Moderating effect of Board characteristics on the relationship between
capital structure and financial performance of listed consumer goods companies in Nigeria.

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ABSTRACT

This study examined the moderating effect of board characteristics on the relationship between capital structure and 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. Generalized Least Square (that is, random effects regression for model one, and fixed effect for models two and three) was used in testing the study hypotheses using Stata software version 14.0. The study reveals that the independent variables, long-term debt, short-term debt and debt equity ratio, positively affect financial performance, which means the variables encouraged performance of companies, while the moderating variables, gender diversity, board independence, and board financial expertise, positively affect financial performance, except board size which negatively affects performance of listed consumer goods companies in Nigeria. The study concluded that board characteristics have a positive effect on capital structure and 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: Capital Structure, Board Characteristic and Financial performance
INTRODUCTION

Recently, the influence of corporate governance on performance has received major consideration, particularly after the occurrence of corporate scandals in well-established organizations like WorldCom and Enron. Previously, these companies experienced downfalls due to the misuse of authority by their own board of directors, which appeared to act for their own best interests instead of the company as a whole. Due to this unfavourable phenomenon. That brought the first attempt to provide a code of CG for public companies in Nigeria was in 2003 when the Code of Corporate Governance for Public Companies was issued by the Securities and Exchange Commission (SEC), to supplement the existing legal framework of CG, specifically the Companies and Allied Matters Act (CAMA 2020), Investment and Securities Act (ISA) and other statutory provisions (Garko, 2015). According to Sanusi (2002), respectable CG is imperative towards establishing good assurance in addition to inspiring steady, long-term investment into an economy. The introduction of CG in Nigeria as documented by Sanusi (2002) has strengthened investors' confidence by enhancing companies' commitment for higher growth and profits as the boards of directors maximize long-term value and shareholders' wealth

Capital structure means the approach a firm uses in financing its assets through the mixture of debt, equity or hybrid securities (Saad, 2010). Hybrid securities in this context means a group of securities that combine the elements of both debt and equity, which have fixed or floating rate of return, and the holder has the option of converting it into the underlying company's share. Capital structure is a mixture of a company's debts (long-term and short-term), common equity and preferred equity (Kun & Chung, 2012). . Capital structure is a mixture of a company's debts (long-term and short-term), common equity and preferred equity (Kun & Chung, 2012).

The Financial performance reveals how well an organization uses its financial resources and shows its financial health and fitness, as well as the results of the firm's work, operations, and policies. These results are presented in the form return on equity (ROE), return on investment (ROA), dividends per share, and earnings per share.

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). Financial performance is 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.

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). 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

Hypotheses of the Study

Based on the objectives and research questions, the following hypotheses were formulated in a null form to guide the study:

H_{o1}: Capital structure (long-term debt, short-term debt, debt-equity ratio) has no significant effect on financial performance of listed consumer goods companies in Nigeria.

H_{o2}: 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.

H_{o3}: Board characteristics have no moderating effect on capital structure and 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. The major component of capital structure theory of a firm, which are debt-equity ratio, long-term debt and short-term are used as the independent variables while board characteristics is employed as a moderating 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 structure on firms' financial performance is still ambiguous, since previous investigations still show mixed findings regarding this issue. Actually, determining the structure of a firm'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.

Capital Structure

The capital structure is how a firm finances its overall operations and growth by using different sources of funds. Debt comes in the form of bond issues or long-term notes payable, while equity is classified as common stock, preferred stock or retained earnings. According to Harris and Raviv (2012), the consensus is that "leverage increases

with fixed assets, non-debt tax shields, investment opportunities, and firm size, and decreases with volatility, advertising expenditure, the probability of bankruptcy, profitability, and uniqueness of the product."

A firm's capital structure refers to the mix of its financial liabilities. As financial capital is an uncertain but critical resource for all firms, suppliers of finance are able to exert control over firms (Harris & Raviv, 2012). Debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the firm. Each of these is associated with different levels of risk, benefits, and control. It is the way the corporation finances its assets through some combination of equity, debt, or hybrid securities.

Short-term debt Financing

Short-term debt financing has a maturity period of one year or less; they must be repaid quickly within 90-120 days. Term loans with short maturities help to meet immediate need for financing without long-term commitment (Peavler, 2014). The cost of servicing short-term debt is less tasking on the company. Short-term loans usually offer lower interest charges, and most lenders do not charge interest until all credit allowance period is breached. The study by Ebaid (2009) sought to establish the relationship between debt level and financial performance of companies listed on the Egyptian stock exchange.

The study found out that there was a negative impact of short-term debt on return on assets. Teruel and Solane (2008) analyzed the Spanish SMEs corporate cash holdings and found that firms with a higher amount of short-term debt would hold higher levels of cash, because it might lower the risks of the non-renewal of the short-term debt. Weinraub and Visscher (1998) in their study on debt financing suggest that aggressive liquidity policy combine the higher levels of normally lower cost short-term debt and less long-term capital. Although capital costs are reduced, this increases the risk of a short-term liquidity. They established that total and short-term debt is positively related to firm's profitability, which might be the most important factor in accessing outside financing in countries with weak collateral laws. From their studies they also found out that a negative relation between tangibility and short-term debt and a positive relationship between tangibility and long-term debt exists.

These results are consistent with most theories on capital structure that suggest that firms without fixed-assets to use for collateral are unable to access long-term financing. According to Garcia-Terul and Martinez-Solano (2007), short-term debt is positively correlated with firm's growth opportunities. The anecdotal evidence suggests that there is a positive relationship between short-term debt financing and financial performance. However, due to the lack of previous research and empirical evidence in this area, particularly on the use of short-term debt financing, the prediction is tentative.

Long-Term Debt Financing

Long-term debt is money that is owed to lenders for a period of more than one year from the date of current statement of financial position. The study by Ebaid (2009) found that there was no significant relationship between long-term debt and return on assets. Long-term debts are most preferable sources of debt financing among well-established corporate institutions mostly by virtue of their asset base, and collateral is a requirement of many deposit taking financial institutions. Report by the European Commission (2008) indicates that large financial banks have considerably reduced lending to SMEs, thus inhibiting their potential for growth and financial performance. Pelham (2000) argued that long-term debts provided small firms with more competitive advantages when compared with large firms. According to the results, it was found out that there is a direct positive and significant relationship between long-term loans and financial performance of the small businesses. He reported that long-term debt was positively related to the growth/share/sales effectiveness, and gross profit in small and medium size manufacturing firms.

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Debt to Equity Ratio (DER)

This ratio serves to find out any own capital used as collateral for debt. For creditors, the greater the ratio is the more unprofitable because the greater the risk borne by failures that may occur in the company. The bigger the ratio, the better the company, in contrast to the low ratio, the higher the level of funding provided by the owner and the greater the security limit for the borrower in the event of loss or depreciation of the value of assets.

This ratio compares all debt including current money with all equity, knowing the amount of funds provided by the creditor and the owner of the company. This ratio also provides general guidance on the financial viability and risk of the company. Debt to equity ratio for each company is different, depending on the business characteristics and diversity of cash. Companies with stable cash flow usually have a higher ratio than the less stable cash ratio (Hapsoro & Husain, 2019; Kim & Choi, 2019; Moradi & Paulet, 2019; Suhaily, 2019).

Concept of Board Characteristics

Board characteristics refer to features of corporate boards that are tasked with overall management of the firm. The success or collapse of firms is associated with the role acted by the management and firm governance as a process. In this work, the characteristics of board of directors that were studied include board size, independence and gender diversity and financial expert (Ajayi, 2017)

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).

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.

Financial Performance

Financial performance is a subjective measure of how well a firm could use assets from its primary mode of business and generate revenues. It is the process of measuring the results of a firm's policies and operations in monetary terms (Mwangi, 2016).It identifies the financial strengths and weaknesses of a firm by establishing relationships between the items of the financial position and income statement. The term is also used as a general measure of a firm's overall financial health over a given period of time, and could be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure firms' 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 (Njeru, 2012). Quantitative measures of firm performance include profitability measures such as gross margin, net margin for example return on sales, ROE, economic value added, return on equity less cost of equity and return on capital employed. Other measures of performance include cash flow measures such as free cash flow over sales and growth measures for example historical revenue growth. Ideally, forward-looking measures such as expected profitability, cash flow and growth should be used to measure a firm's performance (Ajayi, 2017).

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

Capital structure has been of interest to researchers in both developed and emerging economics, yet surprisingly little empirical evidence exist about the association between capital structure, board characteristics and financial performance.

Capital Structure and financial Performance

Capital structure is the mix of debt and equity capital maintained by a firm. Modigliani and Miller (1958) stated that an organization financing is of paramount importance to both the managers of firms and providers of funds. Brigham and Gapenski (1996) argued that an optimal capital structure could be attained if there exists a tax sheltering benefits provided an increase in debt level is equal to the bankruptcy costs. They suggested that managers of the firm should be able to identify when the optimal capital structure is attained and try to maintain it at that level.

Nguyen and Nguyen (2015) examined the impact of capital structure on the performance of listed companies in the Ho Chi Minh City Stock Exchange, considered the largest stock exchange in Vietnam, with data from 2006 to 2014. The results indicated that the capital structure influences the performance of these companies. It was found a negative relationship between measures of capital structure, including long-term debt, and ROA and ROE performance measures. This suggests that, in general, a high degree of leverage is associated with poorer corporate performance.

Farhad and Aliasghar (2013) also studied the relationship between capital structure and profitability using data from 252 non-financial companies for a period of 10 years in Tehran Stock Exchange. They found a positive association between the ROE and short-term debt of the sampled firms. This suggests that increasing short-term debts with low interest rate would lead to increase in profitability. Furthermore, the results revealed a negative association between ROE and long-term debt, which means that issuance of long-term debt by firms would result to decrease in profitability. Finally, the results also indicate a positive relationship between ROE and total debt.

Long-term Debt and Capital structure

According to Assaf and Lima (2018), business organizations, in order to carry out their activities, need constant capital, either for the maintenance or expansion of the company. In other words, organizations, regardless of their size, need to finance their activities in the short, medium and long-term. Batista et al. (2005) state that this financing process is called by the specialized literature as capital structure. It is extremely important to the companies, since mistaken or wrong decisions regarding the organization capital have negative effect on the cost of capital. The opposite is also true, that is, right decisions in relation to the capital structure, in turn, could reduce the cost of capital for the organization. In both cases it could be noticed that the profit of the company is directly affected by the cost of capital.

Own funds and third-party capital are recorded differently in the company's statement of financial position. While the first one is allocated to net equity, the third parties capital deals with financing obtained from financial institutions, among other types of obligations that are denominated as a due obligation. Obviously, the correct management of the company's assets and liabilities implies a large difference in its profitability and, consequently, in the application of funds in the capital market. In this line, the importance of controlling and managing sources of financing, own and third parties funds, increases, since this affects the company's total value (Batista, 2005).

The understanding is very simple: the greater the dependence of the organization on third-party capital, the more insolvent the company is. But, as debt reveals itself as a source of funds of significant importance for the organization, this ends up being the strategy used by companies in the continuity of their activities. This strategy is present in several organizations in Brazil. In this sense, the study by Fonseca et al. (2014), which encompassed the capital structure and debt index of three large organizations in the country, showed that all of them have their main source of financing in third-party capital.

Managing the capital structure of a company efficiently is undoubtedly a decisive factor for the continuity of organizations in their market. In this sense, Fonseca *et al.* (2014) report in their study the researches of other authors, and observe that for some time researchers are concerned with describing what would be the optimal capital structure for organizations. In addition, according to the explanation of Fonseca *et al.* (2014), the organization could choose the capital structure it wants, but it must be aware of this, since a very large degree of debt to third parties could result in insolvency and, consequently, bankruptcy or recovery of the company.

Board size and firm performance

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. Yermack (1996) provides empirical support for these arguments by showing a significant negative correlation between Tobin's Q and board size for large public firms in the US.

According to the body of literature that argues that board size is positively associated with firm performance, larger boards provide a host of advantages (Wu, 2003). From an agency perspective, it may be argued that a larger board is

more likely to be vigilant with regard to agency problems simply because a greater number of people would be reviewing management actions (Nicholson & Kiel, 2003). Accordingly, Mak and Li (2001) showed a significant and positive correlation between Tobin's Q and board size for Singapore firms in OLS regressions. Nevertheless, agency theorists recognise that there is an upper limit to boards (Huse, 2007). Jensen (1993) suggests this limit to be approximately eight directors, as a greater number would interfere with group dynamics and inhibit the performance of the board. Alternatively, it may be argued that it is not the size of the board that is critical, but rather the number of independent non-executive members on the board (Dalton et al., 1999). This study, therefore, tests both of these dimensions.

Gender Diversity and Financial Performance

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.

Since gender-diverse board is more conscious about potential reputation risk (Bernardi & Threadgill, 2011; Zhang et al., 2013), the presence of women on the board provides positive signals to debt holders (Kaur & Singh, 2017). Similarly, Elmagrhi et al. (2018) argued that in a bid to reduce the opportunistic behaviour of managers that may arise due to weak monitoring, the firm with gender diverse boards use more debt to mitigate this behaviour. From another perspective, the trade-off theory suggests that firms would target for an optimal level of mix between equity and debt, which maximizes the difference between the benefits and costs of issuing debt (Adusei & Obeng, 2019). The benefit of debt is the tax advantage of interest payments to debt holders (Miller, 1977; Modigliani & Miller, 1963).

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. Nwonyuku (2016) concluded that board composition has negative relationship with ROE, while board expertise and competence has negative relationship with ROE and net assets per share.

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. Tornyeva et al. (2012) revealed that the regression result showed that, expertise and board meeting are positively associated with the financial performance of insurance companies in Ghana.

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.

Christine (2017) revealed that the regression analysis showed a positive relationship between ROA and board independence from 2008 to 2014. On his part, Sanda, (2008) studied the relationship between corporate board independence and firm financial performance in Nigeria. The descriptive and the regression analysis results show that foreign chief executives perform better than their local counterparts. Ahmadu et al. (2011) examine board independence and firm financial performance in Nigeria using data of varying sample size (ranging from 89 firms for regression to 205 firms for descriptive analysis) obtained from the NGX for the period 1996 through 2004. The key result was that board independence was positively related to financial performance of listed firms in Nigeria. The major setback of the study lies in the mix up in the variable definition.

Gambo et al. (2018) reported a positive relationship between board independence and ROA of consumer goods companies listed on the NGX. Their outcome showed that a higher proportion of outside directors in a board tend to result in higher performance. They, therefore, hypothesise that board independence has a significant impact on financial performance of Information Communication Technology companies.

Theoretical Framework

To have a foundational basis for this study, the theoretical framework is examined on which the premise of this study is based.

Agency Theory

The agency theory concept was initially developed by Berle and Means (1932), who argued that due to a continuous dilution of equity ownership of large corporations, ownership and control become more separated (Akeem et al., 2014). The agency model of corporations is the implicit presumption that the conflicts are between strong entrenched managers and weak dispersed shareholders.

Agency theory has its roots in economic theory. It was developed by Jensen and Meckling (1976), and it states that shareholders who are the owners or principals of the company delegate the running of business to the managers or agents. The shareholders expect the agents to act and make decisions in the principal's interest but the agents may make contrary decisions. The agency theory is a theory concerning the relationship between the principal (shareholders) and the agent of the principal (company's managers) (Akeem et al., 2014). This suggests that the firm could be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individual, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents.

Agency costs have been defined as the sum of the monitoring expenditures by the principal, the bonding expenditures by the agent and the residual costs. Agency problems arise because managers would not solely act to maximize the shareholders' wealth; they may protect their own interests or seek the goal of maximizing companies' growth instead of earnings while making decisions.

There are three types of separation of ownership and control. The first is majority control where some of the shareholders own majority of shares, and the minority shareholders is widely diffused and are separated from control. The second is minority control, where ownership is widely spread and the greater part of ownership is practically without control. The third is management control where the directors or managers are responsible in controlling the corporation. The separation of ownership and control has resulted in divergence of interests between shareholders and the managers. Jensen and Meckling (1976) argued that the separation of ownership and control has resulted in an agency problem as the managers who act as agents might not always act in the best interests of the shareholders or owners, who are the principals of the firm. This might be due to the interests of both parties which are not aligned. Agency problem results in agency costs, which are the costs of the separation of ownership and control.

METHODOLOGY

Research Design

In designing a research, Creswell (2003) recommended adopting either quantitative, qualitative, or mixed methods approach. The suitability of each of the approach depends on the context, purpose and nature of the study. Looking at the objectives of this study, the suitable general framework is quantitative approach. Quantitative research was originally developed in the natural sciences to study natural phenomena. Quantitative research sees the world as a single reality, that is, could be measured by an instrument. Since this study aims at assessing the relationship between capital structure, board characteristics and 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, 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 and moderating variables.

Dependent Variable

The dependent variable for the study is financial performance as with return on asset (ROA) as the proxy used by Wilson (2009), Dyreng *et al.* (2010), Aliani *et al.* (2012), Streefland (2016), Radu *et al.* (2016), and Mohammed (2017).

Independent variable

The independent variable for the study is Capital Structure (CS). In assessing the effect of CS, board characteristics and financial performance, the study uses Debt –Equity ratios, Long – term debt and Short-term debt as proxies for CS.

Moderating Variables

The moderating variables of the study include the proxies of board characteristics. In assessing the moderating effect of board characteristics on the relationship between capital structure, and financial performance, the study uses gender diversity, board size, board independence, and financial expertise. They are measured as follows:

Model Specification

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

$ROA = \beta_0 + \beta_{1it}LTD + \beta_{2it}STD + \beta_{3it}DER + \varrho \ ....1$

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

$ROA = \beta_0 + \beta_{1it}LTD + \beta_{2it}STD + \beta_{3it}DER + \beta_{4it}BOS + \beta_{5it}BOI + \beta_{6it}GED + \beta_{7it}FEXPT + \beta_{8it}LTD*BOS + \beta_{9it}LTD*BOI + \beta_{10it}LTD*GED + \beta_{11it}LTD*FEXPT + \beta_{12it}STD*BOS + \beta_{13it}STD*BOI + \beta_{14it}STD*GED + \beta_{15it}STD*FEXPT + \beta_{16it}DER*BS + \beta_{17it}DER*BOI + \beta_{18it}DER*GED + \beta_{19it}DER*FEXPT + \varrho.................................3$

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

BOI = board independence ,LTD = long-term debt ,STD= short-term debt

DER = debt –equity ratio ,ROA = return on assets, $Perf_{t-1}$ = Financial Performance

β_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

H_{o1}:   Capital structure (long-term debt, short-term debt, debt-equity ratio) has no significant effect on financial performance of listed consumer goods companies in Nigeria.

H_{o2}:   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.

H_{o3}:   Board characteristics have no moderating significant effect on capital structure and financial performance of listed consumer goods companies in Nigeria.

Regression Results on the moderating effect Board Characteristics on Capital Structure, and Financial Performance of Companies

Table 1 displays the result of estimated coefficients, z-statistic, probability, and coefficient of determination of the research models.

Table 1 *GLS Regression Results for* Board Characteristics on *Capital Structure, and Firm Performance*

Variables	Model 1: Random Effect			Model 2: Fixed Effect			Model 3: Fixed Effect		
	Coef.	Z	P>|z|	Coef.	Z	P>|z|	Coef.	Z	P>|z|
Constants	0.0240	3.85	0.000*	0.0888	2.37	0.041	0.0882	2.48	0.010*
LTD	0.9826	2.59	0.036**	-	-		0.0130	2.62	0.000*
STD	0.0110	2.83	0.016**	-	-		-0.0570	-0.52	0.614
DER	0.0002	4.40	0.000*	-	-		0.0067	2.74	0.000*
BS				-0.0016	-0.49	0.627	-0.0012	-0.20	0.848
BIN				-0.0028	-0.49	0.708	-0.0023	-0.11	0.915
BGD				0.0434	-0.38	0.617	-0.0909	-2.21	0.048**
BFE				0.1972	3.78	0.000*	0.0501	0.33	0.750
LTD*BS							0.0150	1.24	0.235
LTD*BIN							-0.0215	-2.35	0.041**
LTD*BGD							-0.1486	-0.28	0.783
LTD*BFE							0.3013	2.41	0.010*
STD*BS							0.0041	0.47	0.646
STD*BIN							-0.0115	-0.64	0.534
STD*BGD							-0.2238	-2.41	0.010*
STD*BFE							0.0815	3.44	0.000*
DER*BS							0.0038	2.95	0.000*
DER*BIN							0.0065	0.93	0.367
DER*BGD							0.1279	3.78	0.000*
DER*BFE							0.0099	0.31	0.759
Overall R^2	0.2098			0.2020			0.2078		
F-Stat.	286.03			0.22			1.69		
Prob>Fstat.	0.0000			0.0085			0.0028		
Hettest	0.0000			0.3630			0.0000		
Hausman	0.6647			0.000			0.0000		
LM	0.0000								

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

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

Test of Hypotheses

H$_{o1}$: LTD has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The regression result shown in Table 1 reveals that LTD has a p-value of 0.036. This is less than the preselected significance level of 0.05. The result, therefore, provides the basis for the non-acceptance of the null hypothesis which states that there is no significant effect of LTD on the financial performance of listed consumer goods companies in Nigeria. We, therefore, conclude that there is a significant effect of LTD on the financial performance of listed consumer goods companies in Nigeria.

H$_{o2}$: STD has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The regression result shown in Table 1 reveals that STD has a p-value of 0.016. This is less than the preselected significance level of 0.05. The result, therefore, provides evidence for the non-acceptance of the null hypothesis which states that there is no significant effect of STD on the financial performance of listed consumer goods companies in Nigeria. We, therefore, conclude that there is a significant effect of STD on the financial performance of listed consumer goods companies in Nigeria.

H$_{o3}$: DER has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The regression result shown in Table 1 reveals that DER has a p-value of 0.000. This is less than the preselected significance level of 0.05. The result, therefore, provides the basis for the non-acceptance of the null hypothesis which states that there is no significant effect of DER on the financial performance of listed consumer goods companies in Nigeria. We, therefore, conclude that there is a significant effect of DER on the financial performance of listed consumer goods companies in Nigeria.

H$_{o4}$: BS has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The regression result shown in Table 1 reveals that BS has a p-value of 0.627. This is more than the preselected significance level of 0.05. The result, therefore, provides the basis for the non-rejection of the null hypothesis which states that there is no significant effect of BS on the financial performance of listed consumer goods companies in Nigeria. We, therefore, conclude that there is an insignificant effect of BS on the financial performance of listed consumer goods companies in Nigeria.

H$_{o5}$: BIN has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The regression result shown in Table 1 reveals that BIN has a p-value of 0.708. This is more than the preselected significance level of 0.05. The result, therefore, provides the evidence for the non-rejection of the null hypothesis which states that there is no significant effect of BIN on the financial performance of listed consumer goods companies in Nigeria. We, therefore, conclude that there is an insignificant effect of BIN on the financial performance of listed consumer goods companies in Nigeria.

H$_{o6}$: BGD has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The regression result shown in Table 1 reveals that BGD has a p-value of 0.617. This is more than the preselected significance level of 0.05. The result, therefore, provides the evidence for the non-rejection of the null hypothesis which states that there is no significant effect of BGD on the financial performance of listed consumer goods companies in Nigeria. We, therefore, conclude that there is an insignificant effect of BGD on the financial performance of listed consumer goods companies in Nigeria.

H$_{o7}$: BFE has no significant effect on financial performance of listed consumer goods companies in Nigeria.

The regression result shown in Table 1 reveals that BFE has a p-value of 0.000. This is less than the preselected significance level of 0.05. The result, therefore, provides the evidence for the non-acceptance of the null hypothesis which states that there is no significant effect of BFE on the financial performance of listed consumer goods companies in Nigeria. We, therefore, conclude that there is a significant effect of BFE on the financial performance of listed consumer goods companies in Nigeria.

Discussion of Findings

The result of the Random Effect in Model 1 revealed a positive value and shows verse relationship. It also revealed a significant relationship between long term debt and firm performance. The finding is in line with the findings of Ajibola et al. (2018); Amara and Bilal (2014); Domnick (2018); Ganiyu et al. (2019); Khalaf (2013), who found that long term debt is positively and significantly associated with performance of firm. The result is, however, in contrast with those of Avci (2016); Birru (2016); Foo et al. (2015); Nenu et al. (2018); Ngoc and Jeremy (2011); Rasa and Jurgita (2012); Uremadu and Onyekachi (2018), who found negative and significant relationship between long term debt and firm performance. This result is also in line with agency cost hypothesis. It is also consistent with Trade-off theory which believed that firm should use more of debt in order to take advantage of tax shield, which will increase financial performance.

Furthermore, the result shows that debt equity has positive significant impact on financial performance at coefficient and probability value of 0.0002 and 0.000 respectively. This implies that 1% increase of debt to equity will lead to 0.02% increase in financial performance. Also, the influence is statistically significant 1% level of significance. The finding is not in line with Modigliani and Miller theory of capital structure irrelevance, the theory believed that financial performance can be increased when firms effectively use their resources and it is irrelevant for originating funds from internal capital or external capital. The finding agreed with the findings of Amara and Bilal (2014); Basit and Arwan (2017); Chadha and Sharma (2015); Gholamreza et al. (2013); Maina and Ishmail (2014); Uremadu and Onyekachi (2018), who found that debt to equity is positively associated with financial performance of firms, while it disagreed with the findings of Akeem et al. (2014); Avci, (2016); Eniola et al. (2017); Khalaf (2013) who found a negative insignificant relationship between equity firm and financial performance.

Table 1 also show that the overall R^2 for Model 2 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 attributes 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 state that board characteristics does not significantly affect financial performance.

Moreso, the study found that board independence has negative effect on firm performance and this effect is statistically insignificant at coefficient value and probability value of 0.0028 and 0.708. The result indicates that 1% increase in independent directors would decrease firm performance by 0.28%. This finding is consistent with provision of section 275 of CAMA which states that there shall have at least three independent directors against the provision of code corporate governance by the Financial Reporting Council of Nigeria. The findings also support the

findings of Norliana et al. (2018) and Rashid (2018), however, disagree with the findings of Bebeji et al. (2015) who found that board independence has positive relationship with firm performance. This finding suggests that large number of board independence do not improve firm performance. This also shows that having large number of independence director without the knowledge of accounting and finance as well experience in nature of company business would rather decrease firm performance than increase the performance.

The study also documented that gender diversity has insignificant but positive effect on firm performance of consumer goods companies in Nigeria. The positive coefficient value of 0.0434 suggests that 1% increase in gender diversity on the board other independent variables remaining constant, it increases performance of consumer goods companies by 4% though the increase is statistically insignificant at probability value of 0.617. The finding is in line with who documented that female directors have positive influence on firm performance which is supported by the findings of Aly and Hussainey (2018). However, the contradicting finding is that of Somathilake (2018) who found that female directors have negative effects on firm financial performance. The implications of this finding are that female directors have significant role in taking decisions in respect to firm performance. This also means that the presence of female directors on the board 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 meant that the more financial expertise on board the higher the performance of consumer goods firm. This finding agrees with findings of Bonsa (2015) who documented that board financial expertise improve firm performance. The finding agreed with the provision of code of corporate governance 2020 which states that there should be at least financial expertise as member of board of director. Similarly, the study supports the provision of CAMA (2020) section 404(3) which states that audit committee shall comprise of five members and at least 1 shall be member of accounting professional body. Section 404(5) states that all the members shall be financial literate. On the other hand, contradict the findings of Bernadette et al (2014), they found negative relationship between board financial expertise and firm performance. 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 can pooled their knowledge in accounting, finance, business and economic to enhance the performance of firm.

Furthermore, the result of model 3 which is the moderated model after introducing the moderating effect of board attributes on relationship between capital structure and firm performance overall R^2 increase from 0.2098 to 0.3089. This indicates that 31% of variance in consumer goods firm performance is caused jointly by capital structure and board attributes. This also indicates that the model is fit and the explanatory variables have been carefully selected, combined and estimated. The F-stat of the FEM value of 1.69 at 1% level of significance is a validation that the results are reliable, valid and generalizable. Furthermore, this implies that firm board attribute has significant moderating effect on the relationship between capital structure and consumer goods performance. Hence the study documented enough evidence to reject the fourth hypothesis which states that board attributes does not significantly moderate relationship between capital structure and firm performance.

In the same vein the results reveal that the relationship between long term debt and firm performance was slightly weaken from coefficient value of 0.9826 of the parsimonious models to 0.0150 and became insignificant when board size was introduced as moderator. In addition, the moderating role of board independence and board gender diversity does not strengthen the relationship between long term debt and firm performance. However, board financial expertise strengthens the relationship, more so board financial expertise and board independence significantly moderate the relationship between long term debt and financial performance of consumer goods firms. The moderators weaken the relationship from the positive relationship on the parsimonious model to negative. This indicates that most of the

board members do not have knowledge on which long term debt to advise firm to source which would improve firm performance.

Similarly, moderating effect board size, board financial expertise on the relationship between short term debt and firm performance is positive. This indicates that board size, board financial expertise improved the relationship between short term debt and firm performance however the relationship is insignificant. Comparing the result of the moderating with that of parsimonious model it revealed that board size and board financial expertise reduce the coefficient value. The result also shows that board independence and board gender diversity weaken the relationship between short term debt and firm performance. The result on the parsimonious model is positive but negative in the moderating variables. In addition, only board financial expertise significantly moderates the relationship between short term debt and financial performance of listed consumer goods firm in Nigeria.

Furthermore, for the moderating impact of board attributes on the relationship between debt to equity, the result revealed that board size, board independence, board gender diversity and board financial expertise positively moderate the relationship between debt to equity and firm performance. Though only board size and board gender diversity significantly moderated the relationship between debt to equity and firm performance.

Conclusion

Based on the findings of the study, the following conclusions are drawn:

i. Long-term debt does enhance financial performance of listed consumer goods companies in Nigeria. Short term debt does encourage financial performance of listed consumer goods companies in Nigeria. while Debt-equity ratio encourages financial performance of listed consumer goods companies in Nigeria.

ii. Board size does not play a significant role in enhancing financial performance of companies Therefore, what matters most is the number of directors seated on the board who have diverse expertise with different opinions that will enable the board to take strategic decisions. While, Board gender diversity does contribute effectively towards financial performance of the listed consumer goods companies in Nigeria. Thus, good representation of women in executive positions and on the board increase financial performance.

iii. Board financial expertise encourages financial performance in the sampled companies since board members with sound accounting, finance, marketing and economic knowledge facilitate the taking of sound decisions that would improve financial performance.

iv. Board independence, board gender diversity and board financial expertise weaken the relationship between long-term debt and financial performance from the positive relationship on the parsimonious model to negative. This indicates that most of the board members do not have knowledge on which long term debt to advise their firms to source which would improve financial performance.

v. Board size and board financial expertise improved the relationship between short term debt and financial performance. Board independence and board gender diversity weaken the relationship between short-term debt and financial performance .Also Board size, board independence, board gender diversity and board financial expertise have a positive effect on the relationship between debt to equity and financial performance.

Recommendations

The following recommendations are made based on the conclusions of the study.

i. Consumer goods firms should increase their use of long-term debt since the average use of long-term debt is still low at 21%. The use of short-term debt should be raised as it is still at a moderate level of 37%. The level of mix of debt and equity should be maintained so that the financial performance of the firms would continue to be enhanced.

ii. For directors of listed consumers good companies to carry out their duties effectively and efficiently, companies should make the size of the board sufficient in terms of appointing individuals with better experience and professionalism in accounting and finance with much attention to the number. Shareholders of listed consumer good firms in Nigeria should appoint more women as board members since their presence does encourage financial performance.

iii. 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. 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.

iv. 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.

v. The moderating role of board independence, board gender diversity and board financial expertise has shown not to strengthen the relationship between long term debt and financial performance. This indicates that most of the board members do not have knowledge on which long term debt to advise firm to source which would improve financial performance. Consequently, board members should be trained on corporate financing so that they could take more informed financing decisions for their companies with regards to long-term debt financing.

vi. All the board characteristics positively moderate the relationship between debt-equity ratio and financial performance. Hence, board of directors of consumer goods firms should pay more attention on how debt and equity are mixed to finance the operations of their respective companies.

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