE have a negative significant correlation with risk management committee size with a value of -0.660 at 1% level of significant. Also, negative significant correlation exist between RMCINDE and board size with a value of -0.413 at 5% level of significance. Separate risk management committee is negatively correlated with RMCINDE with a value of -0.241. A weak and positive significant correlation was found between leverage and firm size with RMCINDE with a value of 0.035 and 0.143 respectively. Finally a negative correlation was found between RMCINDE and bank age with a value of -0.327 at 10% level of significance. And significant correlation with board independence with value of 0.393 at 10% level of significance.

SRMC has weak positive correlation with board size, board financial knowledge, leverage, and firm size with value of 0.271, 0.111, 0.136, and 0.056 respectively. Board independence and risk management committee independence has a negative correlation with SRMC with value of -0.070 and -0.241 respectively. No relationship exist between SRMC and risk management committee size with value of 0.000. A weak negative significant correlation with bank age with value of -0.323 at 10% level of significant.

BANKAGE is positively correlated with board size with value of 0.146. Board financial knowledge, and board independence has a negative significant correlation with BANKAGE with value of -0.174, and -0.021 respectively. Risk management committee size has moderate significant correlation with BANKAGE with value of 0.339 at 10% level of significance. A negative significant correlation exist between

BANKAGE with risk management committee independence and separate risk management committee with value of -0.327 and -0.323 at 10% level of significance. Also a weak negative significant correlation between BANKAGE and leverage was found with a value of -0.154. And finally a positive and insignificant correlation was found between BANKAGE and firm size with a value of 0.046.

LEVERAGE has a weak negative correlation with bank age, and board size with a value of -0.032, -0.154 respectively. Furthermore board independence, risk management committee size, risk management committee independence, and separate risk management committee has a weak positive significant correlation with a value of 0.142, 0.206 and 0.035 and 0.136 respectively. Board financial knowledge has a negative significant correlation with LEVERAGE with a value of -0.500 at 1% level of significant. Also firm size has negative significant correlation with LEVERAGE with a value of -0.323 at 10% level of significant.

FIRMSIZE has a weak negative significant correlation with risk management committee size and leverage with value of -0.383 and -0.323 at 10% level of significant. And also board financial knowledge has a positive correlation with FIRMSIZE with a value of -0.305 at level of significant of 10%. Board independence, risk management committee independence, separate risk management committee and bank age has a weak correlation with FIRMSIZE with a value of 0.162, 0.143, 0.056 and 0.046 respectively. Furthermore FIRMSIZE has negative insignificant correlation with board size with value of -0.073.

4.4. Model Selection between Fixed Effect and Random Effects

Hausman test is conducted to decide between random effect and fixed effect. This test evaluates the influence of alternative estimator versus an estimator. Researchers use it to assess whether a statistical model matches the data (Oyerinde, 2014).

Table 4.3
Hausman specification test

	Chi2	p-value
Hausman	6.78	0.5608
H0	Reject	Reject

The p -value (0.5608) for the Hausman test as indicated in Table 4.3 is insignificant and therefore established that RE model is more appropriate, since there is no proof of significant disparities within the banks; hence, RE regression can be run (Gujarati & Porter, 2012). Meaning that reject fixed effect and accepted random effect.

4.5. Random Effect and Pooled OLS Test

Breusch and Pagan Lagrangian multiplier (LM) test is carried out as research analysis for aim of selecting the most fitting model between random effect and pooled OLS as shown in Table 4.4.

Table 4.4.
Breusch and Pagan Lagrangian multiplier test for random effects estimates result

	var	sd = sqrt (var)
Roa	1.486666	1.219289
e	0.32821	0.5728964
u	0.565546	0.7520278

Test: Var (u) = 0
Chibar2 (01) = 2.69
Prob > chibar2 = 0.0505

From the above table 4.4 shows, the probability value of Breusch and Pagan lagrangian multiplier test (0.0505) is significant. However, the test perfectly suggests that random effect model is the most effective and appropriate over pool OLS. Moreover, treating the entities as the same might be as a result of employing a small sample of companies from the same sector (banking sector), thereby assuming the intercept and the coefficients as the same for all the entities.

Nevertheless, to further ensure the validity of this result and draw an inference from the estimated results, six (6) different diagnostic tests were carried out. These comprise normality test using kernel density test and Cameron & Trivedi's decomposition of IM-test for heteroskedasticity, Variance Inflation Factor (VIF) test for multicollinearity, functional form formulation (linearity) test, Ramsey reset test for omitted variables and Wooldridge test for serial correlation as presented below:

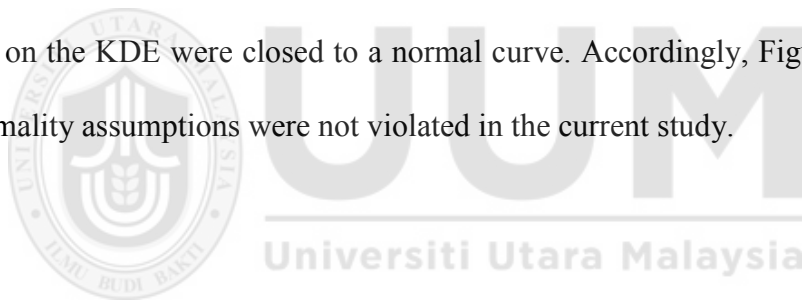
4.6 Kernel Density estimate

The Kernel density estimate (KDE) is a comprehensive technique, which contains smoothing of the data and holding the overall structure. Is an effective method for remodelling an obscure population from a random sample of data (Thompson, 2006). Histograms are typical vehicle for indicating medium sized data are distributed graphically, yet they endure some defects

The KDEs are superior at recovering remarkable structure and should be used rather the conventional histograms or frequency polygons to examine in details the data distributions. As explain by Salgado-Ugarte and Perez-Hernandez (2003), the fixed bandwidth KDEs are susceptible to noise in any low count interval of the distribution

and miss distribution details in areas where data converge. In more specialized terms, the bandwidth (h) should rise with $f(x)$ to decrease variance and would reduce with $|f''(x)|$ to reduced bias. The ordinary kernel estimator suffer adaptivity and thus manages to over smooth regions with excessive structure and to under smooth the distribution tails or to slightly data range with small structure (Simonoff & Tsai, 1999). To address this issue, one thought is to expand the window width in ranges of low data densities and to lessening it at intervals with huge counts. Also, it is conceivable to retrieve detail where data emphasis and to dispose noise where observations are aparse (Fox, 1991).

Figure 4.1 show the data obtained for the current study used normal pattern since all the bars on the KDE were closed to a normal curve. Accordingly, Figure 4.1 show that normality assumptions were not violated in the current study.



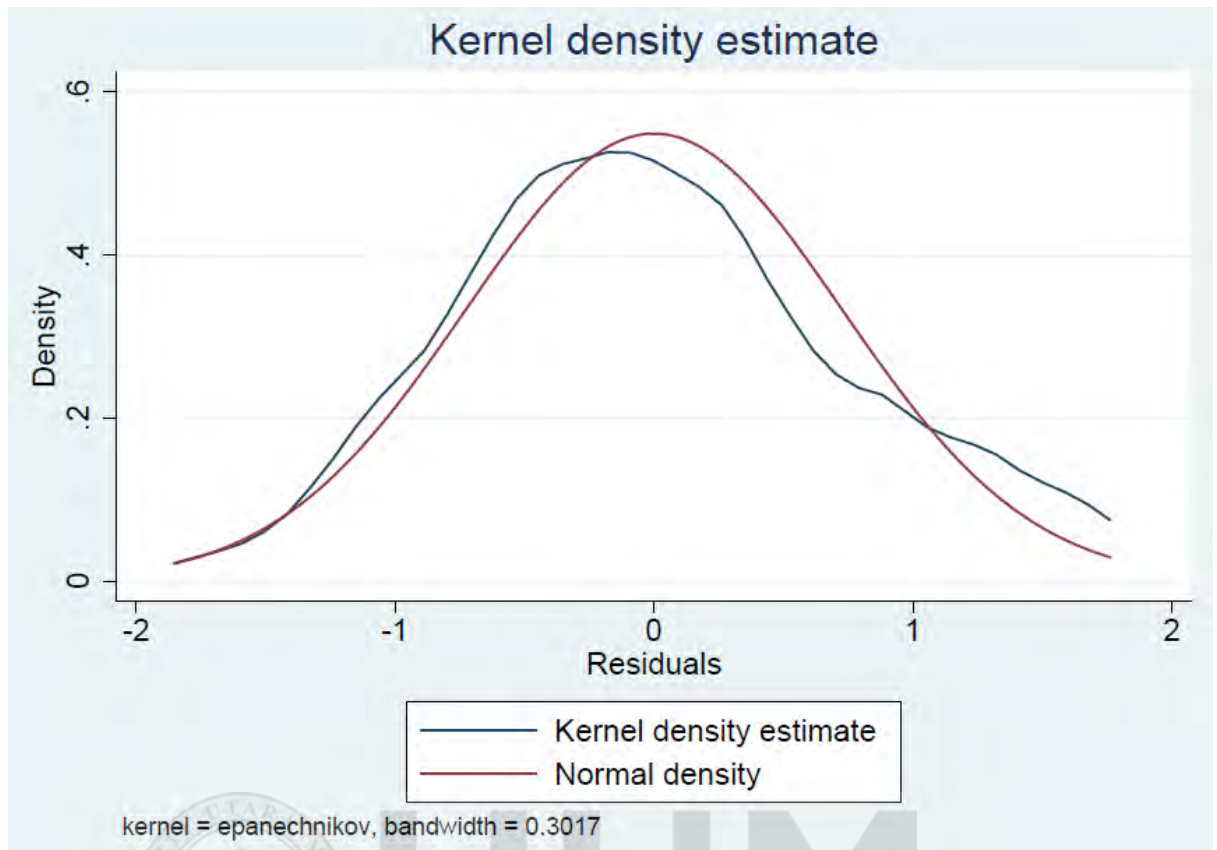


Figure 4.1

Kernel density estimate

In the above Figure 4.1, default width was used. Kernel density is smarter than two-way histogram in that its default width is not a fixed constant. Based on the figure shown above, the kernel density estimate shows the data are normally distributed.

4.7. Test 2: Test for Heteroskedasticity

The following hypothesis was tested to determine the variance consistency of the random error

Breusch-pegan/Cook-Weisberg test for heteroskedasticity predicts that:

H0: Constant variance

The result of the test using Breusch-pegan/Cook-Weisberg test shows that the probability value of the chi-square is 33.24% far above 5% rejection region. The chi-square and probability value of the test is shown below:

$$. \text{Chi2 (1) = 0.94}$$

$$. \text{Prob} > \text{chi2} = 0.3324$$

From the above result the study fails to reject the null hypothesis, however, concludes that, the residuals of the data is homogeneous in another word there is no heteroskedasticity problem. Thus, the error term(s) of an individual entity does not affect the independent variables of another entity. Hence, there is a constant variance in the distribution. This result was supported by Cameron & Trivedi's composition of IM-test as presented in Table 4.5.

Table 4.5
Heteroskedasticity Test

Source	Chi2	df	p
Heterokedasticity	42	41	0.4274
Skewness	12.56	9	0.1834
Kurtosis	0.63	1	0.4274
Total	55.19	51	0.3192

From the result of the above table, the study does not reject the null hypothesis, which explain that the error term variance is constant and thereby concluding that there is no problem of heteroskedasticity in the in the residuals of the data.

4.8. Test 3: Test for Multicollinearity

Variance Inflation Factor (VIF) test was carried out to determine if high collinearity between the independent variables exist or not. In another words, whether two or more variables are measuring the same thing or variables are independent of one

another. VIF result of 10 and above show high collinearity, which require solution. If the multicollinearity test discovers the existence of collinearity, a strong relationship among the independent variables exist. Hair Jr, Anderson, Tatham, et al. (1995) discuss that one of the many methods to know the presence of the correlation between independent variables is to conduct multicollinearity test that explain the degree by which one variable's effect can be managed by the other variable.

Table 4.6
Multicollinearity Test using Variance Inflation Factor

Variable	VIF	1/VIF
BOARDSIZE	5.99	0.167084
BOARDFINKW	1.67	0.172194
BOARDINDE	3.84	0.260676
RMCSIZE	5.81	0.268747
RMCINDE	3.72	0.437324
SRMC	2.29	0.560964
AGECORP	1.78	0.576005
LEVERAGE	1.74	0.600280
FIRMSIZE	1.51	0.663164
Mean VIF	3.15	

In a situation whereby the VIF is more than 10, it means that the variables are highly interrelated which incite a multicollinearity problem (Greene, 2008). Along these, the multicollinearity test using VIF as show in Table 4.6 above finds the absence of multicollinearity problem because VIF for every independent variable is less than the threshold value of 10, similarly the mean VIF value is reported as 3.15 far less than < 10 . So, the study concludes multicollinearity issue does not exis among the independent variables. Thus, each variable is proved to be independent in explaining the dependent variable.

4.9. Test 5: Omitted Variables Test

The test for Ramsey reset using powers of the fitted values of return on asset (ROA) length was conducted to know whether the model has any omitted variable or not, the result obtain from the test is presented below:

$$F(3, 29) = 1.30$$

$$\text{Prob} > F = 0.1271$$

From the above test the null hypothesis (H_0) expressed that; the model has no omitted variables. Since the probability value is not significance, the researcher cannot reject the null hypothesis that there is no omitted variable in the model, and therefore concludes that, the model has no omitted variables.

4.10. Test 6: Test for Serial Correlation

The Wooldridge test for autocorrelation in panel data was carried out in order to determine whether there exist a serial correlation or otherwise, the result obtains is shows below:

$$F(1, 3) = 0.000$$

$$\text{Prob} > F = 0.9025$$

The null hypothesis (H_0) of the above test stated that, there is no autocorrelation problem. However, going by the probability value which is insignificant the study accept the null hypothesis.

4.11. Linear Regression Analysis

In this study, the regression result is based on robust standard error that is clustering or adjusting the standard error at panel lid. The analysis of linear regression is used as a statistical technique to examine the relationship that arise among the dependent variable and six (6) independent variables comprising board size, board independence, board financial knowledge, risk management committee size, risk management committee independence, separate risk management committee, and three control variables which are firm size, leverage and bank age for 14 listed banks in Nigeria. Table 4.8 shows the result of random effect model used in the study

Table 4.7

Result of the Estimated Regression

	RANDOM				RANDOM ROBURST			
Variables	Coef	Std. Err.	Z	P> z	Coef	Std.Err	z	P> z
BOARDSIZE	-0.230	0.108	-2.13	0.033	-0.230	0.085	-2.720	0.007
BOARDFINKNW	-3.326	1.797	-1.85	0.064	-3.326	1.692	-1.970	0.049
BOARDINDE	-4.404	1.855	-2.37	0.018	-4.404	1.547	-2.850	0.004
RMCSIZE	0.268	0.148	1.81	0.07	0.268	0.073	3.680	0.000
RMCINDE	-0.322	1.288	-0.25	0.803	-0.322	0.802	-0.400	0.688
SRMC	0.888	0.531	1.67	0.094	0.888	0.480	1.850	0.064
BANKAGE	-0.030	0.020	-1.5	0.134	-0.030	0.013	-2.330	0.020
LEVERAGE	-0.053	0.033	-1.61	0.108	-0.053	0.029	-1.820	0.069
FIRMSIZE	1.550	0.767	2.02	0.043	1.550	0.658	2.360	0.018
Cons	-5.248	7.114	-0.74	0.461	-5.248	7.032	-0.750	0.455
Wald chi2				18.53				183.61
Prob > chi2				0.030				0.000
R-Sqr				0.496				0.496
Number of groups				14				14
Obs.				42				42

ROA = return on asset; BOARDSIZE = Board size; BOARDFINKNW = Board financial knowledge; BOARDINDE = Board independence; RMCSIZE = Risk management committee size; RMCINDE = Risk management committee independence; SEPARATE RMC = Separate risk management committee; BANKAGE = Bank age; LEVERAGE = Leverage; FIRMSIZE = Firm size.8, ** p<0.05* p<0.01***p<0.001

4.11.1. (ROA as Dependent Variable)

In testing the hypotheses of the study using a linear regression analysis, some indicators were engaged. Some of which are using the R² (R Square) Coefficient, that assesses the robustness of the regression equation. Also referred to as the coefficient of determination which uncovers the point of difference between the dependent variable which is described by model of the variables. The R² shows the point of difference of dependent variable resulting from the collective influence of the independent variable. The R² of 49.62% in the study shows the independent variables (board size, board independence, board financial knowledge, risk management committee size, risk management committee independence, separate risk management committee) variability on the dependent variable (ROA). The remaining 50.38% is accounted for by other factors that are not included in this study.

4.11.2. Hypotheses Testing

In this section, the result of the analysis of the relationship between financial performance (ROA as dependent variable) and board size, board independence, board financial knowledge, risk management committee size, risk management committee independence and separate risk management committee are the dependent variables. Whereas the control variables are the firm size, leverage and bank age as discuss in the study are presented through linear regression analysis.

4.11.2.1. Board size and ROA

According to table 4.7 board size has a negative significant relationship with financial performance (ROA) at 1% level of significant. The outcome support the first hypothesis (H1) that there is a negative relationship between board size and financial performance. This negative value indicate that if there is an increase in board size, will result to decrease in financial performance (ROA) and vice versa. This outcome is similar to that found in the study Shakir (2008) who discover a negative significant relationship between board size and financial performance (ROA).

Based on this result, it indicate that smaller board will solve the problem of individual free riding and enhanced their decision making. Efficiency is increase if the number of directors is small because decisions are easier to make. However agency theory advocates or argues that a considerable raise in number of board size can result and will lead to delay in the decision-making process.

4.11.2.2. Board independence and ROA

As revealed in table 4.7 the study discover a negative significant relationship between the board independence and financial performance (ROA), at 1% level of significant. The findings do not support the second hypothesis (H2) which state there is a positive relationship between board independence and financial performance (ROA). This negative value indicate that when there is a decrease in board independence, financial performance (ROA) will increase and reverse is the case.

Abdullah (2004) also found similar outcome that independence of board members is negatively link with firm performance (ROA).

4.11.2.3. Board financial knowledge and ROA

As revealed on table 4.7 board financial knowledge has a negative significant relationship with financial performance (ROA) at 5% level of significant. This findings do not support the third hypothesis (H3) that there is a positive relationship between board financial knowledge and financial performance. The negative value show that when there is decrease in board financial knowledge, financial performance will increase and vice versa. A similar result was found by Darmadi (2013) that educational backgrounds do not matter 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.

4.11.2.4. Risk management committee independence and ROA

As reveal in the table 4.7 risk management committee independence has a negative and insignificant relationship with financial performance (ROA). This finding reject the forth hypothesis (H4) that there is a relationship between risk management committee independent and financial performance. This shows that risk management committee independence have no any influence on financial performance (ROA). Also a similar study conducted by kallamu, B.S. (2015) reported that risk management committee independence is negatively related with ROA.

4.11.2.5. Risk management committee size and ROA

As indicated from table 4.7 risk management committee size has a positive significant relationship with financial performance (ROA) at 1% level of significance. This findings do not support the fifth hypothesis (H5) that there is a negative relationship between risk management committee size and financial performance. The positive value shows that if there is an increase in risk management committee size, financial performance (ROA) will also increase and vice versa. The findings of this study is similar to that found by Battaglia, F., & Gallo, A. (2015). They investigated whether board of directors and risk management related corporate governance mechanisms are associated with better bank performance during the financial crisis of 2007/2008 for a sample of Chinese and Indian listed banks. They discover that there is a positive significant relationship between risk management committee size and financial performance (ROA).

4.11.2.6. Existence of separate risk management committee and ROA

According to the table 4.8 presence of separate risk management committee has a positive significant relationship with financial performance (ROA) at 10% level of significant. The findings support the sixth hypothesis (H6) that there is a positive relationship between the existence of separate risk management committee and financial performance. The positive value shows that if there is presence of separate risk management committee, financial performance (ROA) will also increase and reverse is the case. This finding of this study is similar to that found by Hoyt & Liebenberg, (2011) that shows there is a positive relationship between risk management committee and firm performance (ROA).

However, the existence of risk management committee as distinct board committees in charge with particular part of the board function allow the directors to focus on specific area and spend more time on their work. Separate RMC result to better control of risk which decrease losses and increase performance.

4.11.2.7. Control Variables and ROA

In this study three control variables were employ, which are the firm size, leverage, and bank age. First of them is the firm size. The use of firm size as a control variable is being justified by the findings of companies with numerous distinct characteristics. In addition, the firm size affects firm performance and is usually utilized as control variable in experimental research devoted to the corporate governance (De Andres *et al.*, 2005; Ghosh, 2006; Cheung *et al.*, 2007). The effect of firm size on the corporate governance has also been reported in the outcomes that portray bigger companies to be less useful in comparison to their smaller counterparts even though they adhere to government bureaucracy, they are riddled with uncertainty and complex agency problems (Patro *et al.*, 2003). The result in table 4.7 shows a positive significant relationship between firm size and ROA at 10% level of significant. This is consistent with the one found in the study of Klapper and Love (2003), they discovered that a positively significant relationship exist between firm size and performance.

The second control variable is bank age. The results in Table 4.7 shows a negative relationship and significantly related with ROA at 5% level of significant. The outcomes is not consistent with the previous studies found by Evans, (1987) and Stinchcombe, (1965), which indicated that an increase in the age of a company

accompanies an increase in management abilities and skills to improve firm performance.

The third control variable leverage, the result presented in the table 4.7 shows a leverage has a negative significant relationship with financial performance (ROA) at 10% level of significance. Which means any attempt to increase debt finances in the company will have a negative influence on firm performance and this study is consistent with Eng and Mark (2003).

4.12. Summary of the Chapter

This chapter discussed the outcome from random effect model analyses and diagnostics test result in order to establish relationship effect between board characteristics, and risk management committee attributes on financial performance (ROA) on listed banks in Nigeria. This is done in conjunction with relevant theories and literature review in order to arrive at a logical conclusion. The research depend on secondary data obtained from the annual report and data stream using sample of fourteen (14) listed banks.

CHAPTER FIVE

SUMMARY AND RECOMMENDATIONS

5.1. Introduction

The purpose of this chapter is to discuss and conclude the main findings of the study as well as to suggest some recommendations for the appropriate regulatory bodies, relevant agencies and interested parties to consider. The chapter is divided into three sections. Starting with introduction of the chapter. The second section is the summary of the research, and the implication of the study. Lastly, it presents the limitations of the study and recommendations for future studies.

5.2. Summary of the study

The study investigates 14 listed banks that are quoted in the Nigeria stock exchange for the time frame of 2014 to 2016. The aim of this study is to investigate the effect of board and risk management committee attributes on the financial performance of listed banks in Nigerian. For this research, board and risk management committee attributes are to be represented by board size, board independence, board financial knowledge, risk management committee independence, risk management committee size, and existence of separate risk management committee to determine their effect on the financial performance of listed Nigerian banks. From the results obtained, the study indicates that board size is negatively related with financial performance (ROA), hereby opining that an increase in the directors of the company will have a negative effects on firm performance. However, the board independence has a negative significant relationship with financial performance (ROA). Furthermore, board financial knowledge has a negative significant relationship with financial

performance (ROA). Risk management committee independence has a negative insignificant relationship with financial performance (ROA), this means that it does not seem to influence the banks financial performance. In addition the study finds that the relationship between risk management committee size and financial performance (ROA) is positive and significant in listed banks in Nigeria. Nonetheless, existence of separate risk management committee has a positive and significant relationship with financial performance (ROA). This shows that risk management committee has impact in enhancing firm performance of listed banks in Nigeria in performing its oversight responsibilities in assessing, evaluating the risk appetite of the company for the purpose of avoiding unprofitable investment that will give rise to losses which can affect the overall performance and return to the company and the stakeholders in general.

Other variables which includes: firm size, bank age and leverage, were also investigated. The study documents a positive and significant relationship between the firm size and financial performance, for bank age it was found that a negative and significant relationship exist with the financial performance. Finally, leverage shows a negative and significant relationship with financial performance.

5.3. Implication of the Study

The research investigate the effect of board and risk management committee attributes on the financial performance of listed 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 the extend which codes of corporate governance degrees, regulators, resolutions, and

laws are implemented by the banks and other financial services. Further, the study provides knowledge to the government and regulators when making new policies or deliberating on issues regarding corporate governance in relation to bank performance. Moreover, the importance of having a separate risk management committee should be emphasis. It has been known that both the shareholders and companies are depending on the corporate governance mechanism particularly RMC as a way of mitigating or reducing risk and as a direction to enhancing value, a weak risk committee would turn into persistent throughout the organisation and which eventually leads to poor share price performance (Institutional Shareholder Services 2005).

5.4. Limitation of the Study

They are very few researches on risk management committee attributes and bank financial performance in the Nigerian banking industry. Most of the empirical studies referenced in this study were studies carried out in developed countries. Moreover, due to the differences in environment and culture between these countries and Nigeria, the results of these studies might not be appropriate and suitable to apply in the Nigerian setting.

Some of the data used in this study was collected from data-stream. Even though the data-stream is source of data collection, it still provides missing data of some certain banks in Nigeria.

5.5. Recommendation for Future Studies

The limitations of the study have urged the following recommendations for further Research as itemized below:

To improve the model of this study, future research should incorporate other corporate governance variables like risk management expertise, ownership concentration, director remuneration, management ownership and board meetings.

Advance researches are also essential on the board's behavioural features. There is the need to go beyond the quantitative research, which is yielding a mixture of results, to a more qualitative approach such as how boards work. Expanding this current research into a wider study of decision making and board dynamics would be the beginning of building a more understanding of corporate governance.

The sampled firms for this study were based on financial sector of listed banks in Nigeria. The reason for selecting this sector is because of the contribution these sector is making toward economic growth and the GDP of the country and with high number of banks listed on the NSE thereby creating a high number of job, they also implemented the corporate governance structure. Therefore, further research is suggested to examine this issue in other sectors by applying different method of data analysis technique.

Lastly, there is a call to launch a cohesive corporate institution/body charged with the duty of collecting information on corporate governance and building the applicable indices to encourage corporate governance study in Nigeria.

5.6. Conclusion

The objective of the research which is to investigate the effect of board characteristics, and risk management committee attributes on financial performance of listed banks in Nigeria has been accomplished. The study examines the relationship between the six independent variables (board size, board independence, board financial knowledge, risk management committee independence, risk management committee size, and existence of separate risk management committee. with the dependent variable which is return on asset (ROA). RMC existence is measured as a dummy variable of “1” is used for the banks that set up a separate risk management committee and “0” if otherwise. Based on the outcome of the panel data analysis, only one variable namely risk management committee independence was discover to be negative and insignificant relationship with banks financial performance which was measured using return on asset (ROA).

Finally a Risk management Committee should be established to provide oversight of management’s activities in managing credit, market, liquidity, operational, legal and other risks of the institution. RMC aids the board in regulating the company’s risks and limit the function of audit committee related to corporation risk.

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