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BOARD CHARACTERISTICS AND FIRM PERFORMANCE OF CONGLOMERATES LISTED ON THE NIGERIAN EXCHANGE GROUP (NGX)

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ABSTRACT

The objective of this study was to examine the effect of board characteristics on the firm performance of conglomerates listed on the Nigerian Exchange Group (NGX). The study specifically examined the effect of board size, audit committee size and board gender diversity on the performance of conglomerates firms in Nigeria. The study adopted the ex-post facto research design because the event under investigation had already taken place. The population of the study was made up of 5 conglomerates listed on the Nigerian Exchange Group. The sample size was same as the population. Descriptive statistics such as mean and standard deviation were used in describing the nature of the data while ordinary least square regression was used to validate the hypotheses. The results showed that: Board Size has positive non-significant effect on the return on assets; Audit Committee Size has negative significant effect on the return on assets; and Board Gender Diversity has negative significant effect on the return on assets of conglomerate firms in Nigeria. Based on these findings, the study recommended that: conglomerates can increase on the size of the board, or decreases based on other reasons other than profitability, the firms in the study should strive to reduce the size of their audit committees as it will help in cutting costs, and channeling the needed funds into various areas of productivity within the organization.

1. INTRODUCTION

Board characteristics has become a topical issue because of its immense contribution to the economic growth and development of nations. The absence of appropriate board characteristics has been attributed to be the major cause of the failure of many well-performing companies (Assenga, Aly, & Hussainey, 2018). Owing to the ever-changing and overly competitive nature of today's business environment, regulators have become more critical of the smooth running of organizations and more importantly, boards are expected not just to monitor the management but also provide strategic directions and facilitate changes

that are in line with the vision of the organization (Bairathi, 2009). To achieve this, emphasis must be placed on the existence of a competent board that contributes to the sustainability of the firm. Therefore, it is crucial to estimate the impact of board characteristics on firm performance. Board characteristics is described as the system of rules, practices, and processes by which a firm is directed and controlled and it involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community (Mirza, Malik, & Mahmood, 2020). Engida, (2020) also define Board characteristics as the process and structure that is used for directing and managing business affairs to enhance business prosperity with corporate accountability being the ultimate objective. Board characteristics has become a topical issue because of its immense contributions to the growth of modern economies where the private sector plays a key role in the growth process.

Board characteristics provides a framework towards the achievement of the corporate objective. Board characteristics structures specifies the distribution of rights and responsibilities among different participants in a corporation such as the board, managers, shareholders, and other stakeholders and spell out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining these objectives and monitoring performance. Akpan and Riman, (2012) state that in contemporary business corporations like conglomerates firms, the main external stakeholders are shareholders, debt holders, trade creditors, suppliers, community, and customers. Internal stakeholders are the board of directors, executives, and other employees. Good and proper corporate governance is considered imperative for the effective performance of any organization. Board characteristics also creates a checks and balances system to govern internal business departments. This system ensures no one individual or department dominates business decisions or operates outside the company's mission and values (Engida, 2020). There are variously internal and external mechanisms of corporate governance in a corporation like manufacturing firms. In particular, Paradisa and Yustrida (2020) opines that the internal control mechanisms consist of the ratio of independent and dependent members (Board independence). Other mechanisms include board size, board gender diversity, and audit committee membership and size. The study used board size, board independence, and board diversity to determine the effect of board characteristics on the financial performance of conglomerates in Nigeria.

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There seem to be some elements of doubt if the governance of corporate organizations is effective considering the rate of bankruptcy and demise of large corporations all over the world, both in Nigeria and foreign countries. In recent times, the world has witnessed the failure of large corporations; in particular, the Nigerian banking sector in the recent past experienced insider abuses of reckless granting of credit facilities running into several billions of naira without adequate security (Onatuyeh & Proso, 2019). This is contrary to accepted practice which has been attributed to large-scale fraud by directors in connivance with auditors. There are many challenges to the effectiveness of corporate board to influence financial performance of conglomerates in Nigeria. They range from corrupt practices, ownership structure, slow and inefficient judicial process to lack of enforcement mechanisms by regulatory bodies. Also, is the problem of window-dressings (eye-service) by the directors who are aided by the auditors, as well as the issue of negligence and misfeasance on the part of the auditors when auditing the financial statement of organizations which can be attributed to the lack of independence of the auditors. One will wonder what was wrong when a firm that has been declaring a huge amount of profits and has been declaring dividends to shareholders is suddenly declared bankrupt despite the huge remunerations paid to their corporate board. With this as the background, this study seeks to examine the effect of board characteristics on firm performance with a focus on listed conglomerates firms in Nigeria.

1.1 Objectives

The main objective of this study is to examine the effect of board characteristics on the firm performance of conglomerates listed on the Nigerian Exchange Group (NGX). The specific objectives of the study are to:

1. ascertain the effect of board size on return on assets of conglomerates listed on the Nigerian Exchange Group (NGX)
2. determine the effect of audit committee size on the return on assets of conglomerates listed on the Nigerian Exchange Group (NGX).
3. evaluate the effect of board gender diversity on the return on assets of conglomerates listed on the Nigerian Exchange Group (NGX).

1.2 Hypotheses

In assessing the effect of board characteristics on the financial performance of conglomerates in Nigeria, the following hypotheses were tested:

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H_{o1}: Board size does not have any significant effect on the return on assets of conglomerates listed on the Nigerian Exchange Group (NGX).

H_{o2}: Audit committee size does not have a significant effect on the return on assets of conglomerates listed on the Nigerian Exchange Group (NGX).

H_{o3}: Board gender diversity does not have a significant effect on the return on assets of conglomerates listed on the Nigerian Exchange Group (NGX).

2. LITERATURE REVIEW

2.1 Conceptual Review

The concept of the board is derived from the attributes or incentives variable that plays a significant role in monitoring and controlling managers and can be described as a bridge between company management and shareholders (Abu, Okpeh, & Okpe, 2016). The board is the supreme decision-making unit in the company, as the board of directors has the responsibility to safeguard and maximize shareholder wealth, oversee firm performance, and assess managerial efficiency. Fama and Jensen (1983) in Abu, Okpeh, and Okpe, (2016) pointed out four actions of initiation, ratification, implementation, and monitory, undertaken by the board in the decision-making processes. Therefore, the main role of the board is seen as the ratification and monitoring of decisions, overseeing the actions of managers/ executives. From the above concept, the role of the board is quite daunting as it seeks to discharge diverse and challenging responsibilities.

2.1.1. Board Size

For two reasons, board size is a well-studied board attribute. For instance, it is thought that the size of the board of directors influences the firm's performance. The number of directors, in particular, shows the CEO's influence over the board, according to agency theory. The larger the board, the more difficult it is for the CEO to dominate it, making it more effective in terms of profits management and performance enforcement (Nguyen, Dang & Dan, 2021). Furthermore, Ibrahim and Danjuma (2020) recognizes the relevance of board size. Their central argument is that external parties hold resources that a business organization perceives as crucial to the realization of its internal objectives. To acquire and maintain these resources, a company seeks to establish links with its environment, and the board of directors is a vehicle to do so. According to this perspective, a larger board of directors is assumed to be more capable of co-opting external influences, thus obtaining valuable resources that are inevitable for corporate success. Yameen, Farhan, and Tabash (2019) found that a larger board size

decreases the productivity of firms because the agreement with the CEO becomes more difficult when boards are large. Nguyen, Dang and Dan, (2021) demonstrated that large boards are difficult to coordinate and free-riding is common among these boards. They also believe that large boards have a problem with making value-maximizing decisions.

2.1.2. Audit Committee Size

The number of audit committee members in a bank determines the size of the audit committee. According to Al-Musali, Qeshta, Al-Attafi, and Al-Ebel (2019), the control and monitoring function will rise with a bigger number of audit committees because the larger committee's broader perspective and experience will help audit committees to fulfil their monitoring tasks better. Because they are more focused on discussing critical financial issues confronting a firm, a limited number of audit committee members may be successful in influencing financial performance. Oudat, Ali and Qeshta (2021) opines that the size of the audit committee has a substantial impact on the firm's financial performance. Haddad, El Ammari, and Bouri, (2021) conclude that audit committees with fewer members are more successful at protecting shareholders' interests and ensuring financial information quality. Furthermore, a larger audit committee is ineffective, which does not influence the firm's financial performance (Aldamen, Duncan, Kelly, Mcnamara, & Nagel, 2012).

2.1.3 Gender Diversity

Gender diversity looks at the mix of the gender (male & female) on the Board and how it affects the performance of the organisation. Usually, the board of directors of most firms are mostly comprised of the male gender with very few females and in some cases zero female inclusion. Most scholars however have seen this as a deficiency and have taken turns to examine the effect that women on the Board or female executives may have on the performance of firms. Gender diversity involves the process of taking advantage of diverse features and skills in a man and a woman that could bring benefits to the firm (Onatuyeh & Proso, 2019). To ensure that more women occupy top managerial and board positions, different countries have introduced diverse forms of action, including legislations and quotas. For example, governments in several European countries have mandated European firms to formulate policies directed towards increasing their numbers of female directors (Ibrahim & Danjuma, 2020). The most widely acknowledged example is the Norway gender quota system, where a 40% gender quota was introduced for women, as early as 2003, for both public and state-owned firms Abu, (Onatuyeh & Proso, 2019). Similar legislation was later

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introduced in Spain, Netherland, Iceland, and France (Marinova, Platenga, & Remery, 2010). In Nigeria, there are no such laws, however, the vision 2020 national technical working committee on corporate governance emphasized greater women participation in corporate governance matters, without mentioning specifics. It is therefore still not surprising that the percentage of women who have reached corporate executive positions in Nigeria, compared to their male counterparts, is still very low (Ibrahim & Danjuma, 2020). A possible reason for this disparity, as emphasized in the separate studies carried out by Yameen, Farhan, and Tabash (2019) is that women are regarded as the weaker sex and as a result have been alienated in the political, economic, and social arena. To get to top positions in various firms, women must overcome several hurdles ranging from cultural difficulties to coping with balancing family and career.

3. MATERIAL AND METHOD

The study adopted *ex-post facto* research design because the event under investigation had already taken place. The population of the study was made up of the five (5) conglomerates currently listed on the Nigeria Exchange Group (NGX). They include; John Holts Plc, Transnational Corporation of Nigeria (Transcorp) Plc, United Africa Company of Nigeria (UACN) Plc, Chellarams Plc, SCOA Nigeria Plc. Because of the manageable size of the population and the availability of the companies' annual reports, the whole population formed the sample for the study. The study adopted secondary sources of data for data collection. Cross-sectional data were extracted from the annual report and accounts of sampled conglomerates in Nigeria. The technique being used for data analysis includes panel least square regression analysis and correlation. The panel least square was used to ascertain the effect of these board characteristics on the financial performance of conglomerates in Nigeria. Correlation analysis was used to evaluate the relationship between board characteristics and the financial performance of conglomerates in Nigeria.

The multiple regression model was specified as follows:

$ROA_t = \beta_o + \beta_1 BDSIZE_t + \beta_2 ACSIZEt + \beta_3 BDGDIV_t + \varepsilon_t$ …..Eqn 1.

Where;

ROA	Return on Asset
BDSIZE	Board Size
ACSIZE	Audit Committee Size
BDGDIV	Board Gender Diversity
ε	Stochastic Disturbance (Error) Term

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β_o	Coefficient (constant) to be estimated
$\beta_i - \beta_4$	Parameters of the independent variables to be estimated
t	Current period

Table 1: Operationalization Variables/Proxies

VARIABLES	DEFINITION
Dependent Variables	
Return on Asset	$\frac{\text{Profit for the Year}}{\text{Total Asset}}$
Independent Variables	
Board Size	Number of Directors on the Board
Audit Committee Size	The number of members of the audit committee
Board Gender Diversity	Percentage of Female Directors on the Board

Source: Author's Arrangement

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

4.1.1 Descriptive Statistics

Table 2: Descriptive Statistic for the Variables under Study

	ROA	BDSIZE	ACSIZE	BDGDIV
Mean	-0.003144	7.740000	6.020000	8.859812
Median	0.019139	7.500000	6.000000	9.545455
Maximum	0.110066	12.00000	7.000000	50.00000
Minimum	-0.402534	5.000000	6.000000	0.000000
Std. Dev.	0.092281	1.816141	0.141421	11.75004
Skewness	-2.225026	0.619264	6.857143	1.946597
Kurtosis	8.930868	2.500588	48.02041	7.106038
Jarque-Bera	114.5378	3.715341	4614.414	66.70106
Probability	0.000000	0.156036	0.000000	0.000000
Sum	-0.157198	387.0000	301.0000	442.9906
Sum Sq. Dev.	0.417278	161.6200	0.980000	6765.104
Observations	50	50	50	50

Source: Author's Computation from Eviews 10.0 Statistical Software

Table 2 above reveals the variable description of the 50 observations of the panel data for sampled conglomerates. From the table, the industry minimum values are Return on Assets: -0.40; Board Size: 5.0000; Audit Committee Size: 6.0000; and Board Gender Diversity: 0.00000. However, the industry's maximum is Return on Assets: 0.110066; Board Size:

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12.00000; Audit Committee Size: 7.00000; and Board Gender Diversity: 50.0000%. The industry mean values for the variables studied are Return on Assets: -0.003144; Board Size: 7.740000; Audit Committee Size: 6.020000; and Board Gender Diversity: 8.859812%.

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From the Table 2, the probability of the Jarque-Bera Statistics for Return on Assets, Audit Committee Size and Board Gender Diversity have a significant p-values as follows Return on Assets (0.000000), Audit Committee Size (0.000000) and Board Gender Diversity (0.000000), except for Board Size (0.156036) which has an insignificant p-value. The significant p-values depicts that the variables are not normally distributed except for board size. This was further confirmed by the skewness coefficients which are greater than one with the following outcomes Return on Assets (-2.225026), Audit Committee Size (6.857143) and Board Gender Diversity (1.946597), except for Board Size (0.619264). The kurtosis coefficient provides a second level of confirmation that Return on Assets, Audit Committee Size and Board Gender Diversity are not normally distributed with the following greater than three coefficients; Return on Assets (8.930868), Audit Committee Size (48.02041) and Board Gender Diversity (7.106038), except for Return on Assets (2.500588). This shows that of all the variables, Board Size was the only one that is normally distributed judging by the insignificance of Jarque-Bera Probability, the skewness coefficient that is less than one, and the kurtosis coefficient that is less than three.

Table 3: Covariance Analysis Result

	ROA/BDSIZE	ROA/ACSIZE	ROA/BDGDIV
Correlation	0.287587	-0.030969	0.022202
t-Statistic	2.080344	-0.214660	0.153861
P-Values	0.0429	0.8309	0.8784
Observation	50	50	50

Source: Eviews 10.0 Software

Table 3 above shows the covariance results of the variables of the study. The table shows how the various independent variables of the study relates with each other and with the dependent variable. From the table, board size (ROA/BDSIZE) has a positive and weak (28%) relationship with return on assets, with t-statistics; 2.080344 and a p-value of 0.0429. Also, audit committee size (ROA/ACSIZE) has a weak and negative (3%) relationship with return

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on assets, with t-statistics; -0.214660 and p-value; 0.8309. Furthermore, board gender diversity (ROA/BDGDIV) has a weak and positive relationship (2%) with return on assets, with t-statistics; 0.153861 and p-value; 0.8784. Of all these variables, only board size showed significant relationship with return on assets of conglomerate firms in Nigeria.

4.2 Test of Hypotheses

After the application of the ordinary least square (OLS) estimation method on the model earlier suggested in the previous chapter, the following results shown in the table below was obtained.

Table 4: Dummy Variable OLS Estimation Result [Dependent Variable: ROA]

Variable	Coefficient	Standard Error	t-Stat	p-Value
BDSIZE	0.001617	0.010359	0.156097	0.8767
ACSIZE	-0.139295	0.045961	-3.030714	0.0042
BDGDIV	-0.002590	0.001170	-2.213171	0.0325
C	0.843459	0.295474	2.854600	0.0067

R^2 = 0.43, Adjusted R^2 = 0.33, F-Stat = 4.021855, Prob(F-stat) = 0.001344, D.W. Stat. = 1.30

Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Board Size: Board size has a coefficient of 0.001617 which shows that a unit increase in board size will increase the return on assets of conglomerate firms in Nigeria by 1.6%. The value of the t-statistics (0.156097 > 2) and the probability of t-Statistic (0.8767 > 0.05) shows that board size has an insignificant effect on the return on assets of conglomerate firms in Nigeria.

Audit Committee Size: Audit committee size has a coefficient of -0.139295 which shows that a unit increase in audit committee size will decrease the return on assets of conglomerate firms in Nigeria by 13 percent. The value of the t-statistics (-3.030714 > 2) and the probability of t-Statistic (0.0042 < 0.05) shows that audit committee size has a significant effect on return on assets of conglomerate firms in Nigeria.

Board Gender Diversity: Board gender diversity has a coefficient of -0.002590 which shows that a unit increase in the board gender diversity will decrease the return on assets of conglomerate firms in Nigeria by 0.25%. The value of the t-statistics (-2.213171 > 2) and the probability of t-Statistic (0.0325 < 0.05) shows that board gender diversity has a significant effect on the return on assets of conglomerate firms in Nigeria.

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The value of the Adjusted R^2 is 0.33, which tells us that 33 per cent of the changes in the return on assets are explained by the independent variables, while the other 63 per cent are explained by other factors capable of influencing the return on assets other than board size, audit committee size and board gender diversity. These other factors are contained in the error term. The f-test is used to check for the overall significance of the model and if the value of the probability of the f-stat (p-value: 0.001344) is less than 0.05 at a 5% critical value, the model is said to be significant and statistically fit. The Durbin Watson Statistic (1.30) shows the presence of positive autocorrelation in the time series data.

4.2.1 Hypothesis One

H_0: Board size does not have a significant effect on the return on assets of conglomerates listed on the Nigerian Exchange Group (NGX).

The OLS regression estimation in Table 4 shows that board size has a statistically positive effect on the return on assets of conglomerate firms in Nigeria. In addition, the values for t-statistic (0.156097) and p-value (0.8767) depicts that board size has no statistically significant effect on the return on assets of conglomerate firms in Nigeria. This makes board size unable to significantly predict rate of return on assets in the industry. . The implication of the findings of the study is that as the size of the board of directors of these conglomerates increases, the financial performance of these firms, measured by the return on assets, equally increases. This could be attributed to the increased level of expertise that comes with numbers. A large board has a higher chance of containing well qualified numbers, and the financial and investment decisions of the firms are more likely to pass through a filter channel such that the sound decisions are prioritized. Hence, the organization stands to benefit through higher return on assets.

This is in tandem with the findings of Egbunike, Ezelibe and Aroh (2015), Yameen, Farhan and Tabash (2019), Ibrahim and Danjuma (2020) and Eluyela et al (2018), who equally found a positive effect of board size on the financial performance of organizations. However, Augustine, Kwaku, Alex and Eric (2017), found a rather insignificant association between the variables. In contrast, Olfa, Mighri and Karim (2016), found a negative association between corporate governance, especially board size, on the financial performance of various organizations

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4.2.2 Hypothesis Two

H_0: Audit committee size does not have a significant effect on the return on assets of conglomerates listed on the Nigerian Exchange Group (NGX).

The regression coefficient in Table 4 shows that audit committee size has a negative effect on the return on assets of conglomerate firms in Nigeria. Furthermore, the values for t-statistic (-3.030714) and p-value (0.0042) depicts that audit committee size has a statistically significant and negative effect on the return on assets in the industry. This implies that as the number of the members of the audit committee increase in these organizations, the financial performance, measured by return on assets, dwindled. The size of the audit committee means more hands on deck in auditing the firms' finances, thereby reducing the probability of the managers of the organization engaging in earnings management. Also, fees spent in audit fees are bound to increase if the number of the members of the audit committee increases. Hence, why increasing the number of the audit committee will impact negatively on the financial performance of the organization.

Furthermore, the study goes in tandem with the findings of Paradisa and Yustrida (2020) who found the effect of the audit committee size on the financial performance to be negative. These findings go contrary to the findings of Bouaine and Hrichi (2019), Drogalas, Nerantzidis, Samaras, and Pazarskis (2020) in that they found the effect of audit committee size to be of an insignificant nature. However, Shatnawi, Eldaia, Marei, and Aaraj (2021) and Bashir (2021) found these effects to be of a positive nature, which are all contrary to the negative and significant finding of the current study.

4.2.3 Hypothesis Three

H_0: Board gender diversity does not have a significant effect on the return on assets of conglomerates listed on the Nigerian Stock Exchange (NSE).

The regression coefficient in Table 4 shows that board gender diversity has a negative effect on the return on assets of conglomerate firms in Nigeria. Furthermore, the values for t-statistic (-2.213171) and p-value (0.0325) depicts that board gender diversity has a statistically significant and negative effect on the return on assets of conglomerates in the industry. This means that the financial performance of the firms suffers when there are more women on the board of directors. This could be from the fact that women naturally have some natural limitations such as child birth and nurture, as well as taking care of their families. This means that they might not be as productive as their male colleagues. Hence, having more women on

the board might mean reduced performances of the board, which will translate in the general organizational financial performance.

The findings of the study are in line with the findings of previous studies such as Imoleayo, Eddy, Egbide, and Olamide (2016) who found board gender diversity to have a negative impact on financial performance. However, Onatuyeh and Proso, (2019) contrarily found board gender diversity to have no significant effect on the financial performance of business organizations.

CONCLUSION AND RECOMMENDATION

The study examined the effect of Board characteristics on the return on assets of conglomerate firms in Nigeria. Board characteristics over the years has gained a lot of traction, with a number of researchers of the opinion that Board characteristics is vital for the improvement in profitability and general performance of any organization. Components of Board characteristics such as board size, board diversity and audit committee size, have been researched in a bid to understand the individual effects that they have on the performance of organizations. The key motivation towards the persistence in this field is the skill and decision making that board of directors are believed to offer. Therefore, organizations try as much as possible to accumulate the possible benefits of a good level of corporate governance.

Therefore, the study was motivated to explore the effect of Board characteristics on the return on assets of conglomerate firms in Nigeria. The objective of the study was properly drafted to capture the various components of Board characteristics and how each of them impact on the financial performance of these conglomerates. Using the OLS regression model the study found that board size has a positive and insignificant effect on the return on assets of conglomerates used in the study. Furthermore, the study found a negative and significant effect of audit committee size on the return on assets of conglomerates firms in Nigeria. Lastly, the study found board gender diversity to have a negative and significant effect on the return on assets of conglomerates in Nigeria.

The following recommendations were made based on the findings and conclusion:

1. The study found that board size positively, albeit insignificantly, impacts on the return on assets of conglomerate firms in Nigeria. The study recommends that these conglomerates increase on the size of the board, or decreases based on other reasons other than profitability, as it has no effect in that regard.

2. The firms in the study should strive to reduce the size of their audit committees. Doing this will help in cutting costs, and channelling the needed funds into various areas of productivity within the organization.
3. Lastly, the effect of board gender diversity is found to be a negative one on return on assets. Going by this finding, the study recommends that organizations reduce their level of gender diversity. Organizations are advised in this study to include more men than women in their board of directors.

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