

BOARD ATTRIBUTES AND FIRM PROFITABILITY IN NIGERIA QUOTED FIRM

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Board of Director (BOD) is charged with oversight of management on behalf of the shareholders. Agency theorist argued that in order to protect the interest of shareholders, the board of director must assume an effective oversight function. It is assumed that the

board of director performance of its monitoring duties is influenced by the effectiveness of the board, which in turn is influenced by factors such as board composition and quality, size of board, duality of chief executive officer, board diversity, information asymmetries and board culture (Brennan, 2019).

The issue of structure of the board of director as a Corporate Governance mechanism has received considerable attention in recent years from academics, market participants and regulation. It continues to receive attention because theory provide conflicting views as to the impact of board structure on the control and performance of firms, while at the same time the empirical evidence is inconclusive. To date, the relationship between board size (as opposed to board process) and firm performances has been the most studied aspect among all board investigation (Bhagat & Black, 2018). In these studies, it is often assumed that a company's financial performance is mainly determined by board characteristics. In view of the importance attached to the institution of effective corporate governance, the federal government of Nigeria, through her various agencies came up with various institutional arrangements to protect investor of their hard earned investment from unscrupulous management/ directors of listed firm in Nigeria. These institutional arrangements produced the "code of corporate governance best practices" issued in November 2017.

The code proposes that the business of a firm should be managed under the direction of the board of director's who delegates to the CEO and other management staffs, the day to day management of the affairs of the firm. The best practices of the code also recommend that the board sees to the appointment of a qualified person as the CEO and other

management staff. The director with their wealth of experience, are expected to provide leadership and direct the affairs of the business with high sense of integrity and commitment to the firm, its business plans and long-term shareholder value. In addition the board provides other oversight function. Other mechanism of corporate governance includes audit committee, shareholders right and privileges. The emergence of mega banks in the post consolidation era prompted the Central Bank of Nigeria to issue a new code of corporate governance published the revised code of corporate governance in September, 2009, after consultation with other regulatory bodies. The new code was issued code was issued to address the weakness of the 2017 code and to improve the mechanism for its enforceability. It requires the separation of the position of the managing director from that of the chief executive officer. Also, the code recommended that the number of non-executive director's should be more than that of the executive director subject to a maximum board size of twenty (20) directors. In other to ensure both continuity and injection of fresh ideas, non-executive director should not remain on the board for more than three terms of four (4) years each, that is, twelve (12) years. The study adopted the definition of board size as given by Triker (1994). He noted that board size distinguishes between those directors who hold management positions in the company and those who do not.

Those with management position are referred to as insider directors in the united state or executive directors in United Kingdom and Australia. The top person in the board is the chairman; he could be an executive or a non-executive of the company. If the CEO

happens to be a director on the board, then he is an executive director. In this study, we concentrate on four board characteristics: board composition, director's ownership, CEO duality and board size which has been identified as possibly having an impact on firm performance and these characteristics are set as the independent variables.

Over the years, different variables have been used to measure firm performance. Firm performance can be measured using long-term market performance measures and other performance measures that are non-market oriented measures or short term measures. Some examples of these measure include market value added (MAU) economic value added (EVA), cash flow growth, earnings per share (EPS), asset growth, dividend growth and sales growth (Cole, Mc Williams & Sen, 2018, Abudulah, 2017). In their study, Dahaere, De Vuyst and Oghe (2018) used return on equity (ROE) and return on assets (ROA) as proxies for corporate performance in Belgian companies. Market-to-book raw materials were utilized on firms in Hong Kong (Chen, Cheung, Stouraitis & Wong, 2005). In the article, Judge, Naoumova and Koutzeuoi (2017) used series of indicators including financial profitability, customer's satisfaction, product or service quality, capacity utilization and process improvement to assess firm performance. For the purpose of this study, ROE and ROCE are used to measure firm's financial performance.

In today's global construction environment characterized by increased competition, the efficacy of corporate governance in protecting shareholders interest has been brought to the forefront due to the demise of such giant as Enron, WorldCom and 820 construction firms between 2000 and 2008 (African vanguard, 2009, Kwode, 2015). Board structure, a determining factor in establishing good corporate governance is made up of such

variables as board size, board composition and board independence in relation to firm's performance. Board size in particular, has been variously described as regard each country's legislation (company law). According to Adusei (2019), it connotes a board's capacity for monitoring increases as more directors are added. Several authors before him like Klein (2002), Andre's, Anrbard, Vauedado (2008) and Beikhor (2009) opined that board size and firm performance have direct relationship. However, such opponents of incremental board size of directors argued that it aluminates on poorer communication and decision making which is a characteristic feature of large groups (Fama & Jensen, 1983, Lipton & Lorsch, 1992, Termack, 1996, Uwiugbe & Fakile, 2012, Manaseer, Al-hindawi, Al-Daluyat & Sartawi, 2012). On the other hand, Topaki (2019) found no relationship between board size and firm performance in their respective studies.

Firm performance which shows if the resources of a firm are used effectively, efficiently and economically to fulfill the goal of the firm is crucial in evaluating the overall success of the firm (Parker, 2000). For performance evaluation, firms employs both financial and non-financial performance criteria measures such as return on asset (ROA), return on equity (ROE), earnings per share (EPS), are financial performance measure that are most frequently used. Stern, Shiely and Ross (2004) opined that return on asset and return on equity are better indicators of corporate performance because they include the statement of financial position and the statement of profit and loss and other comprehensive income. Contrastingly, Ehrbar (1998) argued that earnings, earning per share and earnings growth are misleading measures of firm performance.

1.2 Statement of Problem

Despite the fact that board attributes has a significant influence on firm performance, most organisations in Nigeria today do not put this into consideration in setting up board composition. The potential problem of large board will depends on the specific functions and effectiveness of board is likely to differ according to institutional framework, legal and operating environment. There are several reasons why the board of directors monitoring function will be carried out less effectively. For instance, outside director are rarely held legally accountable for failing to fulfill their legal duty of care and loyalty. Consequently, they regard their role as being fundamental in the aspect of advising rather monitoring. It is most likely that these boards are made up of lower proportion of outside directors who are often less independent from management. This can emanate from the fact that financial incentive via shareholdings and outright remuneration for outside (independent) director to fulfill their obligations are in most instance, much smaller than that of executive directors. Most corporate failures including banks in Nigeria and beyond are largely as a consequence of chief executive officer (CEOs) possessing unregulated undirected power as they act as both CEO and chairman of the board of directors, a significant percentage of expert suggest that the benefit of separating the chairman and CEO roles are not clear out (proponents of stewardship and administrative theories). Some studies stressed that having a clear and unambiguous authority concentrated in one person is vital to effective management. Nevertheless, these divergent views among experts have necessitated a study in our native environment with its inherent and peculiar features (industry and firm specifics).

1.3 Research Questions

The following research questions shall be examine in this study:

- i. To what extent does board size affect firm profitability?
- ii. To what extent does board independence affects firm profitability?
- iii. To what extent does ownership structure affects firm profitability?

1.4 Objectives of the Study

The broad objective of the study is to examine the effect of board attributes on firm profitability. The specific objectives are:

- i. To examine the extent to which board size affect firm profitability.
- ii. To examine the extent to which board independence affects firm profitability.
- iii. To determine the extent to which ownership structure affects firm profitability.

1.5 Statement of Hypotheses

The following hypothesis stated in their null forms shall be tested in this study:

H₁: Board size has no significant effect on firm profitability.

H₂: Board independence does not significantly affect firm profitability.

H₃: Ownership structure has no significant effect on firm profitability.

1.6 Significance of the Study

This study will contribute to the entire body of knowledge as it will contribute to the enrichment of the literature on board attributes and firm profitability.

This study will also provides an insight into understanding the degree to which corporate governance practice affect firm profitability in Nigeria.

Lastly, Board of directors will find the information valuable in benchmarking the performance of their organisation.

1.7 Scope of the Study

This study examines board attributes and firm profitability in Nigeria. The Study is restricted to selected listed manufacturing companies quoted on the Nigerian Exchange Group from 2015 to 2021.

1.8 Limitations of the study

The limitations of this study are itemized below:

- i. The study is restricted to only manufacturing companies, extending the research work to other sector of the economy would have improved the reliability of the result.
- ii. Problem of gathering secondary data needed for the research work as some of the selected companies have incomplete data.
- iii. Different Accounting year of the selected companies posed a great problem to the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.1.1 Corporate Governance

The concept “corporate governance” has attracted various definitions. Metrick and Ishii (2018) define corporate governance from the perspective of the investor as “both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment”. The implication of this definition is that corporate

governance has an impact on a firm's ability to access the capital market. Metrick and Ishii (2018) argue that firm level governance may be more important in developing markets with weaker institutions as it helps to distinguish among firms. Cadbury committee (2018) defines corporate governance as "the system by which companies are directed and controlled". Zingales (2017) also defines a governance system as "the complex set of constraints that shape the ex-post bargaining over the quasi rent registered by the firm".

According to Mayer (2019), corporate governance is concerned with ways of bringing the interests of (investors & managers) into line and ensuring that firms are run for the benefit of investors. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability. It also include 'the structures, processes, cultures and systems that engender the successful operation of organisations.' (Keasey, 2019).

Corporate governance is also seen as the whole set of measures taken within the social entity that is an enterprise to favour the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Maati, 2016).

In the light of the foregoing analysis, it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Thus, corporate governance systems may be thought of as

mechanisms for establishing the nature of ownership and control of organisations within an economy. In this context, ‘corporate governance mechanisms are economic and legal institutions that can be altered through the political process - sometimes for the better’. Company law, along with other forms of regulation (including stock exchange listing rules, & accounting standards), both shape and is shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on ‘the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson & Mayer, 2018). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Maati, 2016). Corporate governance describes how companies ought to be run, directed and controlled.

2.1.2 Board Size

The earliest literature on board size is by Lipton and Lorch (2018) and Jensen (2018). Jensen (2018) argued that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Hermalin and Weisbach (2019) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. Lipton and Lorch (2018) recommended limiting the number of directors on a board to seven or eight, as numbers beyond that it would be difficult for the CEO to control. A large board could

also result in less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board (Lipton & Lorch, 2018). In addition, the problem of coordination outweighs the advantages of having more directors and when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management. On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality.

2.1.3 Board Independence

The independency of the board was measured through three proxies - the proportion, motivation and diligence of independent non executive directors. Proportion of independent Non executive directors was measured as the overall percentage of independent non executive directors on the board to the board size, while the diligence was measured as the average participations of independent non executive directors in annual meetings. Hermalin and Weisbach (2019) argue that the proportion on independent non executive directors is grouped into two categories. The first one for companies that have less than the recommended requirement of at least one third of independent non executive directors while the second group for companies that did not comply with this requirement. Meanwhile, the diligence proxy was categorized into three subgroups. Companies that have at least two third average participations of independent non executive directors in board meeting as 'High' and those with less than one third as

'Low' while the rest as 'medium'. Finally, the third proxy, motivation, is measured as the average compensation or monetary fees, including salaries and bonuses paid to independent non executive directors in a year. (Jenkinson & Mayer, 2018).

2.1.4 Audit Committee Independence

To mention but a few an indication that a lot has been said about independence as it relates to the Nigeria economy. In this part of the research attention shall be given to international law and regulations as they relate to audit committee independence. “Sarbanes Oxley” section 301 of Sarbanes Oxley added section 10A (M) (1) requires the SEC to adopt rules directing the exchanges to prohibit the listing of any security of a company that is not in compliance with the requirement of New Section 10A (M) (2) (6) after providing the company with an opportunity to correct any defects New section 10A (M) (2) (6) of the exchange Act set forth five separate requirement relating to audit committees paragraph (3) set forth minimum independence criteria for audit committee members.

SEC: Rule 10A 3 under the Securities Exchange Act of 1934 (SEC Release No. 34 47654) (April 9, 2019) implementing Sarbanes Oxley Section 301 by requiring the exchange and Nasdaq to adopt rules that prohibit the initial on continued listing of any security of a listed company that is not in compliance with minimum audit committee member independence criteria of proposed rule 10A (3) (6) Rule 10A 3 (6) (1) set forth the required minimum standards for audit committee independence which are:

- Each member of the audit committee must be a member of the Board of Director of the listed (company) and must otherwise be independent that where a listed (company) is one

or two dual holding companies those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the Board of directors of at least one of such dual holding companies.

- Independence requirement for non-investment company issuers in order to be independent for purpose of this paragraph (b) (1) a member of an audit committee of a listed (company) this is not an investment company may not other that in his or her capacity as a number of the audit committee the board of directors or any other board committee;
- Accept directly or indirectly any consulting advisory or other compensating free from the (company) or any subsidiary thereof provided that unless the rules of the national securities exchange or national securities association provided otherwise compensatory fees do not include the receipt of fixed amount of compensation under a retirement plan (including deferred compensation) for prior service with the listed (company) (provided that such compensation is not contingent in an way or continued service.

2.1.5 Ownership Structure

One of the most important trademarks of the modern corporation is the separation of ownership and control. Modern corporations are typically run by professional executives who own only a small fraction of the shares. There is an ongoing debate in the literature on the impact and merit of the separation of ownership and control. Early theorists such as Williamson (2018) propose that non-owner managers prefer their own interests over that of the shareholders. Consequently, non-owner managed firms become less efficient than owner-managed firms. The more recent literature reexamines this issue

and prediction. It points out the existence of mechanisms that moderate the prospects of non-optimal and selfish behavior by the manager.

In addition, the presence of outside directors on the board constrains management behavior. Others, like Murphy (2015), suggest that executive compensation packages help align management interests with those of the shareholders by generating a link between management pay and firm performance. Hence, non-owner manager firms are not less efficient than owner-managed firms. Most interestingly, Demsetz and Lehn (2015) conclude that the structure of owner-ship varies in ways that are consistent with value maximization. That is, diffuse ownership and non-owner managed firms emerge when they are more worthwhile. These criteria, typically based on percentage ownership by large block holders, are less innocuous and more problematic than initially believed because, as demonstrated by Morck, Shleifer and Vishny (2015) the relation between percentage ownership and firm performance is nonlinear. Further, percent ownership appears insufficient for describing the control structure. Two firms with identical overall percentage ownership by large block holders are likely to have different control organizations, depending on the identity of the large block holders. In this study, we utilize the ownership classification scheme proposed by Ang, Hauser and Lauterbach (2019). This scheme distinguishes between non-owner managed firms, firms controlled by concerns, firms controlled by a family, and firms controlled by a group of individuals (partners). Obviously, the control structure in each of these firm types is different.

2.2 Theoretical Review

2.2.1 Agency Theory

This seems to be the dominant paradigm and has been used widely in different aspects of corporate finance and certainly in Corporate Governance studies and analyses (Davies, 2019). The theory is rooted in the work of Berle and Means (2012) on the separation of firm ownership from management. It is also often credited to the landmark work of Jensen and Meckling (2018) and Fama and Jensen (2018). They suggested that Agency problems will arise in any circumstance where the Principal (owners, shareholders) employs the Agent (management) to undertake a number of duties on their behalf for a reward. Thus management acting as Agent to the Principals owe them a fiduciary duty of care to run the organisation in the best interests of the owners for a stipulated reward (Berle and Means, 2019; Jensen and Meckling, 2015; Pratt and Zeckhauser,(2019). However, Jensen and Meckling (2015) argue that conflicts of interest do inevitably exist between the management and owners of businesses in cases where owners are not managers. This is because the theory assumes a model of man (manager) that is self-serving, individualistic and opportunistic in nature, who prefers to maximise his own utility functions at the expense of the owners. As a result, the theory is built on the assumption that there is almost always a divergence of objectives between the goals of the management and those of the shareholders.

Furthermore, given that shareholders have different risk attitudes compared to management, the continuous existence of information asymmetry may impose on the principal the need to institute some forms of controls. These control mechanisms require the allocation of resource and have the tendency to increase the costs of operations, often referred to as the agency cost. Agency problems may exist in a number of instances

within the organisation. They are known to exist in diversification and investing decisions and in decisions relating to mergers and acquisitions (Lane, 2010). This may relate to management's tendencies to prevent suitable offers in furtherance of their own interests at the expense of the shareholders (Kosnik, 2018). The agency problem is not limited to the relationship between management and shareholders alone, although this seems to have enjoyed the most attention. It may also be exhibited in the relationship between management and debt-holders (Jensen & Meckling, 2015). Often the primary concern is how to reduce or minimize the agency cost of operations and thereby increase the returns available for sharing among the residual claimants. However, in the context of increasing separation of ownership from management, as the ownership base becomes more dispersed, management tend to become less accountable and their activities less observable, at least to the shareholders (Fama, 2012). While management are involved in the operational decision making of businesses, owners are either so numerous that they cannot all be involved in the management of the firm or they do not possess the right type of skills to manage the enterprise successfully (Morck & Steier, 2012). However, management are more closely involved in the business and for a longer time than the owners and thus have more information about the business than its owners individually. This creates the classic case of information asymmetry differences in the nature and scope of information between the two parties exacerbate the agency problems. For reasons mentioned earlier, shareholders are often at a disadvantage: this gives management an unbridled opportunity to consume perks or take sub-optimal decisions

that affect the organization by conflicting with shareholders wealth maximization objectives. (Aboody & Lev,2015).

A number of mechanisms have been devised to reduce conflicts of interest and their impacts on organisations. These include incorporating in the contract between the contracting parties as many clauses as possible that simulate possible scenarios and attempt to provide for them in the contract. Other methods of control include incentivizing the management and linking management compensation to performance, reducing the free cash flow available within the organization through debt financing which reduces the possibilities of consumption of perquisites. Also increasing management's stake in the equity of the company has been suggested.

Jensen and Meckling (2019) have argued that increasing managements' share ownership should bring their interest more closely with those of other shareholders. However, the risks of management entrenchments have also been identified (Shleifer & Vishny, 2012). This refers to a situation where management's share ownership is so substantial that they can wield significant power and hence influence the composition of the board of directors. This may facilitate management shirking and excessive consumption of perks.

2.2.2 Stakeholder Theory

One of the criticisms of Agency Theory is that it provides a short term perspective and explanation of the purpose of the firm (Freeman, 2016). Also, critics argue that its scope is narrow, since it projects the activities of the firm from the perspective of the shareholders only.

An alternative proposition known as the Stakeholder Theory suggests that a firm's activities should be projected on longer and broader perspectives (Freeman, 2016). The theory posits that the essence of corporate activity is not only for the benefit of the shareholders, but also for the benefit of all relevant stakeholders (including the shareholders) and it is all these relevant stakeholders who should be the main remit of the modern firm (Freeman, 2016).

It argues that firms should be managed in such a way that they coordinate the diverging interests of their numerous stakeholders including employees, shareholders, customers, suppliers, the government and society in general. This consideration should thus impact upon the formulation of the corporate strategy of the organisation as a whole (Marcoux, 2019).

The arguments for the stakeholder view of the corporation have often been premised on moral and business ethics (Phillips, 2015). However, as pointed out earlier in the discussion of Agency Theory, the perception of the interaction and the nature of the relationship between the firm and society are greatly influenced by our own points of view on what the main purpose of the firm is. One such view is that of the classical economist, summed up succinctly in Carr (2019). Although his views might not be totally representative of all classical economists, a good number of them share his notion of “pure-profit making” as the only objective of the firm. So much so that he suggested that businesses have a lower standard of ethics compared to society as a whole and therefore an abdication of all moral or ethical concern is consistent with the achievement of the firm's “pure profit making” goals. A modified classicalist view suggests that whilst

businesses pursue the main objective of shareholder value maximisation, they should be aware of their responsibility to society by being obedient to the law and being ethical, this is the “constrained profit making” view of the firm (Friedman, 2017 in Branco and Rodrigues, 2016). However, even if the researcher assumes that businesses have a duty to protect the interests of all stakeholders, the researcher will still be confounded by the problem of tradeoffs involving the conflicting interests of all the stakeholders. Lack of measurable objectives with respect to each of the stakeholders still provides opportunity for management to be less accountable and to consume perquisites (Mallin 2016). Jensen (2012) has observed that proponents of the Stakeholder Theory have been unable to provide realistic resolutions of the numerous conflicting interests of stakeholders that businesses need to protect. He therefore suggested a strand of Stakeholder Theory which he referred to as the “enlightened Stakeholder Theory” or the “enlightened shareholders maximisation theory”. The theory posits that in order to maximise stakeholders value, businesses should focus on maximising shareholders returns and this in itself would ensure the maximum return to all stakeholders. He further explains that a business would not be able to maximise shareholders value if any stakeholder is ignored or mistreated.

Stakeholder Theory is very important in the context of a spectrum of discussions on Corporate Governance, not least the form of the control mechanisms adopted, and the possibility of control mechanisms playing substituting and/or complementary roles (Fung, Rui & Firth, 2018). The continental European model of Corporate Governance is known to favour the stakeholder perspective of the firm (Moerland, 2015). This is evident in the structures and composition of the board of directors and in the roles played by

other stakeholders. For example, it is normal for financial institutions to own substantial stakes in companies in Germany or France and it is also usual that they have a representative on the governing board of such companies, in addition to the earlier mentioned roles of the employees in the firm's management, (Goergen, 2016). This governance arrangement has been argued to provide financial stability for these firms and also to ensure closer monitoring from the financial investors (Goergen, 2016). The stakeholder model approach to Corporate Governance has been criticised for being inadequate as a complete theory of the firm, but rather no more than a logical presentation of a series of techniques (Key, 2015).

Another criticism that has been levelled against the Stakeholder Theory of the firm is that it is unrealistic. The notion that the firm exists to benefit all stakeholders who do not directly have a stake in the firm appears bogus and at best superficial and this perhaps explains the complexity or near impossibility of a mechanism that will effectively allocate residual returns of the firm to all its stakeholders (Jensen, 2012). It thus seems to have limited empirical applicability in Corporate Governance as it lacks specificity and is difficult to operationalise. This is especially so since it is not measurable and observable. Unlike the Agency Theory of the firm, it is not suggesting a set of measurable variables that can proxy for stakeholders' interest or power in the firm.

2.2.3 Resource Dependency Theory

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine,

2019). According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like.

According to Abdullah and Valentine, directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandoña, 2016).

The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Wang, 2019).

The agency theory concentrated on the monitoring and controlling role board of directors whereas the resource dependency theory focus on the advisory and counseling role of directors to a firm management. Recently, both economists and management scholars tend to assign to boards the dual role of monitors and advisers of management. However, whether boards perform such functions effectively is still a controversial issue (Ferreira, 2010). Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of management and shareholders, to providing information for monitoring and counseling, and to ensuring effective decision-making

(Marinova, 2010). The dual role of boards is recognized. However, board structure has relied heavily on agency theory concepts, focusing on the control function of the board (Habbash, 2010).

2.3 Empirical Review

2.3.1 Board Size and Firm profitability

Corporate boards are responsible for monitoring the quality of information contained in financial statements that are communicated to the public. One of the disadvantages associated with a large board is communication/coordination problem which makes large board as less efficient monitoring of prompt reporting of financial statements than small board (Dimitropoulos & Asteriou, 2010). Makand (2012) argue that large board creates less participation, is less organized and is less able to reach an agreement about audit process and procedures. Beasley (2015) shows that an increase in board size will slow the process of decision making; and by implication the audit process. He attributed this to the number of times larger board may decide to hold their meeting in order to arrive at a decision on the audit process and the release of the audit report. Firms with a small board exhibit greater informativeness and show a stronger response that may lead to delay in the audit process (Xie, 2019). Furthermore, smaller board may be less encumbered with bureaucratic problem, more functional and more able to provide better financial reporting oversight. Abdul-Rahman and Mohamed-Ali (2015) show that board size and audit delay are positively related. Meanwhile, Bradbury, Mak and Tan (2015) evidenced that board size and audit report lag are negatively associated.

The most common corporate governance is board size. The impact of board has not been fully established in researchers. Some researchers such as Dimitropulos and Asterious (2010); Dalton and Mak (2012) argue that large boards are less effective at monitoring due to difficulties in coordinating board activities and directors being more likely to “free-ride” than in smaller boards. While other are of the opinion that larger board can be more effective, particularly for more complex firms where advantage from the greater advisory capacity may outweigh the cost of less effective monitoring that larger boards.

Atiase, Bamber and Tse (2019) found that large companies report earnings faster than small companies and the –reporting of earnings has a more significant market reaction for small firms than for large firms. In a study a Australian firms, Davies and Whittred (1980) found that small firms and large firms made significantly more timely report than medium-size firms and that profitability was not a significant variable. Accounting to Dimitropulos and Asteriou (2010), one of the disadvantages with a large board is communication/ coordination problem, which makes a large board less efficient monitors than a small board. The directors’ “free –rider” is also more intense in a large board than a small board. Dalton, Daily, Johnson and Ellstrand (2016) argue that a large board creates less participation, is less organized, and is less able to reach an agreement. Beasley (2015) show that an increase in board size is related to higher incidence of fraud cases Vafeas (2015) documents firms with small board exhibit greater earnings in formativeness i.e. their report earnings solicit a stronger investor responses, as reflected by stock returns. Xie (2019) also argue that a smaller board may be less encumbered with

bureaucratic problems, more functional and more able to provide better financial reporting oversight.

In Malaysia, previous studies have yielded mixed results on the effect of board size and the quality of financial reporting. Abdul-Rahman and Mohamed-Yusuf (2015) show that board size and earnings management are positively related. Meanwhile, Bradbury, Mak and Tan (2015) find the opposite. According to Jensen (2018) the directors' "free-rider" problem is also more intense in a large board than a small board. Mak and Li (2012) argue that large board creates less participation, is less organized, and is less able to reach an agreement hence concluded that board size and earnings management are positively related. Mohamed- Yusuf and Lee (2019) show that in 2018, out of 752 companies, larger board size also seems to exacerbate audit lag although. According to Mohammed-Nor (2012) multivariate analysis using 628 annual report of Malaysian public companies for the year ended 2018 they discovered that larger board size also seems to exacerbate audit lag, although it is not statistically significant.

2.3.2 Board Independence and Firm profitability

Empirical evidence has shown that properly constituted boards with the right mix of non-executive directors tend to contribute an unbiased sense of judgment in selection members that make up the audit committee (Bhagat & Black, 2012). A board comprising a reasonable proportion of inside and outside directors is more likely to be independent of management than one dominated by inside directors, and therefore more likely to protect the interests of other stakeholders (John & Senbet, 2017).

Taking the case of Nigeria, the new code of corporate governance provides that the non-executive directors should be in the majority, and that a non-executive director should specify audit roles, choice of audit firm in order to avoid delay in preparation of audit reports. In a recent empirical work, Hayes (2016) reported no relationship between the fraction of outside directors serving on a committee and audit delay. John and Senbet (2017) noted to have been in support of greater participation of outside directors on the major committees of the board so as to enhance the timeliness of report.

2.3.3 Ownership Structure and Firm profitability

Early theorists such as Williamson (2018) propose that non-owner managers prefer their own interests over that of the shareholders. Consequently, non-owner managed firms become less efficient than owner-managed firms. The more recent literature reexamines this issue and prediction. It points out the existence of mechanisms that moderate the prospects of non-optimal and selfish behavior by the manager.

In addition, the presence of outside directors on the board constrains management behavior. Others, like Murphy (2015), suggest that executive compensation packages help align management interests with those of the shareholders by generating a link between management pay and firm performance. Hence, non-owner manager firms are not less efficient than owner-managed firms. Most interestingly, Demsetz and Lehn (2015) conclude that the structure of ownership varies in ways that are consistent with value maximization. That is, diffuse ownership and non-owner managed firms emerge when they are more worthwhile. These criteria, typically based on percentage ownership by large block holders, are less innocuous and more problematic than initially believed

because, as demonstrated by Morck, Shleifer and Vishny (2015) the relation between percentage ownership and firm performance is nonlinear. Further, percent ownership appears insufficient for describing the control structure. Two firms with identical overall percentage ownership by large block holders are likely to have different control organizations, depending on the identity of the large block holders. In this study, we utilize the ownership classification scheme proposed by Ang, Hauser and Lauterbach (2019). This scheme distinguishes between non-owner managed firms, firms controlled by concerns, firms controlled by a family, and firms controlled by a group of individuals (partners). Obviously, the control structure in each of these firm types is different.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design for this study was panel data (cross sectional/longitudinal design) with time series properties. This was used to reach out to different firms, thus capturing the heterogeneity among firms. To achieve the objectives of this study, the annual report for the period 2010-2018 were analyzed. However, using the judgmental sampling technique; a total of 52 listed firms were analysed. Nevertheless, in testing the research

hypothesis, the study adopted the use of Panel Least Square regression for the listed sampled firms in the estimation of the regression equation under consideration.

3.2 Population of the Study

The study population consists of corporate firms quoted in the Nigerian stock exchange during the period 2015-2021. However, the researcher decided to use data from three different sectors (Manufacturing, Construction and Oil & Gas) according to data availability. This led to a population of 60 firms.

3.3 Sample Size and Sampling Technique

Samples are useful because they allow the researcher to examine the characteristics of the population.

The Taro Yamani statistical formula was adopted for this research work. The formula is thus:

$$n = \frac{N}{1 + N(e)^2}$$

Where: N = population of study

n = sample size

e = level of significance or margin of error

Therefore,

$$N = 60$$

$$e = 0.05$$

$$n = ?$$

Note: The choice of 0.05 level of significance is purely an exclusive decision of the researcher.

$$n = \frac{60}{1 + 60 (0.05)^2}$$

$$n = \frac{60}{1 + 60 \times 0.0025} = \frac{60}{1 + 0.15} = \frac{60}{1.15} = 52.17$$

$$n = 52 \text{ sample size.}$$

However, the study uses the judgmental sampling technique to select the sample for the study.

3.4 Method of Data Collection

The research tool that was adopted in obtaining relevant data for this study was the annual reports of the firms under study for the period 2010 – 2018.

3.5 Method of Data Analysis

Data obtained from secondary data were analyzed using STATA Computer Software. The study used regression analysis to investigate the impact of independent variables on dependent variable. A multiple linear regression model was used to establish the

significance of the model. The results obtained from the model are presented in tables to aid and ease the analysis.

3.6 Model Specification

The regression model used is as shown below:

$$ROA = \beta_0 + \beta_1 BDZ_{ij} + \beta_2 BDI_{ij} + \beta_3 OWNS_{ij} + \epsilon$$

Where:

ROA = Return on Asset

BDZ = Board Size

BDI = Board Independence

OWNS = Ownership Structure

β_0 = Intercept

$\beta_1 - \beta_3$ = Parameters

ϵ = Error term

i = ith year

j = jth year firm

Level of Significance

The study used the STATA Computer Software to determine the relationship between corporate governance characteristics and value of the various corporate firms it studied.

The level of significance adopted in testing the stated hypothesis of this study is 5%. This level is usually considered adequate for studies in management and other behavioral sciences.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Presentation and Analysis of Data

Table 4.1 presents the summary of the descriptive statistics for the dependent and independent variables for 52 observations. It shows Return on asset has a mean value of 17.3139 and a standard deviation of 1.5909. The maximum of Return on asset is 22.8633 while the minimum is 14.5087. The maximum for all the variables are 3.09, 4, 22.39 for board size, board independence and ownership structure respectively.

For board size the mean rating value was 2.0520 and standard deviation of 0.5360 the corresponding values for the other are: board independence, 0.5268 and 0.6766 respectively; ownership structure, 1.3251 and 3.1386 respectively. The p-values of the skewness and kurtosis statistics show that nearly in all the cases the data are judged to be normally distributed at 5% level of significance.

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	p(skewness) P(kurtosis)
ROA	52	17.3139	1.5909916	14.50	22.86	0.0001 0.0037
BDSIZE	52	2.052039	0.5360823	0	3.091	0.0000 0.0001
BDIND	52	0.526849	0.6766723	0	4	0.0000 0.0000
OWNST	52	1.325151	3.138652	0.197	22.39	0.0000 0.0000

Source: Researchers Computation Using STATA (2022)

Table 4.2 : Correlation Matrix

	ROA	BDSIZE	BDIND	OWNST
ROA	1.0000			
BDSIZE	-0.0489	1.0000		
BDIND	0.1845	-0.7085	1.0000	
OWNST	0.0379	0.2780	-0.0905	1.0000

Source: Researchers Computation Using STATA (2022)

Table 4.2 shows that there are mixed correlations between the various variables used in the study. The table shows negative correlation between Return on asset and board size, it shows a positive correlation between Return on asset and board independence and a positive correlation between Return on asset and ownership structure. The table shows

that no two of the explanatory variable are perfectly correlated or nearly so. Thus, the problem of multicollinearity is absent in this model.

Table 4.3: Regression Result (OLS)

Number of obs = 52 F[3, 50} = 0.80 Prob > F = 0.0011 R – squared = 0.0475 Adj R – squared = 0.0120 Root MSE = 1.6005				
ROA	Coef	Std. Err	t	P> t
BDSZE	0.48494	0.59882	0.81	0.422
BDIND	0.70502	0.47600	1.48	0.145
OWNST	-0.00224	0.07247	-1.03	0.975
Cons	15.9503	1.45430	10.97	0.000

Table 4.4: Robust Regression

Number of obs = 51 F [3, 47} = 2.64 Prob > F = 0.0001				
ROA	Coef	Std. Err	t	P> t
BDSZE	0.8500	0.3781	2.25	

0.029			
BDIND	-0.0548	0.3679	-0.15
0.082			
OWNST	-0.0018	0.0458	-0.04
0.068			
Cons	15.2045	0.9187	16.55
0.000			

Source: Researcher's Computation Using STATA

Table 4.3 Shows that the explanatory variables do not account for much of the systematic variations in the dependent variables. The table shows very low R-squared and adjusted R-squared values of 0.0475 and -0.0120 respectively. This low values of the R-squared statistic suggests that there are many other variables in explaining changes in the dependent variables. The P-value shows that the model is suitable for estimating the stated model.

4.2 Testing of Hypotheses

Test Statistic

The statistical tool used in testing the stated hypotheses is the regression test procedure which uses the individual significance test (t-test) and the overall significance test (F – test). The goodness of fit of the model is tested using the coefficient of determination. The estimated of these statistics is done using the STATA computer software.

Significance Level

The level of significance adopted in this study in testing the stated hypotheses of this study is 5%. This level is usually considered adequate for studies in management and other behavioral science.

Decision Rule

The critical P- value used in these tests is 0.05. Thus, the researcher accepts a given alternative hypothesis as being accepted if calculated p-value is less than or equal to 0.05, otherwise the researcher accepts the null hypothesis that there is no significant effect.

Hypothesis I

H₀: Board size has no significant effect on firm profitability.

H₁: Board size has a significant effect on firm profitability.

Computation

The test statistics is computed by STATA software and the result are as shown in table 4.4.

Table 4.4: Regression Result on Board size and firm profitability.

Variables	Coefficient	T – test Statistic	P- Value
BDSZE	0.850	2.25	0.029

Source: Extracted from Table 4.3 (STATA Computations)

Decision

With a coefficient of 0.850 the result indicate that board size positively affect firm profitability. With the probability value of 0.029, the researcher accept the alternative hypothesis which state that board size has a significant effect on firm profitability and

reject the null hypothesis which state that board size has no significant effect on firm profitability.

Hypothesis II

H₀: Board independence does not affect firm profitability.

H₁: Board independence affect firm profitability.

Computation

The test statistic is computed by STATA software and the results are shown in table 4.5.

Table 4.5: Regression Result on Board Independence and firm profitability.

Variables	Coefficient	T – test Statistic	P- Value
BDIND	-0.0548	-0.15	0.082

Source: Extracted from Table 4.3(STATA Computations)

Decision

With a coefficient of -0.0548 the results indicates that board independence negatively impacts firm profitability. With the profitability value of 0.082, the researcher accept the null hypothesis which state that board independence does not affect firm profitability and reject the alternative hypothesis which state that board independence affect firm profitability.

Hypothesis III

H₀: Ownership structure has no significant effect on firm profitability.

H₁: Ownership structure has a significant effect on firm profitability.

Computation

The test statistic is computed by STATA software and the results are shown in table 4.5.

Table 4.6: Regression Result on ownership structure and Firm profitability.

Variables	Coefficient	T-test Statistics	P- value
OWNST	-0.0018	-0.04	0.068

Source: Extracted from table 4.5 (STATA Computations).

Decision

With a coefficient of -0.0018 the results indicates that Return on asset negatively impact ownership structure. With the probability of 0.068, the researcher accept the null hypothesis which state that ownership structure has no significant effect on firm profitability and a reject the alternative hypothesis which state that ownership structure has a significant effect on firm profitability.

4.3 Discussion of Findings

This study sought to examine board attributes and firm profitability. The study used fifty two (52) observations. The study adopted the multiple regression analysis and adopt pooled data regression estimated techniques.

With a coefficient of 0.850 the result indicate that board size positively affect firm profitability. With the probability value of 0.029, the researcher accept the alternative hypothesis which state that board size has a significant effect on firm profitability and

reject the null hypothesis which state that board size has no significant effect on firm profitability.

With a coefficient of -0.0548 the results indicates that board independence negatively impacts firm profitability. With the profitability value of 0.082 , the researcher accept the null hypothesis which state that board independence does not affect firm profitability and reject the alternative hypothesis which state that board independence affect firm profitability.

With a coefficient of -0.0018 the results indicates that Return on asset negatively impact ownership structure. With the probability of 0.068 , the researcher accept the null hypothesis which state that ownership structure has no significant effect on firm profitability and a reject the alternative hypothesis which state that ownership structure has a significant effect on firm profitability.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

This study examined board attributes and firm profitability. The study adopted the multiple regression analysis and adopt pooled data regression estimated techniques using STATA computer software. Based on the test conducted and the analysis of the results, the study made the following findings.

- i. Board size has a significant effect on firm profitability.
- ii. Board independence does not affect firm profitability.
- iii. Ownership structure has no significant effect on firm profitability.

5.2 Conclusion

Emanating from the review of relevant literature and theories on board attributes and firm profitability in Nigeria and based on the data collected and analyzed and the hypotheses tested the study concludes that board attributes significantly affect firm profitability. It is obvious that the bankrupt of large companies has raised serious questions about the effectiveness of different monitoring devices such as external examiner, voluntary disclosure and corporate governance mechanism. There has been debate in the literature about the effectiveness of corporate governance factors. Corporate governance implies an explicit responsibility for boards in the financial

reporting process. In doing so, it raises the expectation that boards will constrain opportunistic earnings management activities.

5.3 Recommendations

Based on the findings from this study and the conclusion reached, the study offers the following recommendations:

- i. Since board size has a significant effect on auditor independence, it is therefore recommended that the board size should not be too large, specifically, maximum of nine (9) members. This would assist in facilitating quick decision in relation to audited financial statement for disclosure.
- ii. Board composition should include directors with adequate knowledge in accounting and/or finance in order to understand earnings management practice.
- iii. The flexibility of the SEC code contributes to the failure and bankruptcy of some firms in Nigeria as only a low percentage of the listed firms recognize the code put in place. Therefore, there is need for the regulatory authority to make it a rigid rule; and failure to abide by it should attract appropriate sanctions.

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