

Board Characteristics and Market Value Added of Listed Service Firms in Nigeria

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Abstract

This study examined the relationship between board characteristics and market value added of listed service firms in Nigeria for a fourteen year period covering from 2008-2021. Board size, board gender diversity and board independence were used to proxy board characteristics, while market value added served as the dependent variable. In line with the objectives of the study, three hypotheses were formulated. *Ex-Post facto* research design was employed. Twelve (12) listed service firms constituted the sample size of this study. Secondary data were extracted from the annual reports and accounts of the sampled firms and were analysed using E-Views 10.0 statistical software. The study employed descriptive statistics and inferential statistics using Pearson correlation and Panel Least Square (PLS) regression analysis. Findings from the empirical analysis showed that there is a significant and positive relationship between board size and market value added ($\beta_1=0.472095$; $p\text{-value} = 0.0000<0.05$); a significant and positive relationship between board gender diversity and market value added ($\beta_2=0.854378$; $p\text{-value} = 0.0009<0.05$); a significant and positive relationship between board independence and market value added ($\beta_3=0.331410$; $p\text{-value} = 0.0000<0.05$) of listed service firms in Nigeria at 5% level of significance respectively. Conclusively, board characteristics significantly relate with and market value added of quoted service firms in Nigeria. It was recommended inter alia that considering the positive effect of board characteristics on market value added, it is suggested that company boards should have an independent majority which is more likely to consider the best interests of shareowners first, also is likely to foster independent decision-making and to mitigate conflicts of interest that may arise.

Keywords: Board Size, Board Gender Diversity, Board Independence, Market Value Added

Introduction

In today's globalized, dynamic and competitive business environment, corporate boards have become critical for the smooth operation of organizations. More than ever, boards are expected to perform not just the monitoring of management but provide strategic directions especially in times of crisis. In addition, the board is also charged with the responsibility of facilitating changes that support the mission of the organization. However, for the boards to

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execute their functions effectively there is a need for exclusive competency that contributes to the sustainability of the organization in the long run. Recent financial crises, economic collapses, accounting fraud, and failures have been the main catalyst fuelling the debate and prominence of corporate governance nowadays. Most of these corporate collapses involved giant corporations like; Enron, WorldCom, Parmalat, Arthur Andersen, Freddie Mac, HealthSouth and Tyco International. These collapses had adverse affects on share prices, capital markets and investors' confidence as investors lost huge amounts of their investments. The aftermath of these corporate scandals resulted to investors clamouring for enhanced mechanisms to enhance transparency and accountability of corporate executives. As a result, significant attention and pressure have been paid to the role of the board of directors in strengthening corporate governance practices.

Board of directors help shareholders and other stakeholders in implementing mechanisms which ensure the interest of shareholders and stakeholders are met (Okudo & Amahalu, 2023). This partly results from the separation of ownership and control functions and the ensuing agency problem which requires the board of directors to efficiently discharge their monitoring duties. The board of Director plays a crucial role in corporate governance especially with regard to board characteristics such as; composition, size, diversity, committee structure, the frequency of meetings, styles, structure, processes, activities and their relationship. Ejembi, Ijeoma, Amahalu and Obi (2022) further highlight the role of the board which encompasses, monitoring the activities of management, assuming an advisory and supportive role and ensuring the overall governance of the company by providing strategic direction to ensure organizational objectives are fulfilled. It is against these fundamental functions of the board that most board of directors is evaluated. A company's financial performance tells investors about its general well-being. It's a snapshot of its economic health and the job its management is doing, providing insight into the future: whether its operations and profits are on track to grow and the outlook for its stock. Monitoring financial performance therefore creates more certainty and confidence in making both short and long term decisions. This in turn leads to a healthier business and faster growth rate. It also allows a firm to outperform and outmaneuver competitors who fail in this regard. Market value added (MVA) is the amount of wealth that a company is able to create for its stakeholders since its foundation. It is the difference between the current market value of the company's stock and the initial capital that was invested in the company by both bondholders and stockholders (Okudo, Amahalu & Oshiole, 2023). Board characteristics are important to service firms in Nigeria because of a number of financial failures, frauds, and questionable business practices that had adversely affected investors' confidence. Therefore, given the importance of any board, it is vital to identify and assess their characteristics and its consequent effect on organisational performance.

The relation between the board and management is critical to an organisation's long-term success. However, where problems arise is when the different interests of the board and management are not defined. In Nigeria, a series of widely-publicized cases of accounting improprieties have been recorded (for example, Wema Bank, NAMPAC, Finbank and Spring Bank). Some of the reasons stated for these corporate failures are the lack of vigilant oversight functions by the board of directors, the board relinquishing control to corporate managers who pursue their own self-interests and the board being remiss in its accountability to stakeholders.

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As a result, various corporate governance reforms have specifically emphasized on appropriate changes to be made to the board of directors in terms of its composition, structure and ownership configuration (Amahalu & Okudo, 2023; Firmanti & Karmudiandri, 2020). Various studies conducted have failed to establish a definite relationship between board characteristics and financial performance. For example, Amahalu, Okoye and Nnadi (2023); Mititean (2022) found a positive relationship between corporate governance and financial performance, while Chukwu and Nwabochi (2019) reported the existence of a negative relationship between corporate governance and financial performance. In a similar vein, Okudo, & Ndubuisi (2021) showed a non-significant relationship between corporate governance and financial performance. The inconsistencies of findings from the reviewed literatures show that there is a gap in literature which this study tends to fill.

Objectives of the Study

The main objective of this study is to examine the relationship between board characteristics and market value added of quoted service firms in Nigeria. The specific objectives are to:

- i. Evaluate the relationship between board size and market value added of listed service firms in Nigeria
- ii. Determine the relationship between board gender diversity and market value added of listed service firms in Nigeria
- iii. Assess the relation between board independence and market value added of listed service firms in Nigeria

Research Hypotheses

Ho1: There is no significant relationship between board size and market value added of listed service firms in Nigeria

Ho2: There is no significant relationship between board gender diversity and market value added of listed service firms in Nigeria

Ho3: There is no significant relationship between board independence and market value added of listed service firms in Nigeria

Conceptual Review

Board Characteristics

Board characteristics is the concept derived from the attributes or incentives variable that plays a significant role in monitoring, controlling managers and can be described as a bridge between company management and shareholders (Modozie & Amahalu, 2022). To understand the role of the board, boards characteristics consist of a team of individuals, who combine their competencies and capabilities that collectively represent the pool of social capital for their firm that is contributed towards executing the governance function. Thus, the board characteristics means directors and managers in a vastly more complex environment, increasingly accountable to and influenced by multiple stakeholders and pressured from all sides for better reporting on corporate health and behaviors (Chukwuka, Okegbe, Amahalu & Obi, 2022; Emeka-Nwokeji, & Agubata, 2019). The ability of an organization to be able to withstand economic challenges and perform well is believed to be dependent on the unique attributes of its board of directors. The board is the supreme decision-making unit in the company, as the board of directors has the

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responsibility to safeguard and maximize shareholder's wealth, oversee firm performance, and assess managerial efficiency.

Board Size

Board size refers to the total number of directors on the board of each sample firm which is inclusive of the CEO and Chairman for each accounting year. This will include outside directors, executive directors and non-executive directors. Board size is the number of directors that make up the board (Okocha, Okoye, Amahalu & Obi, 2022). An optimal board size should include both the executive and non-executive directors. The effectiveness in structuring the board is important for governing the company. Board size has been found to vary between one country and another as every country has different cultures. This means that there has no optimal and standard board size among the companies in the world. According to a study by The Wall Street Journal, the smallest board size has an average of 9.5 board directors. Large boards are defined as those with 14 or more board directors. Overall, companies have an average of 11.2 board directors. While there is no set number of members for a corporate board, many pursuing diversity as well as cohesion settles on a range of 8 to 12 directors (Onyeka & Amahalu, 2022).

Board Gender Diversity

Board gender diversity is the proportion of female directors to the total number of directors on the board. Board gender diversity is a significant aspect of corporate governance; it is defined as the presence of female directors on the board of directors of corporations (Amahalu, Okoye, Obi & Iliemena, 2019). Gender diversity focuses on the percentage and number of women on boards. Board gender diversity means equal or balanced representation of people of different genders in the workplace or other contexts and/or organizations. The extent to which a person's gender identity, role, or expression differs from the cultural norms prescribed for people of a particular sex (Udo, Oraka & Amahalu, 2022).

Board Independence

An independent director is a member of a board of directors who does not have a material or pecuniary relationship with company or related persons, except sitting fees (Okudo, Amahalu Obi & Okafor, 2022). Board independence is the proportion of non-executive directors (NED) to the number of directors. Non-executive directors are not employees of the firm. They advise management on strategy and operations based on their professional experience. Modozie and Amahalu, (2022) define board independence as the proportion of independent non-executive directors to the number of directors on the board. Independent directors are engaged to supervise the activities of the executive directors and top management. They ensure that the interest of the directors does not conflict with that of the owners (shareholders). In addition, they are expected not to have material interest in the company, because this might influence their independent stance.

Market Value Added

Market Value Added (MVA) is the goodwill attributed by the market to the firm. It operates as a periodical metric measure. Market value added equals market value minus the invested investment. If MVA is positive, from the investor's viewpoint it means that the future expected

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results will be desirable (Sobhan, 2021). Market value added is the difference between the current market value of a firm and the capital contributed by investors. If MVA is positive, the firm has added value. If it is negative, the firm has destroyed value (Amahalu, Ezechukwu & Okudo, 2022). Market value added (MVA) is a calculation that shows the difference between the market value of a company and the capital contributed by all investors, both bondholders and shareholders. In other words, it is the market value of debt and equity minus all capital claims held against the company.

$MVA = \text{Market Value of Shares} - \text{Book Value of Shareholders' Equity}$

Board size and Financial Performance

It is argued that large board creates room for diversity in skills that can positively impact on the performance of the firm. Large board has access to wide-ranging information that is of benefit to the firm (Okudo, Amahalu, Obi & Okafor, 2022). On the contrary, it is argued that large board size can mean high remunerations to board members, which could impact negatively on performance (El-Diri, Lambrinoudakis & Alhadab, 2020). When board size is beyond the acceptable level of five (5), directors are likely to dwell more on trivialities thereby prolonging decision-making.

Board Gender Diversity and Financial Performance

The heterogeneity in terms of nationality is beneficial for the company as it gives a positive impact to the financial performance measures, while gender and education heterogeneity is proven otherwise. According to Amahalu and Okudo (2023), women on boards are linked to corporate social responsibility (CSR) and that CSR is linked to financial performance. However, in the mediation test, CSR appears to fully mediate the link between women on boards and financial performance. Increased board gender diversity has a positive impact on a firm's financial performance. It shows that increased female representation on the board can promote improved corporate governance which could be achieved through increased diversity in director experience and opinion. Oppositely, stock market react negatively to increases in board diversity because companies perform worse after they appoint female directors but companies are not any less profitable after appointing female directors to the board than they were prior to the appointment (Kyeré & Ausloos, 2021; Idris & Ousama, 2021).

Board independence and Financial Performance

Company boards should have an independent majority. An independent majority on the board is more likely to consider the best interests of shareowners first. It also is likely to foster independent decision-making and to mitigate conflicts of interest that may arise. Uribe-Bohorquez, Martinez-Ferrero and García-Sánchez (2018) showed that board's independence was not associated with earning management even though the proportion of independent directors on the board was one-third of the total majority. This means that even though the company had many independent directors on the board, it would not increase shareholders' return (Onyeozili, Okoye, Amahalu & Obi, 2022). However, there is a positive relationship between board independence and firm performance in non-family firms (Karem, Bayz, Hamad, Fatah, Ali, Ahmed, Gardi & Qader, 2022; Yahaya & Apochi, 2021).

Theoretical Framework

Agency Theory

Agency theory is an economic theory that views the firm as a set of contracts among self-interested individuals. An agency relationship is created when a person (the principal) authorizes another person (the agent) to act on his or her behalf. Agency theory was developed by Jensen and Meckling (1976). They suggested a theory of how the governance of a company is based on the conflicts of interest between the company's owners (shareholders), its managers and major providers of debt finance; the shareholders want to increase their income and wealth. Their interest is with the returns that the company will provide in the form of dividends, and also in the value of their shares; the managers are employed to run the company on behalf of the shareholders. However, if the managers do not own shares in the company, they have no direct interest in future returns for shareholders, or in the value of the shares. Managers have an employment contract and earn a salary; the major providers of debt have an interest in sound financial management by the company's managers, so that the company will be able to pay its debts in full and on time.

2.3 Empirical Review

Okon (2020) examined the relationship between board characteristics and company performance (measured by turnover) in Nigeria. The study used multiple regression technique on 90 sampled firms listed on the Nigerian Stock Exchange from 2010 to 2012. The study showed that board size and financial expertise are positively and significantly related to turnover.

EL-Maude, Jibreel, Bawa, Ahmed and Shamaki (2020) studied the effect of board size, board composition and board meetings on the financial performance of listed consumer goods in Nigeria over the period of ten years from 2006 to 2015. The study used ex-post facto research design and purposive sampling technique as research design and sampling technique. The data were analyzed by means of descriptive statistics, Correlation and Regression analysis using STATA (version 11). The regression result concluded that smaller board size are more effective than larger board size, good proportion of board composition is a good factor to enhance ROA.

Islam, Pervej and Lee (2022) scrutinized the impact of characteristics of board on the financial outcomes of firms IN Bangladesh. The study considered 28 non-bank institutions and secondary sources were used to collect data over a five-year period (2016-2020). To show the correlation of board characteristics and firm's performance in terms of return, regression analysis was conducted where board size, women members in BOD, number of board meetings, audit committee, female executives, board directors and number of independent directors were considered independent variables and Return on Assets (ROA) was taken as the dependent variable for the study. The analysis reflected that, except the number of Directors in the executive committee, no other independent variables have a significant impact on Return on Asset (ROA).

Methodology

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Ex-post facto research design was employed in this study. The population of this study consisted of the twenty three (23) service firms listed on the floor of the Nigerian Exchange (NGX) Group from 2008 to 31st December 2021. The service firms include: Afromedia Plc, Medview Airline Plc, R T Briscoe Plc, Red Star Express Plc, Trans-Nationwide Express Plc, Tantalizers Plc, Capital Hotel Plc, Ikeja Hotel Plc, Tourist Company of Nigeria Plc, Transcorp Hotels Plc, Daar Communications Plc, Academy Press Plc, Learn Africa Plc, Studio Press (Nig) Plc, University Press Plc, Associated Bus Company Plc, Eunisell Interlinked Plc, Secure Electronic Technology Plc, Caverton Offshore Support Grp Plc, C & I Leasing Plc, Global Spectrum Energy Services Plc, Nigerian Aviation Handling Company Plc, Skyway Aviation Handling Company Plc

Sample Size and Sampling Method

By employing purposive sampling technique, twelve (12) service firms were selected. The criteria for the sampled firms are; firms whose stocks are still reading on the floor of Nigeria Exchange (NGX) Group as at 31/12/ 2021, firms that were listed on Nigeria Exchange (NGX) as at 2008, firms that consistently filed their annual reports with NGX for the period of interest (2008-2021). The purposively 12 sampled firms include; Red Star Express Plc, Trans-Nationwide Express Plc, Tantalizers Plc, Capital Hotel Plc, Ikeja Hotel Plc, Tourist Company of Nigeria Plc, Academy Press Plc, Learn Africa Plc, Studio Press (Nig) Plc, University Press Plc, C & I Leasing Plc, Nigerian Aviation Handling Company Plc,

Source of Data

Primarily, this study made use of secondary data. The data were sourced from publications of the Nigerian Exchange (NGX) Group, fact books and the annual report and accounts of the sampled listed service firms.

Operationalisation of Variables

Table 1: Variable Description

Variable	Proxies	Acronym	Measurement
Independent Variable (Board Characteristics)			
	Board Size	BDSIZE	Logarithm of the total number of Directors
	Board Gender Diversity	BDGDV	$\frac{\text{Number of Female Directors}}{\text{Number of the Board of Directors}}$
	Board Independence	BDIND	$\frac{\text{Number of Independent Directors}}{\text{Number of the Board of Directors}}$
Dependent Variable			
	Market Value Added	MVA	Market Value of Shares – Book Value of Shareholders' Equity

Model Specification

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This study adapted and modified the model of Amahalu, Okoye, Obi and Iliemena (2019):

$$ROA_{it} = \beta_0 + \beta_1 BDSIZE_{it} + \beta_2 FORD_{it} + \beta_3 FDIR_{it} + e_{it}$$

Where:

ROA_{it} = Return on Assets of firm i at time t .

$FORD_{it}$ = Foreign Directors of firm i at time t .

$FDIR_{it}$ = Female Directors of firm i at time t .

e_{it} = the error term which account for other possible factors that could influence ROA that are not captured in the model

β = coefficient which represents the slope of variables

Thus, in line with the study objectives and following the adapted model, the following panel least square regression models was constructed:

$$MVA_{it} = \beta_0 + \beta_1 BDSIZE_{it} + \beta_2 BDGDV_{it} + \beta_3 BDIND_{it} + \mu_{it}$$

Where:

β_0 = Constant term (intercept)

β_{it} = Coefficients of Board Characteristics to be estimated for firm i in period t

μ_{it} = Error term/unexplained variable(s) of firm i in period t

MVA_{it} = Market value added of firm i in period t

$BDSIZE_{it}$ = Board Size of firm i in period t

$BDGDV_{it}$ = Board Gender Diversity of firm i in period t

$BDIND_{it}$ = Board Independence of firm i in period t

DATA PRESENTATION AND ANALYSIS

Table 2: Pearson Correlation Matrix

	MVA	BDSIZE	BDGDV	BDIND
MVA	1.0000			
BDSIZE	0.0204	1.0000		
BDGDV	0.2719	0.1144	1.0000	
BDIND	0.1160	-0.3358	0.4231	1.0000

Source: E-Views Correlation Output, 2023

The resultant output of the correlation in table 2 showed that there is a positive relationship between BDSIZE (0.0204), BDGDV (0.2719), BDIND (0.1160) and MVA.

Test of Hypotheses

H₀: There is no significant relationship between board size and market value added of listed service firms in Nigeria

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H₁: There is significant relationship between board size and market value added of listed service firms in Nigeria

H₀₂: There is no significant relationship between board gender diversity and market value added of listed service firms in Nigeria

H₂: There is significant relationship between board gender diversity and market value added of listed service firms in Nigeria

H₀₃: There is no significant relationship between board independence and market value added of listed service firms in Nigeria

H₃: There is significant relationship between board independence and market value added of listed service firms in Nigeria

Table 3: Panel Least Square Regression Analysis showing nexus between Board Characteristics and Market Value Added

Dependent Variable: MVA
Method: Panel Least Squares
Date: 02/10/23 Time: 14:58
Sample: 2008 2021
Periods included: 14
Cross-sections included: 12
Total panel (balanced) observations: 168

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.682677	0.060236	27.93468	0.0000
BDSIZE	0.472095	0.090971	5.189494	0.0000
BDGDV	0.854378	0.251840	3.392547	0.0009
BDIND	0.331410	0.047170	7.025890	0.0000
R-squared	0.580927	Mean dependent var		0.469176
Adjusted R-squared	0.564114	S.D. dependent var		0.145666
S.E. of regression	0.140919	Akaike info criterion		-1.057739
Sum squared resid	3.256746	Schwarz criterion		-0.983359
Log likelihood	92.85011	Hannan-Quinn criter.		-1.027552
F-statistic	34.81352	Durbin-Watson stat		1.548913
Prob(F-statistic)	0.000000			

Source: E-Views 10.0 Regression Output, 2023

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Interpretation of Panel Regression Result

In table 3, a panel least square regression analysis was conducted to examine the relationship between board characteristics and market value added. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 3 above, the value of adjusted R squared is 0.564114, an indication that there was variation of 56.41% on market value added due to changes in BDSIZE, BDGDV and BDIND. This shows that only 56.41% changes in market value added of service firms could be accounted for by BDSIZE, BDGDV and BDIND. The probability of the slope coefficients indicate that; $P(x_1= 0.0000 < 0.05; x_2= 0.0009 < 0.05; x_3= 0.0000 < 0.05)$. The co-efficient values of $\beta_1 = 0.472095$, $\beta_2 = 0.854378$ and $\beta_3 = 0.331410$ for BDSIZE, BDGDV and BDIND implies that MVA is positively related to BDSIZE, BDGDV and BDIND and however statistically significant at 5%:

$$MVA = 1.682677 + 0.472095BDSIZE + 0.854378BDGDV + 0.331410BDIND$$

The implication of this model is that a unit increase in BDSIZE, BDGDV and BDIND will exert 47.21%, 85.44% and 33.14% increase on MVA. The Durbin-Watson Statistic of 1.548913 suggests that the model does not contain serial correlation problem since the value of 1.548913 is less than 2.0 approximately. The F-statistic of the MVA regression is equal to 34.81352 and the associated F-statistic probability is equal to 0.000000 < 0.05 infers the rejection of the null hypothesis and the acceptance of the alternative hypothesis. As a result, there is linear relationship of MVA to the independent variables (BDSIZE, BDGDV and BDIND).

Decision

Since the result of the Prob(F-statistic) of 0.000000 is less than the critical value of 5% significance level, leading to the conclusion that that there is a significant relationship between board characteristics and market value added of listed service firms in Nigeria.

FINDINGS, CONCLUSION AND RECOMMENDATIONS

Findings

Based on the analysis of data, the following findings emerged:

- i. There is significant and positive relationship between board size and market value added of listed service firms in Nigeria at 5% level of significance ($\beta_1=0.472095$; p-value = 0.0000 <0.05).
- ii. There is significant and positive relationship between board gender diversity and market value added of listed service firms in Nigeria at 5% level of significance ($\beta_2=0.854378$; p-value = 0.0009 <0.05).
- iii. There is significant and positive relationship between board independence and market value added of listed service firms in Nigeria at 5% level of significance ($\beta_3=0.331410$; p-value = 0.0000 <0.05).

Conclusion

This study examined the relationship between board characteristics and market value added of listed service firms in Nigeria for a fourteen year period covering from 2008-2021. The

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independent variable (board characteristics) was proxied by board size, board gender diversity and board independence while market value added served as the dependent variable of the study. The study obtained data from annual reports and account and publications of the service from that operated during 2008-2021. With the aid of E-Views 10.0, Descriptive Statistics of this study was applied, while Inferential Statistics using Pearson correlation coefficient and Panel Least Square regression analysis were employed. Specifically, this study revealed that there is a significant and positive relationship between board size and market value added ($\beta_1=0.472095$; p-value = $0.0000<0.05$); a significant and positive relationship between board gender diversity and market value added ($\beta_2=0.854378$; p-value = $0.0009<0.05$); a significant and positive relationship between board independence and market value added ($\beta_3=0.331410$; p-value = $0.0000<0.05$) of listed service firms in Nigeria at 5% level of significance respectively. Conclusively, board characteristics significantly relate with and market value added of quoted service firms in Nigeria.

Recommendations

On the premise of these study findings, the following recommendations were made:

- i. A large board consisting between 11 to 18 directors should be encouraged. Since large boards size positively influences market value added and firm performance through effective monitoring and controlling.
- ii. Since gender-diverse board influences the market value added and quality of public disclosure through better monitoring which is likely to increase confidence and encourage ownership by uninformed investors, hence, there is need for more female directors on the Board.
- iii. Considering the positive effect of board independence on market value added, it is suggested that company boards should have an independent majority which is more likely to consider the best interests of shareowners first, also is likely to foster independent decision-making and to mitigate conflicts of interest that may arise.

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