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BOARD CHARACTERISTICS AND FINANCIAL PERFOMANCE IN NIGERIA: A REVIEW

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Abstract

The study examined Board characteristics and performance in Nigeria. It investigates whether board composition, Board size, audit committee composition affects financial performance of listed DMBs in Nigeria. This was necessitated by the conflicting findings documented by studies that have associated Board characteristics and performance. The results revealed that

Keywords

Board characteristics, financial performance, board composition, Board size, audit committee composition

INTRODUCTION

Board characteristics and financial performance is currently one of the burning issues that is dominating the agenda of the business world and the academia. The failure, collapses and scandals of giant companies such as the Cadbury, WorldCom, Xerox, Wema Bank, Skye Bank and Enron Corporation highlights the critical need to focus on the anchors of sound Corporate Governance both in developed and developing countries. The bankruptcy of these giants inarguably stemmed from financial reporting manipulation due to fraudulent practices by the board of

Board characteristics has positive relationship with performance of a company. Therefore, based on the findings of the study, it concludes by saying there is significant influence of Board characteristics on financial performance of listed DMBs in Nigeria. The study recommend to the banking sector to take sound boards as an important driver of boosting profitability of organizations.

directors and weak governance mechanisms of the board. This is not surprising as a series of regulatory measures (corporate governance reforms) have been developed in the corporate environment to mitigate the impact of these high-profile scandals and failures. Undoubtedly, one of the major imprints of the corporate governance reform regime has been the thrust to improve or enhance the performance and the reliability of reported financial information. There has been a considerable debate in recent times concerning the need for strong boards (McConomy and Bujaki, 2000), with countries around the world drawing up guidelines and codes of practice to strengthen governance (Cadbury, 1997, Corporate Governance Code of Nigeria, 2005).

Effective boards and corporate governance practices are essential ingredients in achieving and maintaining public trust and confidence in the financial system. They are critical to proper functioning as they determine the performance of the banking sector of the economy in any country of the world. Poor corporate governance may lead to ineffective boards, which eventually may contribute to bank failures. Board characteristics are particularly important in the Nigerian banking industry because a number of financial failures, frauds, and questionable business practices had adversely affected investors' confidence.

Board characteristic is a subset of Corporate Governance, it's a branch of Corporate Governance that deals with the size, composition, diversity and other characteristics of the board. Board characteristics simply refer to size, division of labour between the board chair and the CEO, its composition and diversity. Composition of board refers to the distinction between executive and non-executive directors, and this is traditionally shown as the percentage of outside directors on the board (Goergen &

Renneboog, 2000). Baysinger and Butler (1985) categorized board composition into inside directors, affiliate directors and outside directors. Inside directors are those directors that are also managers and/or current officers in the firm while outside directors are non-manager directors. Among the outside directors, there are directors who are affiliate (grey), and others that are independent (Non- executive). Affiliate (grey) directors are non-employee directors with personal or business relationship with the company while independent directors are those that have neither personal nor business relationships with the company. Although inside and outside directors have their respective merits and demerits, many authors favour outside dominated boards (Pablo et al, 2005).

Boards have a responsibility to initiate organisational change and facilitate processes that support the organisational mission (Hill, Green & Eckel, 2001; Bart & Bontis, 2003). Further, the boards seek to protect the shareholder’s interest in an increasingly competitive environment while maintaining managerial professionalism and accountability in pursuit of good firm performance (McIntyre, Murphy & Mitchell, 2007).

The role of board is, therefore, quite daunting as it seeks to discharge diverse and challenging responsibilities. The board should not only prevent negative management practices that may lead to corporate failures or scandals but also ensure that firms act on opportunities that enhance the value to all stakeholders. To understand the role of board, it should be recognised that boards consists of a team of individuals, who combine their competencies and capabilities that collectively represent the pool of social capital for their firm that is contributed towards executing the governance function (Carpenter & Westphal, 2001). As a strategic resource, the board is responsible to develop and select creative options in advancement of the firm. Given the increasing importance of boards, it is important to identify the board characteristics that make one board more effective and efficient from another. As a result, there is need to examine the impact of board characteristics and financial performance of deposit money banks in Nigeria.

It is on this background that this study attempts to review the impact of BC on FP in Nigeria.

Statement of the Problem

Growing attention is being accorded to Board characteristics (BC) and financial performance (FP) in both academic research, practice and the industry in recent years. This attention is due to prevalence of highly publicized and flagrant financial performance frauds, earning restatement or earning management as in the cases of Enron, WorldCom, African Petroleum Plc, Spring Bank, Wema Bank, Cadbury Plc, Aldelphia and Parmalat, which eroded the confidence of users on the financial statement (Dabor & Adeyemi, 2009; and Tijjani & Dabor, 2010).

Adegbie (2010) opined that poor Corporate Governance (CG) is the major factor that has given rise to the financial distress in the Nigerian banking industry, even after reformation and consolidation that took place. The challenges and failure of boards in Nigeria stems from the culture of corruption and lack of institutional capacity to implement the codes governing corporate entities. Companies' executives enjoy an atmosphere of lack of checks and balances in the system thereby making it easy for them to engage in gross misconduct since investors are not included in the governance structure (Hassan, 2012).

The extant literature established that there was no any code of CG in Nigeria before 2003. It was in 2003, the Securities and Exchange Commission (SEC) code of CG was issued to cover all public companies. In 2006, Central Bank of Nigeria (CBN) issued code of CG specifically for banks in view of the special nature of banks and their importance to the growth and development of the economy. The SEC (2011) identified weak CG as a major factor responsible for recent corporate failure in Nigeria and therefore it is necessary to improve the CG mechanism for enforceability by companies.

Weak CG structures provide incentives to management to manipulate financial statement and this result in low quality reporting and financial performance manipulation. In Nigeria, concerns have been expressed about the large scale malpractices and abuse of the system by capital market operators in the past, especially following the recent incidence on the sale of forged shares of publicly listed companies. Companies have gone into liquidation for reasons bordering on ineffective or non-existing system of CG. Examples are Onwuka Hitech and Abacus Merchant Bank

(Tijjani & Dabor, 2010). In the Nigerian banking industry the cases of AIB, Wema bank, Afri Bank and Skye Bank are well documented.

Banks and other financial institutions are at the centre of the world's recent financial crises. The deterioration of their asset portfolios, coupled with fraudulent acts of presenting unreal financial statements and lack of adherence to corporate governance principles largely due to distorted credit management, were some of the main reasons of the crises (Sanusi, 2010; Kashif, 2008; Fries, Neven & Seabright, 2002). This draws the attention of the public and investors to see the board of directors as the major actor responsible for the failure of corporations, both in developed and developing nations. In fact, board of directors are seen as prime suspects for the fraud cases that had resulted in the failure of major corporations, such as Enron Corporation, Tyco International, WorldCom, Global Crossing, Arthur Anderson, Marconi, Parmalat , Oceanic bank plc, Wema bank plc, NAMPAK, Fin bank, Spring bank, Afribank, Intercontinental bank, Bank PHB and Cadbury PLC in Nigeria (Adeyemi & Fagbemi, 2011; Ogbonna & Ebimobowei, 2011; Ajibolade, 2008).

Similarly, studies related to the impact of board characteristics on firm financial performance are not conclusive in nature. For example, Dalton, Daily, Ellstrand & Johnson (1998), Weir and Laing (1999) and Weir, Laing & McKnight (2002) find little evidence to suggest that board characteristics affect firm performance. However, other studies have found a positive relationship between certain characteristics of board and firm performance (Kiel & Nicholson, 2003; Bonn, 2004). Role of Board size has also been a matter of continued debate from different perspectives (Yermack, 1996; Dalton et al., 1999; Hemalin & Weisbach, 2003). While some have suggested smaller boards enhance firm performance (e.g., Lipton & Lorsch, 1992; Jensen 1993; Yermack, 1996) others have suggested larger boards are better for improving firm performance (Pfeffer, 1972; Klein, 1998; Adam & Mehran, 2003; Anderson et al., 2004; Coles et al., 2008). Scholars have argued for smaller boards on grounds of easy co-ordination, cohesiveness and communication (Jensen, 1993) and to avoid social loafing and free riding (Lipton & Lorsch, 1992). As the size of the board increases, interpersonal communication becomes less effective. As the board size increases, problems of communication and

coordination manifest and are likely to develop factions and conflict (O'Reilly et al., 1989). Empirical studies by Yermack (1996) and Eisenberg et al. (1998) provide evidence that smaller boards are associated with higher firm value. On the other hand, large boards may be more useful to firms on grounds such as advice to CEO and greater monitoring of management (Klein, 1998; Adam & Mehran, 2003; Anderson et al., 2004; Coles et al., 2008). Klein (1998) argues that the need for advice for CEO will increase with organisational complexity. Klein further suggests that the advisory needs of CEO increases with the extent of firm's dependence on environmental resources. So, increasing board size helps businesses to manage the environment (Pearce & Zahra, 1992; Adam & Mehran, 2003). Nevertheless, the role played by the board is critical to firm performance as the boards discharge their fiduciary responsibilities of leading and directing the firm (Abdullah, 2004).

Therefore, it is in the light of the above, that this work try to review the effect of board characteristics on the financial performance in Nigeria.

Concept of Corporate Governance

There is no generally accepted definition of CG which enjoys consensus of opinion in all settings and countries of the world. The concept is understood differently in different parts of the world, depending on the relative power of the owners, managers and providers of capital. In other words, a number of scholars have viewed CG differently from their own perspectives
(Cai, Keasey & Short, 2006; and Hamid, 2008).

CG can be viewed from a narrow or broad perspective i.e the shareholder or the stakeholder model. From a narrow perspective, CG is concerned with structures within which a corporate entity or enterprise receives its basic orientation and direction. It describes the formal system of stewardship of the board to the shareholders. From a broad perspective, CG is used to describe the network of relationships between an organization and its various stakeholders. It is seen as the heart of both a market economy and of a democratic society (Craig, 2005; and Dabor & Adeyemi, 2009).

Abubakar, (2012) defines corporate governance as the set of processes, policies, laws and institutions affecting the way a company is directed.

Corporate governance entails the goals for which the relationships between stakeholders of a company are governed. As such, much attention is focused on rules and policies to disseminate power between principal and agents and the govern management activities.

The two important things in interrelationships between the various actors and mechanism within corporate governance are effective governance and achieving high financial quality reporting. That is, the interactions among the audit committee, external auditor, internal auditor, board and management (Hasan, *et al*, 2013).

The concept of corporate governance according to Ekele and Onuigbokhai (2010) is to be view in at least two perspectives; a narrow perspective in which the structure of the entity is strictly based on its basic orientation and direction, that is in terms of issues relating to shareholder protection, management control and the popular principal-agency problems, and a broader perspective in which it is regarded as being the heart of both market economy and a democratic society.

Sanda, Mikailu & Tukur (2005) on their part see CG as the ways in which all parties interested in the well-being of the firm attempt to ensure that managers and other insiders take necessary measures to safeguard the interest of all stakeholders. On its parts, the Basel Committee (1998) consider CG from a banking perspective, as the manner in which the business and affairs of a bank are governed by the board of directors and the senior management, which provides the structure through which the objectives of the bank are set and the means of attaining those objectives and monitoring performance.

Thakar, Trivedi & Trivedi (2012) defined CG as formal or informal rules that must be followed by any legal entity. Thus, the objectives of CG is to enhance the efficiency of market mechanisms, build investors' confidence, and produce a mechanism to help in evaluating the performance of the firms. This means that CG's primary objective is not to directly improve corporate performance but to resolve agency problems by aligning management's interest with the interest of shareholders.

Sayogo (2006) defines Corporate Governance as a process where rules and ethical standards govern the relationships in organizations. A legal framework is developed for achieving the corporate objectives as all

aspects are covered from the stages of planning, internal control, performance evaluation and disclosure of corporate information. According to Cadbury Committee (2012), corporate governance is simply the system through which the corporations can be directed and controlled in an effective way. The pursuance of corporate governance mechanisms ensures the financial viability of corporate business as through it all the affairs of the firm are managed effectively and directed towards the creation of value for the shareholders. The division of powers is explained, and it provides the mechanism for the accountability of management and corporate boards. Major corporate governance codes were developed in 2002 in the US and the UK after an increase in corporate collapses such as Enron, WorldCom, Royal Bank of Scotland, due to fraud in accounting practices and poor internal controls. The principle of corporate governance enforces firms for making timely and accurate disclosure of corporate information (OECD, 2004).

Corporate Governance Mechanisms

A fundamental concern of corporate governance has to do with the structure of rights and responsibilities that exist among parties with stake holding in the firm (Aoki, 2001). Studies by Alhassan, Bajaher and Alshehri, 2015 established that while shareholders are concerned about maximizing returns at reasonable risk, managers may prefer growth to profits and may maintain costly labor or product standards above the necessary competitive minimum. Thus, various corporate governance mechanisms are required to align the interests of both principals and agents, and this is reflected in accounting and finance literature as the agency theory (Bathala & Rao, 1995; Ongore & K‟Obonyo, 2011).

The literature has documented a number of corporate governance mechanisms and how these mechanisms affect the activities of firms. These mechanisms are broadly classified into board characteristics, ownership structure and the audit committee (Fallatah & Dickens, 2012).

Board characteristics components are thus classified as board size, diversity of board members in terms of number of members, age, gender, nationality, ethnicity, experience, independence, expertise and whether stockholders or not. Ownership structure covers different types of

ownership interest in firms that include foreign, institutional, block, managerial and concentrated (Li & Sun, 2013) and an audit committee which has the particular role of ensuring that the interests of shareholders are properly protected in relation to internal controls (Habbash, 2010; Al-Matari, Al-Swidi, Fadzil & Al-Matari, 2012). The audit committee is normally discussed in terms of its size and independence,as well as the diversity of its members.

The literature also indicated that though issues of corporate governance cut across all sub-sectors of the private sector, in some sub-sectors, certain characteristics, especially ownership type play little or no role due to firm nature or type.

Board Characteristics

Studies by Shleifer and Vishny(1997) and Cheng, Su and Zhu (2012) concluded that agency costs can arise due to problems in monitoring management by the shareholders because they have imperfect information to make qualified decisions, hence contractual limits to management discretion may be difficult to enforce. To reduce these costs from an agency perspective, mechanisms such as corporate boards are designed to align the interests of the management with those of the stockholders to help in monitoring the actions and decisions of management.

Chanhgadari (2011) defined boards as the internal governing mechanism that shapes firm governance, given their direct access to the two other aspects of the corporate governance triangle which are managers and shareholders. In addition, Fama (1980) argued that the composition of board structure is an important component due to the presence of non-executive directors which represents a method of monitoring the actions of the executive directors and of ensuring that the executive directors pursue the firm's policies that are consistent with shareholders' interests. In effect, the board of directors is now seen as a target of blame for corporate misdeeds and also as a source capable of improving corporate governance. Much of the capacity in solving the excess power within firms has been assigned to the board of directors with a specific need for non-executive directors to help increase executive accountability. Hillman and Dalziel (2003) in their study described the two main functions of the board

of directors as monitoring and providing resources. The board's monitoring function which is underpinned by the agency theory describes the potential for conflicts of interest that arise from the separation of ownership and control in firms (Fama & Jensen, 1983: Iturralde, Maseda & Arosa, 2011). As a primary function, agency theorists see boards as monitoring the actions of managers (agents) in order to protect the interests of owners (principals) (Eisenhardt, 1989; Ghabayen, 2012). Hence, Fama (1980) and Alhassan, Bajaher and Alshehri (2015) concluded that monitoring by the board is important to eliminate the potential costs incurred when management pursues its own interests at the expense of shareholders' interests. Thus, monitoring by boards of directors can reduce agency costs which is inherent in the separation of ownership and control and in this way, improve firm performance.
The literature documented size, diversity and independence as the main characteristics of a board. Some authors also subsumed audit committee under board characteristics. According to this line of thinking, the use of an audit committee is an important part of the decision control system for internal monitoring by boards of directors (Fama & Jensen, 1983; Al-Matari, Al Swidi, Fadzil & Al-Matari, 2012). The existence of an audit committee improves the monitoring of firm's internal controls and also helps to promote sound corporate governance which in turn improves firm value thereby reducing agency cost (Al –Sa'eed & Al-Mahamid, 2011). It is noteworthy that while audit committee independence is a major element of corporate governance in Nigeria, the SEC code of corporate governance in 2008 recommended that the audit committee must be composed of equal representatives of shareholders and board of directors. According to agency theory the separation of firm management and firm ownership results in agency problem. This means that management may not always act in the interest of the shareholders (Fama & Jensen, 1983; Ameer, Ramli & Zakaria, 2010).

The Concept of Financial performance

Financial performance shows the level of performance of a business over a specified period of time expressed in terms of total profit and loss. Carton (2004) defines performance as a measure of change as regards the

financial state of a given firm, or the financial prospect that emanates from management decisions and the implementation of those decisions by members of the organization.

According to Carton (2004), a survey of the literature reveals that FP has been basically measured in three forms: market-based, accounting, and operating measurements.

Accounting Measures

Accounting measures include those that rely heavily on financial information reported in income statement, a firm's statement of financial position, and statement of cash flows. Accounting measures can further be classified into five distinct parts. Amongst them is profitability measures (examples include earnings before tax, operating income), growth measures (e. g absolute or percentage change in total asset, operating asset, and sales). Leverage measures, liquidity measures, cash flow measures (measures found in these three include values and ratio that represent the organization's ability to meet its financial obligation in a timely manner and provide a cash return to capital providers) and efficiency measures (included here are values and ratios that represent how well a firm makes efficient use of its resources. One critical flaw of this performance measure is that it reports only past events and not investment in yet to come opportunities (Carton, 2004).

Operating Measures

Operational measures include variables that represent how well the firm is doing in relation to non- financial issues. Measuring performance on non-financial angle has received much attention in recent times as firms now adopt the balance scorecard approach which was developed by Kaplan and Norton in 1992 for the integration of strategy and performance measurement. Variables found here include market share, changes in intangible assets such as patents or human resources, customer satisfaction, and stakeholder performance.

Market Based Measures

Market based measures include ratios or rate of change that include or merge market value of the firm. These variables include returns to

shareholders, market value added, holding period returns and Tobin's Q. The calculation of these variables need a market valuation for the firm and is mostly available only for publicly listed firms.

Emphirical Review

Abdoli, Maryam & Rahmani (2011), conducted a study on the effect of board dependence, internal auditors and EM of companies in Iran. 113 companies listed on the Tehran Stock Exchange were randomly selected. Data for the study was gathered from the annual report of 2007-2011 and analysed using regression. They found a positive relationship between board dependence and EM and negative relationship with strong internal audit. The positive nature of the relationship can be attributed to the fact that the directors are interested in performance and that will motivate them to manipulate accounting figures.

Kiel and Nichoison (2003) study the impact of board structure on the financial performance of 348 firms quoted on Australian stock exchange for1996-1998. The results of the study suggest a positive and statistically significant relation between board size and financial performance proxy, Tobin's q.

Belkhir (2008) investigates the relationship between board size and performance of a sample of 174 bank and savings-and-loan holding companies, over the period 1995-2002. Using panel data techniques, the study reveals a positive relationship between board size and performance, as measured by Tobin's q and the return on assets. The paper concludes that the board size-performance relationship goes from board size to performance and that the calls to reduce the number of directors in banks might have adverse effects on performance.

Guest (2009) examine the impact of board size on firm performance for a large sample of 2,746 UK listed firms over 1981-2002. Findings reveal that board size has a strong negative impact on profitability (Tobin's q and share returns). Results further show that the negative relation is strongest for large firms, which tend to have larger boards.

Eyenubo (2013) examines the impact of bigger board size on financial performance of 50 listed firms in Nigeria for the period 2001-2010. With the use of regression analysis technique, the outcome of the study shows

that bigger board size affects the financial performance of a firm in a negative manner.

Akpan and Amran (2014) investigate the relationship between board characteristics and company performance of 90 listed companies in Nigeria from 2010 to 2012. The empirical evidence shows that board size and board education are positively and significantly related to company performance.

Topal and Dogan (2014) test the impact of the board size on the financial performance of 136 Turkish manufacturing firms for data from 2002-2012. Robust estimator developed by Beck-Katz (1995) was used for analysis. The results of the conducted analyses suggest a positive relation between the board size and return on asset and Z Altiman score. Another result, on the other hand, suggests that board size doesn't have an impact on Tobin's q and return on equity. Malik, Wan, Ahmad, Naseem and Rehman (2014) examine the relationship between board size and firm performance using the Pareto Approach for 14 Pakistani banks for the period 2008-2012. The results of the study provide a significant positive relationship between board size and bank performance.

Nath, Islam and Saha (2015) examine the influence of board structure on firm's financial performance in the pharmaceutical industry of Bangladesh. Four major board attributes (board composition, board size, board ownership and CEO duality) were selected to identify their influence on firm's financial performance. The findings from the study show that there is a significant negative relation between board size and firm's financial performance. However, the association between other three variables with financial performance is insignificant. Pratheepkanth, Hettihewa and Wright (2015) investigate the correlation between board attributes and firm performance in a sample of 100 Australian and 100 Sri Lankan firms. The analysis and a visual inspection of the raw data suggest that Australian boards are much larger than Sri Lankan boards. The most important finding of the study is that the larger boards of Australia appear to have a significantly stronger influence on firm performance than the relatively smaller boards of Sri Lanka.

Bebeji, Mohammed and Tanko (2015) analyze the effect of board size and composition on the performance of 5 Nigerian banks for the period of 9

years. Using multivariate regression analysis, the finding of the study reveals that the board size has significant negative impact on the performance of banks in Nigeria.

Johl, Johl and Cooper (2015) examine the impact of board characteristics and firm performance of 700 public listed firms in Malaysia for the year 2009. The result shows that board independence does not affect firm performance, whilst board size and board accounting/financial expertise are positively associated with firm performance. Isik and Ince (2016) investigate the impact of board size and board composition on performance of 30 commercial banks from 2008 to 2012 in Turkey. After controlling for bank size, credit risk, liquidity risk, net interest margin and non-interest income, the results of panel fixed effects regression suggest that board size has a significant positive effect on bank's performance (Operating Return on Asset, OROA and Return on Asset, ROA).

On the basis of agency theory and Resource dependency theory, Munyradadzi and Nirupa (2016) explore the effect of board composition and board size on financial performance of companies listed on the Johannesburg stock exchange in South Africa. Result shows that board size is not significantly associated with Tobin's Q and ROE (performance measures). In contrast to this result, board size is found to be positively associated with another performance measure, ROA.

Hassan & Ahmed (2012) examined the relationship between CG, EM and financial performance in the Nigerian Manufacturing industry. Secondary data were extracted from the annual reports of 25 manufacturing firms listed on the Nigerian Stock Exchange for the period 2008 to 2010 and univariate OLS multiple regression was used as a tool for analysis. The study documents that CG has significant impact on both the adjusted and unadjusted firm performance in different magnitudes and directions. Specifically, board composition is inversely related with true performance while a positive interaction emerges between executive compensation and firm performance regardless of the performance specification.

More so, Sukeecheep, Yarram & Alfarooque (2013) investigated the influence of board characteristics on EM behavior in Thai Listed companies. Using modified jones model and performance matched discretionary accruals based on a sample of 550 listed firms for five years

(2006-2010), they discovered that EM is negatively associated with board interlocking. Board independence is found to have a positive association with EM. In addition, the study finds no impact of board size, board meeting, and CEO Chairman on the EM of top Thai listed firms. Separation of the roles of board chair and Chief Executive officer is another board characteristics associated with strong CG. CG guidelines assume that a board's ability to perform a monitoring role is weakened when the CEO is also the chairperson of the board (Cadbury Committee, 1992). Beasley, (1996); Davidson, Stewart & Kent, (2005); and Kent & Stewart, (2008) also highlighted the importance of having power separation between board chair and Chief Executive Officer (CEO). They argued that the appointment of a CEO to the position of the chair can lead to concentration of power and possible conflicts of interest, resulting in a reduction in the level of monitoring. Centralization of control in the hands of CEO will results in CEO with too much power and gives the CEO the ability to override the firm's internal control structure. Abbott, Park & Parker (2000) indicated that the combination of board chair and CEO position is positively related with financial statement fraud. Beasely (1996) however, found that combination of board chair and CEO position is positively but insignificantly related with financial statement fraud.

Board Size and Financial Performance

The boards of directors ensure that organisations operate within the law and uphold the fiscal integrity of such operation. The relationship between board size and financial performance has received serious empirical consideration with the earliest being Lipton and Lorch (1992). Their study recommended a board size of 7 or 8 and concluded that larger board size may result in time consuming effort in decision making. Boards monitor management to reduce the level of agency costs and also chart the strategic course for the organsation, to eliminate dinosaur dynamics – too big to change. Bathula (2008) focusing on a sample of 158 Countries from 2004 to 2007 for New Zealand quoted companies, found a positive relationship between board size and firm performance. Larger boards can distribute the workload through the use of committees to ensure in depth analysis of issues and avoid burn out. VanNess, Miesing and Kang (2010) focused on

American listed firms from 2006 to 2007 and discovered that larger boards increase revenue. What this portends for the organsation is that the diverse expertise and experience of the board members impacted positively on the revenue growth of the organisation. In the same vein, Daily and Dalton (1993) and Johl, Kaur and Cooper (2013), found a significant positive relationship between board size and firm performance.

Board Composition and Financial Performance

A board is said to be independent, when the number of independent, non-executive directors not associated with top executives of the firm are more. MillStein (1993) is of the view that non-executive directors who are independent of management can perform their oversight functions better. Yemack (1996) reported a significant negative correlation between independent directors and performance measured by Tobin's Q. in the same vein, Agrawal and Knoeber (1996) reported a negative correlation between independent directors and Tobin's Q. Klein (1998) also reported negative correlation between performance expressed as a change in market value of equity and independent directors. Bhagat and Black (2002) using a sample of 934 American firms between 1985 to 1995 found no positive relationship between board independence and firm performance in United States of American. Dehaene, Naccache, Cohen, Bihan and Margin (2001), found a significant positive association between the number of external directors and return on equity. The results of this study shows evidence backed up the argument that non-executive directors provide superior benefits to the company due to their independence from the management of the organization. This single act of independence attracted investors in investing more into the organizations as it helps them in making better investment decisions.

Audit Committee Composition and Financial Performance

Audit committee forms part of the internal control mechanism of the firm and helps to strengthen corporate governance. Krishnan (2005) is of the opinion that audit committee with significant proportion of non-executive members and committee with the requisite expertise will help to reduce internal control issues in the organisation. Even though, the reduction may

not necessarily translate into increased growth (Hsu, 2008). Mak and Kusnadi (2005) focusing on Singaporean and Malaysian companies, found no significant relationship between firm performance and audit committee composition. In the same vein, Hutchinson and Zain (2009) studied 60 Malaysian companies and found no positive relationship between audit committee composition and corporate performance. Their result signifies a conflict effect between audit committee and internal audit quality.

Overview of the Nigerian Banking Industry

The Nigerian banking sector is made up of commercial banks and other financial institutions such as finance companies, micro-finance companies, discount houses and mortgage institutions. The Central Bank of Nigeria (CBN) regulates their activities (Umeren and Enang 2015)

Nigerian banking Industry can be traced back to late 19th century during the colonial period with increase of trading activities along the Nigerian costal area. The branch of African Banking Corporation was set up in august 1891. In March 1894 the British bank of West Africa (BBWA) now the first bank of Nigeria absorbed African Banking Corporation (CBN 2013). In 1899 another bank was established Anglo African Bank which later become bank of Nigeria, also in 1917 another bank known as Colonial Bank was established which later become Bacleys bank of Nigeria Limited (now Union Bank of Nigeria), in 1948 another bank known as British and French bank (now United Bank For Africa) was established (Ndekwu, 1994 in Hamid, 2009).

During the 1930s and 1940s heralded the emergence of indigenous banks and interests of indigenous entrepreneurs in bank ownership (CBN, 2013). The Agbonmagbe Bank Ltd (now Wema Bank) was established in 1938 followed by African Continental Bank (ACD) in 1948 (Ndekwu, 1994 and Olalusi, 1997 in Hamid, 2009). However during 1950s most of indigenous banks failed, as a result of this the colonial administration enact the first banking ordinance of 1952. Prior to that date, there is no any law regulating banking industry. The early 1950s also witnessed the initial moves by the Nationalists for the establishment of a government owned bank. These moves led to the enactment of the Central Bank of Nigeria

(CBN) Act of 1958, establishing the Central Bank of Nigeria (CBN), which began operation in July 1959 (CBN, 2013).

After independence in 1960 there were only 12 commercial banks. Up to that period there is no any merchant bank till 1969 when the first merchant bank commenced operations. The number of merchant banks rose to only 4 by 1977. However, by the end of 1986, the number of merchant banks in operation in Nigeria had risen to 12 and the number of commercial banks stands at 28. Between 1960 and 1986 there is growth and development of both merchant and commercial banks. There were only 12 commercial banks in 1960 and they rose to 19 in 1977 and 28 in 1986. (CBN, 2013 and Hamid, 2009).

The Nigeria banking industry witnessed more growth during the period 1986 –1994 than in any other period. The number of banks rose from 40 in 1986 to 66 in 1988, 100 in 1990 and 120 in 1992. The number of branches also increase from 1316 in 1985 to 1698 in 1988, 1944 in 1990 and 2027 in 1992 (Bulama, 1999 in Hamid, 2009). By the end of 1994, there was a total of 65 deposit money banks and 51 merchant banks in operation (CBN, 2013).

New reform measures were introduced post-1993. The mandatory minimum capital requirement was increased to N500 million, while the statutory minimum risk-weighted capital adequacy ratio remained at 8 per cent in 1997. The period, 1996-2004 witnessed aggressive re-deregulation. Interest rate deregulation was re-implemented in 1997 and entry restriction was again relaxed in 1999. Universal banking was adopted in 2001, whereby banks were allowed to undertake various financial service activities both money and capital market businesses, as well as insurance, and without any geographical restriction. The adoption of universal banking in Nigeria made it imperative for the Central Bank of Nigeria (CBN) to take measures towards strengthening the regulatory and supervisory framework. Thus, the minimum capital requirement was increased to N2 billion in 2002, while the risk-weighted capital ratio was raised to 10 per cent (CBN, 2013). By December 2002. There were a total of 90 licences banks, 282 community banks, 74 primary mortgage bank and 6 development bank (Hamid, 2009).

In July, 2004 the CBN announced a new 13-point reform agenda aimed at promoting the soundness, stability and efficiency of the Nigerian banking system and to enhance its international competitiveness. The major item on the 13-Point Agenda, was the directive that all commercial banks (universal banks) should raise their minimum capital base to N25 billion, with a compliance deadline of December 2005. When the new reform agenda was announced, 5-10 out of the 89 banks operating in the country, already had capital bases above the N25 billion; 11 - 30 banks had capital bases between N10 and N20 billion; while the remaining 50 to 60 banks had capital base of well below the N10 billion capital (CBN, 2013) by the expiration of the deadline on 31st December, twenty five banks emerged from seventy five banks out of 89 banks, 14 banks with negative shareholders' fund were insolvent and their licences revoked by the CBN.

During 2008/2009 there was problem in the Nigerian Banking industry coinciding with the global financial crisis, the size of non-performing loans enlarged; customer confidence was badly shaken; and unethical practices by the Managements of some banks were revealed. The examination made by CBN revealed that some banks are in poor financial condition. The actions taken by the CBN included the reduction of cash and liquidity ratio requirements and expanded discount window operations. Furthermore, the sum of N620 billion was injected into eight of the weak banks as direct rescue packages, while corporate governance was enhanced in the affected banks with the appointment of new management teams (CBN, 2013)

The Central Bank of Nigeria (CBN) introduced Cash less Policy in 2011 as part of ongoing reforms to address currency management challenges in Nigeria, as well as enhance the national payments system. Nigerian banks are now key players in the global financial market with many of them falling within the Top 20 banks in Africa and among Top 1000 Banks in the world. As at the end of December 2018 there are about 24 commercial banks in Nigeria among which 16 are quoted on the Nigerian Stock exchange.

Summary and conclusion

Based on the summary of the review it can be deduce that there is positive and significant relationship between BC and FP. Out of the 37 studies reviewed, 27 studies representing 73% found positive and significant relationship between BC and FP, five studies (14%) establish no relationship while five studies (13%) found negative relationship. In order to boost FP, it has become imperative for companies to have sound and vibrant board of directors. Therefore, based on the findings of this study it can be concludes that there is significant influence of BC on FP. The study recommend that firms take Board of Directors as an important driver of boosting FP.

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