



Research Paper

Boardroom Ethnicity, Corporate Diversification and Cash flow Performance of Deposit Money Banks in Nigeria: An Independent and Joint Effect Analysis.

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Abstract

The objective of this study was to examine the effect of board ethnic heterogeneity and corporate diversification on cash flow performance of Deposit Money Banks (DMBs) in Nigeria. The study specifically examined the effect of ethnic heterogeneity and corporate diversification on operating, investing and financing cash flow performances. The study adopted the ex-post facto research design; as the goal was not to manipulate any variable but rather to establish effect. The population comprised quoted DMBs and the sample restricted to a purposive sample of six (6) banks whose annual reports were accessible for the period of 2005-2020 which was the time scope of the study. The data were analysed using the multiple regression technique. The results showed that ethnic heterogeneity and corporate diversification does not have a statistically significant effect on cash flow performance jointly and individually. Based on these findings, the study recommended that ethnic heterogeneity should be allowed on the boards of DMBs not necessarily to promote cash flow performance, but for equity, fair representation and relative peace as supported by previous literature.

Keywords: Ethnic Heterogeneity, Corporate Diversification and Cash Flow Performance

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I. INTRODUCTION

Ethnicity is considered to be shared characteristics such as culture, language, religion, and traditions, which contribute to a person or group's identity (Kumudha and Jennet, 2016). Sunday and Godwin (2017) also identified foreign directorship as a factor in ethnic diversity description which include ratio of foreign board members to total board size. Ethnicity could also be viewed as one level of social stratification or social inequality that include race, class, kinship, age, estate, caste, and gender (Akinwumi, Owolabi and Akintoye, 2018). It has to do with social categorization in which an individual is eligible to be a member (Chandra, 2006). Akinwumi *et al*, (2018) elucidated that ethnic identity groupings are a subset of identity groups in which admissibility is confirmed by descent-based traits. This means that admissibility traits either qualify an individual for membership in a category or signal such membership. Descent-based traits mean attributes linked with, or believed to be linked with descent. Attributes linked with descent include those acquired genetically (skin colour, gender, hair type, eye colour, height, and physical features), through cultural and historical bequest (name, language, place of birth, and origin of one's parents and ancestors), or in the course of one's lifetime as markers of such bequest (last name or tribal markings). Attributes believed to be linked with descent are attributes surrounding a tried myth of relationship with descent, which has been knitted, whether or not such a linkage exists in fact. Thus the definition includes both a subjective and an objective element.

According to Horowitz (1985) in Akinwumi *et al* (2018), ethnicity is based on a myth of collective ancestry, which usually carries with it traits believed to be innate. Some ideas of attribution, whether diluted or concentrated are inseparable from the concept of ethnicity. On the other hand, ethnic diversity can be beneficial to the firm performance through better decision making and improved problem solving (Hong and Page, 2001). They further affirmed that diverse group of problem solvers steadily outperform the homogeneous groups of the individuals who are best at solving problems. The reason being that the diverse groups get stuck less often than homogenous groups of high-ability solvers, who tend to think similarly. According to Mba *et al* (2018),

ethnicity remains the most salient dimension of diversity especially in Nigeria as the nation is highly divided along ethnic lines with each group clamouring for recognition. However, ethnic diverse boards may cause cross-cultural communication problems and interpersonal conflicts which consequently slow down the board internal process (Prostasovs, 2015). It is the decisions reached in the boardroom that are being sent down the line to the various levels of managements. The decision of the board determines the direction of the firm in terms of corporate diversification.

Corporate diversification is one of the strategies that have been used by several organizations across the globe in order to enhance their business objectives. Marinelli (2011) asserted that most organizations around the world consider diversification as one of the ways of value creation and that it allows firms to venture into business lines different from their current line and also operate in numerous economic markets. It is a form of growth strategy that involves significant increase in the performance objectives surpassing past performance records and also has an impact on the firm performance especially on its finance and cash flow (Njuguna, 2018). According to Erdorf *et al* (2011), in order to boost a firm’s cash flow performance, corporate diversification as a growth strategy is usually adopted by many business organizations, some of which have succeeded while others have failed. They further stated that corporate diversification would make sense only to the extent that it adds more to shareholder’s value than what a shareholder could accomplish acting individually and also reduces systematic risk in the shareholder’s portfolio. Hence this study is set out to examine the independent and joint effect of boardroom ethnicity and corporate diversification on cash flow performance of Deposit Money Banks (DMBs) in Nigeria.

1.1 Objectives of the Study

The basic objective of this study is to examine the independent and joint effect of boardroom ethnicity and corporate diversification on cash flow performance of DMBs in Nigeria. Specifically, the study sought to ascertain:

1. The independent and joint effect of boardroom ethnicity and corporate diversification on the operating cash flow performance of DMBs in Nigeria
2. The independent and joint effect of boardroom ethnicity and corporate diversification on the investing cash flow performance of DMBs in Nigeria
3. The independent and joint effect of boardroom ethnicity and corporate diversification on the financing cash flow performance of DMBs in Nigeria

1.2 Hypotheses of the Study

The following null hypotheses was tested in the course of the study:

1. Ho: There is no significant independent and joint effect of boardroom ethnicity and corporate diversification on the operating cash flow performance of DMBs in Nigeria
2. Ho: There is no significant independent and joint effect of boardroom ethnicity and corporate diversification on the investing cash flow performance of DMBs in Nigeria
3. Ho: There is no significant independent and joint effect of boardroom ethnicity and corporate diversification on the financing cash flow performance of DMBs in Nigeria

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

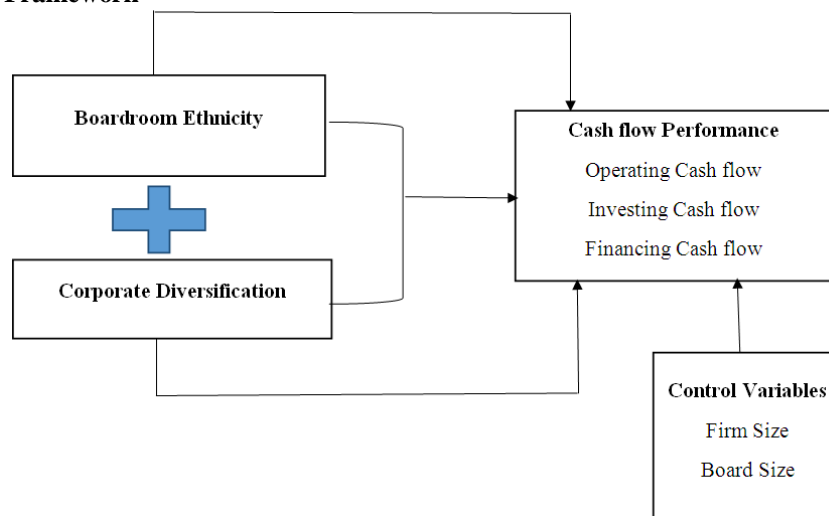


Figure 1: Diagrammatic representation of the conceptual framework

The conceptual framework above diagrammatical explained how the variables in the study relates with each other. The two independent variables were structured to show both independent and joint effect on the dependent variables of the study. The control variables were put in place to act as a check on the dependent variable.

Few scholars in the past have done similar work but with major restriction to independent effect only with no joint effect examined. Kabara and Modibbo (2020) examined the impact of ethnic diversity on financial performance of 67 listed non-financial companies in Nigeria, during a 6-year period ranging from 2012 to 2017. Tobin's Q and Return on assets (ROA) measured the financial performance. Ethnic diversity, board size and leverage were addressed in the Nigerian context. Descriptive statistics, Correlation and the contemporary 2-Step System-GMM estimator was used in the analysis, and the results showed that ethnic diversity and board size has positive and significant impact on firm performance (Tobin's Q). Conversely, using ROA, the result indicated that ethnic diversity has a negative insignificant impact on performance, while firm size has a negative significant influence.

Guest (2019) explored whether board ethnic diversity has an association with stronger board monitoring outcomes. A wide range of outcomes such as CEO compensation, accounting misstatements, CEO turnover, performance sensitivity and acquisition performance were explored. Using the logit model and ordinary least square regression, the study found no evidence that board ethnic diversity improves overall firm performance, even for those firms with higher agency problems.

Akinwumi *et al* (2018) examined the relationship between Board Ethnic and Religious diversity and performance of quoted manufacturing companies in Nigeria. The study adopted the ex-post facto research design. Secondary data of purposively selected 53 listed Nigerian manufacturing companies from 2006 to 2015 were analyzed using descriptive and inferential statistics. The findings showed a positive but insignificant relationship between Ethnicity and performance measure of ROA and a negatively insignificant relationship with Tobin's Q. Board religious diversity was negatively and insignificantly related to ROA and Tobin's Q. The study recommended that various stakeholders in Board composition should always strive at incorporating value adding measures such as financial literacy, intellectual competence and consistency at meetings already established in literature, not diversionary and irrelevant considerations which lead to time wasting and resources dissipation.

Omoye and Eriki (2013) investigated board ethnic diversity and firms' financial performance in Nigeria. The concept of board ethnic diversity was measured using the ratio of the three major tribes (Hausa, Yoruba and Igbo) to the total board size. The study used 96 selected quoted companies in Nigeria Stock Exchange and a cross sectional OLS multiple regression analysis. The findings showed that board ethnic diversity of quoted companies in Nigeria had a negative relationship with firm performance.

Wellalage and Locke (2013) investigated the demographic diversity of board members in the Sri Lankan boardroom and their effect on the firm financial performance. Board diversity was measured by gender, ethnicity, age, education and occupational diversity. The sample for the panel data analysis embraced 198 firms listed on the CSE during the period 2006–2010. A generalised method of moment (gmm) panel estimator was used to estimate the relationship between board diversity and firm financial performance. After controlling for potential endogeneity, the study found that board ethnicity and age diversity increase firm financial performance while board gender, education and occupational diversity reduce firm financial performance.

Ujunwa, Nwakoby and Ugbam (2012) investigated the impact of corporate board diversity on the financial performance of Nigerian quoted firms using a panel data of 122 quoted Nigerian firms. The aspects of board diversity studied comprises board nationality, board gender and board ethnicity. The Fixed Effect Generalised Least Square Regression was used to examine the impact of board diversity on firm performance for the period: 1991-2008. The results showed that gender diversity was negatively linked with firm performance, while board nationality and board ethnicity were positive in predicting firm performance. The study provided insights for practitioners and policy makers on the need to view the board as a strategic resource in line with the resource dependency theory instead of viewing the board solely from agency theory perspective.

Olaoti (2012) conducted a study on director heterogeneity and firm performance, the study focused on five old generation banks between the periods of 2005-2011. They measured ethnicity by allocating 3 to firms with three main ethnic groups; they categorized these groups into Hausa/Fulani, Yoruba and Igbo and measured firm performance in terms of ROE. Ordinary Leased Square regression technique was used to test their hypothesis. They found that ethnic diversity is significantly and positively impacting on ROE. They concluded that the combination of two or more ethnic groups can improve the efficacy of the board and hence firm performance. The key weaknesses in the study was the small size of the sample and the use of old generation banks only.

Marimuthu and Kolandaisamy (2009) examined the effect of demographic diversity on boards of directors on firm financial performance for the period of 2000 to 2006. Demographic diversity was represented by ethnic and gender diversity and performance was measured by return on asset (ROA) and return on equity

(ROE). The data were analysed using OLS regressions and the results showed that ethnic diversity did create some significant impact on financial performance in the second half of the period from 2004 to 2006.

Marimuthu (2008) studied ethnic diversity of Board of Directors and its implication on firm performance. The study used secondary data from top 100 non-financial companies ranked through market capitalization and observed it over a six years period from 2000-2005. They measured ethnicity by the percentage of non-Malay directors and performance is viewed in terms of ROA. The two statistical techniques used were correlation and regression analysis and also adopted the weighted leased square (WLS) as a remedial measure of correcting heteroscedasticity. They found that ethnic diversity is significantly and positively associated with performance. They finally concluded that increased ethnic diversity on boards of directors would lead to higher firm financial performance.

II. METHODOLOGY

This research work adopted the *ex-post facto* research design because the event under investigation had already taken place. The population of the study was made up of the thirteen (13) DMBs currently listed on the Nigeria Stock Exchange. They include; Access Bank Nigeria PLC, ECO Bank Nigeria PLC, Fidelity Bank Nigeria PLC, First Bank Nigeria PLC, First City Monument Bank Nigeria PLC, Guaranty Trust Bank Nigeria PLC, Polaris Bank Nigeria PLC, Stanbic IBTC Bank, Sterling Bank Nigeria PLC, Union Bank Nigeria PLC, United Bank for Africa PLC, Wema Bank PLC, and Zenith Bank Nigeria PLC. Because of non-availability of most banks annual reports in their official website, only six (6) banks that had their annual reports from year 2005-2020 were sampled.

The study employed two distinct techniques to analyse the data. *First*, descriptive statistics were computed such as the mean, median, standard deviation, minimum, and maximum values. This was used to describe the nature of data and also aid data visualization. *Second*, multiple regression was used to validate the hypotheses.

3.1 Definition of Variables/Proxies

VARIABLES	DEFINITION
Dependent Variables	
Operating Cash flow to Total Assets	$\frac{\text{Operation Cash flow Value}}{\text{Total Asset}}$
Investing Cash flow to Total Assets	$\frac{\text{Investing Cash flow Value}}{\text{Total Asset}}$
Financing Cash flow to Total Assets	$\frac{\text{Financing Cash flow Value}}{\text{Total Asset}}$
Independent Variables	
Boardroom Ethnicity	Blau Index of Heterogeneity (Igbo vs Hausa vs Yoruba)
Corporate Diversification	Number of Business Subsidiaries
Control Variables	
Firm Size	The natural log of total assets
Board Size	This is the total number of directors sitting on the board as financial year end

3.2 Model Specification

The model for this study will be the multiple regression model stated as:

$$OCF_{i,t} = \beta_0 + \beta_1 EH_{i,t} + \beta_2 CD_{i,t} + \beta_3 GH + CD_{i,t} + \beta_4 FS_{i,t} + \beta_5 BOS + \varepsilon_{i,t} \dots\dots\dots(1)$$

$$ICF_{i,t} = \beta_0 + \beta_1 EH_{i,t} + \beta_2 CD_{i,t} + \beta_3 GH + CD_{i,t} + \beta_4 FS_{i,t} + \beta_5 BOS + \varepsilon_{i,t} \dots\dots\dots(2)$$

$$FCF_{i,t} = \beta_0 + \beta_1 EH_{i,t} + \beta_2 CD_{i,t} + \beta_3 GH + CD_{i,t} + \beta_4 FS_{i,t} + \beta_5 BOS + \varepsilon_{i,t} \dots\dots\dots(3)$$

Where:

OCF= Operating Cash flow

ICF = Investing Cash flow

FCF = Financing Cash flow

EH = Gender heterogeneity

CD = Corporate Diversification

FS = Firm Size

BOS = Board Size

β_0 = The constant

$\beta_1 - \beta_5$ = The regression coefficients of predictor variables

$\varepsilon_{i,t}$ = error term

III. DATA PRESENTATION

Table 4.1: Variables Averages

Sampled Banks	Independent Variables		Dependent Variables			Control Variables	
	EH	CD	OCF	ICF	FCF	BoS	FS
Access Bank	0.54375	6	0.015625	-0.00813	0.02	14	2252.306
Fidelity Bank	0.44125	0	0.07	-0.02188	0.035635	14	1019.406
Guarantee Trust Bank (GTB)	0.525	7	0.0375	-0.02063	0.00375	13	1792.375
United Bank of Africa (UBA)	0.54125	18	0.055625	-0.045	0.0125	18	2208.419
Wema Bank	0.27125	1	0.004375	-0.035	0.04625	10	336.0125
Zenith Bank	0.37875	8	0.041875	-0.01875	0.0225	13	3009.8

Source: Published Financial Statements various issues (calculations done using Excel)

4.2 Descriptive Statistics

The descriptive statistics of the main independent variables utilised in the study are presented in Table 4.2 below; the table shows the number of observations, mean, standard deviation, minimum and maximum values of the variables. The description helps in showing the nature of the data.

Table 4.2: Summary statistics of independent variables

Variable	Obs	Mean	Std. Dev.	Min	Max
EH	6	.4502083	.109403	.27125	.54375
CD	6	6.666667	6.439462	0	18

Source: STATA ver. 15

Where: EH- Ethnic Heterogeneity, CD – Corporate Diversification

The Obs. column (i.e., observations) shows the number of observations included in the analysis of the independent variables of the study as six (6). The Mean is a measure of central tendency which calculates the average of a set of observations; while, the Standard Deviation (SD) is a measure of the average distance between the values of the data in the set and the mean. A low SD indicates that the data points tend to be very close to the mean; a high SD indicates that the data points are spread out over a large range of values.

The mean value for EH (Ethnic Heterogeneity) is approximately .450; i.e., the sampled banks had on the average 45% ethnic heterogeneous boards during the study period. The CD (Corporate Diversification) indicated that the sampled banks had a mean of 6 subsidiaries during the study period. The SD indicates that the values are spread out over a large range of values.

Table 4.3: Summary statistics of control variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Bos	6	13.66667	2.581989	10	18
FS	6	1769.72	957.3031	336.0125	3009.8

Source: STATA ver. 15

Where: Bos- Board Size, FS- Firm Size.

The mean value for BoS (Board Size) is approximately 14; indicating that the sampled banks had on the average 14 as their board size with an SD that showed that values are spread out over a large range of values. The mean value for FS (Firm Size) is 1.769 billion with a maximum value of 3.009billion. The SD of 957.3 million indicates that the values are spread out over a large range of values.

4.3 Test of Hypothesis

Hypothesis One

Ho: There is no significant effect of boardroom ethnicity and corporate diversification on the operating cash flow performance of DMBs in Nigeria

Table 4.4 Hypothesis one Test

Equation	Obs	Parms	RMSE	"R-sq"	F	P
OCF 0.7695	6	5	.0314998	0.6670	.500749	
	F	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
	EH	-.0979281	.209613	-0.47	0.722	-2.761314
	CD	-.0034099	.0041647	-0.82	0.563	-.0563269
	BoS	.0149631	.0118875	1.26	0.427	-.1360818
	FS	5.38e-06	.0000198	0.27	0.831	-.0002465
	_cons	-.1096905	.109316	-1.00	0.499	-1.498682

Source: STATA ver. 15

The table 4.4 above showed the dependent variable (operating cash flow) with the two independent variables (ethnic heterogeneity and corporate diversification) and control variables (board size and firm size). In the hypothesis validation the group statistics: ANOVA represented as F-statistics, the coefficient of determination R^2 were used, while the p-value was used to predict the individual and joint effect of the independent variables on the dependent variable. For hypothesis one, the R-square is 0.6670 which is a very high prediction far above the 0.20 threshold. Also the F degrees of freedom has a value of 0.501 with p-value of 0.7695 which is > than 0.05 margin of error. This means that the coefficient of multiple determination R is not significantly different from zero, that is, boardroom ethnicity and corporate diversification does not jointly affect the operating cash flow performance of DMBs in Nigeria. Similarly, boardroom ethnicity (P=0.722) and corporate diversification (P=0.563) independently does not have a significant effect on operating cash flow performance.

Hypothesis Two

Ho: There is no significant effect of boardroom ethnicity and business subsidiary on the investing cash flow performance of DMBs in Nigeria

Table 4.5 Hypothesis Two Test

Equation	Obs	Parms	RMSE	"R-sq"	F	P
ICF 0.2250	6	5	.0044128	0.9772	10.69712	
	ICF	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
	EH	.0794088	.0293644	2.70	0.225	-.2937008
	CD	-.0020987	.0005834	-3.60	0.173	-.0095118
	BoS	-.0020115	.0016653	-1.21	0.440	-.0231711
	FS	.0000113	2.78e-06	4.07	0.153	-.000024
	_cons	-.0391591	.0153139	-2.56	0.237	-.2337408

Source: STATA ver. 15

The table 4.5 above showed the dependent variable (investing cash flow) with the two independent variables (ethnic heterogeneity and business subsidiaries) and control variables (board size and firm size). In the hypothesis validation the group statistics: ANOVA represented as F-statistics, the coefficient of determination R^2 were used, while the p-value was used to predict the individual and joint effect of the independent variables on the dependent variable. For hypothesis two, the R-square is 0.9772 which is a very high prediction far above

the 0.20 threshold. Also the F degrees of freedom has a value of 10.697 with p-value of 0.2250 which is > than 0.05 margin of error. This means that the coefficient of multiple determination R is not significantly different from zero, that is, boardroom ethnicity and corporate diversification does not jointly affect the investing cash flow performance of DMBs in Nigeria. Similarly, boardroom ethnicity (P=0.225) and corporate diversification (P=0.173) independently does not have a significant effect on investing cash flow performance.

Hypothesis Three

Ho: There is no significant effect of boardroom ethnicity and corporate diversification on the financing cash flow performance of DMBs in Nigeria

Table 4.6 Hypothesis Three Test

Equation	Obs	Parms	RMSE	"R-sq"	F	P
FCF	6	5	.0108993	0.9001	2.252433	0.4583
FCF	Coef.	Std. Err.	t	P> t	[95% Conf.	Interval]
EH	-.1317626	.0725287	-1.82	0.320	-1.053328	.7898025
CD	-.0015186	.001441	-1.05	0.483	-.0198286	.0167913
BoS	.0043883	.0041132	1.07	0.479	-.0478751	.0566517
FS	-2.90e-06	6.86e-06	-0.42	0.745	-.0000901	.0000843
_cons	.03804	.0378247	1.01	0.498	-.4425687	.5186486

Source: STATA ver. 15

The table 4.6 above showed the dependent variable (financing cash flow) with the two independent variables (ethnic heterogeneity and corporate diversification) and control variables (board size and firm size). In the hypothesis validation the group statistics: ANOVA represented as F-statistics, the coefficient of determination R² were used, while the p-value was used to predict the individual and joint effect of the independent variables on the dependent variable. For hypothesis three, the R-square is 0.9001 which is a very high prediction far above the 0.20 threshold. Also the F degrees of freedom has a value of 2.252 with p-value of 0.4583 which is > than 0.05 margin of error. This means that the coefficient of multiple determination R is not significantly different from zero, that is, boardroom ethnicity and corporate diversification does not jointly affect the financing cash flow performance of DMBs in Nigeria. Similarly, boardroom ethnicity (P=0.320) and corporate diversification (P=0.483) independently does not have a significant effect on financing cash flow performance.

IV. Discussion of Findings

The study found that ethnic heterogeneity and corporate diversification does not have a significant effect on cash flow performance either independently or jointly. This goes to show that whether a boardroom is tribally sensitive or tribally biased, it doesn't affect the cash flow activities of the organisation. Prior studies on ethnic heterogeneity showed varying results such as; Omoye and Eriki (2013) that found that board ethnic diversity of quoted companies in Nigeria had a negative insignificant relationship with firm performance, Iyafekhe and Ohiokha (2017) found that board ethnic diversity had insignificant impact on financial performance of banks in Nigeria, Akinwumi et al (2018) found an insignificant relationship between Ethnicity and performance measure of ROA. In contrast, Ujunwa et al (2012) found that board ethnicity were positive in predicting firm performance, Olaoti (2012) and Marimuthu (2008) also found that ethnic diversity is significantly and positively impacting on firm performance.

V. Conclusion

Nigeria being a country with diverse ethnic groups, and all clamouring for recognition and fair representation in the scheme of affairs generally has necessitated this study. Previous studies have focused mainly on its effect on performance, while this study contributes to the literature by introducing corporate diversification as a joint independent variable to ethnic heterogeneity to ascertain what effect it will have on cash flow performance. The study decomposed cash flow performance into operating cash flow performance, investing cash flow performance and financing cash flow performance. Applying the multiple regression

technique to the hypotheses of the study, it was evidently concluded based on the findings of the study that ethnic heterogeneity and corporate diversification does not independently and jointly affect the cash flow performance of DMBs in Nigeria. The study recommended that ethnic heterogeneity should be allowed on the boards of DMBs not necessarily to promote cash flow performance, but for equity, fair representation and relative peace as supported by previous literature. The study is however limited in content scope because of the use of only business subsidiaries to proxy corporate diversification and thus further recommended that future researchers should use other proxies such as; income diversification, geographical diversification and international diversification as proxies for corporate diversification.

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