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IMPACT OF BOARD QUALITIES ON FINANCIAL PERFORMANCE OF LISTED CONGLOMERATE FIRMS IN NIGERIA

BANDE, ABDULLAHI YABO

Business Education Department, Shehu Shagari College of Education, Sokoto.

Corresponding Author: abande71@gmail.com

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Keywords: financial performance, board meeting, board meeting attendance, board diversity

Abstract

The aim of this paper was to empirically investigate the impact of board qualities on financial performance of listed conglomerate firms in Nigeria. The sample size used is thirty (30) conglomerate firms. Multiple regression was use to analyze the data obtained from annual reports for the period of 2018 – 2022. The paper found out that board meeting and board diversity have statistically positive and significant effect on financial performance, whereas board meeting attendance has no significant effect on financial performance of listed conglomerate firms in Nigeria. Based on the findings, the paper recommended that management of conglomerate firms in Nigeria should ensure regular meetings are held in the financial year. This would enable them to discuss issues that can improve the financial performance. Furthermore, management of firms should appoint more directors with higher qualifications, especially those who have PhD degrees. This would enable the board to bring innovations and creative thinking that would address financial challenges.

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Introduction

Financial performance is the main concern for evaluating company's well-being worldwide (Gurusamy, 2017) because the world has now converted to become a single marketplace of business. Modern globalization has simplified commercial activities and reduced the obstacles that existed in trade and investment of firms in such a way that companies have better opportunities to grow. Moreover, with extensive technology, individuals interested in performing their jobs and tasks anywhere can look for a company that displays high performance. Financial performance is thus the most fundamental index to attract investors.

There have been instances of some multinational corporations operating in hard conditions and as such cannot successfully compete with the current conditions of the stock market. It is alarming that the number of companies that are trapped in this situation is increasing. This is the reason behind the collapse of many companies, a direct result of financial scandals that hinder their performances. It has resulted, for instance, in resignation of Chief Executive Officers, drop in dividends, redundancy of employees, plants closing down, tumbling stock prices and the collapse of the entire firm (Khaliq, et al., 2014; Manita, et al., 2020). In addition to that, poor performance may bring bad reputation for the company because investors would see the company as incompetent. As a result of this, companies face problems financially, thereby experiencing dramatic globule in the market value of their equities, as investors shy away from buying such company's shares, which could result in loss of thousands of jobs in the sector and this seriously affects shareholders in terms of losses of their investments. A wide-ranging scheme has rough time and that the governance structure of business entities affect their capacity to respond to both interior and outside factors.

As a means of reducing weaknesses in corporate performance, corporate governance is established as a mechanism to provide avenues for controlling

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management, but this has failed to register corporate successes within and outside Nigeria. Poor performance of Worldcom, Tyco, Xerox, Enron and Healthsouth are considered as good examples of corporate failure (Suganya & Kengathan, 2017). Similarly, within the context of Nigerian companies, the country has also suffered corporate troubles that negatively affected some Nigerian companies including Cadbury Plc, and Oando Plc. These indicates that over the years, companies have kept their adverse information under wraps with regard to ineffective internal controls and negligence on the part of some of the boards of directors in Nigerian companies (Shehu& Farouk, 2014). Mismanagement and ineffective board of directors are therefore the reasons behind eventual loss of investor confidence. These underscore the requirement for superior standards of corporate governance (Dey, 2005).

Corporate failures have devastating effects on organizations and could result in loss of confidence, reputational damage and corporate collapse (Shehu& Farouk, 2014). Governing the companies must therefore be concerned with more than existing mechanisms because recent scandals, frauds, failures and sharp marketing practices have adversely affected investor confidence with adverse implications on corporations. Corporate governance literature in both developed and developing markets reveal that the roles of regulatory authorities and stakeholders are critical in enhancing financial performance (Suganya&Kengatharan, 2017.

Alluding to board qualities for this study, they are means of establishing and ensuring transparency and accountability throughout the organization. Academic researchers have provided evidence that directors' frequent meetings with a high rate of attendance could assist in addressing important issues that may improve the firm's value and also show the level of seriousness and the level of commitment of individual directors (Ebrahim et al., 2014). The presence of more

qualified members would extend knowledge base, stimulate board members to consider other alternatives and enhance a more thoughtful processing of problems (Bathula, 2008).

Corporate systems are based on trust and public confidence and as such, it is important to assess the impact of board qualities on financial performance of listed conglomerate firms in Nigeria. Given that conglomerate firms play critical roles in economic development, the degree of effectiveness, compliance with financial standards and efficiency of the market will determine the extent to which they contribute to the process of development and growth.

Review of Literature

The role of board of directors as a resource to the company is theoretically supported by resource dependence theory (Hillman et al., 2000). Penrose (1959) emphasized the significance of distinct bundles of resources that a company controls and that are essential for its growth, including all assets, capabilities, organizational processes, firm attributes, information, and knowledge controlled by a firm in order to improve efficiency and effectiveness (Daft, 2006). From this perspective, board composition and a firm's governance structure are seen as resources that can add value to the company.

Board Activity and Financial Performance

Board meetings are used to gauge how active the board is and to evaluate pertinent board characteristics (Vafeas, 1999). The criticism of directors who take on many roles and so limit their ability to attend meetings on a regular basis to supervise management supports the idea that board meetings are an essential resource (Byrne, 1996). These studies clearly suggest that directors on regularly held meetings are more likely to carry out their responsibilities in a way that serves the interests of shareholders.

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Board meetings are seen by Khan et al., (2021) as a valuable tool for enhancing board efficacy. According to Kassim et al., (2013), an increase in board meetings is seen to indicate the level of board involvement. According to Wondem and Batra, (2019); Magoma et al., (2024), boards with multiple meetings and a high number of directors are more likely to carry out their responsibilities with diligence in order to safeguard the interests of shareholders. In particular, board meetings and company performance are significantly correlated (Bathula, 2008). Arumona et al. (2019) observed that, audit committee meetings were lower for companies with a fraud history than for those without such record. Board practices have a negative correlation with business success, according to Abdulsamad et al. (2018). Nonetheless, AlQudan et al. (2019) found no discernible difference between board meetings of companies with fraud record and those without.

Regular meetings with all directors present can increase board effectiveness (Ebrahim et al., 2014), as does increased diligence (Kassim et al., 2013). According to Magoma et al. (2024), productive meetings are necessary for board to function well. Effective board procedures have been shown to have a good correlation with business performance (Manita et al., 2020). On the whole board meetings and full attendance are viewed as a resource leading to board diligence. Increasing the number of meetings, compared to changing other board characteristics, is relatively an inexpensive way for firms not to only protect shareholder value but also improve financial performance.

As a group, board diversity combines a mix of competencies and capabilities that collectively represent a pool of social capital, and adds value to executing the board's governance function (Bathula, 2008). Qualifications of individual board members are important for decision-making. Monitoring roles of a firms operation can be effectively implemented if board members are qualified and experienced.

Several studies have found a positive relationship between competencies and firm performance (Akbar, et al., 2019). Board members with higher qualifications

benefit the firms through a mix of competencies and capabilities (Abdullahi, et al., 2022), which helps in creating diverse perspectives to decision-making (Adams et al., 2015). Members with higher educational qualifications in general provide a rich source of innovative ideas to develop policy initiatives with analytical depth and rigour that provides for unique perspectives on strategic issues (Camelo, *et al.*, 2010; Iliyasu, 2020). Qualified members also provide a rich source of creative ideas to develop initiatives with depth and rigour necessary for offering rare viewpoints on strategic issues (Marc et al., 2014). On the contrary, lack of diversity and qualified members on a board could result in paucity of critical thinking and innovation (Mahadeo, *et al.*, 2012). Wondem and Batra (2019) found share price reactions to be sensitive to directors' professional qualifications, particularly in the area of accounting and finance.

There is no doubt that directors' qualifications and specialisations are related to firm performance. In the area of general education, a PhD programme provides skills for more in-depth investigation and rigorous analysis of issues. However, no study has examined the influence of PhD qualifications of board members on firm performance. Given the importance of education in general, it is expected that firms which have a higher number of board members with PhD qualification will perform better.

H3: Directors with PhD qualifications do not have significant effect on firm performance.

Methodology

The research design used in this work was correlational to establish a relationship between board qualities and finance performance of conglomerate firms in NSE. A five-year balanced panel data set covering 2018–2022 was used to examine the effect of board qualities on financial performance using panel least square

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regression analysis. As at December 31, 2022, all six (6) conglomerate companies (A.G. Leventis (Nig). Plc, Chellarams Plc, John Holt Plc, SCOA (Nig). Plc, Transnational Corporation of Nig. Plc and UACN Plc) listed on the Nigerian Exchange Group (NGX) made up the population of the study. The study used census survey approach to enumerate all the companies.

Table 1. Measurement of Variables

Acronyms	Variables	Measurement	Source
Dependent Variable			
FP	Financial Performance	Measured by Price-earnings ratio that's Market price per share divided by Earnings per share	Iliyasu et al. (2020)
Independent Variables			
BMT	Board Meetings	Total number of times the board holds meeting during an accounting period.	Olagunji, et al. (2023)
BMAT	Board Meeting Attendance	Proportion of directors' attendance during board meeting to total expected attendance for the period	Udofia, et al. (2021)
BDD	Board Diversity	Proportion of board members who holds PhD degrees to the total number of board members	Abdullahi, et al. (2022)

Source: Author (2024)

Longitudinal panel data was used to form a multiple panel regression model and used to test the hypotheses of the study.

Model specification

To measure the impact of board qualities on financial performance of listed conglomerate firms in Nigeria. The following functional model was estimated.

$FPit = \alpha + \beta 1BMTit + \beta 2BMATit + \beta 3BDDit + e$

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Whereas, FP is financial performance, BMT represents board meetings BMAT is board meeting attendance and BDD is board diversity and e is a stochastic term.

Results and Discussion

Table 2. Descriptive Statistics

	Obs.	Min	Max	Mean	Std. Deviation
FP	30	0.17	0.68	0.384	0.1937
BMT	30	2.00	7.00	4.300	2.0026
BMAT	30	0.17	0.67	0.372	0.2143
BDD	30	0.00	0.28	0.078	0.1169

Source: STATA 13 Output

Descriptive statistics of data elicited by the study as presented in Table 2 show that the mean of financial performance of listed conglomerate firms is 0.384. The minimum is 0.17 and the maximum is 0.68. This indicates that there were companies that performed very low as statistically indicated by 17% of overall performance, but others did well in the fiscal year. On the average, 4 meetings were held in a year. This indicates that on the average the firms complied with the requirement of SEC code of corporate governance (2011). Regarding the provision of a minimum of four meetings in a year. It was observed that on the average 37% of directors attended board meetings. The mean value of board diversity with regard to director with Ph.D qualification was 8%, the minimum and maximum were 0 and 28% respectively. This indicates that very few of the firms under study had one or two director(s) with Ph.D qualification.

Table 3 OLS Panel Regression Results of Model

Variables		Model 2
Constant		0.0942(1.21)
BMT		0.0428**(2.95)
BMAT		0.1284(0.91)
BDD		0.7409**(2.82)
Adjusted R2		0.4889
P-value		0.0005
F-value		8.29

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*Source: STATA 13 Output NOTE: ** and * indicate 1% and 5% significant levels respectively; the figures attached with asterisk represent the coefficient, while the t-value is presented in bracket in parenthesis.*

Table 3 shows the results of panel least square regression analysis using ordinary least square (OLS) technique used to test the formulated hypotheses. The analysis reported an adjusted R^2 value of 0.4299 (43%), which statistically indicates the overall contribution of board qualities variables board meeting, board meeting attendance and board diversity) to financial performance. The model employed is well-fitted to the variables, as evidenced by the F-statistic of 8.29 and the corresponding probability value of 0.0005.

As none of the variables has VIF values greater than 10, the data do not support, the existence of multicollinearty among the variables.

Table 4: Results of diagnostic test

Variable	VIF	1/VIF
BMT	1.15	0.872269
BMAT	1.23	0.814355
BDD	1.28	0.781471
Mean VIF	1.22	

The result in table 4 indicate that multicollinearty is absent from the model and therefore an indication of multicollinearty among board meeting, board meeting attendance and board diversity is not present in the model giving room for confidence in interpreting the coefficients of these variables.

Discussions

As regards the variables of interest, the results indicate that, board meeting has a positive (β_1= 0.0428) and statistically significant relationship (t –value = 2.95) with financial performance. The result rejects the hypothesis that frequent meeting of the directors do not improve financial performance and accepts the alternative

that board meeting do have significant effect on firm performance. It is not surprising, because in reality when directors meeting, they expected to come out with good and promising proposals for firms growth.

The hypothesis test result shows non-significant but positive relationship ($\beta 2$ = 0.1284, t-value = 0.91) between board meeting attendance and financial performance. The result is statistically accepted hypothesis two (H_2), which stated that board meeting attendance has no significant effect on financial performance. This implies that attendance of some directors at meetings contribute little to financial performance.

The study has shown that on statistically, board diversity has a positive and significant relationship ($\beta 3$ = 0.7409, t-value = 2.82) with financial performance. This implies that directors with PhD qualifications do influence financial performance thus rejecting hypothesis three (H_3) which stated that directors with PhD qualifications do not have significant effect on firm performance and accepting the alternative.

Conclusion

This paper examined the impact of board qualities on financial performance of listed conglomerate firms in Nigeria. The paper concluded that BMT and BDD have positive and significant relationship with financial performance, while, BMAT is statistically positive but having significant impact on financial performance.

Based on the conclusion drawn, the paper recommended that management of conglomerate firms in Nigeria should be encouraged to hold regular meeting in the financial year, this will enable them to discuss issues that can improve financial performance of their companies. Furthermore, management are entreated to appoint more directors with higher qualifications, especially those that have PhD degrees. This will enable the board to bring on board innovations and creative thinking that would address financial challenges.

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