International Journal of Innovative Finance and Economics Research 12(4):26-33, Oct.-Dec., 2024

© SEAHI PUBLICATIONS, 2024 www.seahipublications.org ISSN: 2360-896X

DOI:10.5281/zenodo.13988978

Board Nationality And Asset Quality Of Commercial Banks In Nigeria

Prof. Paymaster F. Binglair & *Igo Oyeintare Kennedy

Department of Finance and Accountancy,
Faculty of Management Science,
Niger Delta University, Wilberforce Island, Bayelsa State Nigeria
***Igooyeintare@gmail.com/08060929609**

ABSTRACT

The study examined the effect of board nationality on the deposit mobilization ratio and performing loan ratio of commercial banks in Nigeria. Two research objectives, questions, and hypotheses were formulated to guide the study. An ex-post facto research design was adopted, utilizing secondary data sourced from the financial reports of Nigerian commercial banks. The population consisted of all 24 commercial banks licensed by the Central Bank of Nigeria, with a census survey technique employed. Data analysis was conducted using descriptive statistics and Ordinary Least Squares (OLS) regression techniques. The results revealed that board nationality has a weak but insignificant effect on both deposit mobilization and performing loan ratios. This indicates that the presence of foreign directors does not significantly enhance asset quality or deposit mobilization in commercial banks. It was concluded that improving asset quality in Nigerian banks requires more than board nationality diversity and should focus on enhancing local expertise and communication. It was recommended that banks invest in cross-cultural training for directors and prioritize local expertise in asset management.

Keywords: Board Nationality, Deposit Mobilization, Performing Loan Ratio, Commercial Banks, Corporate Governance

INTRODUCTION

The structure and composition of a bank's board of directors play a crucial role in shaping its governance practices and overall performance. In the context of Nigeria, where the banking sector is pivotal for economic development, understanding the relationship between board nationality and asset quality is essential. The increasing globalization of financial markets has led to a diversification of board members in commercial banks, encompassing various nationalities and experiences. This diversity can significantly impact strategic decision-making, risk management, and, ultimately, the quality of assets held by banks (Adhikari et al., 2020).

Board nationality refers to the diversity of the directors' backgrounds, including their national origins, which can influence their perspectives and decision-making processes. Scholars have argued that a heterogeneous board can enhance a bank's performance by introducing diverse viewpoints and expertise, thereby improving risk assessment and strategic decision-making (Cohen et al., 2019). In Nigeria, where banks have faced challenges such as non-performing loans and inadequate asset management, examining the effect of board nationality on asset quality can yield valuable insights for policymakers and stakeholders.

Asset quality is a critical indicator of a bank's health, typically assessed through the ratio of non-performing loans to total loans. Poor asset quality can lead to significant financial losses and erode depositor confidence, adversely affecting a bank's stability (Ezeoha & Ogwumike, 2019). Nigerian banks have historically struggled with asset quality issues, necessitating effective governance frameworks to mitigate risks. The nationality of board members may play a crucial role in shaping these governance frameworks, potentially influencing the bank's approach to credit risk assessment and asset management.

Previous research indicates that board diversity, including nationality, can enhance a bank's performance by fostering innovative solutions and improving risk management practices (Berger et al., 2018). Moreover, internationally experienced board members may bring valuable insights from global best practices, contributing to more effective governance structures. In Nigeria, where banks operate in a complex economic environment characterized by fluctuating oil prices and regulatory challenges, such insights could prove invaluable in enhancing asset quality.

The relationship between board nationality and asset quality has garnered increasing attention in academic discourse, yet empirical evidence specific to Nigeria remains limited. Investigating this relationship can provide a better understanding of how board diversity influences asset management practices and risk mitigation strategies in Nigerian commercial banks. Given the increasing globalization of the banking sector, understanding these dynamics is vital for developing effective regulatory frameworks that enhance asset quality.

Furthermore, as the Nigerian banking sector continues to evolve, there is a growing need to explore the implications of board nationality on governance outcomes. The Central Bank of Nigeria has emphasized the importance of sound corporate governance in enhancing financial stability, making it imperative to understand the factors that contribute to effective board performance (Central Bank of Nigeria, 2021). This study seeks to contribute to the existing literature by exploring the interplay between board nationality and asset quality in commercial banks in Nigeria.

The interaction between board nationality and asset quality in Nigerian commercial banks represents a critical area for research, especially in light of the sector's ongoing challenges. By examining the influence of diverse board compositions on asset management practices, this study aims to provide insights that can inform both academic discussions and practical governance strategies. Ultimately, the findings will contribute to a deeper understanding of how to enhance asset quality and ensure the stability of Nigeria's banking sector in an increasingly globalized financial landscape.

Statement of the Problem

The Nigerian banking sector has faced persistent challenges regarding asset quality, with non-performing loans (NPLs) remaining a significant concern. High levels of NPLs can adversely impact banks' profitability and capital adequacy, threatening the overall stability of the financial system (Ezeoha & Ogwumike, 2019). Despite regulatory efforts by the Central Bank of Nigeria to enhance corporate governance and mitigate risks, the performance of many commercial banks continues to be undermined by inadequate asset management practices. This situation raises questions about the effectiveness of existing governance structures and the role of board composition, particularly the nationality of board members, in influencing asset quality outcomes.

The increasing globalization of financial markets has led to a growing diversity in the boardrooms of Nigerian banks. While this diversification can potentially enhance governance practices and improve decision-making processes, the specific impact of board nationality on asset quality remains underexplored in the Nigerian context. There is limited empirical research examining how the nationality of board members affects their approach to risk management, credit assessment, and overall asset management strategies. Understanding this relationship is critical for developing effective policies and governance frameworks that can bolster the asset quality of commercial banks in Nigeria, ultimately contributing to the financial sector's stability and growth.

Aim and Objectives of the Study

The study examined Board Nationality on the asset quality of Commercial banks in Nigeria. Specifically, the study achieved the following:

1. To determine the effect of the Board Nationality on the deposit mobilization ratio of Commercial banks in Nigeria.

2. To determine the effect of the Board Nationality on performing loan ratio of Commercial banks in Nigeria.

Research Questions

The following research questions were raised to guide the study:

1. What is the effect of the Board Nationality on the deposit mobilization ratio of Commercial banks in Nigeria?
2. What is the effect of the Board Nationality on performing loan ratio of Commercial banks in Nigeria?

Hypotheses

The following hypotheses were formulated and will be tested at 0.05 level of significance:

$H0_1$: Board Nationality has no significant effect on the deposit mobilization ratio of commercial banks in Nigeria.

$H0_2$: Board Nationality has no significant effect on the performing loan ratio of Commercial banks in Nigeria.

Conceptual Review

Board Nationality Diversity

Board nationality diversity refers to the inclusion of directors from different countries and cultural backgrounds on the board of an organization. In the banking sector, this diversity is seen as a strategic asset that can enhance the effectiveness of corporate governance by bringing varied perspectives, international experience, and a broader understanding of global best practices (Ntim, 2015). The presence of foreign nationals on the board of Nigerian commercial banks can contribute to improved oversight, better decision-making, and a more comprehensive approach to managing risk and improving asset quality.

In Nigerian commercial banks, foreign directors are often seen as facilitators of global best practices, especially in risk management and compliance with international standards. These individuals can introduce innovative strategies for credit assessment and risk mitigation, leading to better asset quality outcomes. According to Adamu (2021), banks with nationality-diverse boards are better equipped to manage risks associated with lending and credit management, thereby reducing the occurrence of non-performing loans (NPLs). This highlights the potential of nationality diversity to influence the performance and resilience of commercial banks, especially in the context of asset quality.

Asset Quality in Commercial Banks

Asset quality in banking refers to the quality of a bank’s loan portfolio and other assets, typically measured by the proportion of non-performing loans (NPLs) to total loans. High asset quality is indicative of a bank’s ability to manage its lending processes effectively, minimize credit risk, and maintain a healthy balance sheet (Eze & Ogbonna, 2020). Poor asset quality, on the other hand, can lead to significant financial distress for banks, especially if they face high default rates on loans. The Central Bank of Nigeria (CBN) and other regulatory bodies emphasize asset quality as a key metric of financial stability and require commercial banks to maintain strict lending standards to safeguard their portfolios.

Foreign nationals on the boards of Nigerian banks often bring an international perspective on asset management and risk assessment. Their understanding of global financial regulations, along with their experience in managing credit risks in diverse markets, can enhance the bank’s capacity to evaluate loan applications and monitor the performance of its assets. A study by Adebayo (2020) found that banks with foreign directors tended to have better asset quality, as they benefited from more rigorous lending practices and risk management techniques learned from international markets.

Theoretical Reviews

1. Resource Dependence Theory

The Resource Dependence Theory (RDT) emphasizes the strategic role of board members in providing essential resources such as expertise, information, and external linkages that help organizations navigate external uncertainties (Pfeffer & Salancik, 1978). In the context of commercial banks in Nigeria, the theory suggests that foreign nationals on the board bring valuable resources such as international experience, knowledge of global banking standards, and access to broader financial networks. These resources are crucial in enhancing risk management practices, leading to improved asset quality. By diversifying the board with members from different national backgrounds, banks can leverage foreign directors' insights into global credit risk management, contributing to better loan portfolio management and reduced non-performing loans (NPLs). In essence, the nationality diversity on the board expands the bank’s ability to manage external dependencies and volatility in the banking sector, thereby improving overall asset quality.

The Resource Dependence Theory supports the idea that foreign board members act as conduits for global best practices, which can help Nigerian banks adapt to international financial standards and mitigate risks associated with asset management (Hillman, Withers, & Collins, 2009). This theoretical perspective underscores the positive relationship between board nationality diversity and asset quality, as foreign directors enhance the bank's access to external resources, which improves corporate governance and financial outcomes.

2. Upper Echelons Theory

The Upper Echelons Theory, developed by Hambrick and Mason (1984), posits that an organization’s performance is a reflection of the values, experiences, and cognitive bases of its top executives. This theory is particularly relevant when examining the impact of board nationality on asset quality in Nigerian commercial banks. According to the theory, foreign directors bring diverse perspectives, experiences, and problem-solving approaches to the boardroom, which are influenced by their national backgrounds and experiences in different regulatory environments. These diverse cognitive frameworks enable more robust decision-making processes, particularly in risk assessment and asset management.

In the context of asset quality, the Upper Echelons Theory implies that foreign directors can influence the bank’s risk-taking behavior by introducing more conservative lending practices and enhancing credit risk evaluation processes, ultimately reducing the occurrence of non-performing loans (Hambrick, 2007). The diversity in thought and experience among board members helps to mitigate groupthink and introduces alternative strategies for managing assets. By applying the Upper Echelons Theory, we can understand how board nationality diversity leads to a more balanced and cautious approach to asset management, thus enhancing asset quality in Nigerian commercial banks.

Empirical Reviews

Adebayo (2020) examined the effect of board nationality diversity on the asset quality of commercial banks in Nigeria. The study employed an ex-post facto research design, analyzing data from 12 Nigerian commercial banks listed on the Nigerian Stock Exchange between 2014 and 2019. Using a panel regression analysis, the study found that banks with foreign nationals on their boards experienced significantly lower non-performing loan (NPL) ratios compared to those with only local board members. The findings indicated that the presence of foreign directors contributed to more robust risk management practices, leading to improved asset quality. Adebayo concluded that nationality diversity on boards positively influences asset quality by incorporating global risk management practices.

Nwankwo (2018) investigated the relationship between board nationality and asset quality in Nigerian commercial banks using a cross-sectional design. The study sampled 15 commercial banks in Nigeria from 2010 to 2016 and employed a fixed-effects regression model to analyze the data. The results showed that banks with a diverse board in terms of nationality had better asset quality, as reflected by lower NPL ratios and higher loan recovery rates. The study found that foreign board members introduced innovative strategies for credit risk assessment, which improved the overall quality of assets in the banks. Nwankwo emphasized that foreign directors enhanced corporate governance standards, which played a significant role in maintaining asset quality.

Olufemi and Olatunji (2019) explored the impact of foreign directors on the asset quality of Nigerian deposit money banks. This study used a sample of 10 banks between 2013 and 2018, employing an ex-post facto design and utilizing random-effects regression analysis. The results indicated that foreign nationals on the board positively affected asset quality, as these banks demonstrated lower NPL ratios and higher loan performance. The study attributed this improvement to the broader international experience and stricter credit policies introduced by foreign board members. Olufemi and Olatunji concluded that foreign directors bring a level of expertise that significantly improves risk management and asset quality in Nigerian banks.

Adamu (2021) examined the influence of board nationality diversity on the asset quality of Nigerian commercial banks. The study adopted a panel data approach and analyzed data from 14 commercial banks between 2015 and 2020. The research found that banks with foreign board members had significantly better asset quality, as indicated by lower levels of non-performing loans. The study suggested that foreign directors brought advanced knowledge of global banking regulations, which helped to mitigate credit risks and enhance asset quality.

METHODS

This research adopted ex-post facto research design. Ex-post facto involves a systematic empirical inquiry, in which an observer has no direct control of independent variables because their manifestations have already occurred or because they are inherently not manipulated. The study basically employed secondary data sources. The data was extracted from audited financial statements of listed banks obtained from Nigerian Exchange Group websites, Central Bank of Nigeria Statistical Bulletin and Nigeria Deposit Insurance Corporation Bulletin from 2006 to 2022. The population of the study comprises all the twenty-nine Commercial banks listed in Nigeria Exchange Group official website as at December 2023.

The economic model used in the study which was in line with what is mostly found in the literature is given as:

Y (DMR, PLR) = f (BNT) …………. (1)

$DMR = \beta_0 + \beta_1 BNT_{it} + \varepsilon$… (2)

$PLR = \beta_0 + \beta_2 BNT_{it} + \varepsilon$… (3)

Variables Definition and Measurement

BNT = Board Nationality: it is measured as the ratio of directors that are citizens of Nigeria to total board size at the end of the year expressed as percentage (SEC Code 2011, Tshipa 2017).

PLR= Performing Loan Ratio: it is measured as the performing loans divided by total loans and advances within the year expressed as percentage (Okpe 2016, John & Ibenta, 2016).

DMR= Deposit Mobilization Ratio: it measured as total deposit divided by total asset within the year expressed as percentage.

$\beta 1 - \beta 2$ are the coefficient of the parameter estimate.

$\beta 0$ the intercept

ε = error term

Both descriptive and regression analysis was utilized in the study. Descriptive statistics was computed using SPSS version 26 which amongst other things help show the pattern, distribution, deviation and nature of the data.

For the regression analysis, Panel Ordinary Least Square (OLS) Regression was used to test the hypotheses. The decision is that the null hypothesis will be rejected if the p-value < 0.05; otherwise, it will be accepted.

RESULTS

Descriptive Statistics

Analysis of descriptive statistics is carried out in this section so as to unveil the nature of data being used for analysis.

Table 1: Descriptive Statistics of Focused Variable

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
DEPOSIT MOBILIZATION RATIO	170	9.56	97.43	29.8072	25.72894	1.435	.186	.540	.370
PERFORMING LOAN RATIO	170	14.00	93.10	71.8788	13.49352	-1.040	.186	1.072	.370
BOARD NATIONALITY	170	14.20	100.00	91.4200	25.81604	-2.690	.186	5.301	.370
Valid N (listwise)	170								

Source; SPSS OUTPUT (2024)

From table 1 above the mean value of DMR is 29.8072, while the minimum and maximum values are 9.56 and 97.43 respectively. PLR is 71.87, while the minimum and maximum values are 14 and 93.43 respectively. This is indicating that the performing loans and deposit mobilization ratios for Commercial banks is relatively high within the period under review. The table shows that on average, during the period of the study, BNT is 91.42%.

$H0_1$: Board nationality has no significant effect on deposit mobilization ratio of Commercial banks in Nigeria.

Table 2a: Coefficients summary for Hypotheses 1

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.529	17.425		2.088	.000
	BNT	.225	.227	.192	.993	.329

Source: SPSS OUT PUT (2024)

The result in table 2(a) above shows that the coefficient β_1, is .192, which implies that a unit increase in BNT by 1% would cause 0.192 increase in DMR when all other factors are kept constant. Also, the table revealed that BNT had a p value of .329, which is greater than the critical value of 0.05 ($p>0.05$). Hence, the null hypothesis ($H0_1$) is accepted. Therefore, Board nationality has no significant effect on deposit mobilization ratio of Commercial banks in Nigeria.

$H0_2$: Board nationality has no significant effect on performing loan ratio of Commercial banks in Nigeria.

Table 2b: Coefficients summary for Hypotheses 2

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	10.826	5.000		2.165	.003
	BNT	-.055	.065	-.161	-.844	.405

SOURCE: SPSS OUTPUT (2024)

The result in table 2(b) above shows that the coefficient β_7, is -.161, which implies that a unit increase in BNT by 1% would cause -0.161 decrease in PLR when all other factors are kept constant. Also, the table revealed that BNT had a p value of .405, which is greater than the critical value of 0.05 ($p>0.05$). Hence, the null hypothesis ($H0_7$) is accepted. Therefore, Board nationality has no significant effect on performing loan ratio of Commercial banks in Nigeria.

DISCUSSION

Effect of the board nationality on deposit mobilisation ratio of Commercial banks in Nigeria.

Findings from hypothesis one revealed that board nationality has a weak positive relationship with deposit mobilization ratio of Commercial banks in Nigeria. This implies that the as the percentage of the top management team members that are Nigerians increases, deposit mobilization ratio of Commercial banks also increases. This may be as a result of cost the cost involved as a result of physical distance of foreign directors and the company. Another reason is the fact that they may come from a country with different culture and languages which might pose difficulty in communicating with other directors and monitor managers. Also, the findings revealed that board nationality has no significant effect on deposit mobilization ratio of Commercial banks in Nigeria. These findings support Garba and Abubakar (2019), Reen et al, (2015) who reported an insignificant effect between board nationality

Effect of the board nationality on performing loan ratio of Commercial banks in Nigeria.

Findings from hypothesis seven revealed that **board nationality** has a weak negative relationship with performing loan ratio of Commercial banks in Nigeria. Also, the findings revealed that **board nationality** has no significant effect on performing loan ratio of Commercial banks in Nigeria. This may be as a result of cost the cost involved as a result of physical distance of foreign directors and the company. Another reason is the fact that they may come from a country with different culture and languages which might pose difficulty in communicating with other directors and monitor managers. These findings support Garba and Abubakar (2019), Reen et al, (2015) who reported an insignificant effect between board nationality and asset quality of listed firms in Nigeria. The findings contradict Wei, et al, (2011).

CONCLUSION

The relationship between board nationality and asset quality in Nigerian commercial banks presents a nuanced dynamic that highlights the complexities of corporate governance in a globalized financial environment. The findings from the analysis indicate that while board nationality exhibits a weak positive relationship with deposit mobilization ratio, it has no significant effect on both deposit mobilization and performing loan ratios. This suggests that the presence of foreign directors on the boards of Nigerian banks may not substantially influence key financial metrics related to asset quality. The challenges of cultural and communication barriers, as well as the physical distance of foreign directors, may contribute to their limited impact on the banks' governance and management practices, particularly in areas such as asset quality.

Therefore, enhancing asset quality in Nigerian banks may require a stronger focus on other dimensions of corporate governance beyond board nationality, such as improving communication channels, fostering better alignment of goals, and ensuring effective risk management frameworks. In light of these findings, future research could explore alternative governance mechanisms that might complement board diversity to enhance the overall performance and asset quality of commercial banks in Nigeria.

RECOMMENDATIONS

In line with the findings of the study, the following recommendations are made:

1. Commercial banks should invest in cross-cultural communication training for board members, as the findings reveal that cultural and language barriers may limit the effectiveness of foreign directors in improving asset quality.

2. Banks should prioritize the recruitment and development of local directors with strong expertise in asset management, as local directors are better equipped to address domestic challenges related to non-performing loans and asset quality.

REFERENCES

Adamu, S. (2021). The influence of board nationality diversity on the asset quality of Nigerian banks. *International Journal of Banking and Finance Research, 10*(2), 45-58.

Adebayo, F. (2020). Board nationality diversity and asset quality of Nigerian commercial banks. *Journal of Financial Management and Corporate Governance, 8*(4), 112-125.

Adhikari, R., Bhatia, M., & Tiwari, A. (2020). Board diversity and bank performance: Evidence from emerging markets. *Journal of Banking and Finance, 115*, 105812.

Adigun, O., & Bello, T. (2019). Board composition and financial stability of Nigerian banks: Evidence from asset quality analysis. *Journal of Banking and Finance*, *14*(3), 65-79.

Berger, A. N., Imbierowicz, B., & Rauch, C. (2018). The role of corporate governance in the performance of banks. *Journal of Financial Stability, 34*, 12-21.

Central Bank of Nigeria. (2021). *Guidelines for corporate governance in banks*. [CBN Website](https://www.cbn.gov.ng).

Cohen, J. R., Gaynor, L. M., & Hwang, L. (2019). The effect of board diversity on firm performance: Evidence from the banking sector. *Journal of Banking Research, 8(*2), 45-64.

Eze, U., & Ogbonna, C. (2020). Board nationality and risk profiles of commercial banks in Nigeria. *African Journal of Economic and Management Studies*, *11*(4), 348-361.

Ezeoha, A. E., & Ogwumike, F. O. (2019). Determinants of asset quality in Nigerian banks: Evidence from the banking sector. *African Journal of Economic and Management Studies, 10*(3), 310-327.

Garba, T., & Abubakar, A. (2019). Board nationality and firm performance: Evidence from Nigerian listed companies. *International Journal of Corporate Governance and Sustainability, 7(*2), 45-62.

Hambrick, D. C. (2007). Upper echelons theory: An update. *Academy of Management Review*, *32*(2), 334-343.

Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review, 9*(2), 193-206.

Hillman, A. J., Withers, M. C., & Collins, B. J. (2009). Resource dependence theory: A review. *Journal of Management*, *35*(6), 1404-1427.

Ntim, C. G. (2015). Board diversity and organizational valuation: Unpacking the effects of ethnicity and gender. *Journal of Management Studies, 52*(3), 487-518.

Nwankwo, E. (2018). Board nationality and asset quality in the Nigerian banking industry. *African Journal of Corporate Governance, 7*(3), 30-45.

Olufemi, T., & Olatunji, B. (2019). The effect of foreign directors on asset quality in Nigerian deposit money banks. *Nigerian Journal of Economic and Financial Studies, 5(*2), 65-78.

Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: A resource dependence perspective.* Harper & Row.

Reen, S., Uddin, J., & Qureshi, M. (2015). Impact of board nationality on firm's financial performance: Evidence from South Asia. *Journal of Corporate Finance Research, 9*(1), 23-39.

Wei, S., Xie, D., & Zhang, Y. (2011). Board diversity and firm performance: Evidence from the banking industry. *Journal of Banking and Finance*, *35*(12), 3064-3076.