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EFFECT OF BOARD CHARACTERISTICS ON THE PERFORMANCE OF LISTED FOOD AND BEVERAGES FIRMS IN NIGERIA

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ABSTRACT

This study examined the Effect of Board Characteristics on the performance of listed food and Beverages firms in Nigeria. The study adopted ex-post facto research design which relied on secondary data collected from the financial statements of thirteen (13) firms out of fourteen (14) listed food and Beverages firms in Nigeria for the period of 2009 to 2015. Correlation and Regression were used to analyse the data. The results indicated that Board Composition and Board size shows significant relationship with Return on Assets of the sampled firms at 10% and 1% respectively. This shows that there is positive level of firm's performance by food and beverage in Nigeria. Managerial ownership shows insignificant relationship with Return on Assets.. The firm size which is the control variable shows no significant association with firms performance. This shows that not all the firms comply with the corporate governance code guideline. It is concluded that Board size and board composition are important factors which can enhance Return on Assets of food and Beverages firms listed in Nigeria. This is because both show positive significant relationship with Return on Assets of the sampled firms. It is therefore, concluded that larger Board sizes are more likely to be more effective than smaller Board sizes because of various sex parties and experience of those involved. It is recommended that larger board size should be used by food and Beverages firms listed in Nigeria, so as to enhance Return on Assets of the firm, because more hands and experts with vast experience gives better return on assets of the firm.

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INTRODUCTION

One of the reasons for the establishment of corporate entities globally is to maximize returns on assets. To achieve this, organisations need good and adequate combinations of a lot of factors amongst which include people of proven integrity, large board size, good board composition that constitute more non-executive directors than executive directors to enable them achieve their set goals (Pandey 2007). Corporate governance is the mechanism used to discipline organisations (Cadbury, 1992). Lipton and Lorseh (1992) stated that Board size of an organisation is about the number of directors both executive and non-executive directors. The researchers suggested an optimal board size between seven and nine directors. The researchers further said that Board characteristics is one of the components of corporate governance that serve as internal

control mechanism to enhance firms performance Furthermore, Section 359 (4) of CAMA (2004) provides for board composition to be on equal proportion. Board composition concerns with issues related to board independence (including independence of board committees) and diversity (firm and industry experience, functional backgrounds, etc.) of board members. In similar vein, Return on Asset (ROA) is an indicator of short-term performance which is calculated as net income divided by total assets (Finkelstein and D'Aveni 1994). Similarly, organisation performance comprises the actual output or results of an organisation as measured against its intended output (or goals and objectives) it offer insights into appropriate measures for answering research questions (Farhat, 2014). To this end among the problems common to the listed companies in the food and beverages industry are government policy, change in consumer taste and unhealthy competition. Corporate

governance has received much attention in finance and economic literature in recent times. This increased attention was due to a number of high profile corporate failures in various developed and developing countries. (Okougbo, 2011). The prominent corporate accounting scandals of Enron Corporation, World Com, Tyco International in the United States (US), Parmalat in Italy and HIH insurance in Australia had led to contemporary discussion on the best mechanisms for protecting stakeholder's interest and ensuring shareholders wealth maximization. This is due to inadequate role played by the boards of various companies and failure of the companies' corporate governance processes (Ogbechie, 2012). Also, in Nigeria, corporate failures are better seen in what happened in the financial services largely in the 1990s. The collapse of banks such as Abacus Merchant Bank Nigeria Limited, Royal Merchant Bank Limited, Rims Merchant Bank Limited, Financial Merchant Bank Limited, Progress Merchant Bank Plc, and Republic Merchant Bank Limited are still fresh in the minds of financial sector observers and analysts. The objective of this paper is to examine the effect of board characteristics on the performance of listed food and beverages in Nigeria. This study would be important to Audit Committees because it was established by companies with the key objective of raising standard of corporate governance in an organisation. Additionally, it would make everybody to bear in their minds that all activities will be scrutinised and anybody found wanting will brought to book.

Literature Review

Corporate Governance

Cadbury (1992) opined that corporate governance is the mechanism used to discipline organisations. Pandey (2007) stated that corporate governance implies that company would manage its affairs with diligence, transparency, responsibility and accountability and would maximise shareholder wealth. Hence it is required to design systems processes, procedures, and structures and take decisions to augment its financial performance and shareholder value in the long-run. Good corporate governance requires companies to adopt practices and policies which comprise performance accountability, effective management control by the board of Directors. Constitution of Board committees as part of the internal control system, fair representation of professionally qualified non-executive and independent Directors on the Board, the adequate timely disclosure of information and the prompt discharge of statutory duties. Companies are needed to at least have policies and practices in conformity with the requirements stipulated under clause 49 of the listing agreement.

Board Characteristics

A board characteristic is one of the components of corporate governance which is the researcher independent variable in this paper, with specific reference to board size, board composition and managerial ownership.

Board Size

Board size of an organisation is about the number of directors both executive and non-executive directors. Board size influences the performance of an organisation; small board size is believed to improve the performance of an organisation

because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups. Lipton and Lorseh (1992) suggested an optimal board size between seven and nine directors. In Nigeria, Sanda, Milailu, and Tukur (2005) reported that value is positively correlated with smaller, as opposed to larger boards. The argument is that larger boards are less effective and are easier for a CEO to be control. The cost of coordination and processing problems is also high in large boards and this makes decision taking difficult. On the other hand, smaller boards reduce the possibility of free-riding and therefore have the tendency of enhancing value of the firm. Board size was measured in the study by the size of directors serving on such boards and expects this to have a negative relationship with the value of the firm.

Board Composition

Section 359 (4) of CAMA (2004), Provides for board composition to be on equal proportion, The new Security and Exchange Commission (SEC) guideline was silent on the number. However, the best international practice is having a board with more non-executive than executive directors for ensuring independence of the board. Board composition normally concerns issues related to board independence (including independence of board committees) and diversity (firm and industry experience, functional background) of board members. Board independence refers to a corporate board that has a majority of independent outside directors. Compared to an insider-dominated board, an outsider-dominated board is believed to be more vigilant in monitoring board behaviours and decision-making of the firm. A board that consists of directors with a diverse set of functional expertise (marketing, engineering, finance, etc.) industry experiences, educational qualifications, ethnic and gender mix might be better equipped to deal with a wide range of issues facing the firm and provide executives with advice and consultation from multiple perspectives (Bathula, 2008).

Managerial Ownership

Managerial Ownership refers to the percentage of shares owned by the members of the board of directors to the total issued shares, (Sand, Maikaila, & Tukur, 2005). The impact of board characteristics on corporate social responsibility disclosure evidence from Nigeria food product, it is calculated as share owned by board members by total issued shares.

Firm Performance

To evaluate performance, it is necessary to determine the constituents of good performance using performance indicators. To be useful, a performance indicator must be measurable, relevant and important to the performance of the organization, it must be meaningful and the cost of obtaining the information must not outweigh its value (Oakland 1989 as cited in Heenetigala, 2011). There are many measures of firm performance. Most commonly used accounting based-measures are return on assets (ROA) (Kiel and Nicholson 2003) and return on equity (ROE) (Baysinger and Butler 1985). The most commonly used market-based measures are market to book value ratio and Tobin's Q (Barnhart, Marr and Rosenstein 1994). There is a criticism about accounting as opposed to market-based measures. Accounting-based measures can be easily manipulated by the management

through changes to accounting methods or accruals and are difficult to interpret across industries. They are historical and report a more backward focus on past success (Kiel & Nicholson 2003).

Return on Assets (ROA)

Return on assets (ROA) is a measure of performance widely used in the governance literature for accounting-based measures (Finkelstein & D'Aveni 1994; Kiel and Nicholson 2003). It is a measure which assesses the efficiency of assets employed (Bonn, Yoshikawa & Phan 2004). ROA is a measure that allows users to assess how well a firm's corporate governance system is working in securing and motivating efficiency of the firm's management (Owusu, 2012). This means that the accounting earnings and the book value of assets under the control of management may be subjected to board manipulations which could result in overstatement of earnings and understatement of assets due to changes of accounting policies relating to depreciation, inventory valuation, treatment of certain revenue and expenditure. An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

The formula for return on assets is:

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

Empirical Studies

Board size and firm performance, board composition and firm performance, managerial ownership and firm performance was empirically investigated by some researchers. Yermack (1996) was one of the first researchers that investigated board size and firm performance. Using a sample 452 large US firms between 1984 and 1991, the study found a negative relationship between board size and firm performance measured by Tobin's Q. This finding is robust with specific characteristics of a firm such as firm size, growth opportunities, board structure, director ownership and industry sector. In particular, Yermack indicates that corporate performance declines steadily if the board size is between four and ten directors. Beyond this limit, there is no impact of board size on corporate performance.

Studies by Kajola, 2008 and Guest, 2009) have found consistent results with those of Yermack (1996) that board size is negatively related to firm performance using a sample of 30 listed firms in Nigeria. Ironkwe and Adeo (2014) found a positive and statistically significant relationship between board size and firm performance, in sample of 40 financial firms in Nigeria. Using Time series data from 166 firms quoted on the Nigerian Stock Exchange market from 2005 to 2012 in the Food and Beverages sector, Ilaboya and Obaretin (2015) found a similar result which showed a positive relationship between board size and corporate financial performance measured by profit after tax (PAT) (El Mehdi, 2007; Al-Matari, 2013) have reported a positive relationship between board composition and firm performance. The researchers discovered that the proportion of non-executive directors is positively related to ROA. In Nigeria, some studies also supported these empirical evidences.

For example Olayinka (2010) found a positive relationship between board composition and corporate financial performance (ROE and ROCE) in sample of 30 companies for year 2007. Similarly, Mahrous (2014) reported a statistically negative relationship between non-executive board members and ROE, in a sample of 50 Egyptian listed non-financial companies from 2006 – 2010.

This evidence is also the same with those found in Nigeria. For instance Ogbulu and Emeni (2012) found a negative association between board composition and firm performance in a sample of 14 Nigerian listed banks. In Nigeria, evidence has also shown that board composition has no relationship with firm performance, using a sample of 20 listed firms, Kajola (2008) found no relationship between board composition and firm performance measured by ROE and Profit Margin (PM) from 2000 – 2006. Also, Sanda et al (2010) reported that larger proportion of outside directors has no impact on firm performance measured by ROA, ROE, Tobin's Q and P/E ratio from 1996 – 1999. Similarly, Rashid, Zoysa, Lodh, and Rudkin, (2010). investigated and found insignificant relationship with Return on Assets.

Theoretical Framework

Several theories have been used by earlier researchers to explain why firms are engaged in disclosing information and the most frequently used one is agency theory (Hassan, Giordioni, Power, 2009). The agency theory states that rational agents (managers) will act for their own interest, and not for their shareholders' interests.

This type of management behavior occurs because they have more complete information about a company, than the owners (Jensen & Meckling, 1976). This behaviour leads to lack of transparent disclosure to shareholders. Financial disclosure plays an effective corporate governance role, by providing transparent information to both shareholders and other stakeholders. The agency theory sees the reporting entity operating to service the interest of its owners who are the principal and its resources are entrusted in the hands of managers who serve as agents. Under this theory the firm is seen to be a contracted relationship between the principal and agents. Agency theory is the underpinning theory that aided this work.

MATERIALS AND METHODS

This paper seeks to examine the relationship between board characteristics and firm performance of food and beverages by fourteen (14) listed companies in Nigeria. The study adopted ex- post facto research, this is due to the fact that documentary source of data was used. The secondary data was obtained principally from annual reports and account of the selected food and beverages Companies in Nigeria.

This study considered the period 2009 to 2015; this involves an empirical analysis of annual financial report and accounts of the food and beverages companies. The population for the study consists of (14) fourteen food and beverages listed companies in Nigeria as at December, 31st 2015. Thirteen (13) was used as sample of the study this is because one of the companies in the whole population was filtered which will not give the desired information for the period required for this study if used.

Table 1. Variables Definition and Measurement

Variable	Code	Measurement	Reference
Dependent Variables			
Return on Assets	ROA	Net Profit/Total Assets	Mahrous (2014)
Independent Variables			
Board Size	BSize	the number of members in the board as a measure of board size	Sanda et al. (2010)
Board Composition	BCOMP	The proportion of non-executive directors to the total number of directors	Kajola (2008) Guest (2009)
Managerial Ownership	Mown	Proportion of share owned by board members to total issued shares	(Sanda, Mika'il and Tukur, 2005).
Control Variable			
Firm Size	FS	Natural logarithm of Total Assets	Bonn, et al. (2004)

Source: Generated from literature.

Model Specification

$$ROA_{i,t} = \beta_0 + \beta_1 BSIZE_{i,t} + \beta_2 BCOMP_{i,t} + \beta_3 MOWN_{i,t} + \beta_4 FS_{i,t} + \mu_{i,t} \quad (1)$$

Where: BSIZE: Board Size; BCOMP: Board Composition; Mown: Board ownership; FS: Firm Size; μ : Error Term. A Priori expectation; $\beta_1 > 0$ - implying that BSIZE is influenced by ROA, $\beta_2 > 0$ - implying that BCOMP is influenced by ROA, $\beta_3 > 0$ - implying that Mown is influenced by ROA, $\beta_4 > 0$ - implying that FS is influenced by ROA, Where; $\beta_1, \beta_2, \beta_3, \beta_4 > 0$

RESULTS AND DISCUSSION

Table 1. Descriptive Statistic of Variables

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	91	.0781818	.2073951	-1.27	.47
FS	91	21.36673	3.256443	10.1365	26.2557
MOWN	91	.0201136	.0410913	0	.15
BCOMP	91	.5834091	.2353178	0	.9
BSize	91	9.397727	2.930379	0	16

SOURCE: Generated from the Annual Reports and Account of the sample firms.

Table 4.1 shows the descriptive analyses of the study. The descriptive result reveals that return on assets has a mean value of approximately 0.0782 with a standard deviation of .2074. However, the minimum and maximum value of the Returns on Assets (ROA) ranges between -1.27 to .47 respectively; this means that within the period the performance was low since it recorded a minimum value and a relatively higher standard deviation. Similarly, Firm Size (FS) was revealed to have a mean value of 21.3667 and a standard deviation of 3.2564 while it has a minimum of 10.1365 and the maximum of 26.2557 which demonstrate a better performance since the standard deviation is relatively low. Managerial ownership (MOWN) was revealed to have a mean of .0211 and a standard deviation of .0411. It has a minimum of 0 and a maximum of 0.15. From these results it shows that managerial ownership has a better performance considering the low standard deviation. Board Composition (BCOMP) has an average of 58.34% of the size of the board of directors with a standard deviation of 23.53%, this indicate that on average of 58.34% of board members of food and beverages firms listed in Nigeria were independent Directors. The minimum percentage of outside directors is 0 and the maximum is 90%. This statistics reveal that not all of the sample firms have fully comply with the corporate governance code guideline, that means firms should maintain at least 10% independent non

executive directors on their boards who are expected to assist in the oversight function of the board. Board Size (BSize) Table 4.1 above shows the average of 9.40 and standard deviation of 2.9304. The size of the board varies widely across the sample firms as the minimum is 0 and the maximum is 16. The important factor that explains the large disparity of the size could be as a result of wide differences of the sample firms' size as represented by their total assets. Larger firms tend to have more directors on their board, which is a reflection of the firms' vast equity shareholding structure. In order to established the nature of correlation that exists between the dependent and independent variables, and also to ascertain whether or not multi-collinearity exists as a result of the correlation between variables. Table 4.2 below is incorporated for the purpose of analysis

Table 2. Correlation Matrix of Variables

Correlate	ROA	FS	MOWN	BCOMP	BSize
ROA	1.0000				
FS	0.3031	1.0000			
MOWN	0.0699	-0.0018	1.0000		
BCOMP	0.4012	0.3904	0.0846	1.0000	
BSize	0.4814	0.4447	0.1151	0.5534	1.0000

Source: Generated by the researcher from the Annual Reports and Account of the sample firms

Table 4.2 above shows the correlations between the variables, the correlation coefficient between Return on assets is found to be 0.30 which shows a positive relationship though less strong. On the contrary the result reveal that ROA has very low relationship with MOWN given as 0.07 which indicates that the two variable has only 7% relationship which is empirically insignificant. Based on this managerial ownership does not constitute any threat to the survival of the firm. The result shows that both board composition and board size have relatively higher correlation with ROA given by approximately 40% and 48% respectively. This indicates that board composition and board size are the important variables in explaining the behaviour of the ROA. Table 4.3 above show the results of FS, MOWN and BCOMP which reported positive but statistically insignificant relationship with return on assets (ROA). This is judged by their respective values of t-statistics which falls below the standing rule of two (2) which is also buttressed by their probability values that fall above the acceptance. Only the coefficient of board size depicts a positive and statistically significant relationship with return on assets (ROA) with a T-value of 2.90 at 1% level of significance. As to the diagnostics test of the model, the results show that the model is satisfactory with the f-statistics value of

7.4 which demonstrates that the model is adequate. However, the R² which explains the joint of influence of all the independent variables on the dependent is found to be 0.26, indicating that only 26% variation in return on assets is explained by the changes in all the independent variables used while the remaining 74% variations in ROA are explained by the variables which have not been captured in the model. This is not surprising since all variables were statistically insignificant with the exception of board size. The present study therefore is inconsistent with the findings of Ironkwe and Adeo (2014).

by food and beverage in Nigeria. This is contrary to the findings of Yermack (1996) that found the board composition (BCOMP) is significant at 10% Level of performance. This shows that there is significant performance with firms of listed food and beverages in Nigeria which concurred with the study of Olayinka (2010). The study also shows that managerial ownership (MOWN) shows insignificant relationship with Return on Assets. This concurred with Rashid, Zoysa, Lodh, and Rudkin, (2010). The firm size which is the control variable shows no significant association with firms performance.

Table 3. OLS Regression

ROA	Coef.	Std. Err.	T	P> t	95% Conf. Interval]
FS	.0050996	.0068441	0.75	0.458	-.0085132 .0187123
MOWN	.0767779	.4799802	0.16	0.873	-.8778834 1.031439
BCOMP	.1561784	.1017026	1.54	0.128	-.0461039 .3584607
BSIZE	.0244862	.0084295	2.90	0.005	.0077203 .041252
CONS	-.3535533	.1302834	-2.71	0.008	-.6126818 -.0944248

Number of obs	88
F(4, 83)	7.40
Prob > F	0.0000
R-squared	0.2630
Adj R-squared	0.2275
Root MSE	.18229

Table 4. Linear Regression

ROA	Coef.	Robust Std. Err.	T	P> t	95% Conf. Interval]
FS	.0050996	.0065331	0.78	0.437	-0.0078946 .0180937
MOWN	.0767779	.3402056	0.23	0.822	-0.5998774 .7534332
BCOMP	.1561784	.0936017	1.67	0.099	-0.0299917 .3423485
BSIZE	.0244862	.0134002	1.83	0.071	-0.0021664 .0511387
CONS	-.3535533	.1508982	-2.34	0.022	-0.6536838 -.0534229

Number of obs	91
F(4, 83)	2.32
Prob > F	0.0628
R-squared	0.2630
Root MSE	.18229

The results shown in table 4.4 above revealed that board composition is positive and statistically significant at 10%. Also, all the diagnostics test of the model reveal similar outcome with F-statistics of 2.33 which indicates that the model is still adequate (though now at 10% level). Similarly, the joint influences of all independent variables on the dependent variables remains as 26%.

DISCUSSION OF FINDINGS AND IMPLICATION

The findings of the multiple regression results show FS, MOWN and BCOMP reported positive but statistically insignificant relationship with return on assets (ROA). However, this is judged by their respective values of t-statistics which falls below the standing rule of two (2) which is also buttressed by their probability values that fall above the acceptance. The results show that the model is satisfactory with the f-statistics value of 7.4 which demonstrates that the model is adequate. By implication, return on assets on the firm performance of food and beverages in Nigeria and similar enterprises in general may have far reaching effect on the position of performance with laws of the country. The findings reveal that board size (BSIZE) has significance impact at 1%. This shows that there is positive level of firm's performance

This shows that not all the firms comply with the corporate governance code guideline.

Conclusion and Recommendation

This study has significantly contributed to the knowledge on board characteristics and firm performance in listed food and beverages firms in Nigeria. It is concluded that Board size and board composition are important factors which can enhance Return on Assets of food and Beverages firms listed in Nigeria. This is because both show positive significant relationship with Return on Assets of the sampled firms. It is therefore also concluded that larger Board sizes are more likely to be more effective than smaller Board sizes because of various sex parties and experience of those involved. It is recommended that larger board size should be used by food and Beverages firms listed in Nigeria, so as to enhance Return on Assets of the firm, because more hands and experts with vast experience gives better return on assets of the firm.

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