Effect of Board of Director's Heterogeneity on the Financial Performance of Listed Deposit Money Banks in Nigeria

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Abstract

While boards are the main tool of internal governance mechanism, their efficacy may vary depending on their diversities. This study examined the impact of Board of Directors' heterogeneity on the financial performance of listed deposit money banks in Nigeria. This area of board diversity especially the ethnic diversity is still a novel area of research in Nigeria. The financial performance in this study was the dependent variable while nationality, gender and ethnic composition of Board of Directors were the independent variables. The population of the study consists of fourteen(14) listed deposit money banks in Nigeria as at 31st December 2019. Ten of these banks constituted the sample size for the period of ten years (2010-2019). The study employed panel multiple regressions as a tool for analysis. Secondary data obtained from the financial statements of the companies were analyzed. The result showed that gender and ethnicity of board directors had positive and significant impact on banks financial performance while, nationality of the board of directors showed a negative but significant relation to banks financial performance. The study conclude that ethnic heterogeneity is an essential ingredient in board composition as it helps firms tap into numerous human resources available to it. It is therefore recommended that ethnic composition of Board of Directors of listed deposit money banks in Nigeria should be integrated into the corporate governance practices as allowing for a more ethnic balance translates into better financial performance.

Keywords: Board of Directors, Heterogeneity, Nationality, Gender, Ethnicity and Financial Performance

INTRODUCTION

In recent years, matters surrounding board of director leadership and oversight roles have taken on increased significance to investors so much so that today's economic challenges highlight the importance that board heterogeneity plays in enhancing value and providing companies with a full range of fresh talents and experience. These challenges have been perceived overtime and have become a matter of concern after the collapse of many big multinational companies around the world arising from various board scandals. The collapse of these multinational companies has raised concern over the activities of the board of directors and this has brought about looking out for other governance mechanisms one of which is board heterogeneity. Many practitioners have clamored for this board heterogeneity with the argument that it can mitigate the effect of homogeneous board such as groupthink which is a phenomenon in which members' effort to achieve consensus override their ability to realistically appraise alternative courses of actions (Rhode &Packel, 2010).

Board heterogeneity can be a substitute for other governance mechanisms as differences among members on the board can improve the quality of board decisions but only if the board members themselves take the advantage of the reward of heterogeneity rather than window-dressing the concept of heterogeneity on the board (Wahid, 2012). Board heterogeneity focuses also on the linkages between directors and the strategies they pursue as regards the affairs of their organization. These strategies are as much a reflection of the ingrained characteristics and backgrounds of the executives. Bank performance is function of various factors such as regulatory scrutiny, degree of financial development and deposit insurance systems. It is also understood that the banking industry is largely characterized complex agency conflicts than any other industry (Levine 2004). For this reason, it of utmost importance that shareholders consistently seek various governance mechanisms that can help limit this conflict, of which board heterogeneity is one of the mechanisms that can mitigate the agency conflict by providing various alternative mix of directors on the board.

While boards are the main tool of internal governance mechanism, their efficacy may vary depending on their diversities. With the relationship between heterogeneity in boardroom and firm performance, or lack thereof, firms will be encouraged to make appropriate choices about board appointments to create and improve firm value as constructing a quality boardroom is all about the caliber and perspective of individual directors chosen. For example, one major noteworthy aspect of Enron's board as pointed out by Masulis, Wang and Xie (2010) about foreign directors was that its audit committee included two foreign independent directors; the Chairman of the Hang Lung Group in Hong Kong and a senior executive of Group Bozano in Brazil. This incidence, at a minimum, raises questions about the effectiveness of foreign directors' monitoring of a firm's operations and financial reporting. In Nigeria, the poor performance of boards in 2009 which almost led to the near collapse of nine banks in the country has eroded investors‶ confidence in banks leading them into divesting their investments and has also painted a poor image on the financial sector. It is a matter of concern as there are very few empirical analyses on this aspect of board diversity in Nigeria as most studies have been on board independence, CEO duality and board gender but rarely board ethnicity (Ogbechie, 2012; Ogbechie&Koufopoulos, 2010). Ujunwa, Okoyeuzu, andNwakoby (2012) and Omoye and Eriki (2013) that have both examined ethnicity of directors of randomly selected, but their result remains inconclusive as some variables failed to test at any significant level. This study focuses on the banking sector because of their complex agency conflicts when compared with other industries. Consequently, the basic hypothesis underlying this study is stated thus:

$H0_1$. Board nationality, board gender and board ethnicity of board members has no significant effect on the Return on Equity (ROE) of listed deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual Framework

Board Heterogeneity

Heterogeneity is a word that signifies diversity. There are varieties of dimensions along which individuals within a group can differ such as differences in board composition in terms of ethnicity, age, education, nationality and gender (Schwizer, Cucinelli & Soana,2012) While some of these differences are observable, others are not. The Australian Multicultural Foundation (2010) defined the term heterogeneity as significant differences between people, including perceptions of differences that need to be considered in particular situations and circumstances. Often the most significant differences are the least obvious, such as our thinking styles or beliefs and values. They gave multiple dimensions of diversity which may be more or less significant depending on the nature of the organization. These include gender, age, culture, ethnicity, regional culture, sexual orientation, mental and physical, abilities, education religion, language literacy, work experience functional, role and status, economic status family status, career roles, geographic location, work style, communication style, learning style, thinking style, management style, personality, ideology, profession, and industry. The definition above can be said to be lacking as it tends to describe beliefs and values as least obvious and less significant. For instance, in a country such as Nigeria, these beliefs, values and culture play a major role in our lives and because most of our decisions are mostly affected by our religious and cultural believe. Kiefer (2005) explained the concept of heterogeneity by arguing that homogeneity and heterogeneity refers to the extremes of the diversity scale. They are used as anchoring points, meaning less heterogeneous or more heterogeneous and less homogenous or more homogenous. They refer homogeneity as a diversity score equal to zero. This zero refers to the complete absence of dissimilarities between the individual board members. Heterogeneity refers to the complete dissimilarities between individual board members with regards to the included dimensions. However, they propose that there is no quantitative upper limit for heterogeneity as the scope of dispersion is very wide. From this explanation, the assumption that there are complete dissimilarities between the individual board members is unrealistic because the presence of more than three board members signifies that at least two of the directors are of the same gender.

Van der Walt and Ingley (2003) defined board heterogeneity as the variety in the composition of Board of Directors. Within this definition, there are two (2) main categories of board diversity, namely, demographic diversity and cognitive diversity. Nüesch, (2009) stated that demographic diversity relates to the observable or readily detectable attributes of directors that includes race or ethnicity, nationality, gender and age whereas, Mansoor, Ali, Ali and Ali, (2013) highlight that cognitive diversity relates to the unobservable or less visible attributes of directors, such as educational, functional and occupational backgrounds, industry experience, and organizational membership. Taylor (2001) defined heterogeneity as the variation of social and cultural identities among people existing together in a defined employment or market setting. Social and cultural identity refers to the personal affiliation with groups that research has shown to have significant influence on peoples‟ major life experiences. These affiliations include gender, ethnicity, race, national origin, religion, age cohort and work specialization, among others. The definition given by Taylor (2001) captures to a large extent the meaning of heterogeneity although it does not specifically relate to the concept of board heterogeneity. However, the definition given by Van der Walt and Ingley (2003) has the combination of the heterogeneity variables further broken down into cognitive and demographic diversity and therefore, the study adopting there definition as it suits the context of our research whereby it captures the variables (explanatory variables) under study.

Foreign National Heterogeneity

In analyzing the linkage between foreign directors and the affairs of the organization that they govern suggests that foreign directors, depending on their cultural distance from the country in which a firm is headquartered, can introduce different values, ways of cognition, and personality features to the board, and domestic internationally experienced managers and directors can contribute to the knowledge of such foreign values, cognition models, and typical personality profiles. In the latter case, it is also conceivable that after a particularly long foreign assignment, a given person will have assimilated certain foreign values, ways of cognition, and personality characteristics typical of the country of his/her stay (Kaczmarek, 2009). Masulis and Wang (2010) found that firms with foreign directors make better cross-border acquisitions when the targets are from the home regions of foreign directors. However, their presence brings about monitoring deficiencies and adverse effect on corporate governance, they also find that foreign directors display poor board meeting attendance records, and firms with foreign directors on their boards tend to pay their CEOs excessively high compensation and are more prone to commit financial misreporting that requires future restatements. Their evaluation of the overall effect of foreign directors on firm performance shows that firms with foreign directors are associated with significantly poorer performance, especially when they do not have much business presence in their foreign directors' home region, but they make increasingly larger contribution to firm performance as a firm's operation in their home region becomes more important.

Gender Heterogeneity

Females on the Board of Directors can improve a firm's reputation through reputation-building activities such as philanthropy and community outreach. These charitable giving and philanthropic activities improve the firm's image and reputation, acting as a signal to stakeholders (Brammer and Millington, 2005). However, if female board members are involved in forms of philanthropy that are not strongly related to firm reputation, it will be obvious that the end result of such philanthropic activities will not reflect on the financial performance of the firm (Miller &Triana, 2009). Female directors positively affect the attendance performance of male directors (Adams and Ferreira, 2008), take their role more seriously and better prepare for meetings. They also tend to ask more questions and became more vocal if there are three or more female directors (Konrad, Kramer and Erkut, 2008). As such, gender diversity enhances the board's independence and organizational performance. Female directors are often collaborative leaders, they do not shy away from controversial issues and are more likely than men to ask tough questions, demand direct and detailed answers. They also bring new issues and perspectives to the table, broadening the content of boardroom discussions to include the perspectives of multiple stakeholders and add perspectives that broaden boardroom discussions even further (Kramer, Konrad &Erkut, 2006). Women directors are also considered to be more proactive since they have to face various challenges prior to holding seats on the board, which reward them great prestige in the environment (Krishnan & Park, 2005). Dobbin and Jung (2011) found that a reduction in assets increases the likelihood that a firm will see increases in female directorships, which suggests that growing firms are less likely to appoint women. Their finding suggests that when it comes to performance, the presence of female directors do not affect firms" return on assets (ROA), but have significant negative effects on Tobin's q i.e. an increase in gender diversity on boards is followed by a significant decrease in stock value. This provides some support for the notion that institutional investors do not like to see firms appoint women directors.

Ethnic Heterogeneity

Ethnicity, its existence or degree of force, is not realized in the possession and perpetuation of distinct cultural characteristics by a particular group. Ethnic identity and difference is created and becomes culturally and politically meaningful in terms of how it inter-relates to other groups and to broader social, political and economic processes. Ethnic boundaries, for both sociology and anthropology, tend to be the outcome of social action (Malesevic, 2004). Adopting a policy ethnic diversity will promote the development of a higher level of corporate governance and help to improve the board's decision-making process. People from different backgrounds are likely to approach problems in different ways and allow the board to consider a wider range of options and solutions to corporate issues. Boards diversed along ethnic groups are also said to be less likely to take extreme positions and more likely to engage in higher quality analysis (Wiersema&Bantel, 1992). Marimuthu (2008), found a positive and significant association between board ethnicity and performance. Their findings suggest that increased ethnic diversity on boards of directors would lead to higher firm financial performance and that board ethnic diversity was proven to be an effective tool that should be imposed on boards of directors for a greater performance.

Financial performance

Organizational performance has various measurements but basically two domains are emphasized in the literature. The financial one represented by profitability, growth and market value; and the operational domain that includes nonfinancial competitive aspects such as customer satisfaction, quality, innovation, employee satisfaction and reputation (Venkatraman and Ramanujam, 1986). (Forza and Salvador, 2000) defined performance as; an information system that supports managers in the performance management process mainly fulfilling two primary functions: the first one consists in enabling and structuring communication between all the organizational units (individuals, teams, processes, functions, etc.) involved in the process of target setting. The second one is that of collecting, processing and delivering information on the performance of people, activities, processes, products, business units, etc.

Franco-Santos et al., (2007) argued that the financial performance are mostly denoted by financial ratios which are considered as a meaningful financial indicator which can be used by the different financial information users. Their study classified these financial ratios into liquidity ratios, activity (operational) ratios, profitability ratios, debt ratios and market ratio. The profitability ratios such as the return on assets (ROA) and the return on equity (ROE) are the most used profitability ratios in the analysis. They stated that while ROA measured as net profit to total assets measures the operating efficiency of the company based on the firms generated profits from its total assets, (ROE) measured as net profit to total shareholders' equity measures the shareholders rate of return on their investment in the company.

Empirical Review

Okoye, Olokoyo, Okoh, Ezeji and Uzohue (2020), examined the nexus between corporate governance practices and bank profitability in Nigeria. It adopts the size of bank board and directors' stake as proxies for corporate governance, with return on assets and return on equity as representations for financial performance. The research incorporates firm size as a controlled variable. The estimation technique of the Generalized Method of Moments was employed. Evidence from the research reveals that board size, directors' equity, and firm size substantially affect Nigerian banks' financial performance. Besides, the study shows a robust effect of lagged return on equity on the current level of performance. Therefore, the study concludes that governance in business entities strongly affects their financial performance and recommends maintaining optimum board size to minimize boardroom conflicts. It further recommends that the requirement for substantial equity stake by directors of banking institutions be sustained, as it secures commitment to governance practices that support profitability. Onyali and Okereke (2018), examined the effect of board heterogeneity on performance of firms in Nigeria. Specifically, the study examined the effect of board size, women on board and board independence on return on assets of listed manufacturing firms on Nigeria Stock Exchange. The study adopted Ex-post facto research design. Population of the study is made up of seventy-six manufacturing firms listed on the Nigeria Stock Exchange as at the year, 2016 while thirty-two firms was used as sample of the study. The secondary data used in the study were sourced from the publications of Nigeria Stock Exchange and annual reports of the sampled firms. Multiple regression analysis with the aid of E-view 9.0 statistical software was used for data analysis. Findings of the study revealed that board size, women on board and board independence have significant and positive effect on return on assets of manufacturing firms listed onNigerian Stock Exchange. Based on this, the study recommended among others that Firms should endeavor to diversify their board for improved groupthink and board effectiveness

Iyafekhe and Ohiokha (2017)**,** examine corporate board diversity and financial performance of Nigerian Banks. The study employed a panel research design; annual data were sourced from banks quoted in the Nigerian Stock Exchange (NSE) as at 2015 and were analyzed using Ordinary Least Square (OLS) statistical technique. The result from the study revealed that gender composition and foreign nationality exhibits significant impact on financial performance of banks in Nigeria, though the strength of their impact differs. However, independent directors and board ethnic diversity had insignificant impact on financial performance of banks in Nigeria. The study envisaged that a high sex composition in favors of women, foreign directors and ethnic diversity in favors of southerners in the board of Nigerian banks will significantly improve their overall financial performance. This research therefore recommends that foreign nationalities in the board of Nigerian banks should be increased because it enhances their financial performance by increasing accessibility to technology, information sharing and reducing inefficiencies in management; it is also recommended that ethnic diversity be given serious consideration if the goal of maximizing corporate financial performance is to be achieved in Nigerian banks. Ilogho (2017), examine the effect of board nationality and ethnic diversity on firms' performance in the Nigeria stock exchange. With the aim of investigating the level of influence ethnic diversity and board nationality would affect firm performance in terms of profitability and growth in a developing economy, the study made use of ROA, ROE and Tobin's Q for financial measures. The study analysed date from 60 non-financial firms with periodic observations from 2012-2015 using the ordinary least squares regression method. Yemeni formula was used to calculate the sample size out of the remainder 119 listed non-financial after 57 listed firms from the financial sector were removed. The total sample size was further streamlined to 60 based on a common reporting period (January 1st to December 31st) to ensure consistency. The Findings indicate that ethnic diversity and board nationality has no significant influence on the performance level of firms in both profitability (ROA and ROE) and growth (Tobin's Q). Findings also reveal that the average board size of the listed non financial firms in Nigeria meets the countries corporate governance requirement of nine (9) members and the average board has a combination of at least two of the three ethnic groups in Nigeria. The board composition of sampled firms still reveals the presence of family members in same board which is against the central board composition code of corporate governance. This study encourages a diverse board since there is no significant effect on financial based performance; it is still advisable to be diverse except cost outweighs benefits. Diversity always tends to have effects on the way the board members make a decision, or strategic moves. It sets a control, brings innovation and could also slow down the rate of decision making.

Theoretical Framework

Agency Theory

Agency theory was introduced by Jensen &Meckling (1976). Agency theory is directed at the ubiquitous agency relationship in which one party known as the principal delegates work to another known as the agent, who performs the work. The theory assumes that agency problems can be resolved with appropriately designed contracts by specifying the rights belonging to agents and principals (Jensen &Meckling, 1976). Agency theory is also based on the idea that in a modern corporation, there is separation of ownership (principal) and management (agent), and this leads to costs associated with resolving conflict between the owners and the agents (Eisenhardt, 1989; Jensen &Meckling, 1976). Eisenhardt (1989) stated that agency theory is majorly concerned with resolving two problems that arises in agency relationships, first is the problem that occurs when the principal and his agent's goal or objective conflicts and secondly, the inability of the principal to verify if the agent is behaving appropriately.

Resource Dependency Theory

The concept of the "Resource Dependence Perspective" (1978) gained popularity after the publication of the book "The External Control of Organizations: A Resource Dependence Perspective" by Jeffrey Pfeffer and Gerald Salancik became widely accepted in the Anglo-American discussion (Nienhüser, 2008). A fundamental assumption of Resource Dependence Theory laid by Nienhüser (2008) is that dependence on "critical" and important resources influences the actions of organizations and those organizational decisions and actions can be explained depending on the particular dependency situation. In essence, these important resources that influence the behaviour of the organization can be said to be the top management (that is, directors) among others. Resource dependence theory (RDT) maintains that organizations are resource insufficient; they strive to acquire and sustain resources from their external environment. Resources are controlled by external actors who exert demands on the organization. These actors perceive some benefits in their relationship with the organization and exercise power through control over resources. The heavier the dependence on external resources, the more the demands of particular actors controlling these resources are influential (AbouAssi, 2013). Sveiby (2000, 2001) and William and Ho (2001) argued that all facet of human resources need to be fully utilized, and that diversity in human resources will best enable a firm to increase its performance and wealth-creation potential. Similarly, Hermalin and Weisbach (2001) also argue in favour of resource dependency theorists stating that skills, gender experience, expertise, nationality and ethnicity of board members form the important resources to guide and help firm performance. The resource dependency theory is the underpinning theory for this research since it provides a theoretical basis to explain this association between board heterogeneity and firm financial performance, since the theory states that 'board members with different skills, different cultural backgrounds, different gender, among others, will act as a strategic resource to the firm which may result to superior performance' (Ujunwa *et al*., 2012).

METHODOLOGY

This study adopted the use of longitudinal panel design. The longitudinal panel design was an appropriate design preferred by the researcher as it aim at establishing relationships between dependent and independent variables through quantifiable results.The population of the study constitutes all the 14 Deposit Money Banks listed on theNigeria Stock Exchange as at December 31st, 2019. Based on this population, the study employed censoring sampling technique to suit the model adopted for this study, a filter is employed to select some of the banks as follows; Banks that are not listed as at 2005 are dropped; banks that are listed since 2005 and are no longer in existence or have been delisted as at 2012 were also eliminated. Consequently, 2 banks were eliminated using the filter, leaving 12 banks while another two banks (Unity bank Plc and Stanbic IBTC Bank) were dropped for insufficient data records. The remaining 10 banks that met all the criteria were used as the sample size of the study. (Access bank, Fidelity bank, First bank, FCMB, GTB, Sterling bank, union bank, UBA, Wema bank and Zenith bank Plc.).

Data was obtained from secondary sources and survey study of names of directors was carried out so as to determine their backgrounds. The data was collected from the published financial statements of the sampled firms covering the period of ten years (2010-2019).In analyzing the collected data,descriptive, panel unit root and multiple regression analysis will be used.The technique will be made possible with the use of the Stata-10 package. This technique is in line with that adopted by Marimuthu(2008), Omoye and Eriki(2013) and Ujunwa*et al*., (2012).

Model Specification

The model takes the form:

$$ROE = \beta_0 + \beta_1 BN + \beta_2 BG + \beta_3 BE + \beta_4 BS + e_{it} \ldots\ldots\ldots\ldots \quad (i)$$

Where:

$\beta0$, $\beta1$, $\beta2$, $\beta3$………………$\beta5$ are parameter coefficients estimated with our expectation.
ROE = Return on Equity
$\beta0$= Constant
BN= Board Nationality
BG= Board Gender
BE= Board Ethnicity
BS = Board size
e= error term
it = Combination of firms and time.

ROE is an indicator of performance which enable users to determine the performance of the organization and the effectiveness of the corporate governance in securing the organizational objectives (Epps &Cereola 2008). ROE was successfully used by Arumona (2018), Matanda, Oyuji and Lisiolo (2015), Tukur and Abubakar, (2014) and Bilal, Muhammad, Muhammad, Hafiz and Arshad, 2013).

RESULT AND DISCUSSION

Here, the result of data analysis is presented and it commences with the analysis of the data using descriptive statistics, followed by the presentation of the result of the model estimation. Panel Multiple regression has been used to estimate the relationship between the independent variables (board nationality, board gender and board ethnicity) and dependent variable (Return on Equity). This is concluded with the discussion of major findings and policy implication of the findings.

Table 1: Descriptive Statistics of the Variables

Var	*Obs*	*Mean*	*StdDev*	*Min*	*Max*	*Skew*	*Kurtosis*
ROE	*100*	*7.0547*	*5.91197*	*0.24*	*21.83*	*1.022*	*0.052*
BN	100	*5.8552*	*9.76483*	*0.00*	*33.33*	*1.465*	*0.947*
BG	100	*8.0042*	*8.13821*	*0.00*	*33.33*	*0.727*	*-0.201*
BE	100	*0.8678*	*0.21770*	*0.33*	*1.00*	*-1.426*	*0.826*
BS	100	*14.1136*	*3.33367*	*7.00*	*22.00*	*-0.52*	*-0.109*

Source: STATA 10 Result (2021)

The table presents the descriptive statistics for the dependent and independent variables (ROE Return on Equity, BN-Board Nationality, BG-Board gender, BE-Board Ethnicity). The average number in the boardroom is 14.11 with a minimum of 7 board members and a maximum boardroom of 22 directors. One issue noteworthy is that the average percentage of female representation among the Board of Directors is remarkably low with only 5.8% and standard deviation of almost 10. From the table, ROE has a relatively high average of 7.05% with a standard deviation of 5.92. Meaning that the average Nigeria listed deposit money banks perform well especially, with some banks earning as much as 21.83% return on their equity. On board ethnicity, the result shows that 87% of banks in the observation have ethnically diffused boards while just about 13% are homogeneous. This can be seen in the table where board ethnicity is about 0.8678 with a standard deviation of 0.217. Also, the minimum and maximum values of the variables are ROE (0.24, 21.83) BN (0.00, 33.33), BG (0.00,33.33) and BE (0.33, 1). Finally, the skewness reveals that data obtained for all variables are normal. While result of the normality test indicates the normality of data and further enhances the validity of the regression result.

Test of Hypothesis

$H0_1$. Board nationality, board gender and board ethnicity of board members has no significant effect on the Return on Equity (ROE) of listed deposit money banks in Nigeria.

Table 2 and 3 depicts the model summary and regression result respectively while original output has been attached to the appendix. The summary of the overall result of directors' heterogeneity as presented in table 2 shows the R, R-square, adjusted R- square and Durbin Watson.

Table 2: Model summary of the study

Model	*R*	*R-Square*	*Adj R^2*	*Std Error*	*F Change*	*Sig*	*DW*
1	*0.651*	*0.423*	*0.388*	*4.625*	*12.036*	*0.000*	*1.914*

Source: STATA 10 Regression result (2021)

In table 2, R explains the relationship between the explained and the explanatory variables. This is explained up to 65% showing that director's heterogeneity is positively and strongly related to profitability of listed deposit money banks in Nigeria. The coefficient of determinations reveals a value at 0.423 indicating that board heterogeneity explains upto 42% of the variation in performance of listed deposit money banks in Nigeria and the remaining 58% is covered by the other factors that are beyond the scope of this study. The adjusted R square is 39% which further indicates the fitness of the model.

Finally, the summary of the model shows that the model is fit and that all explanatory variables have been carefully selected as this is confirmed by our f-statistics of 12.036 with a significant value of 0.000 which is significant at 5%.

Table 3: Board Heterogeneity and Firm Performance

Var	***Beta***	***Std Error***	***T-Values***	***P-Values***
Constant	*1.345*	*2.638*	*.510*	*.611*
BN	*-.165*	*.051*	*-3.204*	*.002*
BG	*.112*	*.067*	*1.667*	*.099*
BE	*6.717*	*2.721*	*2.469*	*.016*
BS	*-.411*	*.181*	*-2.266*	*.026*

Source: STATA 10 Regression Result (2021)

Regression result indicates that boardnationality as measured by ratio of foreign directors to board size is negatively related to performance and statistically significant at 5% level in determining the profitability of listed deposit money banks in Nigeria which is consistentwith our apriori expectation. Beta value shows -0.273 with a significant value of 0.002. This implies that the higher the boardnationality, the lower the reported ROE. This result indicates that for every one-point increase in foreign director, performance (ROE) reduces by 0.273. Thereason for this negative impact between boardnationality and firm performance is the cost involved as a result of physical distance of foreign directors and the company. Another reason is the fact that they may come from a country with different culture and languages which might pose difficulty in communicating with other directors and monitor managers. This result is consistent with the findings of Miletkov, Poulsen and Wintoki (2012), Masulis, Wang andXie (2010) and contradicts the studies conducted by Ujunwa*et al*., (2012), Zainal, ZulkifliandSaleh (2013). The regression result in respect of association between boardgender and firm performance shows that women are significant and positively impacting on banks performance as the beta value stands at 0.154 and significant but at 10%. Despite the fact that our descriptive statistics result shows that women representation is low; their impact is still felt on the performance of the listed deposit money banks in Nigeria. This outcome could be explained by acknowledging that women are mostly found to be particularly good at defining responsibilities clearly as well as being strong on mentoring and coaching employees(Credit Suisse Research Institute, 2012). Similarly, the presence of women on the corporate boards seems to increase the boards' effectiveness through reducing the level of conflicts among the Board of Directors and employees as well as ensuring a high quality of performance (Nielsen &Huse, 2010). The regression result of boardethnicity is found to be significant and positively impacting on banks performance in Nigeria. The beta value of at0.247 is significant at 5% (P-value =0.016). This indicates that for every unit increase of ethnic diversity, performance increase with about 0.25 points. This could be as a result of ethnic diversity being more efficient in providing solution to ill-defined and noble problems in which diversity of opinion, knowledge is required which allows for a thorough examination and alternatives (Filley, House & Kerr, 1976). Selecting director with different ethnic background also provides opportunities to tap into diverse human and material resource needed for growth and expansion of a company.

Discussion of Findings

The findings of this study contribute to a better understanding on the mix of directors so as to improve the financial performance of Listed Deposit Money Banks in Nigeria. Return on Equity (ROE) and three other variables which represent board nationality, board gender and board ethnicity with two control variables which include board Size and Total Assets. All these factors were put to test in order to identify the possible Board of Directors composition that can improve the performance of listed deposit money banks in Nigeria. The result shows that board gender, board ethnicity and board nationality are most important form of demographic heterogeneity that affects the financial performance of listed deposit money banks in Nigeria. The result indicates that only board nationality has a negative relationship with ROE while board gender and board ethnicity show a positive relationship. Based on the empirical analysis, result showed that board nationality is significant and negatively influencing ROE. This implies that banks only benefit more from Foreign Directors expertise when they sought to have larger operations in the foreign directors' home region. But since our result is negative, it means that listed deposit money banks in Nigeria has little or no strong business in their Foreign Director's home region and this indicates that in such instances, the cost of Foreign Directors slack monitoring outweighs the benefits from their expertise. Another reason for the negative significant is the proximity of Foreign Directors to constantly attend meetings, and this hinders them from contributing positively to the performance of the company. Furthermore, the effect of board gender i.e. female on the performance of listed deposit money banks in Nigeria as indicated by our empirical evidence showed significant positive relationship between board gender and firm performance. The result will not necessarily be positive and significant under conditions where status differentials between decision makers either prevent women from being heard or keep their perspective from being influential. The, allusion here is that there is little or no status differentials between decision makers be it a woman, this further explains that women are not mere directors but directors that have been heard and their perspective are regarded influential.

A critical reason for this outcome is the fact that women bring a number of strength to the board especially in the area of corporate social responsibility and participative decision making styles. These benefits contribute enhance corporate social responsibility rating which inturn increases patronage from existing and potential customers and thus positively influence the performance of listed deposit money banks in Nigeria. The research study also reveals that board ethnic heterogeneity is significant and positively affecting the performance of listed deposit money banks in Nigeria. The implication here is that Nigerian banks needs to venture more into balancing the ethnic heterogeneous composition of their corporate boards. This is because an ethnically diffused board enhances the effectivenessof the board actions and in turn increases productivity. Since shareholders are mostly interested in returns on their investments, then much attention should be given to the ethnic diversity of their Board of Directors. This finding is consistent with those reported by Eriki and Omoye (2013), Marimuthu and Kolandiasamy (2009), Marimuthu (2008), Miller and Triana (2009), Olaoti (2012) but contrary the findings of (Ujunwa*et al*., 2012).

CONCLUSION AND RECOMMENDATIONS

The study provides statistical and empirical evidence by using three independent variables that constitutes demographic board heterogeneity: Board nationality, board gender and board ethnicity in explaining and predicting the performance of sampled banks. In view of our findings, the study concludes as follows; Firstly, board nationality has a negative impact on banks financial performance because of their proximities of being absent during board meetings and this is among the reasons for their negative impact because they will not be able to physically monitor and contribute their expertise to the affairs of the banks. Secondly, board gender has a significant positive relationship with banks financial performance.

These may be because women bring a number of strength to the board in area of Corporate Social Responsibility (CRS) and this increases their customer base and better their financial performance. Thirdly, board ethnicity has a significant positive relationship with financial performance of listed deposit money banks in Nigeria. Board ethnicity indicates how heterogeneous banks' board is in terms of local representative. It is concluded here that ethnic heterogeneity is an essential ingredient in board composition as it helps firms tap into numerous human resources available to it. Lastly, the result provides some novel insight for absolute understanding of ingredients of board heterogeneity that determine the financial performance of listed deposit money banks in Nigeria. Our estimation results confirm the Upper Echelon Theory on Board of Directors heterogeneity. We considered periods within the period of 2005-2012 which is a period when numbers of changes and reforms have been witnessed by the banking industry.

From the foregoing therefore, the following recommendations are being put forward. Firstly, the findings point to the monitoring deficiencies of foreign directors and that they undermine the effectiveness of board oversight functions and contribute to more managerial slack and misbehavior. In view of this, it is recommended that a balanced approach towards the hiring of Foreign Directors by Listed Deposit Money Banks in Nigeria and that a careful cost benefit analysis warranted in such situations. Secondly, like Norwegians Bank regulatory bodies in Nigeria should encourage companies to increase the number of women on their boards. Also, it appears that as firm size increases, the dynamic of board in terms of board gender changes resulting to the detriment in some key department banks. Therefore, future researches should consider the role of women on boards and dynamics of their presence on the board which requires an observational and qualitative study. Thirdly, Ethnic composition of Board of Directors of listed deposit money banks in Nigeria should be integrated into the corporate governance practices as allowing for a more ethnic balance translates into better financial performance.

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