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DOES BOARD MAGNITUDE AND EXPERTISE AFFECT SHAREHOLDER VALUE: EVIDENCE FROM QUOTED NON-FINANCIAL COMPANIES IN NIGERIA

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ABSTRACT

This study examines the effect of board magnitude and board expertise of listed non-financial firms in Nigeria. The study population comprised all the 116 quoted non-financial companies in Nigeria. Eighty-nine (89) firms were selected, making 890 firm-year observations using the Taro Yamane sample selection method. Also, stratified and proportionate sampling techniques were employed. Generalized Least Square regressions were employed as a procedure for analyzing the data. The study established that board magnitude and board experts significantly affect the shareholder value of listed non-financial firms in Nigeria. The study concludes that characteristics of corporate governance that influence shareholder value are board magnitude and board expertise. Based on the findings and conclusion, the study suggested that the number of directors on the board should be increased to strengthen the monitoring mechanism of non-financial firms in Nigeria. Also, the management should increase the number of

directors with accounting literacy on their board if they also seek to maximize shareholder value.

Keywords: Board magnitude, board expertise, shareholder value.

INTRODUCTION

Many enterprises will create value for shareholders. Other companies will surely destroy it. Recently, the accounting scandal that plagued big companies such as Luckin Coffee and Wire Card (2020) has shaken investors' confidence. This event has caught the attention of the supervisory body and academics to find a solution to the unprecedented corporate collapse. Besides, a robust corporate governance system is considered an essential component in managing a company's activities in the best interests of its shareholders. Also, the board of directors is supposed to conduct the critical role of monitoring shareholder interests. The monitoring role is responsible for resolving the agency problem in the agency relationship.

However, shareholder value is determined by the board of directors' strategic decisions, including making sound investments decisions and providing a good return on invested money. If this value is created, especially over time, the stock price will rise, and the corporation will pay higher cash dividends to shareholders.

Previous research has established that the magnitude of the board of directors influences shareholder value. Board magnitude is acknowledged as one of the qualities of board effectiveness that contributes to shareholder value. Larger boards are more efficient in monitoring and creating greater value for a corporation, agreeing to Jensen and Meclking (1978), Satirenjit et al. (2015), Andres and Vallelado (2018). Therefore, a larger board is more prospective to be cautious about agency issues simply because more individuals will be examining management actions.

Board expertise is another important factor that influences good corporate governance. Idris et al. (2019) emphasized the importance of board members comprehending accounting knowledge, leading to improved board monitoring, which will benefit shareholders.

Therefore, directors with appropriate accounting knowledge may have a motivation to safeguard their reputation and, as a result, perform services that protect shareholders' interests. Despite this, the literature pays little attention to the unique board of directors' expertise with accounting knowledge.

However, studies investigating the nexus between board characteristics and firm performance in Nigeria centred on traditional accounting performance measures. (see Edem & Noor, 2014; Oyewale et al. 2016; Oyedokun, 2019; of Preye & Bingilar, 2020).The accounting-based indicators have been criticized as insufficient for measuring financial performance. This is because it has neglected to mirror a firm's actual value due to the lack of long-term profitability of a company, and to manage for short-term earnings compromises shareholder value. Besides, literature on this theme is minimal, or the issues have not been well treated, like the inclusion of board expertise. Therefore, gaps exist in literature in terms of measurement and omitted variables. Thus, the paper attempts to study the degree to which board magnitude and expertise affect shareholder value in the context of non-financial companies in Nigeria.

The corporate governance rules have steadily evolved recommendations on board size, based on the relevance of the issue in the company's operation and its effect on performance. The Nigerian Securities and Exchange Commission Code proposes a minimum of five directors. It states that a corporation's board of directors must be large enough to handle the scope and complexity of the company's operations. Therefore the relation between board magnitude and firm performance was studied in previous literature; that board size can influence performance since the responsibility of the boards is to control the managers (Coles et al., 2008; Liling & Pocheng, 2019). Nevertheless. The two most imperative roles for boards of directors, according to Adams and Ferriera (2007), are monitoring and guiding. As a result, larger boards are more likely to have a more extraordinary experience, managerial control, and access to more contracts and resources (Psaros, 2009).

Various research demonstrates contradictory results by observing the relationship between board size and shareholder value. For instance, Irsa (2016) evaluates the influence of board structure on financial performance from 2009 to 2014. The results reveal that board magnitude has a positive connection with firm value. Furthermore, Muneer and Allam (2016) studied the association between corporate governance and the market value of firms listed in Bahrain Bourse from 2009-2013. The study reveals that board magnitude has a significant positive effect on firm value. Erika (2018) examined the impact of board structure and firm value from 2010 to 2015 in Indonesian companies. Results established that board magnitude has an insignificant positive effect on firm value. Also, Ahmad and Sallau (2018) studied the impact of corporate governance on the market value of listed deposit money banks in Nigeria from 2006 to 2015. Findings indicate that board magnitude has an insignificant positive influence on the firm value.

Using data from commercial banks in Nigeria, from 2013 to 2017, Oyedokun (2019) investigated the impact of board features on financial performance. The findings suggest that board magnitude has an insignificant influence on financial performance.

Preye and Bingilar (2020) investigated the link between corporate Board features and company performance in Nigeria. The study established a positive relationship between board size and shareholder value. Thus, the study examines the following null hypothesis:

$H_{o1:}$ *Board Magnitude has no significant effect on shareholder value of listed non-financial firms in Nigeria*

BOARD EXPERTISE AND SHAREHOLDER VALUE

The Reviewed Nigerian Code on Corporate Governance 2011 and the Corporate Governance Version 2019 stipulate that boards must include the right mixture of members with appropriate skills and abilities. Guner et al. (2008) underlined the importance of board members comprehending accounting concepts and financial reporting, leading to improved board monitoring, which will benefit shareholders. Yermack (2006) studied the effect of board expertise on company value. The study found that share price reactions positively correlate with the director’s accounting expertise. In the same way, Ujunwa (2012) studied the effect of board characteristics and the financial performance of Nigerian quoted firms. The study finds a positive and significant relationship between board expertise and performance.

Furthermore, Edem and Noor (2014) studied the association between board characteristics and company performance in Nigeria. The result displays that board expertise is positively related to company performance. Also, Satirenjit Johl and Barry (2015) studied the influence of board characteristics and firm performance. The outcome exhibits that board expertise is positively related to corporate performance.

Idris et al. (2019) studied the effect of board skill on the probability of dividends from 2009 to 2015. The study established a positive sign of financial experts and the likelihood of distributing cash dividends. On the other hand, Imad (2015) evaluated the link between the board's expertise and firm value. The analysis demonstrates a negative association between board expertise and company performance. Therefore, the study examines the following null hypothesis:

$H_{o2:}$ *Board Expertise has no significant effect on shareholder value of listed non-financial firms in Nigeria*

CONTROL VARIABLE

Firm size is used as a control variable in this study because it is a relevant variable that could affect shareholder value. Firm size has been connected to economies of scale essential in investments and thus could impact shareholder wealth. Furthermore, the risk and cost of bankruptcy are linked to the size of a company. According to Ayot (2011), Larger businesses are more diverse and face a lower chance of default, resulting in improved financial performance.

THEORETICAL FRAMEWORK

Stewardship theory provides the theoretical underpinning for this study. Proposed by Davis and Donaldson (1987). agents are regarded as stewards of the corporation. According to stewardship theory, managers should be allowed autonomy based on trust, reducing the expense of monitoring and managing their actions. Stewardship theory similarly considers that agents' choices are also motivated by non-financial incentives, such as the need for accomplishment and recognition, desirable respect for authority, and ethics (Clarke, 2004). However, stewardship theorists argued that smaller board sizes promote increased participation and social interrelation; however, larger board sizes constrain the board's ability to reach agreement on significant conclusions.

METHODOLOGY

The study adopted an ex-post factor design. The study population encompassed all the 116 quoted non-financial companies in Nigeria as of 31st December 2020. The firms are classified into five subsectors: Agriculture, Conglomerates, Consumer goods, Healthcare, Oil and Gas, technology, Industrial goods, construction, and real estate and services. Therefore, 89 companies were sampled, making 890 firm-year observations using Yamane (1967) sample selection method. Also, stratified and proportionate sampling techniques were employed. The data for this study was gathered from a secondary source. The information was collected from the annual report for ten years (10) years (2011 to 2020).

TECHNIQUES OF DATA ANALYSIS AND THEIR MEASUREMENTS

The study used Generalized Least Square regressions has technique of data analysis.

Model Specification

$$SV_{it} = \alpha + \beta_1 BM_{it} + \beta_2 BEXP_{it} + \beta_3 FS_{it} + \varepsilon_{it}$$

Where:

SV = Shareholder value
α = Intercept β
= Parameter of explanatory variable
BM = Board Magnitude
BE = Board Expertise
FS = Firm Size
ε = Error term
i = firms involved in the study
t = time period involved

Table 1

Variables Measurement

Variables	Acronyms	Measurement	Source
Shareholder valued-added	SV	NOPAT-WACC*CI. NOPAT is net operating profit after taxes, WACC is weighted average cost of capital and CI is the amount of capital invested.	Kouki & Dabboussi, 2015
Board magnitude	BM	Board magnitude is defined as total number of directors in the board of sample companies	El-Faitouri, (2012).
Board Expertise	BEXP	Proportion Board of Directors who qualify for accounting or finance to total Board of Directors.	Guner, Malmendier, & Tate, (2008)
Firm Size Control Variable	FS	log of total assets	Dogan & Yildiz (2013)

RESULTS AND DISCUSSIONS

This section presents the descriptive and inferential results obtained from the study, and findings from the results are discussed based on the literature

Table 1

Descriptive Statistics

	Mean	Standard Deviation	Minimum	Maximum
SV	1.145085	.3922224	0.123	2.4583
BM	8.96164	2.650475	5	19
BEXP	.1827977	.2374189	0012	.435
FS	7.078606	.8138921	5.0927	9.2409

Source: STATA Output Result, 2021

The variable used as proxies for the shareholder value was economic value added (EVA). The mean value is 1.145085 with a standard deviation of .3922224. The standard deviations suggest that there is a low variability of SV across the sample. The smallest and highest values of EVA are 0.123 and 2.4583 EVA, respectively. The Board Magnitude (BM) varies across the sample companies as the minimum is five (5) and the maximum is as high as 19 members. The average board magnitude is 9 having a standard deviation of 2.650475.

From the table, the board's expertise has a mean of .1827977, a minimum of 0012, and a maximum of .435. This indicates at least one board member with a qualification in accounting or finance in each board of the sampled companies. Furthermore, firm size holds a mean value of 7.078606 with a standard deviation of .8138921. The standard deviation signifies that the sizes of the sampled firms are dispersed, as can be further affirmed by the minimum size of 5.0927 and a maximum of 9.2409.

Table 2

Correlation Matrix of the Dependent and Independent Variables

	SV	BM	BEXP	FS
SV	1.0000			
BM	0.1036	1.0000		
BEXP	0.1073	0.1428	1.0000	
FS	0.2225	-0.1329	0.3377	1.0000

Source: STATA Output Result, 2021

Table 2 presents the correlation of the variables under study. Board magnitude and expertise are positively related to shareholder value (SV), as evidenced from the coefficient values (0.1036 and 0.1073). The implication is that board magnitude board expertise moves in the same direction with shareholder value. Additionally, the firm's size positively correlates with the SV of non-financial firms in Nigeria.

Table 3

Diagnostics Test for Multicollinearity and White's Heteroskedasticity Test

Variable	VIF	1/VIF	reusch-Pagan / Cook-Weisberg test for heteroskedasticity Ho: Constant variance Variables: fitted values of esgpchi2(1) = 0.63	Prob > chi2 = 0.1933
BM	1.31	0.760489		
BEXP	1.14	0.873553		
FS	1.35	0.738036		
Mean VIF	1.23			

Source: output from STATA2021

The variance inflation factor (VIF) test for multicollinearity confirms that it does not exist because all factors are less than ten (10) and tolerance values are less than 1.0. The VIF average is 1.23. Furthermore, the diagnostic data from White's heteroskedasticity test show that the regression model performs well in Table 3.

Table 4

Testing the Best-Estimated Model

Hausman Test (Chi2)	Prob.	The result
chi2 (3)= (b-B)'[(V_bV_B)^(-1)] (b-B) = 50.82	Prob>chi2 = 0.000	Fixed effects model

Source: output from STATA2021

From the table, the Hausman test shows the chi value 50.82 with a probability value of 0.000, which is significant at 5% level of significance. Thus, the fixed effect regression model is the suitable model for this study

Table 5

Summary of Regression Result

	Coef.	Std. Err.	z	P>|z|
BM	.0098459	.0050292	1.96	0.051
BEXP	.2455311	.0543375	4.52	0.000
FS	.541577	.0421946	12.84	0.000
_cons	-2.820524	.295507	-9.54	0.000
R-sq: within =	0.2389			
between =	0.2929			
overall =	0.3360			
F(3,676) = 70.72				
Prob > F = 0.0000				

Source: output from STATA2021

The R-squared, which is the coefficients of determination, was 0.2389 within, 0.2929 between, and 0.3360 for the model, according to the results in table 5. Within R^2, independent variables account for 34% of the change in shareholder value from year to year in the panel. Between R^2 shows that independent variables explain the 29% variations in shareholder value from the cross-sectional unit to another company. Overall, R^2 displays that independent variables describe 34% changes in the whole panel. This model is significant, as indicated by Wald chi2 of 70.72 at 5% level of significance (.0000).

The beta value of BM is.0098459, the z-value is 0.051, and it is significant at 5% level of significance. These suggest that the board's size has a favourable impact on the value of non-financial companies in Nigeria. As a result of the larger board size, the economic value contributed is higher. The analysis disproves the first null hypothesis, which claims that magnitude of the board has no significant effect on the shareholder value of non-financial firms in Nigeria. The study does not support the stewardship theory regarding the small size and the findings of Muneer and Allam (2016); Preye and Bingilar (2020), who found a positive relationship between the board and shareholder value. However, it contradicted those of Erika (2018); Ahmad and Sallau (2018); Oyedokun (2019), who found insignificant between board size and shareholder value.

As shown in Table 5, the coefficient of board expertise (BEXP) is 0. 2455311 with a z-statistics of 4.52 and a p-value of 0.00. These signify that board expertise has a significant positive effect on the shareholder value of non-financial companies in Nigeria. That is an increase in board members with accounting and finance knowledge; shareholder value increases significantly. The study also rejects the second null hypothesis. The finding corroborates with those of Ujunwa (2012), Edem and Noor (2014); Satirenjit Johl and Barry (2015); Idris et al. (2019), who established a significant positive connection between board expertise and shareholder value. Nonetheless, it contradicted the study of Imad (2015), who found no relationship between board expertise and shareholder value.

The result also revealed that the control variable (FS) has a coefficient value of 541577 with a p-value of 0.000. This means that firm size has a positive and strong influence on the shareholder value of non-financial companies in Nigeria; that is, the greater the size of a firm, the higher the shareholder value.

CONCLUSION

This study investigates the extent to which board magnitude and board expertise affect the value of non-financial companies' shareholders in Nigeria from 2011 to 2020. The study concludes that characteristics of corporate governance that influence shareholder value are board magnitude and board expertise. The effect is that board magnitude and board expertise are essential factors for shareholder value creation of listed non-financial firms in Nigeria. This is consistent with stewardship theory that managers have a more significant impression on improving shareholder value. Based on the findings and conclusion, the study suggested that the number of directors on the board should be increased to strengthen the monitoring mechanism of non-financial firms in Nigeria. Also, the management should increase the number of directors with accounting literacy on their board if they also seek to maximize shareholder value.

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