

## **The Mediating Role of Quality Decision Process and the Moderating Role of Board Professional Knowledge and Experience on the Relationship between Board Mechanisms and Performance of Listed Firms in Nigeria**

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**Abstract:** This study examines the mediating role of the quality decision-making process and board professional knowledge and experience on the relationship between board size and performance of listed firms in Nigeria. To achieve the study objective, reviews of some prior empirical research on corporate governance, performance and the theories were examined. The recent studies reveal that inconsistency findings were found in the previous studies on the characteristics of corporate governance literature. Therefore, the need to measure the link between the board size and performance will for a long time continue to remain an interesting study area. This study, therefore, recommends that the researchers should try and avoid the mistake and problems of the prior studies by over-reliance on the direct relationship between board size and firm performance. The study also recommended the use of board professional knowledge and experience as a moderator to determine the link between the board size and firm performance and to avoid the use of only one single theory between corporate governance characteristics and performance measurement. The use of more procedure based methodology that recognises the causal effect of the relationship between corporate governance and performance would be of wonderful advantage in this vital field of corporate governance research.

**Key words:** Corporate governance, board of director, board size, firm performance, professional knowledge, experience, decision making

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### **INTRODUCTION**

The focus and trend of corporate governance for code of best practices begin in early 1990's in the United kingdom and united states in response to the scandals exposed in the corporate performance of leading companies. The scandal has exposed many multinational firms with a high-profile corporate scandals, unexpected corporate failures, unprofessional behaviours by the corporate managers that led to a series of high-profile corporate malpractices and bankruptcies, notably in developed and emerging economies (Lawal, 2012). The collapse of the One Tel 2001, Enron 2001, Commerce Bank 2001 Tayco, World Com, Global Crossing 2002, respectively Marconi in 2005, Norther Rock in 2007, Goldman Sachs in 2007, Fanny Mae in 2008, Lehman brothers in 2008 and Freddy Mac in 2008 are among the examples cited in the corporate governance study (Adegbite, 2015; Ehikioya, 2009; Lawal, 2012; Rossi *et al.*, 2015; Samaduzzaman *et al.*, 2015). It has been suggested that the scandals at Enron, WorldCom, Qwest, Tyco and other corporate entities in the US resulted in a loss of more than USD 7 trillion of investor's funds

(Donaldson, 2003; GI, 2009; Lawal, 2012). The estimated value of the lehman brothers scandals and other giant corporate entities stood at USD 14.5 trillion (GI, 2009; Lawal, 2012).

Over the past 20 years and so the US, UK, together with other developing, developed and emerging economy have initiated a series of legislative and investigations into what really went wrong and the ways forward to improve the corporate performance of various companies globally (Rossi *et al.*, 2015; Samaduzzaman *et al.*, 2015). This is some of the past and recent number of reviews and reports of some legislation such as Cadbury (1992), SEC (2014), CBN (2011) and NCC (2014) among others are cited in the recent literatures (Cadbury, 1992; Lawal, 2016; Marshall, 2015).

In Africa, especially Nigeria an increased attention has been given to the area of corporate governance which recently collapsed of notable leading banking sectors in the country such as Finbank, Bank PHB, Bank of the North, Afribank, Oceanic Bank and Intercontinental Bank among others. This is due to the practices of corruptions in the system, reckless loan provision, loans given to family member without paying back, bad debt, unethical

banking practices including the inflation of revenue, the distortion and manipulation of financial statement, diversion of bank funds and granting of unsecured credit facilities without proper authorization were is still found operating in the financial services and other Nigeria companies (CBN, 2011; Lawal, 2016; Sanusi, 2012). This was the time when the market capitalization of Nigeria dropped significantly from N12 trillion to N9 trillion (Adamu, 2010). Efforts to improve the practices of corporate governance and eradicate various scandals in Nigerian industry begin in the early 2003 after establishment of first code of best practice by Security and Exchange Commission (SEC) in 2003 and agencies like Central Bank of Nigeria (CBN) NCC, NAHCOM, PENCOM to come up with specific codes.

CBN reforms of merger and acquisition of commercial banks in 2004 in line with the International Monetary Fund (IMF) and world bank policy, Nigeria CBN initiated a banking reform title “consolidation reform” which at the end of consolidation reforms of N25 billion drastically reduces the number of banking sectors from 89-24 (CBN, 2015). Since, then the total number of commercial banks has remained unchanged but 9 of the 24 banks losses their approval/licensed to other key players that replace their existing.

Consequences, prior studies contended that the collapse of major corporate institutions in both developed and developing economies are attributed to lack of corporate governance practice that found many institutions with guilty of financial manipulation and distortion of funds (Avgouleas, 2008; Lawal, 2016; Adamu, 2008). In modern practice, managers often pursued their interest rather than the interest of their owners (Berle and Means, 1932; Lawal, 2012). The above school of thought argued that every successful firms need to put in place a mechanism that will help in resolving agency problem or conflict of interest that exist between the shareholders and managers. While other study contended that the size of the board of directors is seen as the most paramount important corporate governance mechanism that will monitor and advises the top management and corporate executive to perform their responsibilities in order to protect the interest of shareholders (Fama and Jensen, 1983; Hermalin and Weisbach, 2003; Johl *et al.*, 2015). Each shareholder wants their representation on the board of directors. Therefore, the issue of agency problems will continue to exist among manager and shareholder (principal and agent) for a long time remain a topic of debate. The researchers will for a long time search for permanent solutions to the conflict of interest between owner and agent. Therefore, the issue and count of a number of peoples or

directors on the board might be new but the issues and challenges it addresses are not (Ayuso and Argandona, 2007; Lawal, 2016, 2012).

The objective of this study, hopes to bring new approaches for researchers and regulators on the importance of the relationship between board size and firm performance. Therefore, prior study has shown that one stream of researchers found that small board size is positive impact on firm performance whereas another stream of study found that there is no relationship while some study argue that larger board size is associated with firm performance. To reconcile the inconsistencies and inconclusive finding from previous studies, this study intend to investigate the relationship between board size and performance of listed firms in Nigeria supported with new theories and new focus of methodological approach.

This study is divided into: introduction, the concept of performance, performance measurement, the concept of corporate governance, board of director, board size, the relationship between board size and performance, board professional knowledge and experience as a moderator, quality decision making process as a mediator, conclusion and recommendations.

## **MATERIALS AND METHODS**

**The concept of performance:** Performance has been considered as a terminology that is most recurring in the domain of firms, business or industry. Every company’s achievement was evaluated based on its financial performance and other factors such as credibility and existing standard of the companies that might have pursued in the quest for market dominance. Performance is outcomes end results and achievements of either negative or positive arising out of organizational activities (Guest *et al.*, 2003). Hofer performance is a contextual that associated with the miracle being studied.

There are four critical challenges in assessing company performance: the situational nature of value creation, company performance on multiple dimensions, the understanding of performance depends upon the observer’s perspective and predictions on the ensuing performance impact the understanding of current values (Hair *et al.*, 2006). In addition, Mir and Nishat (2004) said higher leverage gave an adverse light or signal about the performance of the company while Ehikioya (2009) see the optimistic relationship between the debt levels of the company and performance.

Yuan and Hua (2015) contended that in a study of the area of efficiency of governance of listed firms, some scholars either generally made the financial performance

or market performance as the measure of the efficiency of corporate governance or structure the corporate governance index to measure efficiency of corporate governance. Ngulumbu (2013) mention that performance provide organizations with a technique to manage success and progress towards achieving objective or goals, defining the indicators of organizational performance. Therefore, knowing and having the knowledge of performance measurement is very important to the survival of any corporate companies.

**Performance measurement:** Performance can be measured by quantitative or qualitative ways (Ngulumbu, 2013). Ngulumbu performance measurement is considered as a process of measuring the progress made towards achieving the performance goals. However, performance measurement is described as the quantification of the action's effectiveness and efficiency (Neely *et al.*, 2005).

It is the change of the complex reality of firm performance into a chronology of limited symbols or sign that are communicable and reported under the same or similar situations (Lebas, 1995). Therefore, many financial companies make use of either marketing based measure of firm performance (Tobin's Q) or the accounting based measure of performance (return on asset) an indicator for performance measurement.

Many existing literature have adopted either marketing based measure of firm performance Tobin's Q or ROA while some have adopted both Tobin's Q and ROA and others recommended both. For instance, those that employ ROA are Drago *et al.* (2015), Johl *et al.* (2015), Onakoya *et al.* (2014) and Tai (2015) and for Tobin's Q (Kapopoulos and Lazaretou, 2007; Rossi *et al.*, 2015; Yuan and Hua, 2015) while the existing literature that adopted both Tobin's Q and ROA are Al-ghamdi and Rhodes (2015), Bhagat and Bolton (2009), Chowdhury (2010), O'Connell and Cramer (2010), Demsetz and Villalonga (2001), Dharmadasa *et al.* (2014), Ehikioya (2009), Yoo and Jung (2014).

Some prior studies that suggest for measurements of firm performance; accounting based measurement and market based measurements (Al-ghamdi and Rhodes, 2015; Dharmadasa *et al.*, 2014; Yoo and Jung, 2014; Al-Matari *et al.*, 2012) recommended the same. This is consistent with the recommendation by Lawal (2012), O'Connell and Cramer (2010) that "researchers in the field should endeavor to adopt a multidimensional approach to performance measurement as different measures tend to capture different aspects of performance".

## RESULTS AND DISCUSSION

**The concept of corporate governance:** The word, governance is a term derived from Greek latin word

gubernare which translates as the act of steering that was first used in a metaphorical by Plato. The steering is an institution of the state through the creation of enabling conditions for the enforcement of the rule of law and collective decision making (Rampersad and Hussain, 2014; Robichau, 2011; Solomon, 2007). Initially, governance was synonymous with the management of political/social units, specifically government institutions. This notion has now transcended from the state focus into a market-based application with emphasis on the management of corporations also known as corporate governance (Offe, 2009). The introduction of governance in the management of corporations was designed to mitigate unethical practices through the promotion of corporate transparency and accountability (Cadbury, 2000). Corporate governance had been defined in many ways by different researchers, researchers, institutions, industries, etc. The concept of corporate governance itself has undergone a series of transformations.

Corporate governance is a concept that represents the entire system by which companies are directed and controlled by a board (Cadbury, 1992). Therefore, in finance and management terminology, corporate governance is to solve what is called the problem of agency which exist between stockholders or shareholders and managers. Therefore that is what corporate governance is intended to resolve in making sure investors get their investment back given that somebody else (managers or agents) will make ensure that all the decisions making process about how their investment or their money have utilized (Akinkoye and Olasanmi, 2014; Lawal, 2012, 2016). Good Corporate Governance promotes the efficient and effective use of the capital within the company or firms and their return on their capital or resources (Tai, 2015). Board of director is seen as the backbone of corporate governance mechanisms where the success and outcome of every firm is determined (Adjaoud *et al.*, 2007; Clarke, 2007; Guerra *et al.*, 2009; Lawal, 2012, 2016). Therefore, the next study discusses board of director and how it affects the size of the board of every firm.

**Board of director:** The board of directors as an internal monitoring mechanism is designed in line with the agency doctrine to oversee how the executive team manages the firm in the absence of direct participation from the shareholders (Adjaoud *et al.*, 2007; Heracleous, 2001). The introduction of board as part of a firm's governance equation is aimed at ensuring accountability and reducing the moral hazard associated with the delegation of authority. Shareholders relinquish some of their decision-making rights to the constituted board that is now responsible for making strategic choices in a way that protects the interests of the owners as well as

possible (Molz, 2007). Bozec (2005) contended that the board of directors became a necessary variable in a firm's governance calculation because of the need to address the fundamental problem of corporate entities, the significant diffusion of ownership.

Many debates on corporate governance in both academia and practice have focused on the board of directors (Berghe and Levrau, 2004). Often regarded as the most significant constituency in firm governance, the corporate board plays an intermediary role that links the firm and its owners with those who provide professional management and other ancillary support services (Bozec, 2005; Chen *et al.*, 2009). The board of directors shoulders the majority of a firm's management tasks (Filatotchev and Boyd, 2009). Apart from being saddled with the responsibility of stopping executive extremes, the board is the final or ultimate decision-making body through which the fate of the corporation is discussed and determined (Adjaoud *et al.*, 2007; Fama and Jensen, 1983; Yawson, 2006).

Because of the renewed focus on the internal governance of corporations, discussion on corporate governance has shifted to the functions of the board of directors (Heracleous, 2001; Jonsson, 2005; Ness *et al.*, 2010; Stiles, 2001). The corporate board as an internal mechanism is expected to have a predetermined sense of purpose with clearly defined roles that facilitate the director's effectiveness in carrying out their fiduciary responsibilities. Nicholson and Kiel argued that the role of the board varies across industries and countries and that a detailed understanding of these roles is critical in empirical studies on board structure. They observed that, irrespective of the divergences, there are some key determinants of the ultimate role that the board of directors plays in the firm's governance. These factors include the institutional setting and the cognitive capabilities of the board members as well as the degree of interference are some of the essential determinants that shape the specific role of the corporate board.

Therefore, corporate governance encompasses every aspect of running a corporate entity which amongst other things includes the use of both internal board and external board mechanisms (Denis and McConnell, 2003; Lawal, 2012; Solomon, 2007). The use of internal mechanisms represented by the board of directors stands out. Today, any discussion of corporate governance without the incorporation of the board of directors would seem out of place (Nordberg, 2011). Board of directors is considered as the main internal mechanism of CG which is designed to control management for dishonest behaviour tendency

(Heracleous, 2001; Guan *et al.*, 2007; Johl *et al.*, 2015). Therefore, the effectiveness of every board of directors as shareholder's monitoring mechanism can only be effective and efficient if constituted with appropriate board size (Lawal, 2012).

Lawal (2012) argues that more than two decades of empirical study is yet to justify the above assumptions as inconsistency and inconclusive findings continue to dominate empirical studies on the relationship between board size and firm performance. The next study is the reviewed of previous study on the board size.

**Board size:** The issue of appropriate board size has been the subject of intense discussion when it comes to analyzing the efficiency of the internal governance mechanism due to the inherent dominance of the agency theory (Goodstein *et al.*, 1994; Jensen, 1993; Shivdasani and Zenner, 2002; Tai, 2015; Yermack, 1996). Board size has been acknowledged as one of the key elements of board effectiveness (Dwivedi and Jain, 2005; Tai, 2015). Board size is even more pronounced in single-tier governance systems configured in such a manner that ensures the representation of both executive and non-executive members (Conyon and Peck, 1998; Solomon, 2007).

The size of every board of directors is a vital and important attribute for every successful board mechanisms or structures. Board size is simply referring to the total number of people constituted on the board of director for every firm. Board size is determined on the basis of how it influences the communication, coordination and control management activities of a firm (Saha and Akter, 2013; Nath *et al.*, 2015; Yilmaz and Buyuklu, 2016). Board size has been recognized by many scholars as one of the crucial and uniqueness, features of boards with considerable, consistent with the strategic impact on the board and the overall quality of the CG (Donaldson and Muth, 1998; Jensen, 1993; Lawal, 2012; Shivdasn and Zenner, 2002). The ideal size of the board have further become a controversial argument and debate in the recent CG trends.

Johl *et al.* (2015) contended that board size is a number of people constitute on the company board which differs from one country to another country depending on the code of best practices or the code of CG of that country. Johl *et al.* (2015) contended that in Malaysia for instance, there is no specific ideal size for every company on the board. The Malaysia CG code does not specify the size of the board but instead, every company board should decide its size in determining the impact on its

numbers (Johl *et al.*, 2015). The right size for every board should be based on their driven forces on how effective the board is able to work as a team (Conger *et al.*, 1998). While in Australia CG 2014 does not mention a specific number of people from the board of directors (Appuhami and Bhuyan, 2015). According to Australia CG 2014, the size of the board should be of a size that is full with a conducive group of peoples that give opportunity in making appropriate decisions and discharging its responsibilities and duties to the company performance (Appuhami and Bhuyan, 2015).

In Nigeria, the Federal government, through its numerous agencies has issued a series of code, guidelines and laws aimed at instilling sanity and regulations in the manner in which business activities are conducted in the various sectors of the economy (Okike, 2007). Lawal (2016), there were various corporate regulatory frameworks put in place in Nigeria from the Cama to the Bofia, the Insurance Act (1997), the Pension Reform Act (PRA) 2004 and the Investment and Securities Act (ISA) 2007. Lawal said that each of these corporate laws is backed by government-owned agencies charged with the statutory responsibility of administering the acts in the targeted sectors. These agencies share a common objective of ensuring that corporate activities are conducted within the boundaries of internationally acceptable standards and best practices. All the Nigeria regulatory agencies have their code of best practices that governing each of their sectors, these include the Nigeria Security and Exchange Commission (SEC), Central Bank of Nigeria (CBN), the National Communication Commission (NCC), the National Insurance Commission (NAICOM) and the Pension Commission (PENCOM).

As a result, the corporate scandals of the 1990's, many of which affected entities covered by some of these corporate legislations, prompted the regulators to introduce a clear code of corporate governance, the first

attempt being the SEC code issued in 2003. To resolve the administrative bottlenecks in the implementation of corporate governance due to industry peculiarities, other regulatory bodies such as the CBN code in 2006, NAICOM code in 2007 and PenCom code 2009 followed in the footsteps of the SEC by issuing codes that were industry specific. These specialised codes are somewhat similar but the degree of compliance expected by the respective regulators differs significantly across the sectors. For instance while the SEC and NAICOM codes are voluntary, the CBN and PenCom codes are mandatory for all companies regulated by these agencies. The size of the board for all the regulatory agencies in Nigeria is specified in their various codes of best practices (Marshall, 2015). For instance, the Nigerian SEC code calls for a well-diversified and sufficient board size that allows for independence, with a minimum membership of five. The CBN code, recommends a maximum board size of twenty. While the NAICOM code suggested a minimum board size of seven and a maximum of fifteen. PENCOM code was however, salient regarding numbers but rather suggested that board membership should not exceed "that which allows it to employ simple and effective methods of work to enable each director to feel a personal responsibility and commitment" (Lawal, 2016) (Table 1).

The Nigerian SEC code calls for a well-diversified and sufficient board size that allows for independence with a minimum membership of five. The CBN code, on the other hand, recommends a maximum board size of twenty. While the NAICOM code suggests a minimum board size of seven and a maximum of fifteen, the PENCOM code does not cover the issue for the boards of pension fund administrators. Rather, it suggests that board membership should not exceed "that which allows it to employ simple and effective methods of work to enable each director to feel a personal responsibility and commitment".

Table 1: Summary of CG code recommendations in Nigeria

Some CG mechanism	SEC code	CBN code	NAICOM code	PENCOM code	NCC code
Auditors body (local or Int'l)	Both	Int'l only	Both	Both	Both
Separation of CEO from chairman (CEO duality)	Yes (separation)	Yes (separation)	Yes (separation)	Yes (separation)	Yes (separation)
Board size	Minimum = 5	Maximum = 20	Min = 7; Max = 15	No limit	No limit
Board terms/tenures	No limit	Min = 4 years Max = 8 years	No limit	No limit	No limit
Composition of the board	Mixed	More non-executives	Exec. Dir. <= 40%	Equal ratio	Mixed
No. of independent directors	≥1	≥2	≥1	≥1	≥1
Gender diversity	Nil	Nil	Nil	Nil	Mixed
No of committees	Min = 3	Min = 5	Min = 5	Min = 4	Min = 4
Name of committees	(Audit, remuneration, governance and risk)	(Audit, credit, risk, finance and general purpose)	(Audit and compliance, financial and general purpose, investment, enterprise risk management and establishment and governance)	(Audit, investment strategy, risk management and nominating)	Risk Mgt, internal audit, internal control, audit committee
Code compliance	Voluntary	Mandatory	Voluntary	Mandatory	Mandatory

Lawal (2016), Marshall (2015), SEC (2014), NCC (2014) and CBN (2015)

The main objective of these guidelines is to ensure that corporate activities are conducted within the boundaries of internationally acceptable standards and best practices. For instance while compliance with the SEC and NAICOM codes seems to be voluntary, the CBN, NCC and PENCOT codes have been made compulsory for commercial banks and pension fund administrators operating in the country. The lack of consensus on the level of compliance as well as applicable sanctions for non-compliance, remains a major challenge to the code's enforcement in Nigeria (Demaki, 2011).

In determining the appropriate size (number) of directors that corporate boardroom should have has been a critical issue that many pioneers of CG remain a topic of debate (Larmou and Vafeas, 2010; Lawal, 2016). Goodstein *et al.* (1994) observed that the size in terms of director's membership is crucial for the overall effectiveness and functioning of corporate board. Lipton and Lorch (1992) suggested a minimum number of seven and maximum number of nine. Jensen (1993) recommended an optimal size of eight, Shaw (1981) suggested a board size of five which was supported by some subsequent empirical findings (Mak and Yuanto, 2003). Identifying the appropriate board size is of high significance because size can be detrimental to board effectiveness beyond certain limits (John and Senbet, 1998; Yermack, 1996). Bennedsen *et al.* (2008) argued that the optimal board size is a function of many variables such as firm age, size, industrial classification as well as the degree of monitoring and value addition required amongst others (Connelly and Limpaphayom, 2004).

Ehikioya (2009) contended that there is no any agreement as to whether a large or small board does better in any organization. Ehikioya argue that the number of board of directors has an influence on performance. Therefore, the connection between board size and firm performance will for a long time remain an area of debate. The next study discusses the controversial debate, inconsistent finding and results of the previous empirical study on how the size of the board influences firm performance.

**The relationship between board size and firm performance:** As discussed above that the connection between the board size and firm performance will for a long time remain an area of research due to disagreement on the uniformity of the number of people that will constitute on the board that monitor the activities of management and to protect the interest of the shareholders from management. From the previous empirical investigation, there are have been inconsistent and conflicting arguments on the relationship between

board size and firm performance (Eklund *et al.*, 2009; Johl *et al.*, 2015; Lawal 2012; Tai, 2015). Therefore, the empirical research is divided, however when it comes to the issue of the size of the board that engenders board effectiveness. The trend of the previous study is consistent with the recent findings that showed clear positive, negative or mix relationship between board size and firm performance (Eklund *et al.*, 2009; Johl *et al.*, 2015; Lawal, 2012; Tai, 2015).

A study conducted by Shukeri *et al.* (2012) contended that board size positively influence firm performance with Return on Asset. This finding was supported by the study conducted by Johl *et al.* (2015) who found that there is a positive significant relationship between board size and firm performance used ROA. Other similar finding by previous study supported large, positive and significant relationship between the board size and firm performance (Al-ghamdi and Rhodes, 2015; Andress and Vallelado, 2008; Dalton and Daily, 2000; Jensen, 1993; Pearce and Zahra, 1992; Tai, 2015).

On the other hand, Yermack (1996) also found a negative relationship between the board size and performance in his empirical research in which he observed 452 US firms during 1984-1991. Bennedsen *et al.* (2008), examined 6,850 Danish firms for boards with 6 and more members and found no positive relationship between board sizes and firm performances (ROA). Ammari *et al.* (2014) examined board structure (board size, independent members) of 40 French firms listed on the SBF 120 during the periods of 2002-2009. They found a strong negative relationship between board sizes and performances. Zakaria *et al.* (2014) analyzed Malaysian listed trading and services sector by using the panel data regression model. They found that board size positively influences firm performance. They also found that the effects of board independent members are insignificant on firm performance.

Fernandez (2014) in his recent study also found a strong negative relation between performance and board size. He analyzed the sample of firms that constitute the EUROSTOXX 50 Index. He used ROA, ROE and Tobins Q as performance indicators. Obradovich and Gill (2013) stated in their research that larger board size negatively impacts the value of American firms, however financial leverage and firm size positively impact the value of American firms. Yilmaz and Buyuklu (2016) also found a negative relationship between board size and ROA and that a larger board size negatively impacts the profit of firms in their empirical study in which they observed a sample of 92 Turkey companies for the period 2007-2013.

According to behavioral group dynamics, there are two extreme positions regarding the ideal number of individuals that should sit on a corporate board at any one time. The ongoing debate between those who believe in small manageable boards and those who favour large boards (Coles *et al.*, 2004; Guest 2009; Tai, 2015). Each of these positions is underpinned by the fundamental theories of corporate governance (Agency, Resource Dependency, Stewardship, Stakeholder theory and among others). The agency and stewardship theories, though divided in their underlying principles, share the view that a small board is ideal (Eisenberg *et al.*, 1998; Lawal, 2016; 2012; Lipton and Lorsch, 1992; Muth and Donaldson, 1998; Yermack, 1996).

The underlying premise of the agency theory is somewhat skewed towards small board orientation with large boards widely assumed to be injurious to the pursuit of board effectiveness (Conyon and Peck, 1998). In defense of small boards, Lipton and Lorsch (1992) argued that one of the major challenges of corporate governance lies in the boardroom generally but resides more specifically in the size of the board itself. They further observed that the trend in the corporate domain is such that boards of directors are becoming increasingly overcrowded which has significantly dampened their effectiveness in discharging the statutory responsibilities imposed on them (Lipton and Lorsch, 1992). Similarly, Yermack (1996) observed that small boards are more effective at monitoring the board of directors and are more likely to invoke appropriate discipline when necessary, especially in the face of a run of poor firm performance. As the number of director's decreases, moving towards a moderate board size, lower monitoring costs are incurred in firm governance which in itself increases the chances of improved corporate performance (Bermig and Frick, 2010).

While the critics of moderate board size have argued that small boards are more at risk of board of director dominance and entrenchment (Al-ghamdi *et al.*, 2015; Zahra and Pearce, 1989). The depth of experience, access to resources and vital industry information are all said to be limited in smaller boards due to the constraints placed on the expected number of directors (Coles *et al.*, 2004). These critics favour large boards which they claim to be ideal for effective firm governance.

The fundamental ideas of the resource dependency, stewardship and stakeholder theories are aligned in supporting a large board. The ability of a board to co-opt specific resources as entrenched in the resource dependency theory is based on a well-diversified board configuration with a high external network density (Klein, 2002). Jackling and Johl (2009) found the large size to be associated with the board roles of the resource

dependency theory. They reported a positive link between firms with large boards and performance as a consequence of the effect of resource co-optation and board member's external contacts. A firm's competitiveness hinges on it has the resources available to drive its corporate strategy. These resources are numerous and therefore, co-opting them requires not only a large number of people but also many options. A relatively large board is thus imperative if it is to play the resource dependency role (Elsayed, 2011). Critics of large boards believe that poor communication, a group think-tank syndrome and potential conflict, resulting from the emergence of splinter groups within boards are likely to reduce their effectiveness (Eisenberg *et al.*, 1998; Pacini *et al.*, 2008).

Many studies have been carried out in recent years to determine the empirical validity of the idea of an optimal or moderate board size and its effects on firm operations and financial performance. In a study of Appuhami and Bhuyan (2015) suggest that the average board size is stable over a period of 2004-2013 in Australia with the small sample firms which contain a means of 8 members with a range of 4-14. His finding is consistent with previous studies in Australia. In a study of 6,850 Danish firms with limited liability during 1999, Bennedsen *et al.* (2008) found a robust negative association between board size and firm performance as measured by the Return On Assets (ROA). Board sizes in small and medium firms were, however, found to be positively linked to the size of the board of director's family. After controlling for the effects of firm size, age, business group, Chief Executive Officer (CEO) ownership, CEO age and ownership structure, they reported that the negative result could be attributed to the pattern of large board sizes in those firms with six or more board members. Firms with small boards (those with between three and five members) exhibited no such negative effects.

Interestingly, this empirical result was also consistent with Yermack (1996)'s findings in respect of large corporations. Bennedsen *et al.* (2008) supported by Yermack's (1996) optimal board size of a maximum of five members, beyond which they claimed board passivity began to manifest itself. Bennedsen *et al.* (2008) though they recognised that a firm's optimal board size is a trade-off, argued that for closely held firms such as limited liability companies, the optimal size is in the region of three to five members. Also, Rossi *et al.* (2015) proposed size of the board no fewer than 6 and no >15 members.

The work of recent empirical study of Nath *et al.* (2015) on 11 companies in Dhaka Stock Exchange (DSE) in Bangladesh for a period of 10 years between 2005-2014. They suggested that board size is negatively related to Tobin's Q and ROA. They report that board size is

significantly associated with dependent variables. Though there is no significant relationship between independent variables and firm financial performance but they suggested average board size of 8.

Overall, empirical studies on the nexus of board size and firm performance have yielded inconsistent outcomes ranging from positive (Appuhami, 2015; Arslan *et al.*, 2010; Ness *et al.*, 2010; Onakoya *et al.*, 2014) to negative (Eisenberg *et al.*, 1998; Pamburai *et al.*, 2015; Nath *et al.*, 2015; Yermack, 1996). However, unlike other board characteristics where the direction of causality remains complicated, previous studies on board size have overwhelmingly pointed to a negative relationship (Guest, 2009).

- $H_1$ : there is a significant positive relationship between board size and the performance listed firm in Nigeria

**Quality decision making process as a mediator:** Quality decision making is seeing as a process of selecting the best amongst the different alternatives cost of actions. Robbins (2001) contended that decision making is the selection of choice of choosing one best alternative. Robbins argued that before making any decisions all available alternatives should be assessed and evaluated from which advantages and disadvantages are known which helps to make the best decisions. However, decision making is one of the important functions of management. According to Robbins (2001), “decision making defines as the selection of a preferred course of action from two or more alternatives”. Robbins argued that decisions can evaluate managerial performance. “That’s when decisions are correct, it is understood that the manager is qualified, able and efficient but when the decision-making is poor/wrong, it is understood/agreed that the manager/executive is disqualified or not qualified”. Therefore, decision making evaluates the managerial performance to determining their effective and efficiency in every organization.

In addition, Bhagat and Bolton (2008) contended that making decisions in a firm, company or organization happens at all levels of industries. Bhagat and Bolton said every manager of a business or firms shouldn’t assume he’s right in every decision he has to make. Bhagat and Bolton argued that different types of decision-making should be taken depending on the situation at the disposal or at hand. Bhagat and Bolton (2008) before making or embarking on any decision, the company or managers have to identify what is the exact problem. Therefore, leader or manager of any organization should evaluate the issue that affects the company.

Bhagat and Bolton (2008) argued that sometimes using multiple perspective analysis to make a decision is best. Therefore, the CEO or manager can force herself out of her usual method of thinking. Arsham, contended in his study titled “Leadership Decision Making” at the University of Baltimore site, notes this method and its steps. In wearing six different “caps/hats”, the manager you can make a decision by using different thinkable approaches. For example, a red/bloodshot hat/caps uses reaction and emotion, to determine and aware of how other people or manager will react when the decision is been made or are made. While for a green hat/caps will use freewheeling/coasting creativeness in making a decision. Arsham conclude that “a decision can be made using differing points of view from customers or those in different professions”.

The size of every count head as a group is very important in decision-making but director’s contribution and to be effective in the board decision-making and ultimately board strategic involvement are regarded as a valuable foundation of knowledge and expertise in formulating and evaluating firm strategic decisions to improve performance (Zahra and Pearce, 1990; Pearce and Zahra, 1991; Judge and Zeithaml, 1992). Therefore, individual directors are expected to make an impact and an important contribution to different stages or phases of a firm’s strategic decision-making to improve organisation performance (Rindova, 1999; Pugliese *et al.*, 2009). Nielsen and Huse (2010) contended that the company can be effective only if the unique resources individual directors bring along which may support the exercise of their influence on the work of corporate boards. Therefore, the director’s contribution to board quality decision-making as a mediator in the relationship between board size configurations on firm performance may play an important improvement.

- $H_2$ : quality decision making process mediates the relationship between board size and the performance listed firms in Nigeria

**Board professional knowledge and experience as a moderator:** The recent studies have concentrated on the complexities of corporate governance and board duty required towards building trustworthiness with a specific end goal to execute their obligation. Consequently, the need to concentrate and focused on the characteristics of qualities of board members and corporate managerial capacities, the assessment and evaluation of board, the executive, professional skills, expertise and qualifications, uprightness, integrity and experience board, issues of information/data provision, straightforwardness, transparency, knowledge and competence has become necessary.



Nicholson and Kiel (2004) contended that in the corporate context, an effective and efficient board is one that implements its commitment, role and responsibilities. The absence of qualified board and corporate executive managers may negatively impact and influence the ability of the board to perform effectively, especially as the trends show that boards of directors have been exceptionally undermined by their shareholders in terms of appointments (Allcock and Filatotchev, 2010; Molokwu *et al.*, 2013; Larcker and Tayan, 2011). However, one of the basic factors and considerations in appointing and hiring is to ensure a high quality, professional and knowledgeable board members that understand the company's core competencies to achieve its long-term performance.

Therefore, the professional knowledge and experience that board members and corporate executives should possess a qualification that has a direct impact on the corporate governance principles (Pukthuanthong and Sundaramurthy, 2009). Furthermore, boards and corporate managers to effectively perform their obligation and duties, they need to have the mandatory capabilities, knowledge and expertise (Kor, 2003; Rossouw *et al.*, 2002) which will yield and reflect on their ability to position the organisation in the right directions. Molokwu contended that director's and executive manager's knowledge and experience in the strategic issues will influence the competitive position of the industry environment. The effectiveness of every board is determined by the competencies, knowledge and cognitive composition of its directors (Lawal, 2016; Kolade, 2010).

The recent studies reveal that significant numbers of corporate managers and boards appointed by the shareholder in Nigeria context are configured and composed of family members, low-quality and inexperienced directors that lack pre-requisite knowledge of the organization (Lawal, 2016; Sanusi, 2010; Quadri, 2010). The collapse and scandals of Africa Petroleum Plc, Oceanic Bank Plc, Cadbury Nigeria Plc among others have turned the public attention to the questions of the board of directors capabilities in Nigeria (Lawal, 2016; Ogbechie and Koufopoulos, 2010; Ogbechi, 2011). Lawal (2016); contended that the director's experience and knowledge of the corporate managers with high-quality of directors and the corporate board are the immediate key success to every corporate firm. Thus, the recent empirical studies on the direct relationship have yielded inconsistent outcomes ranging from positive to negative on the nexus of board size and firm performance. This study proposed board professional knowledge and experience as a moderator.

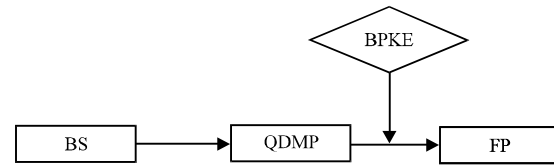


Fig. 1: Relationship among; BS: Board Size; BPKE: Board Professional Knowledge and Experience; QDMP: Quality Decision Making Process; FP: Firm Performance

- H<sub>3</sub>: board knowledge and experience moderates the relationship between board size and the performance listed firms in Nigeria

**Theoretical framework:** To validate and ascertain the above moderator (board professional knowledge and experience) and mediator (quality decision making process) on board size and firm performance this study, proposed a research framework based on an ongoing project work that also just for future empirical investigations specifically in the area of director's cognitive competencies and qualifications that can improve, influence quality decision making of board size to improved performance in the listed firms in Nigeria. If below proposed framework is validated, the finding and the results will immensely provide a significant contribution to the policy maker, regulators, organizations, agencies, managers and to the literature (Fig. 1).

- H<sub>4</sub>: there is a significant positive relationship between the mediating role of quality decision making process and the moderating role of board professional knowledge and experience on the performance of listed firms in Nigeria

## CONCLUSION

The discussion of the relationship between internal board mechanism, especially the board size of corporate governance research and some recommendations toward the mistake of the prior studies and how future studies can avoid the problems will for a long time remain an interesting area of research. Prior studies on corporate governance have depended on agency theory for so long particularly when doing studies on the issue of board size and firm performance (Daily *et al.*, 2003; Lawal, 2012; Hillman and Dalziel, 2003; Jensen and Meckling, 1976; Johnson *et al.*, 1996; Zahra and Pearce, 1989). The inconsistency on the previous study has made it unthinkable for a single theory to suit and flow current

research (Kiel and Nickholson, 2007). Also, there is a very urgent need for a change of models and more of observational studies to truly comprehend the significance of corporate board (Donaldson and Muth, 1998; Eisenhardt, 1989; Jackling and Johl, 2009).

Researchers should move far from the customary approach by emphasis essentially on board structure (Dalton *et al.*, 1998; Zahra and Pearce, 1989) to a more intentional insider point of view that x-ray internal exercises, procedures and ongoing board happenings that open the “black box” mystery (Eisenhardt, 1989; Huse 2005; Lawal, 2012; Robert *et al.*, 2005; Wan and Ong, 2005; 2000). The compositional approach has throughout the year’s neglect to detect the authoritative role of board decision making as it influences corporate performance. The investigation of board skills, experience, knowledge and competence, particularly those related director’s personalities which to some large degree determined the nature of discussing that goes ahead operating at a black box ought to be given need or priority (Leblanc, 2004; Stiles and Taylor, 2001).

Corporate governance studies have depended on particular methodology and firm performance measures and not considering the way that the circumstance which stimulate the utilization of such approach in any case has gone out of date. In this manner can’t longer track the variable to be anticipated. The time is a good fit for the utilization of extended methodology that took into account cluster examination (Finegold *et al.*, 2007; Lawal, 2016; Lawal, 2012; Rechner and Dalton 1991). Advancement of performance measures as new era of observational studies are starting to investigate another option of measuring corporate governance performance, for example, using the primary methodology and the use of “Structural Equation Modelling-Partial Least Square (SEM-PLS) for analysis”. These models have so far demonstrated a lot of guarantee (Peterson *et al.*, 2012; Hair *et al.*, 2013; Henseler, 2012). Partial least squares structural equation modeling is an a rigorous applications that give a better results with a higher acceptance and long range planning researchers (Hair *et al.*, 2013).

In conclusion, despite many years of corporate governance studies, the current findings are wholly asymmetrical with the majority of research originating from developing countries like US and UK together with others developed economies nation (Jackling and Johl, 2009; Johnson *et al.*, 1996; Vafeas and Theodorou, 1998; Yermack, 1996). There is urgent requirement or need for developing and emerging economies like Africa, especially Nigeria in driving force

where there is a slight of observation or empirical studies. Companies’ level studies from developing nations, particularly those with frail legitimate environment could be significant to the field of study (Klapper and Love, 2002). Over the previous year lack of the adequate and sufficient documented studies from an African point of view, particularly the emerging economies like Nigeria has without a doubt impair the policy makers in forging suitable reason for enhanced corporate governance. A unified, consensus and harmonised code of best practice on the level of compliance and sanctions for non-compliance will improve performance of listed firms in Nigeria.

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