

## BOARD OWNERSHIP AND CORPORATE PERFORMANCE: EVIDENCE FROM QUOTED CONGLOMERATES IN NIGERIA

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### Abstract

*This study investigates the impact of Board ownership and corporate performance of quoted Conglomerate firms in Nigeria. The population of the study consists of eight (8) quoted Conglomerate firms as at 31<sup>st</sup> December 2021. The study period covered 2017 – 2021 (both years inclusive). The sample of the study is 50% of the population. The study employs multiple regression as a tool of analysis to examine the impact of Executive Directors' ownership and Non-executive Directors' ownership on corporate performance of quoted conglomerate firms in Nigeria. The study reveals a negative and significant impact of Executive Directors ownership on corporate performance and a negative but not significant impact of Non-executive directors' ownership on corporate performance. The study revealed that the size of Executive Directors' ownership has significant impact on corporate performance of quoted Conglomerate firms in Nigeria. Therefore, it was recommended that the management of conglomerate firms in Nigeria should emphasize more on corporate ownership structure by offering minimal ownership to executive directors while increasing the size of ownership of non-executive directors.*

**Key Words:** *Executive Directors' ownership, Non-executive Directors' ownership, Corporate Performance*

### 1. Introduction

The corporate form has consistently proven to be a superior method of business organization. Great industrial economies have grown and prospered where the

corporate legal structure has been prevalent. This organizational form, however, has not existed and served without flaw. The multiple problems arising out of the fundamental agency nature of the corporate relationship have continually hindered its complete economic effectiveness. Where ownership and management are structurally separated, how does one assure effective operational efficiencies? Traditionally, the solution lay in the establishment of a powerful monitoring intermediary - the board of directors, whose primary responsibility was management oversight and control for the benefit of the residual equity owners. To ensure an effective agency, traditionally, the board was chosen by and comprised generally of the business's largest shareholders. Substantial share holdership acted to align board and shareholder interests to create the best incentive for effective oversight. Additionally, legal fiduciary duties evolved to prevent director self-dealing, through the medium of the duty of loyalty, and to discourage lax monitoring, through the duty of care.(Bhagat, Carey, and Elson (1998).

The board of directors has been largely criticized for the decline in shareholders' wealth and corporate failure. They have been in the spotlight for the fraud cases that had resulted in the failure of major corporations, for example, Enron, WorldCom and Global Crossing. In Nigeria, a series of widely-publicized cases of accounting improprieties have been recorded (for example, Wema Bank, NAMPAC, Finbank, Intercontinental bank and Spring Bank). Some of the reasons stated for these corporate failures are the lack of vigilant oversight functions by the board of directors, the board relinquishing control to corporate managers who pursue their own self-interests and the board being remiss in its accountability to stakeholders. As a result, various corporate governance reforms have specifically emphasized on appropriate changes to be made to the board of directors in terms of its composition, structure and ownership configuration (Abidin, Kamal, and Jusoff (2009).

The Nigeria Code on Corporate Governance (NCCG) for Public Companies of 2003 proposes that the Board should include a balance of executive directors and non-executive directors in order to ensure that the board's decision making is not dominated by a certain party. The best practices of the code also recommend that the responsibilities of the chairman and the chief executive officer should not be held by the same person to ensure that there is a balance of power and authority.

This study adopted the definition of board structure as given by Tricker (1994). He noted that board structure distinguishes between those directors who hold management positions in the company and those who do not. Those with management positions are referred to as insider directors in the United States or executive directors in United Kingdom and Australia. The top person in the board is the chairman. He could be an executive or anon-executive of the company. If the CEO happens to be a director on the board, then he is an executive director.

Nevertheless, while there are a good number of researches on the corporate

ownership and firm performance there is a dearth of research in this area empirically investigating the impact of such corporate ownership as held by executive and non-executive directors on the board, particularly in Nigeria, which is a developing economy, including the corporate governance mechanisms.

In this respect, this study seeks to evaluate the impact of corporate ownership on firm performance of conglomerates listed on the Nigerian Stock Exchange, for the period of 2017-2021. To achieve the above objectives, the study therefore hypothesizes as follows;

H<sub>1</sub>: Executive Directors ownership size does not have significant impact the performance of listed conglomerates firm in Nigeria.

H<sub>2</sub>: Non-Executive Directors ownership size does not have significant impact the performance of listed conglomerates firm in Nigeria.

## 2. Literature Review and Theoretical Framework

Boards of directors are a crucial part of the corporate structure. They are link between the people who provide capital (the shareholders) and the people who use that capital to create value (the managers). The board's primary role is to monitor management on behalf of the shareholders. As Tricker(1994)says, in the common definition corporate governance "addresses the issues facing boards of directors". In this view, corporate governance is the task of the directors and therefore attention must be paid to their roles and responsibilities. In the broader view, boards of directors are a part of the governance system (Koverga, and Kostyuk, 2006).

It is argued that a positive relationship exist between managerial ownership and firm performance and could be interpreted as evidence that, to a certain extent, owning ordinary shares makes the interest of managers aligned with those of external shareholders, resulting in a positive effect in performance. However, it is also possible that managerial ownership is higher in better performing firms simply because managers are more willing to accept ordinary shares as a part of their payment scheme in firms which perform better (Mura 2002).

### Executive directors' ownership and corporate performance

Managerial ownership plays an important role in the corporate governance literature. Previous studies reveal that managerial ownership influences a firm's performance (Barnhart et al., 1998; Han, Lee & Suk, 1998; Agrawal and Knoeber, 1996). Chen (2001) has supported evidence that the management ownership variable has a positive coefficient in the corporate performance regression. Companies that are totally owned by managers do especially well. Taking into account that a relatively small proportion of shares are held by the management, it is possible that raising such a proportion might significantly strengthen the management's incentive to improve the firm's performance.

However, empirical evidence on the relationship between managerial ownership and firm performance is mixed across nations. Interestingly, the nonlinear relationship between managerial ownership and firm performance (Tobin's Q) is well accepted. Mueller and Spitz (2001) propound that managerial ownership shares up to around 80 percent render a positive effect on a firm's performance. However, negative effects take place thereafter. Hermalin and Weisbach (1991) also posit evidence that at managerial levels less than one percent, the Tobin's Q increases with ownership. But a level greater than 20 percent, Tobin's Q decreases with ownership.

Khan, Balachandran and Mather (2008) conducted a study to investigate the relation between managerial share ownership and operating performance of Australian companies during the period 2000 to 2006. They first use earnings to examine this relation. As earnings may be affected by earnings management, discretionary accruals were removed and also use adjusted earnings as an alternative measure of performance. They document a negative relation between managerial share ownership and performance followed by a positive relation (U-shaped) after controlling for endogeneity and reverse-causality. They also document that performance affects managerial ownership but only when we use adjusted earnings. It was argued that the unique results relating to the ownership-performance relation may be an artifact of certain Australian institutional features that are markedly different to those in the US and the UK. We also posit that executive directors and independent directors have different ownership-performance incentives and examine these relations separately. Our analyses reveal a similar relation between ownership and performance for executive directors as for managerial ownership as a whole. However, we find no significant relation between share ownership by independent directors and either earnings or adjusted earnings.

Study done by Jensen et al. in 1976 found the firm value is positively correlated with the level of managerial ownership. However, Mueller et al. (2001); Hermalin et al. (1991); Morck et al. (1988) and Wong et al. (1991) in their studies show that the relationship between firm performance and managerial ownership is not linear. Similar evidence is reported by Ali et al. (2001) and Mat Nor et al. (1999) in Malaysian scenario.

#### Non-Executive Directors ownership and corporate performance

Kanapathy (2005) conducted a study on independent non-executive directors, managerial ownership and firm performance in Malaysian Public Listed Companies. The study attempted to examine the relationship between independent non-executive directors and managerial ownership towards firm performance, as measured by Tobin's Q. Sample consisted of 220 Main Board companies listed on the Bursa Malaysia in the year 2003. The study found that the size of ownership of independent non-executive directors that on the board does not contribute to firm performance.

Karthigeyan, and Ponnu, (2010) conducted an empirical study on Board independence and corporate performance with evidence from Malaysia. Their research, addresses empirically, the effectiveness of the provision for outside or independent directors as provided for in the Malaysian Code of Corporate Governance on the governance of Malaysian firms. The study hypothesized that there is a significant relation between proportion of Independent Non-Executive Director ownership and the corporate performance for Malaysian Public Listed Companies. The analysis was performed by monitoring the changes in corporate performance with the inclusion of these outside directors. The sample for this study comprises of firms listed on Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange) for the year ending 2006. Results show that there is no convincing evidence that the provisions as outlined in Malaysian Code of Corporate Governance as regards outside directors have any positive effect on corporate performance.

Ghosh and Sirmans (2003) suggested that one important mechanism designed to reduce agency problems is the appointment of independent directors on the corporate board. Both empirical and theoretical analyses suggest that outside members on the board of directors serve a critical role in the monitoring and disciplining of senior managers, and thereby influencing firm performance. Fama et al. (1983) also contend that monitoring managerial opportunism become more effective with a higher proportion of outside directors.

However, the empirical evidence shows a mixed relationship. Laing and Weir (1999) noted that board comprising a majority of non-executive directors does not necessarily result in better performance as compared to executive directors dominating the board. There is no evidence that shows increased non-executive director representation results in increased on firm performance. This finding is also supported by Fosberg (1989), who found that there was no relationship between the POD (proportion of outside directors) and the various variables used to gauge managerial performance (return on equity, average return on equity, sales). It also put forth that there are no significant differences between the mean value of return on equity of firm with, or without, POD. However, Bhagat and Black (2000) also have supported evidence that the result shows that firms suffering from low profitability respond by increasing the independence of their board of directors.

In a survey on the evidence of the relationship between board composition and firm performance, Boards of directors of American public companies that have a majority of independent directors behave differently, in a number of ways, than boards without such a majority. Some of these differences appear to increase firm value; others may decrease firm value. Overall, within the range of board compositions present today in large public companies, there is no convincing evidence that greater board independence correlates with greater firm profitability or faster growth. In particular, there is no empirical support for current proposals that firms should have

"supermajority-independent boards" with only one or two inside directors. To the contrary, there is some evidence that firms with supermajority-independent boards are less profitable than other firms. This suggests that it may be useful for firms to have a moderate number of inside directors (say three to five on an average-sized eleven member board). We offer some possible explanations for these results, based on board dynamics, the informational advantages possessed by inside (and, often, affiliated) directors, and the value of interaction between different types of directors who bring different strengths to the board (Black, and Bhagat, 1999).

According to Kanapathy, (2005), having an independent director on the boards will enhance the effectiveness of monitoring function and ensure that management is not running the company for their own personal interest. However, previous researches, found a mixed relationship between independent non-executive directors and firm value. Abdullah (2004); Othman (2003); Bhagat et al. (2000) and Fosberg (1989) found negative relationship between the board of independence and firm performance. On the other hand, studies by Bonn (2004); Hutchinson (2002); Rosenstein et al (1990); Schellenger et al (1989); and Baysinger (1985) found inclusion of independent directors improved the firm's value. Thus, existing independent directors will be better monitoring and enhance firm performance. Therefore, based on the literatures, it is hypothesized that;

#### Theoretical framework

This study is underpinned by two theories; Agency theory and Resource Dependence Theory.

#### The Agency Theory

Most research on the relationship between ownership and financial performance is rooted in an agency framework. It is argued that the separation of ownership from control for a corporate firm creates an agency problem that results in conflicts between shareholders and managers (Jensen and Meckling, 1976; Shleifer and Vishny, 1997). The interests of other investors can generally be protected through contractual arrangements between the company and concerned stakeholders, leaving shareholders as the residual claimants whose interests can adequately be protected only through the institutions of corporate governance (Shleifer and Vishny, 1997). Since ownership structure remains the basis for exercising power and control over corporate entities under conditions of market imperfections and/or incomplete nature of contracts, the problem of agency costs needs to be addressed according to the ownership structure of the firm to ensure efficient financial performance. For a publicly traded firm with widely dispersed shareholdings, the challenge for shareholders is to control the behavior of dominating managers and/or of the board. The challenge for a closely held firm with a controlling shareholder and a small number of outside minority shareholders or a widely held firm dominated by a controlling

shareholder is how outside shareholders can prevent the controlling shareholder from extracting excess benefits to the detriment of minority shareholders (World Bank, 1999). Therefore, to ensure optimum performance and minimize agency costs, ownership structure is considered to be one of the core governance mechanisms along with others such as, debt structure, board structure, incentive-based compensation structure, dividend structure, and external auditing.

#### Resource Dependence Theory

A second important board function is the provision of resources. This perspective is the dominant one adopted by scholars in the resource dependence (Pfeffer, 1972; Pfeffer and Salancik, 1978, Boyd, 1990; Daily and Dalton, 1994a,b; Gales and Kesner, 1994; Hillman, Cannella, and Paetzold, 2000;) and stakeholder traditions (Johnson and Greening, 1999; Luoma and Goodstein, 1999, Hillman, Keim, and Luce, 2001;). This function refers directly to the ability of the board to bring resources to the firm, resources being "anything that could be thought of as a strength or weakness of a given firm" (Wernerfelt, 1984: 172). The theoretical underpinning of this function is based on Pfeffer and Salancik's (1978) work on resource dependency. Pfeffer and Salancik note that "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it" (1978: 163). They assert that four primary benefits can be provided by boards: (1) advice and counsel, (2) legitimacy (Pfeffer and Salancik, 1978), (3) channels for communicating information between external organizations and the firm, and (4) preferential access to commitments or support from important elements outside the firm. This view is primarily concerned with the board's provision of resources, broadly defined. Linking to performance, Resource dependence logic suggests that a board's provision of resources is directly related to firm performance. Resources help reduce dependency between the organization and external contingencies (Pfeffer and Salancik, 1978), diminish uncertainty for the firm (Pfeffer, 1972), lower transaction costs (Williamson, 1984), and ultimately aid in the survival of the firm (Singh, House, & Tucker, 1986). The provision of resources function of the board encompasses a variety of specific activities, including providing legitimacy/bolstering the public image of the firm (Selznick, 1949), providing expertise (including the provision of internal firm information by inside directors; Baysinger and Hoskisson, 1990), administering advice and counsel (Lorsch and MacLver, 1989; Mintzberg, 1983), linking the firm to important stakeholders or other important entities (Burt, 1980; Hillman et al., 2001), facilitating access to resources such as capital (Mizruchi and Stearns, 1988), building external relations, diffusing innovation (Haunschild & Beckman, 1998), and aiding in the formulation of strategy or other important firm decisions (Judge and Zeithaml, 1992; Lorsch and MacLver, 1989). The theoretical tie between these various activities is that they all focus on the board as a provider of resources, rather than as an evaluator of management.

### 3. Methodology

This study investigates the impact of corporate ownership structure on performance of conglomerates firms listed on the Nigerian Stock exchange. The research design for this study is correlational. Panel data is employed because the work cut across many firms at different times. The study covers a period of five years (2017-2021), utilizing secondary data only. Data is collected from annual financial statement of four (4) out of eight (8) quoted conglomerates firms in Nigeria. Four of these conglomerate firms were excluded due to non-accessibility of their complete financial reports for the period under study, thus enabling the study to make use of financial data for four firms out of the total number of eight, representing 40% of the population, and giving us a total 20 firm observations. The data is analyzed using Multiple Regression Technique (OLS method).

### 4. Result and Discussion

In this section, result are presented and discussed based on the empirical result from which conclusion will be drawn. We begin by presenting a set of descriptive statistics, followed by the correlation matrix, multicollinearity and regression result.

Table 1: Descriptive statistics

Variable	Minimum	Maximum	Mean	StdDev
EPS	-24	3.40	1.0235	0.85143
EDOWN	0.00	0.22	0.0227	0.06806
NEDOWN	0.00	0.11	0.0258	0.03968
SIZE	10.19	11.03	10.5069	0.23240
LEVERAGE	0.00	3.46	0.7643	0.97555

Source: SPSS 15 output

Table 1 presents the descriptive statistics for all regression variables. The table shows the average indicators of variables computed from the financial statements of the sampled firms during the study period. The average (mean) of firm EPS is approximately 1.02, while EDOWN, NEDOWN, SIZE, and LEVERAGE have mean scores of 0.2, 0.03, 10.51, and 0.76 approximately. LEVERAGE has the highest standard deviation, showing that its the variables contributing least to the model of our study, while NEDOWN has the lowest standard deviation which indicates its higher contribution to the model of the study.

Table 2: Correlation Matrix

VARIABLE	EPS	EDOWN	NEDOWN	SIZE	LEVERAGE
EPS	1				
EDOWN	-0.375	1			
NEDOWN	-0.537**	0.555*	1		
LEVERAGE	0.143	-0.227	-0.369	1	
SIZE	-0.413	-0.234	0.300	-0.536*	1

Source: SPSS 15 output

**\*\* Correlation significant at 5% level****\*correlation significant at 1% level**

Correlation matrix table shows the relationship between all pairs of variables used in the regression model. Our correlation matrix indicates that there is a negative relationship between the dependent variable, and EDOWN, NEDOWN, and FIRM SIZE, while showing a positive relationship between LEVERAGE and EPS. This shows the existence of relationship between the dependent and the independent variables, thus satisfying the classical assumptions of linear regression.

Table 3: Multicollinearity Test

VARIABLES	TOLERANCE	VIF
EDOWN	0.449	2.229
NEDOWN	0.494	2.022
LEVERAGE	0.579	1.727
SIZE	0.454	2.201

Source: SPSS 15 output

The Tolerance value and Variance Inflation Factor (VIF) are two advanced measures of assessing multicollinearity between the independent variables of the study. We have adopted the Tolerance and Variance Inflation Factor (VIF) as test for multicollinearity. From table 3, the variance inflation factors were consistently less than 10 indicating complete absence of multicollinearity. In addition, the tolerance values are consistently less than 1.00. Thus, further substantiates the fact that there is complete absence of multicollinearity between the independent variables (Neter, Kutner, Nachtsheim and Wasserman, 1996; Tobachnick, and Fidell, 1996). This further provides evidence that multicollinearity will not affect the inferences drawn from the results of this study.

VARIABLES	COEFFICIENT	P-VALUES
Intercept	27.814	0.014
EDOWN	-6.140	0.077
NEDOWN	-5.444	0.319
LEVERAGE	-0.373	0.080
SIZE	-2.496	0.018
R	0.742	
R <sup>2</sup>	0.550	
ADJ R <sup>2</sup>	0.430	
F STAT (Sig)	4.581 (0.013)	
DURBIN WATSON	1.999	

Source: SPSS 15 output

From the regression result, the model is therefore estimated as follows;

$$EPS_{it} = 27.814 - 6.140(EDOWN) - 5.444 (NEDOWN) - 0.373(LEVERAGE) - 2.496(FSIZE)$$

The regression result shows that the model is fit because the F-statistics value is 4.581 and is significant at 5%. The Durbin-Watson (DW) statistic of 1.99 suggests the absence of autocorrelation in the regression model, thus lending credence to regression result.

The regression results in table 3 shows that executive director ownership has a negative and significant relationship with firm performance measured by current Earnings per share, as shown in the correlation matrix. This leads us to reject the null hypothesis  $H_1$  which states that Executive Directors ownership size does not have significant impact the performance of listed conglomerates firm in Nigeria. The implication of this result is that as the size of ownership of executive directors increases, the performance of the firm declines. This may be due the fact the if a higher portion of ownership is held by executive directors who manage the affairs of the business, there is the tendency that "director-self dealing" or self -interest will be prevalent to the detriment of the corporate performance. This result is contrary to our earlier expectations of having a positive and significant relationship as proposed by (Mura 2002), who argued that a positive relationship between managerial ownership and firm performance could be interpreted as evidence that, to a certain extent,

owning ordinary shares makes the interest of managers aligned with those of external shareholders, resulting in a positive effect in performance. This findings further contradicts the findings of Chen (2001) who supported evidence that the management ownership variable has a positive coefficient in the corporate performance regression. However, the findings is partly in line with that of Mueller and Spitz (2001) who propound that managerial ownership shares up to around 80 percent render a positive effect on a firm's performance. However, negative effects take place thereafter.

We however did not find any significant relationship between non-executive director ownership and the dependent variable. On this basis we fail to reject the null hypothesis  $H_2$ , stating that Non-Executive Directors ownership size does not have significant impact the performance of listed conglomerates firm in Nigeria. The implication of this result is that as the size of ownership controlled by the non-executive directors on the board increases, the performance of the firm will decline, but not significantly. This findings is contrary to the research of Ghosh and Sirmans (2003) who argued that both empirical and theoretical analyses suggest that outside members on the board of directors serve a critical role in the monitoring and disciplining of senior managers, and thereby influencing firm performance, and Fama et al. (1983) who contend that monitoring managerial opportunism become more effective with a higher proportion of outside directors ownership. There have been a number of studies which analyze the relationship between independent directors and firm performance. Thus, the proportion of independent non-executive directors on a board should be positively related to firm performance. It also disagree with the study of Bhagat and Black (2000) who have supported evidence showing that firms suffering from low profitability respond by increasing the independence of their board of directors. However, the findings is in line with the study of Laing and Weir (1999) who noted that board comprising a majority of non-executive directors does not necessarily result in better performance as compared to executive directors dominating the board. There is no evidence that shows increased non-executive director representation results in increased on firm performance. This finding is also supported by Fosberg (1989), who found that there was no relationship between the POD (proportion of outside directors) and the various variables used to gauge managerial performance (return on equity, average return on equity, sales). It also put forth that there are no significant differences between the mean value of return on equity of firm with, or without, POD.

## 5. Conclusion and Recommendations

This study was conducted to investigate whether the size of ownership held by

executive and non-executive directors, separately on the board affect the performance of the firm. In this study, we discovered that there is a negative and significant relationship between executive director ownership and firm performance while a negative but not significant relationship exist between non-executive ownership and firm performance. Having achieved the objectives of this study, it is hereby recommended that management of conglomerate firms in Nigeria should emphasize more on corporate ownership structure by offering minimal ownership to executive directors while increasing the size of ownership of non-executive directors. This is because increasing the size of ownership of non-executive will have an insignificant effect on performance, but will enhance a stronger monitoring by of executive directors by the non-executive directors. Furthermore, despite the fact that the Nigeria code of corporate governance for public companies (2003) recommends that the majority of Board members should be non-executive directors, the size of ownership held by the executive directors could be moderated.

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