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THE EFFECT OF BOARD CHARACTERISTICS AND FOREIGN OWNERSHIP ON FIRM PERFORMANCE IN NIGERIA

By

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A thesis submitted to College of Business in partial fulfilment of the requirement for postgraduate Master of Science of International Accounting

Universiti Utara Malaysia

May 2017
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ABSTRACT

The global economic crisis has increased the focus on the role of board of directors in ensuring integrity and transparency in corporate reporting of companies world-wide. Board characteristics are crucial in an organisation saddled with the responsibility of making decisions and determining the ability of monitoring management in carrying out its responsibilities efficiently and effectively. Hence, this study aims to investigate the effect of board characteristics and foreign ownership on firm performance of non-financial listed companies in Nigeria. ROA and ROE are used to measure financial performance while the independent variables include: board size, board independence, audit committee size, audit committee independence, risk management committee and foreign ownership. The study used 122 firms listed on Nigerian Stock Exchange (NSE) for the year 2014 and 2015. Regression analysis was used to analyse the data. The results of the study revealed that larger board size affects ROA and ROE, while a higher proportion of independent directors has a positive impact on the performance of firms’ in Nigeria. Meanwhile audit committee size has a negative impact on ROA, but it is positively and significantly related to ROE. Independent audit committee shows a negative impact on ROA and ROE. Further, companies with a higher proportion of foreign investors and having a separate risk management committee are performing better and with higher returns. Therefore, the study recommends that policy makers and regulatory bodies should interpret this evidence as motivation for them to strengthen corporate boards’ practices to effectively deal with the unique features of corporate governance in emerging economies such as Nigeria.

Keyword: board size, board independence, audit committee size, risk management committee, foreign ownership, firm performance, Nigeria

Kata kunci: saiz lembaga pengarah, kebebasan lembaga pengarah, saiz jawatankuasa audit, jawatankuasa pengurusan risiko, pemilikan asing, prestasi syarikat, Nigeria
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<td>ACINDP</td>
<td>Audit Committee Independence</td>
</tr>
<tr>
<td>ACSIZE</td>
<td>Audit Committee Size</td>
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<td>ANAN</td>
<td>Association of National Accountant of Nigeria</td>
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<td>BODINDP</td>
<td>Board independence</td>
</tr>
<tr>
<td>BODSIZE</td>
<td>Board Size</td>
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<tr>
<td>BOFIA</td>
<td>Banks and Other Financial Institutions Act</td>
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<tr>
<td>CAC</td>
<td>Corporate Affairs Commission</td>
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<tr>
<td>CAMA</td>
<td>Companies and Allied Matters Act</td>
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<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
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<tr>
<td>CIBN</td>
<td>Chartered Institute of Bankers of Nigeria (CIBN)</td>
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<td>FIRMSIZE</td>
<td>Firm Size</td>
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<td>FOREIGN P</td>
<td>Foreign Ownership</td>
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<tr>
<td>ICAN</td>
<td>Institute Chartered Accountant of Nigeria</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<tr>
<td>IOD</td>
<td>Institute of Directors</td>
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<td>LEV</td>
<td>Leverage</td>
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<td>NCCG</td>
<td>Nigerian Code of Corporate Governance</td>
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<td>NSE</td>
<td>Nigerian Stock Exchange</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>RMC</td>
<td>Risk Management Committee</td>
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<td>ROA</td>
<td>Return on Assets</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>NSEC</td>
<td>Nigerian Security and Exchange Commission</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The effect of the worldwide financial scandals has led to the economic failure and collapse of some giant companies in the United States (US) such as Enron, Lehman Brothers, WorldCom, and many companies have demonstrated the need for improved corporate governance in the present global markets (Tarraf, 2011). These financial scandals have spread to other regions all over the world such as Europe, Southeast Asia and African countries which have attracted more consideration on the side of regulators and academicians in the field of accounting and finance Baydoun, Maguire, Ryan, & Willett, (2012). The word corporate governance refers to the standards, frameworks, and the governance of the commercial enterprise or company toward agreements with its stockholders, lenders, workers, clients, suppliers, and government of a nation (Tricker & Tricker, 2015).

The concept of corporate governance has received significant attention, locally and internationally in the last two decades. Recent surveys indicate that firms with appropriate governance mechanisms perform better than firms with weaker governance in different ways, such as enhancing the firm’s value in developing nations and modern financial markets (Ghabayen, 2012). Nevertheless, the relationship that occurs between corporate governance mechanism and the performance of companies in a developing and that of developed countries may differ in financial securities, industries and corporate governance structure resulting from different conditions like social, economic and regulatory frameworks in these nations.
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