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CORPORATE BOARD CHARACTERISTICS AND AGRICULTURAL FIRMS PERFORMANCE

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ABSTRACT

The wrong mentality of conflict of interest and having too much control or pocketing the shareholders and directors of a firm is causing serious problems in a firm and this has led to business failures. The board impairment, gender diversity and conflicting laws arising from the nature or structure of ownership are other causes of failures in board characteristics. Based on the findings, this study concludes that there is an insignificant effect of board characteristics on financial performance of listed agricultural firms in Nigeria. The study carefully recommends that listed firms in Nigeria should consider highly the need to admit more female board members to balance up the ratio of gender diversity. This will not only give credence to the contemporary propagation of gender equality but having more female members who are resourceful in risk evaluation will serve as a check to the possibility of bankruptcy and improve profitability.

Keywords: Board Characteristics, Financial Performance, Agricultural Firm

INTRODUCTION

There is lack of basic infrastructures, corporate frauds, tax evasion, inexperienced management, constant changes in government macro-economic and fiscal policies, communal and civil unrest in Nigeria. The major signs of poor corporate governance culture and the major global corporate tragedies have been shown to include poor management, fraud and insider abuse by management and board members, poor asset and liability management, and poor rules and monitoring (Abdullah et al., 2015).

Despite the significant impact of board characteristics on financial performance, firms continue to experience failures, especially due to conflicting interests between directors and shareholders. An exploration of the challenges that contribute to these failures indicates that incessant agency costs and problems contribute to poor financial performance in organizations. The agency theory reveals that the free-riding problem and coordination costs are the most prominent contributors of the challenges (Cao et al,, 2021).

The agency theory indicates that managers and employees may have self-interests, which may curtail the achievement of financial performance goals (Wanyama & Olweny, 2013). Accordingly, to avoid the agency problem, there is a need for strong boards with effective board characteristics to monitor the managers and employees. Notably, boards have significant influence on CEOs and managers. Accordingly, the superiority of the board may result in a negative or positive trajectory of financial performance. For instance, independent directors who are politically superior to CEOs or executive directors may play their oversight role effectively (Wang & Zhang, 2022). Accordingly, there a need for an optimal mix of board characteristics to prevent agency problems and enhance the financial performance of firms.

In Nigeria, limitations in board characteristics have resulted in the collapse of listed firms. One of the most notable financial tragedies was the fall of agricultural sector to be listed in Nigeria Exchange Group. Research indicated Agricultural sector is one of the sector that have the list firm listed in the Nigeria Exchange Group. However, despite the Capital Market Authority's efforts in revolutionizing corporate governance practices, there are still cases of corporate failures as manifested by the

failures of companies such as agricultural sector. As a result, the failures indicate that a majority of companies' board characteristics do not foster the delivery of shareholder value. Instead, some boards either fail in their oversight roles or play a direct role in the conflict of interest between shareholders and their agents (Gatehi &vNasieku, 2022). Unfortunately, the failures of the boards result from ownership concentration, where a majority of firms are controlled by the higher ownership categories. As a result, block shareholders have greater incentives at low costs to control and monitor the management, which affects companies negatively. At the Nigeria Exchange Group, a majority of firms are owned by block shareholders, who own more than 25% of their companies' equity (Mulinge, 2008). Consequently, higher ownership concentration undermines corporate governance, because of ineffective board characteristics such the lack of board independence and diversity, which affect financial performance negatively.

Corporate Board Characteristics

Corporate board characteristics transmit and transcend every attribute and feature of a firm's board that permits the successful and efficient pursuit or full realization of the interests of the various stakeholders. The efficiency or effectiveness of the board is evaluated using both quantitative and intangible variables. The quantitative variables include board size, board independence, board shareholdings, board frequency of meetings, board gender diversity, and board membership competence. On the other hand, the qualitative or intangible variables include quality decisions, production of positive values, etc. (Kamaludi et al., 2020). A company's board of directors is made up of directors appointed by the shareholders to oversee the firm's assets and accomplish its objectives. Lin et al (2015) believe that this contract is comparable to an agency contract because the investors are the principals who hire the directors to make decisions in their best interests. The purpose of the investors is to maximize profit while equally ensuring the company's continued existence.

According to Abimbola et al (2022), Board characteristics normally concerns issues related to board independence (including independence of board committees) and diversity (firm and industry experience, functional backgrounds, etc.) of board members. Board independence refers to a corporate board that has a majority of independent outside directors. Board diversity in terms of gender and age and board independence is of the prime focus on this research proposal. Barlaw (2017) stated that firms might not have an effective board if your board approves every item on the agenda at every meeting with little or no discussion. Board work get off to good start when everyone around the board table agree that their work drives the organization's visions and missions. When directors all work towards the same end, their work can be highly effective with all the right tools and structures in place. In the context of one-tier board system, the board of directors consist of executive directors who are in charge of the operational running of the company and the non-executive directors who run the monitoring function and are not involved in the company operations. In two-tier board system the executive director's role is run by the board of directors, while the nonexecutive director's role/function is held by the board of commissioners (two-tier board system). The board of commissioners generally represents the shareholders of the company. The board of commissioners has two main functions; monitoring function that can be related to agency theory; and providing resources function that can be related to resource dependence theory. These two theories remain relevant theories that underpinned this current study (Kiliç & Kuzey, 2016).

Financial Performance

Financial performance is a measure of how well or poorly an entity is putting its resources into use. It measures the level at which financial objectives are being met. It measures the efficiency applied by a firm in the use of its assets to create profits. There are two main reasons for the widespread use of financial performance measure as a tool to measure performance. The first reason being that profit articulates directly with the organisation's long-term objectives which are almost always purely financial. The second reason is that properly chosen financial performance measures provide an

aggregate view of an organisation's performance (Fakile & Adigbole, 2019). These results are reflected in the firms' Return on Equity, Return on Assets and Earnings per Share. Among other financial measures, ROE is a more superior measure on profitability and good indicator of corporate health since it indicates how well the management is doing as it shows how much profit each naira of common stockholders' equity generates (Agyei-Mensah, 2018).

Financial performance is reflected in a company's ability to generate revenue to sustain its operations. Naz et al (2016) indicated that financial performance highlights a business entity's outcomes and results that reflect a firm's overall financial health over time. Mirza and Javed (2013) opined that financial performance is crucial to investors, shareholders and the economy because it highlights the efficiency of the board and the firm's economic well-being. In this regard, it is one of the principle indicators of a firm's performance because of its direct contribution to the increment of shareholders' wealth. In this regard, it is important to measure the financial performance of listed companies to discern the effectiveness of their boards' characteristics. However, the most critical aspect of financial performance is its measurement. Due to the variances in every firm's operations, management styles, board, and objectives, companies have differing approaches to the measurement of financial performance.

Bayaraa (2017) categorized the financial measurement strategies into the measure of liquidity and profitability using growth as an explanatory variable. Accordingly, ratios such as return on assets (ROA), return on sales (ROS), return on investment (ROI), and return on equity (ROE) are the most suitable measures of the financial performance of a firm. Specifically, Naz et al (2016) confirm Bayaraa's conclusions that one of the most effective techniques for measuring financial performance is the use of return on investment (ROI). Bayaraa (2017) indicated that there are numerous approaches to the measurement of financial performance including the calculation of ratios and the evaluation of explanatory variables. ROI measures the amount produced on a company's wealth and is expressed as a percentage. Accordingly, it shows a firm's financial efficiency and performance (Naz et al, 2016). However, Waddock and Graves (1997) argue for the use of return on equity (ROE) as a pertinent metric for quantifying financial performance. The authors indicate that analysts calculate the return on equity by dividing the net income by the total shareholders' equity. Accordingly, ROE is the most apposite measure of financial performance when assessing the effect of board characteristics on financial performance because of its influence on shareholders' value.

Empirical Review

Abimbola et al (2022) examined the effect of board composition on the financial performance of listed commercial banks in Nigeria. The variables representing board composition are CEO duality, board gender, board size. Return on asset represents the dependent variable (financial performance of listed commercial banks). The study covered from 2016 – 2020 and employed multiple regression technique with the help of SPSS in analyzing the secondary data collected. The study found out that board size has a negative effect on financial performance. The CEO duality has no significant effect on the financial performance of the commercial bank.

Augustine and Juliet (2022) explored the influence of corporate board attributes on the financial performance of conglomerates in Nigeria. Board Size, Board Independence, Board Committees, Board Meetings, and Board Shareholdings served as indicators of board characteristics, while financial performance was measured by Return on Assets (ROA). As a consequence of the 10-year study period from 2011 to 2020, a sample of five quoted conglomerates was selected. Secondary data were obtained from the annual reports of the selected conglomerates using an ex-post facto research design. The regression method employed was panel data regression. The findings demonstrate that the size, independence, and stock holdings of the board and audit committee had a considerable effect on the financial performance of conglomerates in Nigeria. However, board meetings did not show any significant influence on the financial performance of Conglomerates in

Nigeria. The study recommends reasonable synergy between board members and owners to maintain a reasonable board size, accountability, transparency, and teamwork in order to sustain board independence as an instrument or influence on the financial performance of conglomerates in Nigeria.
Benvolio and Ironkwe (2022) examined the board composition and firm performance of quoted commercial banks in Nigeria. Data was collected from the annual financial reports of all the fourteen quoted commercial banks in Nigeria. Ordinary least square regression analysis, descriptive statistics, Hausman specification test was employed to test the data collected. The result of the study showed that board composition is significantly related to the firm performance.
Aigbovorhiuwa et al (2022) examined board characteristics and firm performance of Quoted Insurance companies in Nigeria for the period of 2012 – 2020. The study employ correlational research design and adopts a dual model approach by the use of two firm performance variables, Return on assets (ROA) and Tobin's Q. Board size, independence, gender and nationality diversity are the variables representing board characteristics. The study analyzes data collected using descriptive statistics, correlation matrix and random effect panel regression technique. The result of the findings shows that board size, independence, gender and nationality diversity has no significant on ROA. The result also shows that board size has a significant negative impact on Tobin's Q measure of performance, board independence and gender diversity have a significant positive effects on the Tobin's Q.
Tleubaye et al (2020) investigated corporate governance and firm performance within the Russian agri-food sector. The study used unique panel data from 203 companies between 2012 and 2017. The study used a random effect model to analyze the data and the found out that directors independence has a significant effect on the firm's financial performance.

Babatunde and Folorunsho (2020) studied the board characteristics and firm's financial performance in Nigeria. Board characteristics were represented by the following variables Board size, board diligence and board diversity. The firm's performance was represented by Earning per Share. The study covered ten-year period (2009 – 2018). The study employed the pooled ordinary least square (OLS) and generalized least square method of regression techniques in analyzing the data obtained from secondary source of published annual reports and accounts of 35 selected listed companies on the Nigerian Stock Exchange. The study found out that board size and board diligence have impact on the performance of quoted companies in Nigeria while board independence and gender diversity do not have effect on the performance of quoted firms in Nigeria.

Omoniyi and Abayomi (2020) examined the effect of board characteristics and firm performance of listed non-financial firm in Nigeria. They used board size, board independence, board diversity as variables representing board characteristics. The secondary data obtained from the annual reports of selected firm was analyzed using correlation and regression analysis with the help of E-view econometrics package. The result showed that board size has positive but statistical insignificant relationship with firm performance, Board independence has positive and statistically significant effect on firm's performance, Board diversity has positive and statistically significant effect on firm's performance.

Stakeholders Theory
The stakeholders' theory was embedded in the management discipline in 1970 and gradually developed by Freeman incorporating corporate accountability to a broad range of stakeholders. Freeman (2010) argued that stakeholder theory derived from a combination of the sociological and organizational disciplines. The researchers felt that the agency and resource dependency theories cannot suffice because of their emphasis on organisation as fragmented and closed social units independent of external forces.

To provide voice and ownership-like incentives to critical stakeholders, Porter (1992) recommended the stakeholders theory to US policy makers so as to encourage long-term employee ownership and encourage board representation by significant customers, suppliers, financial advisers, employees, and community representatives. He also recommended that corporations seek long-term owners and give them a direct voice in governance (i.e., relationship investors) and to nominate significant owners, customers, suppliers, employees, and community representatives to the board of directors.

The only meaningful way to study an organisation is to regard it as a system. According to Mitchell et al (2015) organisation is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. He further states that the purpose of the organisation is to create wealth or value for its stakeholders by converting their stakes into goods and services.

The stakeholder theory holds that corporations are social entities that affect the welfare of many stakeholders where stakeholders are groups or individuals that interact with a firm and that affect or are affected by the achievement of the firm’s objectives (Donaldson & Preston, 1995; Freeman, 2010). They further stated that the key to achieving this is to enhance the voice of and provide ownership like incentives to those participants in the firm who contribute or control critical, specialized inputs (organisation specific human capital) and to align the interests of these critical stakeholders with the interests of independent, passive shareholders. According to Mulili (2011), successful organisations are judged by their ability to add value for all their stakeholders. Some scholars, such as Starik and Rands (1995), consider the natural environment as a key stakeholder. Further, the ability to successfully interact with the external environment, in line with the resource dependency theory, can be a source of competitive advantage for a firm (Okpara, 2011). Mackenzie (2014) noted a corporation adopts a reactive approach when it does not integrate stakeholders into its corporate decision-making processes, and this results in a misalignment of organisational goals and stakeholder demands. Some authors attribute scandals such as those of Enron and WorldCom to the failure to consider stakeholder concerns in decision making (Curral, et al, 2014; Watkins, 2003; Zandstra, 2012). A proactive approach is used by corporations that integrate stakeholder concerns into their decision-making processes; such corporations also establish necessary governance structures.

CONCLUSIONS

This research work assessed board characteristics and financial performance of listed agricultural firms in Nigeria. In agreement with prior evidence from developed countries that show significant linkage between board characteristics and financial performance, our study concluded that.firm size has insignificant effect on controlling the relationship between board characteristics and financial performance of listed agricultural firms in Nigeria

RECOMMENDATIONS

In consonance with this study’s findings, it is recommended that

1. To improve efficiency of the board of directors of listed agricultural firms. The non-executive directors should work alongside with the executive directors. It is therefore, recommended that the firms mostly in Nigeria should endeavour to increase the number of executive directors in their boards.
2. It is recommended that a corporate governance policy intervention should not only focus on corporate governance variables of the study but should also deliver wider consideration for other best practices of corporate governance in relation to board accountability and effectiveness as well as relations with shareholders.
3. Also, the board independence should be strengthening so that it can constantly perform oversight functions.

4. Listed firms should increase their assets and improve the scope of their operations in order to increase their size, since firm size positively and significantly contributes to their financial performance.

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