# Board composition and performance of listed firms in Nigeria: mediated and moderated model

**Mohammed Nuhu**
**Sa'ari Bin Ahmad**
School of Business Management
Universiti Utara Malaysia, Malaysia

**Keywords**
Corporate Governance, Board of Director, Board Independent, Board Diversity, Firm Performance, Professional Knowledge and Experience

**Abstract**

*This paper reviews a recent literature with regard to the relationship between board composition and performance of listed firms in Nigeria. To achieve the objective of the study, reviews of some prior empirical research on corporate governance, performance, and the theories were examined. The recent studies reveal that inconsistent findings were still found in the previous studies on the characteristics of corporate governance literature. Therefore, the need to measure the link between the board independent and performance will for a long time continue to remain an interesting study area. This paper, therefore, recommends that the researchers should try and avoid the mistake of the prior studies by over-reliance on the direct relationship between board independent and firm performance. The study also recommends the use of board professional knowledge and experience as a moderator and board diversity as a mediator to determine the nexus between the board composition and firm performance and to avoid the use of only one single theory of corporate governance mechanisms and firm performance. The use of primary survey based methodology on the causal effect of the relationship between board composition and the performance would be a key advantage in the area of CG.*

## 1.1 Introduction

The issue of corporate governance practices begins in the early 1990's in Europe when the performance of leading companies begins to witness a declining in their productivity. This has exposed many multinational organizations with a corruption, scandals, unprofessional conducts by the corporate managers and directors with a series of high-profile corporate malpractices, manipulation of financial statement and bankruptcies, notably in developed and emerging economies (Harvey Pamburai, Chamisa, Abdulla & Smith, 2015; Lawal, 2016). It has been suggested that the scandals at Enron, WorldCom, Qwest, Tyco and other corporate entities in the US resulted in a loss of more than USD 7 trillion of investors' funds (Global Issue, 2009; Lawal, 2012). The estimated value of the Lehman Brothers scandals and other giant corporate entities stood at USD 14.5 trillion (Global Issue, 2009; Lawal, 2012). Over the past 20 years and so, the US, UK, together with other developing, developed and emerging economy have initiated a series of legislative and investigations into what really went wrong and the ways forward to improve the corporate performance of various companies globally (Harvey et al, 2015; Rossi, Nerino & Capasso, 2015).

In Nigeria, attention has been given to the corporate governance practices since the collapse of notable leading industry and sectors. The investigation has shown that the collapse of high-profile firm is as a result of corruptions, reckless loan, unethical banking practices, including the inflation of revenue, the distortion and manipulation of financial statement, diversion of bank funds and granting of unsecured credit facilities without proper authorization, among others (Central bank of Nigeria 2011; Lawal, 2016; Sanusi, 2012).

Consequences, prior studies contended that the collapse of major corporate institutions is attributed the abuse of corporate governance practice (Avgouleas, 2008; Lawal, 2016). In modern practice, managers often pursued their interest rather than the interest of their owners (Berle & Means, 1932; Lawal, 2012). The above school of thought argued that every successful firm needs to

put in place a mechanism that will help in resolving agency problem that exists between the shareholders and managers. While other study contended that the board composition is seen as the most paramount important corporate governance mechanism that resolved the conflict of interest between principal and agent (Fama & Jensen, 1983; Johl et al, 2015). Therefore the issue of agency problems between principal and agent will for a long time remain a topic of debate (Lawal, 2016). Hence, the issue and the representative of the shareholder in the boardroom might be new but the issues and challenges it addresses are not (Lawal, 2012).

The objective of this paper is to investigate the relationship between board composition and firm performance. Therefore, a prior study has shown that one stream of researchers found that small board independent is a positive impact on firm performance, whereas another stream of the study found that there is no relationship while some study argues that CEO/director may lose the confidence since there are not trust between the owner and the manager. To reconcile the inconsistencies and inconclusive finding from previous studies, this paper intends to investigate the relationship between board composition and performance of listed firms in Nigeria supported by new theories and the new focus of methodological approach. This paper is divided into the following; introduction, company/organizational performance, and its measurement, corporate governance concept, the board of director, board composition, the relationship between board composition and performance, conclusion and recommendations.

### 2.1 Companies/Organizational Performance and its Measurement

Performance is measurable of qualitative or qualitative of every firm been it public or private (Ngulumbu, 2013). Performance has been considered as a terminology that is most recurring in the domain of firms, business, or industry. Every company's achievement was evaluated based on its financial performance and other factors such as credibility and existing standard of the companies that might have pursued in the quest for market dominance. Performance is outcomes, end results, and achievements of either negative or positive arising out of organizational activities (Guest, Michie, Conway & Sheehan, 2003 p.291). Hofer (1983), performance is contextual that associated with the miracle being studied. There are four critical challenges in assessing company performance: the situational nature of value creation, company performance on multiple dimensions, the understanding of performance depends upon the observer's perspective, and predictions on the ensuing performance impact the understanding of current values (Lawal, 2012). In addition, Lawal, 2016, said higher leverage gave an adverse light or signal about the performance of the company while Ehikioya (2014), see the optimistic relationship between the debt levels of the company and performance.

Yuan and Hua, (2015 p.604), contended the study of the area of efficiency of governance of listed firms, some scholars either generally made the financial performance or market performance as the measure of the efficiency of corporate governance or structure the corporate governance index to measure the efficiency of corporate governance. Ngulumbu (2013), mention that performance provides organizations with a technique to manage success and progress towards achieving objective or goals, defining the indicators of organizational performance. Therefore, knowing and having the knowledge of performance measurement is very important to every survival of any corporate companies.Ngulumbu (2013), performance Measurement is considered as a process of measuring the progress made towards achieving the performance goals. However, performance measurement is described as the quantification of the action's effectiveness and efficiency. It is the change of the complex reality of firm performance into a chronology of limited symbols or sign that are communicable and reported under the same or similar situations (Lebas, 1995).

### 3.1 Corporate Governance Concept

Corporate governance is a concept that represents the entire system by which companies are directed and controlled by a board (Cadbury Report, 1992). Therefore, in finance and management

terminology, corporate governance is to solve what is called the problem of the agency which exists between stockholders or shareholders and managers. Therefore, that is what corporate governance is intended to resolve in making sure investors get their investment back, given that somebody else (managers or agents) will make ensure that all the decisions making process about how their investment or their money have utilized (Akinkoye & Olasanmi, 2014; Lawal, 2012; Lawal, 2016). Good Corporate Governance promotes the efficient and effective use of the capital within the company or firms and their return on their capital or resources (Tai, 2015). Board of the director is seen as the backbone of corporate governance mechanisms where the success and outcome of every firm are determined (Lawal, 2016). Therefore, the next section discusses board of director and how it affects the composition of the board of director.

#### 3.1.1 Board of Director

The introduction of the board as part of a firm's governance equation is aimed at ensuring accountability and reducing the moral hazard associated with the delegation of authority. Shareholders relinquish some of their decision-making rights to the constituted board that is now responsible for making strategic choices in a way that protects the interests of the owners as well as possible (Lawal 2012). Lawal (2016), contended that the board of directors became a necessary variable in a firm's governance calculation because of the need to address the fundamental problem of corporate entities, the significant diffusion of ownership.

Many debates on corporate governance, in both academia and practice, have focused on the board of directors (Berghe & Levrau, 2004). Often regarded as the most significant constituency in firm governance, the corporate board plays an intermediary role that links the firm and its owners with those who provide professional management and other ancillary support services (Lawal, 2012). The board of directors shoulders the majority of a firm's management tasks (Filatotchev & Boyd, 2009). Apart from being saddled with the responsibility of stopping executive extremes, the board is the final or ultimate decision-making body through which the fate of the corporation is discussed and determined (Adjaoud *et al.,* 2007).

Because of the renewed focus on the internal governance of corporations, discussion on corporate governance has shifted to the functions of the board of directors (Ness *et al.,* 2010). The corporate board, as an internal mechanism, is expected to have a predetermined sense of purpose with clearly defined roles that facilitate the directors' effectiveness in carrying out their fiduciary responsibilities. Nicholson & Kiel (2004), argued that the role of the board varies across industries and countries and that a detailed understanding of these roles is critical in empirical studies on board structure. Therefore, corporate governance encompasses every aspect of running a corporate entity, which amongst other things includes the use of both internal board and external board mechanisms (Lawal, 2012; Nuhu & Ahmad, 2016). The use of internal mechanisms represented by the board of directors stands out. Today, any discussion of corporate governance without the incorporation of the board of directors would seem out of place (Nordberg, 2011).

Board of directors is considered as the main internal mechanism of CG which is designed to control management for dishonest behaviour tendency (Nuhu & Ahmad, 2016; Johl et al, 2015). Therefore, the effectiveness of every board of directors as shareholders' monitoring mechanism can only be effective and efficient if constituted with appropriate board composition (Lawal, 2016). Lawal (2012) argues that more than two decades of empirical study is yet to justify the above assumptions as inconsistency and inconclusive findings continue to dominate empirical studies on the relationship between board composition and organizational performance. The next section is the reviewed of the previous study of the board composition.

##### 3.1.1.1 Board Composition

Board composition is one of the major and importance internal corporate governance characteristic. Board composition has been acknowledged as one of the key elements of every board

effectiveness (Lawal, 2015; Tai, 2015). Board composition is even more pronounced in single-tier governance systems configured in such a manner that ensures the representation of both executive and non-executive members (Nuhu and Ahmad, 2016; Johl et al., 2015). The effectiveness of every board in determining and driven by its structural composition in terms of independence (Lawal, 2015). A board configuration involving both inside and outside directors who are experts with a high degree of external contacts is likely to contribute more positively to the board performance. Nuhu and Ahmad (2016) contended that NEDs' independence enables them to make meaningful contributions to discussions of board strategy and that they also have the potential to resist executive influence. Advocates of the strategic role have emphasized the need for boards to redirect attention towards active participation in strategic thinking (Lawal, 2016).

The extent to which boards of directors are able to exercise legitimate power in exercising their fiduciary functions depends on their composition (Nuhu & Ahmad, 2016).For the purpose of this study, board composition is defined in terms of the proportion of outsider and insider directors who make up the board. The insider members are nominated from within the management team, including the CEO. They are referred to as executive directors since they are simultaneously involved in the day-to-day operations of the firm, besides their directorship function. The outside members are known as NEDs due to their part-time status in the running of the firm. However, recent empirical studies and corporate governance guidelines have attempted to differentiate between two classes of non-executives, namely independent and dependent non-executives. Independent, non-executives are those directors who have no family or business ties with the CEO-led management team (Dalton et al., 1998). Lawal (2016) identified four key criteria for identifying directors who are dependent: being a current employee, being a past employee, maintaining any form of relationship (be it biological or material) and, above all, having been nominated onto the board by the incumbent CEO. Independent NEDs are detached from managerial influences due to having no business associations of material measure (Cadbury, 1992).Scholars have also fought against the idea of a balanced board consisting of an equal proportion of insiders and outsiders.

In Nigeria, the federal government, through its numerous agencies, has issued a series of code, guidelines, and laws aimed at instilling sanity and regulations in the manner in which business activities are conducted in the various sectors of the economy (Nuhu &Ahmad, 2016). Lawal (2016) there were various corporate regulatory frameworks put in place in Nigeria, from the CAMA (1990) to the BOFIA (1991), the Insurance Act 1997, the Pension Reform Act (PRA) 2004 and the Investment and Securities Act (ISA) 2007. Lawal said that each of these corporate laws is backed by government-owned agencies charged with the statutory responsibility of administering the Acts in the targeted sectors. These agencies share a common objective of ensuring that corporate activities are conducted within the boundaries of internationally acceptable standards and best practices. All the Nigeria regulatory agencies have their code of best practices that governing each of their sectors, these include the Nigeria security and exchange commission (SEC), Central Bank of Nigeria (CBN), the National Communication Commission (NCC), the National Insurance Commission (NAICOM), and the Pension Commission (PENCOM).

As a result, the corporate scandals of the 1990s, many of which affected entities covered by some of these corporate legislations, prompted the regulators to introduce a clear code of corporate governance, the first attempt being the SEC Code issued in 2003. To resolve the administrative bottlenecks in the implementation of corporate governance due to industry peculiarities, other regulatory bodies, such as the CBN code in 2006, NAICOM code in 2007 and PenCom code 2009 followed in the footsteps of the SEC by issuing codes that were industry specific. These specialized codes are somewhat similar, but the degree of compliance expected by the respective regulators differs significantly across the sectors. For instance, while the SEC and NAICOM codes are voluntary, the CBN and PenCom codes are mandatory for all companies regulated by these agencies.

The composition of the board for all the regulatory agencies in Nigeria is specified in their various codes of best practices (Marshall, 2015). For instance, the Nigerian SEC Code calls for a well-diversified and sufficient board that allows for mixed independence director on the board with a minimum of 1 independent director. The CBN code, recommends more non-executives with a minimum of 2 independent directors. While the NAICOM code suggested 40% non-executive with a minimum of 1 independent director. PENCOM code suggested equal ratio with a minimum of 1 independent director and NCC code recommend mixed non-executive with a minimum of 1 independent director. See table 1 below

Table 1: Summary of CG Code Recommendations in Nigeria

| **Some CG Mechanism** | **SEC Code** | **CBN Code** | **NAICOM Code** | **PENCOM Code** | **NCC Code** |
|---|---|---|---|---|---|
| **Auditors Body (local or Int'l** | Both | Int'l only | Both | Both | Both |
| **Separation of CEO from Chairman (CEO Duality)** | Yes (Separation) | Yes (Separation) | Yes (Separation) | Yes (Separation) | Yes (Separation) |
| Board Size | Minimum =5 | Maximum=20 | Min=7; Max=15 | No Limit | No Limit |
| **Board Terms/Tenures** | No Limit | Min=4years; Max=8years | No Limit | No Limit | No Limit |
| ***Composition of the Board*** | ***Mixed*** | ***More Non-Executives*** | ***Exec. Dir. < = 40%*** | ***Equal Ratio*** | ***Mixed*** |
| ***No. of Independent Directors*** | **≥1** | **≥ 2** | ***≥ 1*** | ***≥ 1*** | ***≥ 1*** |
| **Gender Diversity** | Nill | Nill | Nill | Nill | Mixed |
| **N0 of Committees** | Min=3 | Min=5 | Min=5 | Min=4 | Min=4 |
| **Code Compliance** | **Voluntary** | **Mandatory** | **Voluntary** | **Mandatory** | **Mandatory** |

**Sources:** Lawal, 2016; Marshall, 2015; SEC, 2014; NCC, 2015; CBN, 2014; NAICOM, 2008; PENCOM, 2011

In determining the appropriate composition of the director, non-executive directors and independent director that constitute corporate boardroom have become a critical issue that many pioneers of CG remain a topic of debate (Lawal, 2016; Nuhu & Ahmad, 2016). Therefore, the connection between board composition and firm performance will for a long time remain an area of debate. The next section discusses the controversial debate, inconsistent finding, and results of the previous empirical study on how the board composition influences firm performance.

**4.1 The Relationship between Board Composition and Firm Performance**

The discussions and debates on board composition in the recent study are mostly focused and tailor on whether to have an executive rather than non-executive; independent or non-independent directors; foreign independent director or local independent director dominated in the board structure both in public and private sectors. Arguments in favour of increased executive membership are rooted in the stewardship theory (Lawal, 2016). In support of the executive dominated board structure, Osterloh and Frey (2006), argued that one of the firm's key value drivers is the quality of the executive team in terms of its accrued competencies and understanding of the business. Similarly, Fama and Jenen (1983), and Adeyemi and Fagbemi (2015) argued that executives should be seen as a key player of survival of every organization being it public or private sector. Advocates of insider directorship have continued to argue for more executive freedom in handling the firm's strategic issues, as opposed to the excessive use of the board to limit the executive's role under the pretense of an agency problem. Lawal (2016) observed that executive directors on boards play a crucial role in decisions to appoint a new CEO. Therefore, reducing the number of executive

directors may well be counterproductive because there will be less knowledge sharing and guidance to shape the board decision processes (Nuhu & Ahmad, 2016).

The critical benefits a board derives, when granted access to relevant corporate information, are well documented in the corporate governance literature. Bhagat and Black (2000 p.34) in their analysis, offered some insight into the crucial position that executive directors occupy in a board setting. They observed that "inside directors are conflicted but well informed whilst independent directors are not conflicted but are relatively ignorant about the company". Lawal (2012) asserted that, while it is possible for the NEDs to be good monitors, the excessive use of this mechanism in firms' governance might jeopardize management's ability to take those initiatives that propel corporate success, especially when the stakes are high.

On the contrary, the case for an increased proportion of NEDs in the boardroom is particularly based on the agency theory, but also connected to some underlying principles of the resource dependency theory (Lawal, 2016; Johl, Kaur & Cooper, 2015; Fama& Jensen, 1983). From a resource dependency perspective, the supporters of non-executive directorships argue that the investing public usually rely on the presence of these categories of directors as a sign of firms' good governance and strong external networks, which provide the management team with the strategic resources required to run the corporation successfully (Lawal 2016; Johl et al., 2015). The magnitude of the role expected of the NEDs required that they possess certain unique skills and capabilities, which, amongst others, should include functional expertise, industry knowledge, high network density, mentoring and coaching skills and, above all, a high degree of intellectual independence (Salama & Zoubi, 2015).These prerequisite qualities, according to Kim (2007), determine the extent to which outside directors are able to champion the resource dependency efforts.

While from agency theory, NEDs are corporate umpires with a statutory obligation of neutrality during board discussions (Fama, 1980). Their presence on the board and during board-related activities helps subdue the executive exuberances and excessive behaviour resulting from managerial entrenchment (Adegbite, 2015; Lawal, 2016). Weisbach (1988 p.435) argued that "managerial entrenchment occurs when managers gain so much power that they are able to use the firm to further their own interests rather than the interests of the shareholders". With more emphasis placed on the strategic relevance of outside NEDs, many scholars and professionals have argued that the composition of a board plays an important role in the board's ability to carry out the monitoring function (Lawal 2016). The NEDs are regarded as the main drivers of corporate governance (Nuhu & Ahmad, 2016).Despite the perceived benefits associated with the position of being a NED, the degree to which these outsiders will remain independent has been the subject of discourse in the corporate governance literature. Critics have pointed to information asymmetry as a key constraint faced by outside directors, which largely limits their effectiveness on the boards.

Osterloh and Frey (2006) argued that the situation whereby independent, non-executives have to depend on the information provided by the CEO-led management team prior to making strategic decisions suppresses board monitoring momentum. Because the majority of the non-executives are busy directors, as defined in terms of the number of boards they sit on, it can be quite difficult for them to gain the highest level of business knowledge required to exercise their independent role across all of the sectors in which they are involved (Lawal, 2012). Chen et al. (2009) contended that outside directors' independence is often compromised because of their inherent lack of sufficient knowledge about the business in which their companies are involved. According to them, this limits the non-executives' ability to exert full autonomous power over the executives.

In a study of panel data consisting of 672 UK listed firms, Mura (2007) found that the fraction of NEDs on a board was significantly and positively associated with firm performance (i.e. *Tobin's q*) as estimated using the generalized method of moments (GMM) technique. However, the resultant level of significance for the same dataset disappears when measured in terms of the ratio of the stake that outside directors hold in the firm. This evidence, according to Mura (2007), points to the

strategic relevance of directors' independence in their board monitoring role. While independent outside directors are much more likely to be effective gatekeepers, the same cannot be said for grey directors such as institutional blockholders. Using a data sample of 184 firms drawn from a group of 200 of the largest UK companies listed on the London Stock Exchange (LSE) in 1995, O'Sullivan (2000) found a strong positive statistical correlation between a corporate board composition with a higher number of NEDs and the ownership of large external block holders. The study further subdivided the blockholders into two separate groups, namely institutional and non-institutional. The result showed that the highly significant association documented was influenced by non-institutional blockholders.

Rhoades et al. (2000) argued that board composition, in terms of the ratio of executive to NEDs, is determined by the nature of the environmental characteristics facing the firm. While increased executive participation is very relevant for firms operating in highly volatile circumstances, less volatile environmental conditions require increased non-executive involvement as a consequence of the increased need for executive monitoring. In a highly aggressive product market, competition is an external mechanism that checks managerial performance. Therefore, increasing the number of outside directors can only be detrimental to a firm's performance.

Randøy and Jenssen (2004) conducted an empirical investigation into a selected number of firms facing strict product market competition. They found that board independence was counterproductive to a firm's performance as measured by *Tobin's q* and ROE. They concluded that board composition should be a function of the external environmental forces facing a firm, particularly the nature and degree of market competition. Lending support to the stewardship theory, they argued that inside directors are more beneficial to a firm operating in a competitive product market.

While it is imperative to note that the case for increased non-executive representation on the corporate board has received more attention within academia and public practice, empirical evidence supporting claims that such an inclusion can engender improved firm performance remains relatively unclear (Jackling & Johl, 2009). Mixed results continued to dominate empirical studies on the effect of board composition on firm performance (Nuhu & Ahmad, 2016). One of the earliest studies on the role of non-executives in monitoring the CEO were conducted in the US by Weisbach (1988), who reported a high degree of association between the presence of outside NEDs on the board and CEO turnover, in contrast to boards dominated by insider directors. The research data were drawn from a sample of 495 companies listed on the NYSE for the four-year period between 1977 and 1980.

Perry and Shivdasani (2005) offered equally strong evidence with respect to the effectiveness of outside directors on the performance of specific board role. In a study based on a sample of 94 firms experiencing a decline in performance, they found that a corporate restructuring effort was associated with boards that had a high number of outside directors. They reported strong evidence suggesting that the firms that introduced a series of corporate reforms experienced successive performance improvement in the reference period (1992-1996), as reflected in their ROA. In another sectional study, Tanna et al. (2011), arrived at a similar conclusion on the importance of independent NEDs. They found that the share of outside directors on the boards of seventeen banks, studied over six years during the period prior to the banking crisis (2001-2006), was strongly associated with the banks' efficiency levels (technical, scale and allocative). Tanna et al. (2011) noted that the result was a re-affirmation of the cognitive value that NEDs bring to board discourse at the back of their experience and subject matter expertise.

Similarly, Harvey et al. (2015), found a strong significant relationship between the appointment of independent outside directors and firm performance as estimated by ROA, EVA & Tobin q. The data set used in their study consisted of 374 in South Africa. The equivocal findings of previous empirical evidence motivated Rhoades et al. (2000) to conduct a further meta-analysis of

existing studies, most specifically those that focused purely on the relationship between board composition and firm performance. The final sample of 37 filtered publications was taken from 57 published and unpublished examples of empirical evidence spanning from 1971 to 1994. Though the evidence could not be generalized due to the small size of the data set used, Rhoades et al. (2000) found a positive association between firm performance and board composition in terms of the share of NEDs. The direction of causality between the two variables was also found to vary across the different performance measures used. Positive results were also reported in other similar empirical studies linking NEDs with improved firm performance (Lawal, 2016; Johl et al., 2015).

Contrary to the above, however, negative results have been reported in some empirical examinations of the board composition effect. Bhagat and Black (2000) conducted an investigation into the long-term effect of board independence on firm performance using sample data comprising the 934 largest US public companies over an eleven-year period. Four separate accounting and market-value-based performance measures were employed: *Tobin's q*, ROA, stock price returns, and sales-to-assets ratio. While calls continue to grow for increased board independence, in terms of a greater representation of outside directors, their empirical results showed no evidence to suggest that firms benefit financially from such an inclusion.

In a study of the effect of outside directors on firm performance during the institutional transition, covering a sample size of 405 Chinese listed firms, Peng (2014) found that the performance measures used to play a critical role in the outcome of the relationship. While outside members on a board were significantly associated with firm performance as computed using the sales growth ratio, a non-material effect was found when ROE was employed. Peng (2014) observed that timing also played a critical role in the outcome of empirical investigations, since it takes time for the real impact of outsiders to be felt on a board, especially during institutional transitions.

Kim (2007) reported strong evidence suggesting that outside directors are linked to the provision of social capital to Korean firms; using the generalized least squares (GLS) approach. In a study of 473 firms listed on the Korean Stock Exchange between 1998 and 2003, Kim (2007) found that NEDs are influential in carrying out firm-specific tasks, such as resource co-optation and information sourcing. However, no significant relationship was recorded when firm market value measures (*Tobin's q*) were employed in the model after controlling for the effects of firm size, ownership concentration and the number of years listed on the stock exchange. The study concluded that the efficiency of NEDs was limited to the resource dependency function, beyond which their role was reduced to the fulfillment of the recommendations of corporate governance codes (Kim, 2007). Negative associations have been reported in several other studies evaluating the relationship between board composition and firm performance (Appuhami & Bhuyan, 2015; Ducassy & Montandrau, 2015; Ness et al., 2010).

In conclusion, while the current study recognizes the equivocal findings that continue to dominate corporate governance research on the relevance of independent NEDs (Jackling & Johl, 2009; Johl et al., 2015; Lawal, 2016; Kim, 2007), the assumption that the presence of these outside directors enhances board monitoring and vigilance remains popular amongst academia and professionals (Lawal, 2016). Particularly, Finegold et al. (2007), noted that, even if the empirical investigations have failed to offer the kind of consistent evidence expected, the inclusion of independent NEDs is likely to minimize any unethical conduct at the top management level.

Therefore, by investigating board composition, this study hopes to bring new approaches for researchers and regulators on the importance of board independent and firm performance. In addition, prior research has shown that one stream of researchers found that executive was more significance, effective and reliable than a non-executive director on firm performance, whereas another stream of researchers found that independent and non-independent are more significant, effective and reliable on firm performance than executive directors. To reconcile the inconsistencies and inconclusive findings from previous studies. This study hypothesizes as follows:

***Hypothesis 1:***
*There is a significant positive relationship between independent NED and the performance of listed firm in Nigeria.*

**5.1 Board Knowledge and Experience as a Moderator**

The recent studies have concentrated on the complexities of corporate governance and board duty required towards building trustworthiness with a specific end goal to execute their obligation (Molokwu et al, 2013). Consequently, the need to concentrate and focused on the characteristics of qualities of board members constituted and corporate managerial capacities, the assessment and evaluation of board composition, the executive, professional skills, expertise and qualifications, uprightness, integrity and experience board, issues of information/data provision, straightforwardness, transparency, knowledge and competence has become necessary.

Nicholson and Kiel (2004) contended that in the corporate context, an effective and efficient board composition is one that implements its commitment, role, and responsibilities. The absence of qualified board and corporate executive managers may negatively impact and influence the ability of the board to perform effectively, especially as the trends show that boards of directors have been exceptionally undermined by their shareholders in terms of appointments (Molokwu et al., 2013). However, one of the basic factors and considerations in appointing and hiring is to ensure a high quality, professional and knowledgeable board members that understand the company's core competencies to achieve its long-term performance.

Therefore, the professional knowledge and experience that board members and corporate executives should possess a qualification that has a direct impact on the corporate governance principles (Molokwu et al., 2013). Furthermore, boards of the director should be constituted to match their obligation and duties, they need to have the mandatory capabilities, knowledge, and expertise (Molokwu et al., 2013), which will yield and reflect on their ability to position the organization in the right directions. Molokwu et al. (2013) contended that directors' and executive managers' knowledge and experience in the strategic issues will influence the competitive position of the industry environment. The effectiveness of every board is determined by the competencies, knowledge and cognitive of individual directors on the board (Lawal, 2016).

The recent studies reveal that significant numbers of corporate managers and boards appointed by the shareholder in Nigeria context are configured and composed of family members, low-quality and inexperienced directors that lack pre-requisite knowledge of the organization (Lawal, 2016; Sanusi, 2012). The collapse and scandals of Africa Petroleum PLC, Oceanic bank PLC, Cadbury Nigeria PLC, among others have turned the public attention to the questions of the board of directors capabilities in Nigeria (Lawal, 2016). Lawal (2016), contended that the director's experience and knowledge of the corporate managers with high-quality of directors and the corporate board are the immediate key success to every corporate firm. Thus, the recent empirical studies on the direct relationship have yielded inconsistent outcomes ranging from positive to negative on the nexus of board composition and firm performance. Therefore, this study proposed board knowledge and experience as a moderator. This study hypothesizes as follows:

***Hypothesis 2:***
*Board Knowledge and Experience Moderates the relationship between board composition and the performance of listed firm in Nigeria.*

**6.1 Board Diversity as a Mediator**

Diversity entails having a board composed of directors not only from different cultural, ethnic, national, and other racial divides but also of competent, qualified and experienced individuals from diverse walks of life who bring to bear their versatility and external connections on the discourse and the workings of the board. Board diversity can be subdivided into demographic and cognitive characteristics. While board demographic features are easily recognizable, the

cognitive characteristics are not obvious (Erhardt et al., 2003).The importance of board diversity in corporate governance is concerned with whether the directors' gender diversity has a positive effect, specifically whether increasing the presence of foreign independent directors enhances the effectiveness of corporate boards in their expected roles. This aspect has resulted in two lines of argument, with one focused on ensuring corporate fair play and the other on the maximization of a firm's value (Lawal, 2012). The corporate fair-play argument focuses on "*equality*", while value maximization represents the "*business case*" for board diversity. Anchored in the stakeholder theory, advocates of corporate fairness argue in favour of the need to involve people of different races, sexes, and cultures in the board composition (Lawal, 2016).

Even though the documented literature on board diversity is very prevalent in the US, the crusade for equilibrium in, the board gender configuration is very much grounded in Europe, where definite actions have been taken on gender balance. Deloitte (2011) conducted a random review of female participation in boards of directors across some selected developed and emerging economies. The study showed some countries have made giant strides in the promotion of gender equality at the corporate board structure, specifically in the areas of legal reforms and governance codes. In Europe, in 2005, Norway led the field with the introduction of the first gender quota system at board composition. The country's Company Act provided for a maximum of up to 40 per cent representation of each gender on the boards of directors of public limited liability companies, with 2008 set as the target date for full compliance. In the Iberian Peninsula, Spain and Italy are leading the gender balance crusade with a 40 percent share required for both female and male directors in Spain, and 20 percent in Italy (Deloitte, 2011). While Belgium has a one-third ratio for board gender diversity, the Netherlands and France have both passed legislation on gender thresholds with effective dates of 2015 and 2016 respectively. In North America, no ratios had been specified in Deloitte's sample countries, namely the US and Canada. In the Asia Pacific region, out of the countries considered in Deloitte's study, Malaysia was the only country to have specified a requirement (30 percent) for gender representation on corporate board composition (Deloitte, 2011; Lawal, 2016).

In Africa, therefore, in terms of gender participation in board structure, the absolute numbers of female directors in private enterprises are virtually significant. The situation in South Africa female participation in corporate directing continues to grow, albeit at a slow pace. Even though the King's Code of 2009 makes no precise stipulation for a gender quota system, the directors' demography is mentioned as a consideration for board configuration (Nuhu &Ahmad, 2016). Of all the North African countries, Morocco seems to be making the most progress in the direction of gender balance in board composition. In Nigeria, no provision for gender consideration for board composition in the SEC Code, 2014.While some prior studies argued that only 11.7% of board members in Nigeria are women (Ogbonna, 2016). Research has shown that there is a positive correlation between women in senior corporate roles and a company's financial performance (Ogbonna, 2016). Hence, culture, stereotyping and the prevailing attitudes are one of the recent diversity that improve and shape attitudes and behaviour of every director, leadership and management roles, especially in Nigerian listed companies. Hofstede (2017) contended that Nigerian culture is said to be one of Indulgence. Therefore the individual diverse director's contribution as a mediator in the relationship between board composition/configurations on firm performance may play an important improvement on firm performance. This study hypothesizes as follows:

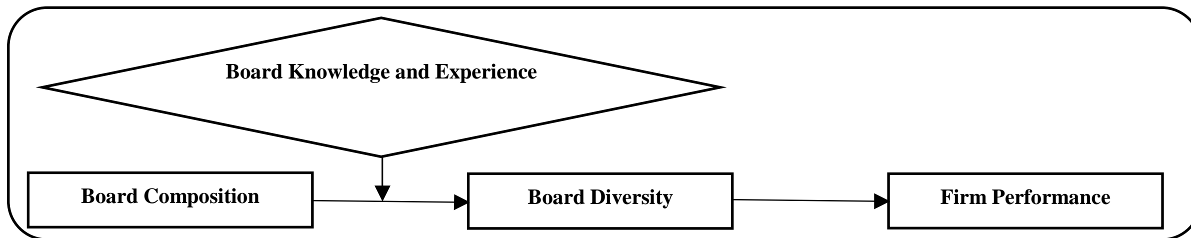
***Hypothesis 3:***

*Board Individual Diversity Mediates The relationship between Board Composition and the performance of listed firm in Nigeria.*

**7.1 Research Framework**

To validate and ascertains the above, board composition and firm performance, moderator (Board Knowledge and Experience) and mediator (Board Diversity) on board composition and firm performance, this paper, proposed a research framework based on an going project work, that also just for future empirical investigations specifically in the area of board structure that can improve performance in the listed firms in Nigeria. If below proposed framework is validated, the finding and the results will immensely provide a significant contribution to the policy maker, regulators, organizations, agencies, managers and to the literature.

**Figure: Framework**




**8.1 Discussions and Recommendations**

The discussion of the composition of the board of director in corporate governance research and how future studies can provide solutions will for a long time remain an interesting area of research. Prior studies on corporate governance have depended on one theory in discussing and debating the nexus of board composition and firm performance (Harvey et al., 2015; Johl et al., 2016; Lawal, 2016). The inconsistency on the previous study has made it unthinkable for a single theory to suit and flow current research (Nuhu & Ahmad, 2016).

The compositional approach has throughout the years' neglect to detect the authoritative role of board decision making as it influences corporate performance. The investigation of board skills, experience, knowledge, and competence, particularly those related directors' personalities which to some large degree determined the nature of discussing that goes ahead operating at a black box ought to be given need or priority (Lawal, 2016) which should be an interesting area for future research. Corporate governance studies have depended on particular methodology and firm performance measures and not considering the way that the circumstance which stimulates the utilization of such approach, in any case, has gone out of date. In this manner can't longer track the variable to be anticipated. The time is a good fit for the utilization of extended methodology that took into account cluster examination (Finegold et al., 2007; Lawal, 2016; Lawal, 2012). Advancement of performance measures as a new era of observational studies is starting to investigate another option of measuring corporate governance performance, for example, using the primary methodology and the use of "Structural Equation Modelling-SEM-AMOS and "Structural Equation Modelling-Partial Least Square (SEM-PLS) for analysis". These models have so far demonstrated a lot of guarantees (Nasiru et al., 2015; Hair et al., 2013). Partial least squares structural equation modeling is a rigorous application that give better results with a higher acceptance and long range planning researchers (Hair et al, 2013 p.12). Again, there is an urgent need for developing and emerging economies like Nigeria in driving force where there is a slight of observation or empirical studies. Over the previous year lack of the adequate and sufficient documented studies from Nigeria has without a doubt impair the policy makers in forging suitable reason for enhanced corporate governance especially in the area of internal board mechanisms. This paper contributes significantly in term of methodology, theoretical and practice. After validation of the above hypotheses, the findings will contribute significantly to the Nigeria listed firms, policy maker, the government, stakeholders and corporate governance researchers.

### 9.1 References


*Adegbite, E. (2015). Good corporate governance in Nigeria: Antecedents, propositions, and peculiarities. International Business Review, 24(2), 319-330.*

*Adeyemi, S. B., & Fagbemi, T. O. (2015). Audit quality, corporate governance and firm characteristics in Nigeria. International Journal of Business and Management, 5(5), 169-179.*

*Adjaoud, F., D. Zeghal and S. Andaleeb (2007), the effect of a board's quality on performance: a study of Canadian firms, Corporate Governance: An International Review, 15(4)623-635.*

*Akinkoye, E. Y., & Olasanmi, O. O. (2014). Corporate governance practice and level of compliance among firms in Nigeria: an Industry analysis. Journal of Business & Retail Management Research, 9(1).*

*Appuhami, R., & Bhuyan, M. (2015). Examining the influence of corporate governance on intellectual capital efficiency: Evidence from top service firms in Australia. Managerial Auditing Journal, 30(4/5), 347-372.*

*Avgouleas, E. (2008). Financial regulation, behaviour finance, and the financial credit crisis in search of a new regulatory model. Retrieved from http. papers. ssrn. com on, 24(11)*

*Berghe, L. A. and A. Levrau (2004), Evaluating boards of directors: what constitutes a good corporate board, Corporate Governance: An International Review, 12(4), 461-478.*

*Berle, A., & Means, G. (1932). The Modern Corporation and Private Property. New York, NY: Macmillan.*

*Bhagat, S, and B. Black (2000), Board Independence and Long-Term Firm Performance, Law and Economics Working Paper No. 143, New York: The Centre for Law and Economics Studies at CLS.*

*Cadbury, Sir Adrian (1992) Report of the Committee on the Financial Aspects of CorporateGovernance, London: Gee.*

*CBN (2011), on capitalization of eight Nigerian banks, Abuja: Central Bank of Nigeria.*

*Central Bank of Nigeria (2014), code of corporate governance for Banks in Nigeria post-consolidation*

*Central Bank of Nigeria (2015). Nigerian Battle against ''Bad Debts" The Central Bank of Nigeria (CBN)'s beginning from August 1. At the 322nd Bankers' Committee meeting in Abuja*

*Dalton, D.R., Daily, C.M., Ellstrand, A.E., & Johnson, J.L. (1998). Meta-analytic reviews of board composition, leadership structure, and financial performance. Strategic Management Journal, 19, 269-290.*

*Deloitte. (2011), Women in the Boardroom: A global perspective, Auckland: Deloitte Global Centre for Corporate Governance*

*Ducassy, I., & Montandrau, S. (2015). Corporate social performance, ownership structure, and corporate governance in France. Research in International Business and Finance, 34(C), 383-396*

*Ehikioya, B. I. (2014). Corporate governance structure and firm performance in developing economies : evidence from Nigeria. https://doi.org/10.1108/14720700910964307*

*Erhardt, N. L, J. D. Werbel and C.B. Shrader (2003). Board of director diversity and firm financial performance, Corporate Governance: An International Review,11(2),102-111.*

*Fama, E.F. and M.C. Jensen (1983). Separation of ownership and control, Journal of Law and Economics, 26(2), 301-325.*

*Filatotchev, I. and B. K. Boyd (2009). Taking stock of corporate governance research while looking to the future, Corporate Governance: An International Review, 17(3), 257-265.*

*Finegold, D., Benson, G.S., & Hecht, D. (2007). Corporate boards and company performance: a review of research in light of recent reforms. Corporate Governance: An International Review, 15(5), 865-878. http://dx.doi.org/10.1111/j.1467-8683.2007.00602.x*

*Global Issues (2009). Global Financial Crisis: Crisis in Context, http://www.globalissues.org. global-financial-crisis [accessed 25th October 2015]*

*Guest, D. E., Michie, J., Conway, N., & Sheehan, M. (2003). Human resource management and corporate performance in the UK. British journal of industrial relations, 41(2), 291-314.*

*Hair, J. F., Ringle, C. M., & Sarstedt, M. (2013). Partial least squares structural equation modeling: Rigorous applications, better results, and higher acceptance. Long Range Planning, 46(1-2), 1–12*

*Harvey Pamburai, H., Chamisa, E., Abdulla, C., & Smith, C. (2015). An analysis of corporate governance and company performance: a South African perspective. South African Journal of Accounting Research, (ahead-of-print), 1-17.*

*Hofer, C. W. (1983). ROVA: A new measure for assessing organizational performance. Advances in strategic management, 2, 43-55.*

*Hofstede, G. (2017).Comprehensive studies on national values, introducing the dimension concept. His most popular book, Cultures, and Organizations: Software of the Mind, has been translated into 20 different languages. Operated by item International.https://www.facebook.com/HOFSTEDEinsight/Friday, Feb 3, at 6:56pm*

*Jackling, B. and S. Johl (2009). Board structure and firm performance: evidence from India's top companies, Corporate Governance: An International Review, 17(4), 492-509.*

*Jensen W.H. and M. Meckling (1976). Theory of the firm: managerial behaviour, agency costs and ownership structure, Journal of Financial Economics, 3(4), 305-360.*

*Johl, S. K., Kaur, S., & Cooper, B. J. (2015). Board characteristics and firm performance: evidence from Malaysian public listed firms. Journal of Economics, Business, and Management, 3(2).*

*Kim, Y. (2007). The proportion and social capital of outside directors and their impacts on firm value: evidence from Korea, Corporate Governance: An International Review, 15(6), 1168-1176.*

*Lawal, B. (2012). Board dynamics and corporate performance: a review of the literature, and empirical Challenges. International Journal of Economics and Finance, 4(1), p22.*

*Lawal, B. (2016). Re: Duplication of corporate governance codes and the Dilemma of firms with dual regulatory jurisdictions. Corporate Governance: The International Journal of Business in Society, 16(3), 2–19. https://doi.org/10.1108/CG-08-2015-0115*

*Lebas, M. (1995). Oui, il faut définir la performance.Revue française de comptabilité,269, 66-71.*

*Marshall, B. J. (2015). Corporate Governance Practices : An Overview Of The Evolution Of Corporate Governance Codes In Nigeria, 3(3), 49–65.*

*Molokwu, V. B., Barreria, J., & Urban, B. (2013), entrepreneurial orientation and corporate governance structures at the firm level in the South African oil and gas industry. SA Journal of Human Resource Management, 11(1), 15-pages.*

*Mura, R. (2007), Firm performance: do non-executive directors have minds of their own? Evidence from UK panel data, Financial Management, 36(3), 81-112.*

*NAICON Code (2009). National Insurance Commission Code of Corporate Governance for Insurance Industry. www.naicomgovg.*

*Nasiru, A., Keat, O. Y., & Bhatti, M. A. (2015). Moderating Role of the Perception of University Support on the Relationship between Perceived Effective Entrepreneurship Education and Perceived Creativity Disposition on Entrepreneurial Intention. International Journal of Management Research and Reviews, 5(5), 302.*

*NCC Code. (2014). Nigeria National Communication Commission Code of Corporate Governance www.ncc.gov.ng*

*Ness, R. K., P. Miesing and J. Kang (2010). Board of director composition and financial performance in a Sarbanes-Oxley world, Academy of Business & Economics Journal, 10(5), 56-74.*

*Ngulumbu, O. M. (2013). Relationship Between Board Composition And Financial Performance Of Companies Listed At The Nairobi Securities Exchange. Unpublished, University of Nairobi.*

*Nicholson, G. J. and G.C. Kiel (2004). A framework for diagnosing board effectiveness, Corporate Governance: An International Review, 12(4), 442-460.*

*Nordberg, D. (2011), Corporate Governance and the Board. In S. Idowu, and C. Louche, Theory and Practice of Corporate Social Responsibility Verlag Berlin Heidelberg: Springer, pp. 39-53.*

*Nuhu, M. and Ahmad, B. S. (2016). Investigating the issues and challenges of corporate governance in Nigerian, A Peer Reviewed International Journal of Asian Academic Research Associates, 3(12), 93-122. www.asianacademicresearch.org*

*Nuhu, M. and Ahmad, B. S. (2016). The relationship between board size and performance of listed firms in Nigeria: mediated and moderated model, A Peer Reviewed International Journal of Asian Academic Research Associates, 3(12), 60-92. www.asianacademicresearch.org*

*Ogbonna, N. (2016). Title: Women in Nigeria make up 49 percent of the population, but only four percent of lawmakers. Is an LSE alumna and an LSE PfAL Fellow. She currently works for the United Nations Global Compact (UNGC) in New York. She blogs at ogbonnanwamaka.wordpress.com.*

*Osterloh, M. and B. S. Frey (2006), corporate governance for knowledge production: theoretical foundations and practical implications, Corporate Ownership and Control, 3(4), 163-172.*

*PenCom (2011), Code of Corporate Governance for Licensed Pension Operators, National Pension Commission, Abuja*

*Peng, M. W. (2014). Outside directors and firm performance during institutional transition, Strategic Management Journal, 25(5), 453-471*

*Perry, T. and A. Shivdasani (2005). Do boards affect performance? Evidence from corporate restructuring, Journal of Business, 78(4), 1403-1431*

*Rossi, M., Nerino, M., & Capasso, A. (2015). Corporate governance and financial performance of italian listed firms. The results of an empirical research. Corporate ownership & control, 628.*

*Salama, F. M., & Zoubi, T. A. (2015). Does effective monitoring by the board of directors affect the relationship between global diversification and financial leverage? Corporate ownership & control, 644.*

*Sanusi, L. S. (2012). Banking reform and its impact on the Nigerian economy. CBN Journal of Applied Statistics, 2(2), 115-122.*

*Securities and Exchange Commission. (2014). Code of Corporate Governance For Public Companies in Nigeria. October.*

*Tai, L. (2015). The Impact of Corporate Governance on the Efficiency and Financial Performance of GCC National Banks. Middle East Journal of Business, 10(1).*

*Tanna, S., F. Pasiouras and M. Nnadi (2011), the effect of board size and composition on the efficiency of UK banks, International Journal of the Economics of Business, 18(3), 441-462*

*Weisbach, M.S. (1988) outside directors and CEO turnover, Journal of Financial Economics, 20:431-461.*

*Yuan, G. X, and Hua, M. G. (2015). Analysis on the governance efficiency of forestry listed corporate governance. Journal of chemical and pharmaceutical research, 7(3):604-609*

*Zahra, S. and J. Pearce (1989). Boards of directors and financial performance: a review and integrative model, Journal of Management, 15(2), 291-334.*