Effect of Board Size and Board Composition on Firm Performance in Nigerian Petroleum Marketing Industry

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Corporate governance is the mechanisms, process and relations by which corporations are controlled and directed. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation such as the board of directors, managers, shareholders, creditors, auditor’s regulators and other stakeholders and also includes the rules and procedures for making decisions in corporate affairs. Corporate governance includes the processes through which corporation’s objectives are set and pursued in the context of the social, regulatory and market environment. In theory, the board is responsible to the shareholders and is supposed to govern a company’s management. But in many instances, the board has become a servant of the chief executive officer (CEO), who is typically also the chairman of the board. The study aims to investigate the relationship between corporate governance mechanisms and firm financial performance of the Nigerian petroleum marketing industry. For the study goal data was collected from financial statement of 6 sample companies from 2004-2014. The study utilized three variable including board size, board composition as the independent variables, in addition return on equity (ROE) was chosen as firm financial performance measurement in other words dependent variable of the study. The researchers utilized secondary wellspring of data with the end goal of this study. Ten years (2004 – 2014) yearly reports and records of the examined organizations were gotten from significant sources, (Nigerian stock exchange, all African sites and sample companies domain), data extracted from financial statement and notes to the financial statement of the sample companies of the Nigerian petroleum marketing industries. The result found that, board size is negatively related to return on equity while the relationship between board composition with ROE is positive but not significant.

Keywords:
Evidence, effect, board size, board composition, firm performance, corporate governance

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1. Introduction

Organizations around the globe require development and advancement with a particular end goal to draw in financing from investors. Before they put resources into a particular business, investors regularly verify that the company being referred to is monetarily secure and stable and has the capability to deliver benefits in the long run [88]. Henceforth, in occasions where the organization position is not as swearing up and down to it, won't be as appealing to investors as it would like to be. This disappointment to pull in enough capital ordinarily prompts negative results for the business specifically and for the economy at large.

From the agency theory, the agency relationship is an agreement whereby one person (s) (principal) captivate someone else (agent) to perform some administration for his or her sake, which includes designating some decision-making power to the agent [59]. Nevertheless, the theory additionally holds the idea of the wrongness of administration or the agent in making the best-conceivable decision for general society and for the shareholders’ purpose as an agent for the most part represents their own particular interests. In this manner, for the accomplishment of an adjusted arrangement between the principal’s and agent’s interests, and to stay within the company budget, distinctive internal and in addition external corporate governance mechanisms have been elucidated [50].

Governments everywhere throughout the globe take response in corporate governance for the wellbeing and security of the business environment. From Organization for Economic Cooperation and Development (OECD) point of view "great corporate governance is vital for the economic development headed by the private division and for the advancement of the social welfare." In addition, since 1997, the Asian financial crisis has achieved an entire new intending to corporate governance as confirm from the emergency of trust in the organizations and enactment that makeup the influence of business and connections in the middle of business and government.

In the Nigeria context, Nigeria has dependably been considered as having a standout amongst the most-vital economies in Africa as it is one of the biggest oil-exporting nations in the world. Nigeria’s economy is portrayed by different variables that help the improvement of modern and monetary advancement. Despite the fact that Nigeria’s economy is nearly little and is portrayed as open, the oil business in Nigeria’s records for 50 percent of GDP and 95 percent of government incomes.

Nigeria is considered as one of the wealthiest nations in the Africa with its GDP enlisting its most astounding in the seventies when it scored 44 percent. Notwithstanding, this velocity of financial development still lacks as it has contracted to a mere 58 percent in the eighties. Further pushed to addition through the expanding demand for oil, which has supported to build the rate to 91 percent amid the nineties. Diversification has turned into a long-term issue for the economy of Nigeria.

Nigeria government has attempted measures to enhance its investment atmosphere to make it more appealing to domestic and foreign capital ventures. For instance, foreign investors can take up more than a single permit for various business activities in Nigeria and an authorized business substance is for the most part allowed to have the land that is obliged to complete business exercises as on account of procurement of employees’ lodging offices. Furthermore, foreign investors’ sponsorship alongside their non-Nigeria personnel are forgotten to convey the company’s exercises giving them motivating forces to partake in affirmed modern and non-industrial exercises. These exercises are as lower tariff rates, exclusion of exports from customs obligations.
The above issues defend the goal of the current study, which is an endeavor to examine board characteristics and firm financial performance relationship in Nigerian context. In the current study, one measures of firm performance will be utilized with the end goal of concentrating on the relationship. It is normal that great and viable practice of corporate governance would bring about better firm performance. Appropriately, the present study will endeavor to investigate the relationship between board characteristics (board size, board composition) with firm performance (ROE).

2. Literature Review

To understand the concept of corporate governance there are various meanings of the term corporate governance for instance Shleifer and Vishny [113] see corporate governance as the methodologies taken by the capital supplier in guaranteeing that they get comes back from their ventures. They stretch that, separated from shareholders; banks additionally go about as the dynamic capital suppliers to organizations. Turnbull [139] clarifies that "corporate governance portrays all the impacts influencing the institutional methods including those for delegating the controllers and/or controllers included in the generation and offer of products and administrations." Compared to Shleifer and Vishny [113], Turnbull [139] considers more extensive stakeholders that include interior on the other hand outer components that impact people in general or privately owned business. Inside components are workers, executives, and consultants although outside components are suppliers, media, clients, shareholders, and administrative bodies. The interior and outer gatherings help the organization and plan to profit from organization choices. Corporate governance additionally concentrates on the obligations of the individuals who deal with the organization, which might be seen from the guidelines and techniques utilized within the choice making [56] in effect corporate governance means how the organization is steer or govern.

The expression "governance" is a Latin word gubernare signifying 'to guide or to steer', normally applying to the guiding of a boat, which suggests that CG includes the capacity of heading and control. Its essential standards that are general in application are responsibility, accountability, transparency, and fairness.

The main focus of CG emphasizes the obligation or responsibility of the board to key strategic actions and planning for the purpose of enhancing performance and manageable quality of the organization. The control aspect of CG, then again, stresses the obligation of the board to direct the executive management of the organization in the execution of the strategies and plans.

In this manner, CG may be seen from two differentiating angles: the shareholder and the stakeholder model CG in its narrowest meanings (i.e. shareholder model) is utilized to portray the formal arrangement of stewardship of the board to the shareholders. Interestingly, in its broadest sense (i.e. stakeholder model) CG is utilized to depict the system of connections relationships between the company and its different stakeholders.

On its part, the Basel Committee (1998) perspectives CG, as the way in which the business and issues of an organizations are legislated by the governing body (board of directors) and senior administration, which gives the structure through which the targets of the association are situated and the method for accomplishing those goals and observing performance.

The global crises of the 1990's in Asia and Latin America and those in the USA made more prominent mindfulness on the need to receive corporate guidelines. The acceptable lessons the corporate disappointment of Enron, Parmalat, Worldcom and Barings Bank, among others taught the corporate world is that no organization could be too enormous monetarily or overall to fizzle.
Along these lines, making the governance of companies in the world now as vital, as the governance of nations.

Mismanagement of corporations and non-adherence to corporate standards are a few components that have brought organizations to end. On the other hand, moral practices and good corporate governance lead organizations to success and a stable financial position. Accordingly, CG administrations are a need for the achievement and strength of the Nigerian petroleum marketing industries, as the feasibility and wellbeing of corporations have immediate bearing on a nation's economy.

The Cadbury (Report) Code [26] developed by Sir Adrian Cadbury Committee at the induction of the London Stock Exchange was the first endeavor to formalize CG best practice in a composed document, which was gone for raising the standard of financial reporting as well as auditing. This was trailed by the Greenbury Report (1995) which was developed by Sir Richard Greenbury Committee which went for check-mating directors' compensation policy and the Hampel Report (1998). The three different reports were joined into consolidated code of 1998. Different reports were the Turnbull Report (1999), which particularly address the issue of inward control, the Higgs Report (2003), went for creating rules for making NED's more viable, and the Smith Report (2003), which was concerned with the relationship between the company and the external audit. In 2003 the Combined Code was reconsidered to incorporate all the past reports formed after 1998 into it.

In recognition of the requirement for effective and powerful CG, OECD established standards of CG 1999 and have since turned into a global seat check in CG around the world, hence serving as the premise for the CG segment of the World Bank/IMF provides details regarding recognition and codes. Numerous nations have comparative CG archives. Sarbanes- Oxley Act 2002 was created in the US and Kings Report in South Africa. Correspondingly, Nigeria has created the SEC, CBN, PENCOM and NDIC Code of Best Practices.

In Nigeria, an enterprise or business organization exists as a lawful individual that can sue and be sued in court and has a boundless life (CAMA, 1999). In spite of the fact that an organization exists as a lawful individual, the true people are obliged to act in the interest of the organization. Upon the foundation of an organization, shareholders help by providing capital and choose a governing body also called management to run the organization. The board then designates administrators to handle the day-by-day operations of the organization. The corporate board and shareholders have a few forces to represent the organization. Therefore, the former Statement of Accounting Standard (SAS) of the country characterizes corporate governance as "the methodology and structure used to regulate and deal with the business thriving and corporate responsibility with a definitive destination of acknowledging long haul shareholder esteem, while considering the hobbies of different stakeholders". The expression "acknowledging long haul shareholder worth"[1] this shows that the practicality of an organization is crucial for giving a steady benefit to shareholders. Organization manageable quality is an aftereffect of sound corporate governance polishes. Therefore, CG should be recognized as a set of standards, which aims to improve the company’s image, efficiency and effectiveness and social responsibility as well as compliance with the codes of ethics conducts.

2.1 Board Size

Directors are persons delegated or chose as indicated by the law, who are approved to oversee and immediate the issues of an enterprise or organization. The entire of the directors aggregately structures the top managerial staff. Boards of directors are a pivotal part in an association. They are the delegate between the individuals who contributes capital (shareholders) and the individuals
who use the funding to make esteem (the supervisors). In this manner, boards' positions cover between the little, capable gathering that deals with the organization and a colossal, scatter, and moderately power. The amount of directors is a vital component in deciding the adequacy of the board [73]. To date, there are clashing plans regarding the fitting or ideal size of a board of directors in an organization. At the point when a board is too enormous, singular directors may feel obliged about heartily taking part in board choices and have little feeling of individual responsibility. However, when a board is excessively little, the directors will most likely be unable to settle on successful choices and may confront some level of trouble in working inside time requirements. Klein [73] finds that the normal board size is eight persons. Cheng [30] proposes that the farthest point of board size is around eight directors, as any more noteworthy number is more inclined to meddle with gathering flow and hinder board execution.

Most studies find that bigger firms have a tendency to have more directors. This might be clarified by the need of these bigger associations to keep up more contacts with the nature's turf, which is like the asset reliance theory point of view [44] this is because bigger firms have a tendency to have a more prominent authoritative problem in this manner the need of more parts is pivotal. Today, bigger organization especially in oil and gas are generally perplexing associations. As associations get bigger and more intricate, it is unthinkable for each chief to get more mindful of each huge part of organization operations.

2.2 Board Composition

Advocates of agency theory believe that board comprising majority of outside directors reduce agency conflicts as they provide effective monitoring tool to the board [30, 44, 124]. They argue that the inclusion of outside directors increases the boards’ ability to be more efficient in monitoring the top management. This also to ensure there is no collision with top managers to expropriate stockholder wealth as they have incentives to develop their reputations as experts in decision control. Normally, the outside directors are expert managers from other large organizations and with his/her expertise, independence, objectivity and legal power, outside directors become potentially powerful governance mechanisms to mitigate agency costs and protect shareholders wealth [107].

2.3 Return on Equity

Return on value (ROE) is organization performance estimation measure isolating net benefit by the normal shareholders value controls the degree including the aggregate sum of the past and current year shareholders value and afterward partitioning by two figure the normal shareholders value. This performance pointer has been utilized within past studies in measuring firm performance as in [41, 119, 112, 44, 137, 138]. It likewise offers profitable data on the power performance in the organization capital structure [90]. Despite the fact that there is no accord on the best estimation of fiscal performance, the most essential point is that the result must reflect the shareholders and accounting return [136].

3. Methodology

To accomplish the motivation behind this study, the correlational studies are utilized to hunt down connections between board size, board composition as independent variables and firm financial performance (ROE) as dependent variable. The total components that this research
concentrated to sample from are petroleum-marketing industries of Nigeria recorded on the Nigerian stock exchange as at 2015. The investigation of the whole population would have been good, but, considering the size of the population, time frame the research, and the researcher’s knowledge in the area, six (6) out eight (8) organizations were inspected out to serve as a representative of the entire population with a perspective to testing the example and utilizing the results got as a premise for the shaping of feeling on the whole population. The researcher utilized secondary wellspring of data with the end goal of this study. Ten years (2003 – 2014) yearly reports and records of the examined organizations were gotten from significant sources, (Nigerian stock exchange, all African sites and sample companies domain) data were acquired on Corporate Governance and financial performance utilized as a part of this study, data extracted from financial statement and notes to the financial statement of the sample companies of the Nigerian petroleum marketing industries.

3.1 Measurement of the Variables

Return on equity or profit on capital is the proportion of net income of a company throughout a year to its stockholders’ equity throughout that year. It is a measure of profitability of stockholders' resources. It measures as

$$\text{ROE} = \frac{\text{Annual Net Income}}{\text{Average Stockholders' Equity}}$$

BS: the board size is the aggregate number of directors serving on the board of directors.
BC: the board composition is the proportion of outside directors to the aggregate number of directors. In other word is the number of outside director’s in relation to aggregate number directors.

Findings

The table below presents the descriptive taken from the study.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Descriptive Statistic</th>
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<tr>
<td>Variables</td>
<td>Obs</td>
</tr>
<tr>
<td>bs Overall</td>
<td>108</td>
</tr>
<tr>
<td>Between</td>
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<td>Within</td>
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<td>Within</td>
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</table>

Source: Compute by the Researcher using Stata software.

The descriptive statistics of the organizations expose that the mean board size is about 9.315, having a maximum of 12 directors for the overall. Thereby indicates that the board sizes fit for firm’s ideal financial performance as prove by Jensen [58] and Lipton and Lorsch [80]; researchers who expressed that the greater the board size, the less viable it would mean for the firm financial performance. In addition, the result found is in line with the studies by Shakir [110], Mak and Kusnadi [135]. It could be recognized that the mean percentage of the board composition
(independent directors) on the board is 9.315, the standard deviation, minimum and maximum numbers of outside directors for the overall are 0.038, 0.6 and 0.7 respectively.

3.2 Test for Multicollinearity

Variance inflation factor (VIF) test was conducted to ascertain whether there exists high collinearity by the independent variables or not. A VIF value of 10 means high collinearity, which need immediate solution. If the outcome result of the multicollinearity test discloses the existence of multicollinearity, that is to say there is high association between the independent variables, this represents a fundamental issue in the multiple regressions because of the difficulties that emerge in distinguishing the impact of one independent variable upon the dependent variable. Hair et al. [49] expressed that one of the numerous approaches to check for the presence of relationships among IVs variables is through multicollinearity test that clarifies the level by which one variable’s impact could be dictated by the other variable. A famous technique for multicollinearity test and estimation is the usage of the Variance Inflation Factor (VIF) for every independent variable [95]. The following table 4.4 exhibits the result of the VIF test.

Table 2
Multicollinearity Test using Variance Inflation Factor

<table>
<thead>
<tr>
<th>Variables</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bs</td>
<td>1.96</td>
<td>0.51</td>
</tr>
<tr>
<td>Bc</td>
<td>1.22</td>
<td>0.82</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.76</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compute by the Researchers using Stata software.

In a situation whereby the (VIF) is more than 10, the independent variables are highly correlated which prompt a multicollinearity issue (Silver, 1997). Subsequently, the multicollinearity test with (VIF) as presented in the above table 2 that find the non-appearance of multicollinearity problem as (VIF) for each independent variable because the result is less than 10. Therefore, the research concludes that there was no problem of multicollinearity among the independent variables.

3.3 Robust Regression

Robust regression estimates in this study because the robust regression is free from normality and heteroskedasticity problem as presented in the below table.

Table 3
Robust Regression

| Roe   | Coef.     | Std.Err | t     | p>|t| |
|-------|-----------|---------|-------|-----|
| Bs    | -1.694**  | 0.665   | -2.55 | -0.012 |
| Bc    | 11.092    | 38.746  | 0.29  | 0.775 |
| Lfs   | 1.748     | 3.838   | 0.62  | 0.539 |
| Constant | -2.626 | 76.184 | -0.03 | -0.973 |
| R-square | 0.266 |       |       |       |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
The table above is free from normality and heteroskedasticity problem, it shows that board size, board composition, are jointly explain 27% changes in return on equity as a proxy to firm financial performance of this study. The model used in this research is adequate at 1% level of significance. In addition, the independent variable in relation to return of equity shows that, board size is negatively related to return on equity at 5% level of significance, this means that 1% increase in board size leads to decrease in return on equity by 1.6945. The board composition has insignificant positive relationship with return on equity.

4. Discussion

The regression outcome on the relationship between independent variables and firm financial performance (ROE) as shown in Table 3 The analysis reveal a blended result between the independent variables and firm financial performance variable. Board size showed a significant negative relationship with ROE at 5% level. This finding is contrary to the previous empirical literatures that deposited a significant positive relationship board size and firm financial performance (ROE). This significant negative relationship demonstrates that when board size increase, firm financial performance (ROE) likewise decrease. Higher board size attracts high compensation in term of salaries and allowances of board member that will increase the companies’ administration expenses and decreases shareholder's return on equity and vice versa. In other word, a negative relationship shows that 1% increase in board size, leads to a decrease in firm financial performance (ROE) by 1% and vice versa.

Similarly, as indicated by the Table 3 the board composition on this study has a positive effect on ROE but statically insignificant. This finding backing the second hypothesis that board composition and firm financial performance has no significant relationship. Therefore, the result is inline with previous empirical literatures. Although the coefficient shows a positive relationship but it is not significance. This result also underpins the stewardship theory which states that at whatever point the independent directors dominate the board, the firm financial performance increases in light of the fact that the independent directors of the organization are more interested in ensuring accountability and transparency in organization [127]. This conclusion is apparently different to that uncovered in the study by Haniffa and Hudaib [50], Mac Avoy et al. [85] and Klein [72] who analyzed board composition relationship with financial performance of firm. They established that there was a negative connection between board composition and organization financial performance.

5. Summary and Conclusion

This study accomplished its objective to identify the impact of board attributes to be precise, board size (bs), board composition (bc) on the firm performance (ROE) of petroleum marketing companies recorded on Nigeria’s stock exchange. The study has achieved its fundamental objective by discovering the relationship between board characteristics (BS, BC) and RE as firm financial performance in the Nigerian petroleum marketing companies for ten (10) years from 2004-2014.

References


