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Market Share as a Function of Board Diversity and Board Size of Selected Deposit Money Banks in Nigeria

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Abstract:

Deposit money banks around the world have been experiencing challenges over the years in the area of survival and market share. These challenges are attributable to weak or defective corporate governance mechanisms. Significant pressure led to the application of corporate governance principles, which were generally considered the solution to the problems occurring in these countries' market environments. In the light of this, this study sought to evaluate the effect of board diversity and board size on market share of selected deposit money banks in Lagos Nigeria. The study adopted the cross-sectional survey design. The total number of top managements including directors and Independent directors in the deposit money banks was two hundred and twenty six (226). Considering the size of the population of the study, total enumeration method was adopted as the sampling technique. The data for the study was obtained using a well-structured and validated questionnaire. The study found that board diversity and board size have a combined significant effect on market share of the selected deposit money banks ($R = 0.386$, $R^2 = 0.149$ $p < 0.05$). On an individual level, it was found that board diversity has no significant effect on market share of deposit money banks in Lagos state ($\beta = -0.189$, $p > 0.05$), board size has a significant effect on market share of the selected deposit banks in Lagos state. ($\beta = -0.413$, $p < 0.05$). The study therefore recommended that firms especially deposit money banks should adopt proper strategies to improve board dynamics in terms of size and diversity in order to enhance their share of the market.

Keywords: Board size, board diversity, market share, deposit money banks

1. Introduction

Banks Success has been the focus of academic and policy debate in developed and developing economies of the world. Deposit money banks around the world have been experiencing challenges over the years in the area of survival and market share. These challenges are attributable to weak or defective corporate governance mechanisms. The nature and mode of management and application of corporate governance mechanisms go a long way to influence the success of an organization. Organizational success depends to a great extent on the mode of operations and corporate governance schemes that are existent in an organization without which leads to corporate failure or demise (Aliyu, 2016; Hamden, 2014).

Developing countries of the world need to adopt an effective and more efficient corporate governance structure to solve the aforementioned problems and encourage/embrace new practices for implementing the different characteristics of corporate governance in developing economies (Mulili & Wong, 2011). In developing countries, improving corporate governance could provide and promote various important public policy objectives. For example, good CG reduces the extent of vulnerability of the developing countries to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, improves firm performance, and enhances the capital market and consequently ensure success of an enterprise (Al-Matari & Al-Arussi, 2016). Therefore, the ability of the developing countries such as Nigeria to benefit from these listed advantages depends on how quickly and effectively, they can resolve their socio-economic and political

issues, strengthen their capital markets, and establish ethical and overall corporate governance standards given by the OECD in order to establish a conducive business environment that promotes success of an enterprise.

Although corporate governance has taken a center stage in recent times especially at public debates and the principles of good governance are being embraced at both public and private enterprises, Sub-Saharan Africa (SSA) countries inclusive of Nigeria are still lagging behind with respect to the OECD Principles. In addition, the notion of a corporate governance system in these countries is less widespread than in developed countries of the world (Schieffer, Lessem & Al-Jayyousi, 2008). However, the global financial crisis of 2008 which plunged many countries into financial distress highlighted the need to improve corporate governance in developing countries like Nigeria. As a result of this crisis and many other financial scandals/malpractices of the Chief Executive Officers (CEO)s of multinationals which resulted into poor performance of these corporations.

Studies such as (Njoku & Odii, 1991; Ezech, 2003; Akinlo & Egbetunde, 2010; David-West, Aluko & Adetunji, 2019; Agbanike, Nwani, Uwazie, Anochiwa, & Enyoghasim, 2019) show that deposit money banks in Nigeria are facing several challenges and problems. These problems include: Low market share; reduced business, declining organizational survival, low firm size, low potentials for business sustainability, reduced capital etc. All these highlighted problems are attributed to poor corporate governance by the deposit money banks in Nigeria and call for immediate discussion and improvement (Ogbonna & Ogwo, 2016, Obu 2012).

Significant pressure led to the application of corporate governance principles, which were generally considered the solution to the problems occurring in these countries' market environments. In addition, widespread discussion on this topic has increased awareness in the developing countries regarding the need to develop a system of corporate governance to enhance financial transparency and improve the success of an enterprise (Leigh, 2011). Therefore, in this regard, the developing countries like Nigeria has prioritized the codes of code of corporate governance to produce better economies (Binder, 2011) and confront ongoing challenges, such as enhancing job quality, promoting the private sector, expanding gender equality, and improving access to, and the quality of education over the next few decades. For this study, board diversity and market share will be evaluated.

2. Literature Review and Hypothesis Development

2.1. Board Diversity

Board diversity is one of the most significant elements of board characteristics in modern corporations. Diversity applies to academic qualifications, technical expertise, relevant industry knowledge, experience, nationality, culture, sexual orientation, age, race and gender (CMA, 2002). Board diversity refers to the presence of women on corporate boards of directors or women representation on boards (Dutta & Bose, 2006; Julizaerma & Sori, 2012). Workforce diversity is generally viewed as acknowledging, understanding, accepting, valuing, and celebrating differences among people with respect to age, class, ethnicity, gender, physical and mental ability, race, sexual orientation, spiritual practice, and public assistance status (Gitonga, Kamaara & Orwa, 2016). Diversity refers to a mosaic of people who bring a variety of backgrounds, perspectives, values, and benefits as assets to the groups and organizations with which they interact (Otiike, Messah, & Mwaleka, 2010). Mulkeen (2008) describes workplace diversity as all the differences that exist within people with respect to age, gender, sexual orientation, education, cultural background, religion, and work experience. Dessler (2011) defines diversity as the variety or multiplicity of demographic features that characterizes a company's workforce, particularly in terms of race, sex, culture, national origin, handicap, age, and religion.

According to Jones and George (2011) diversity is differences among people in age, gender, race, ethnicity, religion, sexual orientation, socioeconomic background, and capabilities/disabilities. Gupta (2013) argues that overall workforce diversity enhances better decision making, higher creativity, innovation, and greater competitive advantage. Wentling and Palmarivas (2000) defines diversity as including cultural factors such as race, gender, age, color, physical ability, ethnicity etc. The broader definition of diversity may include age, national origin, religion, disability, sexual orientation, values, ethnic culture, education, language, lifestyle, beliefs, physical appearance, and economic status (Wentling & Palmarivas, 2000). Workplace diversity incorporates the meaning of diversity within a workplace setting (Elsaid, 2012; Mwatumwa, 2015). According to Mwatumwa (2015), the advantages of board diversity are to; Increase creativity, increase adaptability, increase productivity and Increase range of services while the disadvantages of board diversity are; Communication issues; Lack of freedom of speech; Increased cost of training and Increased competition among staff.

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2.2. Board Size

Board size refers to the number of directors in the board. It is an important factor to determine the effectiveness of the board. The board of directors has been considered a vital corporate governance mechanism for aligning the interests between managers and all stakeholders in a firm (Sanda, Garba & Mikailu, 2011). The earliest literature on board size is by Lipton and Lorch (2012) and Jensen (2013) they argue that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (2013) argue the possibility that larger boards can be less effective than small boards. There is a view that larger boards

are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful CEO to dominate. However, recent thinking has leaned towards smaller boards. Jensen (2013) and Lipton & Lorsch (2012) argue that large boards are less effective and are easier for a CEO to control. When a board gets too big, it becomes difficult to co-ordinate and process problems. Smaller boards also reduce the possibility of free riding by individual directors, and increase their decision taking processes.

2.3. Market share

Lusch and Vargo (2004) defined market share as a measure of how well a company has been able to predict market dynamics and the needs of the targeted customers. Bendle, Farris, Pfeifer and Reibstein, 2010, defined market share as 'the percentage of a market (defined in terms of either units or revenue) accounted for by a specific entity'. The characteristics of market share are, customer focused i.e. market leaders never lose sight of the fact that the customer is the most important element to achieving success, clear vision i.e. leaders have a clear vision of their direction as well as an effective road map to take them there, flexibility i.e. when the inevitable need to change does occur, the market leaders are nimble enough to make necessary adjustments with as little disruption as possible, and investment in employees i.e. market leaders not only focus on recruiting the best and brightest employees available, they also invest in their continued development.

Market share is an outcome and a measure of organizational performance and success in an industry. It is also considered as a driver of successful and profitable performance (Mowen, Hansen, & Heitger, 2016). Managers and owners of organizations view market share as a key index for measuring the performance of a product or brand in the marketplace. Cooper and Nakanishi (2014) revealed that though market shares are used as market performance indices, it is however clearly desirable for the individuals concerned to have thorough knowledge of the processes which generate market-share figures and to be able to analyze the impact of their own actions on market shares, as well as their profit implications. Cooper and Nakanishi (2014) revealed that though market shares are used as market performance indices, it is however clearly desirable for the individuals concerned to have thorough knowledge of the processes which generate market-share figures and to be able to analyse the impact of their own actions on market shares, as well as their profit implications.

2.4. Theoretical Underpinning

2.4.1. Stakeholder Theory

Stakeholder theory recognizes that following corporate governance practices in an effective manner is determined through the functions of different actors within an organisation and through their interaction with and involvement in the organizational decision-making process. According to Kakabadse et al. (2005), the core of stakeholder theory states that business organizations need a good relationship with stakeholders and so business people need to govern the processes and outcomes of the business in a secure manner. The major function of corporate governance applications in a business organisation is to grant high value to the interests of all legitimate stakeholders. The central focus of stakeholder theory is on the decision-making process of managerial bodies (Kakabadse *et al.* 2005). As per this theory, the prime concern of managers consists of the obligations towards the stakeholders of the business. There are several strategic options available to management and it is their duty to select options that safeguard the interests of its stakeholders (Kakabadse et al., 2005). This theory reflects the future-oriented view of the business by focusing on fulfilling legal, moral, social, technological and ecological requirements of the business. This theory rejects profitability as the sole corporate goal of the firm. Rather, it is primarily concerned with stakeholders' value (Kakabadse et al. 2005). Stakeholder theory gives priority to morally acceptable social goals over the corporate objectives of business. While stakeholder value tries to consider the larger concept of stakeholders there is no distinction between those in subsidiary roles (e.g. employees), versus those of the regulatory/public interest concerns, versus the general consumers. As issues of cost, quality, and safety all intersect (sometimes inversely) with profit generation for shareholders, lenders, and management, the theory poorly describes areas of overlap and incompatibility.

3. Methodology

The study adopted a quantitative methodology using the cross-sectional survey design. The population of the study is comprised of fifteen (15) selected deposit money banks operating in Nigeria. The condition for selecting them is that they have all been in existence for a continuous period of not less than 10 years, many of them having had their share of corporate governance challenges at different times and this had led to various forms of business combinations including regulatory induced takeovers, merger and acquisitions. The total number of top managements including directors and Independent directors in the deposit money banks is two hundred and twenty-six (226). Total enumeration sampling technique was adopted in the study. This allowed for selection of all elements of the study. Data for the study was collected through closed-ended questionnaire. Closed-ended questions were used due to ease of administration and analysis of responses. Close-ended statements utilized a Likert type scale. Descriptive statistics including frequencies, percentages, means and standard deviations were used. Further, inferential statistics including correlation and regression analysis were also used to test the relationship between independent and dependent variables. Linear regression models were used to link relationship between dependent and independent variables. The study findings were presented using tables and figures.

4. Data Analysis and Findings

The objective of this study was to establish the effect of board diversity and board size on market share of selected deposit money banks in Nigeria. To accomplish this, the study conducted a multiple linear regression analysis which gives the relationship between the measures of board diversity (independent variable) used in the study and the market share of the selected deposit money banks. The results of the regression analysis were summarized in Table 1 below.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.579	.936		11.301	.000
	Board Diversity	-.189	.123	-.222	-1.545	.125
	Board Size	.413	.107	.553	3.853	.000

Table 1: Regression of Board Diversity and Board Size on Market Share

$$R = 0.386, R^2 = 0.149, P < 0.05$$

Dependent Variable: Market Share

Source: Data Analysis 2020

The table above presents the result of the multiple regression analysis to test the effect of board diversity and board size on the market share of selected deposit money banks in Lagos state, Nigeria. The variables used as independents are board diversity and board size while market share was used as the dependent variable in the study. The multiple correlation value is given as $R = 0.386$. This indicates the correlation value between the three variables of board size, board diversity and market share. Thus, as board diversity and board size are on the increase, it creates a combined correlation coefficient of 38.6% with market share of the selected deposit money banks. The combined coefficient of determination is given as $R^2 = 0.149$. This implies that combined effect of board diversity and board size on market share of the selected deposit money banks is 14.9%. Thus, any improvement in board diversity and board size, causes a combined effect of 14.9% on market share of the selected deposit money banks. The results are also summarized in Figure 1 below.

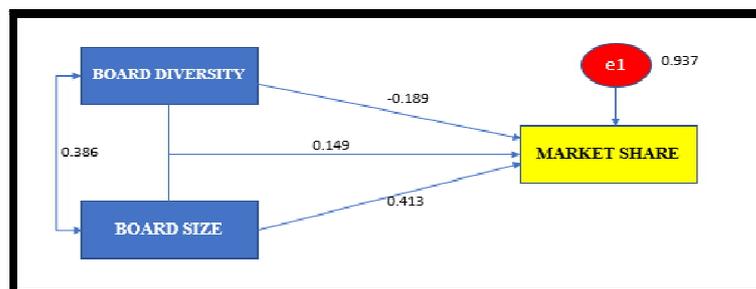


Figure 1: Regression Path

The individual effects of board diversity and board size on market share is evaluated by looking at the unstandardized coefficients. It is seen that board diversity has a coefficient of -0.189. This implies that a percentage change in board diversity creates an 18.9% decrease in the market share of the selected deposit banks in Lagos state. This implies that board diversity does not have a significant effect on market share of the selected deposit money banks. This is confirmed by the sig value which is $0.125 > 0.05$. Thus, because the sig value is greater than 0.05 alpha, we conclude that board diversity has no significant effect on market share.

The table also shows that board size has a coefficient of 0.413. This implies that a percentage change in board size, create a 41.3% increase in market share of the selected deposit money banks in Lagos state. This shows that board size has a significant effect on market share of the selected deposit money banks in Lagos. This is confirmed by the sig value which is $0.000 < 0.05$. Therefore, because the sig value is less than 0.05 alpha, we conclude that board size has a significant effect on market share of the selected deposit money banks in Lagos state.

In line with the findings of this study, scholars have shown that good corporate governance in terms of board size and board diversity is essential to the improvement of the market share of selected deposit money banks in Lagos state, Nigeria. According to Lipu and Nichitean (2016) corporate governance efforts of banks in developing countries is of even greater importance given the dominant position of banks as providers of funds. A sound financial system is based on profitable and adequately capitalized banks. Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system which are critical to the proper functioning of the banking sector and economy as a whole. Poor corporate governance may contribute to bank failure, which can pose significant public cost and consequences due to their potential impact on applicable deposit insurance systems and the possibility of broader macroeconomic implications. (Basel Committee on banking supervision, 2006)

A study of the Kenyan banking system by Kamau (2009) shows that the Kenyan banking system is well regulated with the Central Bank of Kenya (CBK) conducting on-site and off-site surveillance. Over the last few years, the banking

sector in Kenya has continued to grow in assets, deposits, profitability and product offering. The growth has been mainly underpinned by; i) an industry wide branch network expansion strategy both in Kenya and East African community region and ii) automation of a large number of services and a move towards emphasis on complex customer needs rather than traditional off the shelf banking products. Players in the sector have experienced increased competition over the last few years resulting from increased innovations among players and new entrants into the market.

5. Conclusions and Recommendations

In this study, board size and board diversity were used as independent variables. while the dependent variable was market share. The study concluded that board diversity had no significant effect on market share of the selected deposit money banks, but board size significantly affects it. Thus, firms in the Nigerian banking sector and other sectors are encouraged to be mindful of their board size. It should not be too small but large enough to oversee the activities of the organization in such a way that a rise or improvement in the market share is recorded. Nonetheless, the diversity of the board although with a negative result should be encouraged in order to encourage positive contribution. The stakeholder theory which was used in the study and its principles should be followed in ensuring that every member of the board play a significant part in ensuring that other stakeholders such as regulatory agencies and investors in particular get good returns on their interest in the organization. there are financial benefits of applying stakeholder theory to your organization. They include things such as: higher productivity through employee satisfaction, improved retention / referrals from happy customers, increased investment from happy investors, improved talent acquisition from a positive image in the community.

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