BOARD DYNAMICS AND FIRM PERFORMANCE: THE CASE OF NIGERIA

AKPAN EDEM OKON

MASTER OF SCIENCE INTERNATIONAL ACCOUNTING

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BOARD DYNAMICS AND FIRM PERFORMANCE: THE CASE OF NIGERIA

AKPAN EDEM OKON (811010)

Project paper submitted to Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia, in Fulfillment of the Requirement for the Degree of Master of Science (International Accounting) 2013

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Othman Yeop Abdullah
Graduate School of Business

Universiti Utara Malaysia

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ABSTRACT

This study examines the relationship between board characteristics and company performance in Nigeria. The paper uses secondary data from 90 companies listed on the Nigerian Stock Exchange over a period of three years from 2010 – 2012. Conceptual framework was developed based on extensive review of literature and hypotheses postulated to examine the relationship between board size, board composition, board equity, women on board, board age and board higher educational qualification. Firm performance is measured by Turnover and Return on equity. Empirical analysis was undertaken using multiple regressions. The findings of the study show that board size, board age and board equity were negatively significant measured by ROE. However, when measured by Turnover board education and board size were significant and positively correlated with firm performance, while board women are negatively significant. On the other hand, board composition was found to be insignificant. The study recommends legislation mandating companies to appoint at least 30 – 35% of women on board of directors.

Keywords: board characteristics, board size, board composition, board higher educational qualification, firm performance.

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INTRODUCTION

1.1 Background of the Study

Nigeria is one of the African Countries that is endowed with so many natural resources as well as human resources yet the country is often counted among the poor developing countries in the world today, characterized by lack of infrastructures and high rate of business failures. Besides this, is the recent crisis in the Nigerian banking sector which has exposed the inadequate and poor practice of corporate governance (Ademakun, 2010).According to Laioso and Semiu (2002), corporate governance failure create problems that could negatively influence investor`s funds and consequently deteriorate the stability of the companies. Failures and scandals in the corporate organizations in today's world have created attention within the academic literature and research in the corporate governance domain with particular attention on the principles and codes that emphasizes on the practices that would enhance and improve the performance including the survival of the corporate organizations (Akhalumeh & Ohiokha, 2011).

Several steps, frameworks including concepts have been advanced at both international and national levels with a view to ensure corporate organization survival as well as guarantee the interest of the shareholders (Sanusi, 2002). In Nigeria for example, the issue of corporate governance and its best practices is still generating heat among the practitioners particularly since the financial crisis and public corporation collapse. Even though, the Structural Adjustment Programme (SAP) which advocates private business ownership and financial institutions was brought to remedy the situation. However, this arrangement did not work due to the problem of corruption and lack of good corporate governance culture. This therefore led to the high failure rate of banks in the country. The Securities and Exchange Commission which regulates the corporate organizations wanted to re-assure the public by helping the companies to regain the public confidence decided in 2003 to set up a committee, and the major work of the committee is to come up with the best code of practice for the corporate organizations in Nigeria (Okpara, 2011). Similarly, due to the lack of corporate governance and unethical practices which are deemed to be the key problem affecting the Nigerian baking industry, the CBN in 2006 came up with certain code of practices for the corporate organizations in Nigeria. Other sectors such as Nigerian Pension Commission and National Insurance Commission have done similar thing in 2008 and 2009 respectively.

Other authorities have also introduced certain measures or requirements in promoting corporate governance in Nigeria. For instance, the Companies and Allied Matter Act (CAMA) conferred power on the Shareholders which makes them strong and effective force in corporate governance in Nigeria (Mohammed, 2011). This led to the establishment of shareholders association in the country. There are about six fully registered shareholders association presently which include; Progressive Shareholders Association of Nigeria, Proactive Shareholders Association of Nigeria, Independent Shareholders Association in Nigeria, Nigeria Shareholders Solidarity Association (Mohammed, 2011) . There should be a proper structure that guarantees accountability and transparency of the investors and the shareholders' funds if not they may not invest their fund due to fear that their funds are not adequately protected (Okeghenum, 2012). It is only corporate governance that ensures accountability and transparency of the shareholder funds. In that, it is an instrument or apparatus used by the corporate organizations to ensure that directors and managers of corporate organizations make decisions and act in the best interest of all stakeholders.

According to Adewakun (2010), the resolution of the Apex bank to formulate and issue code of corporate governance was aimed at monitoring abuses and professional misconduct of the board of director as well as that of the management of the financial institutions in the country. The interventions of the CBN, National Insurance Commission and the Corporate Affairs Commission (CAC) have started yield results. The apex bank (central bank) relieved some banks chief executive officers and their directors of their posts for reason of poor corporate governance, reckless use of depositors` fund, share price manipulation, and non-refundable insider loans. Also, the Ikeja High court in Lagos convicted former chairman of the Nigerian Port Authority and others for abuse of office (Uba, 2009; Yusuf, 2010).

Problems of corporate governance in Nigeria are many. One of such problem is that corporate governance in the country suffered from multiplicity of codes (Okogghenum, 2012). However, the Federal Government of Nigeria on 18th January 2013 constituted a committee charged with the responsibility of developing a single national code of corporate governance for the nation. Apart from the problem of multiplicity, shareholders` powers and rights are restricted. Shareholders powers and rights are exercised in the Annual General Meetings (AGM). In Nigeria, the shareholders cannot exercise their statutory rights and powers unless they hold dominant and sufficient shareholdings. It appears that only institutional and block- holding investors that have an influence on boards which enable them to question the directors and give support where necessary. Audit committee is a vital board as far as corporate governance is concerned. It must be constituted in a manner that enable it discharge its statutory duties and responsibilities effectively. According to CAMA 90, one of the committee members of the board should be financially educated, but today the committee has become ineffective and lack of professional expertise.

Other problems facing corporate corporations in Nigeria are board`s composition, CEO and tenure ship. The board is the ultimate governing body responsible for the growth of the organization. It is expected that it consists of people with the required pre-requisites to enable them to perform effectively. It is observed that some members of the board do not possess the required skill and competencies that could assist them to actively provide better leadership and growth to the organization.

1.2 Problem Statement

Since the world financial scandals of 2000 in United State and other nations, there have been moves around the globe to improve corporate governance. This led to the Sarbanes Oxley Act of 2002. This wide spread scandals and business failures were rooted in dishonest management decisions. Corporate governance is all about controlling and directing the affairs of the companies based on the principles of integrity, honesty, transparency and accountability to ensure all stakeholders are satisfied.

In Nigeria, Wilson (2006) notes that corporate governance is still at its early or elementary stage. He further states that not less than 40% of the companies listed in the Nigerian Stock Exchange properly demonstrate the best practice of corporate governance codes. Poor corporate governance has been identified as a key factor responsible for business crisis within the financial institutions in the country. Investigation on corporate governance mechanisms has been used in the past decade as indicator for firm successes or failure. Previous research found that effective corporate governance tools are deemed very effective when compare with organizations with low corporate governance tools (Aljifri & Moustafa, 2007).

Many studies such as Kajola (2008); Babatunde and Olaniran(2009); Enikioye (2009); Semi (2010); Sanda,Mikailu and Garba (2005); Tanko and Kolawale (2007); Akhalumeh, Godwin and Friday (2011); Ehikioya (2007); Okpara (2011);Uwuigbe and Fakile (2012) have attempted to approach the problem of corporate governance and firm performance in Nigeria. Their attempts have been in the right direction, but there is need for a comprehensive approach to the corporate governance issue (e.g practices) and it affects the performance of the companies in Nigeria. In Nigeria for example, majority of the researches on corporate governance seemed to use explanatory method such as Uwuighe and Fakile (2012), Semiu and Temitope (2010). Thus their findings cannot be generalized. For example, the study of Uwuighe and Fakile focus on listed banks and the sample size was 21 which are too small.

Moreover, some of the previous studies used data from 1998 to 2006 which is before the issuance of the current code of corporate governance of 2011. But this study used data from the recent period; this allowed for effective inspection of the influence of the corporate governance tools on corporate performance after the codes have been promulgated. Despite the numerous studies conducted on corporate governance in Nigeria, these studies were inadequate and with various limitations. For instance, some sample size was too small while some were restricted to certain sector of the economy like Uwuigbe and Fakile (2012). Babatunde and Olaniran (2009) used sample size of sixty-two firms, Semiu (2010) fifty-eight, Kajola (2008) twenty and Uwuigbe and Fakile (2012) twenty-one companies. In other part of the globe, corporate governance research has been extensive while in Nigeria, there are limited studies on corporate governance.

Beside, dissatisfaction of corporate governance practice in Nigeria appeared almost daily in newspapers. CBN sacked five bank executive officers and their directors for poor corporate governance (Uba, 2009), more than forty financial institutions have gone into liquidation owing to poor corporate governance practices among other vital business practice principles (Yusuf, 2010).

In Nigeria for example, majority of the studies on corporate governance focus more on the performance of the companies using Return on Equity (ROE), Return on Capital Employed (ROCE), Return on Asset Managed (ROAM), Earning Per Share (EPS), Dividend Per Share (DPS), and Net Profit Margin (NPM) to measure firm performance. The results of these studies were mixed, and at the same time varied weak due to limitations. For instance, Kajola (2008) found a positive significant relationship between Return on equity and board size, while Uwuigbe and Fakile (2012) found that board's size was negatively related to Return on equity.

Based on gaps identified in previous studies; board size, independent directors, education, age, director equity ownership, women on board deserved to be examined as independent variables to determine their influence on performance of the companies using Return on Equity (ROE) and Turnover. Therefore it is now clear that there are gaps concerning the issue of corporate governance mechanisms in Nigeria.

1.3 Research Questions

The study is aimed at solving the following questions

1. Does board size affect company performance?

2. Is there any relationship between board composition and company performance?

3. Is there any relationship between age of directors and company performance?

4. Is there any relationship between qualification of directors and company performance?

5. Does director's equity ownership affect company performance?

6. Is there any relationship between gender diversity and company performance?

1.4 Research Objectives

Considering the topic corporate governance mechanisms and company performance in Nigeria, the study seeks to achieve the following objectives:

1. To determine the influence of board size and company performance;

2. To determine the relationship between board composition and company performance;

3. To determine whether the age of the directors related to company performance;

4. To determine whether directors with qualification affect company performance;

5. To determine the extent to which director equity ownership relate to firms` performance;

6. To determine the influence of gender diversity on company performance.

1.5 Significance of the Study

In an attempt to determine the influence of board dynamics on the companys` performance in Nigeria with emphasis on companies listed in the Nigeria Stock Exchange, this study contributes to corporate governance knowledge and also bridging the gap that exist in the literature. The study also contributes to the theoretical model. The model is comprehensive and captures more board characteristics than some previous studies in Nigeria. For instance, the study of Kajola (2008) captured three board characteristics board size, board composition and CEO, Ehikioya (2009) three characteristics – board size, composition and board skills and Uwuigbe & Fakile (2012) only one – board size. Accordingly, the study equally offers further empirical insight on the corporate governance not only in Nigeria but also across the globe. The study would further be of benefit to Nigerian Stock Exchange and other stakeholders as it provides support on the influence of corporate governance mechanism on the companys' performance. Besides, it would also be of benefit to the Federal Government of Nigeria as it would provide some useful information that would aid the ongoing reform in the corporate governance code and practices.

1.6 Scope of the Study

This study is aimed towards providing the answers to corporate governance mechanism problems in Nigeria. Therefore, the study focuses on companies quoted on the Nigeria Stock Exchange from 2010 to 2012.

1.7 Organization of the Study

This project consists of five chapters. The structure and contents of these chapters are outlined as follows; Chapter one covers the introduction, problem statement, research questions, objective of the study, significance and scope of the study. Chapter two reviews current literatures that guides and informs the research work. The review is broken down into sub topics such as board size and composition, director equity ownership, director`s age, director`s education and board diversity. Methodology is discussed in chapter three. It provides detailed explanation of the population and sample of the study. It contains the research framework, hypotheses, research design, measurement of variables, data collection procedure, and tools used to analyze the data collected. Chapter four presents data and discusses the findings of the study. It outlines details of data presentation, data analysis and interpretation of findings. Chapter five is the concluding chapter where the research findings are summarized and recommendations made for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Corporate Governance in Nigeria

The Nigerian banking failures and crises has shown the inadequate and poor practice of corporate governance in Nigeria (Ademakun, 2010). Laioso and Semiu (2002), corporate governance failure create problems that could negatively influence investor`s funds and consequently deteriorate the stability of the companies.

Corporate failures, scandals and high profile collapses of large companies in the world have drawn attention and interest in research into governance domain with particular attention on the principles and codes that emphasizes on the practices that would enhance and improve the performance including the survival of the corporate organizations (Akhalumeh & Ohiokha, 2011). Various measures, approaches, models and concepts have been developed globally and nationally to ensure that business corporations not only survive but operate in the best interest of all stakeholders (Sanusi, 2002). Corporate governance is the principles that guide companies in the day-to-day running of the organizations for the best interest of all stakeholders. The recent debate on the need for better corporate governance in Nigeria began following distress of financial institutions and the collapse of public corporations. Even though, the Structural Adjustment Programme (SAP) which advocates for private business ownership and financial institutions was brought to remedy the situation, still, the programme did not succeed due to the problem of bad corporate governance culture. The absent of effective corporate governance framework as at that time was exploited by management of companies. This therefore led to the high failure rate of banks in the country. Because of this particular problem, the Securities and Exchange Commission in 2003 inaugurated a committee to draw up codes of best practice for public companies in Nigeria in order to regain public confidence (Okpara, 2011). In a related development, the CBN in 2006 came up with certain code of practices for the corporate organization in Nigeria due to the lack of corporate governance and unethical practices which are deemed to be the key problem affecting the Nigerian baking industry.

Other authorities have also introduced certain measures or requirements in promoting corporate governance in Nigeria. For instance, the Companies and Allied Matter Act (CAMA) granted the shareholders the power which makes them powerful force to reckon with the issues relating the corporate governance in Nigeria (Mohammed, 2011). This particular event gave birth to an establishment which is known today as shareholders association of Nigeria. There are about six fully registered shareholders association presently which include; Progressive Shareholders Association of Nigeria, Proactive Shareholders Association of Nigeria, Independent Shareholders Association in Nigeria, Nigeria Shareholders Solidarity Association.

An effective system for corporate governance is that which guarantees that directors and managers in the organization perform their functions in line the principles of accountability and transparency. Without proper structure in place to ensure accountability and transparency, prospective shareholders or investors would be reluctant or fear that their investment could not be sufficiently protected (Okeghenum, 2012). The intervention of the apex bank to issue code of corporate governance was timely to regulate the management activities of financial institutions in the country. The intervention of the apex bank and other agencies, have started to yield results (Adewakun 2010).

2.2 Firm Performance

Companies through good system of internal governance improve its operations, and at the same time provide useful information to shareholders (Hsiang-Tsai et al, 2005). Studies have shown that good corporate governance directly affect corporate performance. It is evidenced that good corporate governance directly related to company performance. Black, Jang & Kan (2002) found that company with good system of corporate always reported better financial performance than those without good corporate governance. Jensen and Meckling (1976) share the same opinion that good corporate governance system result in high financial returns. On the other hand, Daily & Dalton (1994) believe that poor corporate governance may likely result in bankruptcy, while good corporate governance helps to increase investor`s confidence.

The previous researchers on corporate governance use different dimension to measure company performance. For example, Klein (1998) uses return on assets (ROA) and Lo (2003) uses return on equity (ROE) as performance indicators.

Although other studies have used return on equity, in this study too, return on equity (ROE) and turnover are used as performance indicators. These indicators have severally been used by many researchers to examine the effect of board characteristics and company performance. (Heravi et al., 2011; Sanda et al., 2005; Haslindar & Fazilah, 2011; Dagsson, 2011). The use of ROE allows investors to assess how effective companies manage resources to generate income for the shareholders. The use of sales revenue shows management ability and efficiency in the use of available resources at their disposal to earn profits for the firm and the shareholders. It also shows the current revenue generated by the company. Turnover has been used as performance indicator by Hanoku (2008), Wakefield & Castillo (2005).

2.3 Code of Corporate Practice

The Securities and Exchange Commission and corporate Affairs Commission made effort in producing a code of corporate governance to guide manners in which affairs of companies are managed in Nigeria. The code was approved by SEC being the regulatory authority of the capital market and CAC being the regulatory authority of all companies in Nigeria as the Code of Best Practice for use by all private and public companies in

Nigeria. The code seeks to address issues of corrupt practices identifies in public and private companies in the country. It has elaborate provisions on the relationship between shareholders, board of directors and other stakeholders, audit risk, communication, accountability, reporting and finally interpretation.

2.4 Duties and Responsibilities of the Board

A board of directors is a body of elected or appointed members who jointly oversee the activities of a company. They are elected to act as representatives of the shareholders. They make decisions on behalf of shareholders. The Nigerian code of corporate governance Part B Section 2 and 3 states responsibilities and duties of the board as follows:

2.4.1 Responsibilities of the Board

1. It shall be the responsibility of the board to manage the affairs of the company, harness both human and financial resources to achieve the set objectives of the company.
2. It shall be the responsibility of the board to manage the firm efficiently, enhance shareholders value and meet employees` obligations.
3. It is the responsibility of the board to conduct the activities of the company in accordance with the Articles and Memorandum of Association of the company, statutory laws and regulations of the country.

4. The boards have the right to delegate part of its authority or duties to management but such delegation does not exonerate the board from its responsibility.

Duties of the Board shall include the following:

(a) Making policies on how management will conduct its business operations;

(b) Formulation of management risk framework;

(c) Making arrangement on succession plan, replacement, training and remuneration of members;

(d) Making sure the internal control systems is effectiveness and adequacy;

(e) Looking for appropriate method of disseminating information to all stakeholders;

(f) Conduct proper management performance from time to time;

(g) Maintain proper channel of communication with all stakeholders;

(h) Ensure proper accountability, honesty and integrity in financial reports;

(i) Maintain highest level of moral and ethical standards; and

(j) Endeavour to compliance with rules and regulations of the country.

2.5 Board Size

The number of directors on board both executive and non-executive is referred to as board size. There are two types of board size - small size and large size. The day-to-day running of the company is the sole responsibilities of board of directors. Therefore, the size of the board could have significant influence on the performance of the company. At the moment, there are different opinions as to which board size is the better.

Large board size encourages diversity in skills, gender, experience and race of board members (Dalton & Dalton, 2005). One disadvantage of large board is that it slows down decision making process (Yermack, 1996). When the board is large it results in time consuming and meaningless discussion (Lipton & Lorch, 1992). Moreover, large board can be less effective (Hermalin & Weisbach, 2003). This also supports the view of Cheng (2008) that it is difficult to organize meeting and reach agreement quickly with large boards. It can easily be manipulated when it comes to performance assessment of top management (Dalton, Daily, Johnson & Ellstrand, 1999). Also, large board increases agency cost or monitoring expenses, poor communication and co-ordination and all directors may not be carried along (Lipton & Lorsch, 1992; Jensen, 1993). Jensen (1993) further added that CEO can have power to control and manipulate the board and also have more power in decision making process.

However, another school of thought believes that small board size positively influence company's performance. Jensen (1993) argued that organizations support smaller board size in order to cut down cost. Smaller boards brings members closer together, easily reach and more easily able to reach consensus (Dalton et al., 1999). It reduces the possibility of free-riding and is more effective at monitoring top managers due to lower co-ordination costs. The disadvantage of small boards is that it lacks the spread of expert advice and opinion. The question one may ask now is "what should be ideal board size?." Lipton and Lorsch (1992) propose an ideal board size to be between seven and nine directions. Board size should be of a significant size in relation to company's operations. According SEC (2006) board of directors should be selected in such a way that it will maintain its independence, integrity and also the ability of members to attend meetings. Jensen (1993) is of the opinion that the maximum board size should be between seven and eight directors. The sector where the company operates also determines the size of the board (Ning, Davidson, & Zhong, 2007). For instance, the mean board size in studies conducted by Yermack (1990) was 12.25% and 16.8% in Cornett, Hovakimian, Palia and Tehranian (2003).

Financial institutions such as banks because of the need to access resources require larger board size than other sectors (Denis & Sarin, 1999). Ownership structure also influences board size (Gillan & Starks, 2003). In the same vein, Ning et al. (2007) agreed that ownership structure affects board size. This is to say that the number of directors tends to reduce when ownership is clustered in the hands of few directors; this reduces board size (Denis & Sarin, 1999).

The issue of board size and corporate performance were empirically tested by many researchers with mixed findings. Yermack (1996) using a sample of 452 large US industrial corporations found a negative association between board size and company's value. Another study conducted by Eisenbery, Sundgren and Wells (1998) on small and medium size Finnish firms also found an inverse relationship between board size and profitability. On the other hand, Dalton et al. (1999) found non-zero positive relationship between company performance and board size.

In the same vein, Hermalin and Weisbach (2001) opined that board size corporate performance has a negative relationship. On the other hand, Bhagat and Black (2002) found no association between board size and company performance. Bonn, Yokishawa and Phan (2004) comparing between Japanese and Australian firms, found inverse relationship between board size and company performance for Japanese firms but found no correlation between them in the case of Australian companies.

Mak and Yuanto (2003) observe a higher firm value when the board size is only five members study firms in Malaysia and Singapore. Similarly, Sanda et al. (2003) in a study conducted in Nigeria positively relationship between performance and small boards size. This supports findings of Barnhart and Rosenstein (1998) that company with smaller number of directors on board do better than companies with large board members.

However, large board size was found to be positively corrected with company performance in a study conducted by Mak and Li (2001) on 147 Singaporean companies but not supported by regressions results. Also the study of Adam and Mehran (2005) using US financial institutions found a positive association between board size and performance (measured by Tobin's Q). Dalton and Dalton (2005) meta-analysis reported a relationship between larger board's size and company performance which is a direct opposite of an earlier meta-analysis result by Dalton, Daily and Johnson, (1999).

2.6 Composition of the Board

The composition of the board of directors consist of executive directors or outside director (EDs) and non-executive directors (NED). The Nigerian Securities and Exchange Commission in its codes of corporate governance states that board of directors should be selected in such a way that it will maintain its independence, integrity and also the ability of members to attend meetings (SEC, 2006). Furthermore, the board should be a mix of executive and non-executive directors headed by a chairman. Executive directors are directors who are full-time employee of the company and have specific decision making roles. While non-executive directors are not employees of the company or members of management working team. Their duty is to monitor the executive activities. They are custodian of the governance process. But the inside directors indirectly play the role of monitoring CEO by giving outside directors first hand operational information. Boumosleh and Reeb (2005) empirical studies on the effect of the composition and structure of corporate performance show mixed results or findings, some studies reported that more executive directors on boards do not enhance company performance. While some studies find better performance for companies with more outsider directors (Weisbach 1988; Mehran 1995). On the order hand, studies such as Forsberg (1989), Pi Timme, Weir and Laing (2001), Adams and Mehran (2002), Pi and Timme (1993) find no relationship between outsider director and corporate performance. Board of must be composed in a way that is free form management influence and ensure board independence.

Board independence refers to a corporate board with majority of outside directors. It is believed that dominated by outside or independence directors are more vigilant in monitoring behaviors and decision making of the company (Fama & Jensen, 1993). The reason is that shareholders` interest could be well protected by outside directors than the inside directors. They bring in more skills and knowledge to the company which increases expertise necessary for strategy implementation (Kamardin, 2011). For Independent directors to perform their duties well they must be free from management`s influence. The effective monitoring by independent directors reduces agency costs and increase company performance (Fama, 1980). The presence of independent directors on board gives greater weight to board`s deliberations and judgment (Heravi et al., 2011).

However, in carrying out their duties of monitoring, independent directors face great challenge as they are not directly affiliated with the management (Weisbach, 1988). The fact that independent directors are on board does not guarantee good governance control. It may be possible some independent directors are appointed to just fulfill the minimum regulatory requirements. Some of them may not be truly independent from the firm's executives who hire them or they might have developed strong friendship with the top management over the period they have served on the board. In order to maintain board independent, SEC (2006) spelt out conditions form appointment of independence directors as follows:

- Is one that is free from any relation with the company that may affect his ability to make independent judgments;
- Is not a partner or an executive of the company's statutory audit firm, equal or consulting firms that associate with the company for three years preceding his appointment;
- Should have no business dealings that could impair his capacity to act in an independent manner;
- Should not be a vendor, supplier or customer of the company;
- Is one who is not be a member of the immediate family of an individual who is or has been in the employment of the company for the past three years;
- Has not served the company in any capacity or been employed by the company for the preceding three financial years;
- Is not a representatives of a shareholders that has ability to control management and;
- Should not be one whose shareholding both direct and indirect does not exceed 1% of the company's paid up capital.

John and Senbet (1998), opined that a board is more independent if it has more non-executive directors. Other studies such as Agrawal and Knoeber (1996), have shown relationship between independent directors and company performance.

2.7 Age Diversity

Board members age diversity means a good number of young directors and older directors on board. Age diversity is most helpful when the task at hand is at a complex nature. Complexity according to Dagsson (2011) is defined as a strong demand for complex decision making. When board of directors is faced with complex problems ideas from young and older directors put together can dissolve the complex problem. Age diversity has the potential to enhance board performance, because directors of different ages will have different background, skills, experience and social networks (Dagsson, 2011).

New generation directors have access to information and are better informed while the older generations directors have business experience. Carter, D`Sonda, Simkins and Simpon (2010) argue that "diversity holds the potential to improve the information provided by the board to managers due to the unique information held by diverse directors". Appointing young directors on board, the board's aggregated human and social capital can be maximized. Boards with older directors negatively affect company performance because they are not willing to accept change easily or implement new strategies (Nguyen et al., 2012). Hambrick and Mason (1984) argue that young managers and always ready to undertake risky venture. Interestingly, companies with young managers experienced higher growth than their counterpart older manager. Also young managers have the tendency not to accept status quo but willing to accept new ideas (Cheng et al., 2010).

Moreover, the impact of age diversity is more pronounced than other corporate governance like directors` equity, which has considerable global literature (Ngugen, 2012). However, few studies examine the association between board age and financial performance. The outcome of these investigations report different results. Age diversity significantly and positively affects corporate performance when measured by ROA (Dagsson, 2011). Kilduff et al. (2000) report a significant positive correlation between marketing performance and board age. Aravat et al. (2010) find a positive significant relationship between corporate performance and age of directors on board when measured by Return on Equity (ROE) but not by Tobin Q. There is a positive relationship between company's performance and the mean age of directors on board (McIntyre et al., 2007). This means that young directors on board correlate positively with companies` financial performance. On the other hand, Eklund et al. (2009) in their study of Swedish companies find no significant effect of board members on Tobins Q in Swedish market.

2.8 Board Educational Qualification

Board of directors is a body appointed by shareholders to monitor management on their behalf. Since the board has such responsibilities of ensuring that shareholders investment is not wasted or mismanaged. The shareholders must make sure that the directors appointed have the necessary skills, experience, qualification and expertise. Director's individual knowledge and skills are important for board performance (Forbes & Millikan, 1999). Inside directors are considered to have greater firm's specific knowledge for advising management while outside directors have expertise necessary for monitoring (Duchin et al., 2010). Boards members can gain knowledge especially firm specific knowledge and experience over time as they receive information from management, attend board meetings (Brickley & Zimmermani, 2010). So director's working experience and individual expertise can provide necessary skills and knowledge to effectively perform certain board functions.

Firms themselves and corporate bodies sometimes specify the profile requirements they expect of their directors. For instance, Malaysian Code of Corporate Governance (2007) recommends certain features as skills, experience, knowledge and integrity for directors which can assist them in the conduct of their duties. Nigerian Companies and Allied Matters Act 1990 (CAMA 90) also stipulate in the appointment of audit committee that among the committee members at least one member must have professional knowledge preferably in accounting or financial management. Amran (2011) in a study of 424 companies on Bursa Malaysia finds that 73% of the sampled companies in Malaysian have directors a higher educational qualification while 30% of the companies appointed directors with professional qualification on board.

Studies on education, experience and professional expertise of board of directors and corporate performance are scanty. The reason is that detailed data of these characteristics are not readily available in most annual reports in Nigeria. However, statistical studies that link director`s education qualification to corporate performance show positive results. For example, the performance of directors with good educational qualification is better than those with little qualification (Sebora & Wakefield, 1998). Yermack (2006) observed reaction of prices of share to director's educational qualification; found that prices of shares react to directors` educational qualification especially in area of accounting and finance. Ujunwa (2012) finds a positive and significant relationship between directors with PhD and company`s financial performance in Nigeria using data from 122 listed companies on the Nigerian Stock Exchange from 1991 – 2008.

2.9 Director Equity Ownership

There are mixed views about board equity ownership. A director who own substantial equity in the company he serves might be disqualified from being independent (Bhabra, 2003). With such shares he earns a status of 'affiliate'. Affiliate means a person who controls and control is defined as the power to direct management. Independent directors should own shares but not substantial. It should not be more than 0.1% of the total paid up capital of the company and the detail of such holdings must be disclosed in the annual reports of the company (SEC, 2006).

Several researchers are of the opinion that director equity ownership is an incentive to enable directors effectively and efficiently monitor managers (Brickley et al., 1988). Booth, et al. (2002) argues that when directors own shares in the company, they are less likely to take actions that would reduce shareholders wealth rather take decisions that will impact both their wealth and that of the shareholders. Studies on impact of directors equity ownership and firm performance show significant relationship between substantial director`s share ownership and better monitoring (Bhabra et al., 2003). Bhagat, Carey and Elson (1998) also report significant correlation performance because equity ownership create better management monitoring on the part of board and hence improved results.

2.10 Gender Diversity

The issue of women on board is gaining attention globally. Gender composition of the board of directors is one current governance issue facing corporate organization today. It is a common phenomenon that women are likely to be marginalized in terms of appointment into position of high responsibility. Many countries that are not satisfied with the percentage of female representation on board therefore require a minimum level. Several attempts are being made by many nations in order to have equal representation of different people and groups in workplace. For instance, Norway and Sweden imposed gender quota on boards of directors (Rondoy, Oxelheim & Thomsen, 2006). Also, United States and Australia have established Equal- Opportunity Commissions (Salim, 2011). This commission is imposing a form of gender quota on major public companies. The United State Security and Exchange Commission new rule mandated listed companies to consider diversity in board appointment (Upadhyaya & Puthenpyrackal, 2013). In developed and developing countries women representation on board is generally low. The percentage of women in work place in United Kingdom (UK) is estimated to be 12%, United States (US) 15.4% and Australia 10.7% (Salim, 2011).

Studies conducted on the effect of gender diversity and corporate performance in developed countries include United State (Carter, Simkins & Simpson, 2003), Netherlands (Marinova, Plantenga & Remery, 2010), and some Scandinavian countries (Randoy, 2003). Studies in developing countries include Salim (2011) using Indonesian listed companies, Ararat, Akus and Cetin (2010) using Turkey data and Marimuthus (2008) using Malaysian data. Board gender diversity affect companys` financial performance in several ways: promoting good understanding of the market situation, promoting creativity and innovation, effective problem solving, enhancing effectiveness of corporate leadership (Salim, 2011).

2.11 Theories in Relation to Board Characteristics

There are many theories used by researchers in the study of corporate governance. Some theories influencing the development of corporate governance are; hegemony theory, agency theory, stakeholder theory, managerial theory, stewardship theory, human capital theory and resource dependency theory. However, for the purpose of this study, Agency and Resources Dependency theories would be the two underpinning theories applied in this study. This is because the administrative functions of board of directors are best examine through agency theory while the linking of the environmental with the organization could well be understood through resources dependency theory.

2.11.1 Agency Theory

Corporate governance is associated with agency problem. Agency relationship arises when owners of company is not the same as those managing the company. The investors are the principals while the managers are the agents who run the company on their behalf. It is the responsibilities or duties of the agents to carrying on the business in the interest of the owners. It is a well-known fact that the agent`s own self-interest will never align completely with the interest of the organization. When owners of business have no control of the business, their claims will fall below as a result of agency loss (Jensen & Meckling, 1976). According to Eisenhardt (1989) agency theory has mechanisms that can reduce agency loss. One of such mechanisms is incentives. Incentive schemes are ways of appreciating manager's effort for making profits for the shareholders.

It is quite obvious that agents are likely to act in the best interest of the company only when their own interests are aligned with those of the company or when their behavior is monitored and their self-interest behavior put in check. Thus the company in order to align the interest of agents with that of the owners, the company must increase its incentive structures (Fama & Jensen, 1983), or increasing monitoring control and oversight of managers by owner delegates. The main duty of directors is to oversee the activities of management thereby, the incentive will directly improve board`s monitoring ability. The administrative functions of Board of Directors are best examined through agency theory.

2.11.2 Resources Dependency Theory

Resources dependency theory is based on the principle that an organization must engage in transactions with other entities in its environment in order to acquire resources. Resources that organization needs are not readily available, they are scarce. Some of the wealth needed by the organization is in the hand of government. Therefore in order to gain access to them, people who have influence and access to government and policy makers are appointed as directors. The activities of the board is the provision of resources, provides expertise advice, link organization to important shareholders, other organizations and attract funds and other resources as well as building external relationship (Hillman & Dalziel, 2003).

Environmental linking function of the board is best by examining through resource dependency theory. Hillman, Cannella and Paetzold (2000) in finding support for their hypothesis provide additional fact on resource dependency that is important to board of directors. Bryant (2012) recent study on the regulated change effect on board uses both agency and resource dependence theory. The role of the board of directors is to examine how the board can have access to financial resources. For example, company with financial needs like debts can appoint bank officials as directors to gain easy access to bank loans. Researchers have used resources dependency theory to explain board composition where non-executive directors are appointed into the board with understanding that they will bring new ideas to improve the company performance when the company is not doing well (Pearce & Zahra, 1992).

However, the board of director is seen as resource that influence the environment in which business operate, attract other resources which result in improved company performance. Resource dependency sees board as linking mechanism for companies to access external resources. This link provides organization with useful information, channel of communication and obtains support from important elements of the environment (Luckerath-Rovers, 2011). Pfeffer (1972) explains that if board is a linking body then when a company is facing financial problem the possible way out is to maintain a larger board size with many number of outside directors. The study reported a positive relationship between non-executive directors and company performance.

2.12. Summary

This chapter focused on review of related literature on board characteristics and company performance and underpinning theories – agency theory and resources dependency theory. The elaborate literature review contributed to the development of the research hypotheses in the subsequent chapter.

Table 2.1 Summary of Selected Published Empirical Studies on Corporate Governance and Firm Performance

Country	Author(s) and Year	Sample size	Year of study	Findings
Nigeria	Uwuigbe and Fakile (2012)	21 listed banks	2006 - 2008	There is a significant negative relationship between board size and financial performance.

Nigeria	Kajola (2008)	20 Nigerian listed firms	2000 - 2006	No significant relationship between the two performance measures and board composition.
Germany	Andreas and Bernd (2010)	294 companies	1998 - 2007	There is consistent effect of either board size or board composition on firm performance.
Malaysia	Haslindar and Fazilah (2011)	290 companies	1999 - 2005	There is no significant impact of corporate governance mechanism such as board size on corporate performance.
Sweden	Dagsson (2011)	258	2005 - 2009	Age diversity significantly affects corporate performance as measured by return on asset.
United State	Huang (2013)	1500 firms	1998 - 2010	That board tenure can be positively or negatively related to firm performance.
Netherlands	Luckerath-Rovers (2010)	116 Dutch companies	2005 - 2007	Firms with board gender diversity experience better performance than firms without women on their boards.
Malaysia	Amran (2010)	424 companies	2003 - 2007	Directors` qualification helps to enhance firm performance.
South Africa	Ntim (2011)	169 companies	2002 - 2007	Corporate boards that meet more frequently have increased capacity to advise, monitor and discipline management thereby improving corporate performance.
Nigeria	Ujunwa (2012)	122 companies	1991 - 2008	Board size, CEO duality and gender diversity were negatively linked with firm performance. Boards with PhD qualification were found to correlate positively with firm performance.
Indonesia	Salim (2011)	169 companies	2007	Gender diversity has significant negative association with firm accounting performance.
Istanbul	Ararat, Akas and Cetin (2010)	100 index firms traded on the Istanbul stock exchange		Diverse boards are better monitors and thereby enhance firm's performance.

Nevada	Puthenpyrackal and Upadhyay (2013)	1500 firms	1996 - 2005	Finds presence of women directors associated with significantly higher firm performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research framework for the study, hypotheses formulation, research design, variables measurement, procedures and instrument for data collection and the techniques used in data analysis.

3.2. Research Framework

Variables of this framework were drawn from previous studies. Many studies like Sanda et al. (2005), Ujunwa (2012), Hardjo and Aliireza (2012) and Kajola (2008) were conducted in Nigeria have used similar variables such as board size, board composition and gender diversity. On the left hand side of the framework are the independence variables which are: Board size, Board composition, Women on board, Age diversity, Board educational qualification and Director Equity ownership. These variables are link to the dependent variable on the right which is firm performance (ROE and Turnover).

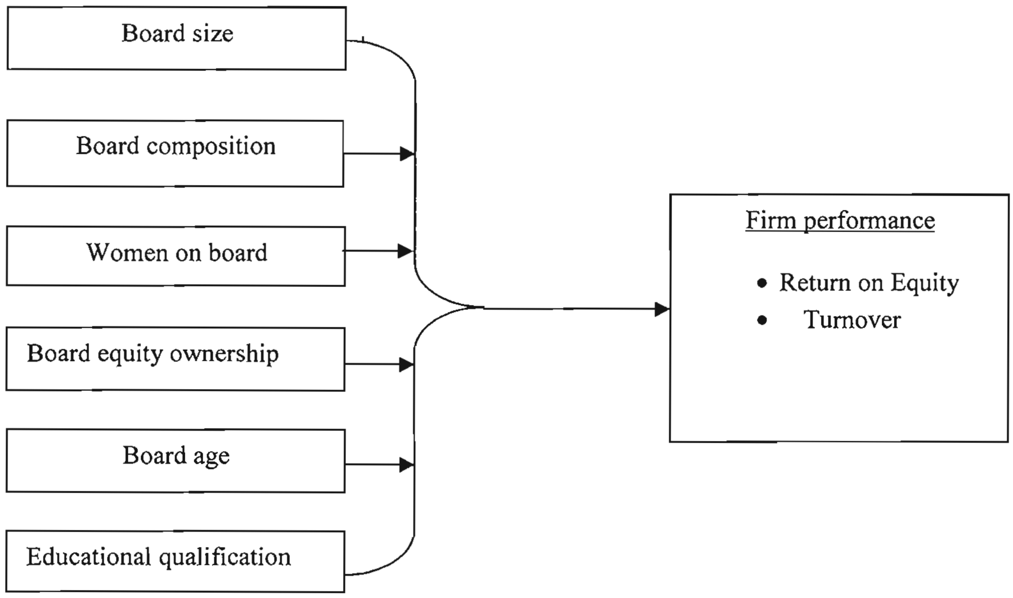

Figure 3.1 Proposed Model of Board characteristics

3.3 Hypotheses Development

3.3.1 Board Size

This refers to the number of directors on board. Some researchers argued in favour of large size while others in favour of small size. Jensen (1993), Yermack (1996), Lipton and Lorsch (1992) argued that smaller board enhance company performance, while others are of the opinion that larger board are better for improving corporate performance (Coles et al., 2008; Adam & Mehran, 2003). The advantages of large board are: it allows the board to monitor, control and reduce the influence of CEO in order to protect interests of shareholders, links the organization to its external environment and attracts needed resources. It also allows fair representation of different stakeholders in the company. The problem with large board is that it is expensive for the firm to maintain, difficult in planning and co-coordinating meetings and decision making. Based on the agency theory perspective that larger board's size may cause the problem free rider problem among directors, the following hypothesis is postulated:

H_1. There is significant relationship between board size and company performance.

3.3.2 Board Independence

Board composition is the proportion of executive and non-executive directors on board. It is believed that outside directors are alert and vigilant in monitoring managerial behavior and decision making of the firm (Fama & Jensen, 1983). Some empirical studies on board independence and company performance show mixed results. When non-executive directors are majority on board, there also better company performance (Weibach, 1988; Mehran, 1995), while others find no correlation or relationship between non-executive directors and company performance (Hermalin & Weisbach, 1991; Forsberg, 1989). Therefore, the following hypothesis is formulated:

H_2. There is a significant relationship between board composition and company performance.

3.3.3 Age Diversity

Boards with different age groups are of great benefit to the organization. Findings of age diversity and company performance are reported differently. Mahadeo et al., (2012) reported a positive association between age different age groups on board and company performance. Age diversity significantly and positively affects corporate performance when measured by ROA (Dagsson, 2011). The following hypothesis is formulated:

H_3. There is a significant relationship between age diversity and company performance.

3.3.4 Board Higher Educational Qualification

The effectiveness and efficiency of the board of directors depend upon the educational/professional qualification of members. Board with highly qualified members provides the necessary ability, expertise, integrity and sound judgment for decision making. Companies with board members having higher educational/professional qualification positively affect company performance. Yermack (2006) reported that prices of share reacted to director`s professional qualification, especially in accounting and finance. The following hypothesis is postulated:

H_4.There is a significant relationship between director`s professional/educational qualification and company performance.

3.3.5 Directors` Equity Ownership

The separation of ownership and control result in agency where investors are the principals and managers agents. According to agency theory, the agent self-interest will never align with the interest of the owners. The boards of directors provide the monitoring mechanism to reduce agency cost resulting from divergence of interests between owners and managers (Fama & Jensen, 1983). This problem of agents pursuing their personal interest can be resolved by aligning their interests with that of the principal by giving the bonus stocks as an incentive (Jensen & Meckling, 1976). Substantial shares ownership by board members creates a personal based incentive to actively monitor management. Bharbra et al. (2003) reported a positive association between director stock ownership and corporate performance; this is because equity ownership creates better management monitoring on the part of board thereby enhance results (Bhagat et al., 1998). Therefore, the following hypothesis is formulated:

H_5. There is a significant relationship between Executive (ED) and Non-executive NED) director equity ownership and company performance.

3.3.6 Gender Diversity

Reports on the association between board women and corporate performance are mixed. Some of the reports are in support while others are not. The argument of those in support is that it enhances company performance while others argued that it results in conflicts (Richard, Barnet, Dwyer & Chadwick, 2004), and slow decision making (Hambrick, 2009). Shradur, Blackburn and Iles (1997) in studying the association using two accounting values (ROA and ROE) with samples of 200 Fortune firms found that the number of women on board negatively affect company performance.

The study finds significant negative relationship between the percentage of women on board and company value. Other empirical results on gender diversity and company performance indicate negative relationship with financial performance (Adams & Ferreira, 2009). Other researchers like Randoy et al. (2010), Marinova et al (2010) using data from Indonesia could not find any significant association between board women and company performance. Farrell and Hersch (2005), Rose (2007) also report that there is no correlation between board women and company performance. But Carter et al. (2003) found significant positive relationship using Tobin`s Q for Danish listed companies. In the light of the above descriptions, the following hypotheses are hereby formulated:

H_6. There is a significant relationship between gender diversity and company performance.

3.4. Research Design.

This study investigates the effect of board characteristics on the company performance. This study adopts a cross-sectional research design and a quantitative research technique as suggested by the previous study (Creswell, 2009). Creswell (2009) noted that this research approach is used in studies of this nature in particular social science discipline.

3.5. Measurement of Variables

This section describes the terms of measurement for each variable. The term of measurement used are described in the table below.

Table 3.5.1 Description of Measurement

Variables	Terms of measurement
Independent variables	
Board size (BSIZE)	Number of directors on board
Board composition (BCOM)	Number of non-executive directors on board/Total board members
Age Diversity (BAGE)	The % of young directors between 25-45years/ Total number of directors above 45years
Board higher educational qualification (BEDU)	% of directors with master degree/Total number of directors on board
Director Equity ownership (BEQUITY)	Total number of shares owned by ED and NED directors of a given company as a percentage of the outstanding shares of the company
Gender diversity (BWOMEN)	Number of women on board / Total number of directors
Dependent variables	
Return on Equity (ROE)	Profit after tax divided by the total equity shares in issue
Sales revenue/Turnover	Sales or revenue for the year scale down by one billion

3.6. Data Collection

The study used secondary data regarding board characteristics and company performance. The data were taken from company`s annual report from 2010 to 2012. Information on board characteristics were collected from the financial statements and the annual reports obtained from company`s websites. Secondary data was used as it saves time and money but the disadvantage is that such data was collected for purposes other than this specific study. For example, annual reports are prepared by companies to give information about the company`s performance during the financial year to the shareholders during Annual General Meetings.

3.6.1 Sampling

This study gathers data on listed companies on the main board of Nigerian Stock Exchange. As at 27th February 2012, there were only 119 active companies on the main board of Nigerian Stock Exchange (NSE, 2012). Convenience random sampling technique was used in selecting the sample for this study. This technique has been used by other researchers to select sample for their studies (Al-Khateeb, & Dahalin, 2013;Lin et al, 2010). It makes it easier to obtain sample units that are most conveniently available.

3.6.2 Sample Size

In determining sample size of study several factors are taken into consideration, such as objective of the study, size of the population, extent of precision desired, confidence level, cost and constraints (Sekaran & Bougie, 2011). There are many methods of selecting sample size ranging from the rule of thumb table and statistical method. But the sample of this study was determined using Krejice and Morgan (1970) rule of thumb with reference to the sample size table. The sample size of the study was 90 companies from the total of 119 companies. The following criteria were applied to select the sample; availability of complete annual report for the period under study, and the company must have been actively listed throughout the period.

3.6.3 Data Collection Procedures

Data for this research work were taken from the companies yearly reports particularly those that are listed in the Nigerian Stock Exchange from 2010 – 2012. These reports were collected from company`s websites, NSE offices and NSE website. Information relating to the characteristics of the board was extracted from the financial statements including the annual reports of the companies that participated in this study. Out of the 119 firms listed on the Nigerian Stock Exchange as at March 2013, 90 were selected. Several firms were found to be unsuitable due to having accounting year which did not line up with period of, others were study other were excluded because all their annual reports could not be located within time frame.

3.7. Data Analysis Techniques

The statistical techniques used in this study include descriptive statistic, correlation analysis and multiple regression analysis. Hypotheses were tested with the used of multiple regressions. Other studies on corporate governance with multiple variables used multiple regressions as well (Dagsson, 2011).

3.7.1 Descriptive Statistics

Descriptive was used to reduce data to manageable size. There was evidence in literatures that similar techniques were used in analyzing corporate governance issues (Kajola 2008; Sanda et al., 2005; Heravi et al., 2011). The descriptive statistics techniques used include mean and standard deviations.

3.7.2 Correlation

This analysis technique was used to establish the correlation among the variables which consequently detect the presence of multicollinearity among variables. The association among variables was established at statistically significant level of ($p < .01$).

3.7.3 Multiple Regression Analysis

This study used multiple Regressions as most studies on corporate governance and firm performance use similar analysis techniques (Kajola 2008; Sanda et al., 2005; Hardjo, 2012). Below is the multiple regression model:

$$FP = \beta_0 + \beta 1BSIZE + \beta 2BCOMP + \beta 3AGED + \beta 4BEDU + \beta 5BEQUITY + \beta 6BWOMEN + \varepsilon$$

Where:

FP = firm performance

β_0 = intercept

BSIZE = Board size

BCOMP = Board composition

BAGE = Age diversity

BEDU = Board higher educational qualification (master degree)

BEQUITY = Director equity ownership

BWOMEN = Woman on board

ε = Error term

3.8 Summary

This chapter presented the methods and procedures used in gathering data necessary to achieve the objectives of the study. Hypotheses were developed, variables operationalized and data analysis techniques identified. The statistical results are presented in the next chapter.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

Data analysis is the main focus of this chapter. The statistical techniques discussed in the last chapter are used in analysing the data of the study. The hypotheses developed earlier in chapter three in accordance with the research objectives is tested and the result provided answers to the research questions stated in chapter one of this study. The findings of this study are reported in this chapter.

4.2 Sample Profile

This portion provides the sample profile of companies and sector used in the study. The sample size were drawn from all sector of the Nigerian economy such as financial institutions, health care, manufacturing, construction, real estate, commercial and service, food and beverage, hotel and tourism and marketing. See the table below for sector composition.

Table 4.1

Industrial classification

Industry	Number of company	Percentage
Agriculture & Agro-Allied	3	3
Conglomerate	3	3
Consumer Goods and Services	17	19
Construction and Real Estate	5	6
Health Care Service	4	5
Information and Technology	4	5
Industrial Goods	10	11
Natural Resource	3	3
Oil and Gas	8	9
Service	13	14
Financial Institutions	20	22
Total	90	100%

Source: Nigerian Stock Exchange fact book 2011/2012

4.3 Descriptive Analysis

This analysis was to summarise and explain data with the help of tables and graphs. Annual reports and financial statements of the 90 selected companies quoted on the Nigerian Stock Exchange were the official sources of data for this study to test board characteristics and firm performance. Board characteristics which are the independent variables include: board size, board composition, board education, women on board, board age and board equity. Dependent variable is firm performance which is measured by Turnover and Return on Equity.

Table 4.2

Descriptive Statistics

	Mean	Std. Deviation	N
ROE	8.41	51.279	270
TURNOVER	27752497186.27	48290437858.002	270
BSIZE	9.73	2.907	270
BCOMP %	45.35	24.721	270
BAGE	7.75	12.259	270
BEDU	10.75	14.785	270
BEQUITY	15.79	20.932	270
BWOMEN	10.74	8.859	270

Table 4.2 depicts the results of the descriptive analysis of the variables utilized in this study. The board size mean is 9.73.The Nigerian board size mean is greater than Australia 6.6 and New Zealand 5.81 (Bathula 2008) and less than US mean of 11.45 (Bhagat & Black, 2002). The mean of board composition is 45.35%, board equity 15.79, board women 10.74, board age 7.75 and board education 10.75.

4.4 Correlation Analysis

Correlation was conducted to show the strength of correlation between two or more variables. In this study the inter-correlation between variables is shown in the table below.

Table 4. 3

Correlation result

	ROE	T/OVER	BSIZE	BCOMP	BAGE	BEDU	BEQUITY	BWOMEN
ROE	1							
T/OVER	-.012	1						
BSIZE	-.158**	.183**	1					
BCOMP	-.095	-.061	.042	1				
BAGE	-.088	-.020	-.205**	-.041	1			
BEDU	-.075	.134*	.030	.069	.162**	1		
BEQUITY	-.119	-.094	-.099	-.008	.147*	.034	1	
BWOMEN	.073	-.080	.010	-.035	.195**	.185**	.112	1

** p<0.01; * p< 0.05 at 2 tailed levels.

Table 4.3 depicts the result of the Pearson correlation of the variables for this study. The correlation analysis shows that BAGE correlated with BSIZE at ($p < 0.01$), BEQUITY at ($p < 0.05$) and with BWOMEN at ($p < 0.01$). BEDU correlated with TURNOVER at ($p < 0.05$), BWOMEN at ($p<0.01$) and also with BAGE at ($p < 0.01$). Contrary, the result also demonstrates weak correlation among some of the variables which a small effect. In terms of dependent variable, ROE is correlated with BSIZE at($r = -.158$, $p < 0.01$), while TURNOVER positively correlated with BSIZE at ($r=0.183$, $p<0.01$) and BEDU at ($r= 0.134$, $p<0.05$). Both have a weak correlation.

4.5 Regression Model

Data for this study was regressed in line with the objectives of the study. The results of the multiple regressions were used in testing the hypotheses stated in chapter three. Variables of the study were combined to form a regression model as shown below.

$FP = \beta_0 + \beta 1BSIZE + \beta 2BCOMP + \beta 3AGED + \beta 4BEDU + \beta 5BEQUITY + \beta 6BWOMEN + \varepsilon$

Where:

FP = firm performance

β_0 = intercept, $\beta 1$ to $\beta 6$ be the coefficients.

4.6 Multiple Regressions

Board dynamics and firm performance: A case of Nigeria examined the effect of board characteristics on firm performance in Nigeria. Table 4.4 depicts the results obtained by regressing six variables of board characteristics with two measurements of firm performance, Return on Equity and Turnover.

Table 4.4 below represents the model summary of ROE used for the study. The models are statistically significant in predicting company performance. Examining the models independently, the proportion of variation of the variables in predicting ROE is 0.079 and adjusted R- square 0.058 which explains the explanatory capacity of board characteristics on company performance. The statistical analysis also indicates that the model is significant as evidence by F statistics of 3.754 at $p < 0.01$ for ROE.

Table 4.4

Model Summary (a) of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.281[a]	.079	.058	49.773

a. Predictors: (Constant), BEDU, BSIZE, BCOMP, BEQUITY, BWOMEN, BAGE
b. Dependent Variable: ROE

Table 4.5

ANOVA(a) of ROE

	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	55802.137	6	9300.356	3.754	.001[b]
1	Residual	651553.575	263	2477.390		
	Total	707355.712	269			

a. Dependent Variable: ROE

c. Predictors: (Constant), BEDU, BSIZE, BCOMP, BEQUITY, BWOMEN, BAGE

Table 4.5 shows that the model is statistically significant at P = 0.001 indicating that it has the capacity to predict the relationship between board characteristics and company performance in Nigeria.

Table 4.6

Regression Result for Return on Equity

Coefficients(ROE)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
(Constant)	53.274	13.131		4.057	.000
BSIZE	-3.400	1.074	-.193	-3.167	.002
BCOMP	-.175	.123	-.084	-1.417	.158
BAGE	-.526	.263	-.126	-2.002	.046
BEDU	-.213	.212	-.061	-1.005	.316
BEQUITY	-.324	.148	-.132	-2.197	.029
BWOMEN	.711	.356	.123	1.999	.046

a. Dependent Variable: ROE

Table 4.6 shows the results of the coefficient estimates which were used in testing the hypotheses of the study. In all six hypotheses were tested. The regression result documented in Table 4.6 reveals that, board size (HI) was negatively significant with ROE at 0.002.This result supports the hypothesis that states that there is a significant relationship between board size and company performance. This negative relationship when measured by ROE is in line with the finding of Bonn,Yaokishawa and Phan (2004). They found that there was a negative correlation board size and company performance in

Japanese companies as measured by market-to-book ratio and return on assets for Japanese listed companies. This negative correlation means that large board size reduce the return on shareholders' equity as result of increased expenses. This also support the finding by Jensen (1993) that large board increases agency cost and monitoring expenses. From Table 4.6 the result indicates that board composition (H2) is not significant meaning that there is no significant relationship between board composition and company performance. The implication of this is that, there is no association between firm`s performance and the number of non-executive directors on board. This result has the support of other studies like Weisbach (1991), Bhagat and Black (2002) and Sanda et al. (2005).

Hypothesis 3 predicted a relationship between younger directors (those between 25-45 years) and firm performance. The result reveals a negative significant relationship at (β -126, p 0.046), the result is significant hence the hypothesis (H3) was supported. This finding is in line with Mclntyre et al. (2007) who found that there is a concave influence of age diversity on the firm performance (measured by Tobin`s Q)

However, hypothesis (H4) predicted a significant relationship between directors with higher educational qualification (Master degree and PhD) and firm performance. The coefficient of the interaction is β- .061, $p < 0.316$ indicating that it is not significant. This means that board education is not correlated with company performance, thus the result support not the hypothesis. Directors of companies with long years of experience and managerial skills but without higher educational qualification can positively impact on the company`s financial performance. Directors' individual knowledge and skills are important for board performance (Forbes & Milliken, 1999).

Hypothesis 5 demonstrates a significant influence of directors shares ownership on the firm performance as measured by ROE, the coefficient interactions between directors equity and company performance is significant (β= -.132, $p < 0.029$). The result shows a negative influence of directors share ownership on the company performance. The reason could be that directors received large sum of money as remuneration and compensation and at same time much concern about their interests, undertake activities that will benefit them at the expense of other shareholders.

Hypothesis 6 predicted a significant influence of gender diversity on the company performance. When measured by ROE, it was significant at (β = .123, $p < 0.021$). This result supports H6 that states there is significant relationship between gender diversity and company performance. The result is in line with findings of Carter et al (2003).

TURNOVER RESULTS

Table 4.7

Model Summary (b) of turnover

Model Summary[b]									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.271[a]	.073	.052	47.01446	.073	3.467	6	263	.003

a. Predictors: (Constant), BEDU, BSIZE, BCOMP, BEQUITY, BWOMEN, BAGE

b. Dependent Variable: Bturnover

The model of turnover reveals R^2 of 0.073 and adjusted R- square of 0.052 indicating the combined capacity of the explanatory variables on firm performance (TURNOVER). The statistical analysis also indicates that the model is significant at .003 as evidence by F statistics of 3.467.

Table 4.8

ANOVA(b) of Turnover

Model	Sum of Squares	df	Mean Square	F	Sig.
1Regression	45974.445	6	7662.408	3.467	.003b
Residual	581324.513	263	2210.359		
Total	627298.959	269			

a Dependent Variable: Bturnover

b Predictors: (Constant), BEDU, BSIZE, BCOMP, BEQUITY, BWOMEN, BAGE

Table 4.9

Regression Result for Turnover

	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	9.020	12.403		.727	.468
BSIZE	2.983	1.014	.180	2.941	.004
BCOMP	-.161	.117	-.082	-1.378	.169
BEQUITY	-.167	.139	-.073	-1.201	.231
BWOMEN	-.594	.336	-.109	-1.766	.078
BAGE	.081	.248	.021	.328	.743
BEDU	.500	.200	.153	2.501	.013

Table 4.9 shows the result of board characteristics and company performance measured by turnover. The value of the turnover was scaled down by one billion; this is a common practice in mathematics to scale down numbers that are high to a manageable size. H1 predicts a significant association between board size and company performance, the coefficient is positive and significant at $\beta = .180$, $P < .004$. This result implies that board size positively enhanced company performance and thus supports the hypothesis that there is a significant relationship between board size and company performance.

Hypothesis 2 states that there is a significant relationship between board composition and company performance. The study found negative relationship but not significant, hence the alternate hypothesis is rejected. This finding has the support of Tacherva and Huse

(2006) that board composition does not usually matter much to company performance but rather effects individual board task performance.

Hypothesis 3 predicts a significant association between younger directors and company performance. This was measured by the number of young directors over the total number of directors on the board. The result shows no evidence to support those directors between the ages of 25 to 45 years effect company performance. The alternate hypothesis is rejected.

Hypothesis 4 states that there is a significant relationship between directors' educational qualification and company performance. The regression result shows $\beta = .153$, $P < .013$, meaning that there is a significant association between educational qualification and company performance. This finding supports the hypothesis and consistent with findings of related studies such as Amran (2011); Ujunwa (2012) found board education positive correlated with company performance.

Hypothesis 5 hypothesized that directors share ownership significantly influence company performance. Directors' shares ownership was measured by the number of shares held by directors divided by the total shares in issue. The results shows a negative association but not significant and thus the result support not the hypothesis.

Hypothesis 6 states that there is a significant relationship between gender diversity and company performance, however the result shows a negative significant ($\beta = -.109$, $P < .078$). This result is in line with Adams and Ferreira (2009) that found negative relationship with financial performance and gender diversity.

4.7 DISCUSSION

The empirical result of board size provides mixed results. Board size was both negatively and positively significant related with firm performance. This result supports the previous finding by Hanoku (2008). Dagsson (2011) found similar results when board size significantly and positively affect return on asset (ROA) but significantly negatively affect Tobin`s Q in his study on how age diversity on board of directors affect firm performance. In the study, large board size is believed to enhance or improve the board independence. The mean board size is 9.7; this may be considered as small in the Nigeria context but companies must be careful as sizeable number of board members which are considered as the agents tend to be much concerned about their interests (Uwuigbe & Fakile, 2012).The implication of the negative relationship between board size is that firms cannot enhance their financial performance by increasing the directors on its board as increase board size means increase financial commitment on the part of the company. Companies have to make large payments to retiring board members and other financial benefits.

The result on women on board revealed a positive relationship with company performance when measured by ROE. It means women on board enhanced company performance. This result is in line with (Carter et al., 2003, Hanoku, 2008), this result provides evidence that companies benefit from diversity as posited by the resource dependency theory. Several researches have affirmed that board with women members produce quality decisions (Huse & Solberg, 2006; Letendre, 2004). It means that women have the potential to participate in decision making and adding value by bringing in new ideas to board discussions. Some countries have realized this and enacted law to that effect. For example, Norway since 2008 made all listed companies to abide by 40% gender quota for female directors. Spain followed suit by enacting a law requiring all companies to increase the quota of female directors to 40% by 2015 (Adams & Ferreira, 2009). All these legislations are based on the view that women on board could have a significant impact on the governance of companies. Their presence can check the current trend of corruption in the country as they are tougher monitors, less corrupt and cannot be easily bought over by management of companies. Women have a higher level of trustworthiness that can improve board dynamics (Rhode & Packel, 2010). Also, integrating women into decision-making processes can enhance the company`s public image and give message of good corporate governance. However, women on board are also significant with turnover but negatively correlated with company performance. The possible reason for the mixed findings on the women on board could be attributed to different performance measurement.

With respect to board age, the finding revealed a negative influence on the firm performance with ROE and no significant influence with Turnover. It indicates that young directors between the ages of 25 and 45 lack experience necessary to improve performance positively. They may be concentrating on IT investments which require huge capital thereby affecting the financial performance of the firm negatively even though there is no empirical evidence. The classification of young directors as those between ages of 25 and 45 years has support of other countries. The Company Act 2006 required all directors in England and Wales to be at least 16 years on the date of their appointment (UK Company Act, 2006). While in Ireland the appointment of anyone under the age of 18 as director of a company is discouraged. People within this age bracket have been appointed directors, for example Hartmut Jenner was appointed CEO of Hidden Champions at age 34, Kay Fischer was 36 when he was named CEO of Jam manufacturer Schwartau (Simon, 2009). In Nigeria people within this age are expected to have finished university had completed a one year National service and commenced work.

Director equity ownership was found to negatively influence the firm performance with ROE and no significant influence with Turnover. This opposed the previous view that compensating directors with shares would align their interests with that of shareholders. This shows that there is agency problem of entrenchment. From the result it shows 15.79% as mean of directors' equity ownership. This mean that directors of the sampled companies in Nigeria acquired about 16% of the paid –up capital of their companies as against 1% recommended by the Code of Corporate Governance 2006. The implication of this is that directors will undertake projects that will benefit them than the shareholders

.

Empirical result on directors higher educational qualification (master degree and PhD), their presence was positively related with firm performance when measured with Turnover. This finding is consistent with Amran (2010) that directors with degree significantly affect firm performance. This implies that educational qualification equip director with knowledge, experience and better skills (managerial and administrative) to conduct the affairs of the company.

Result on board composition is consistent both with Turnover and ROE. The result shows no significant relationship with company performance and consistent with claims of Forsberg (1989), Pi and Timme (1993) that there is no significant relationship between board composition and company performance.

Table 4.10

Summary of Hypotheses Results

Hypothesis	Statistical significance ROE	Statistical significance Turnover	Alternate hypothesis accepted
H_1: There is significant relationship between board size and company performance.	YES	YES	YES
H_2. There is a significant relationship between board composition and company performance.	NOT	NOT	NO

H_3. There is a significant relationship between age diversity and company performance.	YES	NOT	PARTIAL
H_4.There is a significant relationship between director's higher educational qualification and company performance.	NOT	YES	PARTIAL
H_5. There is a significant relationship between director equity ownership and company performance.	YES	NO	PARTIAL
H_6. There is a significant relationship between gender diversity and company performance.	YES	YES	YES

4.8 Summary

This chapter provides the results and discussions of the data analysis undertaken to test the hypotheses of the study. The results have indicated support for some hypotheses linking the board variables to firm performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides summary of key findings of the study, contributions, limitations and recommendations. It also offers suggested areas for future research.

5.2 Summary of Findings

This study "Board Dynamics and Firm Performance: A Case of Nigeria" examined effect of board characteristics on company performance. Six independent variables (board size, board composition, directors` equity, women on board, board educational qualification and board age) were used measured by Return on equity and Turnover.

The result of regression analysis on the first dimension of performance ROE revealed that independent variable board size was found positively related with firm performance. Board age was found to negatively influence the firm performance while directors` equity had negative impact on firm performance, while women on board were equally found to positively influence the firm performance.

Turnover result shows board size positively and significantly impact company performance. Board education positively and significantly affect company performance while board women negatively and significantly correlate with company performance.

5.3 Research Contributions

Several contributions emerged from this study. The contributions are theoretical and practical. Theoretically, this study added to the theoretical framework of corporate governance by introducing the dimension of Turnover to measure company performance. To the best of my knowledge, this study is pioneer in using Turnover to measure company performance in the context of Nigeria. Secondly, the study added new variables like board age, gender diversity and educational qualification and examine it with firm performance which are not commonly applied in corporate governance studies in Nigeria. With respect to practical contributions, this study will be useful to companies in Nigeria and other countries to make appropriate decisions when appointing board members. This study will also be used by practitioners, professional bodies, policy makers and government agencies in developing best code of practice.

5.4 Limitations of the Study

The data and information utilized in this study were generated from annual reports and financial statements of the quoted companies in the Nigerian Stock Exchange from 2010 to 2012. If there be any problem of disclosure in the financial statements of these companies, then the findings of this study would not be valid. Furthermore, the sample used in this study was limited to the number of companies listed on the main market of the Stock Exchange. The sample size was small because of the number of listed companies as at the time of the study. Firms with in-complete reports and those whose accounting period align not with the period of study were excluded. One of the methods of obtaining information on women on board was through the use of pictures of board members as contained in the annual reports. However, some companies have the habit of not including the pictures of the board in their annual reports.

5.5 Conclusion

The aim of this research work was to empirically investigate the influence of board characteristics on the company performance. A sample of 90 quoted companies in Nigerian stock exchange was drawn from a period 2010 – 2012. Results from this study show that board size has positive influence on company performance. Another feature of the result is the finding that women on board, board age and board equity had significant influence on company performance. On the other hand, when measured with Turnover board size, board educational qualification and board women were found to be significant.

5.6 Recommendation

Based on the findings of the study, the following recommendations were made: The Federal Government of Nigeria and its regulatory agencies should encourage appointment of women among board members by enacting law that at least 30 – 35% of board membership be women. From the result it shows that their presence impacted on the companies` performance. Government should ensure that no director whether executive or non-executive should own more than 1% equity in issue. This will reduce the problem of entrenchment. The finding revealed that director equity ownership negatively impacted on performance. Public companies in defining procedure for appointment of directors should consider age, skill and educational qualification.

5.7 Future Studies

This study can be improved upon by adding other aspect of board characteristics as professional qualification, skills, experience, board meeting and remuneration. Other performance proxies like profit margin and return of assets with firm age as control variable

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