BOARD CHARACTERISTICS AND LOAN PORTFOLIO OF DEPOSIT MONEY BANKS IN NIGERIA

BY

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MSC/ADMIN/3156/2009-2010

BEING A THESIS SUBMITTED TO THE POST GRADUATE SCHOOL, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.SC) DEGREE IN ACCOUNTING AND FINANCE

APRIL, 2012

DECLARATION

I, Yancy Francis SiehJnr, hereby declare that this work is the product of my independent research efforts, undertaken under the supervision of Dr. Shehu U. Hassan and has not been presented anywhere before for the award of any degree or certificate, except for the partial fulfillment of the requirements for the award of the degree of Master of Science (MSc.) in Accounting and Finance, Department of Accounting, Ahmadu Bello University, Zaria. All sources of materials used have been duly acknowledged; any error either of omission or commission is not with intent, and is highly regretted.

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CERTIFICATION

This thesis titled "Board Characteristics and Loan Portfolio of Deposit Money Banks in Nigeria" meets the regulations governing the award of the Degree of Master of Science (MSc.) in Accounting and Finance of Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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Member, Supervisory Committee Signature Date

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Head of Department Signature Date

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School of Postgraduate studies Signature Date

DEDICATION

This thesis is dedicated to my late mother, Mrs. Josephine K. Musu, who did all she could to ensure that I am educated up to the highest level possible, but could not live to see the completion of my MSc. Degree as she passed away during my academic pursuit in Nigeria. May her soul rest in perfect peace. Amen.

ACKNOWLEDGEMENTS

Foremost, I am profoundly grateful to the Almighty God, the only wise God, the owner, sustainer and giver of life for blessing me with good health, opportunity, endurance, perseverance, knowledge and the wherewithal to complete the M.Sc Accounting and Finance Programme within the stipulated minimum period. My efforts and success are unto Him only. Dieu Merci.

The successful completion of this research would not have been possible without the help and assistance received from many people and institutions during the conduct of the research and the preparation of this thesis. I therefore owe them a duty to express my gratitude and sincere appreciation.

I would like to express my indebtedness to my supervisor, Dr. Shehu U. Hassan for his constructive criticisms, invaluable advice, patience and thorough supervision and guidance, which is glaringly evident in every page of this thesis.

My profound gratitude to my second supervisor Dr. A. B. Dogarawa for his constructive criticisms, invaluable advice, patience and thorough supervision and guidance, which is glaringly evident in every page of this thesis, special thanks also goes to Dr. Ahmad Bello (the present HOD) and to all other staff of the Department of Accounting, Ahmadu Bello University, Zaria, more especially my course mates, for their support and invaluable contributions toward the successful completion of this work.

Similarly, I would like to place on record my gratitude and appreciation to Prof. AlhassanConteh (Ambassador of the Republic of Liberia to the Federal Republic of Nigeria, Eng. Abraham Sieh and wife (Covenant University & Landmark University) Mr. Luka Mailafia (Asst. Msc Coordinator, Department of Accounting), Mr.AbiodunPopoola (Department of Economics, ABU), Mal. Shittu(Department of Accounting, ABU), Dr. Umar Dukley (FCE) and Miss. JartuSackor for their invaluable contributions at different stages of my MSc. programme and in the write-up of this thesis. In the same vein, I would like to express my appreciation to Pst. Joseph Empraim, Pst. Phillip Blah, and Rev. Tatia V. Williams, Pst. Richard P. Harris and wife and the members of the Foreign Students' Fellowship, Liberian Students Association and International Students Association.

I would also like to express my appreciation to my mother Josephine K. Musu (late), Mrs. Elizabeth Yancy, my dad Mr. Francis SiehYancySr , my brothers Mr. E. J. Yancy, Emmanuel, Isaac, Peelee, J.B, and Larry, and my sisters Gertrude, Princess, Izatta, Precious, Femme, Diamond, Decontee, Theressa and Roseline, for their patience, understanding and prayers throughout the duration of the programme.

Finally, my special thanks go to my friends Agnes Z. Karnley, Murjanatu Mohamed, Beauty Otono, HadizaBabakachat, Sarah Swanzi, Maima Alpha, Moses Jeke, Shelton O. Saye, Arthur Johnson, Johnson Fatuma, Jackson Karnue, DorenzoDagbe, BenduSackor, Oga Chucks, Titus J. Williams, Dr. Alex, Simon Gigin Francis, Othello G. Gedia, Harris, Moses B. Kollie, Kebeh, James D, Alfred Jebblietc and all my well

wishers for their encouragement and prayers during the entire programme in general and the writing of this thesis in particular.

ABSTRACT

Banks play an important role in the development and growth of a nation's economy. The sector carries out the core role of financial intermediation between the surplus-spending and deficit-spending of economic units. This study examines the relationship between the characteristics of a bank's board of directors and the banks' loan portfolio of Deposit Money Banks in Nigeria. The board of directors has the responsibility to monitor the loan policy of the bank; therefore, the structure of the board seems likely to influence the portfolio of loans that the bank has outstanding. The study covers the period of six years (2005-2010), with the population of twenty-one (21) a sample of nine banks. Multiple regression is employed as a tool of analysis on the data which are extracted from the annual reports of the sampled banks. The result reveals that, board characteristics of deposit money banks in Nigeria have a strong influence on their loan portfolios during the period of study. From this, it is recommended, among others, that Nigerian deposit money banks should have strong board characteristics, using the board dimension in order to increase their loan portfolio.

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CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Financial intermediation plays an important role in any economy as it serves its purpose to transform assets, process information, and monitor borrowers. In a perfect world without any sort of frictions, the financial sector should have no distortionary effect on the real economy. However, in a world with informational problems, it is not surprising that shocks to the economy could be propagated and magnified through the financial system and which could affect the real economy (Sumner**,** 2002).

The issue of corporate governance is now a common one and has featured regularly in discourses both in the print and electronic media. Considerable academic attentions have also been rightly focused on various aspects of the issue including for instance, executive compensation (Harvey and Shrieves, 2001), regulation (Keenan, 2004), corporate control (La Porta, Lopez-de-Silanes, Shleifer, Vishny, 2000) Institutional ownership (Mitra, Hossain, and Deis, 2007), among others.

Numerous corporate scandals of the late 20th and early 21st centuries such as BCCI, Polypeck, ENRON, Lehman Brothers to mention but a few have played significant part in the spotlight enjoyed by the topic and it seems that there are many more questions emerging than answers for the known lapses in the control systems that may have facilitated these corporate misbehaviours. However, it is observed that academic responses to these issues are belated and narrow. This is because academic

researches seem to be playing catch-up and this is perhaps reminiscent of the age long arguments of the type of relationship that should ideally subsist between academics (researchers) and practitioners. Should researches and scholarly efforts be motivated and led by reality as conceived by practitioners, or by researchers appreciation of situations and their environments and perhaps by intuitions and the desire to find answers to current and future questions.

Generally, academic efforts that seek to clarify or at least improve our (including academics) understanding of the issues regarding how corporation are governed to ensure the protection of shareholders wealth. This is because such an effort is similar to providing a public good with attached public benefit.

Effective corporate governance has been identified to be critical to all economic transactions especially in emerging and transition economies (Dharwardkar, George, and Brandes, 2000). However, at varying levels of agency interactions, market institutional conditions that reduce informational imperfections and facilitate effective monitoring of agents impinge on the efficiency of investment. Likewise, corporate governance has assumed the centre stage for enhanced corporate loan portfolio.

The purpose of this thesis, therefore, is to address this relationship between board characteristics and banks loan portfolio, and to ask the question: is bank's loan portfolio influenced by its board characteristics? Several studies would conclude that the answer to our question is yes. Jensen (1993) argues that problems with internal control systems start with the board of directors which is responsible for managerial oversight and, in the case

of deposit money banks, supervision of lending policies. If that supervisory unit is deficient in some way, lending policies and guidelines may be absent or disregarded. However, other studies conclude that a bank's governance structure has little influence on the operations and performance of the firm since outside monitors, such as the CBN, ensure proper bank management. For instance, Simpson and Gleason (1999) find that four of five board characteristics analyzed in their sample had no effect on bank failures. Peterson and Rajan (1995), have documented that this link is quite strong for commercial and industrial loans because the commercial and industrial loans are not standardized products and the relationship between firms and banks is clearly an important element in the market for business loans.

The ability to assess the importance of financial variables, in particular loan portfolio, for bank lending and real activity has been hampered by numerous issues. First, the availability of data hinders a direct link to be established between the activities of the financial intermediary and its clients' production activities. Existing research focuses on the importance of the level of financial variables and in particular total loans of banks. However, strong correlation between financial variables at the national-level limits their identifying information. In addition, while the behavior of total loans is important, consideration should be given for potential differential behavior across loan components, such as real estate loans and Commercial & Industrial loans. Finally, the existing empirical techniques available to researchers make it difficult to disentangle the supply and demand behavior because of the endogenous nature of financial variables.However,

the banking sector may be a lot less competitive than other business sectors, possibly due to its information-intensive (Caprio and Levine, 2002).

The unusual agency problems in banking sector, the lack of competitive pressure, and the special nature of banking suggest that banks need stronger corporate governance mechanisms than do the other firms. Recent discussions in the literature of banking and finance are aimed at understanding a concept of corporate governance in banking sector.

1.2 Statement of the Problem

Agency problem has been in existence over the years and the banking sector is not an exception. In Nigerian, corporate failure has been experienced both in the manufacturing sector and the service sector, stemming from week corporate governance. In the financial sector, poor corporate governance is identified as one of the major factors in virtually all known instances of a financial institution's distress in the country.

In response to the need for better corporate governance practice in Nigeria, the Securities and Exchange Commission (SEC) aligned corporate governance in Nigeria with international best practices, spelt out in the code of corporate governance in 2003 for firms that are incorporated and or listed in Nigeria, and underscored the importance of board characteristics. Subsequently, the Central Bank of Nigeria (CBN) introduced in 2006 a corporate governance code for best practice for Nigerian banks in the post consolidation era.

In Nigeria, to the best of our knowledge, the dearth of research in this area have clearly showed a gap in literature which needs to be taken cognizance of and be filled.

There is paucity of empirical works about the effect of corporate board characteristics on banks' loan portfolio of deposit money banks in Nigeria. It is with this view that this study hopes to bridge the gap that previous studies appeared not to delve much into.

Akin to the 2009 special investigation carried out, several banks were found wanting by a risk-audit assessment conducted by the Central Bank of Nigeria to be carrying a large portfolio of non-performing loans. Several of the executives of many of the banks are currently facing trial. The recent withdrawal of the licenses of three more banks (Bank PHB, Afri-Bank and Spring Bank) by the CBN lends credence to the fact that; all is not well with the Nigerian banking system. One of the arguments against them is that they practiced 'corporate recklessness' in approving the loans. The bitter experience of banks distress and failure, suggest that Nigeria needs to take stock of its corporate governance capacity.

Studying the effect of board characteristics on loan portfolio of banks in Nigeria is essential not only because of the importance of banks to the economic growth of the nation, but also because most studies on corporate governance mechanisms exclude financial firms in their samples. The few available studies rely mainly on the United States banks data and are cross sectional and address performance or profitability of banks. This calls for more in-depth study on the effect of corporate governance mechanisms on banking firms in Nigeria. The reforms in the banking sector notably consolidation and the increasing role for market discipline underlie the need to

understand the governance of banks as it is increasingly becoming more important than ever.

1.3 Objectives of the Study

The main objective of this study is to examine the effect of Board characteristics on loan portfolio of deposit money banks in Nigeria. The specific objectives are to:

i. Examine the effect of the percentage of gray directors on loan portfolio of deposit money banks in Nigeria.

ii. Determine the effect of percentage of board composition on loan portfolio of deposit money banks in Nigeria.

iii. Evaluate the effect ofpercentage the of women directors on loan portfolio of deposit money banks in Nigeria.

iv. Ascertain the effect of board size on loan portfolio of deposit money banks in Nigeria.

1.4 Hypotheses of the Study

Sequels to the objectives of the study, the following null hypotheses have been formulated:

Ho_1 Percentage of gray directors has no significant effect on loan portfolio of deposit money banks in Nigeria.

Ho_2Board composition has no significant effect on loan portfolio of deposit money banks in Nigeria.

Ho_3 Percentage of women directors has no significant effect on loan portfolio of deposit money banks in Nigeria.

Ho_4 Board size has no significant effect on loan portfolio of deposit money banks in Nigeria.

1.5 Scope of the Study

This study is limited to Deposit Money Banks (DMBs) listed on the Nigerian Stock Exchange (NSE) as at December 2010. It focuses on the effect of board characteristics as a mechanism of corporate governance on loan portfolio. In the study, banks' loan portfolio is the dependent variable, board composition, percentage of gray directors, percentage of women directors and board size, are the independent variables.

The study covers the period of six years (2005 to 2010) both years inclusive. The period is considered adequate because CBN issued the corporate governance code for banks operating in Nigeria, effect from 2006.

1.6 Significance of the Study

Corporate governance is of practical importance to economic development. Empirically, good governance has been linked to better loan portfolio of banks and economic growth of a nation. Corporate governance of banks is very critical because banks play a cardinal role in the financial system and the real economy.

This study therefore, will contribute to the academic literature on the corporate governance of banks. It will further contribute to the policy debate on structural reforms in the banking industry.

The findings of this study will be of benefit to regulatory authorities such as the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporations (NDIC) and Securities and Exchange Commission (SEC) on the contentious issues of the board size and composition, effects of director shareholding, and audit quality on banks' loan portfolio.

Similarly, the shareholders of banks operating in the Nigerian Stock Exchange would benefit from this study by appreciating the relevance of corporate governance in enhancing and sustaining the effectiveness of control mechanisms in the operations of their banks. This will intimate them on the need for enhanced oversight and control of their banks' boards of directors (especially through a more stronger shareholders' association) and a more vigilant appointment of board members at the general meetings, thereby leading to protection of their investment and the mitigation of risk exposures of their banks through enhanced internal control system and to management, it is important to the extent that good CG builds confidence in the minds of depositors, investors and other stakeholders in the banking industry.

1.7 Organisation of the Study

The study has been organized and structured in five chapters. Chapter one contains the introduction, which gives a general background and what the study seeks to achieve.

Chapter two presents conceptual issues of corporate governance in the banking sector and reviewed previous works on board characteristics and how they relate to loan portfolio in the deposit money banks in Nigeria. The research methodology is contained in chapter three, while the data presentation and analysis are in chapter four. Chapter five provides the summary, conclusion and recommendations, limitations and areas of further research of the study.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter reviews literatures that are relevant to the problem under study. The chapter covers conceptual issues and empirical studies on the nexus that exist between board characteristics and banks' loan portfolio. This section explores a number of models and theories relevant to the area of investigation with a view to establishing gaps in the literature and also to serve as a basis for validation of the findings of this work.

2.2 The Concept of Corporate Governance

There is no generally accepted definition of Corporate Governance (CG) which enjoys consensus of opinion in all settings and countries of the world. Various definitions and conceptions of corporate governance proliferates academic literature. This is mainly due to the different economic, legal, political and cultural perceptions. The concept is thus defined and understood differently in different parts of the world, depending on the relative power of owners, managers and providers of capital. In other words, a number of scholars have viewed CG differently from their own perspectives (Wallace, 1988; Rediker and Seth, 1995; Short, 1996; Keasey and Short, 1997; Shleifer and Vishny, 1997; and Cai, Keaseyand Short, 2006). For example, Maher and Anderson (1999) Craig (2005) view CG from two contrasting angles: the shareholder and the stakeholder model. CG in its narrowest sense (i.e. shareholder model) is used to describe the formal system of stewardship of the board to the shareholders. In contrast, in its widest sense (i.e.

stakeholder model) CG is used to describe the network of relationships between an organization and its various stakeholders. However, it can be argued that there is no need for such a distinction since both models have identified CG as a network of relationships between a company and its stakeholders through which the board is held accountable.

Similarly, the Cadbury Committee (1992) as cited in Alexandra, Reed and Lajoux (2005) defines CG as the system by which companies are directed and controlled. The nature of CG, therefore, going by this definition consists of two dimensions: direction and control. The direction side of CG emphasizes the responsibility of the board to attend to strategic positioning and planning in order to enhance the performance and sustainability of the company. The control side of the definition, on the other hand, emphasizes the responsibility of the board to oversee the executive management of the company in the execution of plans and strategies. Even though it is believed that the definition has appropriately captured the functions of CG, it fails to consider the structures, the systems and relationships through which the direction and control functions take place.

Sanda, Mikailu and Tukur (2005) on their own part, describe 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. However, the major weakness of this definition is its identification of the function of CG with the management alone without incorporating the board, which is an important player in CG. On its part, the Basel Committee (1998) views 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 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. Although this definition has captured the essential components of CG, it has a weakness of attempting to make a distinction between CG in banks and CG in other organizations.

Generally, there are two views of corporate governance. A specific view commonly referred to as the Anglo-Saxon, which sees corporate governance as dealing with the relationship between corporate managers and shareholders. A broader view is the Franco-German paradigm which takes a holistic approach to the concept. It considers the stakeholders i.e. shareholders, creditors, managers, directors, customers, society, government and legal regulatory authorities/agencies. A third view advocates for a mega policy to bind economic theory with public morality **(**Betch and William,2005).

Supporters of the narrow view of corporate governance posit that providers of finance bear a unique relation to the firm. All of their investments are sunk and potentially placed at a risk (Alchain and Demsetz, 1972, Jensen and Meckling, 1976, Hart and Moore, 1990), while the productive assets financed by them normally remains the properties of the corporation (Williamson, 1985, Shleifer and Vishny, 1997). It is therefore argued that, in view of the risk faced by shareholders in the world of an incomplete contract and rent seeking by agents' ex-post, fiduciary duties should be owned to shareholders to compensate for their risk. As a result, Shleifer and

Vishny(1997:737) defined corporate governance as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”.

This definition is limited in that it considers only how owners’ are able to protect their investment, thereby reducing corporate governance to a single problem. Dyck (2002) argues in the same vein by defining corporate governance as a complex set of socially defined constraints that affect the willingness to make investment in corporation in exchange for promises. Denis and McConnell (2003:1) define corporate governance as the “set of mechanisms both institutional and market based that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital).”

Corporate governance could be defined as “ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors (Mayer, 1997: 291-302). It is concerned with the relationship between the internal governance mechanisms of corporations and society’s conception of the scope of corporate accountability (Deakin and Hughes, 1997). Keaseyet al (1997: 20) also defined it as “the structures, processes, cultures and systems that engender the successful operation of organizations”. From the foregoing definitions, corporate governance can be described as the structures and processes laid down by a corporate entity to minimize the extent of agency problems as a result of separation between ownership and control. Different systems of corporate governance embody what are considered to be legitimate

lines of accountability by defining the nature of the relationship between the company and key corporate constituencies.

From the above discourse, it is evident that views differ on the content and boundaries of CG. For some, the essence is the exercise of power by shareholders or stakeholders, while for others it is the formal structure of relationships that involves the control and direction of companies. However, what is clear from the above definitions is that in directing and controlling the affairs of a company, the board has to ensure that it takes due care of the interests of the various stakeholders of the company. The typical arrangements and processes that constitute a CG system such as board composition and functioning, risk management and auditing are all merely the means to ensure that the corporation act in a manner that is fair, accountable, responsible and transparent to all stakeholders.

In conclusion, what is evident from the various definitions reviewed is that CG is the set of structures, processes, cultures and systems through which objectives are set, and the means of attaining the objectives and monitoring performance are determined and companies are directed and controlled. For the purpose of this study, Corporate Governance is referred to as an internal system which entails policies, series of actions and people, which provide for the needs of shareholders and other stakeholders, by directing and controlling management activities with good business acumen, objectivity, accountability, integrity which is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes.

Prominence has been given to corporate governance for the past two decades owing to the significant developments and events which affected the way and manner modern enterprises are directed and controlled. Developments such as the global rush of privatization; pension fund reforms; growth of private savings; the takeovers rush in the 1980's; deregulation and integration of the capital markets; the 1998 East Asia's crisis and the collapse of a number of multinational companies due to poor governance (Betch and William, 2005)

Nigeria as a nation had its quantum of the turbulent times in the 1990s, during which a number of banks collapsed resulting into systemic banking crisis. This was a dramatic situation, resulting to series of corporate meltdowns, financial scandals, frauds and other tragedies, lending to the destruction of billions of shareholders wealth, loss of jobs, dozens of executives were investigated of crimes, and USA had a breaking record of bankruptcy filings. In 2001 alone seven out of the twelve largest bankruptcies in the USA occurred ever in the history (Monks and Minow, 2008:2). Particularly, among these were Enron, Tyco, Adelphia, WorldCom and Global Crossing. What makes this scandal more remarkable is the manner in which every one of the mechanisms set up to provide checks and balances failed to work at the time.

The subject came close to the point of being obsolete but soon gained prominence in headlines, lawsuits and business school courses and attracts the attention of almost everybody today. Since then, countries, supranational institutions and regulatory authorities have issued series of codes in addressing corporate governance issues. An issue which became cleared from the series of failures is that poor governance practices

allow corporate governance insiders (directors and managers) to ransack corporate outsiders, particularly shareholders, depositors and bondholders (Shelifer and Vishny, 1997).

The consequent conflict of interest between owners and managers, sequel to the separation of ownership from control in modern corporations could be address by corporate governance mechanisms. Sound corporate governance needs a complex system of checks and balances to function. A sound corporate governance system goes beyond rhetoric or having best code or structure, it is about making sure that the right questions are asked and deliberate actions taken by checks and balances are in place to minimize self gratifying behavior.

Good Corporate governance is of critical importance for economic growth and development. For a developing country like Nigeria, the need to imbibe good practices governance assumes a greater significance. In the late 1980's and early 1990s, the country witnessed a close collapse of the financial sector due to the unfortunate but avoidable phenomenon of failed banks and other financial institutions. As a policy, government promulgated the failed Banks Act No. 18 of 1994 to prosecute those who contributed to the failure of banks and to recover the debt owned the failed banks. Next, poor governance practices necessitate the privatization and commercialization of public enterprises (PEs).

Poor corporate governance practices were not limited to PEs. Evidence shows that some privately owned companies did not fare any better than PEs with regards to their corporate governance practices. For example, the CBN withdraw the banking license of

Savannah Bank on February 15, 2002 and that of Peak Merchant Bank on 28th February, 2003; due to Management inability and ineptitude; false and unreliable returns; and insolvent and deteriorating financial position of the banks.

2.3 Corporate Governance Models

A number of corporate governance models or conceptual frameworks have been put forward to solve the collective problem which arises as a consequence of a conflict of interests between various corporate stakeholders. This is because it is as a result of conflict of interest that infectious greed, fraud and corruption develop (Adams, 2003). Betch and William(2005) in their comparative review of Corporate governance literature around the world identify eight models of Corporate governance: the takeover model; block holder model; delegated monitoring and large creditors; board model; executive compensation model; multi-constituency model; sharing control with creditors; and sharing control with employees. They conclude that the divergent models can be broadly subsumed into two systems of corporate governance pitted against each other, the Anglo-American market based system and the long term large investor models of Germany and Japan. These models are also referred to as inclusive/exclusive, shareholders/stakeholder, insider/outsider, and bank oriented/market oriented in the literature.

The first paradigm, is the Anglo-American capital market based model, emphasize the maximization ofshareholder value (Berle and Means, 1932; Alchain and Demsetz 1972, Jensen and Meckling, 1976, Shleifer and Vishny, 1997, Macey and O'Hara, 2003; Adams 2003).

Other significant features of the Anglo-American model are its short-term market based perspective and the higher degree of protection it accords minority shareholders. This is understandable given the dispersed ownership structure of US and UK corporations which gives rise to free rider attitude to monitoring by shareholders. However, recent evidence challenges the predominance of dispersed ownership structure in the US. A report released by Federal Reserve Bank (2007:98) indicates that institutional investors control an estimated $24.1 trillion in assets in 2005. The report also shows that institutional investors' ownership of US corporations was progressively increasing reaching a record high of 61.2% of total 2005 US equities. Unlike dispersed shareholders, institutional investors are long-term holders; with an average of thirty (30) years from the time money comes in; to the time it has to be paid out (Monks and Minow, 2008: 152).

The second paradigm is the Japan/German paradigm which focuses on a relationship-based model which emphasizes the maximization of the interests of a broader group of stakeholders. The Germany and Japan model of Corporate governance is dominated by large shareholder and creditors notably banks with a long-term investment horizon. Advocates of the Germany and Japan Corporate governance model, point to the benefits of stable investment that it offers as opposed to the crazy takeover market of the Anglo Saxon model which theoretically induces short-term horizon in investment decisions by managers, (Stein, 1989, Shleifer and Vishny, 1990). Hoshi, Kashyap and Scharfstejn (1990, 1991), show that firms with main banking relationship in Japan go through financial distress with less economic distress and access to financing.

Again, the superior performance of the Japanese and German economies at least until the 1990's has caused many to prefer their governance systems to the Anglo American one (Aoki, 1990, Roe, 1993; Orkham, 1994). Although the permanent shareholders and banks that dominate corporate governance in Germany and Japan have some advantages, there are serious questions about the effectiveness of these investors, largely because their toughness is a doubt (Shleifer and Vishny 1997).

A third paradigm that is gaining momentum, is according to Tabalujan (2002), prevalence in family business in the emerging market economies of East Asia where 15 number of top family groupings control 61.7%, 55.1% and 34.4% respectively of listed assets in Indonesia, Philippines and Hong Kong. ALfarooque and Billy (2007), also documents evidence on the predominance of family owned business in Bangladesh. Williamson (1996) provides an additional perspective of corporate governance from an institutional economics view. This view focuses on two complementary parts. One part deals with the mechanism of governance and the other part deals mainly with back ground conditions (property rights, contract laws, norms etc). La Porta, Lopez-de-Silanes and Shleifer(1997 and 1998) provide an alternative classification of corporate governance system based on country legal origin. They show that the degree of legal protection in different countries correlate very strongly with a classification of the legal system.

2.4 Banks' Corporate Governance Paradigm

The contribution of banks to economic developments has been given much attention in the literature. Schumpeter (1934 and 1955)asserts that financial institutions are a

necessary condition for economic development. This view is corroborated by other scholars like Patrick (1966), Cameroon (1967 and 1972), Goldsmith (1955), MacKinnon, (1973) and Shaw (1973). Banks are critical for economic development due to the role they play in financial intermediation and mobilization of savings (Gibson and Tsakalotos, 1994). Via their role of intermediation, banks are able to link savers and borrowers in a complex chain of exchange and value addition at a reduced cost. Secondly, banks create liquidity in the economy by borrowing short-term and lending long-term. Thirdly, they reduce risk involved in financial transactions. Furthermore, as financial intermediaries they bring the benefits of asset diversification. Lastly, by mobilizing savings from atomized individuals and channeling such savings for productive investments, they tackle the problem of indivisibility in financial transactions.

It is in recognition of the critical role of banks in economic development that they are regulated closely to avoid failures and its contagious effect on the economy. Bank failures may produce losses to depositors and other creditors, disrupt the payment system and spread quickly to other banks, financial institutions and markets and even to the entire economy.

The governance of banks assumes a critical role given their importance. Empirical research suggests that well functioning banks promote economic growth. In the same vein, efficient mobilization and allocation of funds by banks lowers the cost ofcapital to firms and accelerates capital accumulation and productivity and growth (Laevert, 2007). In addition, if bank managers are subjected to sound governance mechanisms, they will be more likely to allocate capital efficiently and exert effective governance over the firms

they fund. In contrast, if bank managers enjoy enormous discretion to act in their interests, then banks will correspondingly be less likely to allocate society's savings efficiently and exert sound corporate governance.

Academics have expressed contradicting views on how to address agency problems related to bank governance and whether banks' corporate governance is different from other non-financial institutions. Leaven (2003) is of the opinion that while banks are important, this does not motivate a separate analysis of the governance of banks, because banks are also firms with shareholders, debt holders, boards of directors, competitors, etc. Thus, one can simply think about governance of banks in the same way that one thinks about the governance of a shoe company, or an automobile company. Ciancinelli and Gonzalez (2000), however, argue that the agency problems faced by banks are more complex because in addition to regulation which affects competition, banks face three additional loci of asymmetric information: (1) between depositors, bank and the regulators, (2) between owners and, (3) between managers and regulators. They therefore argue that the nature of banking firms is qualitatively different from the nature of firm implied by agency theory. According to them the general notion of agency problems are sufficiently abstract, in particular concepts of the market and the firm which under-pins its use in finance research are ill suited to the position and the study of bank, and therefore, bank's Corporate governance.

According to Leaven (2007), banks are special both in terms of their complexity and opaqueness which intensifies the severity of the agency problem. He argues that, due to the negative externalities of bank failures, the society may be more concerned about

bankruptcies in banks than in other firms. He posits that banks generally are highly leveraged thus exacerbating the agent/shareholder problems and that bank debt holders are mainly depositors whose incentive to monitor managers will not be effective due to deposit insurance, diffusion and consequent free rider attitude.

Information asymmetries make it difficult to design contracts in terms of incentive contracts that align managers' interest with bank shareholders in a situation where outcomes are difficult to measure and easy to influence in the short run, managers will find it easier to manipulate pay off from compensation packages. Consequently, bankers who are interested in boosting their compensation package in the short run may decide to give a high interest loan to a borrower in trouble thereby boosting their income. Also, by controlling large pool of resources, bankers can move asset prices that trigger payments to themselves under incentive contracts. Furthermore, since managers often control the directors that write the incentive contracts, they can influence the design of a scheme that benefits them at the expense of the long run health of the bank. Banks are regulated to address the twin problems of opacity and information asymmetry which tend to limit the ability of shareholders and debt purchasers to exert corporate governance.

In the banking sector, there are unusual agency problems. The conflict areas involve more than two parties simultaneously. Bank shareholders tend to invest their capital equal to or little more than required by regulator. This condition increases shareholders' incentives to maximize their utilities by exploiting other suppliers of funds. Most suppliers of funds in banking sector are investors who have only small portions in the bank, such as individuals and institutional depositors. Bhattacharya , Boot and Thakor,

(1998) agree that banks' loan portfolio is highly fungible, owing to the fact that the monitoring and control power of individuals and institutional depositors is not enough. Hence, information becomes incommunicable and very costly to be revealed. In this state of nature, external market for corporate control potentially fails to discipline the managers and owners of banks.

Another view is that government regulates banks due to their economic significance and because bank failure exert undesirable economic consequences throughout the economy. Assuming that governments have the ability will to overcome market and institutional failures; regulation can enhance corporate governance of banks.

A contrary view holds that governments do not have the will to overcome information transaction costs, but instead government regulates and own banks for different reasons. Banks have money, so governments have incentives to tax banks as a source of fiscal revenue and may also induce banks to lend to political associate/ favoured customers. Also due to the resources at the disposal of banks, there is the tendency for banks to pocket regulators to serve the interest of incumbent bankers rather than promote social welfare.

Buchanan and Tullock (1962) hold the view that government's regulators do not maximize social welfare, rather they maximize their own welfare. Shleifer and Vishny (1997) agrees with this view, saying that rather than exerting a 'helping hand' to ease market failures, government may instead use a 'grabbing hand' to satisfy political objectives.

There's also the view that regulators take advantage of their position as bank supervisors to take job with banks they supervise. According to Hiriuchi and Shimizu (2001), the regular descent from heaven (amakudari) of banks in Japan led to less safe banking. Banks with *amakudari*officers are less efficient and perform more poorly had lower capital levels and higher non performing loans than banks without them. Thus, the political/regulatory capture view suggests that direct official supervisions of banks my actually reduce the efficiency of corporate governance of banks.

Macey and O'Hara (2003) argue that the intellectual debate on corporate governance focuses on two very different issues; exclusively protecting the interest of equity claimants (the Anglo- American model) or expanding its focus to deal with the problems of other groups called stakeholders or non shareholder constituencies (the Franco-German model). They argue that the scope of the duties and obligation of corporate officers should be extended in the special case of banks to ensure the safety and soundness of these firms due to their liquidity role, stronger conflict of interest between shareholders and creditors and higher leverage compared to non bank firms. They recommend for a hybrid approach to corporate governance in which most firms are governed according to the US model, while banks are governed according to a variant of Franco-German paradigm.

From the foregoing, it is agreeable that banks are unique and their governance should be separately designed to comprehensively address the moral hazards inherent in banks. Contrary to the calls for increase deregulation and market discipline, it is doubtful if the risk inherent in banking can be tackled by competition and market discipline. The

painful lessons of the current global economic crisis and financial meltdown which spread in commando fashion like wild fire destroying trillions of dollars of investors' funds attests to the fact that banking business is too strategic to be left to the vagaries of market forces. The reality is that governments could only ignore financial institutions to their economic damnation and ruin.

2.5 Board Characteristics and Loan portfolio of Banks.

It is a widely-accepted view that the characteristics of the board of directors could play a vital role in determining Loan portfolio of Banks (Hermalin and Weisbach, 2003). In the past decade, boards have made an increasing number of appointments from a wider range of demographic, educational and social backgrounds. In the wake of the ongoing financial crisis, the obligation of bank boards to monitor managerial risk-taking has come under increased public scrutiny.

Agency theory posits that the separation of ownership and control leaves management exposed to conflicts of interest and shareholders vulnerable to disappointing returns on their investment (Jensen and Meckling, 1976). Fama (1980) argues that, while the board is the most important internal control mechanism for promoting and protecting shareholder interests, boards can only fulfill this monitoring role when they provide high-quality and impartial advice. Board of director literature tells us, board characteristics can affect organizational quality of loan portfolio.

2.5.1 Gray Directors and Loan Portfolio

An emerging literature in corporate governance assesses the role of gray directors, i.e., non-executive members of the board with social ties to the CEO (Kramarz and Thesmar, 2007; Cohen et al., 2008; Hwang and Kim, 2008; Schmidt, 2009; Fracassi and Tate, 2009). The idea that directors care about their reputation dates back at least to Fama (1980) and Fama and Jensen (1983); both studies hypothesize that a director.s reputation has instrumental value in the market for directors. A number of empirical studies, which typically proxy a director's reputation by her .popularity.in the market for directors, have found support (Gilson, 1990; Kaplan and Reishus, 1990; Brickley et al., 1999; Coles and Hoi, 2003; Harford, 2003; Yermack, 2004; Fich, 2005).

Albornoz (2007) report, gray directors (non executive and non independent) is related to information quality as their presence reduces earnings management adjustments. In opposition to previous Spanish evidence on the effect of board composition on earnings quality (Garcia and Gill de Albornoz, 2007), gray directors do not seem to play a significant role in the amount of bank information disclosed.

Together with the evidence on these articles, others as Ho and Wong (2001) do not find a significant relationship between gray directors and loans. However, due to the inconsistency of their results with previous empirical evidence (Chen and Jaggi, 2000; Forker, 1992 or Leftwich et al., 1981) the authors As Cheng and Courtenay (2006) assert, board effectiveness depends on its composition, independence and size (John and Senbet, 1998). Composition and independence are closely related, as board independence

increases with the proportion of independent directors (Cheng and Courtenay, 2006). Similarly, board independence and size are related too, as the larger the board the higher tends to be the number of independent directors (Matolcsy et al, 2004). Denis and Sarin (1999) and Lim et al (2007) found a positive relationship between board size and board independence while Denis and Sarin (1999) and Gul and Leung (2004) found a positive relationship between board size and company size.

Carcello and Neal (1999) find that the percentage of gray directors is negatively associated with loan portfolio.Abbatt and Parker (2000) did not find difference between companies without gray directors in term of choosing an industry specialist as auditor. Vicknier et al (1993) found that 74% of their sample companies had at least gray directors and the difference in the proportion of companies with solely independent directors.

2.5.2 Board Composition and Loan Portfolio

The effectiveness of the board depends in large part on how well its members work together to ascertain and address issues important to the bank's future. Membership on a bank's board gives a person a valuable opportunity to share his or her expertise with the bank, help the community, and advance professionally. The position of director is prestigious, identifying the incumbents as trusted and respected members of the communities in which the bank operates. At the same time, a well-respected individual's alliance with a bank may lend stature to the bank. Board membership is also an opportunity to contribute to the local economy's growth and development.

The effect of executive board's composition on loan portfolio reflects a growing debate in the economics and finance literature about its effect on economic outcomes (e.g., Schubert, Brown, Glysler, and Brachinger (1999); Croson and Gneezy (2009)). Board composition may be as a result of agency problem and regulatory mandates about board composition may be beneficial to investors (Linck et al., 2008). For example, Yeh and Woidtke (2005) find that negative effects will induce the controlling shareholders to select an inefficient board "when that shareholder: (1) has a greater divergence in control and cash flow rights, (2) is a member of the controlling family, and (3) is the firm's CEO and chairman". If the alternative argument is true, we will find that the board size and the proportion of outside directors decrease with the level of private benefits available to managers.

In any case, there was a negative relationship documented in Gul and Leung (2004), Eng and Mak (2003) or more recently Barako et al (2006) on board composition and loan. Cheng and Courtenay (2006), Eng and Mak (2003) pointed out a positive relationship between board composition and loan portfolio.

2.5.3 Women Directors and Loan Portfolio

In many countries, the question concerning getting more women on boards and in top executive jobs become a highly debated issue. For example, in Norway's case, the political initiatives are regulating the proportion of women among board members. The results to Danish firms also showed to some extent supporting the view that a more

gender diversity in top management positions would improve the financial performance (Smith, Smith and Verner, 2006, p.588). It is argued that women directors on corporate boards offer many contributions. Corporations can gain competitive advantage by being receptive to women's contribution at the top (Huse and Solb, 2006, p.113). For example having women on boards affects the reputation of a company, provides strategic input on women's product/market issues and company direction, improves the constructiveness of board processes and deliberations, and contributes to the firms' female employees (Burke, 2003, p.347).

There are reasons which are supported by a demographic case in favor of women corporate directors. First current male directors are aging and many are soon to be retiring. Second, as board membership requirements and greater understanding of the working of any particular firm increase, male board members will hold fewer directorship. In addition, fewer qualified males will be available when demands for knowledge and skill are raised. Apparently there was not a critical requirement for some board members in the past which opened up more opportunities for women (Burke, 2003, p.347).

Since, women are particularly sensitive to exercise influence on decisions related to certain organizational practices: such as corporate social responsibility and environmental politics, they may contribute substantial help to the board control tasks for issues of strategic nature. Therefore it is expected that boards with a higher ratio of women

directors may be more effective in performing strategic control tasks (Nielsen and Huse, 2010 p.138).

Bohren and Strom (2005) report a negative influence of gender diversity on banks loan whereas Smith et al., (2006) report a positive relationship between female representatives in the top management and lending activities in Danish banks. The latter result is confirmed by Carter et al., (2003) in a study of U.S. based firms. Rose (2007), evaluates the effect of having women on boards of directors in Danish listed banks. The results indicate no significant relation between the presence of women and banks' loan. One explanation, put forth by Rose (2007) is that, in order to be accepted, new "unconventional" members need to adopt the behavior of the more conventional board members and business leaders which removes any possible effects of women on the board. This non-significant relation between women directors and board composition is confirmed by Randoy et al., (2006). Haslam and Ryan (2008) further investigate WOCB appointments on both accountancy-based and stock-based measures, finding no relationship between women's presence on boards and "objective" accountancy-based measures of performance (ROA, ROE), thereby supporting the recent Adams *et al.* (2008) study. However, there is a significantly negative relationship with Tobin's Q (Haslam and Ryan, 2008).

2.5.4 Board size and Loan Portfolio

The function of the board of directors is to minimize the agency cost that arises from the separation of ownership and control in firms (Fama and Jensen, 1983). The

board of directors receives authority over the internal control of the firm from other shareholders. They are responsible for monitoring management to ensure that it acts in the shareholders' best interests. Although the board delegates most decisions and control functions to top management, the board retains ultimate control (Beasley, 1996). One characteristic that is claimed to have an impact on the effectiveness of the monitoring function is the number of members on the board. Existing studies of the relation between board size and banks loan have shown mixed results. A larger board is viewed as having greater ability to safeguard shareholders' interest as it has more capabilities (Zahra and Pearce II, 1989), a broader range of experience (Xie, et al., 2003), and varied expertise (Rahman and Ali, 2006), all of which could increase the synergetic governance of the board. However, the drawback is that larger boards may be slower in making decisions and more likely to oppose innovation.

Yermack (1996) shows that companies with smaller boards have higher market valuations in the U.S.A, similar result is reported by Vafeas (2000), who suggests that loan management in banks with the smaller boards (five members on the board) are viewed as more informative by the market. Both of these studies support the theory that timely decision-making and better communication of smaller boards outweighs the higher effectiveness of large boards in controlling and monitoring. On the other hand, several studies have documented conflicting evidence. Larger boards are associated with (i) lower underpricing for firms undertaking an initial public offering (Certo, et al., 2001), (ii) better updates of management earnings forecasts (Karamanou and Vafeas, 2005), and (iii) lower variability of corporate performance (Cheng, 2008). In short, these studies

suggest that firms with larger boards have higher management quality of loan. The Nigerian Securities and Exchange Commission (SEC) Code of Corporate Governance (2003), states that however, that the size of the board should not exceed 15 persons or be less than 5 persons in total.

2.6 Theoretical Framework

Theories and models which explain CG studies are well documented in the literature of accounting and finance. In this respect, three contrasting models (namely Exclusive Vs Inclusive model, Conformance Vs Performance model and Enterprise Vs Regulatory model) and four theories (namely the Stewardship theory, the Theory of the firm, the Stakeholder theory and the Agency theory) are found to provide the theoretical framework for studies on CG (Collier and Roberts, 2001; Goodpaster, 2004; and Rossouw, 2005). The theories and models are reviewed with a view to selecting the ones that most appropriately explain this study.

Firstly, in the Exclusive model of CG, the directors are regarded as the agents of shareholders, and in that capacity, they have to direct and control the company to the benefit of the shareholders alone. Thus, the responsibility of the directors does not extend to other stakeholders such as creditors, bankers, relevant tax authorities, employees, the general public etc (Collier and Roberts, 2001). In contrast, the Inclusive model focuses on the responsibility of directors to a coalition of stakeholders (Goodpaster, 1993; and Collier and Roberts, 2001). From the above discussion, it can be seen that while the exclusive model takes care of the interest of shareholders only, the inclusive model takes

care of the interest of all stakeholders, including government for tax and other purposes. This study is aligned to the inclusive model.

Furthermore, the Conformance Vs Performance model which views CG as consisting of two dimensions, i.e. direction and control. The direction side of CG emphasizes the responsibility of the board to attend to strategic positioning and planning in order to enhance the performance and sustainability of the company. The control side, on the other hand, emphasizes the conformance responsibility of the board to oversee the executive management of the company in the execution of the plans and strategies of the company. This responsibility results in the board giving account of the performance of the company to stakeholders and regulatory bodies (Rossouw, 2005). Although the model emphasizes on the strategic positioning and overseeing function of CG, what is needed is a sound balance between performance and conformance.

Finally, the Enterprise Vs Regulatory model assumes that governance can either be made based on management policies or based on statutory provisions. There is therefore the need for a distinction of the basis of governance. On the enterprise level, governance refers to the way in which the company directs and controls its own affairs, while governance on the regulatory level refers to the regulatory environment within which corporations function (Rossouw and Van-Vuuren, 2004). In Nigeria, for example, regulatory governance consists of the control over companies that are exerted from the outside by the CBN, SEC, NDIC, CAC, NSE and other regulators, all of which combined to form the landscape of regulatory governance. The purpose of such control over the operations of companies is not only to lay down ground rules for key role players, but

also to provide protection to all stakeholders. In Nigeria, for example, such provisions are provided under CAMA (1990) S. 63 (5), S.280 (4), S. 284, S. 286, S. 408, S. 311, 314 and S. 315.

From the three contrasting models reviewed (i.e. Exclusive Vs Inclusive model, Performance Vs Conformance model and Mandatory Vs Self-regulatory model), it is believed that the inclusive model of CG is the one that best explains this study. This is in view of the understanding that although governance can be done at the enterprise level or at the regulatory level, or done by performance or conformance, if the concern is only on the shareholders, then directors may not enjoy the full support of other stakeholders and a company may not therefore succeed, which contradict the doctrine of corporate governance in solving agency problem.

On the other hand, the literature suggests that there are four theories which can be used to examine CG studies namely, stewardship theory, theory of the firm, agency theory and stakeholder theory (Ross, 1973; Fama 1980; Krieger, 1991; Roth and O'Donnell, 1996; Sanders and Carpenter, 1998; Chang, 1999; and Hamilton and Kashlak, 1999).

According to the stewardship theory, managers are good stewards of the company assets. Managers do not misappropriate corporate resources because they have a range of non-financial motives, such as the intrinsic satisfaction of successful performance and the need for achievement and recognition. This in essence will make them appreciate their fiduciary duty towards the owners of the companies (Roth and O'Donnell, 1996; Trickler,

1996; Sanders and Carpenter, 1998; Chang, 1999; Hamilton and Kashlak, 1999; and O'Donnell, 2000). This theory therefore requires the directors of a company to be accountable to owners for their stewardship over the company's resources, subject to the report from an independent auditor to the members that the accounts show a true and fair view.

The theory of the firm recognizes that for production to take place with a view to creating utility, four factors have to be involved. These factors are namely land, labour, capital and entrepreneur. The entrepreneur (the board of directors in this case) is thus recognized as the most important of these factors, since it is in its hands that CG as know today is vested (Donaldson and Davis, 1991). This theory shows the importance of the board in the creation of utilities thus enabling all other factors of production to earn their rewards.

The Agency theory sees the directors as the agents of the shareholders and therefore the need for them to act in their best interest. Under this relationship, the agent may not always act in the best interest of the principal. An agency problem therefore arises from the separation of ownership (principal) and control (agent) in the organization. Agency theorists believe that managers (agents) may pursue opportunistic behaviour which may be in conflict with the goals of the owners (principal) and hence destroy shareholders' wealth. Advocates of the agency approach see the board of directors as "an economic institution that helps to solve the agency problems inherent in managing any organization" (Hermalin and Weisbach 2000:1).

Lastly, the Stakeholder theory holds that companies are accountable for their stewardship over the resources entrusted to them by a coalition of various stakeholders which include shareholders, employees, suppliers, bankers, regulatory authorities, relevant government agencies, pressure groups, debenture holders and members of the general public (Jensen &Meckling, 1976; Chang, 1999; and O'Donnell, 2000). Responsibility of directors is therefore to a numerous groups and individuals. In a nut shell, the stakeholder theory is concerned with resolving problems that may occur in the relationship between two major groups, the stakeholders and managers (directors).

One of the criticisms of Agency Theory is that it provides a short term perspective and explanation of the purpose of the firm (Freeman, 1984; Freeman, Wick and Parmar, 2004). Also, critics argue that its scope is narrow, since it projects the activities of the firm from the perspective of the shareholders only. An alternative proposition known as the Stakeholder Theory suggests that a firm's activities should be projected on longer and broader perspectives (Freeman, 1984). The theory posits that the essence of corporate activity is not only for the benefit of the shareholders, but also for the benefit of all relevant stakeholders (including the shareholders) and it is all these relevant stakeholders who should be the main remit of the modern firm (Freeman, 1984; Cadbury, 1992; Jensen, 2001). It argues that firms should be managed in such a way that they coordinate the diverging interests of their numerous stakeholders including employees, shareholders, customers, suppliers, the government and society in general. This consideration should

thus impact upon the formulation of the corporate strategy of the organisation as a whole (Marcoux, 2003).

The arguments for the stakeholder view of the corporation have often been premised on moral and business ethics (Phillips, 1997).

Stakeholder Theory is very important in the context of a spectrum of discussions on Corporate Governance, not least the form of the control mechanisms adopted, and the possibility of control mechanisms playing substituting and/or complementary roles (Fung, Rui and Firth, 2002). The continental European model of Corporate Governance is known to favour the stakeholder perspective of the firm (Moerland, 1995). This is evident in the structures and composition of the board of directors and in the roles played by other stakeholders. For example, it is normal for financial institutions to own substantial stakes in companies in Germany or France and it is also usual that they have a representative on the governing board of such companies, in addition to the earlier mentioned roles of the employees in the firm's management. This governance arrangement has been argued to provide financial stability for these firms and also to ensure closer monitoring from the financial investors (Goergen et al, 2007).

In other words, the board of directors is one of the internal control mechanisms designed to address the conflicts of interest between managers and shareholders, and to bring their interests into congruence (Walsh and Seward, 1990). Within this context, a board of directors is the guardian of shareholders' fund and fulfills the critical tasks of hiring, firing and compensating the CEO (top management) and to ratify and monitor

important decisions (Fama and Jensen, 1983b). However, this theory best suit framing the variables of the study.

From the theories and models reviewed, it is believed that the theory and the model which best explain the study are the stakeholder theory and the inclusive model of CG, which see the board of directors as agents, due to its logical arguments of self interest, empirical appeal as evidenced by the wealth of research by scholars of corporate governance, legal structure and ownership patterns of Nigeria's companies captures the key postulations of this theory and a vehicle for co-opting important external organizations with which the company is interdependent. This substantially conforms to the aim of this study.

2.7 Summary

The review of the empirical literature on CG reveals that there is the need to have the right structure of board characteristics to enhance the role of the board in serving as an effective monitoring and supervisory device. Evidence from empirical studies on board composition produced both positive and negative relationships with the loan portfolio maintain by the banks, and the relation between percentage inside directors and banks' loan portfolio also produced mixed results. Similarly, findings on gray directors and loan portfolio have generally shown that the greater the percentage of gray directors on the board, the smaller is the influence on loan portfolio and lastly, the percentage of women directors on loan portfolio of deposit money banks depicts a mixed results, in that

women directors for our study shows that the more the number of women directors the less the loan portfolio. It can therefore be concluded that the relationship between CG and firm's specific variables is not absolute but relative.

The chapter also concludes that even though there are a number of CG provisions that every bank in Nigeria is required to abide by (CAMA 1990, BOFIA 1991, ISA 1999, NDIC Act 1988, the CBN Act of 1991, the various prudential guidelines issued by the CBN, the listing requirements of the NSE, the SEC Rules, SEC CCG 2003, CCG for Banks 2006 post-consolidation, and the SASs) CG has generally been weak in the industry in the past, which signals the need for greater oversight function by regulators.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter explicates the methodology used for the study. It considers the methods of investigation, data collection, analysis and interpretation for the purpose of establishing the relationship between the variables under study. It also discusses the research design, population of the study, sample size and sampling technique, research instruments and techniques for statistical analysis of data.

3.2 Research Design

This research has adopted correlational research design. The hypotheses used data obtained from documented historical data contained therein the annual reports and accounts of those banks under study, where the variables of study were not controlled since the phenomenon of the study has already occurred. This design is considered appropriate for determining the effect of board characteristics on banks' loan portfolio of the Nigerian banking sector.

3.3 Population of the Study

The population of the study consists of all the twenty one (21) quoted DMBs operating in Nigeria as at 31st December 2010. The period of the study (2005 -2010) is a watershed in the banking sector reforms culminating in the consolidation of the sector and shoring up of DMBs capital base to ₦25 billion. It is also within this period that the code of corporate governance for DMBs was issued. The choice of quoted banks is informed by two reasons: (i) being quoted on the stock exchange imposes stringent

reporting, disclosure and corporate governance requirements and (ii) availability of data (Tahir, 2008). The 21 banks that were quoted on the Nigerian Stock Exchange constitute the population of the study, list of which is found in appendix I.

3.4 Sample Size and Sampling Technique

In drawing the sample, effort was made to determine an adequate sample size for the study, bearing in mind: the nature of the population; the type of sampling design, and; the degree of precision desired. In view of that, the sample size of the study is derived using the sample selection formula used by Collins and Schu1t (1995).

$n= N/ 1 + Ne^2$

Where

N = size of the population

n = the sample size

e = the marginal error at *25%.*

The sample of the study was determined as follows.

N=21, and e = 25%

$n =21/1+21 (0.25)^2$

n = 21/ 1+21 (0.0625)

n=21/l + 1.31

n= 21/2.25therefore, n= 9.09

From the above, the sample of the study is approximately nine (9) banks out of 21 quoted banks in the Nigerian banking sector. Hence, the sample of the study comprises of nine banks, using the Systematic sampling technique in the selection of the banks under consideration. Systematic sampling technique formula: $K = \frac{N}{n}$

Where N = Population of the study

n = sample size of the study

Therefore, $K = \frac{21}{9}$

$= 2.33$

The sample of this study was drawn with a view to ensuring reliability and accuracy of the data and eliminates chances of biasness in the selection process. The sampling was designed in a way that every element of the population has an equal and independent chance of being included by allowing randomness to prevail in the selection process. In other words, the twenty one (21) banks that formed the population of the study (see Appendix I) were arranged alphabetically, from A- Z, and every k^{th} term (the 2nd bank) was chosen, thereby selecting nine (9) banks from the total population of twenty-one (21) banks. In this way every element of the population was given an equal and independent chance of being included in the sample. Appendix II presents the sample size of the study.

3.5 Methods of Data Collection

For the purpose of this study, the method of data collection comprises secondary sources. The secondary data were obtained from the annual reports and accounts of the

sampled banks and NSE Fact Book of 2010 in order to achieve the objectives of this study. However, this study differs from most of the previous studies for the fact that it focuses primarily on board characteristics and the effect they have on loan portfolio of deposit money banks in Nigeria.

DATA DESCRIPTION

Variable	**Definition**
Board Characteristics	
Grays	Number of directors who are not employees of the firm, but receive payment from the firm for services unrelated to director duties such as consulting, working for a law or accounting firm that provides services for the firm.
Board Composition	The board composition on the board
Women	Number of women director on the board.
Board Size	The total number of directors on the board
Banks Loan Portfolio Variables	
Real Estate	Loans secured primarily by real estate, whether Loans originated by the bank or purchased.
Commercial and industrial loans.	Excludes all loans and secured by real estate, loans to individuals, loans Industrial to depository institutions and foreign governments, Loans to states and political subdivisions and lease financing receivables.
Consumer Loans	Loans to individuals for household, family, and other Loans personal expenditures including outstanding credit card balances and other secured and unsecured consumer loans.
Agricultural Loans	Loans to finance agricultural production and other Loans to farmers. Excludes savings institutions filing a TFR.
Variable Measurement	
Loan Portfolio	Is the total sum of the loans
Gray Directors	The Number of Gray Directors divided by the total number of directors
Board Composition	The Number of Independent Directors divided by the total number of directors
Women Directors	The Number of Outside Directors divided by the total number of directors
Board Size	Is the total number of directors on the board.

Source: Compilation by the researcher 2011

3.6 Techniques of Data Analysis

In pursuance of the objectives and testing the formulated hypotheses of the study, multiple regressions are employed for data analysis and regressing the dependent variable against the independent variables respectively.

Specifically, we collected the following variables: the board composition, percent of gray directors, percentage of women directors and board size.

Model Specification

The model used to examine the hypotheses of this study is presented below. The first model is the functional model from which the second model-the OLS is derived.

$$LORPTln_{it}=f(\square_1 PGDIR_{it}, \square_2 BCs_{it}, \square_3 PWDIR_{it}, \square_4 BSz_{it}) + \mu_{it} \ldots\ldots\ldots\ldots\ldots (i)$$

$$LORPTln_{it}= \alpha_{it}+\square_1 PGDIR_{it}+\square_2 BCs_{it}+\square_3 PWDIR_{it}+\square_4 BSz_{it}+ \mu_{it} \ldots\ldots\ldots (ii)$$

Where:

α = is the intercept

$\square_1$ - $\square_4$ = are the various slope coefficients.

i = represents the firm (which is the cross-section)

t = represents the time/year (which is the time series)

μ_1 = is the error term.

$LORPTln_{it}$= Natural log of Loan Portfolio

PGDIR = Percentage of Gray Directors

BCs = Board composition

PWDIR= Percentage of Directors who are women.

BSz = Board Size

3.7 Summary

This chapter considers the correlation research as a design, population of the study is 21 deposit money banks in Nigeria, nine banks are the sample size and systematic sampling technique is use and methods of data collection is secondary in nature. The dependent and independent variables used in the study and method of data analysis were specified. It highlights the variables measurement, justification of the methodology and data description as well as the procedure of testing the hypotheses.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents, interprets and analyses the data generated for the study. The data relating to each of the statistical hypothesis of the study are presented and analyzed together to enable test of the hypotheses and inferences to be drawn. The chapter discusses the findings of the study as well as policy implications.

4.2 Presentation and Analysis of Results

Table 4.1 presents the main results of the sampled banks used in the regression analysis. The data were condensed to suit the appropriate analytical tool. Mean as a measure of central tendency was used in averaging the data to suit the model specification of the study. In the model specification, loan portfolio (LORPTln), serves as the dependent variable, while percentage of gray directors (PGDIR), board composition (BCs), percentage of women directors (PWDIR) and board size, served as the independent variable for the regression equations.

4.3 Descriptive Statistics

Table 4.1 shows the mean, standard deviation, mode, kurtosis and skewness, values of variables developed in the study. The full results are contained in Appendix (III).

Table 4.3 ***Descriptive Statistics Table for the Variables***

Variables	LORPTln	PGDIR	BCs	PWDIR	BSz
Mean	16.6819	0.0778	-0.1528	0.1093	15.0370
StdDiv	2.6883	0.0386	0.0436	0.0351	2.9458
Kurtosis	-.593	.227	1.969	-1.760	-.562
Skewness	-.788	-.205	.492	-.247	.698
Max	20.11	.14	-.02	.15	20.00
Min	10.94	.00	-.25	.06	11.00
Count	54	54	54	54	54

Source: Computation by the researcher using SPSS

From the above table, the average loan portfolio of deposit money banks is 16.6819, percentage of gray directors 0.0778, board composition accounted for about -0.1528, percentage of women directors 0.1093 and board size accounted for 15.0370. This portrays that board size has more influence on the dependent variable. The standard deviation percentage of gray directors' 0.0386, board composition accounted for about 0.0436, percentage of women directors 0.0351 and board size is 2.9458. In terms of dispersion, board size is more disperse as compare to the other independent variables (percentage of gray directors, board composition and percentage women directors). The result of skewness ranges between – 0.788 and1 0.698, whereas the result of the Kurtosis is in the range of -1.760 and1.969. As for the extent of dispersion, loan portfolio has the largest standard deviation. A cursory look at the observations in all the variables disclosed data non-normality distribution. This can be buttressed from both the kurtosis and the level of the descriptive statistics. Although, kurtosis for percentage gray directors,

board composition, women directors and board size are less than 3, which is the value generally considered moderate.

4.4 Correlation Matrix

The table below contains the total variables use for the study (both dependent and independent) and their various relationships with each other.

Table 4.4 Correlation Matrix of the Dependent and Independent Variables

Variable	LORPTln	PGDIR	BCs	PWDIR	BSz
LORPTln	1.000	.700***	.303**	.686***	-.619***
PGDIR		1.000	-.114	-.685***	-.605***
BCs			1.000	-.273**	-.037
PWDIR				1.000	-.519***
BSz					1.000

Source: Computation by the researcher using SPSS

The symbol ***, ** represents 1% and 5% respectively.

The results presented in the correlation matrix table above (table 4.4), confirm that percentage of gray directors (PGDIR), board composition (BCs) and percentage of women directors (PWDIR)have positive correlation whereas board size (BSz),is negatively correlated with the loan portfolio (LORPTln). This therefore, means that an increase inthe percentage of gray directors, board composition, and percentage women directors will result to an increase in banks' loan portfolio. On the other hand, a decrease in board size will lead to decrease in banks' loan portfolio, which is less than the critical value of 0.8 suggested by Hauser (1974) above which multicollinearity may constitute a serious problem affecting the regression analysis. The correlation matrix also reveals that all the independent variables are not significantly related, which reveals the absence of multicollinearity.

4.5 REGRESSION RESULTS

The regression results dealing with the effect of board characteristics on banks' loan portfolio in Nigeria are presented in this section. The study uses four explanatory variables for the purpose of explaining and predicting the effects of board characteristics on the loan portfolio of banks. The priori expectation is that, no significant relationship exists between board characteristics and banks' loan portfolio. The regression results are presented in the Table 4.5 below. The detail results are attached in Appendix III.

Table 4.5 Board characteristics and Loan Portfolio of Nigerian Banks

Variables	**Coefficient**		**VIF**	**T-value**	**P-Value**
Constant	26.704			19.904	.000
PGDIR	34.938		2.711	3.796	.001
BCs	19.392		1.327	3.404	.001
PWDIR	10.433		2.505	1.071	.049
BSz	-0.213		1.635	-2.273	.027
R^2		.684			
Adj R^2		.659			
F- Stat		26.562			
F- sig		.000			
DW		1.761			

Source: Computation by the researcher using SPSS

The Model estimated for the study is presented as:

$LORPTln_{it}$=26.704 - 34.938(P$GDIR_{it}$) +19.392 (BCs_{it}) +10.433 (P$WDIR_{it}$) -0.213(BSz_{it})

The results show that the estimated model of the study is fit because all the explanatory variables are significant in determining the dependent variable and are not related. This is confirmed by the value of adjusted R^2 which is above 50%.

It has been hypothesized that percentage of gray directors has no significant effect on loan portfolio of DMBs in Nigeria. The regression results reveal that, the coefficient in

respect of the percentage of gray directors is 34.94, which implies that for every 1% increment of gray directors the quantum of loan will increase by ₦34.94k and the t-value of 3.796 which is significant at 1% (See Table 4.5). This signifies that, the percentage of gray directors has a positive effect on the management efforts towards increasing the quantum of loan portfolio in the Nigerian Banks. The implication is that, the higher the percentage of gray directors on the board the more disbursement of loan and this will subsequently attract more interest thereby reduce its loan portfolio. The significant level of 1% produces an evidence of rejecting hypothesis one of this study.

Next, the regression results depict that, the coefficient of the board composition is 19.39, implying that for every 1% increment in the composition of the board, the quantum of loan will increase by ₦19.39k with the t-value is 3.404 and is significant at 1% (See Table 4.5). This signifies that, board composition has a positive effect on the management efforts towards increasing the quantum of loan portfolio in the Nigerian Banks. This implies that the composition of the board will improve the disbursement of loan and will subsequently attract more interest thereby improving its loan portfolio. The result provides us with sufficient evidence of rejecting the hypothesis two of the study even at 1% level of significance.

Again, it has been observed that the coefficient of women directors reveals a positive value of 10.43, the t-value of 1.071and statistically significant at 5% (see table 4.5). The implication for this is that, for every 1% increment in women directors the quantum of loan will increase by ₦10.43k. This signifies that, percentage women directors have a positive relationship on the management efforts towards increasing the

quantum of loan's portfolio in the Nigerian Banks. Thus, an increase in the percentage women directors will increase or effect of the management effort to control the level of loan disbursement in DMBs. Implying that, at1% level of significance produces an evidence to rejecting hypothesis four, that women director have no significant contribution on the loan portfolio of deposit money banks in Nigeria of the study.

Furthermore, we have hypothesized that board size has no significant effect on loan portfolio of DMBs in Nigeria. The coefficient of the regression result of -0.213, signifying negative effect on the management efforts towards increasing the quantum of loan portfolio in the Nigerian banks at 1% significance level, implying that for every 5% increment of board size the quantum of loan will increase by 0.213k, with a t-value of -2.273 (see table 4.5). The implication to this effect is that the null hypothesis four is rejected thus.

The cumulative influence of all the exogenous variables put together is able to explain the variation in dependent variable up to 66% as indicated by the adjusted R^2 and remaining 34% is controlled by other factors. Similarly, the result of the F- statistic value of 26.56 implies that the model is well fitted and significant at 1%. This provides evidence that the model fits the data well and the joint effect of the explanatory variables is statistically significant in explaining the dependent variable. The Durbin- Watson of 1.761 indicates a tolerable serial correlation within the period of the study.

The tolerance value and the variance inflation factor (VIF) are two advanced measures of assessing multicollinearity between the independent valuables of the study. In appendix iii, the variance inflation factors were consistently Smaller than ten

indicating complete absence of harmful multicollinearity (eg Neter, Wasserman, and Kutner, 1985; 1996 and Cassey, *et al*; 1999). This shows the appropriateness of fitting the model of the study with the four independent variables. In addition, the tolerance values are consistently smaller than 1.00 thus, further substantiates the fact that there is absence of harmful multicollinearity among the independent variables (Tobachmel and Fidell, 1996).

4.6 Discussion of Findings

The following are the summary of the major findings of the study that are obtained from the presentations and analysis of data as well as discussion of results.

1. The percentage of gray directors as the case may be, has positive effect on loan portfolio of deposit money banks in Nigeria. This could be as the result of their technical role being played on the board. Due to their consultancy services which are relied there upon by the board and the extra funds paid for such services to keep them in business may not give some objective advice to the board. Meanwhile, this finding is in line with that of Abatt and Parker (2000) which reported a positive relationship while it is in disagreement with the findings of Carcello and Neal (1999) which found that the percentage of gray directors is negatively associated with loan portfolio. This may be as a result of the expertise of the gray directors as consultants that would be able to formulate efficient and effective loan policies so as to boost the banks' lending ability.
2. The board composition have a positive effect on the loan portfolio of DMBs in Nigeria, to the extent that the loan portfolio or otherwise of governance mechanisms in a

bank can make or mar the loan portfolio that are formulated by the board; and that a board with the right characteristics in placed serves as an effective vehicle of enhancing the banking organization. This result is consistent with the findings of Mehran (1995), Masha and Nielsen (2000) who found a positive effect of board composition on banks loan portfolio but contrary to the works of Metrick and Ishii (2002), Weir and Laing (2001) reported no significant relationship between the board composition and banks loan portfolio. This may be as the result of the expertise of the outside directors, as specialist they would be able to derive at efficient and effective loan policies so as to boost the banks lending ability. It could be that due to the independent nature of outside directors, they contribute objectively to the board in terms of the type of portfolio and to whom they grant loans.

3. The result in respect of the percentage of women directors depicts a positive relationship to loan portfolio in Nigerian deposit money banks. It conforms to the findings of Bohren and Strom (2005), and Smith et al (2006) which showed a negative relationship but contradicts the report Rose (2007), and Randoy et al (2006) which showed a negative relationship between the percentage of female directors and loan portfolio. The positive relationship could be as a result of the dynamic roles women play in management. As directors, women are challenge by their male counterparts in many respects, causing them to perform extra hard to meet up with the challenge and even go beyond expectations.

4. The result obtained for board size and loan portfolio of bank shows a negative relationship between them, contradicting the findings of Xie, et al., (2003);Karamanou

and Vafeas, (2005), and Rahman and Ali, (2006), who found a positive relationship between board size and loan portfolio but consistent with the report of Zahra and Pearce II, (1989), who found that smaller board enhances banks lending ability (their portfolio).The Nigerian Securities and Exchange Commission (SEC) Code of Corporate Governance (2003), states that however, that the size of the board should not exceed 15 persons or be less than 5 persons in total.

4.7 Implications of Findings

Studies relating to board characteristics are of far reaching importance. This is owing to the strategically important role which the board plays in banks at various decisions making stages of the organizations and individual investors; which have direct bearing on firms' present and potential customers and firms' contraction plans. Irrespective of the relationship between the results of this study and those of previous researches as highlighted above, the findings, in relation to each of the hypotheses considered in the work, have implications for regulatory policy.

Firstly, the findings of the study also indicate a significant positive relationship between the percentage of gray directors and loan portfolio. This implies that the shareholders as well as the CBN should ensure the existence of gray directors on the board since they contribute significantly to the loan portfolio of DMBs in Nigeria. Another implication of these findings is that the regulatory authorities will have a focus

on those governance mechanisms that are really important and they will be addressed in-depth when reviewing the existing code of corporate governance.

Secondly, the result indicates that the board composition has a positive effect on the loan portfolio of DMBs. The implication of this finding is that the presence of the outside directors on the board facilitates their functions and ensures that proper and appropriate mix of directors is adopted. The outcome of the analysis also indicates that board composition affect the loan portfolio DMBs. This will help in putting a check on management in terms of being objective in their decision making process. This will draw the attention of SEC and the CBN when formulating policy relating to the number or right board composition to be on the board.

Furthermore, the result of the percentage of women director is also positive and significant. This implies that the inclusion of the percentage of women directors on the board might assured gender equity. Thus, SEC should ensure the board of corporate institutions are not gender bias.. Another implication of this finding is that the shareholders of banks will benefit from the mix characteristics of the board in terms of the gender balance, thereby fostering a new approach to work and in terms of customer's relationship women could be better off and this could also enhance the quantum of loans disbursement, and therefore enhancing interest on loans.

Again, the finding in regards to board size in this study suggests that smaller boards are to be encouraged in the Nigerian banking sector. This could be as the result of timely decisions and close monitoring of each member on the board. Even though, the code of

corporate governance 2003 stated that the board should consist of 15 membersas the maximum size of the board and 5 members minimum.

Finally, the results of the study have provided insight into the explanatory variables that have important effect in explaining the response variable (loan portfolio) of DMBs in Nigeria. From the perspective of regulatory authorities especially the SEC, these findings would assist in establishing a code of corporate governance that will eventually reduce the problems associated with agency relationship between the shareholder and management. The results indicate that inside director is an important variable that can be used to explain loan portfolio position of DMBs in Nigeria. The relationship between the inside director and loan portfolio is negative. The important feature of this finding is that the loan portfolio position of banks can be controlled by manipulating the inside director.

From the view point of board of directors of DMBs, these findings should assist in establishing appropriate loan policy guidelines that will boost the loan portfolio in their various DMBs.

4.8 SUMMARY

In this chapter, data presentation and analysis were carried out in respect of the hypotheses raised. The four hypotheses formulated by the study were tested. The tests results were discussed in view of the literatures reviewed earlier on. The regression results on the board characteristics as determinants of loan portfolio of Nigerian MDBs were presented and analyzed for the sampled banks used in the study. The analyses have been carried out in three sections.

In section one, some descriptive statistics and correlation results were presented and analyzed. In section two, the regression results dealing with the board characteristics as determinants of loan portfolio of MDBs in Nigerian were presented and analyzed using data collected from the sampled banks used in the study.

The results reveal that all independent variables: board composition, inside directors, gray directors and women directors are significant in explaining and predicting the loan portfolio MDBs used in the study. This resulted in the rejection of all the null hypotheses. The results from the research findings were also enumerated and the policy implications were suggested. It is observed that the findings may have far reaching implications on the accounting research, shareholders, management and also on the decisions of regulatory bodies like SEC and CBN. The chapter that follows presents the overall summary, conclusions and policy recommendations of the study.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Recent years have witnessed a lot of changes in the banking sector around the world, given the position that the banking industry occupies in especially capitalist economies. In Nigeria, the banking sector has experienced a boom-and bust cycle in the previous years, leading to many changes, in the areas of regulations and reforms; number of institutions and structure of ownership. This study was conducted with the view of assessing the effect of board characteristics on loan portfolio of Nigerian Deposit money banks.

This thesis comprised of five chapters. The introductory chapter, started with a background in which preceded to developing four objectives and formulating four hypotheses for the research with a scope covering six years, 2005 to 2010, including both years. A general overview of the area of the study was explained with a view to appreciating the study environment and the implications of Board characteristics and Loan Portfolio in the activities of the banking industry in Nigeria.

This was followed by a statement of the research problem; in which board characteristics and loan portfolio are broken-down appeared to be part of the problems that have been bedeviling the Nigerian banking system over the years. Hypotheses were formulated with a view to finding answers or testing them at the end of the study. Furthermore, the significance of the study exposed the vacuum that the research is out to fill, explaining that most CG studies have centred either on firms' value or performance,

with little or no attention paid to banks' loan portfolio that are instituted to safeguard operations. Thus, by delving to study CG within the context of board characteristics, this study hopes to provide fresh evidence from the Nigerian banking industry on ways to reduce agency problem. An assessment of the relationship between CG and banks' loan portfolio is seen as important to the extent that good CG builds confidence in the minds of depositors, investors and other stakeholders in the banking industry. Finally, the chapter explained that the scope of the study covered a period of six years from 2005 to 2010 both years inclusive.

The chapter on literature review, reviewed related literature on issues, concepts, findings, models and theories related to the subject matter of the study. The review revealed that CG is the set of structures, systems, cultures and processes through which companies are directed and controlled for the attainment of the desired objectives. Thus, CG can be estimated as function of board characteristics, namely board composition, percentage of inside directors, percentage of gray directors and percentage of women director.

Furthermore, the review revealed that in the Nigerian corporate landscape, there are a number of CG statutes that every bank is required to abide by, namely CAMA 1990, BOFIA 1991, ISA 1999, NDIC Act 1988, the CBN Act of 1991, the various prudential guidelines issued by the CBN, the listing requirements of the NSE, the SEC Rules, SEC Code of CG, 2003, CG code for Banks 2006, post-consolidation, and the Statement of Accounting Standards (SASs). In addition, CG studies can for the sake of convenience be grouped into five. Studies which have attempted to examine the relationship between

board structures and firm's financial performance/value, studies on the relationship between board structures and board efficiency and effectiveness, studies on the relationship between board structures and corporate fraud, studies which attempt to study CG itself to account for variations in CG practices in different set-ups, economies and countries of the world and studies on CG and ICS.

Various studies reviewed reveals that results of association between CG and some loan indices have remained mixed both negative and positive. However, what is clear from the results of the studies is that the relationship between gray directors and women directors and control variables is not absolute but relative, depending on the surrounding situation and circumstance and the peculiarities of every situation. Geographical location, societal morality and values may therefore be some important issues of consideration in this regard.

Finally, from the four theories reviewed (namely the stewardship theory, the theory of the firm, the stakeholder theory and the agency theory) and three contrasting models (namely exclusive Vs inclusive model, conformance Vs performance model and enterprise Vs regulatory model), it is believed that the theory and the model which best explain the study are the agency theory and the inclusive model of CG.

The chapter on research methodology explained the relevant research tools that were adopted for the study. It showed that correlational research design was used in view of the nature and purpose of the study. The population of the study comprised all quoted deposit money banks operating in the Nigerian banking industry, as at December 31st, 2010. However, adherence to a two-point filter resulted in the emergence of a new

population of twenty-one (21) banks, out of which nine (9) banks were sampled (see Appendix I & II respectively).

Finally, chapter three explained that the data used to test the four hypotheses of the study were historical in nature, and involved comparison between Board characteristics and Loan Portfolio proxies. The proxies were extracted from the annual accounts and reports of the selected banks, some publications of the CBN and the Facts Book of the NSE. In addition, data generated for the study, were analyzed using Pearson correlation, descriptive statistics and regression techniques, using SPSS (version 17.00).

The chapter on results and discussions, presented, analyzed and interpreted the data generated for the study, the result of which was used to test the four hypotheses of the study. The results of the analyses (Pearson correlation, multivariate regression and descriptive statistics) led to the failure of rejecting the four null hypotheses.

5.2 Conclusions

The following are the conclusions that are drawn from the findings of the study:

1. Appointment of gray directors on the board will help in screening the quality and the right type of loan portfolio held by the deposit money banks in Nigeria. The increase in their percentage on the board positively influences the loan portfolio of money deposit banks in Nigeria. This implies that the shareholders as well as the CBN should ensure the existence of gray directors on the board since they contribute significantly to the loan portfolio of DMBs in Nigeria. Another implication of these findings is that the regulatory authorities will have a focus on those governance mechanisms that are really important

and they will be addressed in-depth when reviewing the existing code of corporate governance.

2. The outcome of the analysis also indicates that board composition affect the loan portfolio DMBs. This will help in putting a check on management in terms of being objective in their decision making process. This will draw the attention of SEC and the CBN when formulating policy relating to the number or right board composition to be on the board.

3. The percentage of women directors does have influence on loan portfolio in deposit money banks. This implies that the inclusion of the percentage of women directors on the board might assured gender equity. Thus, SEC should ensure the board of corporate institutions are not gender bias. Another implication of this finding is that the shareholders of banks will benefit from the mix characteristics of the board in terms of the gender balance, thereby fostering a new approach to work and in terms of customer's relationship women could be better off and this could also enhance the quantum of loans disbursement, and therefore enhancing interest on loans.

4. That board size has a negative influence in enhancing banks loan portfolio. The board size in this study suggests that smaller boards are to be encouraged in the Nigerian banking sector. This could be as the result of timely decisions and close monitoring of each member on the board. Even though, the code of corporate governance 2003 stated that the board should consist of 15 members as the maximum size of the board and 5 members minimum.

5.3 Recommendations

The following are the recommendations that are drawn from the conclusions of the study:

1. That the appointment of gray directors on the board will also help in screening the quality of loan portfolio held by deposit money banks, but the percentage of gray directors should be taken note of. Therefore banks board characteristics in terms of percentage of gray directors should not be increased or be higher. Gray directors should at least constitute about two-four dependent on the size of the board, small and large respectively.
2. Shareholders of deposit money banks operating in Nigeria should ensure that their banks' boards consist of the right characteristics. The board composition on the board must be highly considered so as to foster a great deal of independence on the board. By so doing the loan portfolio of deposit banks will properly be monitored and supervised.The SEC and the CBN when formulating policy relating to the number or right board composition in clear term, say 60:40 for outside to inside directors.
3. That the percentage of women directors on the board be given a right perspective in that gender also matters, women directors should be in certain strategic positions on the board, there should be at least two and four for small and big board respectively since the percentage women directors has a positive influence on the loan portfolio.
4. That small board size is to be encouraged in the Nigerian banking sector. However, we recommend that the maximum size of the board should be 11 members whilst the small board should consist of 7 members on the board. This could be as the result of timely decisions and close monitoring of each member on the board. Even though, the

code of corporate governance 2003 stated that the board should consist of 15 members as the maximum size of the board and 5 members minimum.

5.4 Limitations of the Study

Like any other study, this work was not devoid of limiting factors within the depth and breath of this work. The limitation that the researcher faced in the course of this work include: dearth literatures on the variables use for this study. Despite the above limitation, the validity and reliability, methodology, findings and conclusions of the study are not affected. The study is in fact amenable to replication.

5.5 Areas for Further Research

With this, it is hoped that the findings of this study will trigger more researches in this area.The effect of board characteristics on banks' loan portfolio in other segments of this sector of the Nigerian economy requires research effort, especially as they are not covered in this study. There is the need for similar studies that will assess the relationship between board characteristics and banks' loan portfolio using different tool of analysis, so as to see how CG can be used to achieve optimum loan portfolio and maximized shareholders wealth in other sectors of the Nigerian economy. There is also the need to conduct similar research using a different source of data, employing different loan portfolio and CG proxies, and using different scales of measurement of variables and techniques for data analysis. Further research in these areas would not only complement

this study, but would also help in bringing about improvement in CG practices and better control mechanisms in the Nigerian corporate landscape.

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Appendix 1

The Population of the Study

S/No	Name of Bank
1.	Access Bank Nigeria PLC
2.	Afribank Nigeria PLC
3.	Diamond Bank Nigeria PLC
4.	Ecobank Nigeria PLC
6.	Fidelity Bank PLC
7.	First Bank of Nigeria PLC
8.	First City Monument Bank PLC
9.	First Inland Bank PLC
10.	Guaranty Trust Bank PLC
11.	Stanbic IBTC Chartered Bank PLC
12.	Intercontinental Bank PLC
13.	Oceanic Bank International PLC
14.	Bank PHB PLC
15.	Skye Bank PLC
16.	Spring Bank PLC
17.	Sterling Bank PLC
18.	Union Bank of Nigeria PLC
19.	United Bank for Africa PLC
20.	Unity Bank PLC
21.	Zenith Bank PLC

Source: Generated from NSE Factbook December 2010

Appendix II

The Sample Size of the Study

S/No.	Name of Bank
1.	Afribank Nigeria PLC
2.	Bank PHB Plc
3.	First Bank of Nigeria PLC
4.	Guaranty Trust Bank PLC
5.	IBTC-Stanbic Bank Plc
6.	Oceanic Bank International PLC
7.	Union Bank of Nigeria PLC
8.	United Bank for Africa PLC
9.	Zenith Bank Plc

Source: Generated by the researcher from Table above

Appendix III

```
REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS CI BCOV R ANOVA COLLIN TOL CHANGE ZPP
 /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT LOPRTlg
  /METHOD=ENTER PGDIR PWDIR BCs BSz
  /RESIDUALS DURBIN .
```

Regression

[DataSet1] C:\Users\Francis\Desktop\FInall.sav

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	BSz, BCs, PWDIR, PGDIR[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: LOPRTlg

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F
1	.827[a]	.684	.659	1.57074	.684	26.562	4	49	

a. Predictors: (Constant), BSz, BCs, PWDIR, PGDIR

b. Dependent Variable: LOPRTlg

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	262.137	4	65.534	26.562	.000[a]
	Residual	120.894	49	2.467		
	Total	383.031	53			

a. Predictors: (Constant), BSz, BCs, PWDIR, PGDIR

b. Dependent Variable: LOPRTlg

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	5% Confidence Interval for B		Correla	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Part
1	(Constant)	26.704	1.342		19.904	.000	24.008	29.400		
	PGDIR	34.938	9.205	.502	3.796	.001	53.436	16.441	.700	.4
	PWDIR	10.433	9.738	.136	1.071	.049	30.002	9.135	.686	.1
	BCs	19.392	5.696	.315	3.404	.001	7.945	30.838	.303	.4
	BSz	-.213	.094	-.233	-2.273	.027	-.401	-.025	-.619	-.3

a. Dependent Variable: LOPRTlg

Coefficient Correlations[a]

Model			BSz	BCs	PWDIR	PGDIR
1	Correlations	BSz	1.000	.054	-.134	-.386
		BCs	.054	1.000	.472	-.416
		PWDIR	-.134	.472	1.000	-.633
		PGDIR	-.386	-.416	-.633	1.000
	Covariances	BSz	.009	.029	-.122	-.333
		BCs	.029	32.445	26.188	-21.791
		PWDIR	-.122	26.188	94.820	-56.738
		PGDIR	-.333	-21.791	-56.738	84.727

a. Dependent Variable: LOPRTlg

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	PGDIR	PWDIR	BCs	BSz
1	1	4.751	1.000	.00	.00	.00	.00	.00
	2	.165	5.364	.01	.25	.00	.11	.00
	3	.046	10.112	.14	.00	.21	.27	.12
	4	.024	14.083	.01	.67	.77	.56	.02
	5	.014	18.753	.83	.07	.01	.06	.86

a. Dependent Variable: LOPRTlg

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	13.1698	20.6098	16.6819	2.22396	54
Residual	-3.38553	3.32289	.00000	1.51031	54
Std. Predicted Value	-1.579	1.766	.000	1.000	54
Std. Residual	-2.155	2.115	.000	.962	54

a. Dependent Variable: LOPRTlg

```
DESCRIPTIVES
  VARIABLES=LOPRTlg PGDIR PWDIR BCs BSz
  /STATISTICS=MEAN STDDEV MIN MAX KURTOSIS SKEWNESS .
```

Descriptives

[DataSet1] C:\Users\Francis\Desktop\FInall.sav

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std.	Skewness		Kurt
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
LOPRTlg	54	10.94	20.11	16.6819	2.68831	-.788	.325	-.593
PGDIR	54	.00	.14	.0778	.03859	-.205	.325	.227
PWDIR	54	.06	.15	.1093	.03507	-.247	.325	-1.760
BCs	54	-.25	-.02	-.1528	.04364	.492	.325	1.969
BSz	54	11.00	20.00	15.0370	2.94582	.698	.325	-.562
Valid N (listwise)	54							

```
CORRELATIONS
  /VARIABLES=LOPRTlg PGDIR PWDIR BCs BSz
  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE .
```

Correlations

[DataSet1] C:\Users\Francis\Desktop\FInall.sav

Correlations

		LOPRTlg	PGDIR	PWDIR	BCs	BSz
LOPRTlg	Pearson Correlation	1	.700**	.686**	.303*	-.619**
	Sig. (2-tailed)		.000	.000	.026	.000
	N	54	54	54	54	54
PGDIR	Pearson Correlation	.700**	1	-.685**	-.114	-.605**
	Sig. (2-tailed)	.000		.000	.412	.000
	N	54	54	54	54	54
PWDIR	Pearson Correlation	.686**	-.685**	1	-.273*	-.519**
	Sig. (2-tailed)	.000	.000		.046	.000
	N	54	54	54	54	54
BCs	Pearson Correlation	.303*	-.114	-.273*	1	-.037
	Sig. (2-tailed)	.026	.412	.046		.792
	N	54	54	54	54	54
BSz	Pearson Correlation	-.619**	-.605**	-.519**	-.037	1
	Sig. (2-tailed)	.000	.000	.000	.792	
	N	54	54	54	54	54

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

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