Board Attributes and Banks' Abnormal Loan Loss Provision

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ARTICLE DETAILS	ABSTRACTS
History *Received : August* *Revised Format : September* *Accepted : October* *Keywords :* Board size, board meetings, whistle blowing policy, firm age, and financial reporting quality	It is pertinent to the document that BOD has the responsibility to scrutinize the information enclosed financial statements to ensure a quality and reliable financial information. More so, this paper examined the correlation between board attributes and loan loss provision of sampled Nigerian banks. This research covers a ten years period (2012-2021). Information related to data was got from the sampled banks' yearly information. Paris-winsten regression, heteroskedastic panel corrected standard error (PCSE) was used because the data is homoskedastic in nature. This study introduced the whistle blowing policy as a control variable. Again, this study introduced learning by theory to explain firm age (control variable). Findings in the results show a significant positive correlation between board size and abnormal loan loss provision (ABLLP). Board meetings may have a negative insignificant connection with ABLLP. While, board autonomy has a positive insignificant correlation with ABLLP. Finally**,** it was found that whistleblowing may not significantly prevent the practice of ABLLP by banks in Nigeria. As a result, this study established that authorities like the Nigerian Apex Bank should ensure the compliance of their codes of best practice which will serve as an avenue to achieve a financial reporting quality. Federal Republic of Nigeria should ensure the full implementation of the law on whistleblowing policy and protection of whistleblowers. Furthermore, all findings and recommendations are restricted to the DMBs in Nigeria. Lastly, studies in the future are advised to focus on board attributes in the other domains where there is a practical problem to be addressed. ©2023 STIM Lasharan Jaya Makassar

Introduction

It is pertinent to document that corporate entities use financial statements as a medium of disseminating information to its users about their financial performance for an accounting period (Abdulwahab, 2021). Financial analysts, investors, and general public take a decision based on the financial information published (Mwangi, 2018). The financial statements must provide relevant, reliable and quality information for each other to aid users to make decisions (Akpan & Nsentip, 2020). It is expected that financial reports should always dictate what has happened, current and future situations for each other to authenticate and whether or not to amend earlier expectations (Baxter & Cotter, 2009). These information's

that are narrated in the financial statements should not possess any material error and not to mislead its users in any form.

International and national papers have been reviewed in connection with board attributes and quality of financial reporting, which includes: Al-absy, Nor and Sitraselvi (2019); Akeju and Babatunde (2017); Bala and Ibrahim (2016); Kibiya, Che-ahmad and Amran (2016) Chi-chi and Friday (2016); Kantudu and Samaila (2015); Al-Dhamari and Ismail (2014); Holtz & Neto (2014); Soliman and Ragab (2013); Hassan (2013); Chalaki, Didar and Riahinezhad (2012); Saleem and Alzoubi (2012), among others.

The inclusion of a whistle blowing policies (control variables) is likely to significantly improve the financial reporting quality processes (Al-absy et al. 2019). The less attention paid towards whistle blowing policy by researches in accounting made this study to include it in the other to have effective corporate governance within the DMBs in Nigeria (CBN code of corporate governance for banks and discount houses 2014).

More so, corporate governance mechanisms have aided investors in strengthening the significance of managers, shareholders as well as improving the consistency of the financial statements of the whole activities involved in the reporting of economic statements (Wang, 2015 and Akpan & Nsentip, 2020).

Although without existence of these regulatory authorities, Nigerian banking sector has witnessed corporate failures which involve Skye Bank Plc and Diamond Bank Plc in 2018 which were as a result of bad leadership and mismanagement of funds among others (Tekedia, 2019). It was as a result of this development, doubts began to surface among the holders of shares in relation to the trustworthiness about the whole statements reported yearly. Hence, the researchers' deemed it necessary to focus on the board attributes and quality of financial reports of sampled DMBs in Nigeria.

This research will seek to address the under-stated questions:

i. Is there any significant effect of board size (BSIZ) on ABLLP of sampled DMBs in Nigeria?
ii. Is there any significant impact of board meetings (BMET) on ABLLP of sampled DMBs in Nigeria?
iii. Is there any significant impact of board autonomy (BINP) on ABLLP of sampled DMBs in Nigeria?

The main objective of this research is to investigate the impact of board attributes on ABLLP on sampled DMBs in Nigeria. Thus, under stated are the precise objectives:

i. To determine the effect of BSIZ on ABLLP of sampled DMBs in Nigeria.

ii. To ascertain the extent to which BMET affects the effective ABLLP of sampled DMBs in Nigeria.

iii. To examine the effect of BINP on ABLLP of sampled DMBs in Nigeria.

This research formulated null hypotheses in line with the earlier stated objectives.

$H0_1$ BSIZ has no significant impact on ABLLP of sampled DMBs in Nigeria.

$H0_2$ BMET has no significant effect on ABLLP of sampled DMBs in Nigeria.

$H0_3$ BINP has no significant effect on ABLLP of sampled DMBs in Nigeria.

Literature Review

Conceptual Framework

Quality of financial reporting is referred to as the truthful economic activities detailed in the yearly accounting reports (Martinez-Ferrero, 2014). Truthfulness consists of clarity, importance, trustworthiness and openness (Jonas & Blanchet, 2000). It is the credibility and reliability of these financial reports that direct its users in making a wise economic decisions (Shehu, 2013). Al-absy et al. (2019) viewed corporate governance in their study as an idea whereby authorities within an organization oversee and towards making decisions.

Empirical Review

Al-absy et al. (2019) showed a significantly association with a low level of DA and BSIZ. Abubakar (2017) in his study revealed BSIZ has an insignificant positive relationship with FRQ of sampled food product companies in Nigeria. Furthermore, Akeju and Babatunde (2017); Hassan (2013); Lajmi and Gana (2011) & Sunday (2008) revealed a significant positive correlation among BSIZ & FRQ. However, AlMamun and Muniruzaman (2014); Omoye and Eriki (2014); Soliman and Ragab (2013) & Hashim and Devi (2008) all revealed association that is negative among BSIZ & FRQ.

Al-absy et al. (2019) showed a significantly association with a low level of DA and BMET. Bala and Ibrahim (2016); Gana and Krichen (2013) & Hashim and Devi (2008) study the impact of BMET on financial reporting quality and found a positive significant relationship, implying that frequent meetings can increase the quality of financial reports. Conversely, Kantudu and Samaila (2015) & Alhaji (2014) found a negative insignificant relationship between BMET and FRQ in Nigerian Oil & Gas Industries.

Al-absy et al. (2019) showed a significantly and negatively associated in relation with BINP and earnings management. Roodposhti and Chashmi (2016) showed a negative significant connection BINP & earnings management. The work of Fodio, Ibikunle and Oba (2013) found that BINP is significant and positively related to earnings management. Adding to the above, these studies established a significant positive association with BINP and financial reporting quality (FRQ) (Holtz & Neto, 2014; Gana & Krichen, 2013; Lajmi & Gana, 2011 and Desender, Garcia-Cestona, Crespi & Aguilera, 2009). On the other hand, the following studies acknowledged an insignificant association (Borlea, Achim & Mare, 2017 and Al-Dhamari & Ismail, 2014).

Olowokure, Tanko and Nyor (2016) narrated in their study that the age of a firm forms an essential determinant of the firm's strength in the internal control system, and also to achieve quality financial report there must be a strong internal control system within an organization. The whole system of internal control are expected to be better yearly in other to enhance the FRQ (Huang, Rose-Green & Lee, 2012).

As a result of the foregoing, it was observed that most of the studies reviewed were carried out internationally but some few were believed to be conducted in Nigeria. Moreover, the studies reviewed, also to the best of the researchers' acquaintance, none of them included whistle blowing policy as a control variable, the period of study were mostly 5-6 years (Oziegbe & Ogbodo, 2021 and Bala & Kumai, 2015) among others. In the same vein, this study extended the period of study to 10 years (2012-2021). In addition, this study went further to borrow a theory (learning by doing) from the education discipline to explain firm age. Hence, this study will examine the impact of board attributes (BSIZ, BMET, and BINP) on FRQ of sampled DMBs in Nigeria in others to bridge the existing gaps in the literature.

Theoretical Framework

In the context of this study, agency theory, prosocial behavior theory, and learning by theory were discussed and adopted.

Agency Theory

Berle and Means (1932) initiated agency theory from their work. They explored it concept and the applications in the development of organisations. The work revealed that the interests of directors and shareholders differ, this necessitated the use of an agent – principals to explain the genesis of the conflicts. Hence, this research will investigate the attributes board attributes (agents) as regards the quality of reports they present to shareholders (principals).

Pro-social Behaviour Theory

Brief and Motowidlo (1986) define pro-social behaviour as an act which is carried out by a member of an organisation, aimed at a stakeholder to whom he or she relates While executing his or her organizational responsibilities, with the purpose of promoting the wellbeing of the stakeholder toward which it is intended for. This theory best explains the whistle blowing policy which served as the control variable of this study.

Learning by Theory

Anzai and Simon (1979) refer to learning by doing theory as learning that occurs in a different circumstance with probably a number of varieties of processes. This study borrowed the learning by theory from the education discipline, which makes the student to learn as they engage in solving problems. Moreover, this theory explains firm age in the sense that banks with older age tend to perform better than newer banks. Older banks in business operations possess experience, knowledge, and wisdom in carrying out business activities which younger banks do not have.

Methodology

Correlational research design was employed because it described the statistical relationship between two or more variables (Abdulwahab, Bala, Kwanbo & Gwamna, 2022 and Bala, Abdulwahab, Kwanbo, Khatoon & Karaye, 2022). The population of this paper covers the entire DMBs in Nigeria with the consideration of the availability of data from NSE for the period of 2012 to 2021. As a result of the foregoing, Jaiz Bank Plc was filtered out due to the availability of data from 2012 to 2018. Therefore, 13 banks mark up the sample size of this research.

Table 3: Variables Measurement and Source

S/N	Variables	Measurement	Source
1	Abnormal Loan Loss (ABLLP)	Measured as the dissimilarity involving total loan loss and normal loan loss.	Abdulwahab (2021) & Olowokure et al. (2016)
2	Board Size (BSIZ)	Measured as the whole number of members in the board.	Bala and Kumai (2015)
3	Board Meetings (BMET)	The number of meetings held by the Board during the year	Bala and Kumai (2015)
4	Board Independence (BINP)	Percentage of non-executive directors with the whole number of board members	Abdulwahab et al., (2022) & Bala and Kumai (2015)
5	Whistle Blowing Policy (WBP)	Banks that report whistle blowing policy are tagged as 1, 0 for otherwise.	Bala et al.,(2022) & Abdulwahab et al., (2022)
6	Firm Age (FAGE)	Measured as the number of years	Abdulwahab et al.,

since listing	(2022)	

Source: Generated by the Authors. 2022

From the above table, this research employed abnormal loan loss provision in consistent with (Abdulwahab, 2021)

$$LLP = \alpha_0 + \alpha_1 LLAB + \alpha_2 NPLAB + \alpha_3 \Delta NPL + \alpha_4 NBLW + \alpha_5 \Delta TOTL + e_t$$

Where:
NPLAB = Non-Performing Loan at the beginning
LLP = Loan loss provision
ΔNPL = Change in Non-performing Loans
NBLW = Net Bad Loans Written Off and
ΔTOTL = Change in Total Loan Loss

The following model is formulated and used to empirically test the hypotheses developed.

$$ABLL_{it} = \beta_0 + \beta_1 BSIZ_{it} + \beta_2 BMET_{it} + \beta_3 BINP_{it} + \beta_4 WBP_{it} + \beta_5 FAGE_{it} + \varepsilon_{it}$$

Where**:**
ABLL **=** Abnormal Loan Loss
BSIZ = Board Size
BMET = Board Meetings
BINP = Board Independence
WBP = Whistle Blowing Policy
FAGE = Firm Age
β_0 = Constant
$\beta_1 - \beta_5$ = Co-efficient of BSIZ, BMET, BINP, WBP, and FAGE correspondingly.
ε = other factors that were not included in this model

Results and Discussion
Table 4.1 Descriptive Statistics of the Variables

VARIABLE	OBS.	MEAN	STD. DEV.	MIN.	MAX.
ABLL	130	0.1035	0.0992	0.028	0.474
BSIZ	130	14.600	3.1019	6	23
BMET	130	5.8769	1.5800	3	12
BINP	130	0.5247	0.1216	0.190	0.820
WBP	130	0.9000	0.3012	0.000	1.000
FAGE	130	27.754	24.284	5.000	104.0

Source: Extracted from STATA 13 Output

Descriptive statistics is among the essential features of the research because it outlines the min, max, mean, observation, and standard deviation of the variables in a study. Table 4.1 reveals that ABLLP of sampled DMBs in Nigeria have a mean value of 0.1035 with a deviation value of 0.0992, and the minimum to maximum values stand at 0.028 & 0.47 respectively. Which implies that the average alteration of ABLLP of sampled DMBs in Nigeria by managers is 0.1035 to 0.47 and the standard deviation from both sides of the mean is 0.0992. This indicates that the dispersal of the data from the mean is not far away. The minimum value of the ABLLP is 0.028 which indicates that the least FRQ by the management of sampled DMBs in Nigeria will not cause significant effect in the financial statement. However, the maximum ABLLP value of 0.47 is high and entails a condition where the FRQ covers 0.47 of the effect in the financial statement of sampled DMBs in Nigeria.
BSIZ reveals a minimum with a maximum of 6 and 23 correspondingly. This indicates there is an average of six members with a minimum and a maximum of twenty-three members, respectively. Moreover, the mean value stood at 14.6, implying that on average the BSIZ

consists of 15 members while the standard deviation is 3.1012, indicating a moderate scatter of the data from the mean, as evidenced by the mean value which is far away from the standard deviation.

BMET have a mean figure of 5.8769 with a deviation of 1.5800. The standard deviation indicates a moderate spread of the data from the mean. The minimum coefficient of 3 indicates that the minimum met of BODs of sampled DMBs in Nigeria per annum is 2 for the period under review. In the same vein, the maximum coefficient of 23 indicates that the maximum meeting of the BODs of sampled DMBs in Nigeria per annum is 23 within the period under review.

BINP demonstrates a minimum to a maximum of 0.19 and 0.82 correspondingly. This connotes that the smallest proportion of NEDs in the BODs is 0.19 and the largest proportion is 0.82. This means that there is at least one NED in the composition of the BODs of all sampled DMBs in Nigeria. Moreover, the average coefficient 0.5248 & standard deviation 0.1212 indicates the data is widely spread from the mean.

Correlation Matrix

Table 4.2: Correlation Matrix of the variable

VARIABLE	ABLL	BSIZ	BMET	BINP	WBP	FAGE
ABLLP	1.0000					
BSIZ	0.1960	1.0000				
BMET	0.0018	0.0974	1.0000			
BINP	-0.0559	-0.1429	-0.0922	1.0000		
WBP	-0.0587	-0.0432	0.0554	0.0025	1.0000	
FAGE	-0.0857	0.3675	-0.0725	0.1611	0.0613	1.0000

Source: Extracted from STATA 13 Output

Table 4.2 showed a positive significant association between BSIZ & BMET with ABLL of the sampled DMBs in Nigeria. Moreover, there is a negative significant correlation involving BINP, WBL (Control variable), and firm age (control variable) with ABLL of the sampled DMBs in Nigeria. Moreover, the correlations linking the independent variables are insignificant, which indicate the absence of multicollinearity in the study's model.

Regression Result

Table 4.3 Summary of Prais-winsten Regression, Heteroskedastic Panel Corrected Standard Errors (PCSE)

Variables	Coefficient	Z-value	P-value	Model Summary
BSIZ	0.0285531	2.39	0.017	
BMET	-0.0021984	-0.41	0.685	
BINP	0.0074826	0.13	0.894	
WBP	- 0.0111296	-0.35	0.724	
FAGE	-0.0007594	-3.16	0.002	
R-square				0.3698
Wald Chi^2				41.43
Prob. Chi^2				0.0000

Source: Extracted from STATA 13 Output

More so, this model reveals that BSIZ has a positive significant influence on the ABLLP of sampled DMBs in Nigeria. As inferred from the coefficient of 0.0286 and p-value of 0.017, indicating a 5% level of significance. This suggests a large BSIZ increases the likelihood of FRQ in the sampled DMBs in Nigeria. Hence, the formulated hypothesis is rejected. This align with the work of Al-absy et al. (2019) but contrary to (Abubakar, 2017).

Moreover, BMET has an insignificant negative association with ABLLP of sampled DMBs in Nigeria at the 10% significance level. This indicates that BODs meetings do not contribute in any way to enhance the FRQ in the sampled DMBs in Nigeria. Hence, the formulated hypothesis is supported. This result align with the work of Kantudu and Samaila (2015) but in the contrary to the findings of (Bala & Ibrahim, 2016).

Additionally, BINP is positively and insignificantly related to ABLLP of sampled DMBs in Nigeria with p-value of 0.894 and a beta coefficient of 0.0074. This signifies that for each 1% raise of NED in the BODs, FRQ in the sampled DMBs in Nigeria on the same vein decrease with 07.48%. This indicates that BINP provides a means of earnings manipulation by management of sampled DMBs in Nigeria. Hence, the formulated hypothesis is supported. This is in consistent with the findings of (Mustapha, Rashid, Bala and Musa (2020) & Borlea, Achim and Mare (2017) but contrary with the work of (Abdulwahab et al., 2022 and Holtz & Neto, 2014).

Conclusions and Recommendations

The key responsibility of BOD is to monitor the process of financial reporting in every corporate entity, which has a direct connection to the set goals of an entity and to reflect the shareholder's wealth in the financial reports. To this end, the study ascertains whether the attributes of the board of directors (BSIZ, BMET, and BINP) are correlated with ABLLP of sampled DMBs in Nigeria. Moreover, findings of the study aligned with a priori hypothesis of the study. In addition, results from the panel corrected standard error shows that banks with large BSIZ influence a more reliable financial reporting. While, BODS composed of independence with frequent meetings are likely to engage in earnings manipulation. It was further discovered that whistleblowing may not significantly stop Nigerian banks from using ABLLP. This study determined that in order to achieve high-quality financial reporting, institutions like the Nigerian Apex Bank should guarantee that their rules of best practice are followed. The Federal Republic of Nigeria should make sure that the legislation on whistleblower protection and policy is fully implemented. Lastly, research in the future should focus on board attributes in other domains where there is a practical problem to be addressed.

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