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Board Structure and Firm Performance in Nigeria

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Abstract: Firm performance is determined in varying categorization of internal factors like managerial structure efficiency, corporate governance set up and ownership structure, which are made up of the firm broad structure, as this affects the ability of firms and control of external factors. In this study, the impact of board composition on firm performance in the manufacturing sector is examined. Primary data constructed from research instruments are based on questionnaires administered to 50 manufacturing firms in Nigeria and is aimed at identifying their corporate governance structure and to relate it to the overall performance of the firms. The qualitative response modeling techniques are also adopted for the empirical analysis. The results from the analysis shows that disclosure policy and measures aimed at guaranteeing board independence are very strong performance enhancing factors. On the other hand, conflict of interest among board members is found to exert significant negative impact on firms performance in the study. It is therefore recommended that corporate boards in manufacturing firms in Nigeria would be more effective with fewer but more committed members. Large-size boards may embellish conflict of interest among members and also decrease the sense of personal responsibility, with each board member taking refuge in the collective position.

Keywords: Broad Structure, Firm Performance, Manufacturing Firms, Nigeria, Primary Data

1. Introduction

The determinants of firm performance in varying categorisation may be identified in three basic levels firstly, the relationship of firm performance to the external factors that are beyond its controls are generally broad. On the second note, some factors that are internal and they are under the direct purview of the firms. However, these factors, includes the managerial structure efficiency, corporate governance set up and ownership structure. These factors affects the ability of the firms to manage the external factors. Also, there are other factors like firm size, leverage, and nature of the industry that affect firms' performance [5]. Each of the levels of determinants is essentially relevant in ensuring smooth performance and eventual growth of the firm. However, in terms of control and initial conditioning within the firm framework, the second category/level provides a unique avenue for internal factors to play extensive roles in directing.

Corporate governance as has shown to have present its influences on firm activities on various aspect. It is however accepted that boards of directors play a fundamental role in corporate governance and that the structure of the board matters [6, 13]. Hence, the board as a factor also comes in more generalized format. For instance there is no consensus as to what the optimal board structure or composition of firm should be [8].

In view of its purported relevance and significance in firm operations, the main components of corporate governance also constitute the factors that determine its effectiveness in the organization. A purview of the governance of organizations reveal that the board of directors provide a formidable platform for the corporate organization to thrive. The overall goals and strategic paths of the organization are developed within the confines of the Board. Effective corporate governance therefore implies a strong and efficient board [27]. In this direction therefore, the nature of the board composition/structure is therefore a vital aspect of corporate governance in any firm. This is because the structure of the overriding agent in the business organization can easily make or mar corporate goals and aspirations.

Essentially therefore, the internal workings of the Board is considered as the major direction of corporate governance and this factor provides the strongest background for the success or failure of governance in the corporate organization.. More so, the nature or structure of the Board still holds the key to effective corporate governance. The impact of corporate governance on the performance of the corporate organization can therefore be clearly understood on the platform of the structure of its Board.

However, on the relationship between board structure and firm performance in Nigerian manufacturing sector, not much work has been done in the regard. Besides, most of the studies have essentially focused on the banking sector in relation to the financial crises in the past few years (examples, [10, 16, 20, 22]). Akalumeh et al, (2011) examined the impact of board composition on the economic performance of firms in Nigeria, board composition in the study was considered in terms of the proportion of the board of directors in Nigeria that is represented by outside non-executive directors and the study used a cross-sectional design, using a survey of a sample of 38 firms during the 2009 financial year. Therefore, the main objective of this study is to conduct a firm-level analysis of the impact of board composition/structure on firm performance in Nigeria. The direction of the study is to use primary-data analytical methods to show the particular aspects where the board has had satisfactory impacts on the performance of manufacturing firms in Nigeria.

2. Literature Review

As mentioned in previous part, a lot of concern has been raised on the Issue of corporate governance and broad structure in Nigeria in recent years. However, in 2002, the Securities and Exchange Commission (SEC) in partnership with the Corporate Affairs Commission set up a Committee to develop a draft code of corporate governance and in 2003, the code was effectively launched. The code was geared toward improving corporate governance in general and strengthening board-level activities in Nigeria [21]. Overall, the recommendations from the code supported separation of CEO from Chairman, and directed that board composition should be such that undue pressure be limited from any section of the membership [5]. Hence, it was discovered that the code was silent about other equally important committee – appointment committee – for gauging board independence [21, 25]. Moreover, the code was accused of lacking the legitimate authority, as there is no enforcement mechanism and its observance is entirely voluntary [17]. Apparently, in exclusion, some critical means of strengthening board independence, more so, it does appears that Nigeria's code of corporate governance does not take full account of such provisions in codes of corporate governance developed much earlier like in other countries of the world such as the USA and United Kingdom [25].

The noted deficiencies in the 2003 Code and general perception that weak broad composition was responsible for the failures of certain firms in Nigeria, the Securities and Exchange Commission, and in September 2008, the securities and exchange commission reviewed the 2003 Code of Corporate Governance for Public Companies in Nigeria to address its weaknesses and to improve the mechanism for its enforceability, this was done by the National Committee which was inaugurated by then. And in particular, the committee was mandated to identify weaknesses, and constraints to good corporate governance practices, and to examine and recommend ways of effecting greater compliance and to advice on other issues that are relevant to promoting good corporate governance practices by public enterprises in Nigeria, and for aligning it with international best practices [23].

Therefore, the new code of corporate governance in Nigeria was geared to ensuring the highest standards of good corporate governance, accountability and transparency, without unduly inhibiting enterprise and innovation. The code of corporate governance recommended that the main responsibility for ensuring good corporate governance in companies lies with the board composition which membership should not be less than five. It did not however recommend on the maximum board size but that the board structure should comprise a mix of non-executive and executive directors which to be headed by a Chairman or chairperson. The bulk of board members should be non-executive directors and one of whom should be an independent director. Also mentioned, is that the board should be independent of Management control to enable it carry out its oversight function in an objective and effective way. The Chairman should be a non-executive director and for all public enterprises with listed securities, the positions of the Chairman of the Board and Chief Executive Officer shall be separate and held by different individuals [23].

In a study on the banking sector, Kwambo and Abdul-Kadir (2013) considered the impact of board composition on the performance of banks considered healthy by the central bank of Nigeria and it was to establish the impact and existence of corporate governance. The sample of twelve financial banks were collected and data covering 2006 – 2010 were extracted froim the banks financial statements for the periods. The study employed two techniques to test for the two hypotheses formulated from the mathematical model outlined for the study; the multiple regressions (ANOVA), was employed to establish the relationship between the variables. The independent samples t-test was used to further determine the impact revealed. Findings revealed the absence of a significant relationship and impact that was not attributable to the mechanisms of corporate governance. However adherence to these codes promoted the overall effectiveness in functions of these banks i.e operational performance.

Finding by Kwambo and Abdul-Qadir (2013) seemed to be in contrast with that of Ugbulu and Emeni (2012) who investigated whether a positive correlation exists between corporate governance and bank performance using some corporate governance indicators – board composition and ownership structure. The cross sectional survey research design was adopted in the course of gathering data. The data collected were analyzed with the use of correlation coefficient, and the study established a negative correlation between corporate governance indicators and performance of banks in Nigeria. The study therefore recommended based on its findings, it was recommended that, since board composition has no positive correlation with firm performance, board size should be limited in order to improve firm performance through cost reduction. The same negative relationship were found by Ajala et al, (2012) who used simple correlation analysis on secondary data from selected banks in Nigeria.

Strictly opposite results have been found in the Nigerian case by some researchers for the banking sector. With the use of secondary data, which were extracted from the yearly financial reports of nine selected banks and covering the period of ten (10) years (2001- 2010), Mohammed (2012) examined the impact of corporate governance in these selected banks on their performance in Nigeria. The data were analyzed using multiple regression analysis method. The study therefore supported the hypothesis that corporate governance positively affects performance of banks in Nigeria. Osuagwu (2013) seems to find similar results with Mohammed when he adopted descriptive method of analysis in examine corporate governance principles and theory to ascertain its relationship with bank performance. The study found among other things that noncompliance to corporate governance code in the Nigerian banking industry hampers banks performance. The study argued that good corporate governance culture is non-negotiable since it has impact on the performance of existing banks in Nigeria.

The studies on non-bank firms have considered carious aspects of corporate governance in Nigeria. For instance, Sanda et al, (2008) explore corporate governance issues in Nigeria by paying particular attention on the relationship between corporate board independence and firm financial performance in Nigeria. Using data for varying sample size (ranging from 89 firms for regression to 205 firms for descriptive analysis) obtained from the Nigerian Stock Exchange for the period 1996 through 2004, certain aspects of board independence were examined and their possible effects on firm performance investigated. The key results were that share ownership is highly concentrated in Nigeria, with this structure tending to engender board structures with close family affiliations and in which the CEO tends to take an active part in membership of audit committees. While family affiliation of board members is found to support firm growth, they find evidence that audit committee membership of chief executives hurts firm performance. The study also find that foreign chief executive perform better than their local counterparts.

In the same vein, Babatunde and Olaniran (2009) studied the effects of internal and external mechanisms on governance and performance of corporate firms in Nigeria. It made use of panel data regression analysis between the periods of 2002 - 2006 for a sample of sixty-two firms listed on the Nigerian Stock Exchange to examine the relationship. The results showed that the size of board matters to firm overall performance. Moreover, the results showed no significant evidence to support the idea that outside directors' help promote firm performance. In addition, the study found that the measure of performance matter for analysis of corporate governance studies. Interestingly, the study found in some cases different results from the use of Returns on Assets (ROA) and Tobin's Q as measures of firm performance.

On the general effects of corporate governance on firm performance, Kajola (2008) examines the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and profit margin, PM), of a sample of twenty Nigerian listed firms between 2000 and 2006. Using panel methodology and OLS as a method of estimation, the results provide evidence of a positive significant relationship between ROE and board size as well as chief executive status. The results further reveal a positive significant relationship between PM and chief executive status. The study, however, could not provide a significant relationship between the two performance measures and board composition and audit committee. These results are consistent with prior empirical studies. The studied showed that the board size should be limited to a sizeable limit and that the posts of the chief executive and the board chair should be occupied by different persons. The negative effect of board size on performance was also found by Samuel (2013) who used secondary data from the Nigerian Stock Exchange Fact book drawn from various industries during the period 2001 – 2010 via the regression statistical technique.

Erah et al (2012) centred their research on CEO duality and financial performance of firms in Nigeria. The objective of the study was to find out the relationship between CEO Duality and the Financial Performance of Firm. They adopted the use of secondary data from the Nigerian Stock Exchange Fact book drawn from various industries during the period 2001 – 2010 and the regression analysi. The findings of the study revealed that CEO Duality is harmful to the Financial Performance of a firm.

The only study in this series that focused on the manufacturing sector is that of Hassan and Ahmed (2012) who examined the relationship between corporate governance on corporate financial performance when performance is stripped of the discretionary component of accruals. Secondary data were extracted from annual reports of the sample firms for the period between the period 2008 to 2010 and univariate OLS multiple regression was used as a tool for data analysis. The study documents that corporate governance significantly impact on both the adjusted and unadjusted firm performance in different magnitudes and directions. Specifically, it was empirically established that board composition is inversely related with true performance while a positive interaction emerged between executive compensation and firm performance regardless of the performance specification.

From the empirical literatures examined, there seems to be no unified pattern of results for the board structure-performance nexus. This outcome is particularly rife in the light of the finding that many board composition components could be devised and their effects on firm performance could be quite varied.

3. Methodology

The type of research design that is applicable to a study depends on the purpose of the study. On this note, the research design adopted in this paper is the primary data survey method. This method is very applicable in the social sciences, is employed as the data collection method because this study involves the systematic study of a population in other to understand and be able to predict some aspects of the behaviour of the population. Moreover, the research is descriptive in nature, generally surveys and assesses board structure and firm performance in Nigeria. However, in order to determine the effects of board structure factors on firm performance, econometric techniques were employed, using the Qualitative Response Modeling technique. This method is applied since the responses from the questionnaire will generate qualitative data which is obtained by taking the average responses of the respondents based on the subsections in the questionnaire. The Ordinary Least squares (OLS) method breaks in the estimation of such data set since the probability distribution of the dependent variable is not continuous. The particular qualitative response modeling technique applied is the *Logit* method which estimates the relationships using the Maximum Likelihood approach.

3.1. Population Sampling Procedure

The population of the study consists of the whole manufacturing firms in the Nigerian stock exchange. However, to constitute sample size out of the population of the study, the Purposive non-probability sampling method is adopted in the collection of samples for this research. Based on this method, fifty manufacturing firms are selected for the sample of the study. The common criteria used for the selection include type of availability of board information, area of location and accessibility. The concept of non-probabilistic procedure allows more information within the distribution and accords the research work more scientific feature, thereby concretizing the validity of the research findings.

3.2. Model

A simple regression model will be used to identify the relationships between board structure and firm performance based on the survey method in the paper. In this data survey analysis, it categorized firm performance with respect to the responses obtained from the last section of the questionnaire. Given the nature of the data derived for the dependent variable (i.e., either 'yes' or 'no'), the *Logit* model is adopted in the estimation of the relationships. Here, we estimate the probability of a firm performing based on the benchmark discussed above. Therefore, the baseline model for the primary data analysis may be specified as:

$$\Pr[\mathrm{PERF}] = f(\mathrm{DISC}, \mathrm{BFIND}, \mathrm{SHR}, \mathrm{COIN}) \tag{1}$$

Where PERF = firm performance

DISC = disclosure

BFIND = board functioning and independence

SHR = shareholders' fund

COIN = conflict of interest

It should be noted that the determination of the variables above is based on qualitative data obtained from the questionnaire. Following Bieren (2008) and Green (2004), the Maximum Likelihood econometric form of the model is written as:

$$\Pr[\mathrm{PERF_j} = 1|\mathrm{X_j}] = \frac{1}{1 + exp\,(-\alpha_0 - \beta_0 X_j)},$$

$$Pr\left[PERF_j = 0\middle|X_j\right] = 1 - Pr\left[PERF_j = 0\middle|X_j\right]$$

$$= \frac{exp\,(-\alpha_0 - \beta_0 X_j)}{1 + exp\,(-\alpha_0 - \beta_0 X_j)} \tag{2}$$

where the X_j's are the explanatory variables and α_0 and β_0 are unknown parameters to be estimated.

4. Empirical Analysis

4.1. Summary Statistics of Survey Outcomes

Data and analyses for the demographic characteristics of the respondents which include: gender, age, educational qualification, and occupational status are presented in table 1 below. The Table shows that majority of the respondents were males. This category of respondents accounted for 63% of the total number of respondents, while 37% of the respondents were females. Also, table 1 shows that majority of the respondents were between the ages of twenty-one (21) and forty (40). This category of respondents accounted for 68.5% of the total number of respondents. Most of the respondents (55%) posses a first degree as their highest qualification and they are also mostly at the supervisory level in their various firms.

Table 1. *Demographic Profile of the Respondents.*

Demographic characteristics	Categories	Frequency	Valid percentage
Gender	Male	126	63.0
	Female	74	37.0
	Total	200	100
Age	Less than 20 years	13	6.5
	21-30	66	33.0
	31-40	71	35.5
	41-60	39	19.5
	Over 60	11	5.5
	Total	200	100
Educational Qualification	FSLC	7	3.5
	OND/NCE	32	16.0
	B.Sc/B.A/B.ED/HND	110	55.0
	Postgraduate	51	25.5
	Total	200	100
Status on the job	Management	50	25.0
	Supervisor	102	51.0
	Lower cadre	19	9.5
	Contract	29	14.5
	Total	200	200

Source: Author's computation.

4.2. Qualitative Response Models (Board Structure and Performance)

In Table 2, the estimates based on the questionnaire are shown. In the result, the logit estimates are in focus. Each of the board structure variables are significant at the 5 percent level (their p-values are less than 0.05) except that of shareholders' fund. Thus shows that on a micro-scale, disclosure in the firm, board functioning and independence as well as conflict of interest between management and board are very critical factors affecting firm performance. Disclosure is shown to have a positive impact on performance, indicating that a board that encourages disclosures will ensure better performance for the firms. Also, board independence and better functioning will lead to higher performance for the firms. However, the results show that conflict of interest between the management and the board will only lead to worsening of the performance indicators in the firm.

Table 2. *Estimated Qualitative Response Model.*

Explanatory Variable	Probit			Logit		
	Coefficient	**T-ratio**	**Prob.**	**Coefficient**	**T-ratio**	**Prob.**
Constant	-0.15	-0.17	0.86	-0.21	-0.15	0.88
DISC	0.33	1.90	0.06	0.53	2.86	0.00
BFIND	0.18	1.57	0.08	0.29	1.96	0.05
SHR	0.15	1.00	0.32	0.25	0.99	0.32
COIN	-0.13	-3.13	0.00	-0.15	-5.55	0.00
MCFadden R^2	0.12			0.13		

Source: Author's computation.

5. Conclusion and Recommendations

In this study, the impact of board composition on firm performance in the manufacturing sector was examined. Primary data constructed from research instruments were based on questionnaires administered to 50 manufacturing firms in Nigeria and was aimed at identifying the corporate governance structure and try to relate it to the overall performance of the firms. The qualitative response modeling techniques was also adopted for the empirical analysis. The results form the analysis shows that disclosure policy and measures aimed at guaranteeing board independence are very strong performance enhancing factors. On the other hand, conflict of interest among board members was found to exert significant negative impact on the performance of the firms in the study.

It is therefore recommended that corporate boards in manufacturing firms would be more effective with fewer but more committed members. Large-size boards may embellish conflict of interest among members and also diminish a sense of personal responsibility, with each board member taking refuge in the collective position. This makes it harder to restrain management and the cult of personality [7]. As long as there are sufficient checks-and-balances, the ideals of business lines will be ensured.

Moreover, from the analysis that there is a clear case for board independence since a clear positive relation between board independence and future operating performance of corporate firms have been established in the study. Hence, board independence aimed at improving performance actually not a misguided effort as suggested by Choudhry (2011). Moreover, it has been shown by studies like Levine, (2004), and Andres, Azofra and Lopez (2005) that board independence is required to discipline management of poorly performing firms, which constitutes a strong merit for board independence has merit.

Finally, the regulatory authorities should intensify the pursuit of transparency among corporate firms' executives. A requirement that mandates management to communicate to shareholders in precise and clear fashion the extent of the firm's risk and losses on a regular basis could be enforced. This will promote transparency in management of the manufacturing firms and avoid unnecessary risk taking. Moreover, regulatory bodies should ensure that the current organizational architecture of the Nigerian listed companies engenders proper structure. Also, noticed from our regression results, was that a sizeable number of estimations depicting negative influence of board and audit membership independence on firm performance, this is unexpected, so therefore, we advise that board structure of firms in Nigeria are well constituted for the gains of the business and not solely for political gains or favors.

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