



EFFECTS OF CORPORATE ATTRIBUTES ON FINANCIAL PERFORMANCE OF LISTED FINANCIAL SERVICES FIRMS IN NIGERIA

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Abstract

This paper investigated the effects of board attributes and board reputation on the financial performance of listed financial services firms in Nigeria from 2017 to 2023. The secondary data was generated from annual reports of financial services firms. The study considers Fixed Effect (FE) model as more appropriate parameter for interpretation through the directions of post estimation test. The study measures financial performance with return on assets which serves as the dependent variable in the econometric model while the independent variable is proxied with three dimensions. Board reputation is a dummy variable of one if there is presence of a reputable director and 0 if otherwise. Board independence is measured as a continuous variable with the proportion of total independent directors to total number of directors in the board. The remaining three variables (expertise, size and meeting) were proxied using absolute values. The results confirm the evidences in the literatures which indicated the positive correlation of both reputation and expertise of corporate board with financial performance. Therefore, the study recommends that board attributes of reputation and expertise explain the direction of financial performance and should be considered as critical components of decision making.

Keywords: board reputation, corporate attributes, board expertise, financial performance, listed financial services firms

1. Introduction

Variant factors of firm's performance have gained attentions in the re-occurrence of financial failures, corporate scandals that lead to collapse of prominent companies world-wide, and the adverse financial effects of corporations that has significantly weaken most economies of developing countries. Recently, the literatures have put more concern on the dimension of intangible factors that were discovered to improve firm's financial performance (Eberl & Schwaiger, 2005; Kanto, 2017). Equally, the empirical evidences emanated and display the

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confirmation of the intangible assets (Goodwill, Confidence and Trust) superiority; and are significantly relevant in stimulating both operational and financial performance (Caruana, 1997; Sanchez & Sotorrio, 2007; Musteen *et al.*, 2009; Pinheiro *et al.*, 2024).

Various firms' attributes were examined in association with financial performance which resulted in two definite positions that comprises the impact of board attributes on performance and; inconsistency of the resulting effects (conflicting findings). Moreover, the concept of corporate attributes is referred to the characteristics that corporate board room possess which was designed by various frameworks (legal, professional and ethical); and to harness uniqueness of quality in achieving the stated objectives.

The searching for determinants and factors that improve performance cannot be overemphasized because firms are capitalist oriented which are basically driven by financial benefits, policy compliance and efficiency and other subjective motives of the stakeholder (Agyei-Mensah, 2017). Attributes of board compositions, heterogeneity, independence, expertise has obvious statistics in impacting on firm's financial performance, whereas board reputation has more strong quotients due to unique competitive advantage – cannot not be copied or game-played.

Board reputation particularly support the firm's fame which benefited the strategies of customer loyalty and retention (Eberl & Schwaiger, 2005), product marketability and flexible pricing plan (Sanchez & Sotorrio, 2007), reduction of cost of capital (Dakhli, 2021) as such "board reputation" has direct relation to the firm's quality and resulted in higher financial benefits and performance.

Furthermore, the presence of expert in the board room evidently shows a high impact in the decision capabilities and poses special technicalities. As observe in the study of Musteen *et al.*, (2009) the attributes of board composition, size and meeting has been a pivotal factor to the firm's fundamental principles which rested the board responsibilities of planning, monitoring, and controlling the firm's resources, as such, countless corporate finance studies were conducted to assess the dynamism of these attributes.

Equally, board independence serves as the central aspect of monitoring the board activities and to ensure fair-play in the negative consequences of the board diversity. It was reported in the study of Dakhli, (2021) that the most important and common character of a corporate board is the independency which compel the management to minimize clash of interest between the management and the external resources providers. It is practical that managers have motives other than the shareholders (Kaur & Singh, 2018; Fich & Shivdasani, 2007; Musteen *et al.*, 2009) but the level of board independence strike balance in the conflicting interest (Dakhli, 2021). Therefore, the board monitoring mechanism contributes in achieving a higher financial performance through preventive measures in securing the required components of the decision making by the board room.

Financial service firms in Nigeria are faced with challenges associated with numerous macroeconomic factors. It is a known fact that since the inauguration of new political government in 2015, there have been frequent and abrupt fiscal policies by the government due to intense pressure for several reasons of unstable government composure, lack of clear

economic mission and focus, massive corruptions and fraudulent practice across financial markets and governmental agencies. As such, the tranquil of business operation has been affected negatively which poses a serious threat of winding-up of some established financial service firms. For example, Central Bank of Nigerian (CBN) has recently in June, 2024 revoke the license for operation of Heritage Bank Plc due to poor performance (Nigeria Deposit Insurance Corporation [NDIC], 2024). Skye Bank Plc was also liquidated and acquired by Polaris Bank due to stand-out of poor financial performance and distress financial obligation in 2018 (NDIC, 2018).

A report on finance sector shows that there is failure of financial service firms in fulfilling it major established objective of funding the private sector which serve as the core economic engine (The Africa Report, 2024). The statistics show a meager 20% of loans from in-house Nigerian institutions were issued to private sector which by indications record 80% of loans are channels to other sectors mostly governmental organization in 2023 (The Africa Report, 2024). These statistics are quite problematic as compared to some other African countries like Tunisia that has 35% and Egypt with 70% (The Africa Report, 2023). Therefore, the financial service firms are struggling in achieving it major obligations of funding the private sector due to financial performance problems.

Consequently, based on the recommendations by Misbahu (2023), there is need for more empirical studies to expand the variable-context of the effects of firm-specific attributes on financial performance of listed firms in Nigerian and broader context-study of developing countries that are striving to cope with globalization.

This study seeks to answer a research question on “What are the effects of corporate attributes on the financial performance in listed financial service firms in Nigeria?” Therefore, the overall objective of this study is to investigate the effects of corporate attribute on the financial performance in listed financial service firms in Nigeria while the specific objectives are:

- (i) To determine the effect of board reputation on the financial performance of listed financial service firms in Nigeria.
- (ii) To examine the effect of board financial expertise on the financial performance of listed financial service firms in Nigeria.
- (iii) To assess the effect of board independence on the financial performance of listed financial service firms in Nigeria.
- (iv) To investigate the effect of board size on the financial performance of listed financial service firms in Nigeria.
- (v) To examine the effect of board meetings on the financial performance of listed financial service firms in Nigeria.

In accordance with the specific objectives, the researcher formulates the following hypotheses in null form to premise the a-priori constructs:

H₀₁: There is no significant effect of board reputation on the financial performance of listed

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financial service firms in Nigeria.

H₀₂: There is no significant effect of board financial expertise on the financial performance of listed financial service firms in Nigeria.

H₀₃: There is no significant effect of board independence on the financial performance of listed financial service firms in Nigeria.

H₀₄: There is no significant effect of board size on the financial performance of listed financial service firms in Nigeria.

H₀₅: There is no significant effect of board meetings on the financial performance of listed financial service firms in Nigeria.

The empirical evidences in this study is expected to provide an insight on the effect of corporate attributes on financial performance which will have a resolute impact on the decisions of management and policy regulators/makers. Literally, the output of the study will avail several stakeholders of corporations with vital explanations on the scholarly phenomena of corporate board qualities. Stakeholders like government, investors, societal organizations and researchers will benefit from the study findings on establishing factual status of performance through which some economic indices will be balanced.

2. Literature Review

Relevant literatures on corporate attributes, board reputation and financial performance were reviewed to establish the conceptual definitions and meanings on the study variables. Again, empirical report and review are presented to build-up in the recent and contemporary researches. This section begins with introduction and covers the conceptual review/framework, empirical review and theoretical framework.

Conceptual Framework

The conceptual framework provides concepts and meanings of the study variables. The literatures are reported for the development of the framework.

Concepts of Financial Performance

Financial performance as defined by Jian and Lee (2011) is a parameter for measuring the effectiveness of firm's management in the utilization of limited resources within framework of time and structure. Performance is literal term that means achievement of target or ability for executing a particular course of action. More importantly, Orozco *et al.*, (2017) termed performance in finance view as a general connotation for assessing the wealth of a particular firm over a given time.

In contrast, financial performance is a metric that weighs the firm's success in its operations toward attaining the stated overall goals (Ahmadi & Bouri, 2017). On comparisons among firms, performance entails how effective a firm is; and a central point of attraction in financial reports (Petkova *et al.*, 2014). For the purpose of this study, the definition given by Jian and Lee (2011) coupled with Orozco *et al.*, (2018) were used for the conceptualization of financial performance to mean a strategic means of examining firm's accomplishments either by quantitative or qualitative approach.

Concepts of Corporate Attributes

The character of a corporate attributes which feature the director's quality of actions and operations is termed as board attributes (Kaur & Singh, 2018). Several postulates in corporate governance regulations have designed the attributes of board such as composition, independence, and leadership in the board room (Sabate & Puente, 2003; Singh & Mishrah, 2021). Musteen et al., (2010) opined that several board attributes are discovered to be crucial in improving the effectiveness of the board important actions like reputation and expertise which offers perception of quality. Furthermore, such perceptual quality is not captured mostly by the regulatory framework but has attract the ethical and professional attentions and considerations (Ahmadi & Bouri, 2017)

Board expertise is the level of financial knowledge and academic capabilities which the board possesses (Kanto, 2017). Financial expertise provides the board a cognitive experience in discovering opportunities, maintaining good relationship with related stakeholders and navigating through complex strategic actions (Agyei-Mensah, 2018).

Board independence is the presence of independent director in the board room which monitor the undue influence of directors (Dakhli, 2021), and offer independent opinion that will protect the shareholders interest in their absent (Bravo et al., 2016). The board independence promotes the balancing of conflicting course of actions and gives qualitative decisions with inclusiveness of wider opinion and considerate perceptions (Dakhli, 2021).

Additionally, board size means the number of occupants that composed the directors in the board room (Kaur & Singh, 2018), the size matters as it has been proven by scientific literature to have link with score of performance of the directors (Brammer *et al.*, 2009). As explain by Gatzert (2015) the composition of the board has relevant impact for monitoring and controlling the resources. Likewise, the board's meeting as explain by Orozco *et al.*, (2018) is the time spent by the director's base on request, arrangement and formalities. The board meetings host sensitive discussions (Ahmadi & Bouri, 2017); decision making processes; and strategic actions (Zhu et al., 2013; Gok & Ozkaya,).

Concepts of Board Reputation

The index of corporate board reputation refers to a qualitative asset that is gained through fame (Kanto, 2015) and as a result of best executions of actions (Navarro-Garcia *et al.*, 2020). it is explained by (Brammer et al., 2009) that reputation is a valuable attribute that support competitive advantage in customer retention and product quality control.

Empirical Review

Gatzert (2015) used the context of reputation risk and corporate reputation relevance to firm's value to examine the evidence from the literature. The paper survey the relationship between damaging events and performance. The researcher recorded the extent of the relationship, it causes and the relevancy of it in managing reputation risk.

Kaur and Singh (2018) examined the relationship between corporate governance and corporate reputation providing evidence from Indian listed firms. Using 403 firms as the sample, the regression results show board size and ownership pattern are affecting the firm's reputation.

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The study suggested that managers should explore more means of improving corporate governance.

Okpanen and Ogbeide (2020) investigated the listed non-financial firms in Nigeria on the effect of director's reputation on capital and financial performance. The data were generated from a sample of 50 firms within the period 2007-2018. The statistics showed board reputation has positive impact on financial performance while board size and firm's size have negative effect. However, the study recommended that corporate governance should be improved through director's reputation.

Pinheiro et al., (2024) studied the effects of board attributes on corporate reputation in Brazil. Within the time scope of 2016-2020, 128 Brazilian firms were selected in the study. The findings show that board size, gender diversity and board independence are positively influencing corporate reputation. However, audit committee has no significant effect on reputation and a recommendation was made that the firms should improve workforce and maintain good relation with external environment.

Theoretical Framework

This study was underpinned by Agency theory which relates the study variables as a principal and agent relationship. The theory dominated corporate governance researches as it best explained the management (agents) relation with the principal (shareholders). The theory was founded by Ross and Mitnick in 1973 and since then it received wide acceptance. Again, the theory was conceived in the concepts of Jensen and Meckling 1978 which defines business managers as separate to the shareholder.

The theory anchors the variables in explaining the double end relationship between agents and principals. Because the principal depends of the agents, asymmetry of information gave more advantage to the agents in prioritizing their interest over the principal interest. Therefore, the theory seeks to resolve the conflicting interest between agents and principals.

3. Methodology

Research Design

The study used correlational research methods to examine the perceived relationship. A positive research approach with quantitative data requires statistic methods that predict extent of variations and the direction of variables so as to test a premise construct.

Population and Sample Size of the Study

Primarily, this study aims to empirically examine the effects of corporate attributes on financial performance using the listed financial service firms in Nigerian Exchange (NGX) Group as at 31st December, 2023. The data-constitutes is from secondary sources of annual reports, NGX annual bulleting and various web site of the listed firms. Moreover, information generated covers the period of 7 years from 2017-2023 and a total of 315-year observations were used from a panel of 45 listed financial services firms.

The population of the financial services sector was considered in the study because the required data is available and there is no any considerate factor for excluding any firm to form a sample for the study. Therefore, the research used census sampling technique where the population is considered the sample. Meanwhile, the justification for selecting financial services

sector as the population of the study is the fact in significance of financial services with a trajectory relationship with financial performance.

Model Specifications

The econometric model is formulated by multiple linear equations which were developed to construct the relationship magnitude and direction. The model was adjusted (adapted) from Gatzert (2015) which features four explanatory variables to explain one dependent variable (the DV). Return on Asset (ROA) is regressed against Board Reputation (BR), Financial Expertise (BEXT), Board Independence (BOIND), Board Size (BOSIZ), and Board Meetings (BOMT). To control the regression anomalies and other factors not considered in this study, two control variables were used which comprises Firm Size (FSIZE) and Firm's Age (FAGE). The control variable will improve the validity of the statistical output and made the findings more generalizable (Gujarati & Porter, 2008). Therefore, the model is specified as follows:

$$ROA_{it} = \alpha + \beta_1 BT_{it} + \beta_2 BEXT_{it} + \beta_3 BOIND_{it} + \beta_4 BOSIZ_{it} + \beta_5 BOMT_{it} + \beta_6 FSIZE_{it} + \beta_7 FAGE_{it} + \varepsilon_{it}$$

Where: *ROA* is Return on Assets; *BT* is Board Reputation; *BEXT* is Board Financial Expertise; *BOIND* is Board Independence; *BOSIZ* is Board Size; *BOMT* is Board Meetings; *FSIZE* is Firm's Size; *FAGE* is Firm's Age; α is the intercepts of the curve (any point where a intersect b in a linear equation); β_n is The coefficient values of independent variables; *i* is Individual firm from the population; *t* is Time dimension; ε is the stochastic error term.

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Variable Measurements

Base on the reviewed literatures, the variables measurements were presented in table 1.

Table 1

Variable Measurement, Definition, and Sources

S/N	Variables	Ticker	Measurement	Source
1	Financial performance (Dependent Variable)	ROA	It is determined as a proportion of profit/loss after tax by total assets.	Gatzert, (2015); Agyei-Mensah, (2018).
2	Board reputation (Independent Variable)	BR	It is dummy variable of 1 if there is a reputable person in the board and 0 if otherwise. A reputable person is measured by traditional title (HRH, Chief, HH e t c) or National award (OON, MON CON e t c)	Bravo et al., (2016); Kanto, (2017)
3	Board Financial Expertise (Independent Variable)	BEXT	It is measured by absolute number of any professional qualification possess by a board member.	Dakhli, (2021)
4	Board Independence (Independent Variable)	BOIND	It is measured by the proportion of independent/Non-Executive Directors over the total number of directors in the board room.	Kaur & Singh (2018).
5	Board Size (Independent Variable)	BOSIZ	Absolute number of the board of director's composition.	Kaur & Singh (2018).
6	Board Meeting (Independent Variable)	BOMT	Absolute number of the meetings by the board within a financial year.	Orozco et al., (2018)
7	Firm's Size	FSIZE	Natural Log of total assets	Ahmadi & Bouri (2017)
8	Firm's Age	FAGE	Natural Log of firm's age from the date of incorporation.	Ahmadi & Bouri (2017)

Source: Author's Compilation, 2024

Technique of Data Analysis

The technique of data analysis is panel regression using Fixed Effect (FE) model. A total of 45 firms were pooled together and all study variables are captured in order to relate the individual independent variables with the dependent variable. Other pre and post estimation tests such as descriptive statistics, correlation matrix, Variance Inflator Factor (VIF), Langrangian multiplier effects, test for heterogeneity (Breusch and Pagan test) are considered to back-up the

statistical results and precision in generating finding, conclusions and recommendations. The study runs Ordinary Least Square (OLS) regression so as to ascertain the Variance Inflation Factor (VIF). Two model (both Fixed and Random effects Models) are considered for the interpretations but the post estimation favors the interpretation of FE model.

4. Result and Discussions

Descriptive Statistics

The description of the data is presented in table 2 which display the basis data behavior in terms of mean, minimum, maximum and standard deviation.

Table 2

Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Min.	Max.
ROA	315	2.36	4.67	-26.3	29.95
BR	315	0.45	0.16	0	1
BEXT	315	0.18	1.86	0.00	4
BOIND	315	0.55	0.24	0.33	0.25
BOSIZ	315	0.68	0.26	4	15
BOMT	315	0.10	2.43	2	7
FSIZE	315	1.46	0.18	1.04	1.77
FAGE	315	8.43	2.38	1.01	1.89

Source: Author's compilation, 2024

From the descriptive statistic in table 2, the year-observations are 315 which were developed from the time scope of 7 years (2017-2023) of each firm in the population (45 listed firms). The statistics shows the scale of the data collected in terms of mean, and standard deviation which can be used to observe the meaning of the data. The average return (ROA) by the entire financial services sector within the study period is 2.36 with minimum return (losses) as low as -26.3 and the highest profit of 29.95. Although the mean deviated by 4.67. This reflected that the overall performance of the sector is relatively stable.

Board reputation is qualitative in nature. Therefore, the mean is not explaining any variation. Thus, the minimum and maximum of board reputation is dummy of 1 and 0. Board independence is having the minimum and maximum of 0.33 and 0.25 respectively with the mean of 0.55. This implies that more than 50% of the study firms are independent although there is deviation of 0.24. The board size of financial services listed firms in Nigeria ranges between the minimum of 4 and maximum of 15 with the average of 0.68. Although there is deviation of 0.26, but the statistics shows a high compliance of the sector to Security and Exchange Commission (SEC) provisions which required the minimum of a board to be 3 and maximum of 15. The mean of board meetings is not explaining any variation due to its qualitative nature. Thus, the minimum and maximum of the meetings is 2 and 7 respectively. The control variables are

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measured by natural log of size (total assets) and age. The descriptions of natural logarithms are purely statistical latent that is not descriptive in nature.

Correlation Coefficient

Table 3

Correlation Matrix

	ROA	BR	BEXT	BOIND	BOSIZ	BOMT	FSIZ E	FAGE
ROA	1.00							
BR	0.08	1.00						
BEXT	0.17	0.27	1.00					
BOIND	0.01	0.08	0.09	1.00				
BOSIZ	0.12	-0.07	0.13	-0.05	1.00			
BOMT	0.13	0.10	0.10	0.04	0.09	1.00		
FSIZE	0.21	0.13	0.14	-0.01	0.21	-0.06	1.00	
FAGE	0.13	0.20	0.13	0.10	0.32	0.20	0.21	1.00

Source: Author's compilation, 2024

The correlation matrix reflects the multivariate and bivariate analysis. Table 3 is very important as it detect the level of linearity of the data. The statistics shows co-linearity mostly in the multivariate. Other robust tests were conducted and confirm that the presence of the collinearity is negligible and will not affect the regression result.

Table 4

Regression Results (Fixed Effects Model)

Variables	Coefficients	Std. Error	t-values	P > {t}
_Constant	48.39	19.06	-2.54	0.01
BR	4.08	2.09	1.95	0.02
BEXT	0.96	0.43	2.24	0.00
BOIND	-5.34	2.88	-1.85	0.06
BOSIZ	1.65	0.13	12.11	0.54
BOMT	-54.64	17.36	-3.15	0.72
FSIZE	6.33	9.79	0.65	0.51
FAGE	5.59	1.49	3.74	0.00
R square (Within)	0.3253			
F-Statistics (7, 774)	28.57			
Prob > F	0.0000			

Source: STATA14 output

Discussion of Findings

Based on the FE model output, we test the stated hypothesis to assess the presumed effects in the study variables. The R square is statistically within the required percentage (0.33). The R square shows the fitness of the model and it has a considerable portion as 33% of the concerned variable (DV) is explained by the variable selection in this study while the remaining percentage (67%) is affected by other variables not captured in this research.

Board Reputation (BR)

H₀₁ There is no significant effect of board reputation on the financial performance of listed financial service firms in Nigeria.

The regression as shown in table 4, BR is having t value of 1.95 and p-value of 0.02 which shows the existence of a significant and positive relationship and thus the null hypothesis is rejected. This implies that BR is a valid corporate attribute that affect performance positively and it should serve as a component of decision making.

Board Financial Expertise (BEXT)

H₀₂ There is no significant effect of board financial expertise on the financial performance of listed financial service firms in Nigeria.

BEXT is having a t-value of 2.24 with corresponding p-value of 0.00 and therefore the null hypothesis is rejected. This attests that expertise is having stronger relationship with ROA as hence a determinant of financial performance.

Board Independence (BOIND)

H₀₃ There is no significant effect of board independence on the financial performance of listed financial service firms in Nigeria.

BOIND have t-value of -1.85 with significance level at 10% (0.06 p-value) therefore the null hypothesis is accepted and there is no significant relation between board independence and financial performance of listed financial services in Nigeria. Although the t-value indicated that the weak relationship is negative.

Board Size (BOSIZ)

H₀₄ There is no significant effect of board size on the financial performance of listed financial service firms in Nigeria.

The regression table shows that BOSIZ is having a t-value of 12.11 with a corresponding p-value of 0.54 therefore the null hypothesis is accepted and there is no significant relationship between board size and financial performance of listed financial services firms in Nigeria.

Board Meetings (BOMT)

H₀₅ There is no significant effect of board meetings on the financial performance of listed financial service firms in Nigeria.

The table 4 above shows that BOMT is having -3.15 t-values with corresponding p-value of 0.72 therefore the null hypothesis is rejected and there is no significant relationship between board meetings and financial performance of listed financial services firms in Nigeria.

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5. Conclusion and Recommendations

Evidently, this study investigated the effects of board attributes, corporate board reputation of the financial performance of listed financial service firms in Nigeria. Out of the five study variables that comprises board reputation, financial expertise, independence, size and meeting, only two (Board reputation and independence) were found to have a significant and positive effect of financial performance. The results confirm the theory and a-prior constructs that board reputation and financial expertise can be used by the management to improve financial performance.

Aligning with the theory, the study findings support the notion of strengthening the ultimate organizational goal (Profit maximization) through operationalizing intangible assets (as par the context of reputation and expertise). The management (agents) should utilize intangibles in achieving optimality whereas the investors (principals) should assess the management through reputation and expertise thereby mitigating asymmetrical advantages.

The study, however, recommended the followings:

- (i) The management should consider board reputation as critical component in decision making as it has positive correlation with financial performance.
- (ii) Financial expertise should be included in the feature of the corporate board so as to have required ability in making effective decisions.
- (iii) Board independence should be limited since it does not have significant effect on financial performance. Limiting the independent directors will aid in having a speedy action by the board.
- (iv) Board size should also be limited so as to reduce complexity of decisions. Limiting the size of the board will aid in effective management of human resources and reduces too much deliberations in the board room.
- (v) Board meeting should also be limited since it is insensitive to financial performance.

Limitations and Further Researches

This study is limited in its scope therefore further studies should consider wider scope in terms of context, variables and domain. Other measurements of reputation (such as proportions or reputation index) can be employed by future researches.

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