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Corporate Board Structure And Listed Firm Performance In Nigeria

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Abstract: *This study is designed to identify and advocate for optimal corporate governance (CG) mechanisms that will enhance listed firm performance in Nigeria using conceptualized methodology. Research has been ongoing concerning the issues of (GC) mechanisms as it affects listed firm performance in Nigeria. Findings revealed that good CG mechanisms exhibit strong positive relationship with the firm's operational and financial performances. CG is gradually evolving in Nigeria, though at a slow speed due to her peculiar business environment, culture, politics, regulations and historical roots. The need for an appropriate board structure is gaining the spotlight among corporate regulators and business owners especially after the near collapse of the capital market in 2011 which led to enactment of numbers of CG codes and standard of corporate best practices with emphasis on accountability, reporting standard and information disclosure to ensure that management actions are geared towards sustainable growth of the firm. This study highlights the imperatives of woman board member and change in board member as it affects listed firm performance, since little research had been conducted on these issues in Nigeria. We therefore recommend that corporate regulators in conjunction with other stakeholders should specify the percentage of female board members of the ongoing review of a national code of CG. Also, the management and other stakeholders of listed firm should be very mindful of when to change a board member, and it should form part of the firm strategic plan due to its sensitivity on firm performance.*

Key words: *change in board member, corporate governance, firm performance, woman. board member*

I. Introduction

The concept of corporate performance is measured by the firm's optimum attainment of targeted financial returns and operational activities through effective and efficient utilization of human, material and financial resources at its disposal [1]. Listed firms are striving hard in order to achieve better results in the face of the contemporary intense local and global business completion. They have to contend with shorter product life cycle and competition high pressure. Hence, the need for flexible and appropriate board structure for quick and informed decision making essential to respond quickly to the current dynamic business environment [2]. According to [3] corporate governance is a diligent manner by which providers of corporate capital are legally and ethically rewarded.

However, in the context of the enlighten stakeholder and resources dependent theory, financial returns is not the only means for measuring the organizational performance. Also, the stakeholder involvement level in the organization process (Avran & Avasileai, 2014)[4]. It was observed that change in board members and top management teams (TMT) have significant impacts on firm performance. Hence the retention of sufficient number of original board members and TMT will enhance short and long term firm performance (Chowdhury et al, 2014) [5]. Moreover, researchers have shown that in the short term, the stock market responds positively to the appointment of female board members, implying that investors believe that female director could add value to the firm. Hence, explain the current intense call for legislative change in favoured of high of women in the boardroom (Campbell & Vera, 2010[6].

Nonetheless, corporate performance and sustainability are complex issues that have no single approach for its measurement. Firms face diverse stakeholder demands to choose from various alternatives to address sustainability challenges from internal and external environments (Searcy, 2012)[7]. This view aligns with an earlier study by Jensen (1993)[8]. At this juncture, Berle & Means (1932[9] opine that in contract of agency, the agent's interests often come into conflicts with that of the principal which do result to suboptimal performance of the organization as a result of moral hazards and adverse selection. Therefore, the base on view and anecdotal evidence in Nigeria, there is an increasing demand for corroborating good governance to protect the firm's shareholders' wealth, enhance firm's value for sustainable growth and development (Dembo & Rasaratnam, 2014)[10]

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The concept of managing Modern Corporation is still new in Nigeria in relation to the customary way of business practices. The first formal corporation that operates in Nigeria was the British companies chartered in England, which one of the prominent ones was the National African Company, which was later renamed Royal Niger Company in 1886; now known as United Africa Company of Nigeria (UAC) (Ahunwan, 2002 and Opara & Alade, 2014)[11]. The first statued that the governed corporation in Nigeria was enacted in 1912, fashioned from the British system of corporate governance until Nigerian attained independent in 1960 (Orojo, 1992)[12].

The post independent business environment in Nigeria was shaped by the drive for economic self independence, which forms the dominant ideological perceptions of the post colonial business environs. Moreover, the advent of globalization, commercialization and liberalization with its attendant good CG best practice requirements arose the regulatory agencies and public attentions (Babatunde & Olaniran, 2009)[13]. However, the Nigerian code of corporate governance for public company 2008, section 4 (1) stipulates that board members should be of sufficient size according to the scale and complexity of its operations and should not be less than five (5) members with diverse experience without compromising integrity, compatibility, independence and their dispassion attend meetings regularly (Uwuigbe et al, 2014 & Rouf, 2011) [14]. Since little research had been conducted on change in board member and the needs of board gender diversity, this study will evaluate their effects on firm performance in Nigeria.

Change In Board Member.

The departure the executive of an organization may occur in various forms, such as the death, leaving for executive placement in another firm, as a result of illness, mandatory retirement or outright dismissal (Park & Sung., 2014). Poor firm performance tends to signal that management leadership is ineffective and other top managements may be likely be held responsible for the poor performance (Fee & Hadlock., 2004). Similarly, when block holders emerge after a firm is listed, they may want to change the structure of top management team (TMT) who is endowed with firm specific knowledge (Chowdhury et al, 2014[17]). Thus, changing this crop of the management team may lead to firm's loss of competitive advantage, and consequently lead to poor performance.

Moreover, CEOs are more likely to face a dismissal from their jobs after a bad accounting and industry performance. The decision whether to retain or dismiss an incumbent CEO after a firm's experience of bad stock price or accounting performance rest squarely on decision arrived at by the board members. The board of directors is expected to take into cognizance the component factors that led to firm's poor performance that are beyond the control of the CEO (jenter & Kannan., 2006)[18]. However, it was observed that the likelihood of a change in top management is less sensitive the performance of the stock price in a firm with managerial ownership. Furthermore, recent studies by Ciampi (2015)[18] and Denis & Denis (1995)[20] that examined the effects of change in TMT show negative relationship with likelihood of changing board member to change with prior stock change; and dismissal of top executive has a positive relationship with future firm performance

Though, Jensen & Murphy (1995)[21] observe that the probability of forced change in TMT is too small to effectively influence the activities and the perceptions of the managers and the stakeholders. A study by Gangloff et al, (2014)[22] however observe that if firm's TMT is caught in the act of misconduct, it may lead to changes in board members, either through scapegoat or signalling change to address the investors' reactions as doing nothing may escalate the issues. Walters et al, (2015) [13] contend that it is pertinent to note that new ventures are usually funded by their founders who usually become the firm's top executives. Their action is deemed to in line with resources dependent theory perspective, idiosyncratic capacity and established external connections, place them in a vintage position of knowledge about the firm's vision and strategies that could strengthen the firm performance and their removal or change, not as a result of misconduct tend to lead to firm poor performance.

Hillman et al, (2009) [24] assert that executive succession essentially forms part of listed firm strategic responses to overcome environmental contingencies. Moreover, Zhang (2008) [25] affirm that when a firm is experiencing poor performance, it signals poor leadership performance. This occurrence is likely cause the CEO will replace, and the market will respond. Founding board members/CEO has a greater impact on the old and large firms as a result of their value of collectivism and are of immense benefits to younger firms due to their value of novelty (Ling et al, 2007)[26]. The Nigerian code of corporate governance (2008) stipulates that board members shall consist of at least three (3) executive and three (3) non executives, subject to re-election every three years. These measures are meant to forestall the negative effects of frequent changes in board management, more so the tendency of entrenchment. Though, managerial values, processes, structures and adjustment to environmental contingencies are independent, board members are expected to undertake an appropriate strategy and structure their firm's base on their personal perceptions. Hence, board member turnover should be strategically applied to enhance firm's value maximization (Parker et al, 2002)[27].

Women Board Member.

Corporate gender diversity is attracting policy maker's attention in many countries, specifying quotas for women board member for quote firms. Adams et al, (2012)[28]observe that on the average shareholders' value addition of female directors are more than their counterpart male value additions. The relatively low presence of female on corporate board member is attracting attention from public, researchers and regulators. Political action was first initiated on this issue by Norwegian in 2008 to maintain gender balance on corporate board members, mandating firm to have 42 percent of the firm board to be filled by female, Spain 40 percent in 2008, and French national assembly approves 20 percent in 2015. However, Netherlands, Italy, UK, Germany, US and Australia ask listed firms to adopt voluntary board gender quotas or disclose diversity policies of the board (Adams et al., 2011and Bohen & Staubo., 2014)[29]. Awareness has been on the increase concerning the absence of women on the board and management of corporate organization which are considered to be detrimental to the social economic outcome of the organization.

However, like other board characteristics the effects of women on corporate board on firm performance provide mix outcomes. It was observed that corporate board members perform their strategic guidance and control functions better with the increase number of female on board, especially when the woman form the member of outside director. In the analysis of 1000 firm samples, it was discovered that diversify gender board produces high returns on equity, market to book value multiples and growth in average net income (Credit Suisse, 2012)[30]. According to Torchia et al, (2011)[31] board containing at least three (3) women members contribute to innovation than men dominated board of an organization. . Ongore et al (2015)[32] observe in his study carried out on listed firm in Kenya, that the predictive power of gender diversity on listed firm performance indicates that a unit increase in female board member lead to 59 percent raise in firm performance.

Thus, board member diversity brings into congruence the diversity of customers and employees in the market place which bring about competitive edge in the marketplace leading to creativity and innovation in the marketing strategy of the firm; strengthen the long term financial performance of the firm as a result of easy access to external resources that promote firm value and prosperity (Carter et al, 2003)[33]. Inclusion of women in firm board member confers positive image of the firm because problems are better resolve when board genders are adequately represented, conveying positive signal to financial, product and labour markets (Smith et al, 2006)[34]. Similarly, IFC (2011)[35] with 100 company's survey in Vietnam observed that firms with high number of women on their board display a higher corporate governance score of o.68 and 1.20 significant variables despite the relatively low women members on the board of the firms.

Nonetheless, with a sample size of 169 Indonesian listed firms, Darmadi (2011)[36] found no relationship between firm performance and woman inclusion in board member, arguing that the nomination of the women board members are based on family connection rather than their specific competence. Similarly, investigations carried out on more than 2000 firms spanning between 2001 to 2005 by O'Reilly 111 & Main (2012) [37]find no link between woman outside director and firm performance, concluding that some firms nominate women as an outside board member merely for reputation and legal requirement, and not necessarily for higher firm performance. Furthermore, Dobbin & Jung (2010)[38] with more than 400 samples US firms for 1997 to 2006 observe that woman director have a negative relationship with stock price and without any appreciable influence on firm profits.

However, Parola et al (2012) [39] contend that top management (board members and managers) is endowed with enormous resources like cognitive and knowledge resources that help in problem definition and solving skills. Therefore, heterogeneous board creates environment that minimize group thinking thereby possessing greater information processing, creativity and innovative ideas leading to higher quality decision making. On the other hand, Hambrick et al (1996)[40] opine that a high diversify board tends to reduce behavioural integration of team members in the areas such as communications, strategic consensus and speedy decision making which can hamper strategic policy implementation leading to low team performance.

Though, Gender diversity issue on board mechanism display such contradictions, female strategic leaders exhibit peculiar positive characteristics such as innovation, proctiveness, transformational and more conscious in excessive risk exposure, which stand out in them than their male counterparts (Hong & Kisgen, 2013)[41]. Studies and anecdotal on corporate board structure in Nigeria have not attracted much attention to gender diversity of board composition. The code of corporate governance of the public listed firm gives no specific quota for female on firm board composition and this study suggest that the ongoing reform of national codes of corporate governance should address this issue. This will pave the way and facilitate the current drive to attract foreign investors which are currently leading the equity market in Nigeria, mainly from Europe and America.

The Research Gap And The Conceptual Framework.

Augustine & Nwanneka (2012)[42] contend that recent poor corporate performance was sequential to spill over effects of the recent global economic crises, hence effective adoption of strategic management and efficient regulatory framework design to suit the Nigerian macroeconomic stature will go a long way to stabilize investment climate in Nigeria. In the year 2011, investors lost about 17 percent of their holdings over the 202 listed companies as a result of interactive factors of Euro zone debt crises, Middle East and North African crises that dampen the investor sentiments, culminating into compromising rules and regulations, leading to foreign investors currently dominating the equity portfolio (Onybuchi, 2012)[43].

Drawing inferences from the above literature review, adequate attention has not been paid to the issues of corporate gender diversity and change in board members as they affect quoted firm performance in Nigeria. Heterogeneous board creates an environment that minimizes group thinking is thereby enhanced greater information processing, creativity and innovative ideas leading to higher quality decision making. Moreover, Hambrick et al (1996)[44] contend that a higher diversify board tend to reduce behavioural integration of team members in the areas such as communications, strategic consensus, and speedy decision making which can hamper strategic policy implementation leading to low team performance. It was also observed that board containing at least three (3) women *members* contributes to innovation and improve image than men dominated board of an organization (Torchia et al, 2011)[45].

Moreover, Hillman et al (2009)[46] opine that executive succession forms part of firm strategic responses to overcome environmental contingencies. When firm experience poor performance, it signals poor leadership performance and removal of the chief executive officer will impact positively on the market. However, the board of director is expected to take into cognizance those component factors that led to the firm's poor performance that are beyond the control of the CEO (Jenter & Kannan, 2006)[47]. Though, poor executive and firm performance increases the likelihood of executive dismissal, however a strong power base may help the erring top executive to retain their position, but effective board structure may override such an entrenchment posture (Hilger et al, 2013)[48]. Founding board members/CEO and managerial ownership have greater impact on the old and large firms as a result of their value of collectivism and innovation, which are of immense benefits to younger firms (Ling et al,2007)[49]. Though, little research has been conducted in Nigeria in this regard, this study advice to note that, changes in board member are delicate issues which need to be handled with caution in the interest of all the stakeholders.

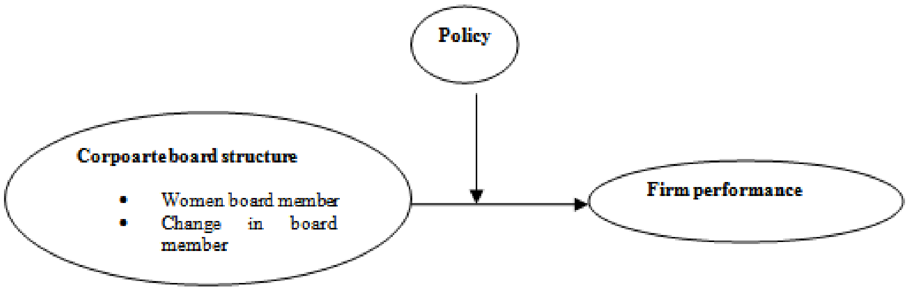

Figure 1: The conceptual framework

Source: Authors

II. Summary And Conclusion

During economic crises, firm with inappropriate board structure suffered a great deal, leading to reduction in firm value, especially in emerging countries with low level of investor's protection policy and law enforcement quality leading to variation in stock market perforce and exchange rate (Beak, 2011)[49]. Firms should know when to use board strategic change mechanisms to wane down unpleasant situations facing the company (Marta & Jose, 2015)[50]. Executive succession forms part of firm strategic responses to overcome environmental contingencies. Thus, when firm experience poor performance, it portrays a poor leadership performance and the removal the CEO at this period will impact positively on the market (Hillman et al, 2009)[51].

Hence, at this juncture specific actions should be designed to repair the relationships with stakeholders and restore the investors' confidence. For instance, the firm may add new control mechanisms, restructure, and reporting relationships, terminate individuals, or eliminate business units. These measures are usually taken to divorce the firm from being stereotyped as a wrongdoer (Gangloff et al, 2014)[52]. On the whole, studies had shown a strong link between regulatory environment and corporate governance, emphasizing those firms in countries whose legal system show low ranking corporate governance and performance (Dalwai et al, 2015)[53]. Management expertise forms an essential aspect of firm intellectual capital that is capable of affecting the performance of the firm, the intricacies of board turnover and gender diversity issues should be precisely defined in the ongoing code of corporate governance reform in Nigeria.

III. Recommendation

In Nigeria there is an increasing demand for corporate governance mechanisms of firm and to conform to international code of best practices especially as obtain in Europe and US which form the bulk of Nigerian equity portfolio holders. Since little research has been carried out on these issues of TMT turnover and gender diversity, this study been part of the forerunner of the ongoing empirical research on these issues by the authors. It therefore meant to draw the attention of the policy makers, regulators and the stakeholders that the issues raise thereto, should be taken into consideration in the ongoing review of a national code of corporate governance for listed firms in Nigeria.

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