THE NOMINATION COMMITTEE AND FIRM PERFORMANCE: AN EMPIRICAL INVESTIGATION OF UK FINANCIAL INSTITUTIONS DURING THE PRE/POST FINANCIAL CRISIS

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Abstract

This study looks at the relationship between nomination committee (NC) and the financial performance of firms among United Kingdom (UK) financial institutions. The result indicates a positive and statistically significant association between the NC of a firm and its Market Value (MV). The relationship between NC and the Return on Asset (ROA) of the firm as a measure of financial performance was positive. The second study examines the impact of NC on UK financial firms during the 2007/2008 global financial crisis. The empirical evidence gleaned highlights that firms adopting NC for corporate boards witness a positive and statistically significant impact on the ROA of the firms. There was also an inverse relationship demonstrated, in terms of financial performance on the MV of the firms during the pre- and post-global financial crisis.

Keywords: Nomination Committee (NC), Financial Institutions, UK, Financial Crisis, Performance

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1 Introduction

Corporate Governance codes and reforms in the UK have centered upon helping the executive management and the board of a firm to make the right decisions in order to achieve their stakeholders' objectives. The nomination committee (NC), which is part of the board, has a responsibility to ensure that the right personnel, skills, talent and experience have been selected and appointed to help take the right strategic decisions for the firm (Financial Reporting Council 2012; 2014). This means that the NC plays an essential role in the success or failure of the firm. The financial performance of firms partly depends on whom the NC has appointed to the board and who is part of the executive management team. The NC has to ensure that the right candidate with the right profile is selected to heighten the probability of success for the firm.

The objective of this research is to determine if the presence of NC can improve the financial performance of a board, and how it can enhance the overall ROA and MV of a firm. The NC is one of the least researched subject areas in the effectiveness of board committees (see, for example, Huse 2011; Ruigrok et al., 2006). Its role has not been as widely researched as, for example, the remuneration and audit committee, yet the NC is responsible for the selection of the members of boards such as the remuneration and audit committee, and top-level posts such as the Chief Executive Officer (CEO) and the Chairman of the Board (Tarry 2009). The role of the NC here helps determine the strategic leadership of the company, which is essential for its survival (Tarry 2009; Vafeas 1999).

Due to the limited amount of empirical research on the effectiveness of the NC, this research will be the first to materially assess its impact on UK financial institutions. Various corporate governance regulatory reforms in the UK have also provided the impetus to investigate the extent to which the NC is able to influence the performance of a firm. The second focus of this research is to ascertain the effectiveness of the NC during the global financial crisis of 2007/2008 and afterwards, as no empirical research has been undertaken on this subject for that period. These will serve as the motivation of the research and help fill in any gaps in the current corporate governance research literature.

According to Eminet and Guedri (2010, p558) the mission of the NC is both to define the profiles of directors needed for the board, and to recommend future directorial candidates (and in so doing reduce the influence of the CEO on the selection process).

According to the Financial Reporting Council (2012; 2014) the NC should ensure that the appointed board members have an appropriate balance of skills, age, gender, educational qualifications, experience, independence and knowledge of the company to enable them to discharge their duties successfully. Also, members should receive a formal induction, and regularly update and refresh their skills and knowledge of the company. The size of the NC usually ranges from three to five, or can depend on the size of the company (Tarry 2009).

Byrne (1971) states that individuals with similar backgrounds may share similar life experiences and values and that, for this reason, they may find interaction with each other easier than individuals with different experiences and values. According to the Combined Code (2006) and Financial Reporting Council (2014) the NC should have a succession plan in case a board member leaves.

The establishment of a nomination committee will help minimise agency conflict by ensuring that appointed board members work together to achieve shareholders' interests.

The NC should comprise independent Non-Executive Directors (NED) and be chaired by the Chairman or an Independent Non-Executive Director (INED). The Chairman cannot chair the NC when it is dealing with the appointment of a successor to the chairmanship (Financial Reporting Council 2012; 2014).

The directors to the board should be appointed for a specified term and subject to re-election. Any terms beyond six years should be reviewed thoroughly. Some NCs only meet when there is a vacancy to be filled during the year (Callahan et al., 2003). Also, consideration should be taken of gender diversity and the time commitment of their activities (Cadbury Report 1992; Combined Code 2006; Financial Reporting Council 2012; 2014).

Westphal and Milton (2000) state that a board committee member representing a minority on the board is likely to favour new board members who are similar to her or him. Shivdasani and Yermack (1997) show that CEO involvement in board selection is associated with a lower proportion of outside director appointments.

In making the NC more effective, the Combined Code (2006), Walker Review, (2009), and Financial Reporting Council (2012; 2014) advocated a formal, rigorous, and transparent procedure for the appointment of new directors and stated that the committee should lead in the appointment of the board.

In the past, nomination of personnel to the board was carried out through personal connections, making it difficult for the board to acquire people with the relevant skills and experience to help the company to develop (Callahan et al., 2003). Supporting this statement is research by Tarry (2009) saying that NC can be seen as a "rubber-stamp" exercise where they take recommendations both from the CEO and the chairman. Now, the NC has brought a more rigorous and professional approach to the selection of board members. The committee is now engaged in assessment of the company, executing strategy for the company and seeking external advice when the need arises (Callahan et al., 2003; Tarry 2009; Walker Review 2009; Financial Reporting Council 2012; 2014).

According to Conyon & Mallin (1997) firms in the UK have been very slow in adopting the NC; this may be a symptom of the failure of the Corporate Governance system. The research of McKnight and Weir (2009) stated that the existence of an NC could be costly; despite this there have been consistent recommendations for NC adoption into UK Corporate Governance regulations since 1992 (Cadbury report 1992), the reason being that the adoption of the NC will help to create a well-composed succession process and an effective board (Walker Review 2009; Financial Reporting Council 2012; 2014). Despite the importance of the role and responsibility of the NC in the UK, its adoption is on a voluntary basis, where each financial institution can either 'comply' with the adoption of the code or 'explain' to shareholders regarding non-compliance. Any non-compliance should be consistent with actual practice (Financial Reporting Council 2012; 2014).

This research focuses on financial institutions because they are heavily regulated and have unique capital structure, which can impact their financial performance (Yermack 1996; Guest 2009; Lim et al., 2007). A secondary reason for choosing financial firms was because they are very important for industrial expansion and capital allocation (Ross 2003). When financial institutions such as banks mobilise and allocate funds, this helps allocate capital to the firms, create capital to investors and increase productivity growth (Ross 2003; Macey and O'Hara 2003). In contrast, any consequence of financial institutions can affect firms and the growth of a nation (Ross 2003; Macey and O'Hara 2003; Zagorchev and Gao 2015).

According to Levine (2004), poor corporate governance in banks and financial institutions along with the financial crisis had huge negative impacts on firms' economic development and society at large. Governance of banks and financial institutions is important because they mobilise and allocate capital to help other sectors grow and increase productivity. Implementation of good corporate governance by financial institutions will enhance efficient capital allocation and influence governance practices of firms (Levine 2004).

The reasons for the choice of the UK financial industry for this research study are as follows: firstly, because the country is the sixth biggest economy in the world, and the second biggest financial market after America. The country has the fourth largest banking sector in the world, the third largest insurance industry, the second largest fund management market, and deals with 41% of the world's foreign exchange market (HM Treasury, 2015).[430]

Secondly, the UK is the leading European Centre for investment and private banking, hedge funds, private equity, derivatives and sovereign wealth funds. Its mortgage market is one of the most lucrative and fastest growing industries in the world. These services create employment for its people, profit to shareholders and income tax to the government (HM Treasury, 2015).

The third reason is that the UK operates under the Anglo-American business model where companies exist primarily to 'maximise shareholders' value and interest' (Lazonick and O'Sullivan, 1997). This is based on the assumption that ownership is separate from control in an Anglo-American model (Berle and Means, 1932). The Anglo-American business model can work when the NC recruits and hires qualified board members and senior executives who have the interest of the shareholders at heart.

This makes the subject of financial institutions in the UK a very useful study. The study will have the following research questions: first, does the establishment of an NC influence the financial performance of a firm? Secondly, can the NC's presence help the firm to have a positive ROA and MV? Thirdly, what were the effects of the NC on the financial performance of the firm during the pre/post financial crisis periods? By answering these questions, this paper will fill the current gap in corporate governance research and contribute to the literature.

The findings are consistent with agency, resource dependence and group effectiveness theories, which argue that the presence of the NC ensures that appropriate skills, talents and competency are brought into the organisation to help maximise shareholders' returns. The empirical results indicate a positive and statistically significant association between presence of an NC and the firm MV. The relationship between the NC and the firm ROA as a measure of financial performance was positive.

The empirical evidence concerning the last research question above indicates that UK financial firms adopting an NC on corporate boards experience a positive and statistically significant impact on their ROA. There was an inverse relationship in terms of financial performance on the firm MV during the pre/post global financial crisis.

The establishment of the NC, prior empirical studies and a brief background of the 2007/2008 global financial crisis, together with the hypotheses, are presented in the next section.

2 The Empirical Evidence on the Nomination Committee (NC)

Prior empirical evidence on nomination committees is limited. Callahan et al., (2003) used the principal component analysis (PCA) method to ascertain management involvement in directors' nomination during a sample of 106 firms from 1989 to 1992. Their result shows a positive relationship between management participation in the director selection process and corporate performance. Again, another piece of empirical evidence shows that NC meetings are associated with poor performance, and the presence of the CEO and other directors' involvements in the nominating responsibility process are positively related to the performance of a firm, Callahan et al., (2003).

Zajac and Westphal (1996) state that the presence of Non-Executive Directors (NED) independent of the NC and selection process will be positively associated with the performance of a firm. Kaczmarek et al., (2012) used a panel of FTSE 350 companies from 1999 to 2008 to find the increasing presence of female or Non-British nationals on the NC. Their research shows a positive impact on board gender and nationality diversity. Secondly, they reported that the presence of the CEO on the NC leads to a positive impact on the firm.

Vefeas (1999) used a sample of 606 large US listed firms; this research shows a positive relationship between the establishment of a NC and the quality of new director appointment. This means that the NC can improve board

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[430] http://www.thecityuk.com/financial-services-uk/ (accessed on 30/04/2015).

quality, which can improve the effectiveness with which it carries out its monitoring and advisory roles. Vafeas and Theodorous (1998) used 250 UK listed firms in 1994 to investigate the impact of audit, remuneration and nomination committees on the performance of these companies. They found no evidence in favour of the idea that the existence of the three board committees significantly affects financial performance. Vafeas and Theodorou (1998) argue that the NC helps to achieve good governance in firms, since they ultimately determine the quality of appointed directors.

Shivdasani and Yermack (1997) state that CEO membership of an NC is associated with fewer independent directors on the board. This means that CEO involvement in the NC will result in lower stock price reactions at the announcement of non-executive director appointments.

Despite the importance of the NC to the board, there is a paucity of research with reference to their impact on the financial performance of a firm. The research in this study will fill the current gap in the available literature. Prior empirical research in this area has been focused on board diversity, gender diversity, outside directors and board committees, and not specifically on the NC.

2.1 The Financial Crisis- A Brief Introduction

The financial crisis, which started from 2007/2008, had a major impact on all stakeholders in the world. The crisis started when the mortgage market in the United States (US) collapsed (Mizen 2008). The US economy experienced a high housing bubble, which was later turned into a burst. This burst led to the fall of mortgage prices, which eventually led to the collapse of large financial institutions and government bailouts in countries that were affected (Mizen, 2008; Mintah and Schadewitz, 2015). The US and the UK economy were greatly hit during the financial crisis due to the high level of profitability in the mortgage industry (Mizen, 2008). Prior to the crisis, the mortgage industry was seen in most developed economies as one of the 'finest investments' one could ever make due to its traditionally high returns. The value of one's mortgage always appreciates, making it very easy to cash out or sell at any point in time. Diversification in investment and global market trade made the crisis spread to other parts of the world.

The financial crisis in 2007/2008 also arose due to bad regulation, unreliable credit agencies, high securitisation in the mortgage sectors, lack of liquidity and greedy bankers, among others (Mizen, 2008). The 'finest investment' burst, which affected the entire world economy due to the product (mortgage) having been very attractive to international investors. The crisis spread internationally and influenced many other financial markets.

Since financial institutions in the UK were operating before, and continue to operate after the 2007/2008 global financial crisis, my research will give clear empirical evidence of whether the financial performance of a firm prior to the crisis and then after it, has any relationship to the presence of an NC within the firm (see for example; Mintah and Schadewitz, 2015). The responsibility of the NC is to ensure that the right candidate, with appropriate skills, profiles and knowledge, is appointed to the board.

2.2 Theoretical Perspective and Hypotheses

The theoretical argument used to support this empirical research is drawn from studies conducted by Ruigrok et al., (2006) where agency, resource dependence and group effectiveness theories were used in supporting their studies.

Firstly, agency theory primarily focuses on the separation of ownership and control, which exist in organisations (Berle and Means, 1932), and the relationship between the principal and the agent, which is intrinsically open to several problems (Berle and Means, 1932; Jensen and Meckling, 1976; Eisenhardt, 1989). The first is the problem with information asymmetry, where the agent has easier access to information within the firm than the principal, and the second is the possibility of conflicts of interest between the principal and the agent, as a result of divergent interests (Jensen and Meckling, 1976; Hill and Jones, 1992).

The agency problem arises because the principal and the agent may have different attitudes towards risk bearing (Eisenhardt, 1989). Also, the principal and the agent may have different objectives and interests (Eisenhardt, 1989). In aligning the conflict of interest between the agent and the principal, it is advisable that the principal establish incentives for the agent in order to reduce or limit any self-dealing behaviour of the agent (Jensen and Meckling, 1976). The theory recommends agent or manager should act in the best interest of the shareholders instead of engaging in self-dealing projects. The NC, which is part of the board, ensures that the right executives

and board members are appointed to control and reduce agency problems between the principal (owners) and agent (executive management).

Secondly, resource dependence theory suggests that the implementation of internal corporate governance structures, such as a board of directors, is not only necessary for ensuring that managers are effectively monitored, but also serves as an important link between the firm and the critical resources that it needs to maximise financial performance (Pfeffer, 1978). First, the board and non-executive directors can offer essential resources such as expert advice, experience, independent suggestions and knowledge to the principal (Haniffa and Cooke, 2002). Second, they can bring reputation and critical business contacts to the firm (Haniffa and Cooke, 2002). Third, the board can facilitate access to business/political elite information and capital to the company (Nicholson and Kiel, 2003). Finally, the board can provide a critical link to a firm's external environment and stakeholders such as government, suppliers, and competitors. Nicholson and Kiel (2003) argue that boards that provide a greater level of links to the external environment are associated with better access to resources, which can have a positive impact on the financial performance of companies.

The role of the NC will ensure that the firm uses its available resources such as background and skills, experiences and talents for the benefit of shareholders. The NC should be able to appoint board members and executives who will consider the external environment such as competitors and external opportunities for the firm.

Thirdly, group effectiveness and diversity theories suggest that people with common interests interact and work together. The theory implies that people with complementary backgrounds such as education, skills and talent commit themselves to a common goal for the firm (Ruigrok et al., 2006). The group could be made up of different genders, cultures, ethnicity and geographical diversity working together to maximize shareholders' wealth (Ruigrok et al., 2006).

This means that all members of the group are mutually accountable to each other. When the group members are accountable to each other, it brings collaboration and efficiency to the organization.

According to Hambrick and Mason (1984), a diverse group benefits from strategic decision-making and increased creativity due to different cognitive abilities among board members. The role of the NC is to consider appropriate skills, talent, and educational background. Gender diversity should also be taken into consideration when recruiting for the firm. The NC will ensure that any person recruited to the board would both complement and collaborate with other members of the group in order to achieve the long-term objectives of the firm (Ruigrok et al., 2006).

The three theories used in this study complement each other and support the existence of the NC within financial institutions in the UK (See also research by (Ruigrok et al., 2006).

Whereas agency theory focuses on the roles of the agent-principal working together to serve a common interest, resource dependence theory links the board to its resources. Finally, group effectiveness theory applies to the board and how its members work together (Ruigrok et al., 2006). The three theories deliver a comprehensive view of the role and responsibility of the board; in recruiting for it, the NC will have to assess where the attributes of each individual fit into these three theories and thereby improve the financial performance of the firm.

As a result of the above theoretical perspectives on the NC, the following hypotheses are developed:

H1: There is a positive relationship between the presence of a nomination committee and the return on assets of the firm as a measure of its financial performance.

H2: There is a positive and statistically significant relationship between the presence of a nomination committee and the market value of the firm as a measure of its financial performance.

H3: There is a positive and statistically significant relationship between the presence of a nomination committee and the Return on Assets of the firm during the pre/post financial crisis period.

H4: There is either a negative or positive relationship between the presence of a nomination committee and the market value of the firm during the pre/post financial crisis period.

3 Research method

3.1 Data and Sample Section

This research will use secondary data from DataStream (Thomson Reuters) and will cover a consecutive 12-year period of 63 financial firms' annual reports (that is from December, 2000 to December, 2011). A firm was selected using the criteria that they have 12 consecutive years of annual reports, reflecting the fact that its Market Value (MV) and financial accounting that is Return on Asset (ROA) must be available on DataStream. See for example (Cheng et al., 2008; Mintah and Schadewitz, 2015).

According to Bostosan (1997) annual reports are important documents to use in research and their use also correlates with previous empirical studies such as (Cheung et al., 2006; Ho and Williams, 2003; Mangena and Chamisa, 2008; Ntim et al., 2013; Zagorchev and Gao, 2015; Mintah and Schadewitz, 2015). The financial firms include examples from investment banking, insurance, mortgages, investment trust and banking services sectors.

The 63 firms will generate 756 observations over the twelve-year period, a large figure when compared with previous empirical studies conducted by, for example: Zagorchev and Gao (2015) who obtained 41 corporate governance datasets to cover the period 2002-2009; Aanu et al., (2014) obtained 25 firms in Nigeria from 2004 to 2011; Fire and Meth (1986) obtained 36 Annual Reports for studying the information requirements of investment analysis for companies; and April et al., (2003) used only 20 annual reports to examine capital disclosure among mining firms.

Financial firms were primarily chosen as a research subject because they are heavily regulated and have a unique capital structure, which can impact their financial performance (Yermack 1996; Guest 2009; Lim et al., 2007). A secondary reason for choosing financial firms was because they are very important for industrial expansion and capital allocation (Ross 2003).

The breakdown of the firms used and other descriptions can be seen in Table 1:

Table 1. Classification and Representation of Variables

	Variables	Representation	Percentage	Numbers	Ranking
Nomination Committee (NC)	Does exist	100			
	Does not exist	0			
Industry (IND)	**List of Financial Institutions**	**Representation**	**Percentage**	**Numbers**	**Ranking**
	Investment Banking	1	29	18	1
	Insurance	2	21	13	2
	Mortgages	3	19	12	3
	Investment Trust	4	17	11	4
	Banking Services	5	14	9	5
	Total		**100**	**63**	
Big4Auditors (BIG4)		**Representation**			
	Deloitte & Touche	1			
	PriceWaterhouse Coopers	1			
	Ernst & Young	1			
	KPMG	1			
	Grant Thornton	0			
	BDO International	0			
Firms Cross-listed (DUALIST)	Firm's duality	1			
	Non-duality	0			
Pre-financial crisis	2000-2006	0			
Financial crisis period	2007-2008	-			
Post-financial crisis	2009-2011 (3 years)	1			

Source: Mintah and Schadewitz (2015)

3.2 The Regression Design

The data given would be tested using the following regression models as indicated below:

$$ROA_{it} = \alpha_0 + \alpha_1 Nomination\ Committee_{it} + \sum_{i=2}^{n} \alpha_i CONTROLS_{it} + \varepsilon_{it} \quad (1)$$

$$MV_{it} = \beta_0 + \beta_1 Nomination\ Committee_{it} + \sum_{i=2}^{n} \beta_i CONTROLS_{it} + \varepsilon_{it} \quad (2)$$

Where:
ROA refers to Return on Assets; MV refers to Market Value. These two will serve as the dependent variables. The subscript i, represents the cross-sectional dimension and t times-series dimension. Denote: α_0 is constant, β denotes the coefficients, Nomination Committee (NC): represents the independent variable.

To reduce potential omitted variable bias, these control variables have been selected which include Growth (GRW), Capital Structure (LEV), Firm Size (FSIZE), Big Four (BIG4), Foreign/Dual-Listing (DUALIST), Industry (IND) and Year dummies (YED). The denote ε is the error term.

Table 2. Summary of measures and variables

Dependent Variables	
Return on Assets (ROA)	This is the Accounting based measure of performance which captures the wealth of firms from inside the company, (Yermack 1996; Beiner et al., 2006). ROA measures how effectively the firm can use its assets to generate profits (Ross et al., (1998). ROA is measured as the percentage of operating profit to total asset
Market Value (MV)	The Market Valve (MV) represents the financial valuation of corporate governance structures by investors (outsiders), Lindenberg and Rose (1981). It shows how the firm is able to generate value to shareholders (Lewellen and Bradrinat, 1997). The MV is measured as the ratio of total assets minus book value of equity plus market value of equity to total assets.
Independent variable:	
Nomination Committee (NC)	The Nomination Committee forms part of the board and ensures that the appropriate balance of skills, age, gender, educational qualification, experience and knowledge has been selected and appointed into the firm (FRC 2012; 2014). If the firm has a Nomination Committee this is 100; otherwise 0.
Control Variables:	
Growth (GRW)	Firms with higher opportunities end up growing faster. (Durnev and Kim (2005). A faster growing firm may experience better performance in the future (Klapper and Love, 2004). Growth is the percentage of the current year's sales minus previous year's sales scaled by the previous year's sales (Beiner et al., 2006).
Leverage (LEV)	Agrawal and Knoeber (1996) suggest that the use of debt financing can improve performance by inducing extra monitoring by lenders. Leverage is the percentage of total debt to total assets.
Firm Size (FSIZE)	Higher firm size receives higher market value and enjoys lower external capital cost (Botosan, 1997). Firm Size is the natural Log of total assets.
Big four (BIG4)	1 if the firm is audited by a big four firm (PricewaterhouseCoopers, Deloitte & Touche, Ernst& Young and KPMG), otherwise 0.
Foreign/Dual-Listing (DUALIST)	Firms with Dual-listing are likely to have better corporate governance structures as they will be subject to additional scrutiny and disclosure from foreign countries (Haniffa and Cooke, 2002; Black et al., 2006). A dummy variable is used, if the firm is dual-listed 1 otherwise 0.
Industry (IND)	This is the sector in which the firm operates. Dummies for each of the five main industries, namely: 1. Investment services 2. Insurance 3.Mortgages 4.Investment Trust 5. Banking Services.
Year Dummies (YED)	The year dummies determine how long the firm has stayed in business. Dummies for each of the twelve-year period. Represented as follows: 2000 (1); 2001 (2); 2002 (3); 2003 (4); 2004 (5); 2005 (6); 2006 (7); 2007 (8); 2008 (9); 2009 (10); 2010(11); 2011 (12).

Table 3. Descriptive Statistics for all the variables

The table represents the descriptive statistics for all the variables under this research.

	Count	Mean	Median	Std.Dev.	Min	Max
MV	756	10.461	5.881	13.066	0.000	72.712
ROA	756	5.584	2.400	9.005	0.000	70.080
NC	756	54.630	100.000	49.818	0.000	100.000
GRW	756	0.239	0.116	0.457	0.000	6.190
LEV	756	2.027	1.231	2.572	0.000	17.617
FSIZE	756	9.911	13.143	6.214	0.073	19.709
BIG4	756	0.968	1.000	0.175	0.000	1.000
DUALIST	756	0.968	1.000	0.175	0.000	1.000
IND	756	3.333	3.000	1.334	1.000	5.000

Notes: The above table shows 756 observations of all their variables with their Mean, Median, Standard Deviations, Minimum and Maximum values of each variable. The rest of the variables are defined as follows: Market value (MV) is defined as is defined as the market value of equity plus the book value of total assets minus the book value of equity divided by the book value of total assets (Chung and Pruitt, 1994). Return on Assets (ROA) is defined as the book value of operating profit at the end of a financial year, divided by the book value of total assets at the end of a financial year (Yermack, 1996). Nomination Committee (NC) has the responsibility to ensure that the right personnel, skills, talent and experience have been selected and appointed into the firm to help take the right strategic decisions (FRC 2012; 2014). Growth (GRW) is defined as the ratio of sales growth to total assets growth (Beiner et al., 2006). Capital Structure (LEV) is defined as the Percentage of total debt to total assets, (Modigliani and Miller 1958). Firm Size (FSIZE) is defined as the natural log of total assets (Botosan 1997). BIG4- are (PricewaterhouseCoopers, Deloitte & Touche, Ernst& Young and KPMG); Dual-Listing (DUALIST) is defined as a situation where the firm is cross-listed in other countries (Haniffa and Cooke 2002; Black et al., 2006). Industry (IND) classifies into 1. Investment services 2. Insurance 3.Mortgages 4.Investment Trust 5. Banking Services.

4 Analysis and Discussions

The analysis of this research will seek to answer the following:
(1) The impact of the Nomination Committee (NC) on the financial performance of a firm among UK financial institutions.
(2) Through empirical evidence, the effects of the Nomination Committee during the global financial crisis in 2007/2008 and afterwards on UK financial institutions would be ascertained. See, for example Mintah and Schadewitz (2015).

To answer the above motivation, the analysis is divided into two parts. The first part will use the whole sample period (2000 to 2011). The second part of the analysis will split the data into two sub-groups: the first will cover from 2004 to 2006 (3 years, the "pre-crisis" period) and the second will cover from 2009 to 2011 (3 years, the "post-crisis" period). This means that data for 2007 and 2008 is excluded from the analysis since the crisis occurred at that time (see, for example, Danso and Adomako, 2014; Mintah and Schadewitz, 2015).

4.1 Testing for Multicollinearity

According to Hair et al., (2006), multivariate statistical analysis has issues with multicollinearity. Klein (1998) argues that multicollinearity relates to a case where there is a high correlation between control variables in a regression model. When control variables are highly correlated, this can create instability in the regression outcome. This needs to be controlled in the regression model. The correlation matrixes below indicate that none of the variables is highly correlated. This gives no cause for concern as far as this research is concerned. See similar research by Mintah and Schadewitz (2015).

Table 4. Multicollinearity for ROA and MV

	ROA	NC	GRW	LEV	FSIZE	BIG4	DUALIST	IND
ROA	1.000							
NC	0.254[***]	1.000						
GRW	0.118[***]	0.027	1.000					
LEV	-0.034	0.191[***]	-0.057	1.000				
FSIZE	0.180[***]	0.121[***]	-0.017	-0.148[***]	1.000			
BIG4	-0.019	-0.013	-0.029	0.017	-0.092[**]	1.000		
DUALIST	-0.130[***]	0.062[*]	-0.031	0.040	0.137[***]	-0.033	1.000	
IND	0.248[***]	-0.031	-0.047	-0.222[***]	0.193[***]	-0.226[***]	-0.091[**]	1.000

Table 5. Multicollinearity for ROA and MV

	MV	NC	GRW	LEV	FSIZE	BIG4	DUALIST	IND
MV	1.000							
NC	0.277***	1.000						
GRW	0.019	0.027	1.000					
LEV	-0.044	0.191***	-0.057	1.000				
FSIZE	-0.012	0.121***	-0.017	-0.148***	1.000			
BIG4	-0.013	-0.013	-0.029	0.017	-0.092**	1.000		
DUALIST	0.065*	0.062*	-0.031	0.040	0.137***	-0.033	1.000	
IND	-0.026	-0.031	-0.047	-0.222***	0.193***	-0.226***	-0.091**	1.000

Note: Table 4 & 5 represent the Pearson's correlation coefficients. Variables are defined as follows: Return on Asset (ROA); Market Value (MV). These represent firm financial performance. Nomination Committee (NC) represents the independent variable. The control variables are: Growth (GRW); Capital Structure (LEV); Firm Size (FSIZE); BIG4- are (PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG); Dual-Listing (DUALIST); Industry (IND) classifies into 1. Investment services 2. Insurance 3. Mortgages 4 .Investment Trust 5. Banking Services. *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level.

4.2 Controlling for Endogeneity

In controlling for endogeneity in this research, all the given variables were lagged, and they were significant. This follows similar research done by Fich and Shivdasani, (2006); Krishnan et al., (2011); Danso and Adomako, (2014); and Mintah and Schadewitz, (2015).

4.3 Robustness/Sensitivity Test

The following tests were conducted to check the robustness or sensitivity of the regression results. A Random Effects (RE) check was conducted, along with Ordinary Least Square (OLS) to help check the robustness and consistency of each of the results. The result shows that each variable, their coefficient and significance level did not change much either using OLS or RE. This suggests that the results shown were stable and consistent across a number of proxies. This also implies that the Random Effects (RE) results were not very much different from what had already been reported in OLS.

The results of the impact of a NC on the financial performance of a firm among UK financial institutions are robust using different research models; see similar research by Mintah and Schadewitz (2015).

4.4 Empirical Discussion 1

Table 6 below represents the OLS and Random Effects (RE) results on how the establishment of a NC can impact or influence the Return on Asset (ROA) and Market Value (MV) of a firm. As indicated during the robustness test, the essence of these two models is to show consistency in the statistical outcome.
The regression shows 756 numbers of observations. The R^2 is 0.229 for ROA and 0.266 for MV. The p-values for both ROA and MV are all statistically significant in the regression model. The years in the regression model (2001 to 2011) are all statistically significant compared to the year 2000. This implies that each year is relevant in ascertaining the impact of the NC on the financial performance of the firm. In the regression, Insurance (2) is positive using the OLS and RE models when ascertaining the ROA of a firm. However, when it comes to the MV of the firm as a measure of financial performance, Insurance is positive and significant during the OLS model but only positive using the RE estimate for the MV of the firm. This implies that Insurance is either positive or statistically significant from Investment Services (1) in terms of the ROA or MV of the firm.

4.4.1. Nomination Committee (NC) impact on the Firm's ROA

The empirical result shows that the presence of a Nomination Committee (NC) has a positive impact on the firm's performance as measured by its ROA when using OLS regression. The RE regression estimation also shows positive and statistically significant. This result means that the establishment of an NC by the board improves the financial performance of the firm. The result implies that the NC was able to bring in the right personnel to steer the affairs of the firm, which resulted in a positive ROA.
This empirical result is consistent with earlier research such as Callahan et al., 2003; Zajac and Westphal, 1996; and Kaczmarek et al., 2012, which observes that the presence of an NC has a positive relationship to the performance of the firm. The empirical result also supports the given hypothesis that there is a positive relationship between the presence of an NC and the Return on Assets (ROA) of the firm as a measure of its financial performance.

4.4.2. Nomination Committee (NC) impact on the Firm's MV

The two estimation results (OLS and RE) indicate that the presence of the NC in a firm has a positive and statistically significant relationship to the MV of the firm. Since MV indicates the measure of performance for investors outside the firm, a positive and statistically significant MV implies that investors and shareholders are confident that the firm is profitable to invest in. The result also means that shareholders have accepted the corporate governance policy of the firm, such as the establishment of the NC. When financial firms such as banks, investment trusts and insurance companies have a positive MV it can help them to get good credit references from credit agencies, which will eventually help generate liquidity in the opening market when the need arises.

Consistent with this empirical research are earlier studies by Chan and Li (2008), which found a positive and significant relationship between the MV of the firm and their independent variables. The empirical result supports our hypothesis that there is a positive and statistically significant relationship between the presences of an NC on the MV of firms and their financial performance.

Table 6. ROA and Market Value (MV) Regression Results

	(OLS)	(Random Effects)	(OLS)	(Random Effects)
	ROA	ROA	MV	MV
NC	0.009	0.015[*]	0.071[***]	0.041[**]
	(0.34)	(0.10)	(0.00)	(0.01)
GRW	2.067[**]	2.204[*]	-1.976[***]	-0.486
	(0.04)	(0.05)	(0.00)	(0.34)
LEV	-0.019	0.355	0.013	0.110
	(0.95)	(0.41)	(0.94)	(0.64)
FSIZE	0.177[***]	0.374[***]	-0.229[**]	0.135
	(0.00)	(0.00)	(0.01)	(0.36)
BIG4	2.092[*]	2.538	-4.483[***]	-3.471
	(0.09)	(0.11)	(0.01)	(0.45)
DUALIST	-6.001[**]	-7.242	4.874[***]	3.604
	(0.04)	(0.10)	(0.00)	(0.23)
Insurance-2	0.104	0.771	3.455[*]	0.048
	(0.96)	(0.79)	(0.07)	(0.99)
Mortgages-3	3.692[*]	4.301[*]	9.493[***]	6.382
	(0.06)	(0.09)	(0.00)	(0.11)
Invest.Trust4	1.997	2.395	21.568[***]	16.834[**]
	(0.48)	(0.55)	(0.00)	(0.01)
Banking-5	5.677[***]	6.086[*]	2.677	-0.383
	(0.01)	(0.06)	(0.16)	(0.92)
2001	2.455[***]	2.189[***]	6.987[***]	6.457[***]
	(0.00)	(0.00)	(0.00)	(0.00)
2002	2.305[***]	1.807[***]	4.741[***]	4.963[***]
	(0.00)	(0.00)	(0.00)	(0.00)
2003	2.456[***]	1.836[***]	6.399[***]	6.321[***]
	(0.00)	(0.01)	(0.00)	(0.00)
2004	2.602[***]	1.629[*]	3.871[***]	4.851[**]
	(0.00)	(0.07)	(0.00)	(0.01)
2005	3.958[***]	2.831[***]	6.079[***]	7.303[***]
	(0.00)	(0.01)	(0.00)	(0.00)
2006	7.480[***]	6.208[***]	8.403[***]	9.414[***]
	(0.00)	(0.00)	(0.00)	(0.00)
2007	8.028[***]	6.817[***]	10.307[***]	11.898[***]
	(0.00)	(0.00)	(0.00)	(0.00)
2008	6.758[***]	5.433[***]	7.249[***]	8.830[***]
	(0.00)	(0.00)	(0.00)	(0.00)
2009	8.016[***]	6.698[***]	8.179[***]	9.831[***]
	(0.00)	(0.00)	(0.00)	(0.00)
2010	5.503[***]	4.542[***]	9.798[***]	11.392[***]
	(0.00)	(0.00)	(0.00)	(0.00)
2011	2.006[*]	2.508[**]	15.790[***]	15.867[***]
	(0.08)	(0.01)	(0.00)	(0.00)
_cons	-0.893	-2.917	-4.024	-4.116
	(0.83)	(0.65)	(0.17)	(0.56)
N	756	756	756	756
R^2	0.229		0.266	
P	0.000	0.000	0.000	0.000

Note: The result shows 756 observations of the various variables; the R^2 and the p-value are significant; Nomination Committee (NC) has the responsibility to ensure that the right personnel, skills, talent and experience are selected and appointed into the firm to help take the right strategic decisions for the firm (FRC 2012; 2014). Examining the impact of nomination committee on firm performance, this is measured using Return on Assets (ROA) and Market Value (MV). The ROA is defined as the book value of operating profit at the end of a financial year, divided by the book value of total assets at the end of a financial year (Yermack, 1996). The Market value (MV) is defined as the market value of equity plus the book value of total assets minus the book value of equity divided by the book value of total assets, (Chung and Pruitt, 1994).
Growth (GRW) is defined as the ratio of sales growth to total assets growth (Beiner et al., 2006). Capital Structure
(LEV) is defined as the percentage of total debt to total assets, (Modigliani and Miller 1958). Firm Size (FSIZE) is defined as the natural log of total assets (Botosan 1997). BIG4- are (PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG); Dual-Listing (DUALIST) is defined as a situation where the firm is cross-listed in other countries (Haniffa and Cooke 2002; Black et al., 2006). Industry (IND) classifies into 1. Investment services 2. Insurance 3. Mortgages 4. Investment Trust 5. Banking Services.
The years chosen for the research are from 2000 to 2011. *** significant at 1% level, ** significant at 5% level, * significant at 10% level.

4.5 Empirical Discussion 2: Pre/Post Financial Crisis Analysis

The second part of the analysis will focus on the impact of the NC on UK financial institutions during the 2007/2008 global financial crisis.

Table 7 represents the results for the pre/post financial crisis where ROA and MV were used as a measure of financial performance. The result shows 441 and 189 numbers of observations for the pre/post global financial crisis respectively, where ROA and MV were used as a financial measure for the firms. The analysis excludes data from 2007 and 2008 as the global financial crisis happened in these two periods. This means that a total of 126 observations covering two years have been excluded in the second analysis as indicated in the introductory part of the analysis.

The R^2 and the p-value for both the pre/post financial crisis periods on ROA and MV are all significant in the regression model. The impact of the presence of a nomination committee during the pre-crisis (2004-2006) period shows a positive and statistically significant effect on the ROA and MV of the firms. This implies that the presence of the NC during the pre-crisis period helped in generating a positive return on both the ROA and MV of the firms. The presence of the NC meant that firms were able to recruit the right personnel to the board to help make the right strategic decisions.

A positive ROA and MV for the firms during the pre-financial crisis period imply that investors and shareholders have accepted the corporate governance policies, such as the establishment of the NC. The empirical result can support the view that financial institutions in the UK employed competent staff to manage any risk in the market, and were able to take the right decisions that helped to increase the returns of the firm despite the global financial crisis. This empirical result is consistent with research conducted by Choi et al., (2004), which reported the positive performances of Korean firms during the Asian financial crisis in 1997.

The result for the post-crisis period (2009-20011) shows that the presence of the NC on the board of the firms resulted in a positive and statistically significant relationship with their ROA. This implies that despite the global financial crisis, their ROA was positive. The NC, by overseeing the presence of the right personnel, helped the firms to succeed despite the external factors.

However, the MV of firms during the post-crisis period shows a negative and insignificant relationship to the presence of an NC in the firms. This means that the impact of the 2007/2008 global financial crisis still has a negative impact on the MV of the firms during their financial year (2009-2011). The result could also imply that the negative perception created during the 2007/2008 global financial crisis is still affecting the judgment of investors in financial institutions in the UK.

Table 7. Pre/Post Financial Crisis

	Pre-Crisis	Post-Crisis	Pre-Crisis	Post-Crisis
	ROA	ROA	MV	MV
NC	0.025***	0.044***	0.090***	-0.004
	(0.00)	(0.00)	(0.00)	(0.86)
GROWTH	4.778***	-0.316	-0.599	-2.283
	(0.00)	(0.75)	(0.31)	(0.12)
LEV	-0.270**	0.825	0.138	-0.218
	(0.01)	(0.30)	(0.50)	(0.57)
FSIZE	0.117***	0.213*	-0.078	-0.396*
	(0.00)	(0.07)	(0.37)	(0.09)
BIG4	0.072	5.917**	-1.181	-8.861*
	(0.95)	(0.03)	(0.36)	(0.06)
DUALIST	-3.532	-6.497	1.272	8.695***
	(0.33)	(0.17)	(0.41)	(0.00)
Insurance-2	-0.902	4.197	2.611	4.227
	(0.39)	(0.25)	(0.21)	(0.26)
Mortgages-3	1.590*	6.839**	5.853***	15.413***
	(0.07)	(0.03)	(0.00)	(0.00)
Invest. Trust4	-1.749	10.586*	18.242***	24.376***
	(0.27)	(0.08)	(0.00)	(0.00)
Banking-5	2.402**	10.534***	2.205	3.087
	(0.02)	(0.00)	(0.28)	(0.43)
cons	3.746	-6.012	0.397	11.972*
	(0.36)	(0.42)	(0.89)	(0.07)
N	441	189	441	189
p^2	0.267	0.228	0.256	0.193
p	0.000	0.000	0.000	0.000

Note: The result shows 756 observations of the various variables; the R^2 and the p-value are significant; Nomination Committee (NC) has the responsibility to ensure that the right personnel, skills, talent and experience are selected and appointed into the firm to help take the right strategic decisions for the firm (FRC 2012; 2014). Examining the impact of
nomination committee on firm performance, this is measured using Return on Assets (ROA) and Market Value (MV). The ROA is defined as the book value of operating profit at the end of a financial year, divided by the book value of total assets at the end of a financial year (Yermack, 1996). The Market value (MV) is defined as the market value of equity plus the book value of total assets minus the book value of equity, divided by the book value of total assets, (Chung and Pruitt, 1994).
Growth (GRW) is defined as the ratio of sales growth to total assets growth (Beiner et al., 2006). Capital Structure
(LEV) is defined as the percentage of total debt to total assets, (Modigliani and Miller 1958). Firm Size (FSIZE) is defined as the natural log of total assets (Botosan, 1997). BIG4- are (PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG); Dual-Listing (DUALIST) is defined as a situation where the firm is cross-listed in other countries (Haniffa and Cooke, 2002; Black et al., 2006). Industry (IND) classifies into 1. Investment services 2. Insurance 3. Mortgages 4. Investment Trust 5. Banking Services.
The years chosen for the research are from 2000 to 2011. *** significant at 1% level, ** significant at 5% level, * significant at 10% level.

Table 8. Summary of all the regression results

Dependent variable	ROA	Market Value (MV)	ROA during pre/post crisis	Market Value (MV) during pre/post-crisis
Hypothesis:	Sign obtained	Sign obtained	Sign obtained	Sign obtained
Nomination committee (NC)	+	+	+/+	+/-

5 Conclusion and Direction for Future Research

The establishment of nomination committees (NC) helps to critically evaluate a person's competency in solving organisational problems. This is carried out by assessing the candidates' abilities, qualifications and experience before they are asked to serve on the board or are employed as executives in the firm.

Empirical research on the NC is very limited in the Corporate Governance literature. This study will help strengthen the debate on the association between the NC and the financial performance of firms, which are UK financial institutions. Also in this study, empirical evidence is provided which highlights the impact of having an NC in these financial institutions during the 2007/2008 global financial crisis.

The Table 6 result shows that there is a positive and statistically significant association between the NC of corporate boards and their MV as a measure of their financial performance where OLS and RE serve as regression estimations. A further study also shows a positive association between the presence of an NC and the

ROA of a firm where OLS estimation is used. The Random Effects (RE) estimation on the ROA of firms as a measure of performance shows a positive and statistically significant association of the NC of firms with their corporate boards.

However, the Table 7 results show that the establishment of an NC has a positive and statistically significant effect on the ROA of a firm as a measure of performance. Finally, the MV of the firm as a measure of financial performance result was different during the pre/post global financial crisis. The pre-crisis period indicates a positive and statistically significant association between the NC of the firms and their MV, whilst the post-global financial crisis shows a negative and insignificant relationship between the NC of the firms and their MV. This could mean that investors and other stakeholders had not fully accepted the corporate governance policies of financial institutions after the global financial crisis.

Overall, this paper supports the three theoretical perspectives, which underpin this research. Agency, resource dependence and group effectiveness theories suggest that the establishment of a nomination committee can successfully enable members of the board to work more effectively together to achieve the common goal of the maximisation of shareholders' wealth.

This research has contributed to the corporate governance literature by empirically ascertaining the importance of firms adopting an NC, especially financial institutions. This research will become the pivot upon which regulators and other policy makers can encourage other sectors to adopt the establishment of an NC by their boards.

Despite the numerous benefits of this paper, this research still has some limitations. Firstly, although Ordinary Least Square (OLS) and Random Effects were used in capturing the financial performance of a firm, it is possible that if a different estimation was used, the results could be different. Secondly, the paper only focuses on the impact of the NC of a firm on its financial performance in the UK. The NC is only one aspect of the board committee. In future studies, a new insight could be gained into other board committees by examining issues such as the impact of the compensation committee on the financial performance of a firm. Another future study could also analyse the impact of board diversity on UK financial institutions.

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