Board Characteristics and Bankruptcy Risks of Banks in Nigeria

Chukwunyelu, Blessing Ngozi & Dr. Nwankwo, Caroline Nkechi

Department of Accountancy,

Enugu State University of Science and Technology,

Enugu State, Nigeria.

Abstract

Research Purpose: This study investigates the influence of board characteristics on the bankruptcy risks of deposit money banks in Nigeria, amidst growing concerns about financial stability and governance.

Methodology: Utilising an ex-post-facto research design, the study spans 2012 to 2021. Secondary data were sourced from annual reports of selected Nigerian banks, and hypotheses were tested using a multiple regression technique.

Findings: The analysis reveals that board size and audit committee size have non-significant positive effects on banks' current ratios, while board independence has a non-significant negative effect. Thus, these board characteristics do not majorly determine bankruptcy risks.

Conclusion: The study concludes that the examined board characteristics are not primary determinants of bankruptcy risks in Nigerian banks. Effective governance requires a nuanced understanding beyond mere structural attributes.

Recommendations: Banks should ensure board sizes of at least 10 members to foster diverse and sound decision-making. Balance, rather than excessive independence, should guide board composition. Audit committees should include sufficient experts to meet legal and ethical standards in accounting practices.

Key words: *Board diversity, Stakeholders, Bankruptcy Risk, Banks.*

1. INTRODUCTION

1.1 Background of the Study

The financial sector, especially banks, has been in the spotlight in recent years due to failure and eventual liquidation (bankruptcy). The number of failed banks, the debt and the level of required capitalization, the proportion of non-performing loans, and the impact on the

economy all highlight the importance of the banking industry (Olaniyi, 2007 as cited in Egbunike & Ibeanuka, 2015). Garcia, et al. (2021) contend that while the banking crisis was mostly macroeconomic, corporate boards determine banks' risk-taking policies. The boards of directors of financial firms, responsible for business management and guidance, have been severely challenged. Some research suggests part of the problem is a lack of control of financial institutions' risk-taking under corporate governance systems (Garcia, et al., 2021).

In Nigerian banking crises, Chief Executive Officer (CEO) were accused of irregular financial reporting and corporate governance dysfunctions. These banks lived on bubble capital, creating a false impression of their actual state, and had a significant debt portfolio that was not reported in their financial statements (Sanusi, 2010). For instance, in between these banks; Oceanic Bank, Union Bank, Afri Bank, FinBank and Intercontinental Bank, out of a total loan portfolio of 2.8 Trillion Naira had aggregate non-performing loans of 1.143 Trillion Naira, a whopping 40.81% of the total. Margin loans granted for investment in the capital market, stood at N456.28 billion; Exposure to the oil and gas sector stood at N487.02 billion. With all these credits, lending dried up and the capital market took a huge hit as its meteoric rally stopped. Banks faced capital-liquidity issues immediately (Osisioma, 2009). Shareholders' and depositors' funds were wiped out in many banks, but the expanded window discount kept them liquid. By July 2009, the five banks had an outstanding balance of N127.85 billion at the Expanded Discount Window (EDW), while their net guaranteed inter-bank loans stood at N253.50 billion. The scenario smirks of a mess.

Many countries are making efforts to improve their insolvency laws and practices to focus on companies' recovery and lenders' economic stability, business proprietary, and averting loss of livelihoods (Olusola, 2021). The researcher argues that the designated nations were remodelled to improve their insolvency and business recovery procedures, which Nigeria can replicate to boost its business recovery laws due to the current global economic shocks caused by the pandemic, which has negatively affected global economic activities.

Bankruptcy is the failure of a bank to fulfil its financial obligations (Shamim, 2019). Section 572(a)(b)(c) of the Companies and Allied Matters Act, 2020 and Section 408(d) of Bankruptcy and Insolvency (Repeal and Re-enactment) Act, 2016, describes insolvency as the failure of a deposit money bank to recompense financial obligations particularly depositors or lenders by an assignment which the bank is owed a sum above ₦200,000. The depositor must give notification of its claims to the bank at its head office demanding the sum which is outstanding for three (3) weeks and after the expiration of the ultimatum where such bank

fails or declined to disburse the unpaid amount to the approval of the depositor, such a bank is deemed to be bankrupt.

The global financial crisis underlined the need to increase financial regulation and supervision. This aims to create a strong financial system that guarantees financial stability and protects financial service customers (Parenti, 2020). According to Garcia, et al. (2021), board features affect bankruptcy risk. The study studied board features' effect on Nigerian deposit money institutions' insolvency chances.

1.2 Statement of the Problem

The incessant systematic distress syndrome in the banking sector over the years more recently the takeover of Union Bank of Nigeria Plc by Titan Trust Bank Limited, is worrisome and thus calls for a pressing need for assessing the performance of banks to enhance early identification of those that show signs of ill-health so that preventive measures could be undertaking to prevent ultimate failure. The high individual and social costs of corporate bankruptcy make the problem of bankruptcy prediction very important for managers, banks, investors, policy makers and auditors.

This has wrecked most business units while many homes have been negatively affected by loss of funds. However, some households and businesses that opted for alternative means of keeping their funds at offices and homes lost such to bandits and in worse cases their lives. To avoid bank failure, there is the dire need to detect early warning signals through evaluation of the effect of board characteristics on bankruptcy risk of banks in order to protect ailing banks so that corrective measures can be applied to avert its failure and dire consequences. This is to find out whether board characteristics contribute to bankruptcy risk of deposit money banks in Nigeria. The study specifically examined the effect of board size and board independence on the current ratio of deposit money banks in Nigeria.

2. REVIEW OF RELATED LITERATURE

2.1.1 Board Characteristics

Hafez (2017) characterised boards as the internal governing mechanism that shapes firm governance, given their access to managers and shareholders. Parupalli et al (2017) highlighted that board structure is crucial owing to the presence of non-executive directors, who supervise the actions of executive directors and ensure that they follow company policies in accordance with shareholders' interests. The board of directors is both a target for corporate crimes and a source for enhancing corporate governance. Much of the power in

corporations has been entrusted to the board of directors, which needs non-executive directors to strengthen executive accountability.

Board characteristics quantify the efficacy and efficiency of corporate boards tasked with business management. Strong management is vital for good financial performance and is widely acknowledged as an important corporate governance tool for aligning managers' and stakeholders' interests with a corporation. Effective board characteristics increase the possibility that owners of capital can supervise managers' operations either directly through voting or indirectly through the board of directors, which protects shareholders' investment (Yussoff et al, 2018). Board size, independence, and audit committee size were evaluated in this study. This study's variables are explained briefly below.

2.1.2 Board Size

According to Onyali and Okerekeoti (2018), the board size represents the total headcounts of directors seated on the corporate board of an organisation. This definition above highlights the totality narrative being the absolute number of persons appointed to serve on the board of a company. It refers to the complete composition of directors either executive, non-executive, independent or either male or female. Kripa and Dorina (2016) further defined board size from the effectiveness perspective and not only from the head counts. He defined board size as the number of people that make up a corporate board and that determines how effectively it discharges its fiduciary responsibilities. For the purpose of this study, board size can be defined as the total number of directors on the board of each sampled firm which is inclusive of the Chairman, the CEO or managing director, executive directors and non-executive directors (outside directors) in a given financial year.

2.1.3 Board Independence

Birjandi (2015) agrees that board independence is calculated as a proportion of outside directors to entire directors in the board. Sarra and Bannouri (2015) believe that boards with higher proportions promote efficient monitoring in the firm's management. Also, firms with higher ratios of non-executive board members have power to ensure compliance with the rules of legislative authorities and permits disclosure of financial position of the firm (Nancy et al, 2015). The management of the firm requires a board with strategic vision, for effective monitoring of their operation. Many scholars have emphasised on the importance of board independence in an organisation (Eklund et al, 2009). Nguyen and Nielsen (2010) studied the contributions of independent directors to shareholder value and found that independence and board structure impact their marginal value. They also say the board's independence

determines how well it monitors shareholders. Board independence is the proportion of non-executive (outside) directors who are not actively involved in the day-to-day management of a corporation in a particular financial year. The board is extremely independent if there are more independent non-executive directors who are not affiliated with the firm's senior executives.

2.1.4 Bankruptcy Risk

Bankruptcy occurs when a company's liabilities surpass its assets, usually owing to undercapitalization, insufficient liquidity, inefficient management, declining sales, and deteriorating market conditions (Venkataramana et al. 2012). Insolvency risk is the chance that a corporation cannot pay its debts (Kenton, 2021). It is the likelihood a company may fail owing to debt. Before buying stocks or bonds, many investors analyse a company's bankruptcy risk. High-risk banks may have trouble raising money from investors or creditors. Insolvency happens when a company cannot pay its financial responsibilities. Interest, principal, accounts payable, and income taxes are examples of obligations.

Kenton (2021) states that a company is technically insolvent if it cannot satisfy its existing obligations, even if its assets exceed its liabilities. If a company's assets are less than its liabilities, it is insolvent. A company is bankrupt if it cannot pay its debts and files bankruptcy. When a public company cannot meet its debt obligations and files for bankruptcy, it might restructure to become profitable or close, sell its assets, and use the revenues to pay off its debts (a process called liquidation). In bankruptcy, the investors become bondholders. Bondholders will be paid before stockholders, who own the company.

2.1.4a Current Ratio

According to Kenton (2021), bankruptcy is often measured with a liquidity ratio called the current ratio, which compares current assets (including cash on hand and any assets that could be converted into cash within 12 months, such as inventory, receivables, and supplies) and current liabilities (debts that are due within the next 12 months, such as interest and principal payments on debt serviced, payroll, and payroll taxes). There are many ways to interpret the current ratio. Some, for example, consider a 2:1 current ratio as solvent, showing that the firm's current assets are twice its current liabilities. In other words, the firm's assets would cover its current liabilities about two times. As stated by Harper (2021), the current ratio (current assets divided by current liabilities) and the quick ratio are commonly used as traditional indicators of liquidity risk.

2.2 Theoretical Framework

The study is anchored on Agency Theory by Jensen and Meckling (1976). The theory and the reason the study is anchored on it is discussed below.

2.2.1 Agency Theory

Jensen and Meckling (1976) proposed the theory that separates an organisation's management from ownership. The theory views corporate owners as principles and management as agents. Jensen and Meckling (1976) define agency as "a contract in which one or more principals employ another (the agent) to perform some service on their behalf, delegating some decision-making authority to the agent." Agency theory supports board control delegation and compensation incentives. When agents act to maximise their own interests over those of the principal or shareholders, a conflict of interest results. Both the principal and agent are self-interested, according to agency theory. The agency theory's flaw is its reliance on self-interest. Agency theory solely considers self-interested and opportunistic human behaviour, ignoring other motives.

The agency hypothesis underpins this investigation. This theory is pertinent to this study because the separation of ownership and control in modern organisations causes the board of directors' monitoring and supervisory functions (that is, the agency relationship). In a principal/agent arrangement, firm management manages company matters for shareholders (as the principals). Without solid corporate governance, the agent may try to maximise their own interest at the expense of the proprietors, creating an agency dilemma. The agency theory explains all board of director variables and their expected links with bankruptcy risks. Strong board oversights, through size, independence, and audit committee, can prioritise shareholder interests over managerial opportunism.

2.3 Empirical Review

Muhammad (2020) investigated the impact of corporate governance on earnings quality. This study consists of firms from the food, agriculture, pharmaceuticals, and manufacturing sectors listed on the PSX from 2007 till 2016. The total sample taken for analysis is 107 companies belonging from multiple manufacturing sectors. Board size, CEO duality, Board composition, Board independence, Frequency of board meetings, Audit Committee size, Audit committee meeting, and Audit quality have been taken to measure the impact of corporate governance on two variables of earning quality which is earning persistence and earning predictability. The overall results of the regression analysis have shown a very

positive impact of audit meetings and board composition on earning quality. On the other hand, CEO duality and board size have shown a very negative impact on earning quality.

Shrivastav and Kalsie (2020) examined the relationship between internal corporate governance mechanisms and firm performance of NSE-listed companies. Firm performance has been measured using Tobin's Q and MBVR as market-based measures and ROA and ROE as accounting-based measures. Econometric Analysis is performed using Fixed Effect with-in and Least Square Dummy Variable model, Random effect model, and Feasible Generalised Least Square model on a panel of 178 non-financial NSE listed firms for a period of eight years from 2011-2018. Board size, Board Composition, Board independence, and CEO Duality have a significant negative impact on firm performance measures; on the other hand, Chairman Identity has a significant positive impact on firm performance.

Umar, et al. (2020) investigated the relationship between corporate governance in the board of directors and the financial performance of Nigerian banks. Three board attributes (board independence, board meetings, and board gender) were used as proxies of the independent variables while ROA was chosen as a measure of performance. Furthermore, the research made use of secondary data obtained from the annual reports of fifteen (15) banks listed in the Nigeria Stock Exchange for the year 2013 to 2015. The random-effect regression model was used to examine the effect of the predictors on financial performance. The results indicated that the relationship between board independence and ROA is negatively insignificant.

Warrad and Khaddam (2020) attempted to show the role of corporate governance characteristics on the performance of Jordanian Banks expressed by return on equity ROE during the period from 2014 to 2017. The investigation employed statistics measurements and tools to state the relationships between ROE and different variables. Multiple regression analysis was used as the underlying analytical tool in the study. The study indicates a significant effect of different corporate governance characteristics on the performance of banks. In other words, the study reports significant effects of the board size, board diligence, audit committee size, and audit committee diligence separately on ROE by considering two controlling variables; namely, firm size and return on assets.

Owiredu and Kwakye (2020) examined the influence of corporate governance principles on banks' financial performance in Ghana. Data for the study was gathered from the annual reports and the financial statements of the sampled banks from the period 2007-2016. A random-effect model was used to analyse the data. This study found a significant positive

relationship between board size and financial performance measured by ROA and ROE of banks in Ghana.

Yusra and Bahtera (2021) conducted an empirical study using a granger causality test on corporate governance indicators in forecasting financial distress. The data used in the study was panel data. Using samples from assembling companies registered on the Indonesia Stock Exchange during the 2017-2019 period. Specifically, the results demonstrate that institutional ownership, managerial ownership, and independent commissioners do not affect financial distress. Furthermore, our study shows evidence of a significant influence between the size of the board of directors and audit committee on financial distress.

Shetty and Vincent (2021) investigated the role of non-financial measures in predicting corporate financial distress in the Indian industrial sector. The proportion of independent directors on the board and the proportion of the promoters' share in the ownership structure of the business were the non-financial measures that were analysed, along with ten financial measures. For this, sample data consisted of 82 companies that had filed for bankruptcy under the Insolvency and Bankruptcy Code (IBC). Two binary logistic regression models were developed, M1 and M2, where M1 was formulated with both financial and non-financial variables, and M2 only had financial variables as predictors. The results of the study show that inclusion of the two non-financial variables improved the efficacy of the financial distress prediction model.

Oudat, et al. (2021) investigated the association of audit committee characteristics and financial performance among services sector corporations-listed in the Bahrain Stock Exchange for the period from 2012 to 2019 are examined. The linear panel regression method was employed for data analysis. However, the audit committee characteristics represented by expertise, board independence, the board size, and frequent meetings are the independent variables of the current study, and return on equity and earning per share a proxy of financial performance are the dependent variables. Corporations' size, leverage, and age are examined as control variables. Findings show that there is no statistical significance between the ACFE, ACS, FAGE, and performance (ROA, ROE, & EPS).

Shatnawi, et al. (2021) investigated the effect of audit committee characteristics, represented in (size, independence, & meeting) to the enhancement of performance, for a sample of 460 Jordanian non-financial companies listed at Amman Stock Exchange (ASE) during the period of (2014-2018). To achieve this goal, the performance was measured using the return on assets (ROA) and return on equity (ROE). A fixed-effect multiple regression model was used

to test various hypotheses of the study. The study found a significant positive relationship between the auditing committee characteristics (AC size, AC independence, and AC meeting) with ROA and ROE in the Jordanian non-financial listed Companies.

Elhawary (2021) investigated the impact of audit committee characteristics (size, independence, experience, gender diversity, and frequency of meetings) on the company's financial performance (ROA and ROE) in Egypt. Data are gathered from the board of directors (BOD) and annual reports of the EGX 30 index non-financial listed companies in Egypt for the period of 2016–2018. Data is analysed by using panel data cross-section data analysis and correlation analysis. The findings revealed that the audit committee size has a significant relationship with ROA only and committee members' experience is significantly related with ROE only.

Abu and Okpe (2021) examined audit committee characteristics and audit fees of listed consumer goods companies in Nigeria. 15 companies were selected out of 26 listed consumer goods companies on the Nigerian Stock Exchange as of 31st December 2018 using secondary data through the published audited financial statements. Ordinary least square (OLS) regression analysis was employed to analyse the data. The result reveals that only four variables (audit committee size, audit committee meeting, audit committee diversity, and audit committee share ownership) have a positive significant association with audit fees.

Subhani and Zeb (2022) evaluated the impact of board structure and ownership structure on bank risk taking behaviour in developed and emerging countries. To fulfil this objective, the study used annual data of 100 large commercial banks for the period 2006-2017 from twelve countries. Z Score is used as the main proxy of bank risk taking behaviour. Internal corporate governance is measured by board size, board independence, CEO power, gender diversity, state ownership and foreign ownership. The study controls the issues of endogeneity by applying a two-step generalised method of moments (GMM) econometric approach. The main findings of the study indicate that banks having a greater board size, a higher portion of independent non-executive directors, and a powerful CEO with chair role duality result in reducing the risk of bankruptcy that helps in achieving greater levels of financial stability in the banking sector.

2.5 Gap in Empirical Review

From the above empirical reviews, it is very clear that factors that determine bankruptcy risk in the Nigerian banking sector have not been studied extensively. Most of the studies centred its investigations on financial performance of banks. Majority of the current studies

reviewed were carried out outside Nigeria, creating gaps in board characteristics literature in Nigeria. There is also a period gap in the reviewed literature. The most current study period of coverage ended in 2019 making the study the most current by extending the period covered to 2021. Consequently, the study evaluates the effect of board characteristics on bankruptcy risk of deposit money banks in Nigeria from 2012 to 2021. This will enable the study to fill all the identified gaps.

3. METHODOLOGY

The study on board characteristics and bankruptcy risk in the Nigerian banking sector utilised an ex-post facto research design, analysing historical data sourced from annual reports and accounts of deposit money banks over a decade (2012-2021). The research focused on 24 deposit money banks listed on the Nigeria Stock Exchange, with eight banks purposely sampled based on criteria such as current ratio performance and consistent disclosure of relevant data over the specified period. The selected banks include First Bank Nigeria Plc, Access Bank Nigeria Plc, Zenith Bank Nigeria Plc, United Bank for Africa Plc, Guarantee Trust Bank Plc, First City Monument Bank Plc., Union Bank Plc, and Sterling Bank Plc.

Model Specification

The multiple regression model was specified as follows:

$CR_{tci} = \beta_o + \beta_1 BSIZE_t + \beta_2 BINDt + \varepsilon_t$ - [Equation (1)]

Where;

CR	Current Ratio
BSIZE	Board Size
BIND	Board Independence

c_{it} is the non-observable individual effect while ε_{it} is the disturbance or error term for firm i in the year t

β_o	Coefficient (constant) to be estimated
$\beta_i - \beta_2$	Parameters of the independent variables to be estimated
t	Current period

4. DATA PRESENTATION AND ANALYSIS

4.2 DATA ANALYSIS

Table 4.2.1 Descriptive Statistics

	CR	BDSIZE	BIND
Mean	1.189111	14.70000	0.408431
Median	1.202475	14.00000	0.500000
Maximum	1.912700	21.00000	0.916667
Minimum	0.879570	10.00000	0.027647
Std. Dev.	0.149168	3.122383	0.246571
Skewness	1.255391	0.350211	-0.252433
Kurtosis	9.539965	2.404394	2.249763
Jarque-Bera	143.1359	2.465569	2.385094
Probability	0.000000	0.291480	0.303447
Sum	83.23779	1029.000	28.59018
Sum Sq. Dev.	1.535324	672.7000	4.195001
Observations	70	70	70

Source: Eviews 10 software

Table 4.2.1 above reveals the variable description of the 70 observations of the panel data for sampled deposit money banks in Nigeria. The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 4.2.1, the probability of the Jarque-Bera Statistics for Current Ratio (0.000000) has a significant p-value. The significance of the p-values shows an abnormal distribution for the variable. However, Board Size (0.291480) and Board Independence (0.303447) have non significant p-values. The non-significance of the p-values depicts a normal distribution for the variables. This is further confirmed by the skewness coefficients which are greater than 1 or equal to 1 for Current Ratio (1.255391). This shows that Current Ratio data are abnormally distributed. While Board Size (0.350211) and Board Independence (-0.252433) are normally distributed with skewness coefficients less than one. The kurtosis coefficients further confirmed that Current Ratio (9.539965) is abnormally distributed with coefficients that are greater than 3. While Board Size (2.404394) and Board Independence (2.249763) are normally distributed with skewness coefficients less than 3

Table 4.2.2: Regression Analysis Result (Fixed Effects Model)

Dependent Variable: CR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BDSIZE	0.002770	0.005358	0.516958	0.6069
BIND	-0.079398	0.106675	-0.744294	0.4594
ACSIZE	0.024920	0.056924	0.437776	0.6630
OWNCON	-0.005109	0.001653	-3.090353	0.0029
C	1.091248	0.355216	3.072067	0.0031

R-squared	0.217367	Mean dependent var	1.189111
Adjusted R-squared	0.169205	S.D. dependent var	0.149168
S.E. of regression	0.135964	Akaike info criterion	-1.084111
Sum squared resid	1.201595	Schwarz criterion	-0.923504
Log likelihood	42.94389	Hannan-Quinn criter.	-1.020316
F-statistic	4.513244	Durbin-Watson stat	1.268232
Prob(F-statistic)	0.002800		

Source: Eviews 10.0 Statistical Software

Table 4.2.2 reveals that board size has a nonsignificant positive effect on current ratio, with a probability value that is greater than 0.05 (0.6069) and a t-statistic that is less than 2 (0.516958). Board Independence has a nonsignificant negative effect on the current ratio of banks in Nigeria with probability values that is greater than 0.05 (0.4594) and t-statistic that is greater than 2 (-0.744294). The table further depicts that a unit increase in board size increases the current ratio by 0.002770. This indicates that board size increases the current ratio in the banking industry. While a unit increase in board independence results in a 0.079398 decrease in current ratio in the banking industry. This means that an increase in board independence decreases the current ratio in the banking industry. The adjusted R-squared (R^2) revealed that about 17% of the changes in current ratio are accounted for by the explanatory variables. The remaining 83% could be explained by other factors capable of influencing the bankruptcy risks of deposit money banks in Nigeria. The probability of the

F-statistic (0.002800) is significant which shows the statistical fitness of the multiple regression results. There is a positive serial autocorrelation in the panel data extracted from annual reports and accounts of selected banks in Nigeria as suggested by Durbin-Watson statistics of 1.27.

4.3 TEST OF HYPOTHESES

The hypotheses were tested using the following decision criteria:

Decision Criteria

According to Gujarati and Porter (2009), the decision rule involves accepting the alternative hypothesis (H_1) if the sign of the coefficient is either positive or negative, the modulus of the t-Statistic > 2.0 and the P-value of the t-Statistic < 0.05. Otherwise, accept H_0 and reject H_1.

Hypothesis One

Restatement of the Hypothesis in Null and Alternate Forms

H_0: Board size has a nonsignificant effect on the current ratio of banks in Nigeria.
H_1: Board size has a significant effect on the current ratio of banks in Nigeria.

Presentation of Test Results

Table 4.2.2 Regression Analysis Result is used to test the above-stated hypothesis.

Decision: From the panel regression analysis in Tables 4.2.2, the p-value of 0.6069 > 0.05 and the t-statistic of 0.516958 < 2. Therefore, the null hypothesis is accepted. This shows that board size has a nonsignificant effect on the current ratio of banks in Nigeria.

Hypothesis Two

H_0: Board independence has a nonsignificant effect on the current ratio of banks in Nigeria.
H_1: Board independence has a significant effect on the current ratio of banks in Nigeria.

Presentation of Test Results

Table 4.2.2 Regression Analysis Result is used to test the above-stated hypothesis.

Decision: From the panel regression analysis in Tables 4.2.2, the p-value of 0.4594 > 0.05 and the t-statistic of 0.744294 < 2. Therefore, the null hypothesis is accepted. This shows that board independence has a nonsignificant effect on the current ratio of banks in Nigeria.

4.4 DISCUSSION OF RESULTS

4.4.1 Effect of Board Size on Current Ratio

The regression analysis result revealed that board size has a nonsignificant positive effect on current ratio of deposit money banks in Nigeria. This implies that an increase in the size of the board of directors increases the ability of the banks to settle their liabilities with the assets at their disposal. This is because two good heads are better than one. However, this is not automatic because too many cooks spoil the broth. The result supports the findings of Yusra and Bahtera (2021) and Subhani and Zeb (2022) who found a positive relationship between board size and bankruptcy risk of banks.

4.4.2 Effect of Board Independence on Current Ratio

The regression analysis result revealed that board independence has a nonsignificant negative effect on the current ratio of deposit money banks in Nigeria. This implies that an increase in the board independence increases the inability of deposit money banks to settle their debts using their assets. This is because the board of directors is balanced when it has more executive representation. The executives are the ones that are actually interacting with the customers, hence, their inputs can make a huge difference and further equip the board in making better decisions. The result is in line with the findings of Umar, Norfadzilah, Hussaini, and Habibu (2020) who found a negative relationship between board independence and financial performance.

5. CONCLUSION AND RECOMMENDATIONS

The major task facing most banks in this present economic dispensation is how to survive the economic tsunami and continue to be in business. Most banks such as Skye bank, Diamond bank, and now Union bank could not survive this economic pressure. The ability of a bank to settle their liabilities as they fall due guarantees their health and sustainability in the banking business. This ability is measured by a liquidity indicator called current ratio in this study. The study therefore evaluated board characteristics and bankruptcy risk of deposit money banks in Nigeria. The result of the data analysis revealed that board size has a nonsignificant positive effect on current ratio. Board Independence has a nonsignificant negative effect on the current ratio of banks in Nigeria. The study therefore concludes that the board characteristics examined are not the main determinant of bankruptcy risk deposits of banks in Nigeria. The study made the following recommendations:

i. Deposit money banks should ensure that their board size is broad enough to accommodate a sound mind and diverse mind which will reduce the bankruptcy risk of

banks. The minimum board size recommended by the study in line with Uwaigbe (2012) is 10 members.

ii. The independence of the board should not blind the banks on the contributions of the executive directors. Board independence should not be prioritised over balance in the board, because the executive board are more involved with the day-to-day running of the business, hence they help in decision making.

iii. Deposit money banks should ensure that their audit committee size is broad enough to ensure that the committee have enough experts to ascertain whether the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices.

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