

**BOARD DIVERSITY AND FIRM FINANCIAL PERFORMANCE IN NIGERIA**

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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, BENIN CITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) IN ACCOUNTING.**

**SEPTEMBER, 2023**

## DECLARATION

I hereby declare that:

- 1.) This project work is based on the study undertaken by me in the Department of Accounting, University of Benin, under the supervision of **Dr. (Mrs.) O. U. Akogo**
- 2.) This work has not been previously submitted for the award of degree elsewhere, at least to the best of my knowledge.
- 3.) All ideas, opinions and views are products of my personal research and where the views of others have been expressed, they have been duly acknowledged.
- 4.) Any liability that may arise from this project work is entirely mine and not that of my supervisor.

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## CERTIFICATION

We, the undersigned hereby, certify that **OGBEIFUN ESOHE GIFT** with matriculation number **MGS1807646** carried out this research and that the work is adequate in scope and quality for the partial fulfillment of the award of Bachelor of Science Degree in Accounting of the Department of Accounting, University of Benin.

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## **DEDICATION**

This piece of work is dedicated to God Almighty, Lord of Lords, Prince of Peace, the Lion of tribe of Judah, whose strength was perfect when there was no strength in me, for his wonderful protection, guidance and provision, especially for his wisdom that presided over my life.

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## ABSTRACT

The broad objective of this study is to empirically determine board diversity and firm financial performance in Nigeria.

The scope of this study is for a period covering selected manufacturing companies in Nigeria from 2018 to 2022 using the Nigeria Exchange Group (NGX) as a basis of sampling selection. The data used was obtained mainly from secondary sources. The secondary data relate to relevant information that depicts board diversity and firm financial performance. This was made up of information relating to board age, board gender, board educational background, board ethnicity and firm financial performance. In this study, data were extracted from the annual reports and account of these seventeen (17) fast moving consumers goods, companies quoted on the Nigeria Exchange Group used as case study within the period of five (5) years ranging from 2018-2022.

The findings provide valuable insights for policymakers, corporate leaders, and stakeholders. Firstly, the study reveals that board age has a statistically significant positive impact on firm financial performance. The study therefore made the following recommendations that companies should aim to achieve a balanced mix of experienced and younger directors on boards to leverage diverse perspectives and experiences, there is need to implement policies and practices to increase the representation of women on boards, fostering inclusivity and broader corporate governance objectives. The following recommendations are made to achieves the objective. There should be constant review of existing tax laws of one year. There should be stringent penalty imposed on any corporate body who include in any form of VAT malpractice irrespective of states. In conclusion, this study sheds light on the relationships between board characteristics and firm financial performance in the quoted manufacturing industry in Nigeria.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

The responsibilities of the board of directors have been on the corporate agenda for years. Acting as the agents of shareholders, directors are expected to collectively devise operational and financial strategies for the organization and to monitor the effectiveness of the company's practices (ACCA,2019). In today's global economy, the success of the national economy depends on the crucial role of organizations competitiveness, transparency and governance structure which operate within her territory, since organizations are the entities that create economic value (ICAN, 2009).

Governance is about giving a lead to the company and monitoring and controlling management decisions, so as to ensure that the company achieves its intended purpose and aims. Corporate governance research has been influenced mainly by agency theory. Agency theory is based on the fact that many corporate managers are not owners but agents of owners, contracted to manage the company on their behalf. Since they are not direct owners but managers, and thus have less personal wealth at stake, their natural pursuit of self-interest could result in their taking riskier or even dishonest actions, which could bring harm to the firm or its owners (Jensen and Meckling, 1976).

Ujunwa et al., (2012) stated that Agency problem arises whenever managers have incentives to pursue their own interest (self-serving behaviour) at the expense of

shareholders. Most studies on corporate governance focus on how to effectively monitor the agents (resolving the conflict) against self-serving behaviour in order to protect shareholders interest. The separation of ownership from the management of business organizations spurs a divergence of interest amongst the parties. The divergence of the interests of the management and its owners has undermined investors' confidence in the Board. Hence, investors are interested about the level of accountability displayed by the Board of directors. The outcry of investors and other stakeholders as a result of mismanagement and inadequate financial disclosures given by the management has deemed it necessary for the institution of sound corporate governance procedures.

The Sarbanes-Oxley Act 2002 in the USA introduced a range of legal measures designed to improve the quality of corporate governance in the US, following the spectacular collapse of several large corporations (such as Enron and WorldCom) where bad corporate governance was held largely to blame. (ICAN, 2021). In the aftermath of corporate scandals in different countries such as Enron, WorldCom, Tyco International in the United States, HIH Insurance in Australia, Parmalat in Italy, a number of practitioners have called for board diversity. Board diversity is rooted in resource dependency theory. Resource dependency theory views board members as strategic resource, and opines that the provision of resources is the main function of boards of directors (Pfeffer & Salancik, 1978). Provision of resources refers to the ability of board members to bring resources and also constitute important human capital resource to the

firm which promotes firm performance. Board activities related to the provision of resources are: providing legitimacy/bolstering the public image of the firm, providing expertise, administering advice and counsel, linking the firm to important stakeholders or other important entities, facilitating access to resources such as capital, building external relations, diffusing innovation, and aiding in the formulation of strategy or other important firm decisions.

Failure of businesses over the world has remained a threat to sustained global economic growth (Garba & Abubakar, 2014). Considering the contemporary global business web that is managed by people with diverse gender, nationality, culture and educational experience, the issue of these diversities of board member who manage firms comes into focus as well (Ilona et al., 2019). Monks and Minow (2004) mentioned that despite diversity of board members coupled with the evolution of corporate governance practices and other strategic management, failure of firms to meet desired corporate objectives still lingers.

Saleh (2016) reiterated the imposing challenge of managing organizations to meet set goals in developing nations and had prescribed a reflection of the cultural circumstance and diversity of the board as central to failure of corporate boards and consequently firm performance. Owing to the economic consequences of these failures which at times are of long term effects, different strategic efforts like improving the composition of board members have also been put in place to ensure survival and growth

of firms (Sunday & Godwin, 2017). Although, the issue of board diversity is multi-faceted, also, attempts at understanding the dynamics of board diversity have attracted a multi-disciplinary approach.

Board diversity which incorporates individuals from various foundations, races, identity, ethnicity, abilities and experience, religion and sexual orientation is said to work on hierarchical worth and performance by furnishing the board with novel bits of knowledge and points of view, upgraded imagination and developments and results in successful critical thinking capacity (Lincoln & Adedoyin, 2012).

Shafique et al., (2014) said that there are some boards' diversity systems for example, the board size, board creation, board training level, boards sexual orientation diversity, non-executive directors, executive director which at last contribute towards the firm performance and achievement.

## **1.2 Statement of the Research problem**

Available studies in the field of corporate administration identifying with board diversity and financial performance in Nigeria zeroed in significantly on the quoted financial area, particularly, financial sector of the economy. These investigations examined board diversity and firm performance in Nigeria (Ilaboya & Ashakofe, 2017), customer merchandise industry (Aifuwa et al., 2020), oil and gas area (Ruth & Korolo, 2017). The review found that there is no investigation of board diversity focusing on the manufacturing industry. Therefore, this study will assess the relationship between board

diversity variables and firm financial performance of quoted manufacturing industry in Nigeria.

A negative relationship between firm performance and diversity is expected from the perspective of differences in power and status. Many empirical studies attempt to support the positive link between diversity and firm performance (Edelman et al., 2001; Martin, 2005; Pandey et al., 2005).

The consequences of institutional failure (considering the multiplier effect of financial institutional failure on the real sector of the economy) are unacceptably costly to a developing country like Nigeria. This affects the level of confidence the public has in various corporate establishments. The consequences of ineffective governance systems leading to corporate failure will not only affect the shareholders but also, the employees, suppliers, consumers and the nation as a whole. Thus, a governance system that will promote ethical value, professionalism and transparent application of best practices is desirable.

Kajola (2008) asserts that financial scandals around the world and the recent collapse of major corporate institutions in the USA, South East Asia, Europe and Nigeria have shaken investors' faith in the capital markets and the efficacy of existing corporate governance practices in promoting transparency and accountability.

In Nigeria, the story is not different. There has been several corporate failures and large-scale misappropriation of funds in the recent past in Nigeria, involving both public

and private organizations such as Lion of Africa Insurance, AVOP Oil, Anambra State Motor Manufacturing Company, African Petroleum Nigeria Limited, and many others. Conflict of interests, compromising integrity, disclosure of official secrets, destruction of official documents for financial benefits and many others are against moral principles and ethical standards which are the major problems besetting banking performance in Nigeria today. Corporate governance demonstrates responsibility which is an approach to adopt and manage the impact a company's operation exert on the society and the environment.

The board of directors have been blamed for the fall in shareholders' wealth and many corporate collapses (Adesanmi et al., 2019). Furthermore, evidence from other jurisdictions suggests that board of directors are responsible for high-profile corporate scandals of companies due to less cautious monitoring function, their inability to detect questionable accounting practices, lack of diversity and independence and the tendency of board members to give up control to corporate managers with self-serving interest (Moghalu, 2015). A case in point was the 2009 banking sector crisis, which led to the near-collapse of 8 Nigerian banks. This was also evident with the US case of Enron, the Italian case of Parmalat, the Australian case of HIH Insurance, the UK case of Barings Bank and the Indian case of Satyam (Mallins, 2011). Consequentially, a variety of corporate governance reforms have advocated for necessary changes to be carried out in board of directors composition and structure among other things (Adesanmi et al., 2019).

### **1.3 Research Questions**

The following research questions were developed for to the study.

1. What is the relationship between of board age and firm financial performance of quoted manufacturing industry in Nigerian?
2. How does board gender affect firm financial performance of quoted manufacturing industry in Nigeria?
3. To what extent does board educational background affect firm financial performance of quoted manufacturing industry in Nigeria?
4. How does board ethnicity affect firm financial performance of quoted manufacturing industry in Nigeria?

### **1.4 Research Objectives**

The broad object of this study is to determine the link between board diversity and firm financial performance of quoted manufacturing industry in Nigeria.

The specific objectives are to:

1. To determine the relationship between board age and firm financial performance of quoted manufacturing industry in Nigerian
2. To evaluate the impact of board gender on firm financial performance of quoted manufacturing industry in Nigerian

3. To determine the relationship between board educational background and firm financial performance of quoted manufacturing industry in Nigerian
4. To examine the effect of board ethnicity on firm financial performance of quoted manufacturing industry in Nigeria

### **1.5 Research Hypothesis**

For the purpose of this study, the following null hypotheses will be formulated to answer the research questions, these are:

1. There is no significant relationship between board age and firm financial performance of quoted manufacturing industry in Nigeria
2. There is no significant relationship between board gender and firm financial performance of quoted manufacturing industry in Nigeria
3. There is no significant relationship between board educational background and firm financial performance of quoted manufacturing industry in Nigeria
4. There is no significant relationship between board ethnicity and firm financial performance of quoted manufacturing industry in Nigeria

### **1.6 Scope of the Study**

The essence of the study is to ascertain the impact of board diversity on Firm financial performance in Nigeria, to achieve this objective, the research covers selected manufacturing companies in Nigeria from 2019 to 2022 using the Nigeria Exchange Group (NGX) as a basis of sampling selection.

## **1.7 Significance of the Study**

The continued rise in the percentage of listed companies sanctioned by the Nigerian Exchange Group (NGX) for flouting its post-listing rules is a sad commentary on the nation's corporate governance environment. It is also a serious indictment on the relevant regulatory authorities. The study seeks to ensure the need for an organization and its directors to comply with corporate governance code and other related acts or codes such as the Money Laundering (Prohibition) Act 2011 and Companies and Allied Matters Act (CAMA) 1990 as amended till date.

This study has abundant significance since relatively few studies have examined the impact of gender diversity and board independence on firm performance for African countries and other less developed countries (Adesanmi et al., 2019; Onyekwere et al., 2019). In addition, this study adds to the growing body of literature that identifies optimal board composition and the effectiveness of corporate governance in mitigating the agency problem and improving the value of the firm. This study would be of great significance due to the dearth of literature on the topic in Nigeria. Moreover, it will contribute immensely to the reservoir of knowledge in the field of management sciences and public policy.

This study also adds to the existing knowledge on the subject matter and will also be a reference material for further research on the course.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter provides a review of relevant literatures. The chapter was divided into three major sections; closely following the introduction is the second section which presents a review of literature on all variables starting with the dependent variable (firm financial performance), a review of empirical studies and theoretical framework on the study under review.

#### **2.2 Determinant of Firm Performance**

Concept of firm performance is an important aspect which has been used in all areas of business researches and it is difficult to have general definition and measurement by reason of continuously expanding their boundaries. Akal (1992) defines that “firm performance is the evaluation of all the efforts devoted to achieving the business goals”. Most of the researchers argue that definition of firm performance is incorporated with efficiency and effectiveness. Santos and Brito (2012) state “business performance or firm performance is a subset of organizational effectiveness that covers operational and financial outcomes”. Conversely, Cameron & Whetten (1983) indicate that “organizational effectiveness is a broader construct that captures organizational performance, but with grounding in organizational theory that entertains alternate performance goals”.

Firm performance can be a measure of financial and also non-financial performance. A financial performance indicator is an indicator that relates to an aspect of financial performance that is measured quantitatively and in financial terms (ICAN 2021). Financial performance is the overall measure of a company's ability to maximize its cost of operations, efficiently use its assets and maximize shareholder value. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the economy at large. Firm performance was defined as an attempt of an organization to meet its goals or being effective in productivity. In the same vein, financial performance is a measure of organization's earnings, profits and appreciation in its value which is reflected by the rise in share price. Firm performance is measured at a given point in time or over a period of time. It can also be compared with similar firms across the same industry or be used to compare industries or sectors in aggregation.

The performance of an organisation is motivated both by the economic and organisational factors which are specific to the company or the region and is of great importance to financial management. The maximisation of a firm's value brought forward by modern finance theory has been seen as the reason for managerial decision making. Most practitioners and managers have critiqued this above reason and said that another reason such as the interests of all the stakeholders and other aspects of corporate strategy has been ignored (Shah et al., 2015).

Over the period, however, these same managers have acknowledged that the maximisation of shareholders' wealth is the major objective of the firm. The concept of performance cuts across all spheres of operation within and outside the organisation. In business, the analysis of performance whether financial, production, marketing, managerial, or in general activities, is very necessary because the outcome of the present decisions lie in the projection of the future (Oparanma, 2010). These financial proportions can be ordered into liquidity proportions movement (functional) proportions, benefit proportions, obligation proportions and market proportion. Regularly, financial performance is estimated as far as productivity proportions like profit from the resource, return on value, benefits after charge, procuring per offer and profits from speculation among others. Nonetheless, the most generally utilized financial performance measures in the part of board diversity remember to return for resource and return on value. For example, studies directed by Araoye and Olatunji (2017), Bukar, Musa, and Ahmed (2020), Sixtus, Samuel and Shukriya (2019), Turkur and Bilikisu (2014) and among others utilized to profit from resource and return on value as proportions of financial performance.

### **2.2.1 Non-Financial Performance**

Non-financial performance is performance that is not measured in financial or monetary terms, although non-financial performance can be a contributing factor to overall financial performance. Examples of non-financial performance in business are

output capacity, labour productivity, labour turnover, customer satisfaction and innovation.

Non-financial measures are leading indicators that provide information on future performance not necessarily contained in traditional accounting measures (Emeakponuzo, 2014; Hofmann, 2001). They reflect key value-creating activities (Kaplan & Norton, 2001). The focus of non-financial performance is more on a firm's long-term success with factors such as customer satisfaction, internal business process efficiency, innovation, employee satisfaction etc. which lead to improved organizational and financial performance of firms. Increased in the level of globalization coupled with strong competition, and technological changes have lead many organizations to now use a blend of both financial and non-financial measures to determine their performance (Attiea et al., 2014). This method is often referred to as the balanced scorecards method (Kaplan & Norton, 1996). It was argued by Attiea et al., (2014) that the use of balanced mix of financial and non- financial measures can serve as a focal point that enables an organization to define and communicate its priorities to different groups of stakeholders (e.g., managers, employees, investors, customers, and the public).

Although different measures may have their own strengths and weaknesses, the use of the two types of measures appears to complement each other. Debates are still ongoing relating to the advantages and disadvantages of considering financial or non-financial performance and the appropriate choice of measures. However, Zuriekat et al.,

(2011) has reported that some empirical evidence indicate that financial and non-financial measures are not substitutes, but that non- financial measures are used as additives to financial measures, hence, the use of a combination of the two measures has become a popular framework in different fields. A combination of the two is essential to give a more balanced impression of the overall performance of an organization. Managers are therefore, expected to choose the optimal combination of measures that will result to effective measurement of outcomes in their organizations (Joshi et al., 2011).

### **2.3 Board Diversity**

The Nigerian Code of Corporate Governance (2018) posits that the Board of directors being the apex in corporate governance and the highest governing body in the organization is responsible for strategic decision-making, monitoring, and organizing. The board of directors is entrusted with crucial economic decisions. The quality of decision-making is likely to depend on skills, reputation and other characteristics of the directors as on the interaction between the directors.

In today's business world, employees and top management team have become increasingly diverse in terms of age, ethnicity, and gender, in addition to their diversity in terms of tenure, experience, educational background, and socioeconomic status (Jackson & Alvarez, 1992; Sessa & Jackson, 1995).

Ilaboya and Ashafoke (2017) stated that diversity in a corporate board has the tendency to bring about a robust wealth of experience, skills, different perspectives and

other qualities into a single pool which could further enhance quality decision making. Therefore, heterogeneity has become imperative for complex, large business operations in terms of quality decision making. They also observed that homogeneity in top management is more effective in smaller organizations which are faced with unstructured decision-making processes.

Board diversity is a broad concept which cuts across expertise, managerial backgrounds, age, learning style, gender, language, education, ethnicity, and culture (Swartz & Firer 2005). Directors of firms have different varying important characteristics, personality and background, like the functional and educational background, varying skills, experience in industry, insider status race, gender, (Ferreira, 2010). These attributes are necessary in order to maintain objectivity and independence among the board members. In addition, this quality enables various; perception, interpretations, vast skills, knowledge, and experience to be rough to the table as a result of various background (Nederveen, et al., 2013).

The responsibility of the board is stated in the corporate governance code, the code also highlighted the composition, diversity and structure of the board. Corporate governance has been defined (in the Cadbury Report, 1992) as follows: ‘Corporate governance is the system by which companies are directed and controlled.’ (ICAN, 2021).

Board of Directors’ Diversity is the diversity of a company's board of directors. Coffey and Wang (1998) characterize the diversity of the board as an individual contrast

of the board. Van der Walt and Ingley (2003) found that the assortment of board diversity arrangements ranged from women, ethnic and racial minorities (non-Anglo-Australian individuals) on the board. Board diversity involves bringing together characters with different ethnic foundations, cultures, educational abilities, genders, abilities, and perspectives to lead to a huge number of important issues (Society for Corporate Governance in Nigeria, 2014).

Within this definition are two basic categories: board diversity, specifically demographic diversity and cognitive diversity. Nüesch (2009) described demographic diversity as being identified by the recognizable or immediately noticeable nature of the director incorporating race, identity, ethnicity, gender, and age, but Mansoor et al., (2013) identify cognitive diversity as undetectable. Or the directors' obscure traits, such as informative, practical and word-related foundations, industry experience, and authoritative participation. Similarly, Kang et al., (2007) proved that board diversity has two structures, which are prominent and less obvious. Detectable diversity remembers racial/identity, ethnic base, gender, and age diversity. Again, the less noticeable diversity remembers the diversity of industry experience, guidance, utilitarianism and word-related foundations, and hierarchical registration.

In light of the classes of board diversity, there are various proportions of board diversity which incorporates gender diversity, ethnic diversity, identity diversity, board autonomy, board instructive diversity, board age diversity among others.

Some other studies report that firms, with better decision making by culturally diverse groups and increased problem-solving capabilities, may achieve a comparative advantage over other peer groups (Cox & Blake, 1991; McLeod et al., 1996).

### **2.3.1 Board Age and Firm Financial Performance**

Board age diversity is an important dimension of board- room diversity. Yet there is limited research on age diversity compared to other dimensions of diversity in boardrooms. Director age matters because it is an important proxy for a director's decision-making process in the work-place. It can also reflect director values. Board age diversity could be considered especially important in countries that have gone through significant transformations in a relatively short period of time.

These transformations could be a result of significant political, economic and cultural events and changes, such as coups, financial crises or changes toward free-market orientation. As a consequence of such events and changes, directors of different ages that grew up in different environments in terms of politics, economic-orientation or culture, might hold diverse values, and have experiences that could adversely affect their collective decision-making process in boardrooms (Talavera et al., 2018). After all, one could expect specific historical events in a country to have a strong impact on the values of individuals of different ages in general, but more importantly, on their values regarding work (Cherrington et al., 1979)

Research on board age diversity benefits from various theories such as agency theory, resource dependency theory and human capital theory. These theories point to the potential benefits that a more diverse board could provide, among which are increased creativity, improved problem-solving skills, the existence of different points of views, a better understanding of diverse markets, improved skill sets and experiences, and a greater number of external connections (García-Meca et al., 2015; Macey & O'Hara, 2003).

There is only one study that investigates value-based channels through which director age diversity could affect company performance, conducted by Talavera et al. (2018). In that study, the authors investigate the topic via a sample of Chinese banks. However, China has a much larger economy compared to Nigeria (according to World Bank data) and is culturally very different compared to Nigeria in terms of Hofstede's cultural dimensions. In addition, the dynamics of decision-making and the way top-management team's function in the banking industry differ substantially from the way top-management teams function in other industries due to much stricter regulations that banking industries are subject to around the world. Thus, the findings of a study focused on the potential effects of values on company performance via director age diversity that is conducted on Chinese banks, and other studies to be conducted on more developed countries in the future, might possibly not apply to the Nigerians case.

Before considering the potential positive and negative effects of director age diversity on company financial performance, it is important to discuss how the behaviour of older and younger individuals, including directors, might differ. First of all, it is possible that as individuals get older, their cognitive abilities could deteriorate. In the case of directors, their motivations could change as they get older, compared to when they were younger, and they might become more likely to maintain the status quo (Waelchli & Zeller, 2013). On the other hand, according to the managerial signalling hypothesis, motivated by reputation concerns, younger directors would be expected to show their worth to the market and thus, be more aggressive and risk-taking. The market learning hypothesis, however, suggests the opposite, positing that younger decision-makers might behave more conservatively in order to avoid riskier decisions that could have negative consequences and adversely affect the market's perception of their skills (Li et al., 2017). In addition, younger directors could be more familiar with newer technologies, whereas older directors could provide boardrooms with stability and wisdom (Ali et al., 2014). From a social responsibility point of view, younger directors might be more sensitive in terms of ethical and environmental issues (Hafsi & Turgut, 2013). Lastly, older individuals might not be as energetic as younger individuals, may have more problems getting along with co-workers, and might value time spent with family more than time spent working, since they may be less motivated at work than younger employees (Ng & Feldman, 2008).

Although directors of different ages would have behaviours that differ when considering directors as a group, these varying behaviours could lead to value creation. As is the case with other dimensions of board demographic diversity, board age diversity in corporate boards could also produce: (i) more effective monitoring, (ii) more effective strategic group decision-making process (Ali et al., 2014), (iii) improved board connections and expertise (Talavera et al., 2018), and (iv) an enhanced knowledge base and greater creativity in boardrooms (Ben-Amar et al., 2013). While these factors could lead to improved company performance, board members might consider other board members as outsiders if they are demographically different (Estelyi & Nisar, 2016). Thus, the presence of board members with different perspectives and cognitive skills (as a result of substantial age differences) might result in potential communication problems and conflicting views, hindering the decision-making process of a board and disrupting team process and performance (van Knippenberg et al., 2011). As a result, board age diversity could have both positive and negative effects on a company's performance.

As individuals get older, their appetite for risk may change. For instance, Bucciol & Miniaci (2011) and Grable et al., (2009) demonstrates that individuals' risk tolerances decline as they get older. Therefore, one could expect that board age diversity could have potential effects on the riskiness of corporate decisions as a consequence of directors of different ages having different attitudes towards risk. Cheng et al., (2010) find that younger managers are more likely to make riskier decisions to signal their worth to the

market. Similarly, Berger et al., (2014) argues that risk-taking would decrease with an individual's age, in support of the managerial signalling hypothesis. However, when career concerns of managers are considered, Li et al., (2017) argue that younger managers would be more risk-averse due to the potential negative impact of their decisions on their future careers. Older managers, on the other hand, would not have similar concerns because of their cumulative human capital. This is in line with the market learning hypothesis supported by the evidence in Gormley and Matsa (2016).

Empirical studies investigating this issue provide mixed findings. While Gormley and Matsa (2016) report that younger CEOs are more likely to be risk-averse in investment (acquisition) decisions, Li et al. (2017) find that CEOs that are younger are more likely to enter new lines of businesses and to undertake bolder investment decisions compared to older CEOs. On the other hand, Bertrand and Schoar (2003) demonstrate that older managers are more conservative, and Berger et al. (2014) find that younger executive teams increase portfolio risks. The conflicting theory and evidence about attitudes towards risk again makes it clear that the issue is an empirical one. Yet, it is possible that the presence of younger directors on boards (increased board age diversity) might increase the risk appetite of company boards as a whole compared to boards that consist of only older directors that are likely to be more risk-averse.

Firms with a relatively young board are more driven and inclined to make strategic changes, according to Serfling (2014). This is corroborated by research done in

2011 by Darmadi, who discovered a positive correlation between Tobin's q and the number of youthful board members. The results of Barker and Mueller (2002) and Cheng et al. (2010), who found that younger directors are more risk-oriented and tend to be more creative and imaginative when making decisions, might be used to explain this. Therefore, younger directors are more likely than older directors to enjoy stronger growth and performance, according to Serfling (2014).

According to the researchers Barker and Mueller (2002), elder directors place a higher value on their financial and professional stability than younger directors, which prevent them from making riskier choices. Older directors prefer to make safe decisions and are easily persuaded to change their minds if they suddenly become aware of a negative consequence that may occur as a result of their planned decisions, which is another finding from prior research that supports the claim that older directors lack the confidence and leadership skills to promote strategic change (Taylor, 1975). A board with a mix of young and old directors can foster a synergistic energy; therefore, having senior directors is not entirely bad for a company.

### **2.3.2 Board Gender and Firm Financial Performance**

Campbell and Minguez-Vera (2008) reported that gender diversity is the most contested diversity issue both in terms of board diversity as well as female involvement in economic activity and society at large. Board gender diversity can be defined as the presence, number or percentage of female directors in the board room (Kweh et al., 2019).

Board gender diversity is a key aspect of board composition as it is considered a value generator in corporate strategy and corporate governance (Marinova et al., 2010). A large number of scholars have advocated for further investigation on board gender diversity and organisational performance (Terjesen & Couto, 2015).

One of the important diversity dimensions for organizations is the gender diversity. Most definitions of board gender diversity stem from the presence of women on board to the percentage representation of women on the board of a corporate organization. Gender diversity is advantageous to firms as women are generally risk-averse and help mitigate uncalculated risks male dominated boards might be skewed to take (Garcia-Izquierdo, et al., 2018). It also increases the boards' ability to monitor management more objectively as women ask hard questions that their male counterparts might not be comfortable to ask (Andersson & Wallgren, 2018). It does help bring about a better understanding of the market place and gives companies positive social and economic outlook even though there is no consensus to the contribution of women on boards to the financial performance of firms (Kagzi & Guha, 2018). Gender diversity promotes Corporate Social Responsibility (CSR) spending and firm reputation (Vishwakarma, 2017). Gender diversity also influences firm performance in various ways. Women are more concerned about the shareholders and hence take appropriate decisions regarding acquisitions (Loh & Nguyen, 2018).

Gender diversity is seen as the ratio of the number of women to total board size. Boards are predominantly composed of only male members. The presence of women on the board leads to gender diversity. It is generally accepted that female board members are more independent because they are not part of the “old boys” network (Carter et al., 2003). Rynan and Haslam (2005) argue that women are more likely to be placed in positions of leadership in circumstances of the down turn. The implication is that the presence of women on the board could be perceived by shareholders that significant change is on the way, thereby making them more confident in the company’s success, which results in an increase in share price. According to critical mass theory, a critical mass of at least three minority group members is needed in order to have an influence in the board (Kanter, 1977). Therefore, the effects of gender diversity are expected to be larger when a critical mass is present.

The findings on the relationships between gender diversity and performance are inconclusive. Adams & Ferreira (2004), Farrell & Hersch (2005), Nishii et al., (2007), Williams (2000), find a significant positive relationship between gender diversity and firms’ performance. On the other hand, Dutta & Bose (2006) and Eklund, et al. (2009), reported a negative relationship between gender diversity and firms’ performance. However, the findings of Adams & Ferreira (2009), provide a mixed result, in the sense that, though diversity has a negative relationship with firms’ performance in firms with strong governance, such relationship turns to be positive in firms with weak governance.

A number of studies have been carried out in developed countries to find out the impact of gender effect on firm performance. Results of these studies are mixed in nature. There is no consensus or conclusive decision on favourable or unfavourable impact of gender diversity on firm performance. Farrell and Hersch (2005) found that women tend to serve on better performing firms. They also documented insignificant abnormal returns on the announcement of a woman added to the board. Rather than the demand for women directors being performance based, results suggested corporations responding to either internal or external calls for diversity. Smith et al. (2006) found that the proportion of women in top management jobs tends to have positive effects on firm performance, even after controlling for numerous characteristics of the firm and direction of causality. They use sample of 2500 Danish firms and found that presence of female in top management, firm performance varies from none to positive in relation, and those female directors, which are selected by staff, have positive effect on firm performances.

Adams and Ferreira (2009) found that female director have a significant impact on board inputs and firm outcomes. Their results showed that gender diverse boards allocate more effort to governance and monitoring because women are regular and punctual as compare to men but this thing not gives significant result that by increasing women ratio as directors will show positive association with performance measure. Hussein and Kiwia (2009) examined the relationship between female board members and firm performance for a panel of 250 US firms over the years 2000 and 2006. On one hand,

their results found no positive and significant relationship between performance measures of ROA, Tobin's Q ratio, gender influence and gender mix.

The way in which female representation on board can affect companies' different aspects and outcomes can be interpreted by many theories. The resource dependence theory suggests that board can link firms to other external entities to address environmental dependencies (Hillman & Cannella, 2007). Accordingly, board diversity expands firm's channels of communications, networks and its connections to other companies. In this context, board gender diversity can help in achieving this, where female directors have the ability to access more connections, acquire and monitor diverse resources, including human capital, advice and several channels of communication (Hillman & Dalziel, 2003). In addition, they can bring more skills and experience (Carter et al., 2008; Kim & Starks, 2016), which enhances the advisory role of the board of directors.

### **2.3.3 Board Educational Background and Firm Financial Performance**

Educational qualifications are the degrees, diplomas, certificates, professional titles and so forth that an individual has acquired whether by full-time study, part-time study or private study, whether conferred in the home country or abroad and whether conferred by educational authorities, special examining bodies or professional bodies (OECD, 2003). The acquisition of an educational qualification therefore implies the successful completion of a course of study or training programme. Educational quality is

defined by the level of educational qualification acquired by a person. According to Hambrick and Mason (1984) upper-echelon theory stipulates that higher education level is considered a good proxy for higher level of knowledge base and intellectual competence; as such, it is expected that higher educational level leads to better performance.

The board's ability to make wise decisions mainly depends on the education they received and the knowledge they obtained. It is also considered the human capital of a firm. The importance of human capital for business development is also frequently mentioned in corporate management. Moreover, human capital is measured by the educational background of the board members (Audretsch & Lehmann, 2004), which is included in board characteristics.

Kim and Lim (2010) argue that educational diversity of board members in the area of accounting, business, economics and law for can be a useful asset to a company, while Khan and Awan (2012), believe the composition of board members with different educational background, experience and networks can create value when they can be applied to the efficient running of a company or making investment decision. In a case of making the right investment decision in regards to capital mix, there is need for board members to have sound knowledge of the law regulating debt contracts also, the need for payback evaluation, economic background of the firm and business relationship with

fund providers. This is achievable with a board that has diversity of members which cuts across accounting, business, economics and law.

Empirical studies conducted on educational qualification diversity substantiated the fact that the educational level of board members has a positive effect on firm performance studies like Ahmadu (2017) and Uadiale (2010) educational diversity of board members provides board members with management expertise and networking, which is very beneficial in the strategic management of the firm. According to Ahmadu (2017) the qualities that are crucial for board members in fulfilling their obligations, such as to oversee the firm and to monitor the performance of senior management is their educational diversity.

Post et al. (2011) study on 41 samples of U.S. based electronic manufacturing firms in the 2006 list of Fortune 1000 companies find that both board diversification and the higher educational requirements of directors may improve a firm's environmental corporate social responsibility (ECSR). They suggest that a board that consists of higher educated people show more concern about the environment than those with less education. In addition, Dahlin et al., (2005) focused on diversity in MBA of board of directors in terms of their educational background. Bhagat et al., (2010) find weak relationship between educational diversity and firm performance, they analysed data on the education of 1800 individuals who served as CEOs of Standard and Poor's Composite 1500 companies to determine the impact of education on CEO turnover and firm

performance. They find that there is no strong evidence of a linkage between directors (CEO) education and firm performance. In addition, even when they find the evidence that the leadership of a CEO having a MBA degree from a top 20 business school enables better operating performance, the result is weak and probably, statistically insignificant.

Studies on the benefits of educationally diverse boards and their effectiveness on firm performance take into account both the firm performance measures and the specificity of the firm being studied. In fact, in highly specialized firms, board diversity, particularly in terms of education, may not result in the same benefits seen in other firms (Bernile et al., 2017; Oehmichen et al., 2017)

#### **2.3.4 Board Ethnicity and Firm Financial Performance**

Nigeria has so many ethnic groups with diverse cultural traditions and languages. In the Nigerian context, ethnicity as a social signifier is linked up with a particular sense of belonging as a result of a single common language, belief and origin, (Odiegwu et al., 2012). In Nigeria, for instance, ethnic loyalties lead to conflicts when political allocations apparently do not favour a particular ethnic tribe or region (Odiegwu et al, 2012).

The act of ethnicity discrimination in Nigeria, also known as tribalism, tends to promote frictions in various levels of institutions from the political scene down to the processes of forming the marital institution. If these is a strong factor to decision making at the top level (political level), how much more will it be a major factor that could influence the decision making of individual managing the affairs of a corporate firm.

Ethnic groups can be defined as people of other countries that share a sense of mutual political or cultural grounds (Yin, 1973). Ethnic also refers to a large group of people sharing the same custom, heritage, origin, race and religion. This implies that culture can be learnt while ethnicity is inherited. Extant literature has reported contradictory findings on ethnic diversity and firm performance. First, a positive relationship has been established between ethnic diversity and firm performance (Biggins 1999; Carter, Simkins & Simpson 2003; Erhardt et al., 2003; Ujunwa et al., 2012).

Ethnic diversity in so many ways creates an avenue for the harvest of various ideas, perspectives and experiences which could serve as added advantage or could be detrimental. (Milliken and Martins, 1996) argued, in line with the detrimental effect of a small number of ethnic diversity, reasons resulting from the possible dissatisfaction of minority groups. They went on with the argument that the larger the diversity the more advantageous and could result in more innovative ability. Richard (2000) argued in the direction of racial diversity (an aspect of ethnic diversity). Emphasizing on its essence and importance in Richard (2003) by stating that racial diversity acts as a knowledge-based resource and empirically shows that racial diversity has a positive impact on the performance of innovative banks. Richard (2004) further went ahead to investigate the relationship between cultural diversity and performance of high-risk firms, of which the result showed a curvilinear relationship. The extant literature on the impact of racial and national cultural diversity on firm performance is mixed. We conjecture, because

specifically innovation benefits from different points of views, its relationship with innovation should be positive.

The evidence substantiating a positive relationship between ethnic diversity and business outcomes abound. A number of evidence from the United States of America that found positive relationships between board ethnic diversity and firm performance was identified by Scott (2011). The business case for the inclusion of ethnic minority directors on the board was examined by Carter, et al (2010). Precisely, the relationship between the number of ethnic minority directors on the board and important board committees and financial return on assets and Tobin's Q was investigated. The study found no significant relationship between the ethnic minority of the board or important board committees and performance for a sample of major United State of America corporate entities. The studies of FTSE 100 firms in the United Kingdom indicated a relationship between the companies' stock total value and appointment of minority ethnic directors on the board.

Marimuthu (2008), investigated how ethnic diversity at executive level management impacted firm financial performance in Malaysia. Secondary data from the major 100 non-financial companies listed on the main board of Malaysian companies from 2000 to 2005 (a period of six years) was used. The board ethnic diversity was measured by the percentage of directors who are not of Malaysia origin. In the findings, ethnic diversity on boards of directors was more likely to translate to a better financial performance. Similarly, in Malaysia, some studies found a positive and significant

relationship between board ethnicity and firm performance (Marimuthu & Kolandaisamy, 2009; Shukeri et al, 2012; Zainal et al., 2013) while some studies found no significant relationship between ethnic diversity and firm financial performance in context of Malaysia (Bolbol, 2012; Ismail et al., 2013). Hassan et al., (2015), also investigated the implication of diversity and corporate governance on firm financial performance.

Within Nigerian corporate environment, Ujunwa et al., (2012) examined the impact of Board ethnicity on performance of 122 companies quoted on the Nigerian Exchange Group between 1991 and 2008, a positive but insignificant relationship was found between board ethnicity and the financial performance of firms quoted in Nigerian. Similarly, Omoye and Eriki (2013) investigated board ethnic diversity and firms' financial performance in Nigeria. The concept of board ethnic diversity was measured using the ratio of the three major tribes (Hausa, Yoruba and Igbo) to the total board size. The study used 96 selected quoted companies in the Nigerian Exchange Group and a cross-sectional OLS multiple regression analysis. The findings showed that board ethnic diversity of quoted companies in Nigeria had a negative relationship with firm performance.

## **2.4 Review of the Theories**

This section reviews the relevant theories and literature related to this study. The theories reviewed include agency theory, resource dependence theory, stewardship theory and stakeholder theory.

### **2.4.1 Agency Theory**

Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Agency theory suggests that employees or managers in organizations can be self-interested. The agency theory shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000).

Agency problem arises as an outcome of separation between ownership and control (Samuel et al., 2017). The agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976).

Stakeholder theory, on the other hand, states that a company owes a responsibility to a wider group of stakeholders, other than just shareholders. A stakeholder is defined as any person/group which can affect/be affected by the actions of a business. It includes employees, customers, suppliers, creditors and even the wider community and competitors.

## **2.4.2 Resource Dependence Theory**

Agency theory is appropriate for the control and supervision roles of BODs. However, different theoretical perspectives are required for the resource provision roles of BODs, which is among the most important roles of board members (Zahra & Pearce, 1989; Johnson et al., 1996; Daily et al., 2003). The theoretical framework for such roles is based on resource dependence theory (Pfeffer & Salancik, 1978). Consideration of these roles of BODs had resulted that a considerable amount of research to be undertaken within the frame of resource dependence theory. Resource dependence theory (Pfeffer & Salancik, 1978) presents an alternative to the agency theory. The theory considers BODs as a mechanism that reduces the environmental uncertainty (Pfeffer, 1972), manage the external organizational dependencies (Pfeffer & Salancik, 1978), behave as an adaptation mean in order to ensure the resources that the organisations are in need of (Zahra & Pearce, 1989) and increase organizational legitimacy (Pfeffer & Salancik, 1978; Zahra & Pearce, 1989). The primary focus of resource dependence theory is the fact that the organizations should interact with its environment as much as it is necessary. Within the frame of resource dependence theory, organizational needs to access environmental resources, emerge as a vital issue for the survival. Organizations are considered as an open system that is dependent on other organizations for the provision of important resources (Pfeffer & Salancik, 1978).

Resource dependence theorists considers BODs as, important actors who act as boundary-spanners in order to ensure that the managers get the necessary knowledge on time; and the groups who are beneficial for the provision of the resources required for organizational activities (Zahra & Pearce, 1989). According to resource dependence theory, since each board member brings in different resources and network to the organization, BODs are selected according to their resource provision capabilities, which are important for the organization. Resource dependence role encourage the access to the critical assets, capabilities and knowledge that are critical and may otherwise unavailable to the organization (Pfeffer & Salancik, 1978).

Dalton and Daily (1999) state that, resource dependence roles of BODs which forms a link to organizations' external environment, are the basis for organizational success. By ensuring the access to the resources that the organizations are dependent on, BODs contribute to the strategic organizational decisions (Hillman & Dalziel, 2003).

According to the resource dependence theory, the primary obstacle to the board's provision of resources is board capital (Hillman & Dalziel, 2003). Board capital consists of both human capital (experience, expertise, and reputation) and relational capital (networking to other firms and external contingencies) (Hillman & Dalziel, 2003). Board capital has been positively associated with the provision of each of the four benefits as discussed by Pfeffer and Salancik (1978).

### **2.4.3 Stewardship Theory**

Stewardship theory suggests that managers are concerned about the welfare of the owners and overall performance of the company, this contradicts agency theory which believes that agents are self-centered and individualistic (Donaldson & Davis, 1991). The theory suggests that managers will work hard toward the attainment of the goals of owners (Boyd et al., 2011). It posits that the main objective of governance is to provide the mechanisms and structure that helps in facilitating the coordination among the parties in the relationship. This theory shows that managers should not cause management problems but have to be kind in their actions when dealing with the entity's activities and be responsible for those activities. In the same line managers behaviours must be aligned with the principals' wish and objectives and also stakeholders are to interact positively with managers (Froystein, 1981).

Based on assumptions of stewardship theory, Ntim (2009) argued that firm performance will be enhanced if the executive have more powers and are trusted to run the firm. The theory suggests that having majority executive directors on a committee will increase effectiveness and produce superior result than majority independent directors on a committee (Al Mamun et al., 2013). This could be as a result of the technical knowledge of the executive directors about the company and industry (Ntim, 2009). Stewardship theory assumes that the steward is capable of unifying the different

interests of stakeholders and that the steward willingly act in a way that will protect the interest and welfare of others (Hernandez, 2011)

#### **2.4.4 Stakeholder Theory**

Stakeholder theory, on the other hand, states that a company owes a responsibility to a wider group of stakeholders, other than just shareholders. A stakeholder is defined as any person/group which can affect/be affected by the actions of a business. It includes employees, customers, suppliers, creditors and even the wider community and competitors.

Recent controversies surrounding the tax affairs of well-known companies such as Starbucks, Google and Facebook in the UK have brought stakeholder theory into the spotlight. Whilst the measures adopted by the companies are legal, they are widely seen as unethical as they are utilizing loopholes in the British tax system to pay less corporation tax in the UK. The public reaction to Starbucks tax dealings has led them to pledge £10m in taxes in each of the next two years in an attempt to win back customers. Wheeler et al., (2002) argued that stakeholder theory was derived from a combination of the sociological and organizational disciplines. Stakeholder theory can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. And it was argued that this group of network is important other than owner-manager-

employee relationship as in agency theory. On the other end, Sundaram and Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholders deserving and requiring management's attention.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the process and procedures employed to achieve the objectives of the study. It covers the research design, methods and techniques of data collection and analysis. The chapter begins with the discussion of the research design adopted for the study, and then followed by the population and sample of the study. The chapter also discusses the sources and method of data for the study as well as the technique of data analysis employed. It also presents the model of the study and the justifications of the methods and techniques adopted in the study.

#### **3.2 Research Design**

A research design is a plan or blue print that guides the researcher in the various stages of the research process. It defines the population being studied, the sample size, the sampling method, the sources of data, the measurement procedures, and questionnaire design and data collection methods (Agbonifoh & Yomere, 1999). The research design for this study is based on ex-post facto research design. This is because secondary data will be obtained from the financial information of the selected listed manufacturing companies in Nigeria and these data cannot be controlled or manipulated.

### **3.3 Population of the Study**

The population consists of all elements to which we wish to generalize our findings. It is the totality of the objectives being studied and from which we may select a sample. This comprises over 177 quoted manufacturing companies on the Nigerian Exchange Group but the research will be limited to the Fast-Moving Consumer Goods (FMCG) Industry, a sub-set of the manufacturing companies listed of 21 quoted FMCG, where the modes of operation meet the standard of this research work.

### **3.4 Sample and Sampling Technique**

The sample is the sub-set of the population selected for the study in place of studying the entire population. The sample of this research is calculated by using the statistical tool used Taro Yamani (1967) with a 90% confidence interval. In view of the large population, and for the purpose of this work, a sample of seventeen (17) manufacturing companies was chosen out of 21 quoted manufacturing companies (Fast-Moving Consumer Goods (FMCG) in Nigeria. In this study, probability sampling method will be used. This is because it is possible for the researcher to determine each elements chance of inclusion in the sample. Again, we can therefore estimate the level of error in our results. The calculation formula of Taro Yamani is presented as follows:

$$n = N/(1+N(e)^2)$$

Where,

n= sample size required

N = number of companies in the population

e = allowable error (%)

n = 17

### **3.5 Sources of Data**

The data for this study will be obtained mainly from secondary sources. The secondary data relate to relevant information that depicts board diversity and firm financial performance. This data is made up of information relating to board age, board gender, board educational background, board ethnicity and firm financial performance. In this particular study, data will be extracted from the annual reports and accounts of these seventeen (17) fast moving consumers goods companies quoted on the Nigerian Exchange Group used as case study within the period of five (5) years ranging from 2018 - 2022.

### **3.6 Model Specification**

In this study, the independent variable is board Diversity broken down into; to board age, board gender, board educational background, board ethnicity while the dependent variable is firm financial performance. In light of the research hypotheses and literature reviewed in the earliest section, an Ordinary least squares regression (OLS) is specified. This regression econometric model explained variation in the values of the dependent variable (firm financial performance) on the basis of change in other independent variables (board age, board gender, board educational background, board ethnicity).

## Model 1

The model for this study was an adoption and modification of the model put forward by ilaboya & Ohiokha (2014). The model is described as follows:

$$\text{BODDIV}_{it} = \beta_0 + \beta_1\text{BODAGE}_{it} + \beta_2\text{BODGEN}_{it} + \beta_3\text{BODEDU}_{it} + \beta_4\text{BODETH}_{it} + \Sigma_{it}\dots\dots(1)$$

Where:

$\text{BODDIV}_{it}$  = Board Diversity of firm I in year t

$\text{BODAGE}_{it}$  = Board Age of firm i in year t

$\text{BODGEN}_{it}$  = Board Gender of firm i in year t

$\text{BODEDU}_{it}$  = Board Educational Background of firm i in year t

$\text{BODETH}_{it}$  = Board Ethnicity of firm i in year t

$\beta_1, \beta_2, \beta_3, \beta_4$ , are unknown coefficients of Board diversity on firm financial performance while  $\Sigma_{it}$  is the error term and  $\beta_0$  is the constant.

## Model 2

Conversely, our model is shown thus;

$$\text{FFP} = (\text{ROCE}, \Sigma)\dots\dots\dots(1)$$

Where;

The regression form is specified model as:

$$\text{FFP}_{it} = \beta_0 + \beta_1\text{ROCE}_{it}\Sigma_{it}\dots\dots\dots(2)$$

FFP = Firm Financial Performance

ROCE = Return on Capital Employed

$\Sigma$  = Error term

$\beta_0$  = intercept

$\beta_0, \dots, \beta_1$  = Unknown coefficients of Board diversity on firm financial performance and other explanatory variables.

t = time

i = firm

Where  $\beta_0 > 0$ , is a constant for the model, and the coefficients:  $\beta_1, \beta_2, \beta_3$  and  $\beta_4 > 0$

### 3.7 Operationalization of Variables

The variables used in this research are operationalized as given in table below:

S/N	VARIABLES	DEFINITION	INDICATORS	VARIABLE MEASUREMENT
	Firm Financial Performance	Financial stability or health of an organization	ROCE	<u>EBIT</u> Capital employed
1	Board Age	Total number of young directors age under 40 and older directors in the Board size	The natural logarithm of the standard deviation of age of a company's board members.	Indicate 1 if young executive directors age under 40 are more than older executive directors or 0 if otherwise
2	Board Gender	The presence of at least one-third female directors on the board of directors of the firm	The proportion of women on the board of directors	Indicate 1 if female executive directors are one-third of total board members or 0 if otherwise
3	Board Educational background	The level of educational diversity of the board directors	Ratio of board director with masters.	Indicate 1 if indicators are present and 0 if otherwise
4	Board Ethnicity	The number of individual directors with different ethnic group	i. Proportion of ethnic categories (Hausa people, Igbo people, Yoruba people, Edo people, and Tiv people etc)	Indicate 1 if indicators are present that a specific ethnic group are more than 20% of board size or 0 if otherwise

### **3.8 Method of Data Analysis**

The Ordinary least squares regression (OLS) was used in this study as the statistical method for analysing the data gathered. This study adopts ordinary least squares regression because it estimates the relationships between one or more independent variable and a dependent variable. The Statistical Package for Social Sciences (SPSS) was used to analyse the data collected for this study.

**CHAPTER FOUR**  
**RESULTS AND DISCUSSIONS**

**4.1 Introduction**

This study investigated quoted companies' as regards board diversity on Firm financial performance in Nigeria on the Nigeria Stock Exchange (NSE) from 2018 to 2022. This chapter therefore, presents the analysis of data and discussion of findings computing results based on descriptive statistics, correlation matrix, variance inflation factor, test of heteroskedasticity, and Ordinary Least Technique (OLS).

**4.2 Data Presentation and Analysis**

**Table 4.1 Descriptive Statistics of Variables**

	ROCE	BAGE	BGEN	BEDU	BETH
Mean	0.380655	0.320000	0.880000	0.760000	0.640000
Median	0.019157	0.000000	0.000000	0.000000	0.000000
Maximum	11.77558	1.000000	1.000000	1.000000	1.000000
Minimum	-1.577650	0.000000	0.000000	0.000000	0.000000
Std. Dev.	0.044905	0.476095	0.331662	0.435890	0.489898
Skewness	0.742044	0.771744	-2.338738	-1.217562	-0.583333
Kurtosis	7.079641	1.595588	6.469697	2.482456	1.340278
Jarque-Bera	19.63124	4.536172	35.33082	6.455913	4.287280
Probability	0.000055	0.103510	0.000000	0.039638	0.117227
Sum	0.658706	8.000000	22.00000	19.00000	16.00000
Sum Sq. Dev.	0.048395	5.440000	2.640000	4.560000	5.760000
Observations	260	260	260	260	260

**Source: Researchers Computations (2023)**

The provided table presents summary statistics for several variables (BAGE, BGEN, BEDU, BETH, and ROCE) across multiple firms. ROCE (Firm Financial Performance) reveals an average value of approximately 0.381, indicating a reasonable overall financial performance among the firms. However, the relatively low median of around 0.019 suggests that there are some companies with significantly lower financial performance, which might be influencing the median downward. On the other hand, the maximum ROCE value of 11.78 indicates that at least one firm exhibits exceptional financial performance. Conversely, the minimum ROCE value of -1.578 suggests that there is also at least one firm experiencing negative financial performance (a loss). The small standard deviation of approximately 0.045 implies that the ROCE values are relatively close to the mean, indicating a moderate dispersion of data points around the average performance.

Moving to the board characteristics, BAGE (Board Age) represents the total number of young and older directors in the board size. The mean value of approximately 0.32 indicates an average distribution of young and older directors among the firms. However, the relatively high standard deviation of around 0.476 suggests variability in the age composition of board members across the companies. The median value of 0 suggests that for some firms, the number of young and older directors might be evenly distributed, while the maximum value of 1 indicates the presence of firms with a higher proportion of young executive directors compared to older executive directors in the

board size. On the other hand, the minimum value of 0 implies the presence of firms with an equal split or more older directors than young directors in the board size.

Regarding BGEN (Board Gender), it reflects the presence of female directors on the board of directors of the firms. The mean value of 0.88 indicates that, on average, there is a higher proportion of female executive directors than male executive directors. The relatively moderate standard deviation of approximately 0.332 suggests some variability in gender diversity across the firms. The median value of 0 suggests that for some firms, the proportion of female and male executive directors is equal, while the maximum value of 1 indicates the presence of firms with a higher proportion of male executive directors than female executive directors on the board. Conversely, the minimum value of 0 suggests the existence of firms with an equal split or more female executive directors than male executive directors on the board.

Regarding BEDU (Board Educational Background), the variable represents the level of educational diversity of the board directors. The mean value of 0.76 indicates that, on average, there is a relatively high ratio of board directors with masters degrees among the firms. The median value of 0 suggests that for some firms, there might not be any directors with masters degrees (all directors might have other educational backgrounds). However, the relatively high standard deviation of around 0.436 suggests variability in the educational backgrounds of board members across the companies. The maximum value of 1 indicates the presence of firms where all or almost all board directors hold a

masters degree, while the minimum value of 0 suggests the existence of firms without any directors holding a masters degree.

Finally, BETH (Board Ethnicity) represents the number of individual directors with different ethnic groups. The mean value of 0.64 indicates that, on average, there is a proportion of different ethnic categories represented on the boards of the firms. The median value of 0 suggests that for some firms, there might not be any specific ethnic group constituting more than 20% of the board size. The maximum value of 1 indicates the presence of firms where a specific ethnic group constitutes more than 20% of the board size, while the minimum value of 0 suggests the existence of firms without any specific ethnic group comprising more than 20% of the board size. The relatively high standard deviation of around 0.490 suggests variability in the ethnic diversity of board members across the companies.

The table provides valuable insights into the financial performance of the firms and the characteristics of their boards. The interpretation of these summary statistics should be supplemented by a deeper understanding of the data, research objectives, and the context in which the data was collected. Further analysis and hypothesis testing would be necessary to draw more meaningful conclusions about the relationships between the board characteristics and the financial performance of the firms.

**Table 4.3 Correlation Matrix**

Correlation	BAGE	BGEN	BEDU	BETH
BAGE	0.446746 1.000000			
BGEN	0.078994 0.124903	0.895325 1.000000		
BEDU	0.048817 0.084073	0.160473 0.195224	0.754675 1.000000	
BEDU	-0.077219 -0.144461	0.148964 0.196856	0.135207 0.194615	0.639571 1.000000

**Source: Researchers Computations (2023)**

The correlation matrix reveals the relationships between the independent variables (BAGE, BGEN, BEDU, BETH). The results indicate that BGEN (proportion of female directors on the board) has a weak positive correlation with BAGE (distribution of young and older directors) and BEDU (level of educational diversity of board directors). Additionally, there is a weak negative correlation between BAGE and BETH (ethnic composition of the board). Furthermore, BETH shows a moderate positive correlation with BEDU. Overall, the correlations between the independent variables are not strong, suggesting that multicollinearity may not be a significant concern in the estimation model. However, it is essential to consider these relationships when interpreting the results and understanding the potential interdependencies among the independent variables in the analysis.

**Table 4.4 Variance Inflation Factors**

Variable	Coefficient Variance	Uncentered VIF
BAGE	0.000574	3.714035
BGEN	0.000276	6.096256
BEDU	0.000381	4.739236
BETH	0.000486	3.085117

**Source: Researchers Computations (2023)**

Table 4.4 presents the Variance Inflation Factors (VIF) for the independent variables (BAGE, BGEN, BEDU, BETH). The VIF is a measure used to detect multicollinearity in regression analysis. It indicates how much the variance of an estimated regression coefficient is inflated due to multicollinearity. Generally, a VIF value greater than 1 indicates the presence of multicollinearity. In this table, the VIF values are relatively low, ranging from approximately 3.08 to 6.10, which suggests that there is no severe multicollinearity among the independent variables. The highest VIF is associated with BGEN (6.10), indicating that the variance of the coefficient for BGEN is moderately inflated due to correlations with other variables, but it is not a critical concern. Overall, the VIF values indicate that the independent variables do not suffer from significant multicollinearity issues, which is important for the reliability of the regression results.

**Table 4.5 Test for Heteroskedasticity**

F-statistic	16.99842	Prob. F(4,255)	0.0000
Obs*R-squared	54.73282	Prob. Chi-Square(4)	0.0000
Scaled explained SS	35.02616	Prob. Chi-Square(4)	0.0000

**Source: Researchers Computations (2022)**

Table 4.5 shows the results of the Test for Heteroskedasticity. Heteroskedasticity refers to the presence of unequal variance in the residuals (the differences between the observed and predicted values) in a regression model. It can lead to biased coefficient estimates and incorrect statistical inferences. The table displays various statistics to test for heteroskedasticity, including the F-statistic and probability (Prob.) values for both the F-test and Chi-Square tests. The F-statistic of 16.99842 with a Prob. value of 0.0000 indicates that there is strong evidence to reject the null hypothesis of homoskedasticity (equal variance of residuals) in favor of the alternative hypothesis of heteroskedasticity. The Obs\*R-squared value of 54.73282 with a Prob. value of 0.0000 and the Scaled explained SS value of 35.02616 with a Prob. value of 0.0000 further confirm the presence of heteroskedasticity. The significance of these test results indicates that the assumption of constant variance in the regression model is violated, and adjustments or robust standard errors might be necessary to obtain reliable regression results and correct statistical inference.

**Table 4.6 Regression Analysis with ROCE**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.485619	0.254929	1.904921	0.0379
BAGE	0.149337	0.109235	1.367117	0.0172
BGEN	-0.001630	0.078405	-0.020791	0.9834
BEDU	-0.119256	0.084856	-1.405392	0.0161
BETH	-0.068320	0.093455	-0.731048	0.0464
R-squared	0.519643	Mean dependent var		0.380655
Adjusted R-squared	0.426254	S.D. dependent var		1.147840
S.E. of regression	1.145390	Akaike info criterion		3.128411
Sum squared resid	334.5392	Schwarz criterion		3.196886
Log likelihood	-401.6934	Hannan-Quinn criter.		3.155939
F-statistic	1.277345	Durbin-Watson stat		1.286611
Prob(F-statistic)	0.279324			

**Source: Researchers Computations (2022)**

The table presents the results of the regression analysis with ROCE (Firm Financial Performance) as the dependent variable and four independent variables (BAGE, BGEN, BEDU, BETH), along with a constant term (C). Each variable's coefficient represents the estimated effect on ROCE, while the Std. Error shows the precision of the coefficient estimate. The t-Statistic and Prob. (probability) values test the statistical significance of each coefficient. The constant term (C) has a coefficient of 0.486 with a t-Statistic of 1.905 and a p-value (Prob.) of 0.0379, indicating that it is statistically significant at a 5% significance level, suggesting a positive influence on ROCE. Among the independent variables, BAGE has a coefficient of 0.149 with a t-Statistic of 1.367 and a p-value of 0.0172, indicating that it is statistically significant and positively associated with ROCE. BGEN, BEDU, and BETH do not show statistically significant relationships

with ROCE as their p-values (Prob.) are 0.9834, 0.0161, and 0.0464, respectively, suggesting that their impact on ROCE is not significant at the 5% level. The R-squared of 0.520 suggests that approximately 52% of the variation in ROCE can be explained by the independent variables, while the adjusted R-squared of 0.426 accounts for the model's complexity. The F-statistic of 1.277 with a Prob. value of 0.279 indicates that the overall model is not statistically significant at a 5% significance level. The regression results should be interpreted cautiously, and further analysis might be required to better understand the relationships between the independent variables and ROCE.

#### **4.3 Test of Hypothesis**

Based on the results from the regression analysis presented in the table, we can interpret the findings with respect to each hypothesis:

**Hypothesis 1:** "There is no significant relationship between board age and firm financial performance of quoted manufacturing industry in Nigeria."

The regression coefficient for BAGE is 0.149 with a t-Statistic of 1.367 and a p-value (Prob.) of 0.0172. Since the p-value is less than the significance level of 0.05, we reject the null hypothesis. Thus, there is a statistically significant relationship between board age and firm financial performance in the quoted manufacturing industry in Nigeria. The positive coefficient suggests that an increase in board age is associated with higher firm financial performance.

**Hypothesis 2:** "There is no significant relationship between board gender and firm financial performance of quoted manufacturing industry in Nigeria."

The regression coefficient for BGEN is -0.0016 with a t-Statistic of -0.0208 and a p-value (Prob.) of 0.9834. Since the p-value is much higher than the significance level of 0.05, we fail to reject the null hypothesis. Thus, there is no statistically significant relationship between board gender and firm financial performance in the quoted manufacturing industry in Nigeria. The coefficient being close to zero suggests that board gender does not have a meaningful impact on firm financial performance.

**Hypothesis 3:** "There is no significant relationship between board educational background and firm financial performance of quoted manufacturing industry in Nigeria."

The regression coefficient for BEDU is -0.119 with a t-Statistic of -1.405 and a p-value (Prob.) of 0.0161. Since the p-value is less than the significance level of 0.05, we reject the null hypothesis. Thus, there is a statistically significant relationship between board educational background and firm financial performance in the quoted manufacturing industry in Nigeria. The negative coefficient implies that a more diverse educational background among board directors is associated with lower firm financial performance.

**Hypothesis 4:** "There is no significant relationship between board ethnicity and firm financial performance of quoted manufacturing industry in Nigeria."

The regression coefficient for BETH is -0.068 with a t-Statistic of -0.731 and a p-

value (Prob.) of 0.0464. Since the p-value is slightly lower than the significance level of 0.05, we reject the null hypothesis. Thus, there is a weakly statistically significant relationship between board ethnicity and firm financial performance in the quoted manufacturing industry in Nigeria. The negative coefficient suggests that a more diverse board ethnicity might be associated with lower firm financial performance, although the effect size is small.

The regression analysis reveals that board age and board educational background have statistically significant relationships with firm financial performance in the quoted manufacturing industry in Nigeria. However, there is no statistically significant relationship between board gender and firm financial performance, and the relationship between board ethnicity and firm financial performance, although statistically significant, is weak. These findings provide valuable insights into the factors influencing firm financial performance in the manufacturing industry in Nigeria and should be taken into consideration by policymakers and stakeholders in the sector.

#### **4.4 Discussion of Findings**

**Hypothesis 1:** "There is no significant relationship between board age and firm financial performance of quoted manufacturing industry in Nigeria."

The findings reject this hypothesis as the regression analysis indicates a statistically significant relationship between board age and firm financial performance. The positive coefficient for board age suggests that an increase in the average age of board members is associated with higher firm financial performance. This result may

imply that a board with experienced and seasoned directors is better equipped to make strategic decisions and drive the company towards improved financial outcomes. The manufacturing industry in Nigeria might benefit from having a mix of both young and older directors on their boards to leverage the strengths and perspectives of both age groups for enhanced financial performance.

**Hypothesis 2:** "There is no significant relationship between board gender and firm financial performance of quoted manufacturing industry in Nigeria."

The findings support this hypothesis as the regression analysis shows no statistically significant relationship between board gender and firm financial performance. The coefficient for board gender is close to zero, indicating that the proportion of female directors on the board does not have a meaningful impact on the financial performance of manufacturing firms in Nigeria. However, it is essential to acknowledge that gender diversity on boards remains a crucial aspect for corporate governance and societal representation. Although the study does not find a direct link between board gender and financial performance, it is essential to promote gender diversity for improved decision-making and corporate governance practices.

**Hypothesis 3:** "There is no significant relationship between board educational background and firm financial performance of quoted manufacturing industry in Nigeria."

The findings reject this hypothesis, as the regression analysis reveals a statistically significant relationship between board educational background and firm financial

performance. The negative coefficient implies that a more diverse educational background among board directors is associated with lower firm financial performance. This result is somewhat surprising and may warrant further investigation. It is possible that a lack of alignment or communication among directors with diverse educational backgrounds might lead to challenges in decision-making and coordination, negatively impacting financial performance. However, it is essential to consider other factors that might influence this relationship, as educational diversity can also bring valuable perspectives and insights to the boardroom.

**Hypothesis 4:** "There is no significant relationship between board ethnicity and firm financial performance of quoted manufacturing industry in Nigeria."

The findings partially support this hypothesis, as the regression analysis identifies a weakly statistically significant relationship between board ethnicity and firm financial performance. The negative coefficient indicates that a more diverse board ethnicity might be associated with lower firm financial performance, although the effect size is small. This result should be interpreted cautiously, as it may be influenced by various contextual factors and should not be generalized without considering the specific circumstances of individual firms. It is essential for companies in the manufacturing industry in Nigeria to foster an inclusive and diverse board environment while also focusing on effective governance and strategic decision-making for sustainable financial performance.

The study's findings provide valuable insights into the relationships between board characteristics and firm financial performance in the manufacturing industry in

Nigeria. The results emphasize the significance of board age and the potential impact of board educational background on financial performance. While gender and ethnicity diversity on boards may not directly impact financial performance in this context, they remain critical elements for broader corporate governance and stakeholder representation. The findings suggest that companies in the manufacturing sector should strive to strike a balance between diverse board characteristics and effective decision-making to enhance their financial performance and long-term sustainability. Further research and consideration of additional factors can help deepen the understanding of these relationships and inform corporate governance practices in the Nigerian manufacturing industry.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary of Findings

1. Board Age (BAGE) has a statistically significant positive relationship with firm financial performance in the quoted manufacturing industry in Nigeria.
2. Board Gender (BGEN) does not have a statistically significant relationship with firm financial performance in the quoted manufacturing industry in Nigeria.
3. Board Educational Background (BEDU) has a statistically significant negative relationship with firm financial performance in the quoted manufacturing industry in Nigeria.
4. Board Ethnicity (BETH) shows a weakly statistically significant negative relationship with firm financial performance in the quoted manufacturing industry in Nigeria.

#### 5.2 Conclusion

In conclusion, this study sheds light on the relationships between board characteristics and firm financial performance in the quoted manufacturing industry in Nigeria. The findings provide valuable insights for policymakers, corporate leaders, and stakeholders. Firstly, the study reveals that board age has a statistically significant positive impact on firm financial performance. This suggests that boards with a mix of experienced and younger directors may be better equipped to make strategic decisions and steer companies towards improved financial outcomes. Secondly, while board gender

diversity is essential for broader corporate governance objectives, the study does not find a statistically significant relationship between board gender and financial performance.

Nevertheless, fostering gender diversity on boards remains crucial for enhancing decision-making and promoting inclusivity in corporate leadership. Thirdly, board educational background exhibits a statistically significant negative relationship with financial performance, indicating that a more diverse educational mix among board members might pose challenges in decision-making and coordination, leading to lower financial performance. Companies should strive to strike a balance between diverse educational backgrounds and the alignment of board members' skills with the company's strategic objectives.

Lastly, the study identifies a weakly statistically significant negative relationship between board ethnicity and financial performance. While this finding warrants further investigation, it emphasizes the importance of promoting an inclusive boardroom environment while considering other contextual factors that influence corporate performance. In conclusion, the study highlights the critical role of board composition in shaping firm financial performance in Nigeria's manufacturing industry. Policymakers and corporate leaders should consider these insights while formulating strategies to foster effective corporate governance and sustainable financial success. Additional research is encouraged to delve deeper into the complexities of board dynamics and their impact on corporate performance in the Nigerian manufacturing firm.

### **5.3 Recommendations**

The following recommendations are made:

1. Companies should aim to achieve a balanced mix of experienced and younger directors on boards to leverage diverse perspectives and experiences.
2. There is need to implement policies and practices to increase the representation of women on boards, fostering inclusivity and broader corporate governance objectives.
3. A careful assessment of the educational expertise of board members to ensure alignment with the company's strategic goals, optimizing decision-making capabilities.
4. There is need to cultivate an inclusive and respectful culture in boardrooms that values diverse perspectives and encourages open discussions.
5. Finally, the creation an inclusive environment that celebrates and leverages ethnic diversity for better decision-making and corporate performance.

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