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BOARD SIZE AND FINANCIAL PERFORMANCE OF FOOD AND BEVERAGE MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

This study investigated board size and financial performance of food and beverage manufacturing firms in Nigeria between 2016 and 2020. The aim of the study was to determine the relationship between board size and financial performance of food and beverage manufacturing firms in Nigeria. Four objectives, four research questions and four hypotheses guided the study. Descriptive survey research design was used for the study. The population of this study was 27 food and beverage manufacturing companies in Nigeria. The sample size is 10 (ten) food and beverage manufacturing companies in Nigeria, obtained by convenience sampling technique. Secondary data were collected from annual report of companies' website. Regression was used for the analysis of data and E-view was used for computation. Based on the findings, the study concluded that; board Size has no significant relationship with Earnings per share. It was found that there is no significant relationship between board Size and Return on Assets. Based on conclusions, the researcher recommended that Board Size should be structured in line with professional requirements of the industry and other others.

Keywords: Board Size, Financial Performance, Earning Per Share, Return on Asset

INTRODUCTION

The Board of Directors [BOD] of a corporate organization directs and controls the management of a company and it is accountable to the shareholders. The board is responsible for the formulation and review of the company's policies, strategies, objectives, annual budget, monitoring, implementation for corporate performance and ensuring that appropriate governance is in place (Dar et al. 2011). They are to report to the shareholders on their stewardship. The board consists of executives (employees of the company) and non- executive directors and of which a nonexecutive director should preside over the board as the chairman. Rimon, et al (2014) put it that a non-executive director is the one that is not involved in the day to day management of the organization, but he is involved in the decision making and the planning policies. Nonexecutive members are the shareholders' representatives on the board. Board Size is the number of directors that exist on the board which includes the executive and the non-executive directors. The number The opinions is ample boards are inferior impressive and are easier for a CEO to manage. The value of in bringing together and handing out issue is also major in big panel and this kind of selection-taking challenging. On the other side minor boards bring-down the expansions of free riding and so have the propensity of improve value of the firm. Boards expect have a negative relationship with value of corporation (Sanda, & Mikailu. 2005).The board normally delegate social control for the supervision of economic coverage to the scrutinize team to flourish the comprehensiveness of relevance a responsible of annual report. This responsiveness inspection committee can be a checking method that enhance the quality of accumulation or subject matter movement between corporation possessor and manager so give significant impact for organization (Anderson, et al 2004).This study says that improving director freedom is compass attractive as a director with ties to corporation or its CEO would discover it more challenging to change of course and unreason able pay package, more difficult the explanation back side a projected amalgamation or convey to bear the disbelief important for impressive monitoring. Furthermore, the advocators

of administrative, Body explanation say that corporate governance must evidence to upper stock prices or better long term performance, since administrator or major supervised and administrative body costs are reduced and profitability enhance with positive impact (Young 2003).Corporate government activity is a structure that has power and maintains the pursuit of the pertinent players in market. The organizations of corporate governance methods include managers and board of theater director (Claessens & Djankov 2000).

The organizations of corporate governance methods include managers and panel of directors that increase and create positive relationships with performance (Morin & Jarrell 2000). The third aspects corporate diversification is not a corporate governance instrument peruses, but earlier study has recommended that society troubles are dissimilar with in diversified organizations. The minor clearness of diversified firms in rising markets outcome in a senior level of asymmetric information that may permit managers or shareholders to more easily take benefit of marginal shareholders (Lins & Servaes 2002). Corporations costs will not be curtailed while significantly increase when top post will be hand over to different persons so its impact not good with negativity shows (Core & Holthausen 1999). This study says that large board size and profitability have negative relationship (Yermack, 1996). An encouraging relation between CEO reward and the proportion of the panel collected of exterior conductor (Boyd, 1994). CEO s receives more pay when they have selected a greater amount of the panel. Other experimental studies check examines whether confident board construction are linked with better performance worth and presentation (Lambert & Larcker 1993). Argues that display board s of conductor in setting suitable levels of recompense because external manager are vital hired by the Chief operating officer and can be removed by the CEO.As such, panel appendage may be averse to take spatial relation adversarial to the CEO, Particularly relating to the CEO return. Furthermore panel generally rely on the reimbursement consultants hired by the CEO, and this may possibly guide to return

Objectives of the Study

1. Access the effect of Board composition on Return on Assets of food and beverage manufacturing firms in Nigeria.
2. Investigate the effect of Board composition on Earnings per share of food and beverage manufacturing firms in Nigeria.

Research Question

1. What is the effect of Board Size and Return on Asset of food and beverage manufacturing firms in Nigeria?

2. What is the effect of Board Size and Earnings per share of food and beverage manufacturing firms in Nigeria?

Research Hypotheses

Ho_1 Board Size does not have any significant effect on Return on Asset of food and beverage manufacturing firms in Nigeria.

Ho_2 Board Size does not have any significant effect on Earnings per share of food and beverage manufacturing firms in Nigeria.

Board Size

The SEC code states that the board shall be composed of a mixture of executive and non-executive directors headed by a chairman, but a major proportion of the board membership should be non-executive directors, one of whom should be an autonomous director (SEC, 2011). The CBN code for banks states that the members of board should be qualified person with proven integrity, knowledgeable in business and financial members; having at least two non-executive directors as an independent directors. The central bank of Nigeria (CBN) further states that the board size as limited to a minimum of two and a maximum of twenty.

Jenson (1993) asserted that ability of firms with smaller boards to make effective communication and timely strategic decisions will improve its performance. A small board size often time does not experience officialdom and financial reporting is better supervised. Large boards size lacks efficient and effective monitoring and supervision. Rahman and Ali (2007) found a positive association between board size and earnings. Xie et al (2003) found a negative relationship between board size and earnings management. They further opined that larger boards are superior in terms of diversity and experience mix, and are more likely to have independent directors with financial expertise to prevent agency costs that result in earnings management through accruals. The financial reporting council of Nigeria (FRCN) stated that the board size should be sufficient size to effectively undertake and fulfill it's business to oversee, monitor, direct and control the company's activities and relative to scale and complexity of it's operations.

Board size alludes to the number of directors serving in the board of directors (Jenson & Meckling, 1976). Board size is perceived as a significant characteristic of the board architecture and plays a critical role in influencing firm's value. Firm's value can be improved when the board of directors executes the role of discipline on the CEO and management of the firm. Rahata (2005) opines that the board of directors performs two important functions which are advising and monitoring. The sizes of the board of directors have been in contention. Several studies are comfortable with the number of board size being between seven to fifteen directors (Ogbechie, Koufopoules & Argyropoulou, 2009). But others studies contend that board size should be restricted to seven or eight directors (Lipton & Lorsch, 1992; Jensen, 1993). A smaller board size enhances monitoring and makes it easier for the CEO's to control the board.
Barnhart & Roseinstein (1998) reveal that firms with small board size have excellent competence in contrast to firms with large board size. However, Large board of directors appears to be important as a result of a vast knowledge and experience accessible. A large board has an assortment of expertise to function in a firm decision making process since the CEO is incapable of influencing a bigger board due to the combined strengths of members which is greater and which can confront any absurd decision of the CEO (Pfeffer, 1972; Zera & Pearce, 1989). In a similar vein, Dalton et al (1998) and Dallas (2001) opines that large board size promotes decision making in the board due to the range of expertise members which makes it more effective in adverting corporate breakdown. Additionally, Klein (2002) portrays that large boards supports more non-executive directors in choosing members of audit committees to promote sound financial reports. Large board size is capable of depositing the assortments that would assist companies to obtain delicate resources and diminish environmental ambiguities (Pfeffer, 1987; Pearce, & Zahra 1992; Goodstein, Gantum & Boeker, 1994). On the other hand, large board size affects firm's value negatively due to the existence of agency cost among members of a bigger board. A large board size has the tendency to be less effective in enduring discussion of key issues and to be victim of free rider problems among directors in supervisory management (Hermalin & Weisbach, 2002). Increase in numbers of directors in the board communication and decisions making problem (Yermack, 1996). Lipton and Lorch (1992) recommended a number board size of between seven and eight. But recommendations on board sizes of between size tends to be industry specific, for example, Adams & Marhran (2003) portrays that bank holding companies have significantly larger board size than those of manufacturing companies.

Financial Performance

Financial performance is a subjective measure of how well a company can use assets and generate revenues from its primary mode of business. This term is often used over a given period of time as a general measure of the overall financial health of a business, and can be used to compare similar companies in the same industry or to compare aggregated industries or sectors.
There are several different ways in which financial performance can be calculated, but all assessments should be taken together. Line elements such as gross revenue, operating income or

operating cash flow may be included as well as overall unit sales. In addition, the analyst or investor may want to look at financial statements more closely and look for margin growth rates or any decreasing debt, Kohlar (2015).

In a corporation, there are several distinct stakeholders, including trade creditors, bond holders, investors, staff and management. Every party has its own interest in monitoring a company's financial results. Analysts learn about financial results from details provided in an annual report by the firm. The annual report is a mandatory legal document to be issued by all public corporations. The aim of the report is to provide accurate and reliable financial statements to stakeholders that provide a summary of the financial performance of the company. In addition, along with a variety of other disclosure records, these statements are audited and signed by the company's leadership. The annual report thus provides the most detailed source of financial performance information made available to investors on an annual basis. Three financial statements, the financial statement, the statement of revenue, and the cash flow statement are contained in the annual report.

Board size (directors) and financial performance of firms

Weisbach & Hermalin (2002) posited that the proposition of board size is to help reduce agency problem. From this position, a positive relationship is expected between firm performance and the proportion of outside directors sitting on the board. Conflicting empirical evidence has evolved with respect to board size in the recent past. There exist mixed results from empirical studies on the effects of board composition and performance. Kajola (2008) examined corporate governance and firm performance on some Nigerian listed banks between 2000 and 2006 and found no significant relationship between board size and firm performance. However, the findings of Prakash and Martin, (2009) on twenty-nine (29) Nepalese banks for a period of six (6) month through the use of regression analysis, shows that outside directors have positive and significant effect on the bank performance. This is also the position taken by Bawa, et al (2003). The code of corporate governance emphasizes board size that has qualitative, qualified, experienced members and people of proven integrity. Bernard, (2004) argued that the board of directors' ability to monitor and advise a firm depends on their influence, competence and experience. This will reduce fraud and increase performance.

Agency Theory

The principal agent theory is generally considered the starting point for any argument on the issue of corporate governance. Berle and Means (1932) stated the fundamental agency problem of modern firm is primarily due to separation between and finance and management. Separation of ownership and control is seen as the main problem of modern firms, as these firms are therefore run by the professional managers who are the agents and cannot be held accountable by shareholders. The principals are faced with the problem of selecting the most capable managers, and also with the problem of giving the managers (agents) the right incentives to make decisions aligned with shareholders interest Jensen and Meckling (1976) argued that agency theory can be viewed as a nexus of contracts, implicit and explicit, among various stakeholders, such as shareholders, bondholders, employees, and the public which involves delegating some decision making authority to the agent. The agents here are the managers of corporations while the principal refers all the shareholders. A critique of the agency theory is the implicit presumption that, the conflicts are between strong, entrenched managers and weak, dispersed shareholders. It has led to an almost exclusive focus in both analytical work and reform efforts, of solving the monitoring and management entrenchment problems, which are the main governance problems in the principal-agent context with dispersed ownership. (Maher & Terry, 1999). The analytical focus of the agency theory on how to solve the corporate governance problem is too narrow says another critique of this theory (Maher & Terry, 1999).

The agency theory has its roots in economic theory and it dominates the corporate governance literature. Daily, et al (2003), point to two factors that influence the prominence of agency theory.

Firstly, the theory is a conceptually simple one that reduces the corporation to two participants, managers and shareholders. Secondly, the notion of human beings as self-interested is a generally accepted idea. In its simplest form, agency theory explains the agency problems arising from the separation of ownership and control. It provides a useful way of explaining relationships where the parties interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system (Davis, et al, 1997)

METHODOLOGY

Research Design

This study adopted the survey research design

Research Population

Research population as described by Borg and Crall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator generalized the result. The population of this study was all food and beverage manufacturing companies between 2016 and 2020.

Sample and Sampling Technique

The sampling technique used is the convenience sampling technique. As the name implies, it is a sample chosen purely on the basis of convenience (Baridam, 2005). 10 food and beverage manufacturing companies were chosen out of many firms, simply because as at the time of this research work and analysis, their data were accessible on line. Hence, purposively, data of the 5 years period for each firm was chosen for this study. The periods are from 2016- 2020.

Methods of Data Analysis

In the views of Ahiazu (2006) the choice of a data analysis techniques lies on the kind of study, research design and the method adopted. Considering this situation in this study, Ordinary Least Square (OLS) multiple regressions was adopted. E-view was utilized for the computation.
Furthermore, the regression was used in analyzing published data of food and beverage manufacturing firms in Nigeria.

Multiple Regression Technique

We adopted multiple regression analysis to test the effect of the predictive variable (Corporate governance characteristics) on the criterion variable (financial performance). We employ regression analysis which is one of the most widely acknowledged statistical tools in the management and social sciences. The major advantage of regression models is their power to measure the degree of association between and among variables and determine the extent and direction of the relationship. As indicated earlier our investigation seeks to provide empirical support to the hypotheses in the study.

Model Specification

Bhagal and Black (2002), Modeling is a simplified system used to simulate some aspects of the real economy. It is used in specifying the reality designed to enable the research to describe the essence or inter- relationship within the variables or phenomenon under the study.

In line with the objective of the study, the model adopted for the study was regression models and the models take the generalized simple forms and can be represented as thus;

$Y = Bo + B_1X + \mu$ ..... (3.1)

Y (Earnings per share, Return on Asset) = Dependent Variables.
X (Board size, Audit committee size) = Independent Variable.

B_0= Intercept of Y.
B_1= Slope Coefficients
μ = Error term (Gujarati, 1995).

Earnings per share = Bo + B_1 Board size + μ 3.2
Earnings per share = Bo + B_1 Audit committee size + μ 3.3
Return on Assets = Bo + B_1 Board size + μ 3.4
Return on Assets = Bo + B_1 Audit committee size + μ 3.5

Y is the regress and; the X are the regression and the Bs are the parameters. The random error term, μ, is added to make the model probabilistic rather than deterministic. It is also known as stochastic variable. It is assumed that for any given set of values of X, the random error μ has a normal probability distribution with mean equal to zero and variance equal to δ^2. The random errors are independent (in probabilistic sense).

The value of the coefficients, B_1 determines the contribution of the independent variable X given that the other X variable held constant, and b_0 is the Y – intercept. The coefficients B_0, B_1...., B_n are usually unknown because they represent population parameters (Ozurumba, 2008).

Bivariate Analysis

Hypothesis One (H_{01})

There is no significant effect on Board size and Return on Assets of food and beverage manufacturing firms in Nigeria.

Dependent Variable LOGROA
Method Least Squares
Date 10/10/21 Time 2059
Sample 1 50
Included observations 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.615189	0.642044	2.515697	0.0179
LOGBS	0.059659	0.036319	1.642629	0.1116

R-squared	0.087895	Mean dependent var	2.667971
Adjusted R-squared	0.055320	S.D. dependent var	0.214682
S.E. of regression	0.208659	Akaike info criterion	-0.231889
Sum squared resid	1.219082	Schwarz criterion	-0.138476
Log likelihood	5.478334	Hannan-Quinn criter.	-0.202005

			0.42933
F-statistic	2.698229	Durbin-Watson stat	8
Prob(F-statistic)	0.111645		

The result for the test of hypotheses is presented in the equation below as thus
(4.1)
ROA = 1.6152 + 0.0597 BS
[2.5157] [1.6427]
(0.0179) (0.1116)

R^2 = 0.0879, Adjusted R^2 = -0.0553, Durbin-Watson (DW) = 0.4293
F-statistic = 2.6982, Prob. (F-statistic) 0.1116,
Equation (4.1) confirms the results of the test of hypotheses and it provide evidence that 8.79% of variation in Board size can be explained by its linear relationship with Return on Assets. Also the co – efficient of Return on Assets (0.0597) has positive sign and this indicates that 1 percent increase in Return on Assets increases the variable Board size by (0.0597). Similarly, the corresponding t- statistic value (1.6427) is less than 2 and by the rule of thumb, this shows that there is no significant effect of Board size on Return on Assets This was further confirmed as the probability value of the co-efficient Return on Assets was (0.1116) greater than the standard probability value of 0.05. (0.1116 >0.05). Also the Durbin Watson (0.4293) which is less than 2 and this shows the evidence of the presence of serial correlation. Also, the model has F- statistic (2.6982) with its corresponding prob. (F-statistic = 0.1116). This shows an evidence that the model is not statistically significant, since the calculated prob. (F-Statistic) is greater than the standard probability value of 0.05

Hypothesis Two (H_{02})
There is no significant effect on Board size on Earnings per Share of food and beverage manufacturing firms in Nigeria

Dependent Variable LOGEPS
Method Least Squares
Date 10/10/21 Time 2034
Sample 1 50
Included observations 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.654609	0.040671	65.27025	0.0000
LOGBS	0.039474	0.034304	1.150707	0.2596

R-squared	0.045155	Mean dependent var	2.667971
Adjusted R-squared	0.011053	S.D. dependent var	0.214682
S.E. of regression	0.213492	Akaike info criterion	-0.186095

			-0.092681
Sum squared resid	1.276207	Schwarz criterion	
			-0.156211
Log likelihood	4.791418	Hannan-Quinn criter.	
			0.483572
F-statistic	1.324127	Durbin-Watson stat	
Prob(F-statistic)	0.259585		

The result for the test of hypotheses is presented in the equation below as thus (4.2)

EPS = 2.6546 + 0.0394 BS
[65.2703] [1.1507]
(0.0000) (0.2596)
R^2 = 0.0452, Adjusted R^2 = -0.0111, Durbin-Watson (DW) = 0.4836

F-statistic = 1.3241, Prob. (F-statistic) = 0.2596

Equation (4.2) above shows the relationship between Earning per share and Board size, the result shows that 4.52 percent of the variation of Board size can be explained by its linear relationship with Earnings per share. Similarly, the above model shows that Earnings per share has positive co-efficient (0.0394) and this indicates 1 % increase in Earnings per share increases the variable Board size by (0.0394), and the value of the t-statistic (1.1507) which is less than 2 by the rule of thumb this shows that the effect of Board size on Earnings per share is not significant. This was further confirmed that the effect was insignificant as the probability value of the co-efficient of Earnings per share was greater than 0.05 percent level of significance (0.26>0.05). The Durbin-Watson statistic (DW) value was (0.48) which is less 2 and this shows evidence of the present of serial correlation in the residuals of the estimated. The F-statistic (1.324), while probability (F-statistic) was (0.2596) and this shows that the model is not significant.

Discussion of Finding

Board size and Return on Assets

Equation (4.1) confirms the results of the test of hypotheses and it provide evidence that 8.79% of variation in Board size can be explained by its linear relationship with Return on Assets. Also the co – efficient of Return on Assets (0.0597) has positive but the probability value of the co-efficient Return on Assets was (0.1116) greater than the standard probability value of 0.05. (0.1116 >0.05). This shows an evidence that the model is not statistically significant, since the calculated prob. (F-Statistic) is greater than the standard probability value of 0.05, therefore the study conclude that there is no significant relationship between Board size and Return on Assets of food and beverage manufacturing firms in Nigeria. This study agrees with Delton, 1998 and Michael 2002.

Board size and Earnings per share

Equation (4.2) showed that the relationship between board size
and earnings per share has positive co-efficient (0.0394) and this indicates 1 % increase in Earnings per share increases the variable Board size by (0.0394), also confirmed that the effect was insignificant as the probability value of the co-efficient of Earnings per share was greater than 0.05 percent level of significance (0.26>0.05). The Durbin-Watson statistic (DW) value was (0.48) which is less 2 and this shows evidence of the present of serial correlation in the residuals of the

estimated. The F-statistic (1.324), while probability (F-statistic) was (0.2596) and this shows that the model is not significant. Therefore, the null hypothesis is accepted. There is no significant relationship between Board size and Earnings per Share of food and beverage manufacturing firms in Nigeria.

CONCLUSION

Based on the findings, the study concludes that; board size has no significant relationship with Earnings per share. Likewise, there is no significant relationship between board size and Return on Assets. This is also in line with the findings of (Laith 2015), in his study the role of audit committee and external audit in enhancing companies' profitability.

RECOMMENDATIONS

Based on the findings of this study and the conclusion drawn thereof, we specifically make the following recommendations

1. The study further recommend that audit committee be made truly independence of the executive and more oversight functions be given to the committee to oversee the financial activities of the firms. This will reduced, if not eliminate the poor financial and corporate management problems faced by the industry.
2. Board size should be structured in line with professional requirements of the industry.
3. The manufacuturing sector should promote its audit committee meeting frequency so as to improve independent auditors' tenure in subsequent financial reporting periods

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