

**BOARD INDEPENDENCE AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY  
BANKS IN NIGERIA AND CANADA**

**Introduction:** In current eras, supervisory bodies have interceded in the operations of Deposit Money Banks. This is because they are confronted with plethora of problems such as overexpansion; corruption of bank officers, inappropriate risk management and these resulted to poor financial performance.

**Aims:** The present study aims to focus on the link amid board independence and financial performance of Deposit Money Banks as well as providing a comparative view by focusing on Nigeria and Canada.

**Methods:** This study seeks to observe the association amid board independence and corporate financial performance of Deposit Money Banks in Nigeria and Canada. The panel data methodology is widely recommended for it is useful when data is a blend of time-series and cross-sectional features. The study applied secondary data extracted from annual financial statements of Deposit Money Banks quoted on the Nigerian Stock Market and in the Canadian stock market between the ten years period of 2008 and 2017.

**Results:** The variables considered in this study are return on asset (ROA) (dependent variable), proportion of independent non-executive directors on board (BIND) and audit committee independence (ACI) (independent variables), earnings per share (EPS) and firm size (FSIZE) which are control variables. From the findings, it is revealed that there exists a significant relationship between board independence and profitability of deposit money banks in Nigeria and Canada.

**Conclusion:** Empirical results obtained reveal that audit committee independence promoted financial performance of the deposit money banks in Nigeria while in Canada it was positive and insignificant. Thus, a greater proportion of audit committee independence would bring about a greater level of financial performance in deposit money banks in Nigeria and Canada. The aspect of corporate governance implies that banks will profit by increasing the number of its independent directors and independent audit committee members.

**Keywords:** Financial performance, deposit money, Canada, Nigeria, stock market

### **1.0 Introduction**

In current eras, supervisory bodies have interceded in the operations of Deposit Money Banks. This is because they are confronted with plethora of problems such as overexpansion, corruption of bank officers, inappropriate risk management and these resulted to poor financial performance. Given the significant function banks play in the economy (Ogbechie & Koufopoulous, 2010), there is a necessity to guarantee smooth procedures in their activities. Consequently, such mirage of problems has led to a fall in investors' confidence thus creating a

40 worsened level of financial performance since customers are sceptical of their investment  
41 security (Okere, Isiaka & Ogunlowore, 2018).

42 In spite of certain misfortune that arose from the global financial crisis (GFC), banks in Canada  
43 have exhibited a remarkable performance over the past five years to 2018. Banks have done an  
44 extraordinary work of spreading revenue streams as well as surviving limits created by interest  
45 rates as well as growing regulations. Deposit money banks mainly get revenue via interest  
46 income such as corporate loans and mortgages, but it also gets income via noninterest sources,  
47 which comprises of fees on a variation of services as well as commissions. Nonetheless, this is  
48 not the case for most developing countries. They face quite a lot of challenges such as  
49 deteriorating profitability, slow credit growth, fast asset quality deterioration, weakening  
50 capitalisation, bad loans, public sector credit over reliance. The outlook from all these is not  
51 much brighter because most of these issues affecting their performance is directly linked to their  
52 governance system.

53 The gap between ownership and control introduces the moral hazard issue which generates a  
54 need for monitoring as well as control mechanisms (Jensen & Meckling, 1976). Thus, the key  
55 problem with board independence (BIND) is to appoint executives who are conversant with the  
56 company's model as well as market, but who are not connected to the executives through  
57 business relationships and personal and collegiate ties. In reality, this may be a tough task to  
58 accomplish, as many businesses in the same market are connected with each other given their  
59 financial, supplier and customer relations. An independent as well as effective board is a  
60 prerequisite of good governance structure. If the board is lacks independence and effectiveness  
61 for executing their monitoring function, there exist an opening for managers to use managerial  
62 opportunism to perpetrate financial fraud.

63 Presently, most entities have comprehended the vital functions of the independent directors since  
64 the failure of big entities such as Cadbury, Parmalat, Enron, World com, Xerox, Skye Bank and  
65 other prominent corporations around the world. This has enlarged the need for good governance  
66 practice that will bound the incidence of GFC affecting countless entities all over the world  
67 (Wilson, 2006; Emeni, 2014).

68 An analysis of literature recognized that BIND was amongst the significant influences on  
69 corporate performance, nonetheless, conclusions are inconsistent. Some earlier authors have  
70 resolved that BIND is linked with enhanced performance level (Hossain, Prevost & Rao, 2001;  
71 Reddy, Locke, Scrimgeour & Gunasekarage, 2008; Nguyen & Nielsen 2010), contradictory,  
72 some researchers posit that independent board show a negative effect on corporate performance  
73 (Fauzi & Locke, 2012; Agrawal & Kneoeber, 1996; Bhagat & Bolton, 2008) and Wintoki, Linck  
74 and Netter (2012) reported no relationship. These findings are inconsistent due to likeliness that  
75 there exists endogenous factors mediating the associations that is absent in earlier empirics.  
76 Though empirical investigation has not provided any clear communication as to the role of  
77 independence, the subject matter remains critical. This offers justifications for the research work  
78 to focus on the link amid board independence and financial performance of Deposit Money  
79 Banks as well as providing a comparative view by focusing on Nigeria and Canada.

## 80 **2.0 Literature Review**

### 81 **2.1 Board Independence**

82 The inclusion of outside executives on the board is termed ‘board independence’. This plays a  
83 vital mechanisms to test the efficacy of a board. Mallin (2006) sees independent executives as  
84 directors who besides receipt of director’s compensation do not bear any other significant  
85 relationship with the entity in which the decision of the board may affect their independent  
86 judgment. Whereas, inside director is an individual on the board who is a member of staff of the  
87 entity (Siegel & Shim, 2006).

88 Starting the 90s’, the notion of board independency became prevalent and globally numerous  
89 nations started to adopt the recommendation that specifies the minimum level for the  
90 representation of outside director of public corporations. External executives in the firm in  
91 comparison to current or past workers are expected to be independent directors and are activists  
92 of shareholder interest (Hermalin & Weisbach, 1988) because of non-attachment with the entity  
93 so that they can virtuously indicate the interests of shareholder (Dobrzynski, 1991). Furthermore,  
94 Ramdani and Witteloostuijn (2010) expressed that when a board was independent, it will be able  
95 to monitor successfully the company’s senior executives and as a result this hindered them from  
96 pursuing activities which were regarded as self-interest. BIND is the ratio of inside to outside  
97 directors (Kiel & Nicholson, 2003).

## 98 **2.2 Firm Performance**

99 The topic of corporate performance has received substantial attention from researchers from  
100 business spheres (Jat, 2006) as well as business practitioners (managers and entrepreneurs)  
101 because it is crucial as demonstrated in high performance entities which have success stories due  
102 to their apparent competence in handling their processes as well as their positive addition to the  
103 welfare of their stakeholders. Although, low performance entities are not, owing to their lack of  
104 such critical attributes (Jat, 2006). Performance is however, a difficult concept, in terms of  
105 definition and measurement.

106 Financial ratios can be seen as a primary reference for the examination of corporate performance.  
107 This agrees with Osisoma (1996) claim that “ratios relate one set of values to another, with the  
108 subsequent quotient serving as a proxy by which performance is judged.” Hill and Jones (2009)  
109 also assert that the key proxy for financial performance is its profitability. According to  
110 Osisoma (1996) they are intended at bringing to light the profitability of an entity’s operation,  
111 the management efficiency, the intensity of capital usage and the rapidity with which invested  
112 capital is turned over.

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## 114 **2.3 Theoretical Review**

### 115 **2.3.1 Agency Theory**

116 Agency theory stems around the notion of separation of ownership and control leading to diverse  
117 goals for owners and agents. (Jensen & Mecking, 1976). Independent managers can efficiently  
118 checkmate top management and merge their goals to shareholders’. Thus, they aid in curbing  
119 agency problems as well as promoting good corporate performance. This profers a positive link  
120 amid ratio of independent directors and corporate performance. (Fama, 1980; Krivogorsky, 2006;  
121 Ijeh, Adesanmi & Njogo, 2014; Okere, Eluyela, Lawal, Oyebisi, Eseyin, Popoola & Awe, 2019).  
122 The agency problem promotes differing goals, asymmetric problems, as the principal has  
123 comprehensive information than the agent giving rise to agency costs. Subsequently, there are

124 several stakeholders, the agent is occasionally challenged with the tough choice of satisfying  
125 opposing stakeholder interests. Agency theory provides the theoretical framework for this study  
126 to scrutinize the association amid BIND and financial performance of Deposit Money Banks.

127 **2.3 Empirical Review of Literature**

128 In reviewing literature, Chou and Hamill (2006); Ahmadu, Garba and Aminu (2011); Shahid  
129 (2014); Nuraddeen (2016) discovered that corporations which complied with the reference to  
130 engage independent director(s) enjoyed significantly improved performance. Also, Foo, and Mat  
131 Zain (2010) supported this stand in their study which revealed a Positive connection amid board  
132 independence and liquidity. Furthermore, Liu, Miletkov, Wei and Yang (2012) revealed that  
133 independent executives spurs an inclusive positive effect on corporate operating performance.  
134 This was also supported by Atiqa and Syed (2013) in their study which revealed that BIND has  
135 significant positive impact on market-based performance measures. Nonetheless, Basmah and  
136 Kalyanaman (2016); Sharifah, Syahrina and Julizaerma (2016) in their study expressed that  
137 board independence, has a positive link with firm performance while excess board independence  
138 is not statistically significant relationship with firm performance.

139 Nonetheless, some researchers discovered a negative relationship between board independence  
140 and performance of banks. Ponnu and Karthigeyan (2010) revealed that there is no positive  
141 relationship between Board independence and corporate performance and the responsibility now  
142 is solely on the shoulders of the government to ensure effective corporate governance is  
143 maintained throughout the nation. Also, Ijeh, Adesanmi and Njogo (2014) revealed that Board  
144 independence is negatively signed and statistically significant at less than 1% significant for both  
145 ROA and ROE. These findings were in line with that of Wang (2014); Johl, Kaur, & Cooper  
146 (2015); Imad (2015); Mohammed (2017)

147 **3.0 Methodology**

148 This study seeks to observe the association amid board independence and corporate financial  
149 performance of Deposit Money Banks in Nigeria and Canada. The research objective will be  
150 achieved using the panel ordinary least square method. The panel data methodology is widely  
151 recommended for it is useful when data is a blend of time-series and cross-sectional features. The  
152 study applied secondary data extracted from annual financial statements of Deposit Money  
153 Banks quoted on the Nigerian Stock Market and in the Canadian stock market between the ten  
154 years period of 2008 and 2017. The study adapted the model of Alshetwi (2017). The  
155 econometric model is defined as thus:

156  $PERF = ROA$ ..... (1)

157  $PERF = f(BIND, ACI, EPS, FSIZE)$  ..... (2)

158  $ROA_{it} = \beta_0 + \beta_1 BIND_{it} + \beta_2 ACI_{it} + \beta_3 EPS_{it} + \beta_4 FSIZE_{it} + U_{it}$ ..... (3)

159 Where PERF= Financial Performance

160 BIND= Proportion of Independent Non-Executive Directors on Board

161 ACI= Audit Committee Independence

162 FSIZE= Firm Size

163 EPS= Earnings per Share

### 164 3.3 A-priori expectation

165 The a-priori expectation makes available the estimated significance of the co-efficient of the  
166 model parameters to be estimated. Increase in board independence is expected to yield an  
167 increase in corporate performance of the selected banks.

168 The a priori expectation is mathematically represented as follows:  $\beta_1, \beta_2 > 0$

### 169 3.4 Measurement of Variables

#### 170 Dependent Variable: Financial Performance

171 This is measure by returns on asset (ROA) and it is derived as

$$172 \text{ROA (return on asset)} = \frac{\text{profit after tax}}{\text{total asset}} \times 100\%$$

#### 173 Independent Variable:

174 **BIND:** Proportion of Independent Non-Executive Directors on Board was calculated by dividing  
175 the number of non-executive directors by the total number of board members

176 **ACI:** Calculated by the proportion of the number of independent non-executive directors on the  
177 committee to the total number (Nelson & Devi, 2013)

#### 178 Control Variables

179 **EPS:** Profit after tax as a ratio of number of ordinary shares

180 **FSIZE:** Natural logarithm of total asset of a firm

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## 182 4.0 Data Presentation and Analysis

### 183 4.1 Descriptive analysis

184 **Table 1: Correlation matrix**

Nigeria	BIND	ACI	EPS	FSIZE
ROA	0.032853	0.043937	0.810080	0.093435
BIND	1.000000	0.044552	-0.039912	-0.065192
ACI	0.044552	1.000000	0.054293	0.030173
EPS	-0.039912	0.054293	1.000000	0.072639
FSIZE	-0.065192	0.030173	0.072639	1.000000
<b>Canada</b>	BIND	ACI	EPS	FSIZE
ROA	0.0067	0.0688	0.2825	0.0644
BIND	1.0000	0.7098	-0.4783	-0.5452
ACI	0.7098	1.0000	-0.5436	-0.8003
EPS	-0.4783	-0.5436	1.0000	0.7117
FSIZE	-0.5452	-0.8003	0.7117	1.0000

185 **Source:** Author's Work (2019).

186 The result presented in the table above reveals that the correlation between the examined  
 187 variables used to capture board independence and financial performance of Deposit Money  
 188 Banks in Nigeria. The importance of carrying out a correlation analysis was to detect presence of  
 189 multicollinearity amongst the independent variables. Gujarati (2004); Okere, Isiaka and  
 190 Ogunlowore (2018) recommends a correlation less than 80% to show absence of  
 191 multicollinearity. Examining the matrix above, it can be seen that the highest correlation between  
 192 the independent variables is 7% which is between EPS and FSIZE for Nigeria and 71% between  
 193 FSIZE and EPS for Canada.

194 **Table 2 Hausman test**

Correlated Random Effects - Hausman Test (**Nigeria**)

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.224941	4	0.0837

195 **Source:** *Author's Work (2019).*

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Correlated Random Effects - Hausman Test (**Canada**)

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.425496	4	0.0039

198 **Source:** *Author's Work (2019).*

199 This Hausman test was carried out to determine which model best suites the panel regression.  
 200 The rule states:

201 If the P-value is statistically significant adopt a fixed effect model

202 If the P-value is not statistically significant adopt a fixed/random effect model.

203 Also, the P-value (0.0039) < 5% significant for Nigeria. Therefore, a fixed effect model shall be  
 204 used for this regression analysis.

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206 **4.2 Analysis of Panel Regression Results**

NIGERIA					CANADA			
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Coefficient	Std. Error	t-Stat	Prob.
<b>BIND</b>	0.0021	0.01	0.21	0.83	-2.8714	4.5568	-0.63	0.53
<b>ACI</b>	0.0032	0.00	1.96	0.05	1.4439	8.9808	0.16	0.87
<b>EPS</b>	0.0001	6.37	18.64	0.00	1.9846	0.9565	2.08	0.04
<b>FSIZE</b>	-0.0013	0.00	-1.72	0.09	-2.2366	1.1874	-1.88	0.07
<b>C</b>	-0.0053	0.01	-0.48	0.6337	32.7412	18.0403	1.82	0.08
	<b>Nigeria</b>	<b>Canada</b>			<b>Nigeria</b>	<b>Canada</b>		
<b>R-squared</b>	0.7555	0.3475		<b>Mean dependent var</b>	0.0418	2.7221		
<b>Adjusted R-squared</b>	0.7219	0.2451		<b>S.D. dependent var</b>	0.054312	3.8349		
<b>S.E. of regression</b>	0.0215	3.3319		<b>Sum squared resid</b>	0.060409	566.184		
<b>F-statistic</b>	22.493	3.3945		<b>Durbin-Watson stat</b>	1.939601	1.5366		
<b>Prob(F-statistic)</b>	0.0000	0.0034						

207 **Source:** Author's Work (2019).

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#### 214 4.2.1 Discussion of Panel Regression Results

215 This study examines the relationship between board independence and financial performance of  
216 deposit money banks in Nigeria and Canada. The dependent variable was proxied using ROA  
217 while the independent variable (board independence) was measured using proportion of  
218 independent non-executive directors (BIND) and audit committee independence (ACI).

219 i. For Nigeria, The R-squared which represents the coefficient of determination is  
220 0.76(76%), while the adjusted R-squared which takes into account all the independent  
221 variables are 0.72(72%). This depicts that 72% of the dependent variable is explained by  
222 the independent variables while the remaining 28% is subject to factors not captured by  
223 this study. The F-statistics is positive (22.49260) which show the fitness of the model and  
224 is validated by the probability of the f-statistic which is significant at 1%, 5% and 10%.  
225 The Durbin Watson statistics value of 1.94 shows there is evidence that the parameter  
226 estimates are free from autocorrelation. From the analysis, it is revealed that there is a  
227 significant relationship between board independence (BIND, ACI, EPS, FSIZE) and  
228 corporate financial performance of deposit money banks in Nigeria.

229 Also, BIND revealed a positive (0.002117) but insignificant relationship with ROA. This means  
230 that for every unit increase in BIND, there is a 0.2% increase in performance (ROA) of the  
231 sampled firms. The means that the more the proportion of independent non-executive directors  
232 on the board would lead to an increase in their profitability. From the probability value which is  
233 insignificant at 5%, the null hypothesis is accepted which says that there is no significant  
234 relationship between proportion of independent non-executive directors and financial  
235 performance of deposit money banks in Nigeria.

236 ACI showed a positive (0.003074) and significant relationship with ROA. This is further  
237 explained that for every unit increase in ACI, there is a 0.3% increase in the profitability of  
238 deposit money banks in Nigeria. This depicts that the higher the level of audit committee  
239 independence, the greater the independence of the board which would bring about positive  
240 performance in terms of profitability. The EPS and FSIZE were used as the control variable for  
241 the study. EPS shows a positive and significant relationship with ROA while FSIZE shows a  
242 negative and insignificant relationship with ROA.

243 ii. Examining the relationship between board independence and financial performance of  
244 deposit money banks in Canada, the R-squared is 0.3475 (35%) while the adjusted R-  
245 Squared is 0.2451 (25%) depicting that 25% of changes in the dependent variable can be  
246 explained by changes in the independent variables (BIND, ACI, FSIZE & EPS). The F-  
247 statistics is positive (3.3945) which show the fitness of the model and is validated by the  
248 probability of the f-statistic which is significant at 1%, 5% and 10%. The Durbin Watson  
249 statistics value of 1.54 shows there is evidence that the parameter estimates are free from  
250 autocorrelation. From the analysis, it is revealed that there is a significant relationship  
251 between board independence (BIND, ACI, EPS, FSIZE) and financial performance of  
252 deposit money banks in Canada.

253 Also, BIND revealed a negative (-2.8714) but insignificant relationship with ROA. This means  
254 that for every unit increase in BIND. This means that the more the proportion of independent  
255 non-executive directors on the board would lead to a decrease in their profitability. From the  
256 probability value which is insignificant at 5%, the null hypothesis is accepted which says that



257 there is no significant relationship between proportion of independent non-executive directors  
258 and financial performance of deposit money banks in Nigeria.

259 ACI showed a positive (1.4439) and insignificant relationship with ROA. This depicts that the  
260 higher the level of audit committee independence, the greater the independence of the board  
261 which would bring about positive performance in terms of profitability.

262 The EPS and FSIZE were used as the control variable for the study. EPS shows a positive and  
263 significant relationship with ROA while FSIZE shows a negative and insignificant relationship  
264 with ROA. The findings from both study show that audit independence would significantly affect  
265 the financial performance of banks in Nigeria even though it would positively affect performance  
266 of banks in Canada.

267 The research findings are in line with the works of Shahid (2014); Nuraddeen (2016) and  
268 contradicts the results of Ijeh, Adesanmi, & Njogo (2014); Imad (2015); Mohammed (2017).

## 269 **5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS**

270 The focus of this study on board independence is predicated on the need to ascertain whether  
271 deposit money banks in Nigeria and Canada have a functional board with an appropriate level of  
272 board independence which in turn affects their financial performance. The variables considered  
273 in this study are return on asset (ROA) (dependent variable), proportion of independent non-  
274 executive directors on board (BIND) and audit committee independence (ACI) (independent  
275 variables), earnings per share (EPS) and firm size (FSIZE) which are control variables. From the  
276 findings, it is revealed that there exists a significant relationship between board independence  
277 and profitability of deposit money banks in Nigeria and Canada.

278 Empirical results obtained reveal that audit committee independence promoted financial  
279 performance of the deposit money banks in Nigeria while in Canada it was positive and  
280 insignificant. Thus, a greater proportion of audit committee independence would bring about a  
281 greater level of financial performance in deposit money banks in Nigeria and Canada. Also,  
282 board independence would bring about a positive effect on financial performance of deposit  
283 money banks in Nigeria while in Canada, it would cause a negative effect of financial  
284 performance even though not significant. This aspect of corporate governance implies that banks  
285 will profit by increasing the number of its independent directors and independent audit  
286 committee members.

287 From the research findings, the study proffers the following recommendations:

- 288 i. There should be strict compliance of corporate governance principles by all corporate  
289 organizations.
- 290 ii. Banks and all corporate organizations should motivate their executive members through  
291 financial compensation to promote independence.
- 292 iii. Banks and corporate organizations should exploit the wealth of financial experience of  
293 their independent audit committee members

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UNDER PEER REVIEW