



IMPACT OF BOARD CHARACTERISTICS ON ORGANISATIONAL PERFORMANCE IN ICT INDUSTRIES IN NIGERIA

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Abstract

This paper examines the impact of board characteristics elements (Board Independence and Board Diversity) on organisational performance in ICT industries in Nigeria. The study offers a consistent literature review assessing the nexus between board characteristics and Financial and Non-Financial elements of organisational performance anchored on Agency theory. A sample of 295 companies was selected using a simple random sampling technique. The study was based on a quantitative research design, using descriptive analysis, panel data regression and correlational analysis for statistical inference. The results revealed that there is a significant impact of board characteristics on organisational performance. The empirical and theoretical research shows that board characteristics are an important success factor to be reviewed in the field of business performance. The evaluation of board characteristics by the respondents revealed predominantly positive perceptions. The results further reveal that there is a significant impact of board independence and board diversity on both financial and non-financial elements of organisational performance respectively.

Keywords: Board Characteristics, Board Independence, Board Diversity, Organisational Performance

INTRODUCTION

Nigeria has emerged as a prominent player in the African ICT landscape, with a rapidly growing technology sector that attracts both local and foreign investments (Adigwe, Onyenwe, & John, 2016). As the ICT industry in Nigeria continues to expand, there is a need to examine the organizational dynamics that influence the performance of ICT companies within the country. Analyzing the board characteristics structure adopted by companies provides insights into the corporate governance practices and processes that guide their operations (Reberioux, 2005). To this effect, this study examines the impact of board characteristics mechanisms (Board independence and Board Diversity) on firm performance in the context of Nigerian ICT companies.

Board Characteristics

The composition and characteristics of the board of directors play a crucial role in corporate governance. One of the key aspects of corporate governance is the composition, characteristics and effectiveness of the board of directors (Afriyie & Agboga, 2021). A well-functioning board of directors should be diverse, independent, and possess the necessary skills and experience to oversee the organization effectively (Castrillón, 2021). Board Characteristics will be explored under two sub-variables:

Board Independence

Board independence refers to the extent to which a company's board of directors is free from any conflicts of interest that may compromise its ability to act in the best interests of the company and its stakeholders. An independent board is one in which the majority of directors are not affiliated with the company, its management, or its major shareholders. The presence of independent directors is considered essential to ensure effective oversight and mitigate conflicts of interest (Fama & Jensen, 1983). Independent directors, who are not affiliated with the company, are expected to bring objectivity and impartiality to the decision-making process. Research has shown that boards with a higher proportion of independent directors tend to exhibit better corporate governance practices (Yermack, 2021)

Board Diversity

It defers to having a range of different backgrounds, experiences, perspectives, and skills among the members of a company's board of directors. This can include diversity in terms of gender, race, ethnicity, age, nationality, education, professional background, and other factors (Chapple, Clarkson & Karim, 2021). The goal of board diversity is to ensure that the board of

directors is representative of the company's stakeholders and the broader society and that it can bring a diversity of perspectives and insights to the decision-making process. In support of resource dependence theory, some studies suggest that a board with diverse experiences, skills and knowledge would make better decisions that improve the overall performance of the company (Hillman, 2015; Kumar & Zattoni, 2016). Nguyen & Faff, (2007) reported that board diversity increases the effectiveness of management and enhances their leadership role, creativity and innovation. Inclusiveness and diversity are argued to enhance board effectiveness, improve risk management, and lead to more informed and balanced decisions.

Organisational Performance

An organization is a societal arrangement of people, an association or an institution that has a specific goal. Organisations are significant in society because prosperous organizations constitute a pivotal element for the advancement of developing nations. Thus, many economists consider organizations and institutions similar to an engine in determining economic, social and political progress (Vianny & Victoria, 2017). Continuous performance is the focus of any organization because only through performance organizations can grow and progress. Hence, organizational performance stands as a paramount factor in management research and arguably takes the forefront as the most crucial gauge of organizational effectiveness (Dang A & Vu, 2018).

Objectives of the Study

1. To determine the effect of board characteristics on the organisational performance of ICT Industries.
2. To determine the effect of board independence on the financial performance of ICT Industries.
3. To determine the effect of board independence on the non-financial performance of ICT Industries in Nigeria.
4. To examine the impact of board diversity on the financial performance of ICT industries.
5. To examine the impact of board diversity on the non-financial performance of ICT industries in Nigeria.

LITERATURE REVIEW

Board independence, characterized by the presence of non-executive and outside directors, is believed to enhance decision-making processes, mitigate agency conflicts, and improve firm performance (Dalwai & Salehi, 2021; Dalton, Daily, Ellstrand, & Johnson, 1998).

Furthermore, board diversity, including gender, racial, and ethnic diversity, has gained attention for its potential positive impact on decision-making, problem-solving, and innovation (Erhardt, Werbel, & Shrader, 2003). Research has shown that boards with higher levels of independence and diversity tend to exhibit better financial performance, strategic oversight, and risk management (Adams & Ferreira, 2009; Carter, Simkins, & Simpson, 2003; Dalwai & Salehi, 2021). For example, studies have found that diverse boards are associated with higher returns on assets and market value (Dalwai & Salehi, 2021; Adams & Ferreira, 2009).

There have been several recent studies that highlight the importance of board independence and board diversity in corporate governance. A study by Jiao, Liu, & Shi, (2020), found that organisations with more independent boards were more likely to engage in socially responsible activities, indicating that independent directors can play a crucial role in promoting corporate social responsibility. Gao, Liu & Zhang, (2021), in their study, found that independent directors improve a company's financial performance by providing effective monitoring of top management and reducing agency costs. Board independence also provides incentives to advise and monitor the activities of the management, ensuring the interests of shareholders are protected (Mura, 2007; Kammoun, Loukil, & Loukil, 2020; Shao, 2019).

The interactions between board independence, board diversity, and organizational performance are multifaceted. On one hand, having independent directors on the board can enhance the effectiveness of diverse boards. Independent directors may act as impartial mediators, promoting inclusive discussions and facilitating the integration of diverse perspectives (Kesner, 2019; Bhagat & Bolton, 2019). This interplay between independence and diversity can lead to more robust governance practices and a positive impact on organizational performance. On the other hand, diverse boards may foster a greater emphasis on board independence. Diverse boards are more likely to encourage open dialogue, challenge existing norms, and promote independent thinking among directors (Carter, Simkins, & Simpson, 2010). As a result, a culture that values diverse viewpoints may also emphasize the need for independent directors who can critically assess management's decisions and ensure alignment with organizational goals. The influence of organizational performance on board independence and diversity should not be overlooked. High-performing organizations often attract more qualified and diverse candidates to join their boards, given the reputation and prestige associated with such appointments (Barron & West, 2020). Moreover, strong organizational performance may provide boards with the resources and confidence needed to invest in board diversity initiatives and recruit independent directors with specialized expertise (Carter, Simkins, & Simpson, 2010).

Theoretical Framework

This research is anchored on the agency theory concept. Agency theory emerges as a pivotal tool in comprehending the intricate interplay between board characteristics and organizational performance within Nigeria's ICT sector. Berle and Means's (1932) foundational work, coupled with subsequent developments by Jensen and Meckling (1976), illuminates the underlying challenges stemming from misaligned interests between managers and shareholders. Against the backdrop of Nigeria's governance landscape, characterized by historical vulnerabilities, empirical investigations by Adediran & Adewole (2019) and Adenuga (2020) underscore the agency theory's potency in driving positive transformations through judicious corporate governance practices.

METHODOLOGY

The quantitative study used a combination of descriptive statistics, correlation analysis and Panel regression in alignment with the method used by (Amahalu, 2017; Adeneye & Ahmed, 2015). The study targeted 555 respondents across 295 selected companies based on simple random sampling in the ICT industry. The data was collected for the four objectives with specific questions on Board diversity and board Independence. Data was subjected to the descriptive analysis and inferential analysis. A regression model was applied to analyze the existing relationship between the variables and diagnostic tests were conducted to check for normality and multicollinearity.

ANALYSIS AND DISCUSSIONS

Descriptive Analysis

Table 1 below reports the descriptive statistics for the board characteristics and organisational performance.

Table 1: Descriptive Statistics on Board Characteristics

S/N	Description	Mean	Standard deviation
1	Board characteristics	4.15	0.75
BOARD CHARACTERISTICS			
A	Board Independence	4.13	0.76
B	Board Diversity	4.16	0.74

Board Characteristics exhibit a mean of 4.15 (SD = 0.77), indicating a generally positive perception with a moderate level of variability. With regards to the board

characteristics, board independence, diversity, and accountability are identified as strengths, with a high level of agreement on critical discussions and the positive impact of board composition on organizational goals. The mean (average) score for board independence is 4.13 with a standard deviation of 0.76, implying that the majority of respondents agree that their board is independent and contributes to critical discussions. The highest agreement is seen in statement 3 regarding an equitably constituted board improving management effectiveness. On the other hand, the mean score for board diversity is 4.16 with a standard deviation of 0.74. This suggests a positive perception that board diversity correlates with performance and growth. Respondents also generally agree that their organization complies with legal and regulatory requirements regarding board diversity. Figure 1 shows a graphical representation of the results.

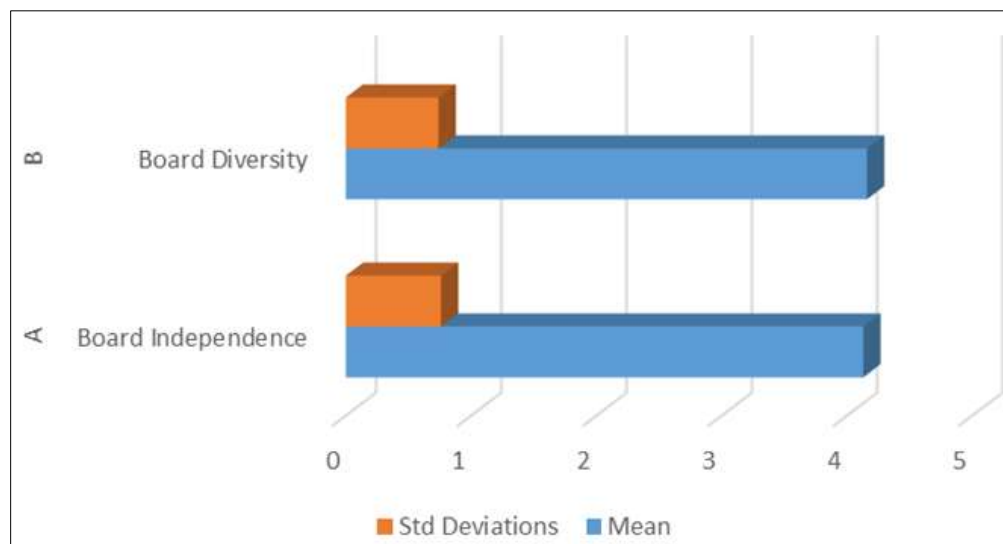


Figure 1: Summary Mean and Standard Deviation of Board Characteristics

Multicollinearity Analysis

While examining the impact of board characteristics on firm performance, it is important to evaluate the extent of association between the explanatory variables. The results from the Pearson correlation coefficients suggest that there is no multicollinearity problem among the variables in the multiple regression analysis as the coefficient values are low. Field (2005) suggests that multicollinearity becomes an issue only when the correlation coefficient exceeds 0.80. Therefore, to test the impact of board characteristics elements on firm performance, the usage of panel regression is appropriate. Tables 4 reported below show the results of the multicollinearity estimates.

Table 2: Results of the Multicollinearity Test

Independent Variable	Coefficients	
	Collinearity Statistics	
	Tolerance	VIF
Board Independence	0.205	4.889
Board Diversity	0.213	4.684
Board Characteristics	0.209	4.7865
Control Variables		
Gender	0.844	1.184
Job Position	0.935	1.07
Educational Level	0.68	1.47
Experience	0.956	1.046

Note: **significant at the 0.01 level and * significant at the 0.05 level

Regression Analysis

This section of the study presents the results of the inferential statistics, which was used for hypotheses testing. In investigating the effect of board characteristics mechanisms on the financial performance of ICT companies in Nigeria, the panel regression model was employed.

Hypothesis Testing

H₀₁: Board characteristics have no statistically significant impact on organizational performance in ICT Companies

H_{A1}: Board characteristics have a statistically significant impact on organizational performance in ICT Companies

H₀₂: Board Independence has no statistically significant impact on financial performance in ICT Companies

H_{A2}: Board Independence has a statistically significant impact on financial performance in ICT Companies

H₀₃: Board Diversity has no statistically significant impact on financial performance in ICT Companies

H_{A3}: Board Diversity has a statistically significant impact on financial performance in ICT Companies

The hypothesis was to determine the effects of board characteristics as an aspect of corporate governance measures on organisational performance (both financial and non-financial) in ICT companies in Nigeria. The results of the analysis are presented in Table 3.

Table 3: Board Characteristics and Organisational Performance in ICT Companies

Variables	Financial Performance			Non-Financial Performance		
	Coefficients			Coefficients		
	Beta (β)	T-Stat	Sig	Beta (β)	T-Stat	Sig
Independent Variable						
<i>Board Independence</i>	0.356***	4.720	0.000	0.447***	6.090	0.000
<i>Board Diversity</i>	0.186**	2.600	0.010	0.136**	1.950	0.051
Control Variable						
<i>Gender</i>	-0.134**	-2.080	0.038	-0.127**	-2.010	0.044
<i>Educational Level</i>	0.022	0.640	0.522	-0.007	-0.220	0.829
<i>Job Experience</i>	0.063	1.350	0.177	-0.008	-0.170	0.861
Constant	1.696***	6.030	0.000	1.887***	6.900	0.000
No. Observation	555			555		
R-squared	0.250			0.294		
Adj. R-squared	0.243			0.288		
F-Statistic	36.590			45.74		

Note: **significant at the 0.01 level and * significant at the 0.05 level

DISCUSSIONS

The regression Table 3 shows the results of the investigation of the impact of board characteristics on organizational performance in Nigerian ICT companies, considering both financial and non-financial metrics. The null hypothesis positing no significant influence of board characteristics on organizational performance is contradicted by the results. Notably, board independence exhibits a statistically significant positive association with financial performance, with a coefficient (β) of 0.356 and a T-Stat of 4.720. Similarly, board diversity is found to significantly impact financial performance, as evidenced by a coefficient of 0.186 and a T-Stat of 2.600. Board independence also exhibits a statistically significant positive relationship with non-financial performance with a coefficient (β) of 0.447 and a T-Stat of 6.090. Board diversity is found to also significantly impact non-financial performance, as evidenced by a coefficient of 0.136 and a T-Stat of 1.950. Among the control variables, Gender demonstrates significant negative relationships with financial performance. The constant term, with a coefficient of 1.696 and a T-Stat of 6.030, is significantly different from zero, suggesting a meaningful intercept. The model fit is robust, supported by R-squared values (0.250; 0.294) and an F-Statistic of (36.590; 45.74) (p-value: 0.000) respectively. These findings collectively reject the null hypothesis (H01, H02, H03, H04 and H05), and accept the alternative (H1, H2, H3 H4, and H5) emphasizing the substantial role of board characteristics in shaping organizational performance in the context of

Nigerian ICT companies, particularly underscoring the importance of board independence and diversity. These findings resonate with the conclusion of other scholars such as Adams & Ferreira, (2009) and Dalwai & Salehi, (2021), whose research has shown that boards with higher levels of independence and diversity tend to exhibit better financial performance, strategic oversight, and risk management.

Table 4: Presentation of the Hypothesized Model and Results Summary

Hypothesis	Factor	Coefficients	T-Stats	Result	Null	Adoption
BC-OP	H01	0.27	3.69	Positive/Significant	Rejected	Alternative H1
BI-FP	H02	0.29	4.02	Positive/Significant	Rejected	Alternative H2
BI-NFP	H03	0.24	3.43	Positive/Significant	Rejected	Alternative H3
BD-FP	H04	0.28	4.15	Positive/Significant	Rejected	Alternative H4
BD-NFP	H05	0.59	11.54	Positive/Significant	Rejected	Alternative H5

CONCLUSIONS AND RECOMMENDATIONS

The works of literature reviewed report that board characteristics exert an influence on firm performance. The models considered for the specific characteristics are board independence and board diversity. The results presented in Table 3 and Table 4 show that the constituent elements of board characteristics showed a significant, positive relationship with firm performance in both financial and non-financial metrics.

Board characteristics, such as independence and diversity, are therefore identified as strengths with positive agreement, particularly in critical discussions and the impact on organizational goals in alignment with the report by Nguyen & Faff, (2007), that board diversity increases the effectiveness of management and enhances their leadership role, creativity and innovation.

It is therefore imperative that companies should prioritize board independence and diversity as the present research has documented that these factors positively impact organizational performance in the ICT sector particularly, particularly board independence and board diversity.

The study contributes to the body of knowledge on various dimensions especially in terms of firm performance and corporate governance practices with specific emphasis on board characteristics. The results may not be conclusive as the research focuses on registered ICT companies in Lagos, potentially limiting generalizability to other regions or industries. Future investigations could expand the scope to encompass a more diverse sample, including companies from different sectors and geographical locations.

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