Corporate Board Attributes and Financial Performance of Listed Building Materials Companies in Nigeria

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***Abstract*: - The study examines the impact of corporate board attributes and financial performance of listed building materials companies in Nigeria. The population of the study is made up of 12 listed building materials companies in Nigeria out of which 9 companies are selected to form the sample. The multivariate regression is used in analyzing the data. The findings of the study reveal that board size and board composition have negative and insignificant impact on financial performance. The study recommends that the number of directors in the board of these companies should not be more than twelve (12). It is also, recommended that the listed building materials companies in Nigeria should endeavor to increase the number of executive directors in the boards. These recommendations could be implemented by issuing an improved code of corporate governance by the central bank of Nigeria and Nigeria security and exchange commission.**

***Keywords:* Board Attributes, Financial Performance, Building Materials, Central Bank of Nigeria, Nigeria Security and Exchange Commission.**

I. INTRODUCTION

The corporate board attributes are important features of the board. Their nature and composition play significant roles in determining the efficiency and effectiveness of the board of directors. As an overseer, the board of directors is expected to make thorough scrutiny of company's strategies, policies and plans before approval. This function lies heavily on the independent directors because the non executive directors are appointed by the shareholders and are responsible to them.

Shareholders and other stakeholders need to know the size of the board which plays an important role in the performance of a firm. The size of the board shows the number of both executive and non executive members that constitute the board of directors. The board composition is the number of non executive directors when expressed as a proportion to total board membership. To buttress this argument, Sanda, Garba and Mikailu (2011) stress that a board of directors comprising of reasonable proportion of executive and non executive directors are more likely to be independent of management than one dominated by executive directors, and therefore more likely to protect the interests of other stakeholders.

Furthermore, one of the crucial indices that determine the profitability of a company is (ROA) which reveals the profit earned as a result of investment in assets of a firm. It shows how efficient management utilizes the available assets of a firm. The higher the (ROA) the more profitable a firm's business is. Similarly, Return on equity (ROE) indicates the gain of equity shareholders made on their investment (Ali & Nasir, 2014). It shows how efficient management utilizes the funds provided by the owners of a firm. The higher the return on equity the more profitable a firm's business is.

Several researches have been conducted worldwide on board attributes and financial performance. Most of the researches supported the idea of strengthening corporate governance issues such as reported in (Bathula 2008; Abidin, Kamal and Jusoff 2009;). None of the related researches conducted used financial performance of any subsector of manufacturing industry as dependent variable. Similarly, none of the related research used the period of the study of up to eleven (11) years.

The main objective of this research is to examine the impact of corporate board attributes (BSIZE, BCOM) on financial performance (ROA, ROE) of listed building materials companies in Nigeria.

The rest of the paper is organized as follows: section two covers literature review related to the subject matter, section three deals with methodology adopted. Results and discussion has been placed under section four while, conclusion and recommendations are presented in section 5.

II. LITERATURE REVIEW

2.1 The Concept of Board Attributes

The concept of board attributes deals with the conceptual aspect of the features of the board of directors as explained by different scholars such as Jensen (1993) who states that keeping board size small can help improve the performance of firms. When board of directors gets beyond seven or eight people, they are less likely to function effectively and it is easier for the CEO to control them.

According to Chamlou and Iskander (2000) the corporate board of directors exercises leadership, integrity and judgment in directing the corporation so as to achieve continuing prosperity and to act in the best interest of the business enterprise in a manner based on transparency, accountability and responsibility. It determines the corporation policies and strategies to achieve its purpose as well as implement its values in order to ensure that it survives and thrives. Similarly, Chamlou and Iskander, (2000) also, state that the corporate board of directors ensures accounting procedures and practices are being followed which protect the corporation assets and reputation. It monitors and evaluates the implementation of strategies, policies and business plans.

Independent directors bring value to a company in many ways beyond filling gaps in experience or expertise, and serving as resources for ideas, feedback and insight. They also serve as a network to the world outside of a company such as accessing outside resources in the like of customers, supplies, business regulators, financial markets and experience managers and employees (Dix, 2006).

The board of directors is accountable and responsible for overseeing the affairs of the company. It defines the company's strategic goals and ensures that its human and financial resources are effectively deployed toward attaining those goals. The board oversees and promotes effective performance of the management in order to protect and enhance shareholders values and to meet the company's obligations to its employees and other stakeholders. The board ensures that the company carries on its business in accordance with its articles and memorandum of association and in conformity with the laws of the country, observing the highest ethical standards and on an environmentally sustainable basis (SEC, 2011).

2.2 Review of Empirical Studies

In their study, Eisenberg, Sundgren and Wells (1998) examine the relationship between board size and financial performance of listed companies in Finland. Regression analysis, correlation and descriptive statistics have been used in analyzing the data. The study discloses a significant negative correlation between board size and ROA in a sample of small and medium size firms in Finland.

However, Raheja (2005) empirically disagree with these findings when investigating the ideal size of the board of directors in USA. He found that optimal board size and composition are the functions of directors' and firm's characteristics. The study also develops testable implications for the cross-sectional variations in the optimal board structure across firms. The findings of the research show that board size positively affect firm's performance.

Furthermore, Uadiale (2010) report similar findings which show that board size is significantly and positively related to firm's performance; suggesting that sizeable board members bring about different views and expertise in the board room and subsequently enhance firm's performance. However, a study conducted by Ghabayen (2012) discloses a negative relationship in respect of board size and firm's performance. The study examines the relationship between board mechanisms: audit committee size, audit committee composition, board size, board composition and firm performance. The study used the annual reports of listed companies in the year 2011 from samples of non-financial firms in the Saudi Market (Tadawul). The results of this study reveal that audit committee size, audit committee composition and board size have no effect on firm performance in the selected sample.

Similarly, Rashid, Zoysa, Lodh and Rudkin (2010) support the hypotheses which reveal that the independent directors cannot add value to the firm's financial performance in Bangledash. Menozzi, Urtiaga and Vannoni (2010) also went further to report that politically connected directors exert a positive and significant effect on employment, while they impact negatively on performance.

2.3 Theoretical Framework

2.3.1 Agency Theory

Agency relationship is a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are to maximize their utility, there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent (Jensen & Meckling, 1976).

In his paper, Grinyer (1995) argued that the main objective of the shareholders is to maximize personal wealth. Meanwhile, managers may have a wide range of economic and psychological needs such as power, reputation and higher salaries. This means that some decisions of managers are motivated by self-interest, which reduces the welfare of the principal. In other words, given their ability to run the company with little check on their activities by shareholders, managers may be tempted to place less emphasis on maximizing shareholder returns (profitability, share price and dividend payouts) and more on expanding the assets based, increasing turnover at the expense of profitability and paying themselves higher salaries. Another source of conflict is different time horizons, where the agent may be eager to take actions which have relatively short-run pay-offs in order to demonstrate success, whereas shareholder interests may be better served by longer-term actions (Evans & Weir, 1995).

2.3.2 Stakeholders Theory

Stakeholder theory is an extension of the agency theory where the decision maker (manager) is expected to pay attention to all interested groups. In his study, Freeman (1988) reveals that firms have stakeholders, that is, groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by firms' actions. The concept of stakeholders is a generalization of the notion of stockholders, who themselves have special claims on the firm. Just as stockholders have a right to demand certain actions by management, so do other stakeholders have a right to make claims.

According to Jensen (2001) Stakeholder theory is completely consistent with value maximization or value-seeking behavior, which implies that managers must pay attention to all constituencies that can affect the value of the firm. Stakeholder theory tells the decision-makers in this case, managers and boards of directors how to choose among multiple constituencies with competing and, in some cases, conflicting interests. Customers want low prices, high quality, and full service. Employees want high wages, high-quality working conditions, and fringe benefits, including vacations, medical benefits, and pensions. Suppliers of capital want low risk and high returns. Communities want high charitable contributions, social expenditures by companies to benefit the community at large, increase local investment, and stable employment.

Therefore, the agency theory provides that effective board attributes resolves conflict of interest between the managers and the shareholders. Stakeholder theory, which is an extension of the agency theory, takes into consideration not only the shareholders but other claimants that are been affected by the actions of the firm. Therefore, this paper is explained by these two theories as used by Yermack (1996); Bathula (2008); Abidin, Kamal and Jesuff (2009); Sanda, Garba and Mikailu (2011); Ghabayen (2012); Albert (2013); and Ali and Bin Nasir (2014).

III. METHODOLOGY OF THE STUDY

The population of this study comprises all the quoted companies in the building materials subsector in Nigerian stock exchange as at 31th December, 2015. The firms that report consistent financial statement during the period of (2005 to 2015) are eligible to be considered. Secondly, a firm must have been quoted without being delisted by the Nigeria stock exchange from 2005 to 2015. Three companies do not meet the criteria for selection into the sample of the study comprises: Dangote Cement PLC, Paints and Coating Manufacturers Nigeria PLC, Portland Paints and Products Nigeria PLC which were quoted in the Nigeria Stock Exchange in 2009 and 2010 respectively.

Table 3.1 the Population of the Study

S/N	Listed Firms	Date of Incorporation	Date of Listing
1	Ashaka Cement PLC	1974	1990
2	Dangote Cement PLC	1992	2010
3	Lafarge Africa PLC	1959	1979
4	Cement Company of Northern Nigeria PLC	1962	1993
5	Berger Paints PLC	1959	1974
6	CAP PLC	1965	1978
7	DN Meyer PLC	1960	1979
8	Portland Paints and Products Nig. PLC	1985	2009
9	Paints and Coating Manufacturers PLC	2001	2010
10	Premier Paints PLC	1982	1995
11	IPWA PLC	1961	1978
12	Africa Paints Nigeria PLC	1974	1996

Source: Generated by the Author from Nigeria Stock Exchange Fact Book, 2015

IV. RESULTS AND DISCUSSION

The data have been generated from secondary sources. The audited financial statement and the Nigeria stock exchange fact book have been used in extracting the relevant data.

The following model is used and the model has been slightly modified from the one used by (Sanda, Garba & Mikailu 2011; Thi Ho 2014; Müller *et al*. 2014). Other variables which affect financial performance of listed building materials companies that are not captured in this study are represented by an error term, μ. The functional relationship is defined thus:

$BA_{it} = f(BCOM, BSIZE, FS, AGE)_{it} + \mu_{it}$......................1

$FP_{it} = f(ROA, ROE)_{it} + \mu_{it}$………………………….......2

From these regression equations two models will be developed each to test the hypothesis.

$ROA_{i,t} = \beta0 + \beta2BSIZE_{i,t} + \beta3BCOM_{i,t} + \beta5AGE_{i,t} + \beta6FS_{i,t} + \mu_{it}$ ------------------------- 1

$ROE_{i,t} = \beta0 + \beta2BSIZE_{i,t} + \beta3BCOM_{i,t} + \beta5AGE_{i,t} + \beta6FS_{i,t} + \mu_{i,t}$------------------------2

Where,

ROA i,t is return on assets for firm i in year t.

ROE i,t is return on equity for firm i in year t.

β0 is the intercept of the regression model.

BSIZE i,t: Is board size which denotes as the total number of directors in the board for firm i in year t.

BCOM i,t: Is board composition which denotes number of non executive directors as a proportion to total number of directors for firm i in year t.

AGE i,t: Is age of the firm which denotes the date of listing for firm i in year t.

FS: Is firm size which denotes natural logarithm of firm assets for firm i in year t.

μ i,t: is the error term.

i = firm

t = year

4.1 Multivariate Regression Results of Model 1 and 2

Table 4.5 presents the multivariate regression results for dependent and explanatory variables of the study.

Table 4.1 Multivariate Regression Results of Model 1 and 2

EXPLANATORY VARIABLES	ROA				ROE	
	(Robust OLS)		FIXED EFFECT		(Robust OLS)	
	COEF.	P > [t]	COEF.	P>[t]	COEF.	P > [t]
BSIZE	-0.0165**	0.043	0.0266	0.385	-0.0176	0.206
BCOM	-0.9123***	0.000	-0.6884	0.165	-1.6868***	0.000
CONSTANT	0.1533	0.503	0.3798	0.512	1.1398	0.002
Rho	0.0000		0.0000		0.0000	
Sign	9.49				6.49	
F - value	0.214		0.0461		0.2755	
R^2	0.163				0.2282	
Ajd R^2						

Source: Annual Report and Account Data of Listed Nigeria Building Materials Companies legend: * p<.1; ** p<.05; *** p<.001. Indicate 10%, 5% and 1% significant level.

The results of the regression also reveal that BSIZE has negative and significant impact on ROA as given by the p – value of 0.043 and coefficient of -0.0165 and it has positive and insignificant relationship with ROA using the fixed effect regression as given by the p – value of 0.385 and coefficient of 0.0266. The board size also has negatively impact on ROE using OLS regression in model 2 as given by the p – value of 0.206 and coefficient of -0.0176. The results indicate that BSIZE has little influence on the financial performance of listed building materials companies in Nigeria.

The board composition has negative and significant impact on ROA using OLS regression in model 1 as given by the p – value 0.000 and coefficient of -0.9123 and it has negative impact on ROA using fixed effect as given by the p – value of 0.165 and coefficient of -0.6884. The board composition also has negative and significant impact on ROE using OLS regression in model 2 as given by the p – value of 0.000 and coefficient of -1.6868. This implies that the board composition does not play significant roles in influencing the financial performance of listed building materials companies in Nigeria.

V. CONCLUSION

There is a negative and significant impact between board size (BSIZE) and ROA. While a negative and insignificant impact exists between board sizes (BSIZE) and ROE. The negative and significant impact exist between board composition (BCOM) and ROA and ROE of listed building materials companies in Nigeria.

In order to avoid coordination difficulties and problem of communication that is common in large board of directors of public companies. It is recommended that the number of directors in the board of directors of listed building materials companies in Nigeria should not be more than twelve (12). Furthermore, to improve efficiency of the board of directors of listed building materials companies in Nigeria. The non executive directors should work alongside with the executive directors. It is therefore, recommended that the listed building materials companies in Nigeria should endeavor to increase the number of executive directors in their boards.

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