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Effect of board characteristics on firm's performance in Nigeria

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Abstract

This study examines the effect of board characteristics on the performance of quoted manufacturing companies of the industrial goods sector in Nigeria. The board characteristics investigated were based on board size and board gender. Data were collected from audited annual reports of 15 listed industrial goods companies from the year 2015 to 2020. Data was analyzed using panel regression model. This study found that Board size (BZ) has a significant effect on firms' performance of manufacturing goods sector firms listed on the Nigeria Stock Exchange. Findings also show that Board gender (G) has no significant effect on the firms' performance. The study recommends that more members should be added to the number of board of directors so as to improve the company's board effectiveness.

Keywords: Board Characteristics, Nigeria, Firms

Introduction

In recent years, board composition is one of the crucial factors that affect organisational performance. Corporate boards have become critical for smooth and effective for the smooth operation of any organistions.[2] It is the essence of any organization's management that moderates agency costs.[3] Palestine, a developing nation, has made significant progress in corporate governance.[4] However, Awartani noted that the country still faces problem in its legal system due to a lack of a harmonised regulatory framework, although this has not been crucial in improving the corporate structure.[5]

However, in recent years, the government established the Palestine Capital Market Authority (PCMA) to regulate the nation's securities market. The Palestinian Monetary Authority (PMA) has established documented principles that govern corporate governance within the banking sector.[6] The board is

[1] Fayinminuniyi@gmail.com
[2]Peter Chemweno, "Board Characteristics and Organizational Performance," *International Journal of Business Management* (2019).
[3]Robert Roberts, Terry McNulty, and Philip Stiles, "Director Behaviour in the Boardroom" (2014); Imad, "Board Characteristics and Firm Performance" (2017).
[4]Basel Awartani, *Corporate Governance in Palestine* (Ramallah: Palestine Capital Market Authority, 2015), https://doi.org/10.1016/j.irfa.2015.10.002.
[5]Basel Awartani et al., "Corporate Debt Maturity in the MENA Region: Does Institutional Quality Matter?," *International Review of Financial Analysis* 46 (2016): 309–325, https://doi.org/10.1016/j.irfa.2015.10.002.
[6]Lina Abdeen, "Palestine and Corporate Governance," *Birzeit University Journal* 4, no. 1 (2015): 26–27.

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tasked with overseeing the organization's performance to ensure returns for investors and shareholders.[7]

Furthermore, the board is tasked with facilitating modifications that align with the organization's mission.[8] The board of directors plays a crucial role in corporate governance, primarily tasked with overseeing management to ensure accountability to shareholders. The board of directors is responsible for overseeing the appointment of directors to ensure that qualified, experienced, and educated individuals are selected.[9] Nonetheless, boards of directors possess various dimensions. In addition to board independence and the presence of financial experts, factors such as board size, duality, diversity, and shareholdings also influence board efficiency and firm performance.[10] Board characteristics are important for firm performance during crisis. For example, corporate board performance is positively correlated with the number of board meetings and the frequency of directors' attendance at these meetings.[11]

Boards of directors are a crucial instrument[12] and a fundamental institution in a company's internal governance mechanisms.[13] It is recognised that multiple factors related to boards influence organisational performance.; Hence, this study focuses on the effect of board characteristics on firm performance for companies listed in the stock exchange. However, empirical evidence has been conflicting on the impact of the board characteristics on firm's performances. Therefore, this study will provide a systematic analysis on the effect of board characteristics on firm performance in Nigeria. However, the issue of characteristics of the board of directors as a corporate governance mechanism has received considerable attention in recent years from academics, business participants and Regulators.[14][13] It is argued that, board members with a higher

[7]Andrei Shleifer and Robert W. Vishny, "A Survey of Corporate Governance," *Journal of Finance* 52, no. 2 (1997): 737–783; Imad, "Board Characteristics and Firm Performance" (2015).
[8]R. Bairathi, *Corporate Governance and Board Responsibilities* (New Delhi: Academic Press, 2011); Chemweno, "Board Characteristics and Organizational Performance."
[9]David Bassey Edem and Azhar Mohd Noor, "Board Characteristics and Company Performance: Evidence from Nigeria," *Journal of Finance and Accounting* 5, no. 2 (2014): 81–89.
[10]Anil Shivdasani, "Board Composition, Ownership Structure, and Hostile Takeovers" (2004); David Yermack, "Higher Market Valuation of Companies with a Small Board of Directors," *Journal of Financial Economics* 40, no. 2 (1996): 185–211; A. Yilmaz Guner and Serdar, "Local Government Discretion and Accountability in Turkey," *Public Administration and Development* 33, no. 2 (2008): 125–142; Daniel Ferreira, "Board Diversity and Corporate Performance," in *Oxford Handbook of Corporate Governance* (2012).
[11]Renée B. Adams and Daniel Ferreira, "Board Meetings and Corporate Performance," *Journal of Financial Economics* (2017): 349–368; Bill, Iftekhar, and Qiang, "Director Attendance and Firm Performance" (2017).
[12]H. Hau and R. Mat Zin, "Corporate Governance and Board Performance: Evidence from Malaysian Listed Companies" (Kuala Lumpur: Universiti Kebangsaan Malaysia, 2007)
[13]Fernando Lefort and Urzúa, "Board Independence, Firm Performance and Ownership Concentration: Evidence from Chile," *Journal of Business Research* 61, no. 6 (2008): 615–622, https://doi.org/10.1016/j.jbusres.2007.06.036; Blanca Arosa, Txomin Iturralde, and Amaia Maseda, "Outsiders on the Board of Directors and Firm Performance," *Journal of Family Business Strategy* 1, no. 4 (2010): 236–245.
[14]Chemweno, "Board Characteristics and Organizational Performance."

age average will have much more experience which is expected to positively contribute to the better performance of a firm. However, older-age board members appear to be more aggressive and dictatorial with decisions. These characteristics of board members may result in risky decision making, which may undermine a firm's performance.[15] In addition, board members with a higher age average may face more limited pressures to a changing business environment and may hinder the implementation of more strategic decision.[16] Therefore, this paper is to provide an understanding for nature and the effect of board characteristics on firm performance in Nigeria.

Following from the above discourse, the under listed constitute the research questions that will guide this study:

- Does board characteristics affect firms' performance in Nigeria? 1.
- Does size of the firm have an effect on firms' performance? 2.

The objective of this study is to examine the effect of board characteristics on firms' performance in Nigeria. Therefore, Focus will be on industrial goods companies of manufacturing sector quoted in the Nigeria Stock Exchange from 2015 to 2020. A total of 15 companies were randomly selected which is represented by 83% of the total goods companies. 15 companies were selected due to limited access to data collection of the industrial goods companies and limited time frame to gather data.

Literature Review

Conceptual Clarification
Board characteristics

Corporate governance is the system by which business corporations and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board of directors, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. Board characteristics simply refer to size, division of labour between the board chair and the CEO, its composition and diversity. Composition of board refers to the distinction between inside and outside directors, and this is traditionally shown as the percentage of outside directors on the board.[17]

Board size

Board size is the number of members on the board. Identifying appropriate board size that affect its ability to function effectively has been a matter of continuous debate.[18]

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[15]Gösta Carlsson and Karl Erik Karlsson, "Age, Cohorts and the Generation of Generations," *American Sociological Review* 35, no. 4 (1970): 710–718, https://doi.org/10.2307/2093946

[16]John Child, "Organizational Structure, Environment and Performance: The Role of Strategic Choice" (1975).

[17]Marc Goergen and Luc Renneboog, "Insider Control by Large Investors and the Composition of the Board of Directors" (2000)

[18]Michael C. Jensen, "The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems," *Journal of Finance* 48, no. 3 (1993): 831–880; David Yermack, "Higher

Boards expertise

The board is charged with corporate governance. According to Fama, the shareholders govern the board's mandate of the organization.[19] Furthermore, Fama and Jensen stated that, since the board was mandated to supervise the organisation, they were required to have the knowledge which would allow them to carry out their roles perfectly.[20] According to Vo and Phan, such skills should be in marketing, IT, accounting and legal issues affecting the organization.[21]

Board leadership structure

Different theoretical arguments have been introduced to support either CEO duality structure or CEO non-duality structure. Drawing on agency theory, advocates of CEO non-duality suggest that CEO duality diminishes the monitoring role of the board of directors over the executive manager, which may in turn have a negative effect on financial performance. In other words, as Alchian and Demsetz state, "who monitors the monitor?"[22]

Gender diversity

The discourse surrounding gender diversity in boardrooms and senior executive roles has garnered attention from the public, academia, government, and corporate strategy for over a decade, yielding intriguing yet inconsistent outcomes. Once regarded as a social concern and a matter of perception, gender diversity is now increasingly viewed as a value-enhancer in organisational strategy and corporate governance, thus presenting a complex challenge in contemporary academic research. The beneficial performance outcomes of board gender diversity suggest that a greater presence of women in senior corporate roles or on boards of directors correlates with enhanced firm productivity and profitability.[22][23] Hauwa, Badru, and Abdulmumini empirically demonstrate the significant impact of gender diversity on corporate performance within Nigerian firms.[24]

Market Valuation of Companies with a Small Board of Directors," *Journal of Financial Economics* 40, no. 2 (1996): 185–211; Dan R. Dalton et al., "Number of Directors and Financial Performance," *Academy of Management Journal* 42, no. 6 (1999): 674–686; Benjamin E. Hermalin and Michael S. Weisbach, "Boards of Directors as an Endogenously Determined Institution," *Economic Policy Review* 9, no. 1 (2003): 7–26.

[19]Eugene F. Fama, "Agency Problems and the Theory of the Firm," *Journal of Political Economy* 88, no. 2 (1980): 288–307.

[20]Eugene F. Fama and Michael C. Jensen, "Separation of Ownership and Control," *Journal of Law and Economics* 26, no. 2 (1983): 301–325.

[21]T. Vo and D. Phan, "Corporate Governance and Firm Performance: Empirical Evidence from Vietnam" (2013).

[22]Armen A. Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review* 62, no. 5 (1972): 777–795.

[23]Joana Marinova, Janneke Plantenga, and Chantal Remery, "Gender Diversity and Firm Performance: Evidence from Dutch and Danish Boardrooms," *International Journal of Human Resource Management* 21, no. 10 (2018): 1773–1790, https://doi.org/10.1080/09585192.2010.488275.

[24]M. Hauwa, R. Badru, and M. Abdulmumini, "Gender Diversity and Corporate Performance: Evidence from Nigeria" (2019).

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Board age

Boards comprising diverse age groups significantly enhance the organization. Hambrick and Mason contended that firms led by younger managers achieve greater growth compared to those managed by older individuals.[25] Young managers tend to reject the status quo and embrace new ideas.[26] Research investigating the correlation between directors' age and corporate performance is scarce. The relationship between age diversity and company performance is reported variably. Mahadeo et al. identified a positive correlation between varying age demographics on boards and corporate performance.[27] Age diversity has a significant and positive impact on corporate performance as indicated by ROA.[28] Ararat et al. discovered that age diversity significantly influences return on equity based on data from Turkish firms.[29]Kidduff, Angelmar, and Mehran identified a positive correlation between age and marketing performance, whereas Randoy, Oxelheim, and Thomsen, and Eklund, Palmberg, and Wibery reported no significant findings.[30]

Directors' ownership

The influence of director ownership remains a contentious topic in the literature,[31] which argues that ownership does not affect firm performance and advocates for the separation of ownership and control as the optimal arrangement. Demsetz and Lenz contest Barle and Means' assertion by positing that ownership is determined endogenously and firms strive for an equilibrium ownership level.[32]Conversely, Morck et al. assert that simultaneous adjustments in ownership are costly and have repercussions.[33] Companies possess suboptimal ownership structures, resulting in diminished performance. Core

[25]Donald C. Hambrick and Phyllis A. Mason, "Upper Echelons: The Organization as a Reflection of Its Top Managers" (1984).
[26]Louis T. W. Cheng, Ricky Y. K. Chan, and T. Y. Leung, "Management Demography and Corporate Performance: Evidence from China," *International Business Review* 19, no. 3 (2010): 261–275, https://doi.org/10.1016/j.ibusrev.2009.12.007.
[27]Jyoti Devi Mahadeo, TeeroovenSoobaroyen, and Vanisha Oogarah-Hanuman, "Board Composition and Financial Performance: Uncovering the Effects of Diversity in an Emerging Economy," *Journal of Business Ethics* 105, no. 3 (2012): 375–388, https://doi.org/10.1007/s10551-011-0973-z.
[28]Sigurdur Dagsson and Erik Larsson, "How Age Diversity on the Board of Directors Affects Firm Performance" (master's thesis, School of Management, Blekinge Institute of Technology, Karlskrona, Sweden, 2011).
[29]Melsa Ararat et al., "Board Diversity and Performance: Evidence from Turkish Firms" (2010).
[30]Martin Kidduff, Reinhard Angelmar, and Hamid Mehran, "Top Management-Team Diversity and Firm Performance" (2000); Trond Randoy, Lars Oxelheim, and Steen Thomsen, "A Nordic Perspective on Corporate Board Diversity" (2006); Johan Eklund, Johan Palmberg, and Daniel Wibery, "Ownership Structure, Board Composition and Investment Performance" (2009).
[31]Harold Demsetz and Kenneth Lehn, "The Structure of Corporate Ownership: Causes and Consequences" (1985); Andrei Shleifer and Robert W. Vishny, "A Survey of Corporate Governance," *Journal of Finance* 52, no. 2 (1997): 737–783; Marco Becht, Patrick Bolton, and Ailsa Röell, "Corporate Governance and Control," European Corporate Governance Institute Working Paper (2005); Sheu and Yang, "Insider Ownership and Firm Performance" (2005).
[32]Demsetz and Lehn, "The Structure of Corporate Ownership."
[33]Randall Morck, Andrei Shleifer, and Robert W. Vishny, "Management Ownership and Market Valuation" (1988).

and Larcker endeavour to reconcile the perspectives articulated by Demsetz and Lehn.[34] They contend that firms commence with an optimal level of managerial ownership at the time of initial contracting.

Board independence

Berghe and Baelden examined the issue of independence as an important factor in ensuring board effectiveness through the monitoring and strategic roles of the directors.[35] The ultimate factor for the board independence is by acquiring enough numbers of the independent directors on board. They stated that the director's ability, willingness and board environment might lead to the independent attitude of each director. Kakabadse, Yang and Sanders narrated the effectiveness of non-executive directors in China is determined by their formal independence, information accessibility, incentives provided and competency.[36]

Board characteristics and firm performance

A fundamental aspect of corporate governance is the board of directors' responsibility in supervising management. Managerial oversight is essential as managers possess individual preferences and may not consistently act in the best interest of stakeholders. Shirking, excessive benefits, and suboptimal investments exemplify managerial misconduct.[37] The board of directors can mitigate agency conflicts by utilising its authority to oversee and regulate management.[38] Independent outside directors are assumed to perform the monitoring function on behalf of stakeholders, who would struggle to exert control due to the extensive dispersion of common stock ownership.[39] A primary argument is that external board members must be independent of executive management and devoid of any business or other affiliations with the company that could jeopardise their autonomy.

Measuring firm performance based on board compositions

A board is considered independent when the quantity of independent, non-executive directors not affiliated with the firm's top executives exceeds that of other directors. Millsten posits that directors who are independent from management can execute their oversight responsibilities more effectively.[39][40]

Board size and firm performance

The board size denotes the quantity of directors on the board. The effectiveness of the board is a crucial determinant. Jensen and Meckling contended that a larger board of directors may enhance corporate governance and assist management in mitigating agency costs arising from ineffective management,

[34]John E. Core and David F. Larcker, "Reconciling Managerial Ownership Theories" (2012).
[35]L. Van den Berghe and T. Baelden, "The Monitoring Role of the Board" (2005).
[36]Andrew Kakabadse, Hong Yang, and Robert Sanders, "The Effectiveness of Non-Executive Directors in Chinese State-Owned Enterprises" (2010).
[37]Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3, no. 4 (1976): 305–360.
[38]Eugene F. Fama and Michael C. Jensen, "Separation of Ownership and Control," *Journal of Law and Economics* 26, no. 2 (1983): 301–325.
[39]K. John and L. Senbet, "Corporate Governance and Board Effectiveness" (1998).
[40]Ira M. Millstein, "The Evolution of Corporate Boards" (1993).

ultimately resulting in improved financial performance.[41] The chairman should be permitted to issue directives to all executives and nonexecutive directors. Haniffa and Hudaib contended that a sizable board is perceived as less effective in performance monitoring and may incur significant costs for companies regarding compensation and heightened incentives to neglect responsibilities.[42]

Theoreticalframework

The function and influence of boards have been examined by scholars across various disciplines, including law, economics, finance, sociology, strategic management, and organisational theory.[43] The existing literature has predominantly concentrated on the attributes of boards in influencing firm performance.[44]

Agency theory

Agency theory is a principal framework that significantly influences numerous firms within the Anglo-American model. In contemporary corporations, an agency problem may arise when there is a separation between the control exercised by managers and the ownership held by shareholders,[45] resulting from conflicts of interest and insufficient alignment between the two parties.[46]

Stewardship theory

While Agency theory assumes that principals and agents have divergent interests and that agents are essentially self-serving and self-centered, Stewardship theory takes a diametrically opposite perspective. It suggests that the agents (directors and managers) are essentially trustworthy and good stewards of the resources entrusted to them, which makes monitoring redundant.[47]

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[41]Jensen and Meckling, "Theory of the Firm."

[42]RoszainiHaniffa and Mohammad Hudaib, "Corporate Governance Structure and Performance of Malaysian Listed Companies," *Journal of Business Finance and Accounting* 33, nos. 7–8 (2006): 1034–1062.

[43]A. Kiel and G. Nicholson, "Boards That Work: A New Guide for Directors" (2003).

[44]Fama and Jensen, "Separation of Ownership and Control"; F. David Schoorman, James H. Davis, and Lex Donaldson, "Toward a Stewardship Theory of Management" (1997); I. Muth and Lex Donaldson, "Stewardship Theory and Board Structure" (1998); Catherine M. Daily, Dan R. Dalton, and Albert A. Canella, "Corporate Governance: Decades of Dialogue and Data" (2003).

[45]Adolf A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property* (1932), cited in Sin, Boon, Tze, and Wei, "Board Characteristics and Firm Financial Performance" (2016).

[46]Jensen and Meckling, "Theory of the Firm."

[47]Lex Donaldson, "The Ethereal Hand: Organizational Economics and Management Theory" (1990); Lex Donaldson and James H. Davis, "Stewardship Theory or Agency Theory," *Australian Journal of Management* 16, no. 1 (1991): 49–64; Lex Donaldson and James H. Davis, "Boards and Company Performance: Research Challenges the Conventional Wisdom" (1994); F. David Schoorman, James H. Davis, and Lex Donaldson, "Toward a Stewardship Theory of Management" (1997); Hanoku, "Board Characteristics and Firm Performance: Evidence from New Zealand" (2008).

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Resource dependence theory

Resource dependence theory provides a theoretical foundation for the role of board of directors as a resources to the firm.[47][48] Penrose stressed the importance of unique bundles of resources a firm controls that are crucial for its growth.[48][49] Such resources include all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm, in order to improve efficiency and effectiveness.[49][50] From this point of view, a firm governance structure and the board composition is viewed as a resource that can add value to the firm.

Stakeholder theory

The recognition of stakeholder obligations has been with us since the birth of the modern corporate firm, the development of a coherent stakeholder theory awaited a shift in legal thinking from a perspective on shareholders as "owners" to one of "investors". More inline with providers of other inputs that a company needs to produce goods or services. Whereas the ownership perspective, rooted in property law, provides a natural basis for the primacy of shareholders rights, the view of the corporation as a bundle of contracts permits a different view of the fiduciary obligations of corporate managers.[51] Freeman and MC Vea state that the stakeholder framework does not rely on a single overriding management objective for all decisions.[52]

Empirical framework

Hanoku investigated the relationship between board characteristics and Firm performance Evidence from New Zealand of all listed firms on the New Zealand stock exchange.[53] Secondary data was collected from the annual reports of the listed firms. Analysis was undertaken using Generalised Least Squares analyses. The findings of the study show that board characteristics such as board size, CEO duality and gender diversity were positively related with firm performance whereas director ownership, board meetings and the number of board members with PhD level education was found to be negatively related. Imad examined the relationship between board characteristics and firm performance of all listed companies on the Palestine stock exchange.[54] Secondary data was collected from the company's annual report. Analysis was undertaken through regression analysis. It was found that there is only a relationship between the

[48]R. Johnson, "Board Involvement in Strategy and Firm Performance" (1996); Amy J. Hillman, Albert A. Cannella Jr., and Ramona L. Paetzold, "The Resource Dependence Role of Corporate Directors: Strategic Adaptation of Board Composition in Response to Environmental Change," *Journal of Management Studies* 37, no. 2 (2000): 235–256, https://doi.org/10.1111/1467-6486.00179

[49]Edith Penrose, *The Theory of the Growth of the Firm* (1959).

[50]Jay Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17, no. 1 (1991): 99–120; Richard L. Daft, *Organization Theory and Design* (2006).

[51]Jensen and Meckling, "Theory of the Firm"; Fama, "Agency Problems and the Theory of the Firm"; Fama and Jensen, "Separation of Ownership and Control."

[52]R. Edward Freeman and John McVea, "A Stakeholder Approach to Strategic Management," in *The Blackwell Handbook of Strategic Management*, ed. Michael A. Hitt, R. Edward Freeman, and Jeffrey S. Harrison (Oxford: Blackwell Publishing, 2001), 189–207.

[53]Hanoku, "Board Characteristics and Firm Performance: Evidence from New Zealand" (2008).

[54]Imad, "Board Characteristics and Firm Performance" (2015).

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age of the organization/year of incorporation and the company's return on assets (ROA).

Yusuff and Alhaji investigate the relationship between corporate governance and firm's performance of listed companies of Malaysian Stock Exchange from 2009 to 2011.[55] Secondary data was gathered from the annual reports of Malaysian listed companies. This study employs descriptive and parametric statistics analysis. In order to test the hypotheses. Spearman's correlation matrix was employed. This study stated significant relationships between corporate governance practices of non-executive directors and board size, and firm performance. Sin, Boon, Tze and Wei investigates the relationship between board characteristics and firm financial performance of all companies listed on the Main Market and Ace Market of Bursa Malaysia for the year 2009 to 2013.[56] Data for this study was obtained from Data stream and companies annual report. Analysis used was the linear multiple regression analysis. Findings proves that corporate governance is associated with firm performance in Malaysia. Board size and board tenure are significantly related to ROE and ROA. Board size is positively significant with firm performance.

Ebrahim, Abdullah and Faudziah explores the effect of the relationship between boards of directors' characteristics on Firm performance of listed companies in the Muscat Security Market (MSM) during 2011 and 2012.[57] Secondary data of the study came from the annual reports of firms from the Muscat Securities Market (MSM) website. Analysis was conducted using IBM SPSS for the purpose of describing the data and testing hypothesized relationships. The findings of this study reported that the relationship between board size (BOARDSIZE), board meeting (BOARDME) , CEO tenure (CEOTENU), board change (BOARDCH) and legal counsel (LEGALCO)with ROA is positive but not significant. However, the effect of board independence (BORADIN) and role of Secretary (SECRETA) on the firm performance is negative but not significant. Azar, Rad and Botyari investigates the relationship between traditional board characteristics and performance of Malaysian companies.[57][58] Generalized Least Squares (GLS) regression analysis was used. It was found that CEO tenure, board meeting, and member of professional body had a significant negative relationship with performance but the authors failed to establish any relationship between percentages of non-independent directors and firm performance.

[55]Wan Fauziah Wan Yusoff and Idris Adamu Alhaji, "Corporate Governance and Firm Performance of Listed Companies in Malaysia," *Trends and Development in Management Studies* 1, no. 1 (2012): 43–65.
[56]Sin, Boon, Tze, and Wei, "Board Characteristics and Firm Financial Performance: Evidence from Bursa Malaysia" (2016).
[57]Ebrahim, Abdullah, and Faudziah, "Board of Directors' Characteristics and Firm Performance: Evidence from the Muscat Securities Market" (2014).
[58]A. Azar, M. A. Rad, and E. A. Botyari, "Board Characteristics and Firm Performance: Evidence from Malaysia" (2014).

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Methodology

Model specification

The boards characteristic examined are board size and board gender. The dependent variable is firms' performance measured by return on equity (ROE). This is consistent with Edem and Noor and their model was:[58][59]

$$ROE = \beta_0 + \beta_1 SIZE + \beta_2 BIND + \beta_3 AGE + \beta_4 EDU + \beta_5 EQUITY + \beta_6 GREND + \varepsilon$$

……..(1)

This model was adapted and was modified for the purpose of this study. The model for this
study is listed below:

$$FP = f(BZ, SZ, EFF, LEV)$$

……..(2)

Therefore,

$$ROE = \beta_0 + \beta_1 BZ_{it} + \beta_2 SZ_{it} + \beta_3 EFF_{it} + \beta_4 LEV_{it} + \cup_{it}$$

……(3)

Where

ROE(Return on equity of a given company β(constant), BZ (Number of directors on board)SZ(size of a given company in a given year)EFF(Firm's efficiency of a given company in a given year)LEV(Firms' leverage of a given company in a given year) BZ(Number of women on board of a given firm in a given year) and μ_{it} (Error term).

DATA PRESENTATION AND INTERPRETATION

Descriptive Statistics

It examined the statistical features of test which shows that there is a significant variation across the companies.

Table 1: Descriptive statistics

	ROE	BZ	G	SZ	EFF	DE
Mean	4.633806	9.160000	1.152778	9.737495	59.42409	42.19393
Median	15.27484	9.000000	1.000000	9.470460	1.002383	40.79692
Maximum	206.8606	17.00000	5.000000	12.17683	857.9532	100.3955
Minimum	-1021.522	4.000000	0.000000	6.466844	0.000000	-66.44582
Std. Dev.	142.0099	3.204895	1.263348	1.392885	206.9286	29.85759

[59]Edem and Noor, "Board Characteristics and Company Performance."

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Skewness	-5.584148	0.826081	1.820466	-0.396334	3.269380	-0.739833
Kurtosis	40.36310	3.158001	6.397104	3.072029	11.82988	5.339590
Jarque-Bera	4498.832***	8.608144**	74.39010***	1.742151	331.9858***	21.07351***

Source: Author's computation (2026) E-view 12

The descriptive statistics reveal substantial variations among the variables across the sampled firms. The mean and median values indicate differences in the central tendencies of firm performance, board characteristics, firm size, efficiency, and leverage. The skewness and kurtosis results suggest that most variables turn from normal distribution, fluctuating and peakedness. However, the Jarque–Bera statistics showsthat, mostof the variables are not normally distributed, except firm size, which follows a normal distribution.

Table 2. (a) Pooled Regression

Dependent variable: role Method: Least square				
	C0-efficient	Std. error	T-statistics	Prob
C	-736.2822	192.2742	-3.829334	0.0003
BC	-32.58521	8.664323	-3.760850	0.0004
SZ	108.9623	25.31930	4.303528	0.0001
EFF	0.520305	0.141062	3.688484	0.0005
LEV	-1.247442	0.527689	-2.363973	0.0213
R Squared	0.254076			
Adj. R-squared	0.254076			
F-Statistic	5.194447			
Durbin Watson	1.0712203			
Prob(Fstatistics)	0.001146			

Source: Author's computation (2026) E-view 12

The pooled regression results show that,

$$ROE = -736.2822 - 32.58521BZ_{it} + 108.9623SZ_{it} + 0.520305EFF_{it} - 1.247442LEV_{it}$$

From the above equation model using cross-sectional pool effect method, the result of the regression model is linearly expressed as follows: The pooled regression results showthat, board size and leverage are negatively significant, which have effect on firm performance (ROE), while firm size and efficiency are positively significant. The model is significant of best fitas shown by the F-statistic, which it's suggesting, that the explanatory variables affect firm

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performance. Therefore, R-squared indicates, that the model explains only a certain proportion of the variation in ROE. In the result the DW is 1.071203 which is less to the lower DW of 1% level of significant which implies that, there is evidence of positive serial correlation. The value of the lower and upper value are 1.340 and 1.617 respectively. This indicates that the model is non-autocorrelation and means that the result is suitable for the policy purposes since it does not fall within of the upper and lower value of the DW table.

(b) **Fixed Effect Regression**

Dependent variable: ROE Method: Least square				
	C0-efficient	Std. error	T-statistics	Prob
C	-1905.901	1985.486	-0.959917	0.3420
BC	12.96108	18.47310	0.701619	0.4864
SZ	196.0715	202.4390	0.968546	0.3377
EFF	0.109248	0.624724	0.174873	0.8619
DE	-2.831956	2.238320	-1.265215	0.2120
R Squared	0.533772			
Adj. R-squared	0.355216			
F-Statistic	2.989390			
K Durbin Watson	1.541032			
Prob (F-statistics)	0.001341			

SOURCE: Author's Computation (2026)

The fixed effect regression result indicates that board composition, board size and board efficiency have positive effects on Return on equity (ROE) indicating that, there's some improvement in these governance variables said to improve firm performance. Also, director expertise has a negative effect on Return on Equity, which is suggesting that, any increase in director expertise will decrease firm performance. The model explains 53.38% of the variations in Return on Equity, with a significant probability, which clearly shows that, variables all have influence on firm performance.

Table 3: random effect regression

Dependent variable: ROE Method: Least square				
	C0-efficient	Std. error	T-statistics	Prob
C	-688.2681	224.7929	-3.061787	0.0033
BC	-26.91670	9.560973	-2.815268	0.0066

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SZ	99.27320	28.83291	3.443051	0.0010
EFF	0.467218	0.163924	2.850219	0.0060
DE	-1.346657	0.620695	-2.169596	0.0339
R Squared	0.180086			
Adj. R-squared	0.126321			
F-Statistic	3.349501			
K Durbin Watson	1.212547			
Prob (F-statistics)	0.015218			

Source: Author's computation (2026)

From the table above, it shows the random effect regression indicates that board composition (BC) is negatively and statistically have effect on return on equity (ROE), indicating that an increase in board composition decrease firm performance. On other hands, board size (SZ) and board efficiency (EFF) have a positive and significantly has effects on Return on Equity, suggesting that, more efficient boards will improve firms' performance. Director expertise (DE) has a negative and significant relationship with ROE, implying that increasing the levels of director expertise, decrease in firm performance during the study period. The model explains 18.01% of the variations in Return on Equity, while the probability (0.0152) indicates that the explanatory variables have a significant effect on firm performance.

Table 4. (d) hausman effect regression
Correlated Random Effects – Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f
Cross-section-section random	7.392159	40.1166

Source: Author's computation (2026)

From the above table, It shows that, there's no relationship between the Fixed and Random effect regression, which shows that, Random effect model is suitable for explaining the relationship between Board characteristics and Return on Equity.

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Summary of findings and conclusion

Findings show that, board composition has a negative and significant effect on firm performance, while board size and board efficiency has a positive and significant effects on return on equity. The positive and significant influence of board size is aligned with the findings of Yusuff and Alhaji and Sin et al.,[60] that indicated board size significantly improves firm performance. Moreso, the positive effect of board efficiency supports the findings of Hanoku, who found that effective board characteristics improves organizational performance.[61] However, the negative effect of board composition did not align with the findings of Hanoku, found a positive relationship between board composition and firm performance.[62] The negative and significant effect of director expertise was also line to the study carried out by Azar et al., who established that, some board characteristics have negative effect on firm performance.[63]

In conclusion, the find shows that; Board characteristics significantly has effect on firm performance in Nigeria. Board size and Board efficiency improve Return on Equity, while Board composition has Director expertise has negative effects on firm performance.

[60]Yusoff and Alhaji, "Corporate Governance and Firm Performance of Listed Companies in Malaysia"; Sin, Boon, Tze, and Wei, "Board Characteristics and Firm Financial Performance."
[61]Hanoku, "Board Characteristics and Firm Performance: Evidence from New Zealand."
[62]Hanoku, "Board Characteristics and Firm Performance: Evidence from New Zealand."
[63]Azar, Rad, and Botyari, "Board Characteristics and Firm Performance: Evidence from Malaysia."

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