BOARD DIVERSITY ON FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

Zahra Ibrahim
Waziri Umaru Federal Polytechnic Birnin Kebbi,
Kebbi State, Nigeria
Pharyzahra@gmail.com

Auwal Muhammad Kabir
Department of Accounting
Bauchi State University Gadau, Bauchi State, Nigeria

Saidu Sani
Department of Accounting
Bauchi State University Gadau, Bauchi State, Nigeria

Abstract
This study examines the impact of board diversity on financial performance of listed deposit money banks in Nigeria. The study adopted ex-post facto research design and collected data using secondary method from published annual reports of the selected banks in Nigeria. The population of this study was 14 listed deposit money banks in Nigeria where the entire population was considered as the sample using census sampling technique. The data gathered were analyzed using descriptive and inferential statistics such as correlation and multiple regression with the help of STATA version 14. The study found that age diversity and expertise diversity have significant positive influence on financial performance while gender diversity has significant negative relationship. In view of the findings of the study, it was recommended that banks should imbibe the culture of diverse age in their boardroom to navigate the contemporary economic dynamisms as a result of business globalization. Also, it was suggested that authorities in Nigerian banking industry should limit the increased women on the board because they have always been marginalized as rubber stamp of their men counterpart and has not brought any improvement in the system. Finally, the study advised that, greater measures should be taken by deposit money banks to ensure that certified financial or any other professional expert stay longer on the boards to guarantee improved performance in the short and long run.

Keywords: Board Diversity, Board Gender Diversity, Age Diversity, Expertise Diversity, Financial Performance

Introduction

Global competition at home and abroad in the economic sector causes changes in operational performance of corporate entities every year (Rufia & Kurniawati, 2023). Also, the challenges of intense competition, market globalization and changing economic conditions, make the economies in developing countries is increasingly open, which put companies in a challenging position to maintain their market position (Jayanti, Probohudono & Endiramurti, 2023). In order to face these challenges, board of directors and their compositions were established to play a vital role in firms' internal governance because their decisions are directly related to various organizational outcomes (Riyanti, Murhadi & Utami, 2023). Thus, corporate boards occupy the pinnacle position in ensuring the best corporate governance practices. In this case, improved corporate governance associated with the diversified board members that may protect the entity' assets and mitigate the agency costs to improve the overall performance (Rufia & Kurniawati, 2023). Therefore, companies with diverse boards provide various resources to the organization, which results in good decisions as well, thus directing the company in generating high profits (Sani, 2021).

Evidently, prior research on board diversity and financial performance produced mixed result. For instance studies such as Jayanti et al., (2023) and Amahalu et al., (2023) found that age diversity significantly improves financial performance, while others (eg. Emadeldeen et al., 2021) found inverse relationship. However, some studies such as Rufia and Kurniawati (2023); Ngo et al. (2019) found that age diversity and performance not related to retention at all. For the gender diversity, some studies (such as Hussein and Elsayed, 2023; Onyekwere et al., 2019) believed that the construct improve financial performance, while some researchers such as Nome and Nwanko (2022); Azaria et al. (2021) believe the construct is not related to the performance, others (eg. Magoma & Ernest, 2023; Adetula & Oyedeko, 2023) found the relationship to be negative. Furthermore, expertise was found to significantly improve financial performance by some researchers (such as Khan et al., 2023; Rufia & Kurniawati, 2023), others (eg. Emadeldeen et al., 2021) found it to be negative, while some (such as Sani, 2021; Nwaorgo & Iormbagah, 2021) believed they are not related.

It was evident from the literature that most studies (such as Azaria et al., 2021; Onyekwere & Babangida, 2022) especially in Nigerian context gave much emphasis on the observed board attributes (demographic characteristics), with less concern on the unobserved attributes (implicit attributes) of the board members especially in Nigerian banking sector despite its dynamism due to technological advancement in the sector. In view of that, Rizvi et al. (2023) acknowledges the importance of combining observed and unobserved board diversity attributes in corporate governance research, which serves as a crucial impetus of the contributing board expertise in the current research. Similarly, Hussein and Alsayed (2023), which examined only board gender diversity, suggested the need the inclusion of unobserved attribute such as educational expertise. This is because, board members with expertise in finance, accounting, legal matters, or industry-specific knowledge can provide valuable insights and guidance. However, this study examined age diversity, gender diversity, and expertise diversity on financial performance of listed deposit money banks in Nigeria

Literature Review

Financial Performance

Financial performance is a measure of achievement that has been achieved by the company in a certain period which is manifested in the company's financial statements (Ridloah et al., 2022). It describes the financial condition of a period and is measured using financial analysis tools to determine the reflection of a company's work performance (Hussein & Elsayed, 2023). In the view of Ali and Shadrach (2023), financial performance is an examination of a subjective nature of the appropriateness of the utilization of assets by a firm through its main business and generates revenues. Nonetheless, financial ratios are more suitable to compare performance between different companies. Consequently, considering the data available for this study, annual financial reports of the listed deposit money banks on the Nigerian Stock Exchange, this study measures financial performance by ROA, which is the net income of a company divided by its average total assets.

Board Diversity

Board diversity is a diverse blend of features, qualities, and proficiency made available by the individuals in the board room as an input to the decision-making process (Adegboyegun & Igbekoyi, 2022). It is the variety along different aspects in the boardroom such as race, ethnicity, gender, socio-economic status, physical features, religious, beliefs, marriage systems and political ideologies of the members of the board (Amahalu et al., 2023). Board diversity refers to the variability of characteristics that are amalgamated and put together at a commonplace, which can be in terms of the difference in religion, ethnicity, gender, age among others (Singh et al., 2022)

Empirical Review and Hypothesis Development

Age Diversity and Financial Performance

The age diversity of the board members measures the average age of the members of a particular board during a particular year, which may have consequences for the board's capacity to monitor and assist management in the formulation and implementation of suitable operational risk policies and standards (Jayanti et al., 2023). In the same view, age diversity describes how big the distribution or age range is owned by the board of directors and the board of commissioners in the company (Ridloah et al., 2023). Prior studies investigated a two-way relationship between board diversity and financial performance. Specifically, several studies have found a positive relationship between the two variables (Amahalu et al, 2023; Ngo et al, 2019), but some studies have found no relationship between the two variables (Rufia & Kurniawati, 2023). There are also studies that found negative relationship between the two variables (Jayanti et al, 2023; Emadeldeen et al, 2021). Jayanti et al. (2023) investigate the influence of board diversity on firm value of manufacturing companies in Indonesia of 623 financial statements listed on the Indonesia Stock Exchange (2015-2019). Similary, Emadeldeen et al. (2021) examine the effect of board composition specially board diversity on firm performance using cross-sectional data from London Stock Exchange (FTSE 350) of non-financial companies (2000-2016). The result revealed that board age diversity has significant negative relationship with firm performance in UK. The study of Amahalu et al. (2023) examined the effect of board diversity on financial performance of quoted hospitality firms in Nigeria for a period of 19 years spanning from 2003 to 2021. The findings showed that age diversity have a significant and positive effect on cash flow return on investment. Rufia and Kurniawati (2023) examined how the performance of companies in manufacturing companies of Indonesia is influenced by board diversity of 201 manufacturing business (2017-2021). The results of the study indicate that age diversity have no significant effect.

The study formulated the following research hypothesis:

H_1: There is a positive and statistically significant relationship between age diversity and financial performance of deposit money banks in Nigeria.

Gender Diversity and Financial Performance

Board gender diversity means that men and women are hired at a similar and consistent rate, are paid equally and are given the same working opportunities with the same promotional opportunities (Amahalu et al., 2023). Similarly, gender diversity is the presence, number or percentage of female directors in the board and it is a key aspect of board composition as it is considered a value generator in corporate strategy and corporate governance (Islam et al., 2022). A number of studies have been undertaken to establish the relationship between gender diversity and financial performance. For instance, Hussein and Elsayed (2023) found a positive and significant relationship in their study when they examine the influence of board gender diversity on the firms' performance during the times of crises and uncertainty related to the Covid-19 (2017-2021). Similarly, Onyekwere and Babangida (2022) investigate the influence of board diversity on firm performance of 12 selected commercial banks in Nigeria for the period of 2015 to 2019. The results of the study indicated that board gender diversity has a significant positive impact on both ROA and ROE of the banking institutions. More so, Onyekwere et al. (2019) investigate the nature of the relationship between board diversity and financial performance of deposit money Banks quoted on the Nigerian stock exchange using secondary data from the Banks annual financial statements covering the period from 2006-2017. The result of the analysis showed that gender diversity has a statistically significant positive impact on banks financial performance. In contrast, Ayetula and Oyedeko (2023) and Nome and Nwanko (2022) found a negative relationship between board gender diversity and financial performance. The study of Ayetula and Oyedeko (2023), explores how board gender diversity affects the corporate performance in Nigerian banking industry for the period of 11 years (2009-2019) whereas Nome and Nwanko (2022) examined the effects of board diversity on financial performance of 7 ICT firms in Nigeria over a period of five years (2016-2020).

The hypothesis is therefore formulated as:
H_2: There is a positive and statistically significant relationship between board gender diversity and financial performance of deposit money banks in Nigeria.

Expertise Diversity and Financial Performance
Board expertise is the level of experience of members of the board of directors of a firm, which describe how conversant and exposed the board members are in financial and management of business organizations (Emiaso & Okafor, 2023). On the relationship between expertise diversity and financial performance, Khan et al. (2023) investigate the asymmetric effects of board diversity on firm performance, riskiness, and working capital management for the period 2010 to 2020. The result revealed that financial experts on board have significant positive relationship with firm performance. Similarly, Zarefar and Narsa (2023) examine the effect of audit committee characteristics and board diversity on the performance of companies in Indonesia of 170 firms registered on the Indonesian Stock Exchange from 2014 to 2020. The finding revealed that audit committee financial expertise, are positively associated with performance. Rufia and Kurniawati (2023) found that educational expertise has a significant effect on financial performance. The findings of Nwaorgo and Iormbagah (2021) revealed that educational diversity have no significant effect on financial performance when they examined the effect of board diversity on financial performance of listed firms in Nigeria between 2014 and 2018. More so, Emadeldeen et al. (2021) examine the effect of board composition specially board diversity on firm performance using cross-sectional data from London Stock Exchange (FTSE 350) of non-financial companies. The finding revealed that board education diversity has significant negative relationship with firm performance in UK. Therefore, hypothesis 3 is formulated as:
H_3: There is a positive and statistically significant relationship between expertise diversity and financial performance of deposit money banks in Nigeria.

Methodology
Research Approach
The study adopted ex-post facto research design to examine the relationship between board diversity and financial performance of listed deposit money banks in Nigeria. The population of the study is the fourteen (14) deposit money banks listed in the Nigerian stock exchange (NGX) group as at December, 2022. The study adopts census-sampling technique that can allow it to select all fourteen listed deposit money banks in Nigeria as sample size in order for each element to represent itself in data collection. Data of the study was obtained from the annual reports of the selected listed deposit money banks for the period of ten years (2012-2021). For the purpose of achieving the study objective, the study utilized quantitative analysis (descriptive and panel regression) using appropriate statistical techniques. Both descriptive and inferential analysis was performed using STATA analytical software.

Variables and Measurement
In line with financial performance measures of previous studies, this study made use of Return on Asset to measure financial performance as dependent variable. On the other hand, age diversity, gender diversity and expertise diversity as the measurement were adopted from the prior studies such as. In addition, the measurement of firm size and board size as the control variables were adopted from. Consequently, the measurements of the variables are presented in tabular form as follows:

Table 1: Measurement of Research instruments

S/N	Variable(s)	Category	Measurement	Source
1	Financial performance	Dependent	Profit after Tax (PAT)/ Total Asset	Aeman et al. (2023); Khan et al. (2023)
2	Age diversity	Independent	Proportion of board members with 45 years or below to the total number of directors	Rafiah and Kurniawati (2023); Ngo et al. (2019).
3	Gender diversity	Independent	The proportion of women to the overall number of directors	Oluwadamisi (2021); Rizvi et al. (2023)
4	Expertise diversity	Independent	Proportion of board members with professional qualification to the total number of directors	Rafiah and Kurniawati (2023); Khan et al. (2023)
5	Firm size	Control	Natural log of total assets	Saidu (2019); Sani (2021)
6	Board size	Control	Number of directors on the company's board	Rizvi et al. (2023); Aeman et al. (2023).

Thus, the model was estimated as follows:

ROA = β0 + β1ADVit + β2GDVit + β3EDVit+ β4FSZit+ β5BSZit+ e

Where:

ROA= Return on Asset

ADV= Age Diversity

GDV= Gender Diversity

EDV= Expertise Diversity

FSZ= Firm Size

BSZ= Board Size

Results and Discussion

Descriptive Statistics

It is revealed from the Table 4.1, the dependent variable of the study (ROA) ddisclosed a mean, maximum, minimum and standard deviation values of 67.00957, 252.1562, 5.273964 and 53.38253 respectively. The average value of up to 67 indicated that there is positive signal of financial performance of deposit money banks in Nigeria. The maximum value of 252 and a minimum of 5 indicate that there are some deposit money banks that are not performing well. **Table 2: Descriptive Statistics**

Variables	Obs.	Mean	Max	Min	St. Dev.
ROA	140	67.00957	252.1562	5.273964	53.38253
Age Diversity	140	3.509092	4	1	1.622933
Gender Diversity	140	75.24572	164.8854	2.3023	39.75635
Expertise Diversity	140	7.673054	11	4	2.813439
Firm Size	140	65.96293	81.82349	0.1	6.861415
Board Size	140	2.978964	3.5	1.5	0.223417

Source: STATA output, 2023

Also, table 4.1 shows a mean, maximum, minimum and standard deviation values for age diversity as 3.509092, 4.0, 1.0 and 1.622933 respectively. The positive mean value of 2.5 is signifying a higher level of diverse age in the boardroom among deposit money banks, though not all of them are diverse while some are partially diverse (evident from minimum and maximum values). Moreover, the minimum value of 1 is indicating that, at least 1 bank is not age diverse at all, meaning they do not consider young age as part of their board membership in Nigerian banking sector. However, there are at least 4 banks that are fully age diverse in the sector.

Gender diversity revealed a mean, maximum, minimum and standard deviation values as 75.24572, 164.8854, 2.3023 and 39.75635 respectively. The positive mean value of 75 is signifying that, a considerable number of banks that are diverse by gender among deposit money banks Nigeria. However, not all of them made are gender-diverse, evidence from a minimum of 2.3, whereas larger numbers are diverse by gender.

Similarly, the descriptive result on expertise diversity shows a mean, maximum, minimum and standard deviation value of 7.673054, 11, 4 and 2.813439 respectively. The positive mean value of 7.6 is indicating that the expertise diversity is stronger and is contributing to the performance of deposit money banks in Nigeria. Although not all companies are diverse by expertise with evidence from a minimum value of 4, which implies that there are at least four banks that do not are expertly diverse. The maximum value of 11 is indicating that majority of the banks are expertly diverse with some of their members having professional educational qualifications and it really contribute to their performance.

Regression Result

The table below gives the summary of the result of the regression analysis for the study model. Due to heteroscedasticity in the study model, the study used a Panel Corrected Standard Error regression for the estimation.

Table 3: Relationship between board diversity and financial performance

Variables	Coef.	Std. Error	T-Value	P Value
CONS	300.4446	38.27174	7.85	0.000
ADV	1.2366069	.0786437	2.01	0.013
GDV	-5.23093	9.573895	-3.46	0.002
EDV	71.43669	12.36334	5.78	0.000
FSZ	4.875731	.6288903	7.75	0.000
BSZ	.36334	2.43669	.807	0.887
R-Coefficient				0.316
R-Square				0.391
Adjusted R^2				0.363
F-Value				0.000

Source: STATA output, 2023

Age Diversity and Financial Performance

The age diversity was operationalized in this study as an important aspect of board diversity. Therefore, a hypothesis was put forward and tested; it was posited that the relationship between age diversity and financial performance would be positive and significant. In conformity, the result indicated that age diversity has a significant and positive relationship with financial performance of deposit money banks in Nigeria. The finding is consistent with past studies that investigated a similar relationship. This result is justified by the finding of Jayanti et al. (2023), Amahalu et al. (2023), but contrary to that of Emadeldeen et al. (2021) and Rufia and Kurniawati (2023) found that board age is negatively related to firm performance.

Gender Diversity and Financial Performance

Gender diversity is the presence, number or percentage of female directors in the board and it is a key aspect of board composition as it is considered a value generator in corporate strategy and corporate governance. There is a notion that gender diversity affects the decisions of the boardroom in most studies and was operationalized in this study as an important aspect of board diversity. Therefore, a hypothesis was put forward and tested; it was posited that the relationship between gender diversity and financial performance would be positive and significant. In contrary, the result indicated that gender diversity has a significant and negative relationship with financial performance of deposit money banks in Nigeria. this result is justified by the finding of Nome and Nwanko (2022), Jayanti et al. (2023) and Azaria et al. (2021) who found found that board was negatively associated with performance but contrary to those of Hussein and Elsayed (2023) who found a positive relationship.

Expertise Diversity and Financial Performance

There is a general believe that expertise diversity affects corporate boardroom's efficiency in most studies and was operationalized in this study as an important aspect of board diversity. Therefore, a hypothesis was put forward and tested; it was posited that the relationship between expertise diversity and financial performance would be positive and significant. In agreement, the result indicated that expertise diversity has significant positive relationship with financial performance of deposit money banks in Nigeria. Precisely, this result is supported by the finding of Khan et al. (2023), Emiaso and Okafor (2023) that explored the board expertise's effect on corporate performance and found that board expertise positively affect corporate performance. Contrarily, the result of this study is not in agreement with the finding of Emadeldeen et al. (2021), Sani (2021) and Nwaorgu and Iormbagah (2021), which examined the effect of board diversity on financial performance.

Conclusion and Recommendation

To conclude this research, summarizing what this study intended to achieve is important. This study was motivated by the continuous corporate scandals in Nigerian deposit money banks despite a diverse level of the board committee members and the poor level of diversity in the boardroom of Nigerian companies. In view of that, this study was conducted with the aim of discovering the influence of board diversity on the banks' financial performance.

In view of the positive influence of age diversity on financial performance, this study concludes that deposit money banks take measures to adjust aging population in the boardroom and prevent ageism among board members, which encourage a productive and inclusive decision making culture among board of directors. in view of the result of gender diversity, this study concludes that gender diverse boardroom is damaging the performance of banks mostly when banks are facing more complex operations and decisions. Hence, a gender diverse board becomes too cautious to take a significant business risk to explore any identifiable opportunity. Finally, this study concludes that the directors expertise in financial issues relating to accounting, stock valuation and performance, the stock market, auditing and project valuation influence decisions to either retain profit or pay dividends, approve expenditure, borrow funds among others, which are financial decisions that directly affect the funds and the profit generated that ultimately improve the financial performance.

In general this study recommends that the Nigerian banks should restructure their board in terms of diversity, which will ensure there is adequate mix of directors consisting of female and male and age mix, size, professional and qualification to possibly influence the banks' performance.

References

Adegboyegun A. E. & Igbekoyi, O. E. (2022). Board Diversity and Financial Performance of Listed Manufacturing Firms in Nigeria. *Saudi Journal of Business and Management Studies*, 7(2): 50-60.

Adetula, S. L., & Oyedeko, Y. O. (2023). Board gender diversity and corporate performance. *Fuoye Journal of Finance and Contemporary Issues*, 4(2), 114-127.

Aernan, J. E., Emengini, S. E. & Okonkwo, B. S. (2023). Board Characteristics and Financial Performance of DMBs: Evidence from Nigeria. *East African Journal of Business and Economics*, 6(1), 47-58. https://doi.org/10.37284/eajbe.6.1.1117

Ali, M. B. Shadrach, M. (2023). Impact of Board Size and Independence on Financial Performance of Listed Deposit Money Banks in Nigeria. *African Scholars Journal of Business Development and Management Research, 28*(7), 209-224.

Amahalu, N.N.; Okoye, P. V. C. & Nnadi, C. P. (2023). Effect of board diversity on financial performance of quoted hospitality firms in Nigeria. *International Journal of Research in Commerce and Management Studies (IJRCMS) 5*(1), 28-38.

Azaria, D., Murhadi, W. R. & Bertha, S. S. (2021). Board diversity and financial performance in Indonesia. *Journal of Entrepreneurship & Business, 2(*2), 86-75.

EmadEldeen, R., Elbayoumi, A. F., Basuony, M. A. K., & Mohamed, E. K. A. (2021). The effect of the board diversity on firm performance: An empirical study on the UK (Special issue). *Corporate Ownership & Control*, 18(3), 337–347

Emiaso, D. & Okafor, G.O. (2023). Board Diligence and Corporate Financial Performance of Quoted Non- Financial Firms in Sub-Saharan Africa, *Journal of Global Accounting*, 9(2), 180 – 194.

Hussein, D. & Elsayed, A. (2023). The Impact of Board Gender Diversity on Firms Performance During the Covid-19 Crisis. Alexandria *Journal of Accounting Research*, 7(1), 1-29.

Jayanti, R. D., Probohudono, A. N. & Endiramurti, S. R. (2023). Gender diversity among the board of commissioners And firm value in Indonesia. *International Journal of Economic Research, Business and Accounting,* 7(1), 84-94.

Khan, A. N., Yahya, F., Waqas, M. (2023). The Asymmetric Effect of Board Diversity on Firm Risk and Working Capital Policies: Evidence from Panel Quantile Regression. *Iranian Journal of Management Studies* (*IJMS*), 16 (2), 567-577. DOI: http//doi.org/10.22059/ijms.2022.332495.674802

Magoma, A. & Ernest, E. (2023). The impact of board gender diversity on financial performance of listed firms in Tanzania: A panel analysis. *International Journal of Research in Business & Social Science* 12(3) , 78-87.

Nome, U. & Nwankwo, J. N. (2022). Effect of Board Diversity On Financial Performance of Information and Communications Technology (Ict) Firms in Nigeria (2016-2020), *Global Journal of Human Resource Management*, 10(2), 12-27.

Nwaorgu, J. O. & Iormbagah, E. M. (2021). Effect of Board Diversity on Financial Performance of Listed Firms in Nigeria. *International Journal of Accounting & Finance, 10*(1), 74-87.

Oluwadamisi, B. G. (2021). Effect of Board Characteristics on Financial Performance of Quoted Agricultural Firms in Nigeria. *Bingham International Journal of Accounting and Finance*, 2(1), 380-393.

Onyekwere, S. C., Wesiha, S. & Dnabatta, S.N. (2019). The Relationship Between Board Diversity and Corporate Financial Performance: Empirical Evidence from Five Selected Commercial Banks in Nigeria. *International Journal of Finance and Banking Research*, 5(4), 76-90.

Rufiah, A. N. & Kurniawati, L. (2023). The Effect of Board Diversity on Financial Performance (Empirical Study of Manufacturing Companies in the Goods and Consumption Sector Listed on the IDX in 2017-2021). *The International Journal of Business Management and Technology, 7*(1), 327-334.

Ridloah, S., Noekent, V., Putri, V. W. & Waliuddin, A. N. (2022). Diversity of the Board of Directors and Company Financial Performance in the Perspective of Good Corporate Governance. *Management Analysis Journal*, 11 (3), 240-252.

Riyanti, N. D., Murhadi , W. R. & Utami, M. (2023). The Influence of Good Corporate Governance through the Gender Diversity on Firm Performance. *International Journal of Business and Management*, 44(10), 5-12.

Rizvi, S. M. R., Tahir, S. H., Raza, H., Ali, A. F. & Alvi, A. R. (2023). Board Characteristics and Firm Performance: A Configurational Analysis. JISR management and social sciences & economics, 21(1), 69-91. Doi:10.31384/jisrmsse/2023.21.1.4

Saidu, A. (2019). Effect of Firm Size on Financial Performance of Listed Consumer Goods Companies in Nigeria. *Research Journal of Humanities, Legal Studies & International Development*, 3(1), 79-90.

Sani, A. (2021). Board Diversity and Financial Performance of the Nigerian Listed Firms: A Dynamic Panel Analysis. *Journal of Accounting and Business Education*, 6(1),1-13.

Singh, J., Singhania, S. & Aggarwal, D. (2022). Does board gender diversity impact financial performance? Evidence from the Indian IT sector. *Society and Business Review*, 13(2), 53-68.

Zarefar, A., & Narsa, I. M. (2023). Do corporate governance drive firm performance? Evidence from Indonesia. *Gestão & Produção*, *30*(1), 1-17.