



Board characteristics and financial decisions of indigenous Nigerian companies

Authors

**Olumuyiwa
Olanrewaju
Opeoluwa
&
Akinyede,
Oyinlola
Morounfolu
wa**

Affiliation:

Department
of Finance,
Redeemer's
University,
Ede Osun
State,
Nigeria



Abstract

The study investigates the relationship between board characteristics and financial decision within indigenous Nigerian companies, particularly the impacts of board characteristics on the investment, dividend and financial decision within indigenous Nigerian companies. Causal-comparative research design was used to investigate the effects of board characteristics and financial decision. Data was purposively gathered from 10 indigenous Nigerian companies listed on the Nigerian stock exchange between 2012 and 2021 having considered a population of 156 indigenous Nigerian companies quoted on Nigeria stock exchange (NGX) as at July 13 2023. The fixed effects model method of data analysis and Regression was employed. The findings revealed that larger board size positively impacted the Debt to Equity Ratio of the organization which is a financial decision. This aligns with resource dependence and agency theories as Debt to Equity Ratio is influenced by the presence of a Board Committee and greater Board Diligence. The findings also shows a positive relationship exists between Board size and the Dividend per share. Thus supporting the idea that larger boards enhance dividend decision-making and financial performance



Board Committee and greater Board Diligence also had positive effects on Dividend per share. The findings further reveals a positive relationship between Board Size and Fixed asset ratio and between Board Committee and Fixed asset ratio and a negative relationship exists between Board Diligence and Fixed asset ratio thus indicating that Board characteristics have effect on the investing decision which affects the financial performance of Indigenous companies. These have practical implications for stakeholders in Nigeria's financial and economic landscape, including policymakers, investors, and analysts. These financial and non-financial indicators are crucial for making informed investment decisions, implementing effective risk management strategies, and developing sound policy plans.

Key words: Board characteristics, financial decisions, board size, financial performance.

Introduction

Corporate governance and financial management experts have paid close attention to the correlation between board make-up and funding choices. Gaining insight into the impact of a company's board of directors' composition on its financial decisions holds significant for indigenous Nigerian firm (Adamu, Abdulrasheed & Ekundayo, 2019). The dimensions of the board, are indicative of the wide range of viewpoints and specialized knowledge that can contribute to informed decision-making in the realm of financial matters. According to Denis and McConnell (2003), the presence of larger boards can lead to a wider array of skills and knowledge, which has the potential to improve the quality of decision-making and mitigate agency conflicts. Conversely, it has been argued that smaller boards possess greater agility and efficiency in achieving consensus and making prompt financial decisions (Eisenberg, Sundgren, & Wells, 1998).

The presence of independence among board members is a crucial attribute that exerts an influence on financial decisions. The role of independent directors encompasses the responsibility of introducing objectivity and impartiality into the decision-making process, with the primary objective of acting in the best interests of the company and its stakeholders. According to Fama and Jensen (1983), the provision of checks and balances by certain entities serves to mitigate conflicts of interest and foster the exercise of prudent financial judgement by management. The inclusion of independent directors is frequently linked to enhanced financial transparency, reduced agency costs,



and improved availability of external financial (Boyd, 1995; Yermack, 1996).

The interplay between board characteristics and financial decisions in indigenous Nigerian companies exhibits a complex nature. The decision-making process regarding financial options can be significantly influenced by an optimal combination of factors such as board size, independence, diversity, and expertise. According to Babalola (2017), a board that possesses a broader range of expertise may possess enhanced capabilities in evaluating and choosing appropriate sources of financial, taking into account the distinct requirements and obstacles encountered by indigenous Nigerian companies. According to Okolie and Mubaraka (2019), the inclusion of independent directors within a company can contribute to the enhancement of financial reporting and decision-making processes. Consequently, this improvement can lead to increased credibility and subsequently improve the company's ability to obtain external financial.

Additionally, the risk appetite of indigenous Nigerian companies in making financial decisions can be influenced by board characteristics. According to Onaolapo and Ogbechie (2019), boards that consist of members with diverse perspectives and expertise are likely to possess a more comprehensive comprehension of the risks linked to various financial options. Consequently, this enhanced understanding can result in more cautious decision-making and improved risk management. In addition, the presence of independent board members and their financial expertise can play a role in the determination of appropriate financial options that are in line with the company's long-term strategic objectives, effectively managing the trade-off between risk and return (Abor & Biekpe, 2007).

The scholarly investigation of corporate governance has placed significant emphasis on the impact of board characteristics on different facets of organisational behaviour and performance. The composition of a company's board, encompassing elements such as board size, independence, diversity, and expertise, has a substantial impact on decision-making procedures, risk management tactics, and the overall trajectory of the corporation. A considerable body of research has been dedicated to exploring the influence of board characteristics on corporate performance. However, there exists a distinct research gap that calls for a focused investigation into the relationship between these characteristics and financial decisions in indigenous Nigerian companies (Chenhall, Hall, & Smith, 2016; Onaolapo & Ogbechie, 2019).



Research Objectives

The primary objective of this study is to investigate the relationship between board characteristics and financial decisions within indigenous Nigerian companies. In pursuit of this main objective, the following specific research objectives will be addressed:

1. To examine the influence of board characteristics on investment decision in indigenous Nigerian companies.
2. To determine the role of board characteristics on dividend decision within indigenous Nigerian companies.
3. To investigate the relationship between board characteristics and financial decision in indigenous Nigerian companies.

Literature Review

Financial decisions encompass the strategic determinations undertaken by companies to ascertain the origins and categories of funds employed for the purpose of financial their operational activities, investments, and endeavours aimed at expansion. The process of making these decisions entails the assessment and choice of the most appropriate combination of debt and equity financial alternatives to fulfil the capital needs of the company. This evaluation takes into account various factors including cost, risk, flexibility, and long-term strategic objectives.

Ross, Westerfield, and Jordan (2019) assert that financial decisions encompass the process of ascertaining the capital structure of a firm, which denotes the relative composition of debt and equity employed to fund its assets. Debt financial refers to the practise of acquiring capital from external entities, such as banks, financial institutions, or bondholders, through borrowing. On the other hand, equity financial involves procuring funds by issuing ownership shares to investors. The decision regarding whether to utilise debt or equity financial is contingent upon various factors, including the cost of capital, risk tolerance, tax ramifications, and the financial standing of the organisation.

Brigham and Ehrhardt (2019) underscore the importance of financial decisions, as they assert that the capital structure choices made by a firm directly influence its cost of capital, profitability, risk profile, and overall financial performance. Companies endeavour to achieve a harmonious equilibrium between minimising the cost of capital and maximising shareholder value through the identification of the most advantageous financial mix.



Agency Theory

Agency Theory is a well-established perspective in the field of corporate governance. It focuses on examining the relationship between principals, who are the shareholders, and agents, who are the managers, within an organisation (Jensen & Meckling, 1976). According to this theory, the board of directors serves as an agent of shareholders and has the responsibility of monitoring and controlling managerial behaviour in order to safeguard the interests of shareholders. The characteristics of the board are crucial in shaping a company's FD practises within the context of FD. Directors who possess expertise in FD-related areas can contribute valuable insights and knowledge during boardroom discussions. This expertise allows for a deeper understanding of the interests and expectations of non-shareholder stakeholders, including employees, customers, communities, and the environment. The expertise of these individuals can be valuable in developing FD strategies that are in line with broader societal goals and effectively address the specific concerns of stakeholders (Dutta et al., 2019).

Resource Dependence Theory

Pfeffer and Salancik (1978) proposed Resource Dependence Theory, which offers valuable insights into the correlation between board characteristics and financial decision. According to this theory, organisations depend on a range of resources, including financial, human, and social resources, in order to operate effectively and accomplish their objectives. In the context of Financial decision (FD), the availability and utilisation of resources play a crucial role in implementing sustainable and socially responsible practises.

The board of directors plays a crucial role in managing resource dependencies and influencing the organization's access to and utilisation of resources for financial decision (FD) initiatives. Directors who come from diverse backgrounds, possess extensive networks, and have a wide range of expertise bring valuable resources to the boardroom. (Demb & Neubauer, 1992). Directors who have previous experience in sustainable business practises or environmental management can offer valuable insights and establish connections with relevant stakeholders in the field. This expertise improves the board's capacity to comprehend and tackle FD challenges, influencing the organization's sustainability strategy.

Upper Echelons Theory



The Upper Echelons Theory posits that a company's strategic decisions and outcomes are influenced by the characteristics, values, and experiences of top-level executives, including the board of directors (Hambrick & Mason, 1984). In the context of financial decision (FD), the board's demographic diversity, such as gender, age, and educational background, can significantly shape the company's FD practices. Research has shown that diverse boards are more likely to prioritize social and environmental issues and adopt proactive FD strategies (Erhardt et al., 2003). The presence of directors with diverse backgrounds brings different perspectives, knowledge, and experiences to the decision-making process, enabling a more comprehensive consideration of FD-related opportunities and challenges.

Empirical Review

In their study, Githaiga and Kosgei (2023) examine the relationship between board characteristics and sustainability reporting in East Africa's listed firms. The authors aim to contribute to the existing literature by shedding light on the influence of board characteristics on the extent and quality of sustainability reporting practices in this region. By focusing on East Africa, the study provides insights into a geographical context that has received limited attention in prior research on sustainability reporting. The authors employ a quantitative research design, utilizing data from listed firms in East Africa. This empirical study examines a sample of 79 listed firms that were selected from East African securities exchanges. The data used in this study spans from the year 2011 to 2020. The findings of this study indicate a positive and significant relationship between board gender diversity, board financial expertise, and board independence with sustainability reporting. In contrast, previous empirical studies have consistently found a negative and statistically significant relationship between board size and sustainability reporting. These findings suggest that as board size increases, the level of sustainability reporting tends to decrease.

Farooq, Noor, and Naeem (2022) conducted an empirical investigation to examine the influence of board of director characteristics on financial decision (FD) within the context of Pakistan. This study contributes to the existing literature by examining the effects of board characteristics on family and non-family businesses within an emerging market. The sample for this study comprises 139 non-financial firms listed on the Pakistan Stock Exchange (PSX) during the period from 2008 to 2019. In this study, the researchers employed a multidimensional financial approach to



evaluate the level of financial distress (FD) among a sample of firms. The study utilised a random-effect model to examine the hypotheses. The existing literature provides support for the dysfunctional perspective on the role of the board of directors in family-owned businesses. The empirical literature consistently demonstrates that board size and CEO duality exert a noteworthy negative influence on firm performance, specifically on financial distress (FD). Numerous studies have found that larger board sizes and the presence of CEO duality are associated with increased levels of FD. Conversely, board independence has been consistently shown to have a significant positive effect on FD. These findings suggest that organisations with smaller boards and separate CEO and board members (Nwude and Nwude (2021)) conducted an empirical investigation to examine the relationship between firm board characteristics and financial decision disclosure (FDD) in the banking industry of developing economies, with a specific focus on Nigeria. The authors aimed to contribute to the existing literature by shedding light on the factors that influence FDD in this particular context.

This empirical study examines a subset of 11 out of the 13 national commercial banks in Nigeria. These banks were chosen because they offer similar services and are regulated by the Central Bank of Nigeria (CBN) under the same disclosure requirements. The study covers the period from 2007 to 2018. The study utilised multiple regression analysis to examine panel data collected from the audited financial statements of banks. The empirical literature reveals that there is a positive relationship between certain characteristics of the board of directors and the financial decisions made by banks. Specifically, it has been found that boards with a larger number of members, a lower proportion of individuals operating outside of the bank's operations, and a higher percentage of female directors tend to support higher levels of financial decisions. These findings suggest that the composition and diversity of the board play a significant role in shaping the bank's financial strategies. The present study draws upon the resource dependency theory and agency theory to examine the relationship between the number of persons on board and the proportion of feminine administrators. These theories provide a theoretical framework for understanding the phenomenon under investigation. The findings of this study contribute to the existing empirical literature on this topic. This statement highlights the potential impact of a low percentage of nonexecutive administrators on the effectiveness of bank regulators. The presence of nonexecutive administrators within regulatory bodies is considered crucial for ensuring a balanced and comprehensive oversight of the banking sector. By incorporating individuals who are not directly involved in the



day-to-day operations of banks, regulators can benefit from a broader range of perspectives and reduce the risk of conflicts of interest. However, a low percentage of nonexecutive administrators may undermine the ability of regulators to fulfil their intended. The existing literature suggests that banks with larger board sizes, greater gender diversity, and lower levels of board independence may have a positive impact on financial performance, specifically in terms of improving financial distress (FD). Several studies have examined the relationship between board characteristics and FD, providing empirical evidence to support this assertion. Firstly, the size of a bank's board has been found to be a significant factor in influencing FD. Research has shown that banks with an oversized board size tend to exhibit improved financial performance, including a reduction in FD. This finding suggests that a larger board may contribute to better decision-making processes and enhanced governance mechanisms, leading to a more stable financial position. Secondly, gender diversity on bank boards has been identified as another important determinant of FD. Studies have consistently demonstrated that banks with a higher representation of women on their boards tend to experience lower levels of FD. This finding suggests that gender diversity brings unique perspectives and skills to board discussions, leading to more effective risk management and improved financial outcomes.

Methodology

The research design which will be employed in this study is an ex post facto design. An ex post facto design, also known as a retrospective design or causal-comparative design, is a type of non-experimental research design that investigates the relationship between variables after the fact, without any intervention or manipulation by the researcher. It aims to explore and understand the causal relationship between independent and dependent variables based on existing data.

The choice of an ex post facto design is appropriate for this study as it allows for an examination of the relationship between board characteristics and financial decision of indigenous Nigerian companies. Since the study seeks to investigate this relationship based on historical data, it is not feasible to manipulate or control the independent variables (i.e., board characteristics) to observe their direct effects on the dependent variable (financial decision). Therefore, an ex post facto design is the most suitable approach for this research.



Population of the Study

The population for this study was comprised of 156 indigenous Nigerian companies quoted on Nigeria stock exchange (NGX) as at July 13 2023, whose financial report are available between 2012 to 2021 on the Nigerian stock exchange.

Sampling

The researcher used a purposive sampling technique to meet the study aim and to select 10 indigenous Nigerian companies listed on the Nigerian stock exchange, by selecting indigenous companies with larger market sizes and higher share prices, the researcher includes companies that have a substantial impact on the Nigerian economy and are likely to have a more significant influence on financial decisions. The companies considered include thus; Cadbury Nigeria Plc, Guinness Nigeria Plc, Honeywell Flour mills, Nestle Nigeria, Unilever Nigeria, Dangote Group, BUA foods plc, DN Tyre and Rubbers, Mansard Financial Services and Deap capital Management and Trust. A purposive sampling technique was employed to specifically target companies that are representative of the indigenous Nigerian business landscape. This technique allows the researcher to select companies that possess the characteristics and attributes relevant to the research objectives

Method of Data collection and Data Sources

The study will gather data from a variety of sources. The selected indigenous Nigerian companies' real-time numerical data will be acquired from the Nigerian stock exchange and their published annual reports, which are available on their official website. The following data will be collected from the annual report of the selected companies. The study will made use of data for the period 2012-2021. Data will be collected from quoted companies' annual financial reports and accounts. Some of the data have been collected from the companies' audit reports. The selected period was considered adequate to give comprehensive information on trend and sufficient variables necessary.

Model Specification

$$FD = f (BCM, BDV, BSZ, BID) \dots \dots \dots (3.1)$$

The estimation regression equation based on the above functional relation is:

$$FAR_{it} = \beta_0 + \beta_1 BCM_{it} + \beta_2 BDV_{it} + \beta_3 BZS_{it} + \beta_4 BID_{it} + \mu_{it} \dots \dots \dots (3.2)$$

$$DPS_{it} = \beta_0 + \beta_1 BCM_{it} + \beta_2 BDV_{it} + \beta_3 BZS_{it} + \beta_4 BID_{it} + \mu_{it} \dots \dots \dots (3.3)$$

$$DER_{it} = \beta_0 + \beta_1 BCM_{it} + \beta_2 BDV_{it} + \beta_3 BZS_{it} + \beta_4 BID_{it} + \mu_{it} \dots \dots \dots (3.2)$$

Where:

FD = Financial Decision (dependent variable)

FAR = Fixed Asset Ratio

DPS = Dividend Per Share

DER = Debt to Equity Ratio

BCM = Board Composition

BDV = Board Diversity

BSZ = Board Size at time

BID = Board Independence

μ =stochastic error term

β_0, \dots, β_4 = regression coefficients of the parameter estimate
 Data Analysis and Findings

Table 4.2 Summary of Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis
DER	0.55	0.54	1.10	0.28	0.16	0.63	3.35
DPS	9.60	8.04	124.85	-61.72	15.38	2.51	25.78
FAR	17.47	11.53	187.28	-22.60	25.33	3.15	18.52
BSZ	5.11	5.00	9.00	4.00	1.19	1.05	3.70
BCM	72.66	75.00	93.75	12.50	12.72	-1.07	5.21

BDG	7.61	8.00	15.00	1.00	2.31	0.38	3.71
ACM	6.01	6.00	7.00	6.00	0.12	8.49	73.01
BDV	19.48	18.18	50.00	0.00	9.92	0.57	2.91
FSZ	7.98	8.03	9.38	6.47	0.61	-0.32	3.20

Source: EViews 10 Output

The mean Debt to equity ratio is 0.55. The median Debt to equity ratio is 0.54. The maximum Debt to equity ratio value recorded is 1.10. The minimum Debt to equity ratio value recorded is 0.28. Debt to equity ratio has a low variability, with a standard deviation of 0.16. The distribution is slightly right-skewed, as indicated by the skewness value of 0.63. The kurtosis value of 3.35 suggests a moderate level of peakedness in the distribution.

The mean Dividend Per Share is 9.60. The median of Dividend Per Share is 8.04. The maximum value recorded for Dividend Per Share is 124.85. The minimum Dividend Per Share value recorded is -61.72, denoting a negative figure. The Dividend Per Share has a standard deviation of 15.38, suggesting a considerable degree of variability. The skewness value of 2.51 indicates a substantial positive skewness in the distribution. The kurtosis value of 25.78 suggests a significant level of peakedness in the distribution. The mean fixed asset ratio is 17.47. The median fixed asset ratio is 11.53. The maximum fixed asset ratio value recorded is 187.28. The Fixed asset ratio was observed to be -22.60, indicating a negative value. The Fixed asset ratio exhibits a high variability, as evidenced by its standard deviation of 25.33. The distribution is significantly right-skewed, as indicated by the skewness value of 3.15. The kurtosis value of 18.52 suggests a significant level of peakedness in the distribution.

The mean Board Size is 5.11. The median of Board Size is 5.00. The maximum observed value for Board Size is 9.00. The minimum observed value for Board Size is 4.00. The Board Size has a low variability, as evidenced by its standard deviation of 1.19. A skewness value of 1.05 indicates a distribution that is slightly skewed to the right. The kurtosis value of 3.70 suggests a moderate degree of peakedness in the distribution. The mean of Board Committee is 72.66. The median of the Board Committee is 75.00. The maximum value recorded for the Board Committee is 93.75. The minimum value recorded for the Board Committee is 12.50. The Board Committee displays a high degree of variability, as evidenced by its standard deviation of 12.72. The distribution exhibits a significant left skewness, as indicated by the

skewness value of -1.07. A kurtosis value of 5.21 denotes significant peakedness in the distribution.

The mean Board Diligence, as measured by the number of meetings, is 7.61. The median of Board Diversity is 8.00. The maximum value recorded for Board Diligence is 15.00. The minimum value recorded for Board Diligence is 1.00. The Board Diligence has a moderate variability, as evidenced by its standard deviation of 2.31. A skewness value of 0.38 indicates a distribution that is slightly skewed to the right. The kurtosis value of 3.71 suggests a moderate level of peakedness in the distribution. The mean of Board Diversity is 19.48. The median of Board Diversity is 18.18. The maximum value recorded for Board Diversity is 50.00. The minimum value recorded for Board Diversity is 0.00. The Board Diversity has a moderate variability with a standard deviation of 9.92. A skewness value of 0.57 indicates a distribution that is slightly skewed to the right. The kurtosis value of 2.91 suggests a moderate level of peakedness in the distribution.

The mean Firm Size is 7.98. The median of Firm Size is 8.03. The maximum value recorded for Firm Size is 9.38. The minimum Firm Size recorded is 6.47. The Firm Size has a low variability, as evidenced by its standard deviation of 0.61. The skewness value of -0.32 indicates a left-skewed distribution. The kurtosis value of 3.20 suggests a moderate level of peakedness in the distribution.

Test of Hypotheses

Statement of Hypothesis one

H₀: Board characteristics variables (board size, board composition, board diligence and board diversity) has no effect on financial decision (DER)

$$DER_{it} = \beta_0 + \beta_1 BSZ_{it} + \beta_2 BCM_{it} + \beta_3 BDG_{it} + \beta_4 ACM_{it} + \beta_5 BDV_{it} + \beta_6 FSZ_{it} + \mu_t$$

Table 4.3.1a: Hausman Test

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.677	6	0.0025

Source: EViews 10 Output

Table 4.3.1a displays the outcomes of the Hausman test, revealing a Chi-Square statistic of 8.677. With 6 degrees of freedom and a probability value of 0.0025, the null hypothesis of the suitability of the random effects model is rejected in favour of the fixed effects model. The significant finding implies the presence of unobserved individual-

specific factors that influence the dependent variable. Therefore, the fixed effects model is a more suitable option to manage these individual-specific effects. The Hausman test indicates that the fixed effects model is preferable to the random effects model for explaining the panel data.

Table 4.3.1b Fixed Effect Regression for Hypothesis One

Cross-section random effects test equation:
Dependent Variable: DER

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.252	0.889	-0.284	0.777
BSZ	0.031	0.012	2.690	0.004
BCM	0.003	0.002	2.084	0.040
BDG	0.024	0.010	2.513	0.018
ACM	0.236	0.098	2.405	0.026
BDV	0.005	0.002	2.992	0.003
FSZ	0.041	0.077	0.531	0.596
Effects Specification				
R-squared	0.624	Mean dependent var	0.545	
Adjusted R-squared	R- 0.605	var S.D. dependent var	0.157	
F-statistic	7.754	Durbin-Watson stat	1.706	
Prob(F-statistic)	0.000			

Source: EViews 10 Output

Table 4.3.1b presents the results of a fixed effect regression analysis for Hypothesis One, with the dependent variable being DER. The coefficient for the intercept term is -0.252. This represents the estimated effect on DER when all independent variables are zero.

Board Size (BSZ): The coefficient for Board Size is 0.031 with a standard error of 0.012. This indicates that a one-unit increase in Board Size is associated with a 0.031 increase in DER, holding other variables constant. The t-statistic of 2.690 indicates that the coefficient is statistically significant at a 0.004 level, suggesting that Board Size has a positive impact on DER.

Board Committee (BCM): The coefficient for Board Committee is 0.003 with a standard error of 0.002. This implies that a one-unit increase in Board Committee is associated with a 0.003 increase in DER, holding other variables constant. The t-statistic of 2.084 suggests that the

coefficient is statistically significant at a 0.040 level, indicating that Board Committee has a positive impact on DER.

Board Diligence (Proxy by Number of Meetings) (BDG): The coefficient for Board Diligence is 0.024 with a standard error of 0.010. This means that a one-unit increase in Board Diligence is associated with a 0.024 increase in DER, holding other variables constant. The t-statistic of 2.513 shows that the coefficient is statistically significant at a 0.018 level, indicating a positive impact of Board Diligence on DER.

Board Diversity (BDV): The coefficient for Board Diversity is 0.005 with a standard error of 0.002. This implies that a one-unit increase in Board Diversity is associated with a 0.005 increase in DER, holding other variables constant. The t-statistic of 2.992 suggests that the coefficient is statistically significant at a 0.003 level, indicating a positive impact of Board Diversity on DER.

FSZ (Firm Size): The coefficient for Firm Size is 0.041. However, the t-statistic (0.531) is not statistically significant (p-value = 0.596), indicating that Firm Size does not have a significant effect on DER. The R-squared value is 0.624, indicating that the independent variables explain approximately 62.4% of the variation in the dependent variable (DER). The adjusted R-squared value is 0.605, which takes into account the number of predictors and sample size. It provides a more conservative estimate of the model's explanatory power. The F-statistic is 7.754 with a p-value of 0.000, suggesting that the overall regression model is statistically significant.

Overall, the fixed effect regression analysis indicates that Board Size, Board Committee, Board Diligence (Proxy by Number of Meetings) and Board Diversity have significant effects on Debt to equity ratio (DER), while Firm Size does not. These findings contribute to understanding the factors influencing DER and provide support for the hypothesis being tested.

Statement of Hypothesis Two

H₀: Board characteristics variables (board size, board composition, board diligence and board diversity) has no impact on financial decision (DPS)

$$DPS_{it} = \beta_0 + \beta_1BSZ_{it} + \beta_2BCM_{it} + \beta_3BDG_{it} + \beta_4ACM_{it} + \beta_5BDV_{it} + \beta_6FSZ_{it} + \mu_t$$

Table 4.3.2a: Hausman Test

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

Cross-section random	17.661	6	0.007
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Source: EViews 10 Output

Table 4.3.2a shows the Hausman test's 8.677 Chi-Square statistic. The fixed effects model is preferred above the random effects model with 6 degrees of freedom and 0.007 probability. The significant finding suggests unobserved individual-specific characteristics affect the dependent variable. Thus, the fixed effects model better manages these individual-specific effects. The Hausman test shows that the fixed effects model better explains panel data than the random effects model.

Table 4.3.2b Fixed Effect Regression for Hypothesis Two

Cross-section random effects test equation:				
Dependent Variable: DPS				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.156	4.566	2.224	0.023
BSZ	2.559	1.236	2.069	0.045
BCM	0.404	0.171	2.360	0.029
BDG	2.084	1.015	2.054	0.045
ACM	-2.653	10.436	-0.254	0.800
BDV	0.420	0.171	2.446	0.016
FSZ	-1.041	8.173	-0.127	0.899
Effects Specification				
R-squared	0.623	Mean dependent var	9.605	
Adjusted squared	R- 0.588	S.D. dependent var	15.383	
F-statistic	8.078	Durbin-Watson stat	1.632	
Prob(F-statistic)	0.000			

Source: EViews 10 Output

Table 4.3.2b presents the results of a fixed effect regression analysis for Hypothesis Two, with the dependent variable being DPS (Earnings per Share). Let's interpret the table: The coefficient for the intercept term is 10.156. This represents the estimated effect on DPS when all independent variables are zero

Board Size (BSZ): The coefficient for Board Size is 2.559 with a standard error of 1.236. This indicates that a one-unit increase in Board Size is associated with a 2.559 increase in DPS, holding other variables constant. The t-statistic of 2.069 suggests that the coefficient is



statistically significant at a 0.045 level, indicating a positive impact of Board Size on DPS.

Board Committee (BCM): The coefficient for Board Committee is 0.404 with a standard error of 0.171. This implies that a one-unit increase in Board Committee is associated with a 0.404 increase in DPS, holding other variables constant. The t-statistic of 2.360 indicates that the coefficient is statistically significant at a 0.029 level, suggesting a positive impact of Board Committee on DPS.

Board Diligence (Proxy by Number of Meetings) (BDG): The coefficient for Board Diligence is 2.084 with a standard error of 1.015. This means that a one-unit increase in Board Diligence is associated with a 2.084 increase in DPS, holding other variables constant. The t-statistic of 2.054 suggests that the coefficient is statistically significant at a 0.045 level, indicating a positive impact of Board Diligence on DPS.

Board Diversity (BDV): The coefficient for Board Diversity is 0.420 with a standard error of 0.171. This suggests that a one-unit increase in Board Diversity is associated with a 0.420 increase in DPS, holding other variables constant. The t-statistic of 2.446 indicates that the coefficient is statistically significant at a 0.016 level, indicating a positive impact of Board Diversity on DPS.

FSZ (Firm Size): The coefficient for Firm Size is -1.041. However, the t-statistic (-0.127) is not statistically significant (p-value = 0.899), indicating that Firm Size does not have a significant effect on DPS. The R-squared value is 0.623, indicating that the independent variables explain approximately 62.3% of the variation in the dependent variable (DPS). The adjusted R-squared value is 0.588, which takes into account the number of predictors and sample size. It provides a more conservative estimate of the model's explanatory power.

The F-statistic is 8.078 with a p-value of 0.000, suggesting that the overall regression model is statistically significant. Overall, the fixed effect regression analysis for Hypothesis Two indicates that Board Size, Board Committee, and Board Diligence (Proxy by Number of Meetings) have significant positive effects on Dividend Per Share (DPSS)

Statement of Hypothesis Three

H₀: Board characteristics variables (board size, board composition, board diligence and board diversity) has no impact on financial decision (FAR)

$$FAR_{it} = \beta_0 + \beta_1BSZ_{it} + \beta_2BCM_{it} + \beta_3BDG_{it} + \beta_4ACM_{it} + \beta_5BDV_{it} + \beta_6FSZ_{it} + \mu_{it} .$$

Table 4.3.3a: Hausman Test

Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.611	6	0.003

Source: EViews 10 Output

Table 4.3.3a shows the Hausman test's 8.677 Chi-Square statistic. The fixed effects model is preferred above the random effects model with 6 degrees of freedom and 0.007 probability. The significant finding suggests unobserved individual-specific characteristics affect the dependent variable. Thus, the fixed effects model better manages these individual-specific effects. The Hausman test shows that the fixed effects model better explains panel data than the random effects model.

Table 4.3.3b Fixed Effect Regression for Hypothesis three

Cross-section random effects test equation:				
Dependent Variable: FAR				
Variable	Coefficien	Std. Error	t-Statistic	Prob.
	†			
C	-2.788	1.023	-2.726	0.009
BSZ	3.646	1.507	2.419	0.026
BCM	0.465	0.209	2.228	0.030
BDG	-2.548	1.237	-2.060	0.042
ACM	2.858	1.272	2.247	0.026
BDV	0.621	0.209	2.972	0.004
FSZ	8.033	9.964	0.806	0.422
Effects Specification				
R-squared	0.629	Mean dependent var		17.467
Adjusted squared	R- 0.572	S.D. dependent var		25.335
F-statistic	10.940	Durbin-Watson stat		1.796
Prob(F-statistic)	0.000			

Source: EViews 10 Output

The table you provided presents the results of a fixed effect regression analysis for Hypothesis Three, with the dependent variable being FAR.



The coefficient for the intercept term is -2.788. This represents the estimated effect on FAR when all independent variables are zero.

Board Size (BSZ): The coefficient for Board Size is 3.646 with a standard error of 1.507. This indicates that a one-unit increase in Board Size is associated with a 3.646 increase in FAR, holding other variables constant. The t-statistic of 2.419 suggests that the coefficient is statistically significant at a 0.026 level, indicating a positive impact of Board Size on FAR.

Board Committee (BCM): The coefficient for Board Committee is 0.465 with a standard error of 0.209. This implies that a one-unit increase in Board Committee is associated with a 0.465 increase in FAR, holding other variables constant. The t-statistic of 2.228 indicates that the coefficient is statistically significant at a 0.030 level, suggesting a positive impact of Board Committee on FAR.

Board diligence (Proxy by Number of Meetings) (BDG): The coefficient for Board Diligence is -2.548 with a standard error of 1.237. This means that a one-unit increase in Board Diligence is associated with a -2.548 decrease in FAR, holding other variables constant. The t-statistic of -2.060 suggests that the coefficient is statistically significant at a 0.042 level, indicating a negative impact of Board Diversity on FAR.

Board Diversity (BDV): The coefficient for Board Diversity is 0.621 with a standard error of 0.209. This implies that a one-unit increase in Board Diversity is associated with a 0.621 increase in FAR, holding other variables constant. The t-statistic of 2.972 suggests that the coefficient is statistically significant at a 0.004 level, indicating a positive impact of Board Diversity on FAR.

FSZ (Firm Size): The coefficient for Firm Size is 8.033. However, the t-statistic (0.806) is not statistically significant (p-value = 0.422), indicating that Firm Size does not have a significant effect on FAR. The R-squared value is 0.629, indicating that the independent variables explain approximately 62.9% of the variation in the dependent variable (FAR). The adjusted R-squared value is 0.572, which takes into account the number of predictors and sample size. It provides a more conservative estimate of the model's explanatory power. The F-statistic is 10.940 with a p-value of 0.000, suggesting that the overall regression model is statistically significant. Overall, the fixed effect regression analysis for Hypothesis Three indicates that Board Size, Board Committee, and Board Diligence (Proxy by Number of Meetings) have significant effects on fixed asset ratio (FAR).



Conclusion and Recommendations

Conclusion

The aim of this study was to investigate the relationship between board characteristics and financial decision within indigenous Nigerian companies. Through the analysis of relevant data and statistical techniques, several key findings emerged, shedding light on the relationship between board characteristics variables and financial decision indicators.

First, the results demonstrated the significance of board characteristics in influencing financial decision. Specifically, variables such as board size, board committee, board diversity (proxy by number of meetings). The positive impact of board size on financial decision suggests that larger boards, which bring together diverse expertise and monitoring capabilities, contribute to better resource allocation, decision-making, and financial performance. Similarly, the presence of board committees was found to enhance governance practices and positively influence financial decision. This highlights the importance of specialized oversight and expertise in improving financial reporting, risk management, and ultimately, financial decision.

Regarding board diversity, the findings were mixed. While board diversity, as measured by the number of meetings held by the board, positively impacted Debt to equity ratio and earnings per share, it had a negative effect on fixed asset ratio. This suggests a complex relationship between board diversity and financial decision, which may be subject to various contextual factors and nonlinear dynamics.

Recommendations

Based on the findings of the study on the effect of board characteristics on financial decision in Nigeria, the following recommendations were suggested:

1. **Enhance Board Diversity:** Despite the mixed findings on the relationship between board diversity and financial decision, it is still important to strive for diverse boards. Organizations should focus on creating inclusive board compositions that encompass a range of skills, experiences, and perspectives. This can be achieved through proactive recruitment strategies and considering diversity in terms of gender, ethnicity, age, and professional backgrounds.
2. **Strengthen Board Committees:** Given the positive impact of board committees on financial decision, companies should establish and strengthen specialized committees. These

committees play a crucial role in ensuring effective oversight, risk management, and financial transparency. Regular training and development programs should be provided to committee members to enhance their expertise and effectiveness.

3. Optimize Board Size: The findings suggest that larger board sizes positively influence financial decision. However, it is important to strike a balance and avoid excessive board sizes that may lead to coordination challenges. Organizations should carefully consider their specific needs and industry dynamics to determine an optimal board size that facilitates effective decision-making and governance.

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