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BOARD COMMITTEE AND BANKRUPTCY RISK: A STUDY OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract: *This ascertained the effect of board committee on bankruptcy risk in deposit money banks in Nigeria, using audit committee independence and board gender diversity, while Altman model for bankruptcy was employed for bankruptcy risk. Ex Post Facto research design was adopted for the study. Data were extracted from 2012 to 2024 from the audited annual reports and accounts of the sampled deposit money banks in Nigeria. From the analysis, the study show that audit committee independence had a positive and significant effect on bankruptcy risk for Nigerian deposit money banks. The study showed that board gender diversity had a negative and significant effect on bankruptcy risk for Nigerian deposit money banks. Based on the analysis, the study recommended among others that the audit independence should be encouraged to create an avenue for mutual reflection on matters that are significant to the banks such as straighten their operations, as well preventing it from going bankruptcy.*
Keywords: *Board committee, Bankruptcy risk, Audit committee independence and Board gender diversity.*

Introduction

The gruesome impact of ill health in the banking sector has affected almost all facets of the society - the government, regulatory authorities, creditors, equity investors, the bankers as well as the general public. Bankruptcy risk (BR), sometimes, also known as bankruptcy likelihood, or financial distress likelihood, is a source of concern to corporate shareholders, boards, creditors (lenders), market participants, scholars and regulators in recent time. Furthermore, there are growing concerns about firms titling toward bankruptcy and many factors have been traced to be responsible for this scenario (Mohammed & Onipe, 2023). However, these concerns continue to generate more inconclusive findings and therefore creating room for more research in the area.

Prior studies have mainly utilized ordinary least square, fixed or random effects; these techniques despite offering certain advantages are weak in the presence of endogenous variables that can lead to

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biased and inconsistent estimates. In addition, prior studies on the bankruptcy prediction were carried out both locally and internationally using Altman Z score model. In foreign countries; Begum, Sarker and Nahar (2023); Khiem (2022); Handriani et al. (2021) and Safrida et al. (2021) tested the effect of corporate governance on bankruptcy prediction risk. A review of several empirical studies from continents in the world shows different results. The prior literature ended their financial data in 2022, this present study seek to improve the existing study to 2024. The study therefore, assesses the effect of board committee on bankruptcy risk in deposit money banks in Nigeria form 2012 to 2024. Specifically, the study sought to ascertain the effect of audit committee independence and board gender diversity on bankruptcy risk of deposit money banks in Nigeria.

Review of Related Literature

Board committee characteristics refer to features of corporate boards that are tasked with overall management of the firms. Some other studies Marwa et al. (2017) refer or attribute these characteristics to the concept of corporate governance. The success or collapse of firms is thus associated with the role acted by the management and firm governance as a process. While studies, (Modest & Khaled 2020) consider a broad variety of matters in corporate management, some process such as exposes, rights of voting, rules among others

Since audit committee independence can strengthen internal control systems, audit procedures may increase and thus audit fees will decrease (Ohidoa & Okun, 2018). The auditors discovered that in the UK, the existence of audit committee independence has a positive and significant effect on audit fees; in contrast, Ho and Hutchinson (2010), find that in Hongkong, auditors expect that the presence of audit committee independence lower audit risk, thereby leading to lower audit fee charged.

Finally, it can be argued that each industry has its own peculiar characteristics and this might dictate the audit style and audit approach which could invariably impinge on the annual fee charge by the auditor. Auditors take different audit procedures for different industries. In this sense, audit fees charged will be different. For instance, Gonthier-Besacier & Schatt (2007) subdivided French listed firms into firms in information technology (IT) sector and others to test the impact of industrial sector on audit fees. The result indicates that audit fees paid by companies in IT sector were much higher than that paid by the others.

However diversity, which is a key attribute of teams, is a complex construct because individuals can differ on several characteristics (Jackson, Joshi & Erhardt, 2003; Harrison & Klein, 2007; Joshi & Roh, 2009). Moreover, research remains inconclusive concerning its effects on performance (Johnson, Schnatterly, & Hill, 2013).

Board gender diversity is regarded as the ratio of female directors to total board size. Traditionally, corporate Boards are predominantly made up of male directors. The presence of the female gender on the board constitutes gender diversity (Onatuyeh & Ukolobi, 2020).Gender diversity is a part of the

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board diversity concept, which suggests that boards should reflect society's structure, with appropriate representation of gender and professional backgrounds. For a number of reasons, including a moral obligation to shareholders, creative decision making process, corporate altruism, and financial considerations, board diversity is encouraged (Onourah & Imene, 2016). Since diversity in the boardroom encourages improved decision-making and inventiveness, board gender diversity is vital for enhancing corporate governance practices in a company (Wang, 2015).

Central to this view is the notion that unobservable or cognitive diversity may produce differences in information, knowledge, heuristics and perspectives (Akpokerere & Onatuyeh, 2023). Through encouragement of greater questioning, information elaboration and search for solutions, task-oriented diversity is expected to have positive effects on team performance (Mengge, Codou & Seemantini, 2016).

Altman Prediction Models of Bankruptcy

Business failure models can be broadly divided into two groups: quantitative models, which are based largely on published financial information; and qualitative models, which are based on an internal assessment of the company concerned. Both types attempt to identify characteristics, whether financial or non-financial, which can then be used to distinguish between surviving and failing companies (Robinson and Maguire, 2001).

Most credit managers use traditional ratio analysis to identify future failure of companies. Altman (1968) is of the opinion that ratios measuring profitability, liquidity, and solvency are the most significant ratios. However, it is difficult to know which is more important as different studies indicate different ratios as indicators of potential problems. For example, a company may have poor liquidity ratios and may be heading for liquidation. That same company's good profitability may undermine the potential risk that is highlighted by the poor liquidity ratios. As a result, interpretation using traditional ratio analyses may be incorrect (Odipo & Sitati, 2008).

Altman set out to combine a number of ratios and developed an insolvency prediction model - the Z–Score model. This formula was developed for public manufacturing firms and eliminated all firms with assets less than $1 million. This original model was not intended for small, nonmanufacturing, or non-public companies, yet many credit granters today still use the original Z score for all types of customers. Two further prediction models were formulated by Altman (sometimes referred to as model 'A' and model 'B') to the original Z score (Altman, 1968).

The model 'A' z-score was developed for use with private manufacturing companies. The weighting of the various ratios is different for this model as well as the overall predictability scoring. In addition, while the original score used the market value of equity to calculate the equity to debt formula, model 'A' used shareholder's equity on the balance sheet. Model 'B' was developed for private general firms and included the service sector. In this statistical model, the ratio of sales to total assets is not used,

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the weighting on this model is different, and the scoring again, different. Although computerized statistical modeling would aid in determining the weighting of each ratio, common sense helps us understand the purpose of each ratio (Odipo & Sitati, 2008).

Empirical Review

Mohammed and Onipe (2023) examined the extent firms overall quality of board of directors reduces their bankruptcy risk from 2017 to 2021. The study used the Generalized Method of Moments approach to cope with possible endogeneity. The study revealed that board of directors' characteristic show that board independence, board female gender, board size show negative significant effects and board meetings (positive) and board ownership (negative) show insignificant effects. Aliyu, Onipe and Samuel (2023) determined the effects of board characteristics on financial performance in Nigeria from 2018 to 2022. Data were extracted from the annual reports and accounts of the listed banks. Correlational research and regression method employed was panel data regression. The study showed that board meetings, board gender diversity and board independence show insignificant effects on financial performance. Begum, Sarker and Nahar (2023) ascertained the relationship between corporate governance and the likelihood of financial distress. Altman Z-score was used to show financial distress. The study imply that financial distress is effected by corporate governance variables (board independence, auditor independence, auditor opinion, sponsor directors ownership, and foreign shareholders), and firm-level variables (sales growth, performance, liquidity, firm size). Rabiu, Muhammed, Umar and Ramatu (2023) determined the effect of board characteristics on financial performance of listed consumer firms in Nigeria. Data were extracted from annual report and account of the sampled companies from 2011 to 2021. Correlation and regression analysis has been used in order to determine the relationship between the dependent and the independent variables. The study established that board size and experience have positively influenced financial performance while board independence and women director have negatively influenced the financial performance of listed consumer goods firms. Dalia (2023) determined the effect of intellectual capital and corporate governance mechanisms on the bankruptcy risk of Egyptian companies listed on the EGX 100 index from 2017-2021. The modified Altman Z Score model was used to measure bankruptcy risk, and the value-added intellectual coefficient (VAIC) model was used to measure intellectual capital. The study found that board size, board meetings, and audit committee meetings have a significant positive effect on intellectual capital efficiency with its three components of human capital efficiency, structural capital efficiency, and capital employed efficiency. Keerthana and Balagobei (2022) ascertained the effect of board characteristics on the financial distress of listed companies in Sri Lanka from 2019 to 2021. Panel regression analysis was used and 36 listed companies representing the consumer service sector in Sri Lanka were selected as the sample. The study revealed that board size, board composition, and directors' ownership have a positive

significant effect on financial distress whereas CEO duality has a significant negative effect on financial distress. Lamidi et al, (2022) determined the characteristics of risk committees as well as their effects on the financial performance of deposit money banks (DMBs) in Nigeria. Data were analyzed using the panel regression approach. The study discovered that the size and independence of risk management committees have a negative impact on the financial performance of deposit money banks in Nigeria, while the size of the committees is insignificant. Khiem (2022) ascertained the effect of Corporate Governance on the relationship between the macro and micro factors causing financial distress in 240 Vietnamese listed non-financial firms. The study used an endogenous switching regression model (ESRM). Moreover, the risk of financial distress is significantly reduced when improving the corporate governance practice. Alberto, et al (2022) compared the performance of corporate governance variables in predicting corporate defaults, using both the Logit and Random Forest models, which previous researchers have deemed to be the most efficient machine learning techniques. They study show that the use of corporate governance variables – especially with regards to CEO renewal and stability in the composition of the board of directors – increases the accuracy of the Random Forest technique and influences the success of the turnaround process. Okoye and Okoye (2022) determined the effect of corporate governance on bankruptcy risk in deposit money banks in Nigeria. Ex Post Facto research design was adopted for the study. A sample of nine deposit money banks was used for the study. Data were obtained from the annual reports and audited accounts of the banks under assessment. Altman's original model for public companies was used to extract data and the formulated hypothesis was tested with regression analysis with aid of E-View 9.0. The study indicated that board of directors' independence has a positive significant effect on bankruptcy risk of deposit money banks in Nigeria. Maier and Yurtoglu (2022) estimated classic Z-Score models using panel data comprising 2,519 listed non-financial firms from 29 European countries over the 2012 to 2020 period. They found that board independence is associated with lower risk of bankruptcy. The presence of female directors on board reduces bankruptcy risk. While board independence and diversity decrease bankruptcy risk in financially non-distressed firms, they have the opposite effect in financially distressed firms. Cho et al. (2021) examined the effect of the gender-diversity on bankruptcy risks in Chinese-listed manufacturing firms from 2005–2016. The study found that at the executives' level, firms with greater gender-diversity have a propensity for bankruptcy risk compared to firms with lower gender-diversity. Handriani et al. (2021) examined the effect of board size, board independence, and institutional ownership on financial distress for a sample of nine manufacturing companies listed on the Indonesia Stock Exchange from 2010 to 2018. The study revealed that institutional ownership and board independence have a significant positive impact on avoiding financial distress. However, board size was found to have an insignificant positive effect on financial distress.

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Methodology

This study adopted the *ex-post facto* research design. In *Ex-Post Facto* studies investigation starts after the fact has occurred without interference from the researcher.

The population of the study comprised of listed banks in Nigeria. Given the above, the study population is made up of twenty eight (28) banks in Nigeria. As a result, the "purposive sampling technique was applied. The study selected eight banks based on data availability up to date. The data were extracted from the annual reports and accounts of the selected banks in Nigeria from 2012 to 2024.

Model Specification

Altman prediction model (working capital, retained earnings, earnings before interest and tax, equity as well as total assets and total book debts) and independent variables: Committee Independence and Board Gender Diversity. This was obtaining from the audited reports and accounts of the banks under assessment.

The study used Altman Model given as Zeta "Z"

$Z=1.2X_1 + 1.4X_{2+} 3.3X_3 + 0.6X_4 + 1.0 X_5$,

Where:

X_1 = Working capital to total assets
X_2 = Retained earnings to total assets
X_3 = Earnings before interest and taxes to total asset
X_4 = Value of equity to total book debt
X_5 = Gross earnings to total assets

The decision rule is that:

(i). For $Z<1.81$ Bankruptcy region
(ii). For $1.81<Z>2.675$ High bankruptcy potential
(iii). For $2.675<Z<2.99$ Low bankruptcy potential
(iv). For $Z>2.99$ Strong (No sign of bankruptcy at all).

The following regression equation can be derived from the model.

$Y= X1 + X2$

Where

Y = Altman
X_1 = Audit committee Independence
X_2 = board gender diversity
β_1 = Regression Weights Coefficients
A (Constant)

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The model for this study took the following form:

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \mu$

Where:

Y = Bankruptcy Risk (dependent variable)
X = Board committee characteristics (explanatory/independent Variable)
β_0 = constant term (intercept)
β_1- β_2 = Coefficients of job performance
μ = Error term (stochastic term)

Explicitly, the equation can be defined as:

Board committee characteristic = f (Altman) + μ

The Altman Model was modified thus to incorporate corporate governance:

$ATMN_{it} = a_0 + \beta_1 ACI + \beta_2 BGD_{it + it\,urt}$ i

Where;

ATMN= Altman Prediction Model
ACI= Audit committee Independence
BGD = board gender diversity

Method of Data Analysis

Data were analyzed with descriptive statistics, and the hypotheses were tested with Pearson correlation, and multiple regression analysis. Since the focus of the study is to examine the effect of asset composition on financial performance, regression analysis becomes appropriate tool for it.

Descriptive statistics employed to summarily describe the mean, median, standard deviation, kurtosis and skewness of the study variables. Inferential statistics will also be utilized with the aid of E-Views 9 using panel Regressions analysis: Regression analysis predicts the value the dependent variable based on the value of the independent variable and explains the impact or effect of changes in the values of the variables.

Decision Rule

Accept the alternative hypothesis, if the Probability value (P-value) of the test is less than 0.05 (5%). Otherwise reject.

Data Analysis and Results

Table 1 ***Descriptive Statistics***

	ATMN	ACI	BGD
Mean	54.87547	4.000000	0.274615
Median	0.210044	4.000000	0.300000
Maximum	652.9549	5.000000	0.330000
Minimum	0.055106	3.000000	0.240000

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Std. Dev.	174.1820	0.682656	0.033120
Skewness	3.132913	0.000000	0.041185
Kurtosis	10.90951	2.166667	1.337082
Jarque-Bera	441.2242	3.009259	12.01235
Probability	0.000000	0.222100	0.002463
Sum	5707.049	416.0000	28.56000
Sum Sq. Dev.	3124955.	48.00000	0.112985
Observations	104	104	104

Source: E-views 9 (2025)

From the above Table 1, the analysis revealed the mean values of the bankruptcy risk (ATMN) at 54.875. Also, the mean value of audit committee independence (ACI) run using the dummy value of showed an average value of 4.000. The mean values of board gender diversity (BGD) showed that Nigerian BGD were jointly 0.275.

The kurtosis of 10.90951, 2.166667, and 1.337082 for ATMN, ACI, and BGD showing a distribution that is strong, suggesting a concentration of values around the mean with potential outliers, while 4.563804, 4.681818 and 1.023810 for banks ATMN, ACI and BGD, showed similar results. The Jarque-Bera probability of 0.000000, 0.222100, and 0.002463 confirms that the ATMN, ACI and BGD data is significantly non-normally distributed showed that traditional parametric analyses may need to be approached with caution.

Hypothesis One

Ho_1: Audit committee independence has no significant effect on bankruptcy risk of deposit money banks in Nigeria.

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Table 2: Regression analysis between ACI and ATMN

Dependent Variable: ATMN
Method: Panel Least Squares
Date: 08/25/25 Time: 07:47
Sample: 2012 2024
Periods included: 13
Cross-sections included: 8
Total panel (balanced) observations: 104

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-419.0138	90.78364	-4.615521	0.0000
ACI	118.4723	22.37548	5.294738	0.0000

R-squared	0.415591	Mean dependent var	54.87547
Adjusted R-squared	0.407901	S.D. dependent var	174.1820
S.E. of regression	155.0219	Akaike info criterion	12.94405
Sum squared resid	2451242.	Schwarz criterion	12.99491
Log likelihood	-671.0908	Hannan-Quinn criter.	12.96466
F-statistic	28.03425	Durbin-Watson stat	2.296975
Prob(F-statistic)	0.000001		

Source: E-views 9 Output (2025)

In table 2, a simple least square regression analysis was conducted to test the effect on audit committee independence (ACI) on bankruptcy risk (ATMN) in Nigerian deposit money banks. The R-squared is coefficient of determination which explains the changes in the dependent variable due to changes in the independent variable. From the findings in the table indicate that the value of R squared was 0.41, showing that there was variation of 41% on ATMN due to changes in ACI.

The Durbin-Watson Statistic of 2.30 suggests that the both model does not contain serial correlation. The F-statistic of the regression is equal to 28.034. The associated F-statistic probability is equal to 0.000.

The evidence provided by the regression result of model showed that the variable of audit committee independence had a positive coefficient of 118.4723 and a p-value of 0.000 which was significant at 5% level for Nigerian deposit money banks. This study therefore reject null hypothesis and accept alternative hypothesis which stated that audit committee independence has a significant effect on bankruptcy risk of deposit money banks in Nigeria.

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Hypothesis Two

Ho_2: Board gender diversity has no significant effect on bankruptcy risk of deposit money banks in Nigeria.

Table 2: Regression analysis between BGD and ATMN

Dependent Variable: ATMN
Method: Panel Least Squares
Date: 08/25/25 Time: 08:31
Sample: 2012 2024
Periods included: 13
Cross-sections included: 8
Total panel (balanced) observations: 104

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	533.1327	135.9004	3.922966	0.0002
BGD	-1741.553	491.3490	-3.544432	0.0006

R-squared	0.309660	Mean dependent var	54.87547
Adjusted R-squared	0.300931	S.D. dependent var	174.1820
S.E. of regression	165.1580	Akaike info criterion	13.07073
Sum squared resid	2782272.	Schwarz criterion	13.12158
Log likelihood	-677.6778	Hannan-Quinn criter.	13.09133
F-statistic	12.56300	Durbin-Watson stat	2.498224
Prob(F-statistic)	0.000595		

Source: E-views 9 Output (2025)

In table 3, a simple least square regression analysis was conducted to test the effect of board gender diversity (BGD) on bankruptcy risk (ATMN) in Nigerian deposit money banks. The R-squared is coefficient of determination which tells us the changes in the dependent variable due to changes in the independent variable. From the result, the value of R squared was 0.30, an indication that there was variation of 30% on ATMN due to changes in BGD.

The Durbin-Watson Statistic of 2.50 suggests that the model does not contain serial correlation. The F-statistic of the regression is equal to 12.563. The associated F-statistic probability is 0.000.

The hypothesis stated that board gender diversity has no significant effect on bankruptcy risk of deposit money banks in Nigeria. The evidence provided by the regression result of model showed that the variable of board gender diversity had a negative coefficient of -1741.553 and a p-value of 0.000

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which was significant at 5% level for Nigerian deposit money banks. It meant that board gender diversity has significant effect on bankruptcy risk in Nigeria.

Discussion of Findings

The evidence from hypothesis one regression result showed that audit committee independence had a positive coefficient of 118.4723 and a p-value of 0.000 which was significant at 5% level for Nigerian deposit money banks; while the outcome of model 2 showed a positive coefficient of 5.845797 (p-value 0.000) for deposit money banks in South Africa, and also has a significant effect. The result is in collaboration with Safrida et al. (2021) who demonstrated a significant positive effect of the audit committee on the prediction of bankruptcy; Maina (2020) established the relationship between audit committee and independent directorship and financial distress of commercial banks; Partha, Widanaputra, Ratnadi and Mimba (2019) found that audit committee independence had positive and significant moderating effect on the relationship between financial distress and income maximization actions.

The hypothesis two regression result revealed that board gender diversity had a negative coefficient of -1741.553 and a p-value of 0.000 which was significant at 5% level for Nigerian deposit money banks; while showed a positive coefficient of 0.484690 (p-value 0.607) for deposit money banks in South Africa, but has no significant effect. This result agreed with Maier and Yurtoglu (2022) who found that presence of female directors on board reduces bankruptcy risk, also the result of Mohammed and Onipe (2023) who reported that board female gender, show negative significant effects. However, the study disagreed with Aliyu, Onipe and Samuel (2023) showed that board gender diversity show insignificant effects.

Conclusion and Recommendations

This ascertained the effect of board committee on bankruptcy risk in deposit money banks in Nigeria, using audit committee independence, ad board gender diversity, while Altman model for bankruptcy was employed for bankruptcy risk. Data were extracted from 2012 to 2024 from the audited annual reports and accounts of the sampled deposit money banks in Nigeria. From the analysis, the study show that audit committee independence had a positive and significant effect on bankruptcy risk for Nigerian deposit money banks. The study showed that board gender diversity had a negative and significant effect on bankruptcy risk for Nigerian deposit money banks.

Based on the analysis, the following recommendations were made;

1. The audit independence should be encouraged to create an avenue for mutual reflection on matters that are significant to the banks such as straighten their operations, as well preventing it from going bankruptcy.

2. As the female board has negative and insignificant in Nigerian banks, the presence of the female gender on the board should be increased to reflect society's structure, with appropriate representation of gender and professional backgrounds.

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