



# EFFECT OF BOARD CHARACTERISTICS ON FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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## ABSTRACT

*This study examined the effect of board characteristics on financial performance of listed consumer goods companies in Nigeria. Data for the study were collected from the annual reports and accounts of the sampled companies for the period of twelve (12) years from 2009 to 2020. The data collected were analysed using descriptive statistics to provide summary statistics for the variables, and correlation analysis was carried out using Pearson Product Moment Correlation technique to assess the correlation between the dependent and independent variables. The diagnostic test of both independent and dependent variable was carried out to ensure the validity of the findings. Fixed effect was use for the testing the study hypotheses using Stata software version 14.0. The study reveals that the independent, positively affect financial performance, which means the variables encouraged performance of companies. The study concluded that board characteristics have a positive effect on financial performance of listed consumer goods companies in Nigeria. The study, therefore, recommended that shareholders of these companies should appoint more independent directors, increase the size of the board, and appoint more females and more financial experts as directors. This would enhance effectiveness in the financial growth of companies with a view to increasing shareholders' wealth.*

**Key Word: BOARD CHARACTERISTICS AND FINANCIAL PERFORMANCE**

## INTRODUCTION

In the study of accounting and finance, greater attention has been dedicated to the extent and nature of the correlation between financial performance and capital structure of companies. It has also been observed that one of the main objectives of managers is to increase the value of the company value for shareholders. Naturally, a company requires assets, whether tangible or intangible, to carry out its business,

create value, and achieve its business objectives. The financing of these assets can be done through three options: a) obtaining debt (bank or corporate); b) shareholder contribution; and c) own funds. Deciding on the mix or combination of debt and capital can be a difficult exercise because high indebtedness could increase the probability of bankruptcy, simultaneously reducing the payment of taxes and, therefore, providing a tax advantage. On the other hand, little debt would imply a reduction in yield due to increased tax pressure and issues leading to over-investment problems, followed by a reduction in the returns of shareholders.

Financial Performance refers to a company's ability to generate new resources from day to day operations over a given period (Bora, 2008). It involves enhancing shareholders' wealth and profit making which are among the major objectives of a company existence (Pandey, 2005). It is also concerned with the determination of how well a company could utilize its assets from the principal course of its operation to create revenues (Carlos, 2021). Erasmus (2008) opined that financial performance parameters, like profitability or liquidity, offer a valuable mechanism to stakeholders that assist in assessing the previous financial performance and current position of a company. The evaluation of financial performance is intended to be responsible for answers to a wide range of essential questions which may include whether the entity has sufficient cash to address all its financial burdens, or it is generating adequate size of sales to substantiate current investment. Tian and Zeitun (2007) argued that capital structure is linked closely with financial performance. Financial performance could be represented by parameters that involve profitability, productivity, growth or even satisfaction for customers. These parameters are related to one another. Financial measurement is one of the apparatuses which show the financial strength or opportunities and weakness or threats of a company. Sanford in 2009 stated that those measurements may include but not limited to return on assets (ROA), return on equity (ROE), residual income (RI), earnings per share (EPS), Tobin's Q, dividend yield, growth in sales, etc.

Financial performance gives a proper gauge on the uses of a firm's resources for maximization of wealth and profits. The fiscal financial functions are conducted occasionally from the accounts office, statement of financial position or the statement of profit or loss of the firms so as to evaluate the degree of success in the business (Obuya, 2017). Financial performance is a biased gauge of how effectively a firm could make good exploitation of its assets from its key business objective conduct and successive revenue generation (Ikapel & Kajirwa, 2017). To appraise their performance, business entities normally apply financial ratio since the ratios provide a simplified description of the entities current financial state in contrast to previous accounting period and they provide clues on how a firm's management could improve performance (Nhung, le thi kim, 2021). Financial performance could be measured in many different ways, but all these ways should be aggregated. The traditional accounting key performance indicators (KPIs) that include operating profit margin, sales growth, return on assets, economic value added or earnings before interest and tax are often used in the calculation of financial performance (Abshir & Nigib, 2016).

Board characteristics refer to features of corporate boards that are tasked with overall management of firms. Some other studies (Chanu, 2021; Vitolia, 2020) refer or attribute these characteristics to the concept of CG. The success or collapse of firms is thus associated with the role acted by the management and firm governance as a process. This study gives attention to the several features of the executives including ownership, board expertise, board diligence, size of board and gender about financial performance of the firms under study. Suggestions, including to lower board size, emphasize independence as well as raise meetings by the board of directors and even what to do in emergencies are yet to be found. Boards of management in firms are considered as major players in the control of their day to day governance, and thus there is need for clear understanding of their influence on the development of their respective companies. Studies have been conducted in this field (Borica et al., 2017; Endrikat, 2021; Jayeola, 2018; Thankolwiroz, 2021). However, most of the studies have focused on industrialized markets; little has been explored in relation to board characteristics concerning the consumer goods sector in emerging markets like Nigeria.

Vitolia (2020) viewed that increasing debt leverage may also increase financial risk of default and potential bankruptcy. Debt finance is usually cheaper than and preferred to equity finance. This is because debt finance is safer from a debt holder's point of view. Interest has to be paid before dividend. In the

incident of liquidation, debt finance is paid before equity. This makes debt a safer investment than equity and also, debt holders demand a lower rate or return on their investment than equity investors. Debt interest is also corporation tax deductible (unlike equity dividends), making it even cheaper to a tax paying company. Arrangement costs are generally lower on debt finance than equity finance, and unlike equity arrangement costs, they are also tax deductible. Although debt is attractive because of its cheap costs, its disadvantage is that interest has to be paid. If it is over-borrowed, the company may not be able to obligate the interest and principal payments, and thus, liquidation may follow (Jayeola, 2018).

It is based on this that this study seeks to examine the moderating effect of board characteristics on capital structure and financial performance of listed consumer goods companies in Nigeria.

### Statement of Research Problem

Efforts have also been made by researchers from both developed and emerging markets in assessing the relationship between board characteristics and financial performance. Findings from their studies are mixed and inconclusive. Previous studies (including Aliani, 2013; Aliani & Zarai, 2012a; Ana et al., 2015; Christopher et al., 2015; Mozaffar et al., 2017; Radu et al., 2016; Roman & Grant, 2011) show that board size has positive relationship with financial performance, and board independence has significant negative relationship with financial performance. However, Aliani and Zarai (2012b), Uchendu et al. (2016), Oyeleke et al. (2016), Mohammed, (2017) show that board of directors independence has positive relationship with financial performance, and board size has insignificant negative relationship with financial performance.

In Nigeria, some of the researches fail to use other parameters, such as descriptive and multiple regression on capital structure and financial performance. The studies which include Rapuluchukwu (2012); Idode et al. (2005), Salawu (2007), Olokoyo (2012), Babalola (2012), Sabastian et al. (2014), Yinusa and Babalola (2012), have created a vacuum that needs to be filled. For example, Salawu (2007), who researched on the effect of capital structure on the financial performance of selected quoted companies in Nigeria between 1990 and 2004, focused on short-term debt. His work failed to cover other arrangements of financing; hence the result could only be useable from the perspective of short-term debt financing. This contravenes a realistic study on capital structure which ought to spread to both types of debt financing.

Similarly, there is mixed results on gender diversity. For instance, Barbara et al. (2010); Ahmed *et al.* (2015); Manon (2015); Grant et al. (2016) find that gender diversity is significantly related to financial performance. However, Aliani *et al.* (2012a) reveal that gender diversity does not have significant effect on financial performance, while similar study was conducted by Aliani *et al.* (2012b), and they find that board gender diversity has significant positive effect on financial performance. Some studies from Nigeria (including Oyeleke *et al.* 2016) show significant positive relationship between female directors and financial performance.

This study on the effect of board characteristics on financial performance is different from prior studies as it includes proxies such as; board size, gender diversity, board independence and financial expertise, being proxies for independent variable (Board characteristics); and return on assets as the dependent variable (financial performance) on which there is paucity of studies. By including more variables, the study would obtain more robust results. Also, this study used longer period (2009–2020) for its analysis, and adopted agency and stakeholders' theories.

### Objective of the Study

To ascertain the effect of board characteristics on financial performance of listed consumer goods companies in Nigeria.

## Hypotheses

H<sub>0</sub>: Board characteristics (board size, board independence, gender diversity and financial expertise) have no significant effect on financial performance of listed consumer goods companies in Nigeria.

## Literature Review

### Conceptual Review

Conceptual review paradigm is a visual presentation of variables that interrelate with one another as perceived by the researcher before an actual empirical investigation is done to prove the existence and nature of any relationship among the variables. Board characteristics is employed as independent variable which consists of board size, board independence, gender diversity, and financial expertise to measure any stochastic movement in the independent variable. The dependent variable, financial performance, consists of ROA. The impact of board characteristic on firms' financial performance is still ambiguous, since previous investigations still show mixed findings regarding this issue. Actually, determining the structure of a company's board, in general, is not applicable since each context has a unique set of characteristics that may play a noticeable role in supporting or hindering the success of corporate governance codes.

### Board Characteristics

Board characteristics refer to features of corporate boards that are tasked with overall management of the firms. Some other studies (Bolton & Roell, 2005; Ghabayen, 2012) refer or attribute these characteristics to the concept of corporate governance. The success or collapse of firms is thus associated with the role acted by the management and firm governance as a process. While studies (Wafea, 2019; Oyedokun, 2019) consider a broad variety of matters in corporate management, some process such as exposes, rights of voting, rules among others, give an attention on the several features of the executives including ownership, board expertise, board diligence, size of board and gender about financial performance of firms under study. Suggestions including to lower board size, emphasize independence as well as raise meetings by the board of directors and even what to do in emergencies have yet to be found. Little has been explored in relation to board characteristics concerning consumer goods sector in the emerging markets like Nigeria.

### Board size

Several studies found that larger boards put more effort to negotiation and compromising among members, therefore their decisions are less risky and more shaped to satisfy different opinions than those of smaller groups. Uwuigbe (2012) compared outcomes of discussions under different structures of group decision-making. They noticed that bigger groups had a diversification of opinions effect, which lowered the likelihood of accepting bad projects. Larger boards could be preferable due to more thought-out decisions. It is important to mention that large groups were also less likely to accept good projects (Uwuigbe, 2012). Nevertheless, the majority of studies on this relationship found evidence that smaller boards more often result in a good performance. The cause for it could be partial elimination of bad communication, and poor decision-making (Guest, 2009). Free riders, which are more likely to be present in large boards, possibly also worsen and slower internal board processes (Thomsen & Conyon, 2012).

Large boards may be less efficient because of difficulties to solve agency problems among members, Coles et al. (2008) found a U-shaped relationship, meaning that either very small or very large boards are the most effective. Cheng (2008) examined the effect of different board sizes on variability of corporate performance. He empirically concluded that larger boards make less extreme decisions, and therefore have less variable performance. Smaller boards, on the other hand, are more likely to have extreme short wins and losses. Even though small and large boards have their shortcomings, they hold unique benefits, which the other one does not have.

### ***Gender Diversity***

It is common to see none or very few women on boards (tokenism) in developing countries (Abdullah, 2016; Mahadeo, 2012). Theoretically, from resource dependence theory, it is claimed that women on a board could reassure stakeholders of the firm's diversity; increase its legitimacy, and the connection with its external environment (Lückerath-Rovers, 2013). Gender could also have an impact on firms. There is plenty of empirical evidence that shows the difference between males and females. Krishnan and Parsons (2008) stated that male directors performed better, and the firm's financial results were better as a result. Campbell and Mínguez-Vera (2008) reported that having gender diversity in the boardroom has a positive effect on firm value. On the other hand, Abobakr and Elgiziry (2016) revealed a significant negative relationship between the proportion of female directors on the board and short-term debt. Conversely, Liu et al. (2014) showed female directors have a significant impact on firm performance. Adams and Ferreira (2009) state that female directors are committed to attending board meetings, have a better record than male directors and put more effort into observing executive directors. Likewise, Nyamweya (2015) found there was a positive significant relationship between gender and the debt-equity ratio, stating that the more male directors there are on the board, the higher the firm's leverage would be. This may cause men and women to have a different risk preference.

### ***Board independence***

Board independence is the mix of executive and non-executive directors constituting a firm's board. The proportion of the directors on the board would to a large extent determine the quality of decisions taken since objectivity would play a crucial role and whether the board independence could actually monitor and control the management. A board is seen to be more independent if it has more non-executive directors (Schwizer et al., 2012). Non-executive directors are more familiar with the activities of the organization and are, therefore, in a better position to monitor top management particularly if they perceived the opportunity to be promoted to positions occupied by incompetent executives. Similarly, non-executive directors may act as "professional referees" to ensure that competition among executive directors stimulates actions consistent with shareholder value maximization (Fama, 2018).

Provision of non-financial resources as well as technical collaborations could also improve the quality of decision making and hence financial performance of the firm. Financial performance measures the results of a firm's policies and operations in monetary terms. Financial performance is a subjective measure of the accountability of an entity for the results of its policies, operations and activities quantified for an identified period in financial terms. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations could be used, as well as total unit sales. The financial performance measures include ROA, which is defined as net income before interest expense for the fiscal period divided by total assets for that same period, and ROE, which shows how much profit a company generates from the money invested from its shareholders (Foladi, 2012).

### ***Financial expertise***

Board expertise has to do with the number of directors on the board with professional skills in the area of accounting, finance, management and insurance. Recadina and Ouma (2017) refer to it as the proportion of people with professional skills on the board of an organization, while from the view point of Rose (2015), it is different fields of study found among the persons on the board. For Setiyono and Tarazi (2014), it is heterogeneous based on the levels and types of education amongst the board members.

## **Returns on Assets (ROA)**

Return on assets is an indicator that shows the proportion of the income made by a firm in relation to the value of its total assets used to make such income. It is an indicator of how much income was made by a firm in relation to the value of assets used in its operation to achieve such income. It gives an insight into how efficient the management is using its assets to generate revenue. It is a measure of the profitability on the use of total assets (Mbat, 2015).

An increase in ROA rate denote an increase in firm's performance, but must commensurate with the rate of increase in the value of the total assets of the firm. For instance, if the firm's assets increase by 30%, the means the expected rate of return on such assets is 30% and as such the rate of ROA should be above 30%. Thus any rate below the rate of change in assets would be considered as ineffective use of the firm's assets to generate income. If the ROA is equal or less than the expected rate of return, investor would rather seek other investment option. Also, caution must be made while investing in assets by firms in order to mitigate against redundancy of asset which may mean that, for such assets to generate more income for the firm, it would lead to increase in maintenance cost of assets which would reduce the operating profit of the firm. That is rather than increasing a firm's assets base, the firm should replace old assets with new assets bearing in mind the technological requirement of the production process. Therefore, the ROA ratio may thus be more useful when compared to risk free rate of return to be rewarded for the additional risk involved in purchasing new assets.

## **Empirical Review**

### ***Board size and firm performance***

There have been some empirical evidence, which support the argument that an increase in board size has a positive impact on firm financial performance (Kiel & Nicholson, 2003; Kyereboah-Coleman & Biekpe, 2006; Jackling & Johl, 2009; Fuzi et al., 2016). In contrast, other studies found that there is a negative relationship between board size and firm performance (Afrifa & Tauringana, 2015; Arora & Sharma, 2016; Guest, 2009; Malik & Makhdoom, 2016; Yermack, 1996). Some studies, such as those by Ferrer and Bandelipe (2012) and Garba and Abubakar (2014), did not find any link between board size and firm financial performance. The CMSA's guidelines (2002) recommend that boards should provide wider expertise and skills to improve their effectiveness. Based on resource dependence theory view, a large board size could provide a firm with greater access to resources, such as expertise and capital from the external environment (Kiel & Nicholson, 2003).

Gambo et al. (2018) examined the effect of board size, board composition and board meetings on financial performance of listed consumer goods in Nigeria and found that smaller board size are more effective than larger board size and are likely to enhance the ROA of the firm. They, therefore, hypothesise that board size has no significant effect on financial performance of Information and Communication Technology companies.

Nhung (2021) argues that boards comprising eight or nine members are the most effective. According to this author, when the board exceeds this optimal size, it becomes difficult for all the board members to express their ideas and opinions in the limited time available at board meetings. Jensen (1993) concurs with this view and argues that boards of more than seven or eight members function less effectively and are easier for the CEO to control than smaller boards.

### ***Gender Diversity and Financial Performance***

Prior studies, for example, Adams et al. (2010) and Carter et al. (2003), found that the female directors are more independent and tough monitors, and their presence on the board reduces agency conflict. The presence of females on the board, therefore, decreases the information asymmetry between managers and

investors and makes it easier for the firm to access more debt (Kanagaretnam et al., 2007). The agency theory suggests that the agency conflict between the shareholders and managers could be reduced if the task for the decision making and controlling are entrusted to different persons. In this context, the Cadbury report recommended that there should be a balance of power between board members, with a clear division of responsibility at the top of the company, such that no individual could gain ‘unfettered’ control of the decision-making process. In this scenario, Klein (2002) mentioned that a board more independent of CEO is more effective in monitoring the financial accounting process and reduce the information asymmetry.

The relationship between gender diversity and financial performance has been debated in various literature, but provides contradictory findings. In this context, Maxfield et al. (2010) reported that women are more risk averse than men and their presence on the corporate board negatively affects the debt ratio. The author argued that women take low risk decisions as compared to their male counterparts. In a similar vein, Loukil et al. (2016) and Schicks (2014) also reported higher risk taking by men resulting in using more debt. On the other side, Virtanen (2012) mentioned that women take more active role in decision making and influence decision making process in the board. Due to their active participation and tough monitoring, their presence in the board room alleviates the managerial opportunistic behaviour and information asymmetry (Usman et al., 2019). Consequently, their presence in the board provides positive signals to debt providers regarding the repayment of debt and interest, which ultimately result in more availability of debt for the firm.

### ***Financial expertise and financial performance***

Hossain (2019) describe board expertise as the individual skill and knowledge of individual board members, and this could have developed from education and various experiences. The combined expertise and knowledge of the members is an intangible asset of the board and is a proxy that is associated with firm performance (Hillman & Dalziel, 2003). According to Igneley and van der Walt (2001), the expertise of a board member is essential in decision making. For instance, oversight role could be successfully implemented if the board members are qualified and experienced. On board expertise and financial performance, Egwakhe et al. (2019) showed that the Cronbach's alpha reliability coefficients descriptive statistics and Pearson Product Moment Correlation Coefficient Technique revealed a statistically significant relationship between board diversity components (gender diversity, board composition, board size, board expertise diversity and ethnic diversity) and profitability of selected and listed insurance companies in Nigeria..

Bonsa (2015), using panel data from Ethiopian of nine insurance companies from 2005 to 2014, showed that the fixed effect regression results revealed that, expertise has positive and significant effects on financial performance (ROA) of insurers. Bonsa used only one performance measure and so could not be compared with the present study that has two financial performance measures: ROA and ROE. The study of Mike and Wei (2014) found that board expertise has a beneficial influence on the performance outcomes of insurers. Bernadette et al. (2014) examined financial expertise of the board and financial performance of insurance companies in US for the crisis period 2007–2008. While financial expertise is weakly associated with better performance before the crisis, it is strongly related to lower performance during the crisis.

### ***Board Independence and Financial Performance***

Hazan (2019) conducted a study on 934 largest US firms covering a 10-year period. They questioned the empirical validity of the need for board independence and its effect on performance. The study found that firms with a higher percentage of outside directors had significantly lower financial (ROA) and stock market (Tobin's Q) performance in the following three years. They also found that lower performing firms was more likely to add independent directors. However, the results offered no evidence that firms with more independent boards perform better.

Cheah (2016) found that independence of the audit committee (i.e. to have at least 50 per cent of expert-independent directors serve on audit committee) positively impacts the firm performance as measured by Tobin's Q. Similarly, Ilona (2008) showed that there is a positive relationship between audit committee independence and firm performance as measured by ROE. Using data collected from top 100 companies listed in Colombo Stock Exchange, Somathilake (2018) concluded that directors' independence has positive but insignificant influence on firm performance in Sri Lanka.

Fuzi et al. (2016) examined board independence and firm performance. The board requires the combination of executive and non-executive directors to pursue the shareholders' interest. The non-executive directors on the board would not be able to exercise their duties effectively unless they are independent from management and ensure they provide unbiased business judgment. Independent directors are the persons entrusted by shareholders to represent them, and would help to reduce agency problems.

## Theoretical Framework

### *Stakeholders' Theory*

Stakeholders' theory views that "companies and society are interdependent and, therefore, the corporation serves a broader social purpose than its responsibilities to shareholders (Kiel & Nicholson, 2003). Stakeholders' theory is a theory that says managers should make decisions that take account of the interests of all the stakeholders in a firm (Jensen, 2001). Stakeholders comprise of any individual or group which has effect on or is affected by the welfare of the company. Examples are employees, customers, government officials, and the general public at large. Similarly, Mallin (2007) refers to stakeholders' theory as a theory that takes care of a wider group of constituents rather than focusing on shareholders. Where there is emphasis on stakeholders, then the governance structure of the firm could decide to provide some direct representation of the stakeholder groups. Stakeholder' theory aims to guide and explain the firms' structures and operations with the foundation that the corporation is an entity through which several parties accomplish their various and different objectives (Donaldson & Preston, 1995). Therefore, as compared to agency theory and the transaction cost-economics approach, stakeholders' theory deals with a wider range of parties in CG.

It is important to note that it is impossible for managers to satisfy all stakeholders due to conflicting interests among stakeholders. Since shareholders are after wealth maximization, and the essence of board characteristics is to increase earnings which maximize shareholders' wealth, and by stakeholders' theory managers take account of other parties, there is conflicting interest which is difficult to align. This leads to several arguments which suggest alternative models and paradigms to stakeholders' theory. In examining capital structure, board characteristic and financial performance, this study aligns with agency theory and stakeholders' theory. Corporate tax planning in the context of agency theory is more appropriate in the corporate environment because of the principal-agent relationship between shareholders and management.

## METHODOLOGY

### **Research Design**

This study aims at assessing the effects of board characteristics on financial performance, correlational research design is deemed most suitable. The correlational research design also shows the extent of variability of financial performance as a result of changes in capital structure variables.

### **Working Population and Sampling Technique**

The working populations of the study consists of 16 listed companies. The study adopted census sampling technique. Census sampling is the study of every unit in a working population out of the total population of 19 companies, and each unit is given a chance of being selected.



## Variables of the Study and their Measurements

The variables for this study consist of dependent, independent variables.

### *Dependent Variable*

The dependent variable for the study is financial performance as with return on asset

### *Independent variable*

Board characteristics the study uses gender diversity, board size, board independence, and financial expertise. They are measured as follows:

## Model Specification

$Perf_{t-1} = F(GED, BOS, BOI, ROA, )$

$ROA = +\beta_{4it}BOS + \beta_{1it}BOI + \beta_{2it}GED + \beta_{3it}FEXPT + e \dots\dots\dots 1$

GED = gender diversity, FEXPT = financial expert, BOS = board size

BOI = board independence, ,ROA = return on assets

Perf <sub>t-1</sub> = Financial Performance

$\beta_0$  is the average amount the dependent variable increases when the independent increases by one unit, other independent variables held constant.

$\beta_1 - \beta_{19}$  shows the gradient of the independent variables

e -the error term

## RESULTS AND DISCUSSION

*Table 1 Descriptive Statistics*

Variables	Observations	Mean	Standard Dev.	Minimum	Maximum
BOS (Number)	168	9.6429	2.5765	3.0000	15.0000
BIN (Number)	168	0.6905	1.2523	0.0000	6.0000
BGD (%)	170	0.1309	0.1167	0.0000	0.4000
BFE (%)	124	0.4915	0.2010	0.0000	1.0000

Source: Stata 14 output based on data extracted from listed consumers goods Companies..

Table 1 displays the calculated values for the mean, the standard deviation, the minimum and the maximum for each of the research variables for the 15 sampled consumer goods firms during the period of the study from 2009 to 2020. Table 1 also shows that board size and board independence have 168-year observations. However, board gender diversity and board financial expertise have 170-year and 124-year observations respectively. This is because some companies failed to report their board size, board independence, board gender diversity and board financial expertise.

The mean board size is 9.6429 members with a minimum of 3 and maximum of 15 members. The standard deviation of 2.5765 implies that there is no wide variation in board size of the sampled companies. This indicates that there is no wide difference in board size of the sampled firms for the period of the study. In addition, board independence has an average of 69% with a minimum value of 0 and maximum value of 6 independent directors. The standard deviation is 1.2523. These indicate that independent board members are not much compared to the size of the board in the sampled companies and there is a high variation in board independence under the period of the study. It also indicates that there is wide variation around the mean, and some firms have less than 50% of independent directors.

The mean gender diversity is approximately 13%. This means that about 13% of board members of sampled firms are female directors while 87% are male directors. The standard deviation is 0.1167 which implies low variation in the number of females on the board of directors of the sampled companies. This indicates that the variable clusters around the mean. The minimum value of 0% shows non-existence of female members on the board of some of the sampled companies, while the maximum number of female directors of the companies is 40%, implying that in some boards, females make up 40% of the membership.

Financial expertise of board of directors has a mean of 0.4915. This means that 49% of the board members are financial experts by either being members of professional accounting bodies (ICAN, ANAN, and ACCA) or those with qualifications in Accounting and Finance. The remaining 51% members of the board are not financial experts. The board has a minimum of 0 members who are financial experts and maximum of 1. The standard deviation of 0.2010 signifies that there is low variation around the mean of the proportion of board members with financial knowledge in the sampled companies.

Table 2. *GLS Regression Results for Board Characteristics on Firm Performance*

Variables	Model 2: Fixed Effect		
	Coef.	Z	P> z
Constants	0.0888	2.37	0.041
LTD	-	-	-
STD	-	-	-
DER	-	-	-
BS	-0.0016	-0.49	0.627
BIN	-0.0028	-0.49	0.708
BGD	0.0434	-0.38	0.617
BFE	0.1972	3.78	0.000*
Overall R <sup>2</sup>	0.2020		
F-Stat.	0.22		
Prob>Fstat.	0.0085		
Hetest	0.3630		
Hausman	0.000		
LM			

Note. Stata 14 output based on data extracted from listed consumers goods firms.

\* and \*\* indicate 1%, and 5% level of significance respectively.

Table 2 also shows that the overall  $R^2$  for Model 1 is 0.2020 which expresses that 20% of the total variation in the dependent variable is caused by board size, board independence, board gender diversity and board financial expertise. The probability of F-value (0.000) for the model indicates that the model is of good fit and the board attribute variables are properly selected. It also indicates that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected at 5% level. Hence, this finding provides enough evidence to reject the second hypothesis which states that board attributes do not significantly affect firm performance.

The Fixed Effect Model (FEM) results for Model 1 on Table 2 shows that board size has insignificant negative effect on the financial performance of the sampled firms at probability and coefficient values of 0.627 and -0.0016 respectively. The result implies that a 1% increase in the number of directors, other factors remaining constant, would lead to decrease in financial performance by 0.0016. This is in agreement with the findings of Badera (2016), Oyedokun (2019) and Gambo et al. (2018), who revealed that board size has negative effect on financial performance. On the other hand, the result disagreed with the findings of Uadiale (2010) who documented a positive effect of board size on financial performance. This finding also implies that large number of board members do not enhance financial performance of the sampled firms. It also means large board size brings about much argument among the board members and redundancy which would not yield favourable results to the firms.

The study found that board independence has negative effect on financial performance, but this effect is statistically insignificant at coefficient value and probability value of 0.0028 and 0.708 respectively. The result indicates that 1% increase in independent directors would decrease financial performance by 0.28%. This finding is consistent with the provision of Section 275 of CAMA (2020) which states that there shall be at least three independent directors against the provision of code of corporate governance by the Financial Reporting Council of Nigeria. The finding also supported the findings of Norliana et al. (2018) and Rashid (2018), but disagreed with the findings of Bebeji et al. (2015) who found that board independence has positive relationship with financial performance. This finding suggests that large number of board independence do not improve financial performance. This also shows that having large number of independent directors without the knowledge of accounting and finance as well experience in the nature of company business would rather decrease financial performance than increase it.

The study also documented that gender diversity has insignificant but positive effect on financial performance of the sampled firms. The positive coefficient value of 0.0434 suggests that 1% increase in gender diversity on the board, other independent variables remaining constant, would increase financial performance of the sampled firms by 4%, though the increase is statistically insignificant at probability value of 0.617. The finding is in line with the finding of Aly and Hussainey (2018) who documented that female directors have positive influence on financial performance. However, the contradicting finding is that of Somathilake (2018), who found that female directors have negative effect on firm financial performance. The implication of this finding is that

female directors have significant role in taking decisions in respect to financial performance. This also means that presence of female directors on the board of directors increases financial performance of the sampled companies.

Also, board financial expertise reveals positive effect on firm performance with coefficient value of 0.1972 and is statistically significant at 1% level of significance. This means that the more financial experts on the board of directors the higher the financial performance of the sampled firms. This finding agrees with the finding of Bansa (2015), who documented that board financial expertise improves financial performance. The finding, however, agreed with the provision of the finding supports by the provision of CAMA (2020) section 404(3) which states that audit committee shall comprise five members and at least 1 shall be member of an Accounting professional body. Section 404(5) states that all the members shall be literate in finance. On the other hand, the result contradicts the findings of Bernadette et al. (2014), who found negative relationship between board financial expertise and financial performance. This finding implies that having high number of financial experts on the board would improve financial performance of firms since they can pool their knowledge in accounting, finance, business and economics to enhance the financial performance of their firms.

## Conclusion

From the research findings, board characteristics is vital to the financial performance of the sampled listed consumer goods companies. This finding of this study implies that having high number of financial expertise on board would improve financial performance of firm. This shows that they could pooled their knowledge in accounting, finance, business and economic to enhance the performance of firm. Also, the study reveal that female directors have significant role in taking decisions in respect to firm performance. This also means that presence of female directors on board increases firm performance of the sampled companies. The indication from the study is that choosing the best decisions on firm financing can help firm managers take actions that are in harmony with shareholders' interest thereby enhancing firm value.

## 5.4 Recommendations

1. Company managers should focus on the need to make the right capital structure decisions that involve increased long-term debt levels as this will help increase firm financial performance.
2. Consumer goods firms should reduce the number of their board size as this has shown not to significantly affect financial performance. Board members who have no financial expertise should be replaced with those with good financial background.
3. Independent directors in the consumer goods sector should be increased as the result shows that more independent directors would increase financial performance. The more independent the directors are, the more opportunity they have to bring their ideas to the board.

4. More female directors should be brought to the board of directors. Females are known to be better managers of resources than male, and so bringing more females would reduce expenditure and increase financial performance.
5. More board members with financial expertise should be appointed to the board. Members with financial expertise bring to the board their vast financial knowledge, and this can go a long way to improve financial performance.

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