

**BOARD SIZE AND FINANCIAL PERFORMANCE OF LISTED REAL ESTATE COMPANIES  
IN NIGERIAN****Abolo, Aseinimieyefori Pereowei Ph.D****Department of Accounting,****Ignatius Ajuru University of Education, Rumuolumeni Port Harcourt, Nigeria***Email: perestic@yahoo.com***ABSTRACT**

*This study examined the relationship between board size and financial performance of listed construction and real estate companies in Nigeria. The ex post facto research design was adopted for the study with a population of six (6) listed construction and real estate companies in Nigeria as listed by the Nigerian Exchange Group in 2022. Data were retrieved from the annual reports of the selected construction and real estate companies for the period 2017 to 2021. Multiple regression analysis was used to analyzed the data gathered with the aid of Stata12 statistical software. A negative and insignificant relationship between board independence and net profit margin. The study concluded that corporate governance has no significant relationship with financial performance of listed construction and real estate companies in Nigeria. The study recommended that audit committees of listed construction and real estate companies should be proactive in ensuring full compliance to corporate governance code 2018 for enhance financial performance. More financially literate board should be advocated for than the size of the board as this study revealed that board size has a positive but insignificant effect on financial performance. Finally, the independent directors should not only be increase but be made of directors that can provide necessary information to outsiders such as key stakeholders. As such, reducing the information asymmetry gap among insider and outsider.*

**Keywords: Board Size, Financial Performance, Real Estate, Corporate Governance**

**INTRODUCTION**

Financial performance is viewed as the efficient and effective use of resources by a firm for the achievement of corporate objectives resulting in the increase in share price, market share, profitability and meeting the hopes of numerous stakeholders (Ibrahim & Abdullahi, 2019). Chepkemoi (2013) opined that financial performance highlights the status of an organization's financial output, emanating from management decisions which are executed by the personnel in various departments. The firm's level of goal achievement in terms of shareholders wealth maximization is well articulated by the information presented in the financial statements (Chimaleni et al., 2015). Thus, financial performance is the outcome of many different activities undertaken by an organization (Obiero, 2016). Firms can achieve its goal and increase financial performance if there is in place a good corporate governance practice. Corporate organizations especially the construction and real estate companies are in dare need of good corporate governance mechanism to drive home its desired goal and objectives. However, lessons from the corporate collapses and losses in the last few decades have highlighted the role corporate governance practices can play in maintaining viable entities and in safeguarding stakeholders' interests. Most of the corporate failures that were recorded in industries in Nigerian are examples of the risks posed by corporate governance breakdowns. Also, big corporate scandals in USA during the years 2000 and 2001 (Enron, WorldCom and Tyco etc.) and rest of the world left deep scars on the corporate world. These scandals pushed regulatory authorities to bring laws against complains of corruption, frauds, deception and insider trading such as Sarbanes-Oxley Act (2002). It was proved that traditional governance structure could not stop expropriation of insiders and was a source of inefficiency. Due to these scandals' faith of the investors on capital market was shaken. As a result, regulatory

authorities around the world made it compulsory for corporate sector to comply with the code of best corporate governance practices to promote the transparency, accountability and fairness for all stakeholders.

Corporate governance is needed to align the interest of owner and managers. The key elements of corporate governance are a concern with the enhancement of corporate performance via the supervision, or monitoring, of management performance and ensuring the accountability of management to shareholders and another stakeholder base on the regulatory framework (Keasey & Wright, 1997; Arora & Bodhanwala, 2018). Good governance practices would possibly have a significant impact on company performance with strategic decisions and effective monitoring conducted by the board of directors. However, the problem lies with the lack of monitoring and enforcement of these systems, laws, rules, and regulations, as well as adopting improper processes precluding effective implementation of corporate governance (Donaldson, 2012; Mande et al., 2014). Therefore, legal and regulatory systems should include not only enacting rules and regulations, but also of setting up a mechanism for enforcing those rules and regulations, as well as should have good standards of supervision compliance to the rules and regulations.

### **Purpose of the Study**

1. Ascertain the relationship between board size and return on asset of listed real estate companies on the Nigerian Exchange Group.
2. Ascertain the relationship between board size and net profit margin of listed real estate companies on the Nigerian Exchange Group.

### **Research Questions**

The following research questions were raised:

1. What is the relationship between board size and return on asset of listed real estate companies on the Nigerian Exchange Group?
2. What is the relationship between board size and net profit margin of listed real estate companies on the Nigerian Exchange Group?

### **Research Hypotheses**

The following research hypotheses were formulated and tested in this study.

**Ho<sub>1</sub>** There is no significant relationship between board size and return on asset of listed real estate companies on the Nigerian Exchange Group.

**Ho<sub>2</sub>** There is no significant relationship between board size and net profit margin of listed real estate companies on the Nigerian Exchange Group.

### **Stewardship Theory**

The proponent of Stewardship theory is Donaldson and Davis (1989). Unlike the agency theory, the stewardship theory is based on a psychological and sociological approach. This theory maintains that the interest of governance executives as (stewards) are aligned with those of the organization and its owners (Albrecht et al., 2004). The stewardship theorists focus on structures that empowers and facilitate rather than monitor and control. They reject the highly individualistic model of agency theory that promotes a suspicious "Policeman's" attitude, which assumes that principals and agents have different interest and see the agents as essentially self-serving and self-centered. Thus, they also reject the view that principals need to invigilate the opportunistic agent by monitoring them and apply sanctions or incentives as means of control.

Stewardship theory takes an opposite prospective. It suggests that the agents are trustworthy and good stewards of the resources entrusted to them, which makes monitoring unnecessary (Donaldson & Davies, 1989). Since managers are not opportunistic and act in the interest of owners, they should also be given autonomy based on trust, and this reduces the cost of monitoring and controlling their behaviour. Donaldson and Davies (2004) observed that

organizational role holders are conceived as being motivated by the need to achieve and exercise responsibility and authority, to gain satisfaction through effectively performing essentially challenging work, and to gain recognition from peers and bosses. According to the stewardship theory, the behaviour of the steward collective because the steward seeks to achieve the organization's goal (financial performance). This in turn, benefits the principals through the positive effects of profits on dividends and share prices (Davies et al., 2007). Mangers believe that their interests are aligned with those of firm's owners.

Under this theory, directors, as well as managers are seen as stewards of the firm and thus likely to increase the shareholders wealth. Davies et al. (2007) assert that stewards gain greater satisfaction from achieving organizational goals than through pursuit of their own goals. This implies that, the attainment of organizational goals also satisfies the personal needs of the stewards. Thus, the stewardship theory considers that managers decisions are also influences by non-financial motives such as need for achievement and recognition, the intrinsic satisfaction of successful performance, and respect for authority and the work ethic. From the stewardship theory, a firm's financial performance is linked to the board having a majority of executive directors bearing in mind that these directors understand the business better than outside directors and can therefore make superior decision (Dara, 2011). Stewardship theory also argues that the effective control held by professional mangers empowers them to maximize the firm's performance and corporate profits. Consequently, boards that are dominated by executive directors are preferable because of their expertise and knowledge, access to essential information and commitment to the firm. Donaldson and Davies (2004) contend that the stewardship theory remains the theoretical foundation for better regulation and legislation in corporate governance.

However, there is strong opposition to the stewardship theory that managers will not always act in their own interest with those of shareholders. Choa and Tan (2007) argued that psychologically, a board's lack of non-executive directors may encourage fraud. This theory is relevant to this study as it portrays the agents as trustworthy and good stewards of the resources entrusted to them, which makes monitoring unnecessary and act in the interest of owners to achieve the organization's goal (financial performance). This in turn, benefits the principals through the positive effects of profits on dividends and share prices.

### **Board Size**

Board of directors play important role in implementing good corporate governance measures. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and ensure accountability of organizations to its owners and authorities. In corporations, the shareholders delegate decision rights to managers to act in the principal's best interest. This separation of ownership from control implies a loss of effective control by shareholders over managerial decisions. Partly as a result of this separation between the two parties, a system of corporate governance control is implemented to assist in aligning the incentives of managers with those of shareholders.

Board size denotes the total number of directors in a board who are in possession of voting rights. There are diverse findings toward board size. Some study revealed that large board size contributes positively in harnessing knowledge, opinions and quality proposals that would culminate in enhance financial performance (Lekgotho, 2018; Fratini & Tettamanzi, 2015) where others favoured a small size for efficient and timely resolution on issue (Zabri et al., 2015; Maune, 2017).

As a result of the subsequent faster information processing that occurs (via a larger board), board size is expected to influence the levels of disclosure by firms (Zahra et al., 2000). Furthermore, with a greater number of board directors, there is increased collective expertise and experience which results in the exchange of ideas and information that consequently results in greater levels of disclosure (Chen & Jaggi, 2000; Zahra et al., 2000). However, Jensen (1993) argues that board of directors become less important in terms of the level of disclosure since as board size grows,

the control over management decreases. Also, Yermack (1996) is of a different view as he asserts that "a large Board size is less efficient in use assets within the organization and therefore negatively related to the firm's value."

The corporate governance Code, 2018 does not prescribe a minimum or maximum board size. As recommended by the corporate governance Code 2018, "the effective discharge of the responsibilities of the Board and its committees is assured by an appropriate balance of skills and diversity (including experience and gender) without compromising competence, independence and integrity". In such well managed organizations, the interests of the Board and management are aligned with those of the shareholders and other stakeholder (Corporate Governance Code, 2018).

### **Financial Performance**

The concept of financial performance has been a topic of discussion among researcher and financial analysts alike. Financial performance principally reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time. It indicates how well an entity is utilizing its resources to maximize the shareholders wealth and profitability (Naz et al., 2016). In other words, it is a financial action used in order to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses. Its main purpose is to provide complete information to shareholders and stakeholders to encourage them in making decisions. It can be used to evaluate similar companies from the same industry or to compare industries in aggregation. Financial performance is the result of a firm's policies and operations in monetary terms. It is the result of many different activities undertaken by an organization (Rotich et al., 2015). The objective of measuring financial performance according to Ngui (2010) is to establish the maximum return on the capital employed in the business.

Financial performance of companies can be accessed through analysis of the financial statement. Analysis of financial statements can be used to measure the development and financial performance of a company in the past as well as the present which can also be used to estimate the company's financial condition so that it is used to know the weaknesses and opportunities that exist (Nufus & Awaluddin, 2019). Financial performance can be assessed with several analytical tools. According to Subramanyan and Wild (2014), as cited by Nufus et al. (2020), there are five important tools for financial analysis. These are:

Comparative financial statement analysis, carried out by examining the statement of financial position, income statement, or sequential cash flow statement from one period to the next period. Analysis of common-size financial statements (common financial statement analysis). In this analysis, the statement of financial position, total assets (or liabilities plus equity) are usually expressed as 100%. likewise, the sales value in the income statement.

Ratio analysis (ratio analysis). This is one of the most popular and widely used financial analyzes measures. Ratio analysis can reveal important relationships and be the basis of comparison in finding conditions and trends that are difficult to detect.

Cash flow analysis (cash flow analysis), mainly used as a tool to evaluate the source and use of funds.

Valuation is an important matter from various types of business analysis and financial statements. Valuations usually refer to the estimated intrinsic value of a company or its shares. the basis of valuation is the present value theory.

Although a complete evaluation of a firm's financial performance takes into account many other different kinds of measures but the most common performance measurement used in the field of finance and statistical inference is financial ratios (Naz et al., 2016).

Fahmi (2011) defines financial ratio analysis as an instrument used to analyze the company achievement which represents its various financial indicator and relation showing company financial changes or company operational achievement in the past. It is helpful to describe the operational pattern of the company as well as to describe the risk possibility and chances in

immediate company. It can also be seen as an internal analysis for the creditor and investor that are able to establish the policy of credit and investment in a company. Bauer et al. (2010) while studying the impact of corporate governance of Real Estate Investment Trusts (REIT) and their performance find that Corporate Governance Quotient Index (CGQ index) is neither related to REIT value measured through Tobins's Q nor to any of the three operating measures of performance, while REITs with greater property, plant and equipment show relationship between CGQ index and performance. In this study the financial ratios used are net profit margin (NPM), and return on asset (ROA).

## METHODOLOGY

The research design adopted for this study was the ex post facto res The population of this study comprised of six (6) listed real estate companies on the Nigeria Exchange Group in 2022. The instrument for data collection for this study was the financial report of selected listed real estate companies as obtained from the Nigerian Exchange Group for the period of 2017- 2021. The data for the study was analyzed using the descriptive and inferential statistics. The descriptive statistics assumed a univariate analysis which was used to show the distribution of the variables of study. The descriptive statistics used were the mean score, frequency distribution and standard deviation while. The inferential statistic used was Pearson correlation coefficient and multiple regression. The multiple regression was used to test the postulated null hypotheses on the relationship between human resource cost and financial performance at 0.05 level of significance computed with the aid of Stata12 software.

## Results

### Test of Hypothesis 1

**Ho<sub>1</sub>** There is no significant relationship between board size and return on asset of listed real estate companies on the Nigerian Exchange Group.

**Table 1:** Regression on the relationship between board size and return on asset.

Linear regression	Number of obs =	50
	F( 4, 45) =	1.57
	Prob > F	= 0.1995
	R-squared	= 0.1940
	Root MSE	= 8.6039

roa	Robust				
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
acom	-6.027827	2.948528	-2.04	0.047	-11.96647 - .0891877
bosz	2.033136	1.262023	1.61	0.114	-.5087085 4.574981
boid	-3.791156	2.299496	-1.65	0.106	-8.422578 .8402663
fsz	1.306463	1.111547	1.18	0.246	-.9323086 3.545234
_cons	10.21271	9.921832	1.03	0.309	-9.770889 30.1963

Source: output from STATA version 12

Table 1 above shows the regression result on board size and return on asset. The table revealed the existence of a positive but insignificant relationship between board size and return on asset of listed real estate companies on the Nigerian Exchange Group (p-value= 0.114). It means that a 1% increase in board size will bring about a 2.03% increase in return on asset all other variables held constant. Since the p-value of the independent variable is greater than 0.05, we

therefore accept the null hypothesis that "There is no significant relationship between board size and return on asset of listed real estate companies on the Nigerian Exchange Group."

### Test of Hypothesis 2

**Ho<sub>4</sub>** There is no significant relationship between board size and net profit margin of listed real estate companies on the Nigerian Exchange Group.

**Table 2:** Regression on the relationship between board size and net profit margin.

Linear regression	Number of obs =	50
	F( 4, 45) =	3.03
	Prob > F =	0.0268
	R-squared =	0.1578
	Root MSE =	144.48

npm	Robust				
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
acom	-83.97373	47.30315	-1.78	0.083	-179.2472 11.29969
bosz	29.44346	25.44465	1.16	0.253	-21.80469 80.69161
boid	-51.44933	39.22565	-1.31	0.196	-130.4539 27.55519
fsz	9.353201	13.39295	0.70	0.489	-17.62158 36.32798
_cons	265.9751	165.1865	1.61	0.114	-66.72758 598.6778

Source: output from STATA version 12

Table 2 above shows the regression result on board size and net profit margin. The table revealed the existence of a positive but insignificant relationship between board size and net profit margin of listed real estate companies on the Nigerian Exchange Group (p-value= 0.253). It means that a 1% increase in board size will bring about a 29.44% increase in net profit margin all other variables held constant. Since the p-value of the independent variable is greater than 0.05, we therefore accept the null hypothesis that "There is no significant relationship between board size and net profit margin of listed real estate companies on the Nigerian Exchange Group."

### Discussion pf Findings

#### Board size and return on asset of listed real estate companies on the Nigerian Exchange Group.

The study revealed the existence a positive but insignificant relationship between board size and return on asset of listed real estate companies on the Nigerian Exchange Group (p-value= 0.114). This finding is in line with the finding of Tunji et al. (2019) that revealed that board size has a positive and insignificant relationship with earnings quality. This finding is corroborated by the finding of Manukaji (2018) that concluded that board size is not effective in monitoring income smoothing in Nigeria deposit money banks. This finding is in disagreement with the finding of Musah and Adutwumwaa (2021) that revealed a positive and significant association between board size and ROA. it further disagrees with the work of Okoye et al. (2020) that concluded that board size, directors' equity, and firm size substantially affect Nigerian banks' financial performance.

#### Board size and net profit margin of listed real estate companies on the Nigerian Exchange Group.

The study revealed the existence of a positive but insignificant relationship between board size and net profit margin of listed real estate companies on the Nigerian Exchange Group (p-value=

0.253). This finding is in line with the finding of Joshua et al. (2019) that concluded that board size had a positive but insignificant relationship with performance. The finding implies that board size is not a determinant factor for enhancing financial performance of real estate companies.

On the other hand, the finding of this study contradicts the finding of Abdulazeez et al. (2016) that concluded that larger board size contributes positively and significantly to the financial performance of deposit money banks in Nigeria. Furthermore, this finding contradicts the finding of Akinleye et al. (2019) that concluded that board size and board activism exerted significant negative impact on return on asset, committee activism exerted insignificant impact.

## CONCLUSIONS

Corporate governance is needed to align the interest of owner and managers. The key elements of corporate governance are a concern with the enhancement of corporate performance via the supervision, or monitoring, of management performance and ensuring the accountability of management to shareholders and another stakeholder base on the regulatory framework (Keasey & Wright, 1997; Arora & Bodhanwala, 2018). Good governance practices would possibly have a significant impact on company performance with strategic decisions and effective monitoring conducted by the board of directors. From the literature reviewed and results of the analysis carried out, this study revealed that audit committee has a significant relationship with return on asset whereas it has an insignificant relationship with net profit margin. While board size and board independence have an insignificant relationship with financial performance (return on asset and net profit margin). Therefore, the study concluded that corporate governance has no significant relationship with financial performance of listed real estate companies in Nigeria.

## RECOMMENDATIONS

The following recommendations are made in respect to the findings of the study.

- i. More financially literate board should be advocated for than the size of the board as this study revealed that board size has a positive but insignificant effect on financial performance.
- ii. A mix of insiders and outsiders on the board and this should be on the basis of accessing the firm profile and roles of the expected directors before deciding on the issue of nonexecutive for enhance financial performance.
- iii. The non-executive directors in the board composition should be reviewed from time to time so as to ensure they are truly independent.
- iv. The independent directors should not only be increase but be made of directors that can provide necessary information to outsiders such as key stakeholders. As such, reducing the information asymmetry gap among insider and outsider.

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